COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR (1) A GENERAL	)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC	)	
SERVICE; (2) AN ORDER APPROVING ITS 2017	)	**Case No. 2017-00179**
ENVIRONMENTAL COMPLIANCE PLAN; (3) AN	)	
ORDER APPROVING ITS TARIFFS AND RIDERS;	)	
(4) AN ORDER APPROVING ACCOUNTING	)	
PRACTICES TO ESTABLISH REGULATORY	)	
ASSETS AND LIABILITIES; AND (5) AN ORDER	)	
GRANTING ALL OTHER REQUIRED APPROVALS	)	
AND RELIEF	)	

SECTION II

FILING REQUIREMENTS

PART 1 OF 2

PAGES 1 THROUGH 323

VOLUME 4 OF 7

June 28, 2017

PROSPECTUS SUPPLEMENT
(To prospectus dated June 10, 2003)

$75,000,000

KENTUCKY POWER COMPANY

5.625% Senior Notes, Series D, due 2032

Interest on the Senior Notes is payable semi-annually on June 1 and December 1 of each year, beginning December 1, 2003. The Senior Notes will mature on December 1, 2032. We may redeem the Senior Notes at our option at any time either as a whole or in part at a redemption price equal to 100% of the principal amount of the Senior Notes being redeemed plus a make-whole premium, together with accrued and unpaid interest to the redemption date. The Senior Notes do not have the benefit of any sinking fund.

The Senior Notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding and will be effectively subordinated to all of our secured debt from time to time outstanding, including first mortgage bonds. We currently have no first mortgage bonds outstanding. We will issue the Senior Notes only in registered form in multiples of $1,000.

	Per Note	Total
Public offering price[1]	100.000%	$75,000,000
Underwriting discount	0.875%	$656,250
Proceeds, before expenses, to Kentucky Power Company	99.125%	$74,343,750

[1]Plus accrued interest, if any, from June 13, 2003.

INVESTING IN THESE NOTES INVOLVES RISKS. SEE THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 2 OF THE ACCOMPANYING PROSPECTUS FOR MORE INFORMATION.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Senior Notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The Senior Notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about June 13, 2003.

Joint Book-Running Managers

ABN AMRO INCORPORATED | **McDONALD INVESTMENTS INC.**

The date of this prospectus supplement is June 10, 2003.

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You should rely only on the information incorporated by reference or provided in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus supplement is accurate as of any date other than the date on the front of the document.

USE OF PROCEEDS

The Company proposes to use the net proceeds from the sale of the Senior Notes to fund its construction program, to repay short-term indebtedness and for other corporate purposes. Proceeds may be temporarily invested in short-term instruments pending their application to the foregoing purposes.

The Company has estimated that its consolidated construction costs (inclusive of allowance for funds used during construction) for 2003 will be approximately $72,283,000. At June 1, 2003, the Company had approximately $116,300,000 of short-term unsecured indebtedness outstanding.

SUPPLEMENTAL DESCRIPTION OF THE SENIOR NOTES

The following description of the particular terms of the Senior Notes supplements and in certain instances replaces the description of the general terms and provisions of the Senior Notes under "Description of the Notes" in the accompanying Prospectus. We will issue the Senior Notes under an Indenture, dated as of September 1, 1997, between us and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company), as Trustee, as supplemented and amended and as to be further supplemented and amended.

Principal Amount, Maturity and Interest

The Senior Notes will initially be issued in an aggregate principal amount of $75,000,000. We may, without consent of the holders of the Senior Notes, issue additional notes having the same ranking, interest rate, maturity and other terms as the Senior Notes. These notes, together with the Senior Notes, will be a single series of notes under the Indenture.

The Senior Notes will mature and become due and payable, together with any accrued and unpaid interest, on December 1, 2032 and will bear interest at the rate of 5.625% per year from June 13, 2003 to but not including December 1, 2032. The Senior Notes are not subject to any sinking fund provision.

Interest on each Senior Note will be payable semi-annually in arrears on each June 1 and December 1 and at redemption, if any, or maturity. The initial interest payment date is December 1, 2003. Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Senior Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

We will pay interest on the Senior Notes (other than interest payable at redemption, if any, or maturity) in immediately available funds to the owners of the Senior Notes as of the Regular Record Date (as defined below) for each interest payment date.

We will pay the principal of the Senior Notes and any premium and interest payable at redemption, if any, or at maturity in immediately available funds at the office of Deutsche Bank Trust Company Americas, Corporate Trust and Agency Services, 60 Wall Street, MSNYC 60-2515, New York, New York 10005.

If any interest payment date, redemption date or the maturity is not a Business Day (as defined below), we will pay all amounts due on the next succeeding Business Day and no additional interest will be paid.

The "Regular Record Date" will be the May 15 or November 15 prior to the relevant interest payment date.

"Business Day" means any day that is not a day on which banking institutions in New York City are authorized or required by law or regulation to close.

Optional Redemption

We may redeem the Senior Notes at our option at any time, upon no more than 60 and not less than 30 days' notice by mail. We may redeem the Senior Notes either as a whole or in part at a redemption price equal to the greater of (1) 100% of the principal amount of the Senior Notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes being redeemed (excluding the portion of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 30 basis points, plus, in each case, accrued interest thereon to the date of redemption.

"Treasury Rate" means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Senior Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Senior Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities" or (2) if such release (or any successor release) is not published or does not contain such prices on such third Business Day, the Reference Treasury Dealer Quotation for

such redemption date.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by us and reasonably acceptable to the Trustee.

"Reference Treasury Dealer" means a primary U.S. Government Securities Dealer selected by us and reasonably acceptable to the Trustee.

"Reference Treasury Dealer Quotation" means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at or before 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Limitations on Liens

So long as any of our Senior Notes issued pursuant to this prospectus supplement are outstanding, we will not create or suffer to be created or to exist any additional mortgage, pledge, security interest, or other lien (collectively "Liens") on any of our utility properties or tangible assets now owned or hereafter acquired to secure any indebtedness for borrowed money ("Secured Debt"), without providing that such Senior Notes will be similarly secured. This restriction does not apply to our subsidiaries, nor will it prevent any of them from creating or permitting to exist Liens on their property or assets to secure any Secured Debt. Further, this restriction on Secured Debt does not apply to our existing first mortgage bonds that have previously been issued under our mortgage indenture or any indenture supplemental thereto; provided that this restriction will apply to future issuances thereunder (other than issuances of refunding first mortgage bonds). In addition, this restriction does not prevent the creation or existence of:

- Liens on property existing at the time of acquisition or construction of such property (or created within one year after completion of such acquisition or construction), whether by purchase, merger, construction or otherwise, or to secure the payment of all or any part of the purchase price or construction cost thereof, including the extension of any Liens to repairs, renewals, replacements, substitutions, betterments, additions, extensions and improvements then or thereafter made on the property subject thereto;

- Financing of our accounts receivable for electric service;

- Any extensions, renewals or replacements (or successive extensions, renewals or replacements), in whole or in part, of liens permitted by the foregoing clauses; and

- The pledge of any bonds or other securities at any time issued under any of the Secured Debt permitted by the above clauses.

In addition to the permitted issuances above, Secured Debt not otherwise so permitted may be issued in an amount that does not exceed 15% of Net Tangible Assets as defined below.

"Net Tangible Assets" means the total of all assets (including revaluations thereof as a result of commercial appraisals, price level restatement or otherwise) appearing on our balance sheet, net of applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of our current liabilities appearing on such balance sheet. For purposes of this definition, our balance sheet does not include assets and liabilities of our subsidiaries.

This restriction also will not apply to or prevent the creation or existence of leases made, or existing on property acquired, in the ordinary course of business.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, we have agreed to sell to each of the underwriters named below and each of the underwriters has severally and not jointly agreed to purchase from us the respective principal amount of Senior Notes set forth opposite its name below:

Underwriter	Principal Amount of Senior Notes
ABN AMRO Incorporated	$37,500,000
McDonald Investments Inc.	$37,500,000
	$75,000,000

In the Underwriting Agreement, the underwriters have agreed to the terms and conditions to purchase all of the Senior Notes offered if any of the Senior Notes are purchased.

The expenses associated with the offer and sale of the Senior Notes are expected to be approximately $175,000.

The underwriters propose to offer the Senior Notes to the public at the initial public offering price set forth on the cover page of this prospectus supplement and to certain dealers at such price less a concession not in excess of .50% per Senior Note. The underwriters may allow, and such dealers may reallow, a discount not in excess of .25% per Senior Note to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

Prior to this offering, there has been no public market for the Senior Notes. The Senior Notes will not be listed on any securities exchange. Certain underwriters have advised us that they intend to make a market in the Senior Notes. The underwriters will have no obligation to make a market in the Senior Notes, however, and may cease market making activities, if commenced, at any time. There can be no assurance of a secondary market for the Senior Notes, or that the Senior Notes may be resold.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or contribute to payments that each underwriter may be required to make in respect thereof.

In connection with the offering, the underwriters may purchase and sell the Senior Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purposes of preventing or retarding a decline in the market price of the Senior Notes and syndicate short positions involve the sale by the underwriters of a greater number of Senior Notes than they are required to purchase from us in the offering. The underwriters also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if such Senior Notes are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Senior Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

Some of the underwriters or their affiliates engage in transactions with, and have performed services for, us and our affiliates in the ordinary course of business.

The underwriters will make securities available for distribution on the Internet through a proprietary Web site and/or a third party system operated by Market Axess Inc., an Internet-based communications technology provider. Market Axess Inc. is providing the system as a conduit for communications between the underwriters and their customers and is not a party to any transactions. Market Axess Inc. will not function as an underwriter or agent of the issuer, nor will Market Axess Inc. act as a broker for any customer of the underwriters. Market Axess Inc., a registered broker-dealer, will receive compensation from the underwriters based on transactions the underwriters conduct through the system. The underwriters will make securities available to their customers through the Internet distributions, whether made through a proprietary or third party system, on the same terms as distributions made through other channels.

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PROSPECTUS

KENTUCKY POWER COMPANY

1 Riverside Plaza
Columbus, Ohio 43215
614-716-1000

$375,000,000

UNSECURED NOTES

TERMS OF SALE

A prospectus supplement or pricing supplement will include the final terms for each note. If we decide to list upon issuance any note or notes on a securities exchange, a prospectus supplement or pricing supplement will identify the exchange and state when we expect trading could begin. The following terms may apply to the notes that we may sell at one or more times.

- Mature 9 months to 50 years
- Fixed or floating interest rate
- Remarketing features
- Certificate or book-entry form
- Subject to redemption
- Not convertible, amortized or subject to a sinking fund
- Interest paid on fixed rate notes quarterly or semi-annually
- Interest paid on floating rate notes monthly, quarterly, semi-annually, or annually
- Issued in multiples of a minimum denomination
- Issued with original issue discount

INVESTING IN THESE NOTES INVOLVES RISKS. SEE THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 2 FOR MORE INFORMATION.

The notes have not been approved by the SEC or any state securities commission, nor have these organizations determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 10, 2003.

THE COMPANY

We generate, sell, purchase, transmit and distribute electric power. We serve approximately 174,000 customers in eastern Kentucky. We also sell and transmit power at wholesale to other electric utilities, municipalities, electric cooperatives and non-utility entities engaged in the wholesale power market. Our principal executive offices are located at 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number 614-716-1000). We are a subsidiary of American Electric Power Company, Inc., a public utility holding company, and we are a part of the American Electric Power integrated utility system. The executive offices of American Electric Power Company, Inc. are located at 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number 614-716-1000).

RISK FACTORS

RISKS RELATED TO OUR REGULATED BUSINESS AND EVOLVING REGULATION

- The different regional power markets in which we compete or will compete in the future have changing transmission regulatory structures, which could affect our performance in these regions.

Our results are likely to be affected by differences in the market and transmission regulatory structures in various regional power markets. Problems or delays that may arise in the formation and operation of new regional transmission organizations, or "RTOs", may restrict our ability to sell power produced by our generating capacity to certain markets if there is insufficient transmission capacity otherwise available. The rules governing the various regional power markets may also change from time to time which could affect our costs or revenues. Because it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that these power markets may have on our business.

Certain AEP subsidiaries, including us, participated in the formation of the Alliance RTO. The Alliance RTO filed with the FERC seeking permission to form and operate. The FERC expressed its opinion that large RTOs will better support competitive, reliable electric service and rejected the Alliance RTO's filing. In May 2002 AEP announced an agreement with the Pennsylvania-New Jersey-Maryland RTO (the "PJM") Interconnection to pursue terms for participation in its RTO. Final agreements are expected to be negotiated. In July 2002 the FERC tentatively approved the decision of certain AEP subsidiaries, including us, to join PJM subject to certain conditions being met. The performance of these conditions is only partially under AEP's control. In October 2002, PJM announced that the referenced AEP subsidiaries and other unaffiliated utilities planned to turn functional control of their transmission lines over to PJM during the first quarter of 2003 and were scheduled to become full members by May 2003. Legislation adopted in a jurisdiction in which one of our affiliates operates and other regulatory considerations have delayed our participation in PJM.

Management is unable to predict the outcome of these transmission regulatory actions and proceedings or their impact on the timing and operation of RTOs, our transmission operations or future results of operations and cash flows.

RISKS RELATED TO OUR POWER TRADING AND WHOLESALE BUSINESSES

- We have significantly reduced the scope and scale of our power trading and marketing operations.

In October 2002 AEP announced its plans to reduce the exposure to energy trading markets of its subsidiaries that trade power (including us) and to downsize the trading and wholesale marketing operations conducted on behalf of such subsidiaries. It is expected that in the future our power trading and marketing operations will be limited to risk management around our generation assets and those of our regulated affiliates. Trading and marketing operations that were not limited to risk management around such assets have contributed to our wholesale revenues and earnings in the past. Management is unable to predict the effect this downsizing of our trading operations will have on our future results of operations and cash flows. The following risk factors appearing under this subheading should be read in light of the announcements discussed in this paragraph.

- Our revenues and results of operations are subject to market risks that are beyond our control.

We sell power from our generation facilities into the spot market or other competitive power markets or on a contractual basis. We also enter into contracts to purchase and sell electricity as part of our power marketing and trading operations. With respect to such transactions, we are not guaranteed any rate of return on our capital investments through regulated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for power in our regional markets and other competitive markets. These market prices may fluctuate substantially over relatively short periods of time. It is reasonable to expect that trading margins may erode as markets mature and that there may be diminished opportunities for gain should volatility decline. In addition, the Federal Energy Regulatory Commission (the "FERC"), which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, may impose price limitations, bidding rules and other mechanisms to address some of the volatility in these markets. Fuel prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel costs. These factors could reduce our margins and therefore diminish our revenues and results of operations.

Volatility in market prices for fuel and power may result from:

- weather conditions;
- seasonality;
- power usage;
- illiquid markets;
- transmission or transportation constraints or inefficiencies;
- availability of competitively priced alternative energy sources;
- demand for energy commodities;
- natural gas, crude oil and refined products, and coal production levels;
- natural disasters, wars, embargoes and other catastrophic events; and
- federal, state and foreign energy and environmental regulation and legislation.

- Our power trading (including fuel procurement and power marketing) and risk management policies cannot eliminate the risk associated with these activities.

Our power trading (including fuel procurement and power marketing) activities expose us to risks of commodity price movements. We attempt to manage our exposure through enforcement of established risk limits and risk management procedures. These risk limits and risk management procedures may not always be followed or may not work as planned and cannot eliminate the risks associated with these activities. As a result, we cannot predict the impact that our power trading and risk management decisions may have on our business, operating results or financial position.

We routinely have open trading positions in the market, within established guidelines, resulting from the management of our trading portfolio. To the extent open trading positions exist, fluctuating commodity prices can improve or diminish our financial results and financial position.

Our power trading and risk management activities, including our power sales agreements with counterparties, rely on projections that depend heavily on judgments and assumptions by management of factors such as the future market prices and demand for power and other energy-related commodities. These factors become more difficult to predict and the calculations become less reliable the further into the future these estimates are made. Even when our policies and procedures are followed and decisions are made based on these estimates, results of operations may be diminished if the judgments and assumptions underlying those calculations prove to be wrong or inaccurate.

- Our financial performance may be adversely affected if we are unable to successfully operate our electric generating facilities.

Our performance depends on the successful operation of our electric generating facilities. Operating electric generating facilities involves many risks, including:

- operator error and breakdown or failure of equipment or processes;
- operating limitations that may be imposed by environmental or other regulatory requirements;
- labor disputes;
- fuel supply interruptions; and
- catastrophic events such as fires, earthquakes, explosions, floods or other similar occurrences.

A decrease or elimination of revenues from power produced by our electric generating facilities or an increase in the cost of operating the facilities would adversely affect our results of operations.

- Parties with whom we have contracts may fail to perform their obligations, which could harm our results of operations.

We are exposed to the risk that counterparties that owe us money or power will breach their obligations. Should the counterparties to these arrangements fail to perform, we may be forced to enter into alternative hedging arrangements or honor underlying commitments at then-current market prices that may exceed our contractual prices, which would cause our financial results to be diminished and we might incur losses. Although our estimates take into account the expected probability of default by a counterparty, our actual exposure to a default by a counterparty may be greater than the estimates predict if defaults by counterparties exceed our estimates.

- We rely on electric transmission facilities that we do not own or control. If these facilities do not provide us with adequate transmission capacity, we may not be able to deliver our wholesale electric power to the purchasers of our power.

We depend on transmission facilities owned and operated by other unaffiliated power companies to deliver the power we sell at wholesale. This dependence exposes us to a variety of risks. If transmission is disrupted, or transmission capacity is inadequate, we may not be able to sell and deliver our wholesale power. If a region's power transmission infrastructure is inadequate, our recovery of wholesale costs and profits may be limited. If restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure.

The FERC has issued electric transmission initiatives that require electric transmission services to be offered unbundled from commodity sales. Although these initiatives are designed to encourage wholesale market transactions for electricity, access to transmission systems may in fact not be available if transmission capacity is insufficient because of physical constraints or because it is contractually unavailable. We also cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets.

- We do not fully hedge against price changes in commodities.

We routinely enter into contracts to purchase and sell electricity as part of our power marketing and trading operations and to procure fuel. In connection with these trading activities, we routinely enter into financial contracts, including futures and options, over-the-counter options, swaps and other derivative contracts. These activities expose us to risks from price movements. If the values of the financial contracts change in a manner we do not anticipate, it could harm our financial position or reduce the financial contribution of our trading operations.

We manage our exposure by establishing risk limits and entering into contracts to offset some of our positions (i.e., to hedge our exposure to demand, market effects of weather and other changes in commodity prices). However, we do not always hedge the entire exposure of our operations from commodity price volatility. To the extent we do not hedge against commodity price volatility, our results of operations and financial position may be improved or diminished based upon our success in the market.

- We are unable to predict the course, results or impact, if any, of current or future energy market investigations.

In February 2002, the FERC issued an order directing its Staff to conduct a fact-finding investigation into whether any entity, including Enron Corp., manipulated short-term prices in electric energy or natural gas markets in the West or otherwise exercised undue influence over wholesale prices in the West, for the period January 1, 2000, forward. In April 2002, AEP furnished certain information to the FERC in response to their related data request.

Pursuant to the FERC's February order, on May 8, 2002, the FERC issued further data requests, including requests for admissions, with respect to certain trading strategies engaged in by Enron Corp. and, allegedly, traders of other companies active in the wholesale electricity and ancillary services markets in the West, particularly California, during the years 2000 and 2001. This data request was issued to AEP as part of a group of over 100 entities designated by the FERC as all sellers of wholesale electricity and/or ancillary services to the California Independent System Operator and/or the California Power Exchange.

The May 8, 2002 FERC data request required senior management to conduct an investigation into AEP's trading activities during 2000 and 2001 and to provide an affidavit as to whether AEP engaged in certain trading practices that the FERC characterized in the data request as being potentially manipulative. AEP's senior management complied with the order and denied its involvement with those trading practices.

On May 21, 2002, the FERC issued a further data request with respect to this matter to AEP and over 100 other market participants requesting information for the years 2000 and 2001 concerning "wash", "round trip" or "sale/buy back" trading in the Western System Coordinating Council ("WSCC"), which involves the sale of an electricity product to another company together with a simultaneous purchase of the same product at the same price (collectively, "wash sales"). Similarly, on May 22, 2002, the FERC issued an additional data request with respect to

this matter to AEP and other market participants requesting similar information for the same period with respect to the sale of natural gas products in the WSCC and Texas. After reviewing its records, AEP responded to the FERC that it did not participate in any "wash sale" transactions involving power or gas in the relevant market. AEP further informed the FERC that certain of its traders did engage in trades on the Intercontinental Exchange, an electronic electricity trading platform owned by a group of electricity trading companies, including AEP, on September 21, 2001, the day on which all brokerage commissions for trades on that exchange were donated to charities for the victims of the September 11, 2001 terrorist attacks, which do not meet the FERC criteria for a "wash sale" but do have certain characteristics in common with such sales.

The Public Utilities Commission of Texas, which has jurisdiction over several of our affiliates, also issued similar data requests to AEP and other power marketers. AEP responded to such data request by the July 2, 2002 response date. We understand that the Securities and Exchange Commission ("SEC") and US Commodity Futures Trading Commission ("CFTC") are also looking into "wash sale" trading practices. The CFTC issued a subpoena to AEP on June 17, 2002 requesting information with respect to these matters and AEP responded to CFTC.

In August 2002, AEP received an informal data request from the SEC asking it to voluntarily provide documents related to "round-trip" or "wash" trades and AEP has provided the requested information to the SEC. In March 2003, we received a subpoena from the SEC. The subpoena seeks additional information and is part of the SEC's formal investigative process. We responded to the subpoena in April 2003. AEP recently completed a review of its trading activities in the United States for the last three years involving sequential trades with the same terms and counterparties. The revenue from such trading is not material to either our financial statements or AEP's. We believe that substantially all these transactions involve economic substance and risk transference and do not constitute "wash sales".

Management is unable to predict the course or outcome of these or any future energy market investigations or their impact, if any, on power commodity trading generally or, more specifically, on our trading operations or future results of operations and cash flows.

- Diminished liquidity in the wholesale power markets could negatively impact our earnings.

The Enron Corp. bankruptcy and enhanced regulatory scrutiny have contributed to more rigorous credit rating review of wholesale power market participants. Credit downgrades of numerous other market participants have significantly reduced such participants' participation in the wholesale power markets. Likewise, numerous market participants have announced material scaling back of or exit from the wholesale power market business. These events are causing a decrease in the number of significant participants in the wholesale power markets, at least temporarily, which has resulted and could continue to result in a decrease in the volume and liquidity in the wholesale power markets. We are unable to predict the impact of such developments on our power marketing and trading business.

- Uncertainty exists regarding FERC proposed security standards.

In July 2002, the FERC published for comment its proposed security standards as part of the Standards for Market Design ("SMD"). These standards are intended to ensure all market participants have a basic security program that effectively protects the electric grid and related market activities and require compliance by January 1, 2004. The impact of these proposed standards is far-reaching and has significant penalties for non-compliance. These standards apply to marketers, transmission owners, and power producers, including us. Compliance with these standards would represent a significant effort that will impact us. Unless the cost can be recovered from customers, results of operations and cash flows would be adversely affected.

- Potential for disruption exists if the delay of a FERC market power mitigation order is lifted.

A FERC order on AEP's triennial market based wholesale power rate authorization update required certain mitigation actions that certain AEP subsidiaries, including us, would need to take for sales/purchases within its control area and required AEP to post information on its website regarding its power systems status. As a result of a request for rehearing filed by AEP and other market participants, FERC issued an order delaying the effective date of the mitigation plan until after a planned technical conference on market power determination. No such conference has been held and management is unable to predict the timing of any further action by the FERC or its affect on future results of our operations and cash flows.

RISKS RELATED TO MARKET OR ECONOMIC VOLATILITY

- We are subject to risks associated with a changing economic environment.

In response to the occurrence of several recent events, including the September 11, 2001 terrorist attack on the United States, the ongoing war against terrorism by the United States, and the bankruptcy of Enron Corp., the financial markets have been disrupted in general, and the availability and cost of capital for our business and that of our competitors has been at least temporarily harmed. In addition, following the bankruptcy of Enron Corp., the credit ratings agencies initiated a thorough review of the capital structure and earnings power of energy companies, including us. These events could constrain the capital available to our industry and could limit our access to funding for our operations. Our business is capital intensive, and we are dependent upon our ability to access capital at rates and on terms we determine to be attractive. If our ability to access capital becomes significantly constrained, our interest costs will likely increase and our financial condition could be harmed and future results of operations could be significantly harmed.

The insurance industry has also been disrupted by these events. As a result, the availability of insurance covering risks we and our competitors typically insure against may decrease. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms.

- A downgrade in our credit rating could negatively affect our ability to access capital and/or to operate our power trading businesses.

Standard & Poor's and Moody's rate our senior, unsecured debt at BBB and Baa2, respectively. If Moody's or Standard & Poor's were to downgrade our long-term rating, particularly below investment grade, our borrowing costs would increase which would diminish our financial results. In addition, we would likely be required to pay a higher interest rate in future financings, and our potential pool of investors and funding sources could decrease.

On February 10, 2003, Moody's downgraded AEP's short-term debt rating to P-3 (with stable outlook) from P-2. On March 7, 2003, Standard & Poor's affirmed AEP's short-term rating of A-2 with stable outlook. As a result of the Moody's downgrade, AEP's access to the commercial paper market may be limited and our short-term debt borrowing costs may increase because we conduct our short-term borrowing through AEP and on the same terms available to AEP.

Our power trading business relies on the investment grade ratings of our senior, unsecured debt. Most of our counterparties require the creditworthiness of an investment grade entity to stand behind transactions. If our rating were to decline below investment grade, our ability to profitably operate our power trading business would be diminished because we would likely have to deposit cash or cash related instruments which would reduce our profits.

- Our operating results may fluctuate on a seasonal and quarterly basis.

Electric power generation is generally a seasonal business. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis. The pattern of this fluctuation may change depending on the terms of power sale contracts we enter into. In addition, we have historically sold less power, and consequently earned less income, when weather conditions are milder. We expect that unusually mild weather in the future could diminish our results of operations and harm our financial condition.

- Changes in technology may significantly affect our business by making our power plants less competitive.

A key element of our business model is that generating power at central power plants achieves economies of scale and produces power at relatively low cost. There are other technologies that produce power, most notably fuel cells, microturbines, windmills and photovoltaic (solar) cells. It is possible that advances in technology will reduce the cost of alternative methods of producing power to a level that is competitive with that of most central power station electric production. If this were to happen and if these technologies achieved economies of scale, our market share could be eroded, and the value of our power plants could be reduced. Changes in technology could also alter the channels through which retail electric customers buy power, thereby harming our financial results.

- Changes in commodity prices may increase our cost of producing power or decrease the amount we receive from selling power, harming our financial performance.

We are heavily exposed to changes in the price and availability of coal because all of our generating capacity is coal-fired. We have contracts of varying durations for the supply of coal for most of our existing generation capacity, but as these contracts end, we may not be able to purchase coal on terms as favorable as the current contracts.

Changes in the cost of coal and changes in the relationship between such cost and the market price of power will affect our financial results. Since the price we obtain for wholesale power may not change at the same rate as the change in coal costs, we may be unable to pass on the changes in costs to our customers.

In addition, actual power prices and fuel costs will differ from those assumed in financial projections used to initially value our trading and marketing transactions, and those differences may be material. As a result, our financial results may be diminished in the future as those transactions are marked to market.

- At times, demand for power could exceed our supply capacity.

We are currently obligated to supply power to our customers. At peak times, the demand for power required to meet this obligation will exceed our available generation capacity. In the past, we have had little need to purchase power in the market for our retail customers. In the future, we may be required to buy more power on the market. We may not always have the ability to pass these market purchase costs to our customers. However, we are currently protected from an increase in rates in Kentucky because we have an active fuel clause.

RISKS RELATED TO ENVIRONMENTAL REGULATION

- Our costs of compliance with environmental laws are significant.

Our operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and health and safety. Compliance with these legal requirements requires us to commit significant capital toward environmental monitoring, installation of pollution control equipment, emission fees and permits at all of our facilities. These expenditures have been significant in the past and we expect that they will increase in the future. Costs of compliance with environmental regulations could harm our industry, our business and our results of operations and financial position, especially if emission and/or discharge limits are tightened, more extensive permitting requirements are imposed, additional substances become regulated and the number and types of assets we operate increase. However, we continue to be protected from erosion of cash flow and profitability by an environmental cost recovery mechanism that provides the opportunity to recover in retail rates both capital and operation and maintenance costs associated with environmental compliance.

- We anticipate that we will incur considerable capital costs for compliance.

All of our generating capacity is coal burning. We plan to install new emissions control equipment and may be required to upgrade existing equipment, purchase emissions allowances or reduce operations. We expect to spend approximately $176 million (of which $164 million has been expended as of March 31, 2003) in connection with the installation of emission control equipment at our facilities to comply with the new NOx rule and the Section 126 Rule. Moreover, environmental laws are subject to change, which may materially increase our costs of compliance or accelerate the timing of these capital expenditures. Our compliance strategy, although reasonably based on the information available to us today, may not successfully address the relevant standards and interpretations of the future.

- Governmental authorities may assess penalties on us for failures to comply with environmental laws and regulations.

If we fail to comply with environmental laws and regulations, even if caused by factors beyond our control, that failure may result in the assessment of civil or criminal penalties and fines against us. Recent lawsuits by the EPA and various states filed against us highlight the environmental risks faced by generating facilities, in general, and coal-fired generating facilities, in particular.

Since 1999, we and some of our affiliates have been involved in litigation regarding generating plant emissions under the Clean Air Act. Federal EPA and a number of states alleged that we and eleven unaffiliated utilities modified certain units at coal-fired generating plants in violation of the Clean Air Act. Federal EPA filed complaints against us and some of our affiliated public utility subsidiaries in U.S. District Court for the Southern District of Ohio. A separate lawsuit initiated by certain special interest groups was consolidated with the Federal EPA case. The alleged modification of the generating units occurred over a 20 year period.

If these actions are resolved against us, substantial modifications of our existing coal-fired power plants would be required. In addition, we could be required to invest significantly in additional emission control equipment, accelerate the timing of capital expenditures, pay penalties and/or halt operations. Moreover, our results of operations could be reduced and our financial position could suffer due to the consequent distraction of management and the expense of ongoing litigation.

PROSPECTUS SUPPLEMENTS

We provide information to you about the notes in as many as three separate documents that progressively provide more detail: (a) this prospectus provides general information some of which may not apply to your notes, (b) the accompanying prospectus supplement provides more specific terms of your notes, and (c) if not in the accompanying prospectus supplement, the pricing supplement will provide the final terms of your notes. It is important for you to consider the information contained in this prospectus, the prospectus supplement and the pricing supplement in making your investment decision.

RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

Twelve Months Ended	Ratio
December 31, 1998	2.09
December 31, 1999	2.33
December 31, 2000	2.23
December 31, 2001	2.08
December 31, 2002	2.06
March 31, 2003	2.09

For current information on the Ratio of Earnings to Fixed Charges, please see our most recent Form 10-K and 10-Q. See *Where You Can Find More Information*.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement we filed with the SEC. We also file annual, quarterly and special reports and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You may also examine our SEC filings through the SEC's web site at http://www.sec.gov.

The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until we sell all the notes.

- Annual Report on Form 10-K for the year ended December 31, 2002;
- Quarterly Report on Form 10-Q for the quarter ended March 31, 2003; and
- Current Report on Form 8-K dated May 14, 2003.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Mr. R. Todd Rimmer
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215
614-716-1000

You should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone else to provide you with different information. We are not making an offer of these notes in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

USE OF PROCEEDS

Unless otherwise stated in a prospectus supplement, the net proceeds from the sale of the notes will be used for general corporate purposes relating to our utility business. These purposes include redeeming or repurchasing outstanding debt and other corporate purposes. If we do not use the net proceeds immediately, we temporarily invest them in short-term, interest-bearing obligations. We have estimated that our consolidated construction costs (inclusive of allowance for funds used during construction) for 2003 will be approximately $72,283,000. At June 1, 2003, our outstanding short-term debt was approximately $116,300,000.

DESCRIPTION OF THE NOTES

General

We will issue the notes under the Indenture dated September 1, 1997 (as previously supplemented and amended) entered into between us and the Trustee, Deutsche Bank Trust Company Americas (formerly Bankers Trust Company). This prospectus briefly outlines some provisions of the Indenture. If you would like more information on these provisions, review the Indenture and any supplemental indentures or company orders that we file with the SEC. See *Where You Can Find More Information* on how to locate these documents. You may also review these documents at the Trustee's offices at Four Albany Street, New York, New York.

The Indenture does not limit the amount of notes that may be issued. The Indenture permits us to issue notes in one or more series or tranches upon the approval of our board of directors and as described in one or more company orders or supplemental indentures. Each series of notes may differ as to their terms. The Indenture also gives us the ability to reopen a previous issue of a series of notes and issue additional notes of such series.

The notes are unsecured and will rank equally with all our unsecured unsubordinated debt. Substantially all of our fixed properties and franchises are subject to the lien of our first mortgage bonds issued under and secured by a Mortgage and Deed of Trust, dated as of May 1, 1949, as previously supplemented and amended, between us and Bankers Trust Company, as trustee. For current information on our debt outstanding see our most recent Form 10-K and 10-Q. See *Where You Can Find More Information*.

The notes will be denominated in U.S. dollars and we will pay principal and interest in U.S. dollars. Unless an applicable pricing or prospectus supplement states otherwise, the notes will not be subject to any conversion, amortization, or sinking fund. We expect that the notes will be "book-entry," represented by a permanent global note registered in the name of The

Depository Trust Company, or its nominee. We reserve the right, however, to issue note certificates registered in the name of the noteholders.

In the discussion that follows, whenever we talk about paying principal on the notes, we mean at maturity or redemption. Also, in discussing the time for notices and how the different interest rates are calculated, all times are New York City time and all references to New York mean the City of New York, unless otherwise noted.

The following terms may apply to each note as specified in the applicable pricing or prospectus supplement and the note.

Redemptions

If we issue redeemable notes, we may redeem such notes at our option unless an applicable pricing or prospectus supplement states otherwise. The pricing or prospectus supplement will state the terms of redemption. We may redeem notes in whole or in part by delivering written notice to the noteholders no more than 60, and not less than 30, days prior to redemption. If we do not redeem all the notes of a series at one time, the Trustee selects the notes to be redeemed in a manner it determines to be fair.

Remarketed Notes

If we issue notes with remarketing features, an applicable pricing or prospectus supplement will describe the terms for the notes including: interest rate, remarketing provisions, our right to redeem notes, the holders' right to tender notes, and any other provisions.

Book-Entry Notes - Registration, Transfer, and Payment of Interest and Principal

Unless otherwise stated in a prospectus supplement, book-entry notes of a series will be issued in the form of a global note that the Trustee will deposit with The Depository Trust Company, New York, New York ("DTC"). This means that we will not issue note certificates to each holder. One or more global notes will be issued to DTC who will keep a computerized record of its participants (for example, your broker) whose clients have purchased the notes. The participant will then keep a record of its clients who purchased the notes. Unless it is exchanged in whole or in part for a note certificate, a global note may not be transferred; except that DTC, its nominees, and their successors may transfer a global note as a whole to one another.

Beneficial interests in global notes will be shown on, and transfers of global notes will be made only through, records maintained by DTC and its participants.

DTC has provided us the following information: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also

records the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for Direct Participant's accounts. This eliminates the need to exchange note certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

Other organizations such as securities brokers and dealers, banks and trust companies that work through a Direct Participant also use DTC's book-entry system. The rules that apply to DTC and its participants are on file with the SEC.

A number of its Direct Participants and the New York Stock Exchange, Inc., The American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. own DTC.

We will wire principal and interest payments to DTC's nominee. We and the Trustee will treat DTC's nominee as the owner of the global notes for all purposes. Accordingly, we, the Trustee and any paying agent will have no direct responsibility or liability to pay amounts due on the global notes to owners of beneficial interests in the global notes.

It is DTC's current practice, upon receipt of any payment of principal or interest, to credit Direct Participants' accounts on the payment date according to their respective holdings of beneficial interests in the global notes as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to Direct Participants whose accounts are credited with notes on a record date. The customary practices between the participants and owners of beneficial interests will govern payments by participants to owners of beneficial interests in the global notes and voting by participants, as is the case with notes held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC, the Trustee or us.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Notes represented by a global note will be exchangeable for note certificates with the same terms in authorized denominations only if:

- DTC notifies us that it is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or

- we determine not to require all of the notes of a series to be represented by a global note and notify the Trustee of our decision.

Note Certificates-Registration, Transfer, and Payment of Interest and Principal

If we issue note certificates, they will be registered in the name of the noteholder. The notes may be transferred or exchanged, pursuant to administrative procedures in the indenture, without the payment of any service charge (other than any tax or other governmental charge) by contacting the paying agent. Payments on note certificates will be made by check.

Original Issue Discount

We may issue the notes at an original issue discount, bearing no interest or bearing interest at a rate that, at the time of issuance, is below market rate, to be sold at a substantial discount below their stated principal amount. Generally speaking, if the notes are issued at an original issue discount and there is an event of default or acceleration of their maturity, holders will receive an amount less than their principal amount. Tax and other special considerations applicable to original issue discount debt will be described in the prospectus supplement in which we offer those notes.

Interest Rate

The interest rate on the notes will either be fixed or floating. The interest paid will include interest accrued to, but excluding, the date of maturity or redemption. Interest is generally payable to the person in whose name the note is registered at the close of business on the record date before each interest payment date. Interest payable at maturity or redemption, however, will be payable to the person to whom principal is payable.

If we issue a note after a record date but on or prior to the related interest payment date, we will pay the first interest payment on the interest payment date after the next record date. We will pay interest payments by check or wire transfer, at our option.

Fixed Rate Notes

A pricing or prospectus supplement will designate the record dates, payment dates and the fixed rate of interest payable on a note. We will pay interest monthly, quarterly or semi-annually, and upon maturity or redemption. Unless an applicable pricing or prospectus supplement states otherwise, if any payment date falls on a day that is not a business day, we will pay interest on the next Business Day and no additional interest will be paid. Interest payments will be the amount of interest accrued to, but excluding, each payment date. Interest will be computed using a 360-day year of twelve 30-day months.

Floating Rate Notes: General

Each floating rate note will have an interest rate formula. The applicable pricing supplement will state the initial interest rate or interest rate formula on each note effective until the first interest reset date. The applicable pricing or prospectus supplement will state the method and dates on which the interest rate will be determined, reset and paid.

Events of Default

"Event of Default" means any of the following:

- failure to pay for three Business Days the principal of (or premium, if any, on) any note of a series when due and payable;
- failure to pay for 30 days any interest on any note of any series when due and payable;
- failure to perform any other requirements in such notes, or in the Indenture in regard to such notes, for 90 days after notice;
- certain events of bankruptcy or insolvency; or
- any other event of default specified in a series of notes.

An Event of Default for a particular series of notes does not necessarily mean that an Event of Default has occurred for any other series of notes issued under the Indenture. If an Event of Default occurs and continues, the Trustee or the holders of at least 33% of the principal amount of the notes of the series affected may require us to repay the entire principal of the notes of such series immediately ("Repayment Acceleration"). In most instances, the holders of at least a majority in aggregate principal amount of the notes of the affected series may rescind a previously triggered Repayment Acceleration. However, if we cause an Event of Default because we have failed to pay (unaccelerated) principal, premium, if any, or interest, Repayment Acceleration may be rescinded only if we have first cured our default by depositing with the Trustee enough money to pay all (unaccelerated) past due amounts and penalties, if any.

The Trustee must within 90 days after a default occurs, notify the holders of the notes of the series of default unless such default has been cured or waived. We are required to file an annual certificate with the Trustee, signed by an officer, concerning any default by us under any provisions of the Indenture.

Subject to the provisions of the Indenture relating to its duties in case of default, the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any holders unless such holders offer the Trustee reasonable indemnity. Subject to the provisions for indemnification, the holders of a majority in principal amount of the notes of any series may direct the time, method and place of conducting any proceedings for any remedy available to, or exercising any trust or power conferred on, the Trustee with respect to such notes.

Modification of Indenture

Under the Indenture, our rights and obligations and the rights of the holders of any notes may be changed. Any change affecting the rights of the holders of any series of notes requires the consent of the holders of not less than a majority in aggregate principal amount of the outstanding notes of all series affected by the change, voting as one class. However, we cannot change the terms of payment of principal or interest, or a reduction in the percentage required for changes or a waiver of default, unless the holder consents. We may issue additional series of notes and take other action that does not affect the rights of holders of any series by executing supplemental indentures without the consent of any noteholders.

Consolidation, Merger or Sale

We may merge or consolidate with any corporation or sell substantially all of our assets as an entirety as long as the successor or purchaser expressly assumes the payment of principal, and premium, if any, and interest on the notes.

Legal Defeasance

We will be discharged from our obligations on the notes of any series at any time if:

- we deposit with the Trustee sufficient cash or government securities to pay the principal, interest, any premium and any other sums due to the stated maturity date or a redemption date of the note of the series, and

- we deliver to the Trustee an opinion of counsel stating that the federal income tax obligations of noteholders of that series will not change as a result of our performing the action described above.

If this happens, the noteholders of the series will not be entitled to the benefits of the Indenture except for registration of transfer and exchange of notes and replacement of lost, stolen or mutilated notes.

Covenant Defeasance

We will be discharged from our obligations under any restrictive covenant applicable to the notes of a particular series if we perform both actions described above. See *Legal Defeasance*. If this happens, any later breach of that particular restrictive covenant will not result in Repayment Acceleration. If we cause an Event of Default apart from breaching that restrictive covenant, there may not be sufficient money or government obligations on deposit with the Trustee to pay all amounts due on the notes of that series. In that instance, we would remain liable for such amounts.

Governing Law

The Indenture and notes of all series will be governed by the laws of the State of New York.

Concerning the Trustee

We and our affiliates use or will use some of the banking services of the Trustee in the normal course of business.

PLAN OF DISTRIBUTION

We may sell the notes (a) through agents; (b) through underwriters or dealers; or (c) directly to one or more purchasers.

By Agents

Notes may be sold on a continuing basis through agents designated by us. The agents will agree to use their reasonable efforts to solicit purchases for the period of their appointment.

The Agents will not be obligated to make a market in the notes. We cannot predict the amount of trading or liquidity of the notes.

By Underwriters

If underwriters are used in the sale, the underwriters will acquire the notes for their own account. The underwriters may resell the notes in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the notes will be subject to certain conditions. The underwriters will be obligated to purchase all the notes of the series offered if any of the notes are purchased. Any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

Direct Sales

We may also sell notes directly. In this case, no underwriters or agents would be involved.

General Information

Underwriters, dealers, and agents that participate in the distribution of the notes may be underwriters as defined in the Securities Act of 1933 (the "Act"), and any discounts or commissions received by them from us and any profit on the resale of the notes by them may be treated as underwriting discounts and commissions under the Act.

We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Act.

Underwriters, dealers and agents may engage in transactions with, or perform services for, us or our affiliates in the ordinary course of their businesses.

LEGAL OPINIONS

Our counsel, Simpson Thacher & Bartlett LLP, New York, NY, and one of our lawyers will each issue an opinion about the legality of the notes for us. Dewey Ballantine LLP, New York, NY will issue an opinion for the agents or underwriters. From time to time, Dewey Ballantine LLP acts as counsel to our affiliates for some matters.

EXPERTS

The financial statements of the Company incorporated in this prospectus by reference from the Company's Current Report on Form 8-K dated May 14, 2003 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report which is incorporated herein by reference (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the realignment of segments for financial reporting purposes).

The financial statement schedule of the Company incorporated by reference in this prospectus from the Company's Annual Report on Form 10-K (as updated by the Company's Current Report on Form 8-K dated May 14, 2003) has been audited by Deloitte & Touche LLP, independent auditors, as stated in their report which is incorporated herein by reference.

The aforementioned reports have been so incorporated in reliance upon such firm given their authority as experts in accounting and auditing.

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$75,000,000

KENTUCKY POWER COMPANY

5.625% Senior Notes, Series D, due 2032

PROSPECTUS SUPPLEMENT

June 10, 2003

Joint Book-Running Managers

ABN AMRO INCORPORATED
McDONALD INVESTMENTS INC.

$325,000,000

KENTUCKY POWER COMPANY

6.0% Senior Notes, Series E, due 2017

Interest on the Series E Notes (the "Senior Notes") is payable semi annually on March 15 and September 15 of each year, beginning March 15, 2008. The Senior Notes will mature on September 15, 2017. We may redeem the Senior Notes at our option at any time either as a whole or in part at a redemption price equal to 100% of the principal amount of the Senior Notes being redeemed plus a make-whole premium, together with accrued and unpaid interest to the redemption date. The Senior Notes do not have the benefit of any sinking fund.

The Senior Notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding and will be effectively subordinated to all of our secured debt outstanding from time to time.

	Per Senior Note	Total
Offering price[1]	99.487%	$323,332,750
Underwriting discount	0.65%	$ 2,112,500
Proceeds, before expenses, to Kentucky Power Company.	98.837%	$321,220,250

[1] Plus accrued interest, if any, from September 11, 2007.

INVESTING IN THE SENIOR NOTES INVOLVES RISKS. SEE THE SECTION ENTITLED "RISK FACTORS" ON PAGE 2 FOR MORE INFORMATION.

The Senior Notes have not been registered under the Securities Act of 1933 (the "Securities Act") or the securities laws of any other jurisdiction. Unless they are registered, the Senior Notes may be offered only in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act or the securities laws of any other applicable jurisdiction. Accordingly, the Senior Notes are being offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) within the United States and outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act. Because the Senior Notes are not registered, they are subject to certain restrictions on resale. See *Notice to Investors.*

We expect that the Senior Notes will be ready for delivery in book-entry form through The Depository Trust Company for the account of its participants, including Clearstream Banking, societé anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, against payment in New York, New York, on or about September 11, 2007.

Joint Book-Running Managers

BNP PARIBAS **Credit Suisse** **KeyBanc Capital Markets**

Co-Managers

Fifth Third Securities, Inc. **NatCity Investments, Inc.**

The date of this Offering Memorandum is September 5, 2007.

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You should rely only on the information incorporated by reference or provided in this Offering Memorandum. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this Offering Memorandum is accurate as of any date other than the date on the front of the document.

This Offering Memorandum is a confidential document which we are providing only to prospective purchasers of the Senior Notes. You should read this Offering Memorandum before making a decision whether to purchase any Senior Notes. You must not:

- use this Offering Memorandum for any other purpose other than making a decision about purchasing the Senior Notes;
- make copies of any part of this Offering Memorandum or give a copy of it to any other person; or
- disclose any information in this Offering Memorandum to any other person.

We have prepared this Offering Memorandum and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Senior Notes. You may contact us or the initial purchasers with any questions about this offering or if you need any additional information. By purchasing any Senior Notes, you will be deemed to have acknowledged that:

- you have reviewed this Offering Memorandum;
- you have had an opportunity to request any additional information that would be helpful in examining us or in making an assessment of the merits and risks of investing in the Senior Notes; and

- the initial purchasers are not responsible for, and are not making any representation to you concerning the accuracy or completeness of this Offering Memorandum or our financial condition, operations, business or prospects.

We are not providing you with any legal, business, tax or other advice in this Offering Memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the Senior Notes.

You must comply with all laws and regulations that apply to you in any jurisdiction in which you buy, offer or sell and Senior Notes or possess this Offering Memorandum. You must also obtain any consents or approvals that you need in order to purchase the Senior Notes. We and the initial purchasers are not responsible for your compliance with these requirements.

We are making this offering in reliance on exemptions from the registration requirements of the Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering.

The Senior Notes have not been recommended by any federal, state or foreign securities authorities and they have not determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The Senior Notes are subject to restrictions on transfer and resale which are described under "Notice to Investors." By purchasing any Senior Notes, you will be deemed to have represented and agreed to all of the provisions contained in that section of this Offering Memorandum. You may be required to bear the financial risks of investing in the Senior Notes for an indefinite period of time.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under RSA 421-B with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State of New Hampshire has passed in any way upon the matters or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer, or client any representation inconsistent with the provisions of this paragraph.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum and the documents it incorporates by reference contain statements that are not historical fact and constitute "forward-looking statements." When we use words like "believes," "expects," "anticipates," "intends," "plans," "estimates," "may," "should" or similar expressions, or when we discuss our strategy or plans, we are making forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results may differ materially from those expressed in these forward-looking statements. Although the Company believes that in making any such forward-looking statements its expectations are based on reasonable assumptions, such forward-looking statements involve uncertainties and are qualified in their entirety by reference to the following important factors, among others, that could cause the Company's actual results to differ materially from those projected in such forward-looking statements:

- Electric load and customer growth.
- Weather conditions, including storms.
- Available sources and costs of, and transportation for, fuels and the creditworthiness of fuel suppliers and transporters.
- Availability of generating capacity and the performance of our generating plants.
- Our ability to recover increases in fuel and other energy costs through regulated electric rates.
- Our ability to build or acquire generating capacity when needed at acceptable prices and terms and to recover those costs through applicable rate cases.
- New legislation, litigation and government regulation including requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances.
- Timing and resolution of pending and future rate cases, negotiations and other regulatory decisions (including rate or other recovery for new investments, transmission service and environmental compliance).
- Resolution of litigation (including pending Clean Air Act enforcement actions and related matters).
- Our ability to constrain operation and maintenance costs.
- The economic climate and growth in our service territory and changes in market demand and demographic patterns.
- Inflationary and interest rate trends.
- Our ability to develop and execute a strategy based on a view regarding prices of electricity, natural gas and other energy-related commodities.
- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements.
- Actions of rating agencies, including changes in the ratings of debt.
- Volatility and changes in markets for electricity, natural gas and other energy-related commodities.
- Changes in utility regulation, including membership in and integration into regional transmission organizations.
- Accounting pronouncements periodically issued by accounting standard-setting bodies.
- The performance of our pension and other postretirement benefit plans.
- Prices for power that we generate and sell at wholesale.
- Changes in technology, particularly with respect to new, developing or alternative sources of generation.
- Other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes and other catastrophic events.

You are cautioned not to rely unduly on any forward-looking statements. These risks and uncertainties are discussed in more detail under “Risk Factors” included herein and incorporated by reference herein from our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the period ended March 31, 2007. You may obtain copies of these documents as described under “Documents Incorporated By Reference.”

KENTUCKY POWER COMPANY

We generate, sell, purchase, transmit and distribute electric power. We serve approximately 176,000 customers in eastern Kentucky. We also sell and transmit power at wholesale to other electric utilities, municipalities, electric cooperatives and non-utility entities engaged in the wholesale power market. Our principal executive offices are located at 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number 614-716-1000). We are a subsidiary of American Electric Power Company, Inc., a public utility holding company, and we are a part of the American Electric Power integrated utility system. The executive offices of American Electric Power Company, Inc. are located at 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number 614-716-1000).

AVAILABLE INFORMATION

On July 31, 2007, we filed a Form 15 under the Securities Exchange Act of 1934 ("1934 Act"), which suspended our duty to file reports under Section 13 and 15(d) under the 1934 Act. Accordingly, we no longer file reports and other information with the Securities and Exchange Commission ("SEC"). While the Senior Notes are outstanding, if we are not filing periodic reports with the SEC pursuant to Sections 13 or 15(d) of the 1934 Act, we will post on our website (www.aep.com) audited annual and un-audited quarterly financial statements, and at such times as would be required for the financial statements filed with the SEC. Furthermore, so long as we are not subject to the periodic reporting and other informational requirements of Section 13 or 15(d) of the 1934 Act at any time while the Senior Notes constitute "restricted securities" within the meaning of the Securities Act, upon request, we will make available to any holder and prospective purchaser of Senior Notes the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act in connection with re-sales of the Senior Notes.

DOCUMENTS INCORPORATED BY REFERENCE

Prior to July 31, 2007, the following documents were filed with the SEC by us pursuant to the 1934 Act. Such documents are incorporated by reference and made a part of this Offering Memorandum:

- Annual Report on Form 10-K for the year ended December 31, 2006; and
- Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at prescribed rates. The SEC may be contacted at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website at http://www.sec.gov containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including us.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

We will provide without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written or oral request of any such person, a copy of any or all of the

documents described above which have been incorporated by reference in this Offering Memorandum, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to us contained in this Offering Memorandum does not purport to be comprehensive and should be read together with the information contained herein and in the documents incorporated by reference.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

Twelve Months Period Ended	Ratio
December 31, 2002	2.06
December 31, 2003	2.44
December 31, 2004	2.13
December 31, 2005	2.10
December 31, 2006	2.77
June 30, 2007	2.87

The Ratio of Earnings to Fixed Charges for the six months ended June 30, 2007 was 2.63. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

RISK FACTORS

Investing in the Senior Notes involves risk. Please see the risk factors described below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, which are incorporated by reference in this Offering Memorandum. Before making an investment decision, you should carefully consider these risks. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of the Senior Notes.

Our costs of compliance with environmental laws are significant and the cost of compliance with future environmental laws could harm our cash flow and profitability.

Our operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and health and safety. Compliance with these legal requirements requires us to commit significant capital toward environmental monitoring, installation of pollution control equipment, emission fees and permits at all of our facilities. These expenditures have been significant in the past, and we expect that they will increase in the future. On April 2, 2007, the U.S. Supreme Court issued a decision holding that the Federal Environmental Protection Agency (the "EPA") has authority to regulate emissions of carbon dioxide ("CO_2") and other greenhouse gases under the Clean Air Act Amendments of 1990 (the "CAA"). Costs of compliance with environmental regulations could adversely affect our results of operations and financial position, especially if emission and/or discharge limits are tightened, more extensive permitting

requirements are imposed, additional substances become regulated and the number and types of assets we operate increase. All of our estimates are subject to significant uncertainties about the outcome of several interrelated assumptions and variables, including timing of implementation, required levels of reductions, allocation requirements of the new rules and our selected compliance alternatives. As a result, we cannot estimate our compliance costs with certainty. The actual costs to comply could differ significantly from our estimates. All of the costs are incremental to our current investment base and operating cost structure.

If Federal and/or State requirements are imposed on electric utility companies mandating further emission reductions, including limitations on CO_2 emissions, such requirements could make some of our electric generating units uneconomical to maintain or operate.

Emissions of nitrogen and sulfur oxides, mercury and particulates from fossil fueled generating plants are potentially subject to increased regulations, controls and mitigation expenses. Environmental advocacy groups, other organizations and some agencies in the United States are focusing considerable attention on CO_2 emissions from power generation facilities and their potential role in climate change. Although several bills have been introduced in Congress that would compel CO_2 emission reductions, none have advanced through the legislature. On April 2, 2007, the U.S. Supreme Court issued a decision holding that the Federal EPA has authority to regulate emissions of CO_2 and other greenhouse gases under the CAA. Future changes in environmental regulations governing these pollutants could make some of our electric generating units uneconomical to maintain or operate. In addition, any legal obligation that would require us to substantially reduce our emissions beyond present levels could require extensive mitigation efforts and, in the case of CO_2 legislation, would raise uncertainty about the future viability of fossil fuels, particularly coal, as an energy source for new and existing electric generation facilities. While mandatory requirements for further emission reductions from our fossil fleet do not appear to be imminent, we continue to monitor regulatory and legislative developments in this area.

Governmental authorities may assess penalties on us if it is determined that we have not complied with environmental laws and regulations.

If we fail to comply with environmental laws and regulations, even if caused by factors beyond our control, that failure may result in the assessment of civil or criminal penalties and fines against us. Recent lawsuits by the Federal EPA and various states filed against us highlight the environmental risks faced by generating facilities, in general, and coal-fired generating facilities, in particular.

Since 1999, we have been involved in litigation regarding generating plant emissions under the CAA. The Federal EPA and a number of states alleged that we and other unaffiliated utilities modified certain units at coal-fired generating plants in violation of the CAA. The Federal EPA filed complaints against certain AEP subsidiaries in U.S. District Court for the Southern District of Ohio. A separate lawsuit initiated by certain special interest groups was consolidated with the Federal EPA case. The alleged modification of the generating units occurred over a 20-year period. A bench trial on the liability issues was held during July 2005. Briefing has concluded and the court has indicated an intent to issue a decision on liability. Additionally, in July 2004 attorneys general of eight states and others sued AEP and other utilities alleging that CO_2 emissions from power generating facilities constitute a public nuisance under federal common law. The trial court dismissed the suits and plaintiffs have appealed the dismissal. While we believe the claims are without merit, the costs associated with reducing CO_2 emissions could harm our business and our results of operations and financial position.

If these or other future actions are resolved against us, substantial modifications of our existing coal-fired power plants could be required. In addition, we could be required to invest significantly in additional

emission control equipment, accelerate the timing of capital expenditures, pay penalties and/or halt operations. Moreover, our results of operations and financial position could be reduced due to the timing of recovery of these investments and the expense of ongoing litigation.

A trading market for the Senior Notes may not develop

The Senior Notes have not been and will not be registered under the Securities Act and, therefore, will be subject to transfer restrictions. There is no existing market for the Senior Notes and we do not intend to apply for listing of the Senior Notes on any securities exchange or for quotation of the Senior Notes on any automated dealer quotation system. We cannot assure you that any market will develop for the Senior Notes or, if a market develops, that such market will be liquid. As a result, the ability of the holders to sell their Senior Notes or the price at which the holders may be able to sell the Senior Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities.

The initial purchasers have informed us that they intend to make a market in the Senior Notes. However, the initial purchasers are not obligated to do so and any such market-making activity may be terminated at any time without notice. In addition, such market-making activity will be subject to the restrictions of the Securities Act and the 1934 Act.

USE OF PROCEEDS

We propose to use the net proceeds from the sale of the Senior Notes to fund our construction program, to refund maturing long-term indebtedness, to repay advances from affiliates and for other corporate purposes. Proceeds may be temporarily invested in short-term instruments pending their application to the foregoing purposes.

The following long-term debt has matured or is maturing this year: (i) 5.50% Senior Notes, Series A, due July 1, 2007, in the principal amount of $125,000,000; (ii) 4.315% Senior Notes, Series B, due November 12, 2007, in the principal amount of $80,400,000; (iii) 4.368% Senior Notes, Series C, due December 10, 2007, in the principal amount of $69,564,000; and (iv) 6.91% Medium Term Notes, Series A, due October 1, 2007, in the principal amount of $48,000,000.

We have estimated that our consolidated construction costs (inclusive of allowance for funds used during construction) for 2007 will be approximately $70 million. As of August 27, 2007, advances from affiliates totaled approximately $130 million.

DESCRIPTION OF THE SENIOR NOTES

General

We will issue the Senior Notes under an Indenture, dated as of September 1, 1997, between us and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company), as Trustee, as supplemented and amended and as to be further supplemented and amended.

The Indenture does not limit the amount of Senior Notes that may be issued. The Indenture permits us to issue Senior Notes in one or more series or tranches upon the approval of our board of directors and as described in one or more company orders or supplemental indentures. Each series of Senior Notes may differ as to their terms.

The Senior Notes will be denominated in U.S. dollars and we will pay principal and interest in U.S. dollars. The Senior Notes will not be subject to any conversion, amortization, or sinking fund. We expect that the Senior Notes will be "book-entry," represented by a permanent global note registered in the name of The Depository Trust Company, or its nominee. We reserve the right, however, to issue note certificates registered in the name of the noteholders. The Senior Notes will be issued without coupons and in fully registered from only in denominations of $2,000 and any integral multiple of $1,000 in excess thereof.

In the discussion that follows, whenever we talk about paying principal on the Senior Notes, we mean at maturity or redemption. Also, in discussing the time for notices and how the different interest rates are calculated, all times are New York City time and all references to New York mean the City of New York, unless otherwise noted.

Principal Amount, Maturity and Interest

The Senior Notes will initially be issued in an aggregate principal amount of $325,000,000. We may at any time and from time to time, without consent of the holders of the Senior Notes, issue additional notes having the same ranking, interest rate, maturity and other terms as the Senior Notes. These notes, together with the Senior Notes, will be a single series of notes under the Indenture.

The Senior Notes will mature and become due and payable, together with any accrued and unpaid interest, on September 15, 2017, and will bear interest at the rate of 6.0% per year from September 11, 2007 until September 15, 2017. Interest on the Senior Notes will be payable semi annually in arrears on each March 15 and September 15 and at redemption, if any, or maturity. The initial interest payment date is March 15, 2008. Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Senior Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

We will pay interest on the Senior Notes (other than interest payable at redemption, if any, or maturity) in immediately available funds to the owners of the Senior Notes as of the Regular Record Date (as defined below) for each interest payment date.

We will pay the principal of the Senior Notes and any premium and interest payable at redemption, if any, or at maturity in immediately available funds at the office of Deutsche Bank Trust Company Americas, Corporate Trust and Agency Services, 60 Wall Street, MSNYC 60-2515, New York, New York 10005.

If any interest payment date, redemption date or the maturity is not a Business Day (as defined below), we will pay all amounts due on the next succeeding Business Day and no additional interest will be paid.

The "Regular Record Date" will be the March 1 or September 1 prior to the relevant interest payment date.

"Business Day" means any day that is not a day on which banking institutions in New York City are authorized or required by law or regulation to close.

Optional Redemption

We may redeem the Senior Notes at our option at any time, upon no more than 60 and not less than 30 days' notice by mail. We may redeem the Senior Notes either as a whole or in part at a redemption price equal to the greater of (1) 100% of the principal amount of the Senior Notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes being redeemed (excluding the portion of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 25 basis points, plus accrued interest thereon to the date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Senior Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Senior Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if we obtain fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by us and reasonably acceptable to the Trustee.

"Reference Treasury Dealer" means a primary U.S. government securities dealer selected by us and reasonably acceptable to the Trustee.

"Reference Treasury Dealer Quotation" means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at or before 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Covenant to Provide Additional Information

The Senior Notes provide that, while the Senior Notes are outstanding, if we are not filing periodic reports with the SEC pursuant to Sections 13 or 15(d) of the 1934 Act we will post on our website (www.aep.com) audited annual and unaudited quarterly financial statements, at such times as would be required for the financial statements filed with the SEC. If we are unable, for any reason, to post the financial statements on our website, we are required to furnish the financial statements to the Trustee, who, at our expense, will furnish it by mail to the holders of the Senior Notes. In addition, we are also required to furnish to any holder of the Senior Notes, upon request of the holder, or any prospective purchaser of Senior Notes designated by any such holder, upon such prospective purchaser's request to us or the holder, copies of such financial statements and any other information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act for compliance with Rule 144A.

Limitations on Liens

So long as any of our Senior Notes issued pursuant to this Offering Memorandum are outstanding, we will not create or suffer to be created or to exist any additional mortgage, pledge, security interest, or other lien (collectively "Liens") on any of our utility properties or tangible assets now owned or hereafter acquired to secure any indebtedness for borrowed money ("Secured Debt"), without providing that such Senior Notes will be similarly secured. This restriction does not apply to our subsidiaries, nor will it prevent any of them from creating or permitting to exist Liens on their property or assets to secure any Secured Debt. In addition, this restriction does not prevent the creation or existence of:

- Liens on property existing at the time of acquisition or construction of such property (or created within one year after completion of such acquisition or construction), whether by purchase, merger, construction or otherwise, or to secure the payment of all or any part of the purchase price or construction cost thereof, including the extension of any Liens to repairs, renewals, replacements, substitutions, betterments, additions, extensions and improvements then or thereafter made on the property subject thereto;

- Financing of our accounts receivable for electric service;

- Any extensions, renewals or replacements (or successive extensions, renewals or replacements), in whole or in part, of liens permitted by the foregoing clauses; and

- The pledge of any bonds or other securities at any time issued under any of the Secured Debt permitted by the above clauses.

In addition to the permitted issuances above, Secured Debt not otherwise so permitted may be issued in an amount that does not exceed 15% of Net Tangible Assets as defined below.

Net Tangible Assets means the total of all assets (including revaluations thereof as a result of commercial appraisals, price level restatement or otherwise) appearing on our balance sheet, net of applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of our current liabilities appearing on such balance sheet. For purposes of this definition, our balance sheet does not include assets and liabilities of our subsidiaries.

This restriction also will not apply to or prevent the creation or existence of leases made, or existing on property acquired, in the ordinary course of business.

Book-Entry Senior Notes - Registration, Transfer, and Payment of Interest and Principal

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Senior Notes. The Senior Notes will be issued in the form of one or more global bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. The Senior Notes will not be issued in certificated form and, except under the limited circumstances described below, owners of beneficial interests will not be entitled to physical delivery of Senior Notes in certificated form.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the 1934 Act. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, societé anonyme ("Clearstream"). DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC , in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Senior Notes on DTC's records. The ownership interest of each actual purchaser of each note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Senior Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Senior Notes, except in the event that use of the book-entry system for the Senior Notes is discontinued.

To facilitate subsequent transfers, all Senior Notes deposited by Direct Participants with DTC

are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Senior Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Senior Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Senior Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Senior Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Senior Notes, such as redemptions, tenders, defaults and proposed amendments to the Senior Notes documents. For example, Beneficial Owners of Senior Notes may wish to ascertain that the nominee holding the Senior Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices by provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Senior Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Senior Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Senior Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Senior Notes held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is our or the Trustee's responsibility, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Senior Notes purchased or tendered, through its Participant, to the Tender/Remarketing Agent, and shall effect delivery of such Senior Notes by causing the Direct Participant to transfer the Participant's interest in the Senior Notes, on DTC's records, to the Tender/Remarketing Agent. The requirement for physical delivery of the Senior Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Senior Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Senior Notes to the Tender/Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Senior Notes at any time by giving reasonable notice to us or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered.

Prior to the expiration of the "40-day distribution compliance period" (within the meaning of Rule 903 of Regulation S), beneficial interests in the Senior Notes sold outside the United States in reliance on Regulation S under the Securities Act may only be held through Euroclear or Clearstream, unless delivery is made pursuant to an exemption from registration under the Securities Act.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Senior Notes represented by global certificates among their respective participants, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. Neither the Company, the initial purchasers nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the Rules and procedures governing their operations.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Note Certificates-Registration, Transfer, and Payment of Interest and Principal

If we issue note certificates, they will be registered in the name of the note holder. The Senior Notes may be transferred or exchanged, pursuant to administrative procedures in the indenture, without the payment of any service charge (other than any tax or other governmental charge) by contacting the paying agent. Payments on note certificates will be made by check.

Events of Default

"Event of Default" means any of the following:

- failure to pay for three business days the principal of (or premium, if any, on) any note of a series when due and payable;
- failure to pay for 30 days any interest on any note of any series when due and payable;
- failure to perform any other requirements in such Senior Notes, or in the Indenture in regard to such Senior Notes, for 90 days after notice;
- certain events of bankruptcy or insolvency;
- or any other event of default specified in a series of Senior Notes.

An Event of Default for a particular series of Senior Notes does not necessarily mean that an Event of Default has occurred for any other series of Senior Notes issued under the Indenture. If an Event of Default occurs and continues, the Trustee or the holders of at least 33% of the principal amount of the Senior Notes of the series affected may require us to repay the entire principal of the Senior Notes of such series immediately ("Repayment Acceleration"). In most instances, the holders of at least a

majority in aggregate principal amount of the Senior Notes of the affected series may rescind a previously triggered Repayment Acceleration. However, if we cause an Event of Default because we have failed to pay (unaccelerated) principal, premium, if any, or interest, Repayment Acceleration may be rescinded only if we have first cured our default by depositing with the Trustee enough money to pay all (unaccelerated) past due amounts and penalties, if any.

The Trustee must within 90 days after a default occurs, notify the holders of the Senior Notes of the series of default unless such default has been cured or waived. We are required to file an annual certificate with the Trustee, signed by an officer, concerning any default by us under any provisions of the Indenture.

Subject to the provisions of the Indenture relating to its duties in case of default, the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any holders unless such holders offer the Trustee reasonable indemnity. Subject to the provisions for indemnification, the holders of a majority in principal amount of the Senior Notes of any series may direct the time, method and place of conducting any proceedings for any remedy available to, or exercising any trust or power conferred on, the Trustee with respect to such Senior Notes.

Modification of Indenture

Under the Indenture, our rights and obligations and the rights of the holders of any Senior Notes may be changed. Any change affecting the rights of the holders of any series of Senior Notes requires the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Senior Notes of all series affected by the change, voting as one class. However, we cannot change the terms of payment of principal or interest, or a reduction in the percentage required for changes or a waiver of default, unless the holder consents. We may issue additional series of Senior Notes and take other action that does not affect the rights of holders of any series by executing supplemental indentures without the consent of any noteholders.

Consolidation, Merger or Sale

We may merge or consolidate with any corporation or sell substantially all of our assets as an entirety as long as the successor or purchaser expressly assumes the payment of principal, and premium, if any, and interest on the Senior Notes.

Legal Defeasance

We will be discharged from our obligations on the Senior Notes of any series at any time if:

- we deposit with the Trustee sufficient cash or government securities to pay the principal, interest, any premium and any other sums due to the stated maturity date or a redemption date of the note of the series, and
- we deliver to the Trustee an opinion of counsel stating that the federal income tax obligations of noteholders of that series will not change as a result of our performing the action described above.

If this happens, the noteholders of the series will not be entitled to the benefits of the Indenture except for registration of transfer and exchange of Senior Notes and replacement of lost, stolen or mutilated Senior Notes.

Covenant Defeasance

We will be discharged from our obligations under any restrictive covenant applicable to the Senior Notes of a particular series if we perform both actions described above. See *Legal Defeasance*. If this happens, any later breach of that particular restrictive covenant will not result in Repayment Acceleration. If we cause an Event of Default apart from breaching that restrictive covenant, there may not be sufficient money or government obligations on deposit with the Trustee to pay all amounts due on the Senior Notes of that series. In that instance, we would remain liable for such amounts.

Governing Law

The Indenture and Senior Notes of all series will be governed by the laws of the State of New York.

Concerning the Trustee

We and our affiliates use or will use some of the banking services of the Trustee and other services of its affiliates in the normal course of business.

NOTICE TO INVESTORS

The Senior Notes have not been registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Senior Notes are being offered and sold only (1) in the United States to qualified institutional buyers under Rule 144A under the Securities Act, and (2) outside the United States to non-U.S. persons in reliance upon Regulation S under the Securities Act.

Each purchaser of the Senior Notes, by accepting such Senior Notes, will be deemed to have acknowledged, represented and agreed as follows:

(1) It is purchasing the Senior Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Senior Notes pursuant to Rule 144A, Regulation S or any exemption from registration available under the Securities Act;

(2) It is:

   (i) a qualified institutional buyer as defined in Rule 144A who is aware that the sale to it is being made in reliance on Rule 144A and who is acquiring the Senior Notes for its own account or for the account of a qualified institutional buyer; or

   (ii) a non-U.S. person acquiring the Senior Notes in an offshore transaction outside the United States complying with the provisions of Regulation S;

(3) It acknowledges that none of ourselves, the initial purchasers or any persons representing any of us

has made any representation to it with respect to any such entity or the offering or sale of any Senior Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Senior Notes. Accordingly, it acknowledges that no representation or warranty is made by the initial purchasers as to the accuracy or completeness of such materials. It has had access to such financial and other information concerning us and the Senior Notes as it has deemed necessary in connection with its decision to purchase any of our Senior Notes, including an opportunity to ask questions of, and request information from, us and the initial purchasers;

(4) It understands and agrees that the offer and sale of the Senior Notes have not been registered under the Securities Act and that such Senior Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, and that (A) if it decides to resell, pledge or otherwise transfer such Senior Notes on which the legend set forth below appears, such Senior Notes may be resold, pledged or otherwise transferred only (i) to us, (ii) in a transaction entitled to an exemption from registration provided by Rule 144 under the Securities Act, (iii) so long as such Senior Notes are eligible for resale pursuant to Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or other transfer is being made in reliance on Rule 144A, (iv) outside the United States in a transaction meeting the requirements of Regulation S, (v) in accordance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel acceptable to us), in each case in accordance with any applicable securities laws of any state of the United States or (vi) pursuant to a registration statement which has been declared effective under the Securities Act and (B) the purchaser will, and each subsequent holder is required to, notify any purchaser of Senior Notes from it of the resale restrictions referred to in (A) above, if then applicable. It acknowledges that the foregoing transfer restrictions apply to holders of beneficial interests in the Senior Notes, as well as to holders of the Senior Notes. With respect to any transfer of Senior Notes by an institutional accredited investor, such holder will deliver to us and the trustee such certificates and other information as we or they may reasonably require to confirm that the transfer by it complies with the foregoing restrictions;

(5) It understands that the Senior Notes will, until expiration of the applicable holding period with respect to the Senior Notes set forth in Rule 144(k) of the Securities Act, contain the following legend will be placed on the Senior Notes unless otherwise agreed by us:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF THE COMPANY THAT THIS SECURITY MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OTHER THAN (A)(I) TO THE COMPANY, (2) IN A TRANSACTION ENTITLED TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT, (3) SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (RULE 144A), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (4) OUTSIDE THE UNITED STATES IN A TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, (5) IN ACCORDANCE WITH ANOTHER APPLICABLE EXEMPTION FROM THE REGISTRATION

REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY) OR (6) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT AND (B) IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF EACH STATE OF THE UNITED STATES. AN INSTITUTIONAL ACCREDITED INVESTOR HOLDING THIS SECURITY AGREES IT WILL FURNISH TO THE COMPANY AND THE TRUSTEE SUCH CERTIFICATES AND OTHER INFORMATION AS THEY MAY REASONABLY REQUIRE TO CONFIRM THAT ANY TRANSFER BY IT OF THIS SECURITY COMPLIES WITH THE FOREGOING RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT IS (I) A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR (2) AN INSTITUTION THAT 36 IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501l(A)(l), (2),(3) OR (7) UNDER THE SECURITIES ACT AND THAT IT IS HOLDING THIS SECURITY FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION OR (3) A NON- U.S. PERSON OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT.;

(6) It acknowledges that we, the trustee, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the Senior Notes are no longer accurate, it shall promptly notify us, the trustee and the initial purchasers. If it is acquiring the Senior Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each account; and that each such investor account is eligible to purchase the Senior Notes; and

(7) If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S under the Securities Act, it acknowledges that until the expiration of the 40-day distribution compliance period within the meaning of Rule 903 of Regulation S under the Securities Act, any offer or sale of the securities shall not be made by it to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(k) of the Securities Act, other than pursuant to Rule 144A of the Securities Act. Any Regulation S temporary global note will contain a legend substantially to the following effect:

> “PRIOR TO THE EXPIRATION OF THE ‘40-DAY DISTRIBUTION COMPLIANCE PERIOD’ (AS DEFINED IN REGULATION S), THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES WITHIN THE MEANING OF REGULATION S, EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE OR OTHERWISE IN ACCORDANCE WITH REGULATION S.”

CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS

IRS CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH PROSPECTIVE INVESTOR IS HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX CONSEQUENCES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY SUCH INVESTOR FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH INVESTOR UNDER THE INTERNAL REVENUE CODE; (B) ANY SUCH DISCUSSION HAS BEEN INCLUDED BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE SENIOR NOTES; AND (C) EACH SUCH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain United States federal income and, in the case of Non-United States Holders (as defined below), estate tax considerations relating to the purchase, ownership and disposition of the Senior Notes, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”) and Treasury regulations promulgated thereunder and judicial and administrative decisions in effect as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This summary is generally limited to holders that will hold the Senior Notes as “capital assets” (within the meaning of Section 1221 of the Code) and does not address tax considerations applicable to investors that may be subject to special tax rules, including, but not limited to, banks, tax-exempt organizations, insurance companies, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons that will hold the Senior Notes as a position in a “hedging,” “straddle” or “conversion” transaction for tax purposes, certain former citizens or former long-term residents of the United States, persons subject to the alternative minimum tax, partnerships and other pass-through entities and investors in such entities, or United States Holders (as defined below) whose “functional currency” is not the United States dollar. This summary discusses the tax considerations applicable only to persons who purchase the Senior Notes at the initial “issue price” (i.e., the initial offering price to the public, excluding bond houses and brokers, at which price a substantial amount of the Senior Notes is sold) and does not discuss the tax considerations applicable to subsequent purchasers of the Senior Notes. We have not sought any ruling from the Internal Revenue Service (the “IRS”) with respect to the statements made and the conclusions reached in the following summary, and there can be no complete assurance that the IRS will agree with these statements and conclusions. THIS SUMMARY IS NOT, AND SHOULD NOT BE CONSTRUED TO BE, TAX OR LEGAL ADVICE TO ANY PARTICULAR INVESTOR. INVESTORS CONSIDERING THE PURCHASE OF SENIOR NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE UNITED STATES FEDERAL INCOME, ESTATE, AND GIFT TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

United States Holders

As used in this tax discussion, the term “United States Holder” means a beneficial owner of a Senior Note, that for United States federal income tax purposes, is:

(1) an individual who is a citizen or resident of the United States;

(2) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

(3) an estate the income of which is subject to United States federal income taxation regardless of its source; or

(4) a trust if (a) its administration is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all of its substantial decisions, or (b) it has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

If the Senior Notes are held by a partnership (or any other entity treated as a partnership for United States federal income tax purposes), the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A beneficial owner that is a partnership and partners in such a partnership should consult their own tax advisors about the United States federal income tax consequences of the purchase, ownership and disposition of the Senior Notes.

Payment of Interest

We expect that the Senior Notes will have an issue price (as defined above) at or near their face amount and thus will not have original issue discount (“OID”). Accordingly, stated interest on a Senior Note generally will be includable in the income of a United States Holder as ordinary income at the time the interest is received or accrued, in accordance with the holder’s regular method of tax accounting. If, however, the principal amount of the Senior Notes exceeds their issue price by more than a *de minimis* amount, a United States Holder will be required to include such excess in income as OID as it accrues, in accordance with a constant yield method based on compounding of interest, independent of, and in advance of, cash receipts.

Make Whole Payment in Connection With Optional Redemption

In the case of an optional redemption of the Senior Notes (see “Description of the Senior Notes — Optional Redemption”), we may be obligated to pay an amount in excess of 100% of the principal amount of the Senior Notes (plus accrued interest thereon). Under applicable Treasury regulations, the possibility that such an amount will be paid will not affect the amount, timing or character of income recognized by a United States Holder with respect to the Senior Notes if, as of the date the Senior Notes were issued, there is only a remote chance that such an amount will be paid, the amount is incidental or certain other exceptions apply. We intend to treat this payment contingency as not affecting the amount, timing or character of income recognized by a United States Holder with respect to the Senior Notes, and the remainder of this summary assumes such treatment. Our treatment of this payment contingency is binding on holders except for a holder that discloses its contrary position in the manner required by applicable Treasury regulations. Our treatment of this payment contingency is not, however, binding on the IRS, and if the IRS were to challenge such treatment, a United States Holder might be required to accrue income on its Senior Notes in excess of stated interest, and to treat as ordinary income rather than capital gain any gain realized on the taxable disposition of a Senior Note before the resolution of such contingency.

Sale, Redemption or Other Taxable Disposition of the Senior Notes

Upon the sale, redemption or other taxable disposition of a Senior Note, a United States Holder generally will recognize capital gain or loss equal to the difference between:

(1) the amount of cash proceeds and the fair market value of any property received (except to the extent this amount is attributable to accrued interest, which should be taxable as ordinary income to the extent not previously included in income) and

(2) the holder's adjusted tax basis in the Senior Note.

The gain or loss recognized by a United States Holder on a disposition of a Senior Note will be long-term capital gain or loss if the holder held the Senior Note for more than one year. Long-term capital gains of certain noncorporate United States Holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding Tax

In general, information reporting requirements will apply to certain non-corporate United States Holders with respect to payments of principal and interest on a Senior Note, and to the proceeds of the sale or other taxable disposition of a Senior Note paid to a United States Holder, unless such holder is an exempt recipient (such as a corporation). In addition, a backup withholding tax (currently at a rate of 28%) may apply to these payments if:

(1) the United States Holder fails to furnish or certify its correct taxpayer identification number to us or our paying agent in the manner required,

(2) the IRS has notified the United States Holder that such holder has failed to report payments of interest or dividends properly, or

(3) under certain circumstances, the United States Holder fails to certify that such holder has not been notified by the IRS that such holder is subject to backup withholding.

Any amounts withheld from a payment to a United States Holder under the backup withholding rules will be allowable as a credit against the Holder's United States federal income tax liability and may entitle the United States Holder to a refund, provided that the required information is timely furnished to the IRS.

Non-United States Holders

As used in this tax discussion, the term "Non-United States Holder" means any beneficial owner of a Senior Note that is not a United States Holder and that is not a partnership for United States federal income tax purposes. The rules governing the United States federal income and estate taxation of a Non-United States Holder are complex, and no attempt will be made herein to provide more than a summary of those rules. NON-UNITED STATES HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE EFFECT OF FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS WITH REGARD TO AN INVESTMENT IN THE SENIOR NOTES, INCLUDING ANY REPORTING REQUIREMENTS.

Payment of Interest

Generally, payments of interest on a Senior Note by us to, or on behalf of, a Non-United States Holder will qualify for the "portfolio interest" exemption and, therefore, will not be subject to United States federal income or (subject to the discussion below of backup withholding) withholding tax, provided that such interest income is not effectively connected with a United States trade or business of the Non-United States Holder and the Non-United States Holder:

(1) does not actually or constructively own 10% or more of the combined voting power of all classes of our stock entitled to vote,

(2) is not, for United States federal income tax purposes, a controlled foreign corporation related to us, actually or constructively, through stock ownership,

(3) is not a bank receiving interest on a loan entered into in the ordinary course of business, and

(4) either:

(a) provides a Form W-8BEN (or a suitable substitute form), signed under penalties of perjury, that includes its name and address and certifies as to its Non-United States Holder status in compliance with applicable law and regulations, or

(b) holds its Senior Notes through certain intermediaries and satisfies the certification requirements of applicable Treasury regulations.

Special certification and other rules apply to certain partnerships and other pass-through entities.

If a Non-United States Holder cannot satisfy the "portfolio interest" exemption requirements described above, payments of interest made to the holder will be subject to United States federal withholding tax at a 30% rate, unless the holder provides us or our paying agent with a properly executed (1) IRS Form W-8BEN (or a suitable substitute form) claiming an exemption from or reduction in withholding under the benefit of an applicable tax treaty or (2) IRS Form W-8ECI (or a suitable substitute form) certifying that interest paid on a Senior Note is not subject to withholding tax because it is effectively connected with the holder's conduct of a trade or business in the United States and is includible in the holder's gross income.

Except to the extent that an applicable treaty provides otherwise, a Non-United States Holder generally will be taxed in the same manner as a United States Holder with respect to interest income that is effectively connected with a United States trade or business of the Non-United States Holder. Effectively connected interest received by a corporate Non-United States Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate).

Sale, Redemption or Other Taxable Disposition of the Senior Notes

A Non-United States Holder of a Senior Note generally will not be subject to United States federal income tax or withholding tax on any gain realized on the sale, redemption or other taxable disposition of a Note unless:

(1) the gain is effectively connected with a United States trade or business of the Non-United States Holder, (and, if required by a tax treaty, the gain is attributable to a permanent establishment maintained in the United States), in which case the gain generally will be taxed in the same manner as gain of a United States Holder and may be subject to the branch profits tax described above if the Non-United States Holder is a corporation for United States federal income tax purposes, or

(2) in the case of a Non-United States Holder who is an individual, the holder was present in the United States for a period or periods aggregating 183 days or more during the taxable year of the disposition, and certain other conditions are met, in which case the Non-United States Holder will be subject to a flat 30% tax on its United States-sourced net gain, if any, from such Non-United States Holder's sale or disposition of capital assets during the taxable year (unless an applicable treaty provides an exemption or a reduced rate).

Certain United States Federal Estate Tax Considerations for Non-United States Holders

A Senior Note held by an individual who is not a citizen or resident (as defined for United States federal estate tax purposes) of the United States at the time of death (referred to as a "nonresident decedent") will not be includable in the nonresident decedent's gross estate for United States federal estate tax purposes, provided that the nonresident decedent did not, at the time of death, actually or constructively own 10% or more of the combined voting power of all classes of our stock entitled to vote, and provided that payments with respect to that Senior Note would not have been effectively connected with the nonresident decedent's conduct of a United States trade or business.

Information Reporting and Backup Withholding Tax

The amount of interest paid to a Non-United States Holder, regardless of whether any withholding was required, and the amount of any tax withheld with respect to such interest, must be reported annually to the IRS and the holder. Copies of the information returns reporting the amount of such interest and the amount of any withholding may also be made available to the tax authorities in the country in which the Non-United States Holder resides under the provisions of an applicable income tax treaty.

In general, a Non-United States Holder will not be subject to backup withholding with respect to payments of interest on a Senior Note, provided that the holder has complied with the certification requirements described under "Non-United States Holders-Payment of Interest" above and we do not have actual knowledge or reason to know that the Holder is a United States person (as defined under the Code) that is not an exempt recipient.

A Non-United States Holder will be subject to information reporting and, depending on the circumstances, backup withholding with respect to payments of the proceeds of the sale or other disposition of a Senior Note within the United States or conducted through certain United States-related financial intermediaries, unless the certification requirements described above have been met, and we do not have actual knowledge or reason to know that the holder is a United States person (as defined under the Code) that is not an exempt recipient, or the Non-United States Holder otherwise establishes an exemption.

Any amounts withheld from a payment to a Non-United States Holder under the backup withholding rules will be allowable as a credit against the holder's United States federal income tax

liability and may entitle the Non-United States Holder to a refund, provided that the required information is timely provided to the IRS.

THE FEDERAL INCOME AND ESTATE TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SENIOR NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN ANY APPLICABLE TAX LAWS.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the Purchase Agreement, we have agreed to sell to each of the initial purchasers named below and each of the initial purchasers has severally and not jointly agreed to purchase from us the respective principal amount of Senior Notes set forth opposite its name below:

Initial Purchasers	Principal Amount of Senior Notes
BNP Paribas Securities Corp.	$97,500,000
Credit Suisse Securities (USA) LLC	$97,500,000
KeyBanc Capital Markets Inc.	$97,500,000
Fifth Third Securities, Inc.	$16,250,000
NatCity Investments, Inc	$16,250,000
Total	$325,000,000

In the Purchase Agreement, the initial purchasers have agreed to the terms and conditions to purchase all of the Senior Notes offered if any of the Senior Notes are purchased.

The expenses associated with the offer and sale of the Senior Notes are expected to be approximately $270,000.

In the Purchase Agreement, subject to the conditions contained therein, the initial purchasers have agreed to purchase the bonds at a discount from the price indicated on the cover of this offering memorandum and to resell such bonds initially at the price set forth on the cover page of this offering memorandum to purchasers as described in this offering memorandum under "Notice to Investors." After the initial offering of the bonds, the initial purchasers may from time to time vary the offering price and other selling terms without notice.

The Senior Notes have not been registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are registered, the Senior Notes may be offered only in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act or the securities laws of any other applicable jurisdiction. Accordingly, the Senior Notes are being offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and to non-U.S. persons in offshore transactions in reliance on Resolution S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Senior Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Prior to this offering, there has been no market for the Senior Notes. Certain initial purchasers have advised us that they intend to make a market in the Senior Notes. The initial purchasers will have no obligation to make a market in the Senior Notes, however, and may cease market making activities, if commenced, at any time. There can be no assurance of a secondary market for the Senior Notes, or that the Senior Notes may be resold.

We have agreed to indemnify the initial purchasers against certain liabilities, or contribute to payments that each initial purchaser may be required to make in respect thereof.

In connection with the offering, the initial purchaser may purchase and sell the Senior Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purposes of preventing or retarding a decline in the market price of the Senior Notes and syndicate short positions involve the sale by the underwriters of a greater number of Senior Notes than they are required to purchase from us in the offering. The initial purchaser also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if such Senior Notes are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Senior Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

Each initial purchaser has agreed that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in the Relevant Member State (the “Relevant Implementation Date”), it has not made and will not make an offer of Senior Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Senior Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Senior Notes to the public in that Relevant Member State at any time: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the manager for any such offer; (d) if the denomination per note being offered amounts to at least €50,000 or (e) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the term “offer of Senior Notes to the public” in relation to any Senior Notes in any Relevant Member State means the communication in any form and by any means of sufficient information of the terms of the offer and the Senior Notes to be offered so as to enable an investor to decide to purchase or subscribe for Senior Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the term “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each initial purchaser has also agreed that: (i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (“FSMA”) with respect to anything done by it in relation to the Senior Notes in, from or otherwise involving the United Kingdom; (ii) and it has only communicated, or caused to be communicated, and will only communicate, or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Senior Notes in circumstances in which Section 21(1) of the FMSA does not apply to us.

Some of the initial purchasers or their affiliates engage in transactions with, and have performed services for, us and our affiliates in the ordinary course of business.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the Senior Notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of Senior Notes are made. Any resale of the Senior Notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the Senior Notes.

Representations of Purchasers

By purchasing Senior Notes in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the Senior Notes without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under Resale Restrictions, and
- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the Senior Notes to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

Rights of Action – Ontario Purchasers Only

Under Ontario securities legislation, certain purchasers who purchase a security offered by this offering memorandum during the period of distribution will have a statutory right of action for damages, or while still the owner of the Senior Notes, for rescission against us in the event that this offering memorandum contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the Senior Notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the Senior Notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the Senior Notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the Senior Notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of Senior Notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the Senior Notes in their particular circumstances and about the eligibility of the Senior Notes for investment by the purchaser under relevant Canadian legislation.

LEGAL OPINIONS

Jeffrey D. Cross or Thomas G. Berkemeyer, Deputy General Counsel and Associate General Counsel, respectively, of American Electric Power Service Corporation, our service company affiliate, will issue an opinion about the legality of the Senior Notes for us. Dewey Ballantine LLP, New York, NY will issue an opinion for the initial purchasers. From time to time, Dewey Ballantine LLP acts as counsel to our affiliates for some matters.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements and the related financial statement schedule incorporated by reference in this Offering Memorandum from Kentucky Power Company’s Annual Report on Form 10-K for the year ended December 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports incorporated herein by reference (which reports express an unqualified opinion and, as to the report related to the financial statements, includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2004 and 2006).

APPENDIX A

Kentucky Power Company

2007 Second Quarter Report

Financial Statements

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When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEP or Parent	American Electric Power Company, Inc.
AEP Consolidated	AEP and its majority owned consolidated subsidiaries and consolidated affiliates.
AEP Credit	AEP Credit, Inc., a subsidiary of AEP which factors accounts receivable and accrued utility revenues for affiliated domestic electric utility companies.
AEP East companies	APCo, CSPCo, I&M, KPCo and OPCo.
AEP System or the System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEP System Power Pool or AEP Power Pool	Members are APCo, CSPCo, I&M, KPCo and OPCo. The Pool shares the generation, cost of generation and resultant wholesale off-system sales of the member companies.
AEP West companies	PSO, SWEPCo, TCC and TNC.
AEPSC	American Electric Power Service Corporation, a service subsidiary providing management and professional services to AEP and its subsidiaries.
ALJ	Administrative Law Judge.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
ARO	Asset Retirement Obligations.
CAA	Clean Air Act.
CSPCo	Columbus Southern Power Company, an AEP electric utility subsidiary.
CSW	Central and South West Corporation, a subsidiary of AEP (Effective January 21, 2003, the legal name of Central and South West Corporation was changed to AEP Utilities, Inc.).
EITF	Financial Accounting Standards Board's Emerging Issues Task Force.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FIN	FASB Interpretation No.
FIN 48	FIN 48, "Accounting for Uncertainty in Income Taxes" and FASB Staff Position FIN 48-1 "Definition of *Settlement* in FASB Interpretation No. 48."
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
kV	Kilovolt.
MTM	Mark-to-Market.
MW	Megawatt.
OCC	Corporation Commission of the State of Oklahoma.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.
PJM	Pennsylvania – New Jersey – Maryland regional transmission organization.
PSO	Public Service Company of Oklahoma, an AEP electric utility subsidiary.
PUCT	Public Utility Commission of Texas.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
RTO	Regional Transmission Organization.
SEC	United States Securities and Exchange Commission.
SECA	Seams Elimination Cost Allocation.
SFAS	Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board.
SFAS 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."
SFAS 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities."
SFAS 157	Statement of Financial Accounting Standards No. 157, "Fair Value Measurements."

Term	Meaning
SFAS 158	Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."
SFAS 159	Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities."
SIA	System Integration Agreement.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
TNC	AEP Texas North Company, an AEP electric utility subsidiary.
Transmission Equalization Agreement	Transmission Equalization Agreement by and among APCo, CSPCo, I&M, KPCo and OPCo with AEPSC as agent, promoting the allocation of the cost of ownership and operation of the transmission system in proportion to their demand ratios.
Utility Money Pool	AEP System's Utility Money Pool.
VaR	Value at Risk, a method to quantify risk exposure.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2007 and 2006
(in thousands)
(Unaudited)

	Three Months Ended 2007	Three Months Ended 2006	Six Months Ended 2007	Six Months Ended 2006
REVENUES				
Electric Generation, Transmission and Distribution	$ 123,280	$ 121,074	$ 263,766	$ 258,694
Sales to AEP Affiliates	11,162	14,109	24,623	28,077
Other	88	120	237	379
TOTAL	134,530	135,303	288,626	287,150
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	40,121	31,790	78,425	75,756
Purchased Electricity for Resale	3,457	1,991	6,762	2,964
Purchased Electricity from AEP Affiliates	43,578	50,923	86,835	100,449
Other Operation	14,632	13,717	30,518	27,443
Maintenance	10,337	9,293	18,547	16,434
Depreciation and Amortization	11,730	11,593	23,526	23,072
Taxes Other Than Income Taxes	2,973	2,442	5,776	4,954
TOTAL	126,828	121,749	250,389	251,072
OPERATING INCOME	7,702	13,554	38,237	36,078
Other Income	96	105	222	372
Interest Expense	(7,201)	(7,440)	(14,212)	(14,736)
INCOME BEFORE INCOME TAXES	597	6,219	24,247	21,714
Income Tax Expense (Credit)	(633)	1,168	7,806	6,833
NET INCOME	$ 1,230	$ 5,051	$ 16,441	$ 14,881

The common stock of KPCo is wholly-owned by AEP.

See Condensed Notes to Condensed Financial Statements.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the Six Months Ended June 30, 2007 and 2006
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
DECEMBER 31, 2005	$ 50,450	$ 208,750	$ 88,864	$ (223)	$ 347,841
Common Stock Dividends			(5,000)		(5,000)
TOTAL					342,841
COMPREHENSIVE INCOME					
Other Comprehensive Income, Net of Taxes:					
Cash Flow Hedges, Net of Tax of $1,478				2,744	2,744
NET INCOME			14,881		14,881
TOTAL COMPREHENSIVE INCOME					17,625
JUNE 30, 2006	$ 50,450	$ 208,750	$ 98,745	$ 2,521	$ 360,466
DECEMBER 31, 2006	$ 50,450	$ 208,750	$ 108,899	$ 1,552	$ 369,651
FIN 48 Adoption, Net of Tax			(786)		(786)
Common Stock Dividends			(8,999)		(8,999)
TOTAL					359,866
COMPREHENSIVE INCOME					
Other Comprehensive Income, Net of Taxes:					
Cash Flow Hedges, Net of Tax of $1,758				3,265	3,265
NET INCOME			16,441		16,441
TOTAL COMPREHENSIVE INCOME					19,706
JUNE 30, 2007	$ 50,450	$ 208,750	$ 115,555	$ 4,817	$ 379,572

See Condensed Notes to Condensed Financial Statements.

KENTUCKY POWER COMPANY
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2007 and December 31, 2006
(in thousands)
(Unaudited)

	2007	2006
CURRENT ASSETS		
Cash and Cash Equivalents	$ 466	$ 702
Accounts Receivable:		
Customers	21,161	30,112
Affiliated Companies	10,673	10,540
Accrued Unbilled Revenues	4,157	3,602
Miscellaneous	285	327
Allowance for Uncollectible Accounts	(289)	(227)
Total Accounts Receivable	35,987	44,354
Fuel	19,307	16,070
Materials and Supplies	10,777	8,726
Risk Management Assets	22,350	25,624
Prepayments and Other	3,343	6,369
TOTAL	92,230	101,845
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Production	480,661	478,955
Transmission	401,889	394,419
Distribution	488,243	481,083
Other	60,623	61,089
Construction Work in Progress	21,805	29,587
Total	1,453,221	1,445,133
Accumulated Depreciation and Amortization	442,548	442,778
TOTAL - NET	1,010,673	1,002,355
OTHER NONCURRENT ASSETS		
Regulatory Assets	136,646	136,139
Long-term Risk Management Assets	17,552	21,282
Deferred Charges and Other	45,368	48,944
TOTAL	199,566	206,365
TOTAL ASSETS	$ 1,302,469	$ 1,310,565

See Condensed Notes to Condensed Financial Statements.

KENTUCKY POWER COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY
June 30, 2007 and December 31, 2006
(Unaudited)

	2007	2006
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 29,719	$ 30,636
Accounts Payable:		
General	24,090	31,490
Affiliated Companies	16,128	23,658
Long-term Debt Due Within One Year – Nonaffiliated	322,549	322,048
Risk Management Liabilities	12,717	20,001
Customer Deposits	17,269	16,095
Accrued Taxes	19,160	18,775
Other	28,620	26,303
TOTAL	470,252	489,006
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	104,968	104,920
Long-term Debt – Affiliated	20,000	20,000
Long-term Risk Management Liabilities	12,093	15,426
Deferred Income Taxes	241,297	242,133
Regulatory Liabilities and Deferred Investment Tax Credits	47,769	49,109
Deferred Credits and Other	26,518	20,320
TOTAL	452,645	451,908
TOTAL LIABILITIES	922,897	940,914
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – $50 Par Value Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	208,750	208,750
Retained Earnings	115,555	108,899
Accumulated Other Comprehensive Income (Loss)	4,817	1,552
TOTAL	379,572	369,651
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 1,302,469	$ 1,310,565

See Condensed Notes to Condensed Financial Statements.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2007 and 2006
(in thousands)
(Unaudited)

	2007	2006
OPERATING ACTIVITIES		
Net Income	$ 16,441	$ 14,881
Adjustments for Noncash Items:		
Depreciation and Amortization	23,526	23,072
Deferred Income Taxes	(1,042)	3,044
Mark-to-Market of Risk Management Contracts	1,942	(25)
Change in Other Noncurrent Assets	(827)	1,569
Change in Other Noncurrent Liabilities	(202)	1,396
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	4,650	11,538
Fuel, Materials and Supplies	(3,346)	(6,423)
Accounts Payable	(11,273)	(7,679)
Customer Deposits	1,174	(5,668)
Accrued Taxes, Net	1,673	3,180
Fuel Over/Under Recovery, Net	7,642	3,173
Other Current Assets	721	8,531
Other Current Liabilities	(3,546)	(1,993)
Net Cash Flows From Operating Activities	37,533	48,596
INVESTING ACTIVITIES		
Construction Expenditures	(27,771)	(34,458)
Other	361	477
Net Cash Flows Used For Investing Activities	(27,410)	(33,981)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	(917)	30,951
Retirement of Long-term Debt – Affiliated	-	(40,000)
Principal Payments for Capital Lease Obligations	(443)	(660)
Dividends Paid on Common Stock	(8,999)	(5,000)
Net Cash Flows Used For Financing Activities	(10,359)	(14,709)
Net Decrease in Cash and Cash Equivalents	(236)	(94)
Cash and Cash Equivalents at Beginning of Period	702	526
Cash and Cash Equivalents at End of Period	$ 466	$ 432
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 14,388	$ 14,543
Net Cash Paid for Income Taxes	821	185
Noncash Acquisitions Under Capital Leases	394	485
Construction Expenditures Included in Accounts Payable at June 30,	3,419	4,522

See Condensed Notes to Condensed Financial Statements.

CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Significant Accounting Matters
2. New Accounting Pronouncements
3. Rate Matters
4. Commitments, Guarantees and Contingencies
5. Benefit Plans
6. Income Taxes
7. Financing Activities

1. SIGNIFICANT ACCOUNTING MATTERS

General

The accompanying unaudited condensed financial statements and footnotes were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, the unaudited interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods. The results of operations for the six months ended June 30, 2007 are not necessarily indicative of results that may be expected for the year ending December 31, 2007. The accompanying condensed financial statements are unaudited and should be read in conjunction with the audited 2006 financial statements and notes thereto, which are included in KPCo's 2006 Annual Report as filed with the SEC on February 28, 2007.

Revenue Recognition

Traditional Electricity Supply and Delivery Activities

KPCo recognizes revenues from retail and wholesale electricity supply sales and electricity transmission and distribution delivery services. KPCo recognizes the revenues in the financial statements upon delivery of the energy to the customer and include unbilled as well as billed amounts.

Most of the power produced at the generation plants of the AEP East companies is sold to PJM, the RTO operating in the east service territory, and the AEP East companies purchase power back from the same RTO to supply power to KPCo's load. These power sales and purchases are reported on a net basis as revenues in the financial statements. Other RTOs in which KPCo operates do not function in the same manner as PJM. They function as balancing organizations and not as an exchange.

Physical energy purchases, including those from all RTOs that are identified as non-trading, but excluding PJM purchases described in the preceding paragraph, are accounted for on a gross basis in Purchased Electricity for Resale in the financial statements.

In general, KPCo records expenses upon receipt of purchased electricity and when expenses are incurred. The unrealized MTM amounts are deferred as regulatory assets (for losses) and regulatory liabilities (for gains).

Energy Marketing and Risk Management Activities

KPCo engages in wholesale electricity, coal and emission allowances marketing and risk management activities focused on wholesale markets where KPCo owns assets. KPCo's activities include the purchase and sale of energy under forward contracts at fixed and variable prices and the buying and selling of financial energy contracts which include exchange traded futures and options, and over-the-counter options and swaps. KPCo engages in certain energy marketing and risk management transactions with RTOs.

KPCo recognizes revenues and expenses from wholesale marketing and risk management transactions that are not derivatives upon delivery of the commodity. KPCo uses MTM accounting for wholesale marketing and risk management transactions that are derivatives unless the derivative is designated in a qualifying cash flow or fair value hedge relationship, or as a normal purchase or sale. The unrealized and realized gains and losses on wholesale marketing and risk management transactions that are accounted for using MTM are included in revenues in the financial statements on a net basis. The unrealized MTM amounts are deferred as regulatory assets (for losses) and regulatory liabilities (for gains). Unrealized MTM gains and losses are included on the balance sheets as Risk Management Assets or Liabilities as appropriate.

Certain wholesale marketing and risk management transactions are designated as hedges of future cash flows as a result of forecasted transactions, a future cash flow (cash flow hedge) or a hedge of a recognized asset, liability or firm commitment (fair value hedge). The gains or losses on derivatives designated as fair value hedges are recognized in revenues in the financial statements in the period of change together with the offsetting losses or gains on the hedged item attributable to the risks being hedged. For derivatives designated as cash flow hedges, the effective portion of the derivative's gain or loss is initially reported as a component of Accumulated Other Comprehensive Income (Loss) and, depending upon the specific nature of the risk being hedged, subsequently reclassified into revenues or fuel expenses in the financial statements when the forecasted transaction is realized and affects earnings. KPCo defers the ineffective portion as regulatory assets (for losses) and regulatory liabilities (for gains).

Components of Accumulated Other Comprehensive Income (Loss) (AOCI)

AOCI is included on the balance sheets in the common shareholder's equity section. AOCI for KPCo as of June 30, 2007 and December 31, 2006 is shown in the following table.

Components	June 30, 2007	December 31, 2006
	(in thousands)	
Cash Flow Hedges	$ 4,817	$ 1,552

Accounting for Asset Retirement Obligations (ARO)

As a result of SFAS 143 "Accounting for Asset Retirement Obligations" (SFAS 143), KPCo records a liability at fair value for any legal obligations for future asset retirements when the related assets are acquired or constructed. Upon establishment of a legal liability, SFAS 143 requires a corresponding ARO asset to be established, which will be depreciated over its useful life. Upon final settlement of an ARO, any difference between the ARO liability and actual costs is recognized as income or expense.

The following is a reconciliation of the June 30, 2007 aggregate carrying amount of ARO for KPCo:

ARO at January 1, 2007	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO at June 30, 2007
		(in thousands)			
$ 1,175	$ 34	$ -	$ (276)	$ -	$ 933

KPCo's aggregate carrying amount includes ARO related to asbestos removal.

Reclassifications

Certain prior period financial statement items have been reclassified to conform to current period presentation. These revisions had no impact on KPCo's previously reported results of operations or changes in shareholder's equity.

2. NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of exposure drafts or final pronouncements, management thoroughly reviews the new accounting literature to determine the relevance, if any, to KPCo's business. The following represents a summary of new pronouncements issued or implemented in 2007 and standards issued but not implemented that management has determined relate to the KPCo's operations.

SFAS 157 "Fair Value Measurements" (SFAS 157)

In September 2006, the FASB issued SFAS 157, enhancing existing guidance for fair value measurement of assets and liabilities and instruments measured at fair value that are classified in shareholder's equity. The statement defines fair value, establishes a fair value measurement framework and expands fair value disclosures. It emphasizes that fair value is market-based with the highest measurement hierarchy being market prices in active markets. The standard requires fair value measurements be disclosed by hierarchy level and an entity include its own credit standing in the measurement of its liabilities and modifies the transaction price presumption.

SFAS 157 is effective for interim and annual periods in fiscal years beginning after November 15, 2007. Management expects that the adoption of this standard will impact MTM valuations of certain contracts, but is unable to quantify the effect. Although the statement is applied prospectively upon adoption, the effect of certain transactions is applied retrospectively as of the beginning of the fiscal year of application, with a cumulative effect adjustment to the appropriate balance sheet items. KPCo will adopt SFAS 157 effective January 1, 2008.

SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159)

In February 2007, the FASB issued SFAS 159, permitting entities to choose to measure many financial instruments and certain other items at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 is effective for annual periods in fiscal years beginning after November 15, 2007. If the fair value option is elected, the effect of the first remeasurement to fair value is reported as a cumulative effect adjustment to the opening balance of retained earnings. In the event KPCo elects the fair value option promulgated by this standard, the valuations of certain assets and liabilities may be impacted. The statement is applied prospectively upon adoption. KPCo will adopt SFAS 159 effective January 1, 2008. Management expects the adoption of this standard to have an immaterial impact on the financial statements.

EITF Issue No. 06-11 "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11)

In June 2007, the FASB ratified the EITF consensus on the treatment of income tax benefits of dividends on employee share-based compensation. The issue is how a company should recognize the income tax benefit received on dividends that are paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and charged to retained earnings under SFAS 123R, "Share-Based Payments." Under EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital.

EITF 06-11 will be applied prospectively to the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after September 15, 2007. Management expects that the adoption of this standard will have an immaterial effect on the financial statements. KPCo will adopt EITF 06-11 effective January 1, 2008.

FIN 48 "Accounting for Uncertainty in Income Taxes" and FASB Staff Position FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FIN 48)

In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" and in May 2007, the FASB issued FASB Staff Position FIN 48-1 "Definition of *Settlement* in FASB Interpretation No. 48." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a recognition threshold (whether a tax position is more likely than not to be sustained) without which, the benefit of that position is not recognized in the financial statements. It requires a measurement determination for recognized tax positions based on the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 requires that the cumulative effect of applying this interpretation be reported and disclosed as an adjustment to the opening balance of retained earnings for that fiscal year and presented separately. KPCo adopted FIN 48 effective January 1, 2007. The impact of this interpretation was an unfavorable adjustment to retained earnings of $786,000.

FIN 39-1 "Amendment of FASB Interpretation No. 39" (FIN 39)

In April 2007, the FASB issued FIN 39-1. It amends FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts" by replacing the interpretation's definition of contracts with the definition of derivative instruments per SFAS 133. It also requires entities that offset fair values of derivatives with the same party under a netting agreement to also net the fair values (or approximate fair values) of related cash collateral. The entities must disclose whether or not they offset fair values of derivatives and related cash collateral and amounts recognized for cash collateral payables and receivables at the end of each reporting period.

FIN 39-1 is effective for fiscal years beginning after November 15, 2007. Management expects this standard to change the method of netting certain balance sheet amounts but is unable to quantify the effect. It requires retrospective application as a change in accounting principle for all periods presented. KPCo will adopt FIN 39-1 effective January 1, 2008.

Future Accounting Changes

The FASB's standard-setting process is ongoing and until new standards have been finalized and issued by FASB, management cannot determine the impact on the reporting of operations and financial position that may result from any such future changes. The FASB is currently working on several projects including business combinations, revenue recognition, liabilities and equity, derivatives disclosures, emission allowances, leases, insurance, subsequent events and related tax impacts. Management also expects to see more FASB projects as a result of its desire to converge International Accounting Standards with GAAP. The ultimate pronouncements resulting from these and future projects could have an impact on future results of operations and financial position.

3. RATE MATTERS

As discussed in KPCo's 2006 Annual Report, KPCo is involved in rate and regulatory proceedings at the FERC and the KPSC. The Rate Matters note within the 2006 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact results of operations, cash flows and possibly financial condition. The following discusses ratemaking developments in 2007 and updates the 2006 Annual Report.

Environmental Surcharge Filing

In July 2006, KPCo filed for approval of an amended environmental compliance plan and revised tariff to implement an adjusted environmental surcharge. KPCo estimates the amended environmental compliance plan and revised tariff would increase revenues over 2006 levels by approximately $2 million in 2007 and $6 million in 2008 for a total of $8 million of additional revenue at current cost projections. In January 2007, the KPSC issued an order approving KPCo's proposed plan and surcharge. Future recovery is based upon actual environmental costs and is subject to periodic review and approval by the KPSC.

In November 2006, the Kentucky Attorney General and the Kentucky Industrial Utility Consumers (KIUC) filed an appeal with the Kentucky Court of Appeals of the Franklin Circuit Court's 2006 order upholding the KPSC's 2005 Environmental Surcharge order. In KPCo's order, the KPSC approved recovery of its environmental costs at its Big Sandy Plant and its share of environmental costs incurred as a result of the AEP Power Pool capacity settlement. The KPSC has allowed KPCo to recover these FERC-approved allocated costs, via the environmental surcharge, since the KPSC's first environmental surcharge order in 1997. KPCo presently recovers $7 million a year in environmental surcharge revenues.

In March 2007, the KPSC issued an order, at the request of the Kentucky Attorney General, stating the environmental surcharge collections authorized in the January 2007 order that are associated with out-of-state generating facilities should be collected over the six months beginning March 2007, subject to refund, pending the outcome of the Court of Appeals process. At this time, management is unable to predict the outcome of this proceeding and its effect on KPCo's current environmental surcharge revenues or on the January 2007 KPSC order increasing KPCo's environmental rates. If the appeal is successful, future results of operations and cash flows could be adversely affected.

Transmission Rate Proceedings at the FERC

The FERC PJM Regional Transmission Rate Proceeding

At AEP's urging, the FERC instituted an investigation of PJM's zonal rate regime, indicating that the present rate regime may need to be replaced through establishment of regional rates that would compensate AEP and other transmission owners for the regional transmission facilities they provide to PJM, which provides service for the benefit of customers throughout PJM. In September 2005, AEP and a nonaffiliated utility (Allegheny Power or AP) jointly filed a regional transmission rate design proposal with the FERC. This filing proposed and supported a new PJM rate regime generally referred to as a Highway/Byway rate design.

Parties to the regional rate proceeding proposed the following rate regimes:

- AEP/AP proposed a Highway/Byway rate design in which:
  - The cost of all transmission facilities in the PJM region operated at 345 kV or higher would be included in a "Highway" rate that all load serving entities (LSEs) would pay based on peak demand. The AEP/AP proposal would produce about $125 million in net revenues per year for AEP from users in other zones of PJM.
  - The cost of transmission facilities operating at lower voltages would be collected in the zones where those costs are presently charged under PJM's existing rate design.
- Two other utilities, Baltimore Gas & Electric Company (BG&E) and Old Dominion Electric Cooperative (ODEC), proposed a Highway/Byway rate that includes transmission facilities above 200 kV in the Highway rate, which would have produced lower net revenues for AEP than the AEP/AP proposal.
- In another competing Highway/Byway proposal, a group of LSEs proposed rates that would include existing 500 kV and higher voltage facilities and new facilities above 200 kV in the Highway rate, which would also have produced lower net revenues for AEP than the AEP/AP proposal.
- In January 2006, the FERC staff issued testimony and exhibits supporting phase-in of a PJM-wide flat rate or "Postage Stamp" type of rate design that would socialize the cost of all transmission facilities. The proposed rate design would have initially produced much lower net transmission revenues for AEP than the AEP/AP proposal, but could produce slightly higher net revenues when fully phased in.

All of these proposals were challenged by a majority of other transmission owners in the PJM region, who favored continuation of the existing PJM rate design which provides AEP with no compensation for through and out traffic on its east zone transmission system. Hearings were held in April 2006 and the ALJ issued an initial decision in July 2006. The ALJ found the existing PJM zonal rate design to be unjust and determined that it should be replaced. The ALJ found that the Highway/Byway rates proposed by AEP/AP and BG&E/ODEC to be just and reasonable alternatives. The ALJ also found FERC staff's proposed Postage Stamp rate to be just and reasonable and recommended that it be adopted. The ALJ also found that the effective date of the rate change should be April 1, 2006 to coincide with SECA rate elimination. Because the Postage Stamp rate was found to produce greater cost shifts than other proposals, the judge also recommended that the new regional design be phased-in. Without a phase-in, the Postage Stamp method would produce more revenue for AEP than the AEP/AP proposal. However, the proposed phase-in of Postage Stamp rates would delay the full favorable impact of those new regional rates until about 2012.

AEP filed briefs noting exceptions to the initial decision and replies to the exceptions of other parties. AEP argued that a phase-in should not be required. Nevertheless, AEP argued that if the FERC adopts the Postage Stamp rate and a phase-in plan, the revenue collections curtailed by the phase-in should be deferred and paid later with interest.

Since the FERC's decision in 2005 to cease through-and-out rates and replace them temporarily with SECA rates which ceased on April 1, 2006, the AEP East companies increased their retail rates in all states except Indiana and Michigan to recover lost through-and-out transmission service (T&O) and SECA revenues.

In April 2007, the FERC issued an order reversing the ALJ decision. The FERC ruled that the current PJM rate design is just and reasonable for existing transmission facilities. However, the FERC ruled that the cost of new facilities of 500 kV and above would be shared among all PJM participants. As a result of this order, the AEP East companies' retail customers will bear the full cost of the existing AEP east transmission zone facilities although

others use them. Presently AEP is collecting the full cost of those facilities from its retail customers with the exception of Indiana and Michigan customers. As a result of this order, the AEP East companies' customers will also be charged a share of the cost of future new 500 kV and higher voltage transmission facilities built in PJM, most of which are expected to be upgrades of the facilities in other zones of PJM. The AEP East companies will need to obtain regulatory approvals for recovery of any costs of new facilities that are assigned to them as a result of this order, if upheld. AEP has requested rehearing of this order. Management cannot estimate at this time what effect, if any, this order will have on their future construction of new east transmission facilities, results of operations, cash flows and financial condition.

The AEP East companies presently recover from retail customers approximately 85% of the lost T&O/SECA transmission revenues of $128 million a year.

SECA Revenue Subject to Refund

The AEP East companies ceased collecting T&O revenues in accordance with FERC orders, and collected SECA rates to mitigate the loss of T&O revenues from December 1, 2004 through March 31, 2006, when SECA rates expired. Intervenors objected to the SECA rates, raising various issues. As a result, the FERC set SECA rate issues for hearing and ordered that the SECA rate revenues be collected, subject to refund or surcharge. The AEP East companies paid SECA rates to other utilities at considerably lesser amounts than collected. If a refund is ordered, the AEP East companies would also receive refunds related to the SECA rates they paid to third parties. The AEP East companies recognized gross SECA revenues of $220 million. KPCo's portion of recognized gross SECA revenues is $17 million. Approximately $19 million of these recorded SECA revenues billed by PJM were not collected. The AEP East companies filed a motion with the FERC to force payment of these uncollected SECA billings.

In August 2006, a FERC ALJ issued an initial decision, finding that the rate design for the recovery of SECA charges was flawed and that a large portion of the "lost revenues" reflected in the SECA rates was not recoverable. The ALJ found that the SECA rates charged were unfair, unjust and discriminatory and that new compliance filings and refunds should be made. The ALJ also found that the unpaid SECA rates must be paid in the recommended reduced amount.

Since the implementation of SECA rates in December 2004, the AEP East companies recorded approximately $220 million of gross SECA revenues, subject to refund. In 2006, the AEP East companies provided reserves of $37 million in net refunds for current and future SECA settlements with all of AEP's SECA customers. KPCo's portion of the reserve is $3 million. The AEP East companies reached settlements with certain SECA customers related to approximately $69 million of such revenues for a net refund of $3 million. The AEP East companies are in the process of completing two settlements-in-principle on an additional $36 million of SECA revenues and expect to make net refunds of $4 million when those settlements are approved. Thus, completed and in-process settlements cover $105 million of SECA revenues and will consume about $7 million of the reserves for refunds, leaving approximately $115 million of contested SECA revenues and $30 million of refund reserves. If the ALJ's initial decision were upheld in its entirety, it would disallow approximately $90 million of the AEP East companies' remaining $115 million of unsettled gross SECA revenues. Based on recent settlement experience and the expectation that most of the $115 million of unsettled SECA revenues will be settled, management believes that the remaining reserve will be adequate.

In September 2006, AEP, together with Exelon Corporation and The Dayton Power and Light Company, filed an extensive post-hearing brief and reply brief noting exceptions to the ALJ's initial decision and asking the FERC to reverse the decision in large part. Management believes that the FERC should reject the initial decision because it contradicts prior related FERC decisions, which are presently subject to rehearing. Furthermore, management believes the ALJ's findings on key issues are largely without merit. As directed by the FERC, management is working to settle the remaining $115 million of unsettled revenues within the remaining reserve balance. Although management believes it has meritorious arguments and can settle with the remaining customers within the amount provided, management cannot predict the ultimate outcome of ongoing settlement talks and, if necessary, any future FERC proceedings or court appeals. If the FERC adopts the ALJ's decision and/or AEP cannot settle a significant portion of the remaining unsettled claims within the amount provided, it will have an adverse effect on future results of operations and cash flows.

Allocation of Off-system Sales Margins

In 2002, TCC and TNC filed with the PUCT seeking to reconcile fuel costs and to establish deferred fuel balances. The PUCT issued final orders in each of these proceedings that resulted in significant disallowances, including an assertion that the allocation of off-system sales margins between AEP East companies and AEP West companies was inconsistent with the FERC-approved SIA and that the AEP West companies should have been allocated greater margins.

In 2006, the Federal District Court issued orders precluding the PUCT from enforcing the off-system sales reallocation portion of its ruling in the final TNC and TCC fuel reconciliation proceedings. The Federal court ruled, in both cases, that the FERC, not the PUCT, has jurisdiction over the allocation. The PUCT appealed both Federal District Court decisions to the United States Court of Appeals. In TNC's case, the Court of Appeals affirmed the District Court's decision. In April 2007, PUCT petitioned the United States Supreme Court for a review of the Court of Appeals' order.

In a review of PSO's 2001 fuel and purchased power practices, parties alleged the same misallocations as in the Texas case. The OCC expanded the scope of the proceeding to include the off-system sales margin issue for the year 2002. In July 2005, the OCC staff and two intervenors filed testimony in which they quantified the alleged improperly allocated off-system sales margins between AEP East companies and AEP West companies. Their overall recommendations would result in a significant increase in off-system sales margins allocated to PSO through December 2004.

In 2004, an Oklahoma ALJ found that the OCC lacks authority to examine whether AEP deviated from the FERC-approved allocation methodology and held that any such complaints should be addressed at the FERC. The OCC has not ruled on appeals by intervenors of the ALJ's finding.

If the position taken by the federal court in Texas applies to PSO's case, the OCC would be preempted from disallowing fuel recoveries for alleged improper allocations of off-system sales margins between AEP East companies and AEP West companies due to lack of jurisdiction. The OCC or another party may file a complaint at the FERC alleging the allocation of off-system sales margins is improper which could result in an adverse effect on future results of operations and cash flows for the AEP East companies. To date, there has been no claim asserted at the FERC that AEP deviated from the approved allocation methodologies. Management is unable to predict the ultimate effect, if any, of these fuel clause proceedings and any future FERC proceedings on results of operations, cash flows and financial condition.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

KPCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material adverse effect on the financial statements. The Commitments, Guarantees and Contingencies note within the 2006 Annual Report should be read in conjunction with this report.

GUARANTEES

There are certain immaterial liabilities recorded for guarantees in accordance with FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third parties.

Indemnifications and Other Guarantees

<u>Contracts</u>

KPCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. Prior to June 30, 2007 KPCo entered into sale agreements including indemnifications with a maximum exposure that was not significant. There are no material liabilities recorded for any indemnifications.

KPCo, along with the other AEP East companies, PSO and SWEPCo, are jointly and severally liable for activity conducted by AEPSC on behalf of the AEP East companies, PSO and SWEPCo related to power purchase and sale activity conducted pursuant to the SIA.

<u>Master Operating Lease</u>

KPCo leases certain equipment under a master operating lease. Under the lease agreement, the lessor is guaranteed to receive up to 87% of the unamortized balance of the equipment at the end of the lease term. If the fair market value of the leased equipment is below the unamortized balance at the end of the lease term, KPCo has committed to pay the difference between the fair market value and the unamortized balance, with the total guarantee not to exceed 87% of the unamortized balance. At June 30, 2007, the maximum potential loss for these lease agreements assuming the fair market value of the equipment is zero at the end of the lease term is $2 million.

CONTINGENCIES

Carbon Dioxide (CO_2) Public Nuisance Claims

In 2004, eight states and the City of New York filed an action in federal district court for the Southern District of New York against AEP, AEPSC, Cinergy Corp, Xcel Energy, Southern Company and Tennessee Valley Authority. The Natural Resources Defense Council, on behalf of three special interest groups, filed a similar complaint against the same defendants. The actions allege that CO_2 emissions from the defendants' power plants constitute a public nuisance under federal common law due to impacts of global warming, and sought injunctive relief in the form of specific emission reduction commitments from the defendants. The defendants' motion to dismiss the lawsuits was granted in September 2005. The dismissal was appealed to the Second Circuit Court of Appeals. Briefing and oral argument have concluded. On April 2, 2007, the U.S. Supreme Court issued a decision holding that the Federal EPA has authority to regulate emissions of CO_2 and other greenhouse gases under the CAA, which may impact the Second Circuit's analysis of these issues. The Second Circuit requested supplemental briefs addressing the impact of the Supreme Court's decision on this case. Management believes the actions are without merit and intends to defend against the claims.

FERC Long-term Contracts

In 2002, the FERC held a hearing related to a complaint filed by Nevada Power Company and Sierra Pacific Power Company (the Nevada utilities). The complaint sought to break long-term contracts entered during the 2000 and 2001 California energy price spike which the customers alleged were "high-priced." The complaint alleged that KPCo and certain other AEP subsidiaries sold power at unjust and unreasonable prices because the market for power was allegedly dysfunctional at the time such contracts were executed. An ALJ recommended rejection of the complaint, holding that the markets for future delivery were not dysfunctional, and that the Nevada utilities failed to demonstrate that the public interest required that changes be made to the contracts. In June 2003, the FERC issued an order affirming the ALJ's decision. In December 2006, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC order and remanded the case to the FERC for further proceedings. In May 2007, KPCo, along with other sellers involved in the case including other AEP subsidiaries, sought review of the Ninth Circuit's decision by the U.S. Supreme Court. The Solicitor General of the United States has asked the Supreme Court for an extension of time, until August 6, 2007, to respond to the petitions for review. Management is unable to predict the outcome of these proceedings or their impact on future results of operations and cash flows. Management asserted claims against certain companies that sold power to KPCo and certain other AEP subsidiaries, which was resold to the Nevada utilities, seeking to recover a portion of any amounts owed to the Nevada utilities.

5. BENEFIT PLANS

KPCo participates in AEP sponsored qualified pension plans and nonqualified pension plans. A substantial majority of employees are covered by either one qualified plan or both a qualified and a nonqualified pension plan. In addition, KPCo participates in other postretirement benefit plans sponsored by AEP to provide medical and death benefits for retired employees.

KPCo adopted SFAS 158 as of December 31, 2006 and recorded a SFAS 71 regulatory asset for qualifying SFAS 158 costs of regulated operations that for ratemaking purposes are deferred for future recovery.

Components of Net Periodic Benefit Cost

The following table provides the components of AEP's net periodic benefit cost for the plans for the three and six months ended June 30, 2007 and 2006:

	Pension Plans		Other Postretirement Benefit Plans	
Three Months Ended June 30, 2007 and 2006	**2007**	**2006**	**2007**	**2006**
	(in millions)			
Service Cost	$ 23	$ 24	$ 11	$ 10
Interest Cost	57	57	26	25
Expected Return on Plan Assets	(82)	(83)	(26)	(23)
Amortization of Transition Obligation	-	-	7	7
Amortization of Net Actuarial Loss	14	19	3	5
Net Periodic Benefit Cost	$ 12	$ 17	$ 21	$ 24

	Pension Plans		Other Postretirement Benefit Plans	
Six Months Ended June 30, 2007 and 2006	**2007**	**2006**	**2007**	**2006**
	(in millions)			
Service Cost	$ 47	$ 48	$ 21	$ 20
Interest Cost	116	114	52	50
Expected Return on Plan Assets	(167)	(166)	(52)	(46)
Amortization of Transition Obligation	-	-	14	14
Amortization of Net Actuarial Loss	29	39	6	10
Net Periodic Benefit Cost	$ 25	$ 35	$ 41	$ 48

The following table provides the net periodic benefit cost for the plans for the three and six months ended June 30, 2007 and 2006:

	Pension Plans		Other Postretirement Benefit Plans	
	2007	**2006**	**2007**	**2006**
	(in thousands)			
Three Months Ended	$ 254	$ 358	$ 427	$ 513
Six Months Ended	509	716	853	1,026

6. INCOME TAXES

KPCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation approximates a separate return result for each company in the consolidated group.

Audit Status

KPCo also files income tax returns in various state and local jurisdictions. With few exceptions, KPCo and other AEP subsidiaries are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2000. The IRS and other taxing authorities routinely examine the tax returns. Management believes that KPCo and other AEP subsidiaries have filed tax returns with positions that may be challenged by the tax authorities. KPCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. However, management does not believe that the ultimate resolution of these audits will materially impact results of operations.

The AEP System settled with the IRS on all issues from the audits of consolidated federal income tax returns for years prior to 1997. The AEP System effectively settled all outstanding proposed IRS adjustments for years 1997 through 1999 and through June 2000 for the CSW pre-merger tax period and anticipates payment for the agreed adjustments to occur during 2007. Returns for the years 2000 through 2005 are presently being audited by the IRS and management anticipates that the audit of the 2000 through 2003 years will be completed by the end of 2007.

FIN 48 Adoption

KPCo adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, KPCo recognized a $786,000 increase in the liabilities for unrecognized tax benefits, as well as related interest expense and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

At January 1, 2007, the total amount of unrecognized tax benefits under FIN 48 was $3.4 million. Management believes it is reasonably possible that there will be a $1.4 million net decrease in unrecognized tax benefits due to the settlement of audits and the expiration of statute of limitations within 12 months of the reporting date. KPCo's total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $0.6 million. There are $2.5 million of tax positions, for which the ultimate deductibility is highly certain but the timing of such deductibility is uncertain. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

Prior to the adoption of FIN 48, KPCo and other AEP subsidiaries recorded interest and penalty accruals related to income tax positions in tax accrual accounts. With the adoption of FIN 48, KPCo and other AEP subsidiaries began recognizing interest accruals related to income tax positions in interest expense and penalties in Other Operations. As of January 1, 2007, KPCo accrued $1.2 million for the payment of uncertain interest and penalties.

7. FINANCING ACTIVITIES

Long-term Debt

There were no long-term debt issuances or retirements during the first six months of 2007.

In July 2007, KPCo retired $125 million of 5.50% Senior Unsecured Notes due in 2007.

Lines of Credit

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of its subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds the utility subsidiaries. The AEP System corporate borrowing program operates in accordance with the terms and conditions approved in a regulatory order. The amount of outstanding loans (borrowings) to/from the Utility Money Pool as of June 30, 2007 and December 31, 2006 are included in Advances to/from Affiliates on KPCo's balance sheets. KPCo's Utility Money Pool activity and corresponding authorized borrowing limits for the six months ended June 30, 2007 are described in the following table:

Maximum Borrowings from Utility Money Pool	Maximum Loans to Utility Money Pool	Average Borrowings from Utility Money Pool	Average Loans to Utility Money Pool	Borrowings from Utility Money Pool as of June 30, 2007	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 46,317	$ -	$ 29,528	$ -	$ 29,719	$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the six months ended June 30, 2007 and 2006 are summarized in the following table:

	Maximum Interest Rates for Funds Borrowed from the Utility Money Pool	Minimum Interest Rates for Funds Borrowed from the Utility Money Pool	Maximum Interest Rates for Funds Loaned to the Utility Money Pool	Minimum Interest Rates For Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
			(in percentage)			
2007	5.46	5.30	-	-	5.36	-
2006	5.39	4.37	5.12	4.19	4.98	4.97

Dividend Restrictions

Under the Federal Power Act, KPCo is restricted from paying dividends out of stated capital.

Sale of Receivables – AEP Credit

In July 2007, AEP extended AEP Credit's sale of receivables agreement. The sale of receivables agreement provides commitments of $600 million from a bank conduit to purchase receivables from AEP Credit. This agreement will expire in November 2007. AEP intends to renew or replace this agreement. AEP Credit purchases accounts receivable through purchase agreements with KPCo.

Execution Copy

KENTUCKY POWER COMPANY

$40,000,000 7.25% Senior Notes, Series A, due June 18, 2021
$30,000,000 8.03% Senior Notes, Series B, due June 18, 2029
$60,000,000 8.13% Senior Notes, Series C, due June 18, 2039

NOTE PURCHASE AGREEMENT

Dated as of June 18, 2009

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KENTUCKY POWER COMPANY
1 Riverside Plaza
Columbus, Ohio 43215

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Dated as of June 18, 2009

TO EACH OF THE PURCHASERS LISTED IN
SCHEDULE A HERETO:

Ladies and Gentlemen:

KENTUCKY POWER COMPANY, a Kentucky corporation (the *"Company"*), agrees with each of the purchasers whose names appear at the end hereof (each, a *"Purchaser"* and, collectively, the *"Purchasers"*) as follows:

SECTION 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of (a) $40,000,000 aggregate principal amount of its 7.25% Senior Notes, Series A, due June 18, 2021 (the *"Series A Notes"*), (b) $30,000,000 aggregate principal amount of its 8.03% Senior Notes, Series B, due June 18, 2029 (the *"Series B Notes"*) and (c) $60,000,000 aggregate principal amount of its 8.13% Senior Notes, Series C, due June 18, 2039 (the *"Series C Notes"*; the Series A Notes, the Series B Notes and the Series C Notes are hereinafter collectively referred to as the *"Notes,"* such term to include any such notes issued in substitution therefor pursuant to **Section 13**). The Notes shall be substantially in the form set out in **Exhibit 1-A, Exhibit 1-B** and **Exhibit 1-C**, respectively. Certain capitalized and other terms used in this Agreement are defined in **Schedule B**; and references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

SECTION 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in **Section 3**, Notes in the principal amount and in the series specified opposite such Purchaser's name in **Schedule A** at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or nonperformance of any obligation by any other Purchaser hereunder.

SECTION 3. CLOSING.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m. Chicago time, at a closing (the *"Closing"*) on June 18, 2009 or on such other Business Day thereafter as may be agreed upon by the Company and the Purchasers. At the Closing, the Company will deliver to each Purchaser the Notes of the series to be purchased by such Purchaser in the form of a single Note to be purchased by such Purchaser (or such greater number of Notes in denominations of at least $100,000 as such Purchaser may request) dated the date of the Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 40572089 at Citibank, N.A., 399 Park Ave., New York, NY 10043 (ABA# 021000089). If at the Closing the Company shall fail to tender such Notes to any Purchaser as provided above in this **Section 3**, or any of the conditions specified in **Section 4** shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

SECTION 4. CONDITIONS TO CLOSING.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by **Section 5.14**), no Default or Event of Default shall have occurred and be continuing. The Company shall not have entered into any transaction since the date of the Memorandum that would have been prohibited by **Section 10** had such Section applied since such date.

Section 4.3. Compliance Certificates.

(a) *Officer's Certificate*. The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in **Sections 4.1, 4.2** and **4.9** have been fulfilled.

(b) *Secretary's Certificate*. The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from internal counsel for American Electric Power Service Corporation, an affiliate of the Company, covering the matters set forth in **Exhibit 4.4(a)** and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in **Exhibit 4.4(b)** and covering such other matters incident to such transactions as such Purchaser may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, Etc. On the date of the Closing such Purchaser's purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. Contemporaneously with the Closing, the Company shall sell to each other Purchaser, and each other Purchaser shall purchase, the Notes to be purchased by it at the Closing as specified in **Schedule A**.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of **Section 15.1**, the Company shall have paid on or before the Closing the fees, charges and disbursements of the Purchasers' special counsel referred to in **Section 4.4** to the extent reflected in a statement of such counsel rendered to the Company at least two Business Days prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for each series of the Notes.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in **Schedule 5.5**.

Section 4.10. Company Regulatory Approvals. Prior to the date of the Closing, any approval or consent of any regulatory body, state, federal or local, including, without limitation, any approval or consent required by the Kentucky Public Service Commission, required for the offer, issuance, sale and delivery of the Notes and the execution, delivery and performance by

the Company of this Agreement and the Notes shall have been obtained, shall be in full force and effect, shall have not have been revoked or amended, shall not be the subject of a pending appeal and shall be legally sufficient to authorize the offer, issue and sale and delivery of the Notes and evidence of such approval or consent satisfactory to the Purchasers and their special counsel shall have been provided to them.

Section 4.11. Funding Instructions. At least three Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in **Section 3** including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number and (c) the account name and number into which the purchase price for the Notes is to be deposited.

Section 4.12. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agent, BNP Paribas Securities Corp., has delivered to each Purchaser a copy of a Private Placement Memorandum, dated May, 2009 (the *"Memorandum"*), relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material respects, the general nature of the business and principal

properties of the Company. This Agreement, the Memorandum and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby and identified in **Schedule 5.3**, and the financial statements listed in **Schedule 5.5**, (this Agreement, the Memorandum and such documents, certificates or other writings and such financial statements delivered to each Purchaser prior to May 28, 2009 being referred to, collectively, as the *"Disclosure Documents"*), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Disclosure Documents, since December 31, 2008, there has been no change in the financial condition, operations, business or properties of the Company except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that would reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Disclosure Documents.

Section 5.4. Directors and Senior Officers. **Schedule 5.4** contains (except as noted therein) a complete and correct list of the Company's directors and senior officers. The Company has no Subsidiaries.

Section 5.5. Financial Statements; Material Liabilities. The Company has delivered to each Purchaser copies of the financial statements of the Company. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company under, any Material indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company is bound or by which the Company or any of its properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes, other than (a) the authorization of the Kentucky Public Service Commission which authorization has been duly obtained pursuant to an order of the Kentucky Public Service

Commission, which is in full force and effect, has not been revoked or amended, is not the subject of a pending appeal; the offer, issuance, sale and delivery of the Notes and the execution, delivery and performance by the Company of this Agreement are in conformity with the terms of such order, (b) as may be required under state or foreign securities or blue sky laws, and (c) such registrations, filings and declarations that are not required to be made until after the date of the Closing and which will be made as and when required.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) Except as disclosed in **Schedule 5.8**, there are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any property of the Company in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Except as disclosed in **Schedule 5.8**, the Company is not in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws or the USA Patriot Act) of any Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company has filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon it or its properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that would reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company in respect of federal, state or other taxes for all fiscal periods are adequate in accordance with GAAP. The federal income tax liabilities of the Company have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2000.

Section 5.10. Title to Property; Leases. The Company has good and sufficient title to its properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in **Section 5.5** or purported to have been acquired by the Company after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. (a) The Company owns or possesses all licenses, permits, franchises, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others, the non-ownership or non-possession of which, individually or in the aggregate, would have a Material Adverse Effect.

(b) To the best knowledge of the Company, no product of the Company infringes in any Material respect any license, permit, franchise, authorization, patent, copyright, proprietary software, service mark, trademark, trade name or other right owned by any other Person which infringement, individually or in the aggregate, would have a Material Adverse Effect.

(c) To the best knowledge of the Company, there is no Material violation by any Person of any right of the Company with respect to any patent, copyright, proprietary software, service mark, trademark, trade name or other right owned or used by the Company, which violation, individually or in the aggregate, would have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) For each of the Plans which are pension plans within the meaning of Section 3(2) of ERISA (other than Multiemployer Plans) that are subject to the funding requirements of Section 302 of ERISA or Section 412 of the Code, **Schedule 5.12(b)** sets forth the funding target attainment percentage as of January 1, 2008, on the basis of the actuarial assumptions specified for funding purposes in such Plan's actuarial valuation report for the plan year beginning January 1, 2008. The term "funding target attainment percentage" has the meaning specified in Section 303 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) **Schedule 5.12(d)** sets forth the unfunded accumulated post retirement benefit obligation (APBO) as determined as of the last day of the Company's most recently ended fiscal year, December 31, 2008, in accordance with Financial Accounting Standards Board Statement No. 106 for retiree medical and life insurance plans, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code, of the Company and such

obligations would not, individually or in the aggregate, result in a Material Adverse Effect. The increase in such liabilities from December 31, 2008, to the date hereof is not Material and would not result in a Material Adverse Effect.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this **Section 5.12(e)** is made in reliance upon and subject to the accuracy of such Purchaser's representation in **Section 6.2** as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser and under the assumption that the parties identified to the Company pursuant to clauses (d), (e) and (g) thereof do not trigger issues with respect to the issuance and sale of the Notes to the parties described in those clauses.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than 35 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act or to the registration requirements of any securities or blue sky laws of any applicable jurisdiction.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes as set forth in "Executive Summary-Offering and Use of Proceeds" of the Memorandum. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin Stock does not constitute more than 2% of the value of the assets of the Company and the Company does not have any present intention that Margin Stock will constitute more than 2% of the value of such assets.

Section 5.15. Existing Indebtedness; Future Liens. (a) **Schedule 5.15** sets forth a complete and correct list of all outstanding Indebtedness of the Company as of May 31, 2009 (including a description of the obligors and obligees, principal amount outstanding and collateral therefor, if any, and guarantee thereof, if any), since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company. The Company is not in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Company, the outstanding principal amount of which exceeds $1,000,000, and no event or condition exists with respect to any Indebtedness of the Company, the outstanding principal amount of which exceeds $1,000,000, that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and

payable before its stated maturity or before its regularly scheduled dates of payment and that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Except as disclosed in **Schedule 5.15**, the Company has not agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by **Section 10.2**.

(c) Except as disclosed in **Schedule 5.15**, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Indebtedness of the Company.

Section 5.16. Foreign Assets Control Regulations, Etc. (a) Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) The Company (i) is not a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order and (ii) does not engage in any dealings or transactions with any such Person. The Company is in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company.

Section 5.17. Status under Certain Statutes. The Company is not subject to regulation under the Investment Company Act of 1940, as amended or the ICC Termination Act of 1995, as amended.

Section 5.18. Notes Rank Pari Passu. The payment obligations of the Company under this Agreement and the Notes rank at least *pari passu* in right of payment with all other unsecured Indebtedness (actual or contingent) of the Company, which is not expressed to be subordinate or junior in rank to any other unsecured Indebtedness of the Company, including, without limitation, all unsecured Indebtedness of the Company described in **Schedule 5.15** hereto.

Section 5.19. Environmental Matters. (a) The Company has no knowledge of any claim nor received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(b) The Company has no knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by it or to other assets or their use, except, in each case, such as would not reasonably be expected to result in a Material Adverse Effect.

(c) The Company has not stored any Hazardous Materials on real properties now or formerly owned, leased or operated by it nor has it disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that would reasonably be expected to result in a Material Adverse Effect.

(d) All buildings on all real properties now owned, leased or operated by the Company are in compliance with applicable Environmental Laws, except where failure to comply would not reasonably be expected to result in a Material Adverse Effect.

SECTION 6. REPRESENTATIONS OF THE PURCHASERS.

Section 6.1. Purchase for Investment. Each Purchaser severally represents that (a) it is purchasing the Notes for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds (each of which is an "accredited investor") as for each of which such Purchaser exercises sole investment discretion for investment purposes only and not with a view to the distribution thereof; *provided* that the re-sale or disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control, (b) it is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3), (7) or (8) under the Securities Act), (c) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Notes, (d) it and any accounts for which it is acting are each able to bear the economic risk of its investments and (e) it has received adequate information concerning the Company and the Notes to make an informed investment decision with respect to the purchase of the Notes. Each Purchaser understands that the Notes have not been, and will not be, registered under the Securities Act (and that the Company is not required to register the Notes) and may be resold only (A) if registered pursuant to the provisions of the Securities Act, (B) if an exemption from registration is available, including, without limitation, by disposition of any of the Notes and then (i) to the Company; (ii) inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in compliance with Rule 144A; (iii) inside the United States to an institutional investor that (1) is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3), (7) or (8) under the Securities Act) and (2) makes the representations set forth in this **Section 6**; or (iv) outside the United States in compliance with Rule 904 under the

Securities Act or (C) if resold under circumstances where neither such registration nor such exemption is required by law.

Each Purchaser agrees that, following the transfer of a Note and upon the request of the Company and without invalidating any transfer of any Note pursuant to this Agreement, it shall make reasonable best efforts to furnish to the Company any certificate which it may have received from any transferee of such Note with respect to such transferee's compliance with the terms of this **Section 6.1** in order to confirm that the transfer was made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Section 6.2. Source of Funds. Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a *"Source"*) to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption (*"PTE"*) 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the *"NAIC Annual Statement"*)) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed ten percent (10%) of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1, or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as have been disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee

benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, as of the last day of its most recent calendar quarter, the QPAM does not own a 10% or more interest in the Company and no Person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 20% or more interest in the Company (or less than 20% but greater than 10%, if such person exercises control over the management or policies of the Company by reason of its ownership interest) and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the *"INHAM Exemption"*)) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a Person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(d) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this **Section 6.2**, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

SECTION 7. INFORMATION AS TO THE COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a balance sheet of the Company as at the end of such quarter, and

(ii) statements of income, changes in shareholders' equity and cash flows of the Company for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments; *provided* that delivery within the time period specified above of copies of the Company's quarterly report prepared in accordance with GAAP shall be deemed to satisfy the requirements of this **Section 7.1(a)**; *provided, further,* that the Company shall be deemed to have made such delivery of such financial statements or quarterly report, as case may be, if it shall have timely made such financial statements or quarterly report available on its home page on the worldwide web (at the date of this Agreement located at: http//www.aep.com) (such availability and notice thereof being referred to as *"Electronic Delivery"*);

(b) *Annual Statements* — within 105 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a balance sheet of the Company, as at the end of such year, and

(ii) statements of income, changes in shareholders' equity and cash flows of the Company, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances; *provided* that the delivery within the time period specified above of the Company's annual report for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with GAAP, together with the accountants' opinion described above, shall be deemed to satisfy the requirements of this **Section 7.1(b)**; *provided, further,* that the Company shall be deemed to have made such delivery of such financial statements or annual report, as the case may be, if it shall have timely made Electronic Delivery thereof.

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the

Company or any Subsidiary to its principal lending banks as a whole (excluding information sent to such banks in the ordinary course of administration of a bank facility, such as information relating to pricing and borrowing availability or to its public securities holders generally) and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material; *provided, further,* that the Company should be deemed to have made such delivery of such SEC and other reports if it shall have timely made such SEC and other reports available via Electronic Delivery;

(d) *Notice of Default or Event of Default* — promptly, and in any event within five Business Days after a Responsible Officer becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(f) *Requested Information* — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries (including, but without limitation, actual copies of the Company's financial statements) or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to **Sections 7.1(a)** and **7.1(b)** shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) *Covenant Compliance* — the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of **Section 10.1** and **Section 10.2**, inclusive, during the annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) *Event of Default* — a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the

statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

SECTION 8. PREPAYMENT OF THE NOTES.

Section 8.1. Maturity. As provided therein, the entire unpaid principal balance of the Notes shall be due and payable on the stated maturity date thereof.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes (but if in the case of a partial prepayment, then against each series of Notes in proportion to the aggregate principal amount outstanding on each series), in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, and the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this **Section 8.2** not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of each series of Notes to

be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with **Section 8.4**), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. [Reserved].

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to **Section 8.2**, the principal amount of the Notes to be prepaid shall be (a) allocated among each series of Notes in proportion to the aggregate unpaid principal amount of each such series of Notes and (b) allocated pro rata among all holders of each series of Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.5. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this **Section 8**, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes or any part or portion thereof except upon the payment or prepayment of the Notes pro rata in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term *"Make-Whole Amount"* means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; *provided* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

> *"Called Principal"* means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to **Section 8.2** or has become or is declared to be immediately due and payable pursuant to **Section 12.1**, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, .50% (50 basis points) over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable actively traded U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable actively traded U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (a) such Called Principal into (b) the sum of the products obtained by multiplying (i) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (ii) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; *provided* that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment

will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to **Section 8.2** or **12.1**.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to **Section 8.2** or has become or is declared to be immediately due and payable pursuant to **Section 12.1**, as the context requires.

SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA Patriot Act and Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business, owning similar properties and located in the same general area as the Company and its Subsidiaries, except where any failure to maintain such insurance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; *provided, however,* that so long as no Event of Default hereunder shall have occurred and be continuing, the Company may self-insure by way of deductibles, through its captive insurance company, or otherwise, such amount as is customarily maintained on similar properties by companies of similar size and financial standing and having similar operations and to the extent consistent with prudent business practices.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; *provided* that this **Section 9.3** shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent the same have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary; *provided* that neither the Company nor any Subsidiary need pay any such tax, assessment, charge, levy or claim if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges, levies and claims in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Legal Existence, Etc. Subject to **Section 10.3**, the Company will at all times preserve and keep in full force and effect its legal existence and the Company will at all times preserve and keep in full force and effect the legal existence of each of its Subsidiaries (unless merged into the Company or a Wholly-owned Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such legal existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Notes to Rank Pari Passu. The Notes and all other obligations under this Agreement of the Company are and at all times shall rank at least *pari passu* in right of payment with all other present and future unsecured Indebtedness (actual or contingent) of the Company which is not expressed to be subordinate or junior in rank to any other unsecured Indebtedness of the Company.

Section 9.7. Books and Records. The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company, or such Subsidiary, as the case may be.

SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Leverage Ratio. The Company will maintain a ratio of Consolidated Indebtedness to Consolidated Capital as of the last day of each March, June, September and December of not greater than 0.70 to 1.00.

Section 10.2. Limitation on Secured Debt. The Company shall not create or suffer to be created or to exist or permit any of its Subsidiaries to create or suffer to be created or to exist any additional mortgage, pledge, security interest, or other lien (collectively *"Liens"*) on any utility properties or tangible assets now owned or hereafter acquired by the Company or its Subsidiaries

to secure any Indebtedness for borrowed money (*"Secured Debt"*), without providing that the Notes will be similarly secured. This restriction does not prevent the creation or existence of:

(a) Liens on property existing at the time of acquisition or construction of such property (or created within one year after completion of such acquisition or construction), whether by purchase, merger, construction or otherwise, or to secure the payment of all or any part of the purchase price or construction cost thereof, including the extension of any Liens to repairs, renewals, replacements, substitutions, betterments, additions, extensions and improvements then or thereafter made on the property subject thereto;

(b) financing of the Company's accounts receivable for electric service;

(c) any extensions, renewals or replacements (or successive extensions, renewals or replacements), in whole or in part, of Liens permitted by the foregoing clauses; and

(d) the pledge of any bonds or other Securities at any time issued under any of the Secured Debt permitted by the above clauses.

In addition to the permitted issuances above, Secured Debt not otherwise so permitted may be issued in an amount that does not exceed 15% of Net Tangible Assets as defined below.

"Net Tangible Assets" means the total of all assets (including revaluations thereof as a result of commercial appraisals, price level restatement or otherwise) appearing on the Company's balance sheet, net of applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount, energy trading contracts, regulatory assets, deferred charges and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the Company's current liabilities appearing on such balance sheet.

This restriction also will not apply to or prevent the creation or existence of leases (operating or capital) made, or existing on property acquired, in the ordinary course of business.

Section 10.3. Mergers, Consolidations, Etc. The Company will not, and will not permit any Subsidiary to, consolidate with or be a party to a merger with any other Person, or sell, lease or otherwise dispose of all or substantially all of its assets; *provided* that:

(a) any Subsidiary may merge or consolidate with or into the Company or any Wholly-owned Subsidiary so long as in (i) any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation and (ii) in any merger or consolidation involving a Wholly-owned Subsidiary (and not the Company), the Wholly-owned Subsidiary shall be the surviving or continuing corporation or limited liability company;

(b) the Company may consolidate or merge with or into any other corporation if (i) the corporation or limited liability company which results from such consolidation or merger (the *"Surviving Person"*) is organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all of the Notes, according to their tenor, and the due and punctual performance and observation of all of the covenants in the Notes and this Agreement to be performed or observed by the Company are expressly assumed in writing by the Surviving Person pursuant to an agreement satisfactory to the Required Holders and the Surviving Person shall furnish to the holders of the Notes an opinion of counsel satisfactory to the Required Holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the Surviving Person enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, and (iii) at the time of such consolidation or merger and immediately after giving effect thereto, no Default or Event of Default would exist;

(c) the Company may sell or otherwise dispose of all or substantially all of its assets to any Person for consideration which represents the fair market value of such assets (as determined in good faith by the Board of Directors of the Company) at the time of such sale or other disposition if (i) the acquiring Person (the *"Acquiring Person"*) is a corporation or limited liability company organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all the Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants in the Notes and in this Agreement to be performed or observed by the Company are expressly assumed in writing by the Acquiring Person pursuant to an agreement satisfactory to the Required Holders and the Acquiring Person shall furnish to the holders of the Notes an opinion of counsel satisfactory to the Required Holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Acquiring Person enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, and (iii) at the time of such sale or disposition and immediately after giving effect thereto, no Default or Event of Default would exist.

Section 10.4. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any transaction or group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except in the ordinary course and pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

Section 10.5. *Line of Business*. The Company will not and will not permit any Subsidiary to engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as a whole, are engaged on the date of this Agreement as described in the Memorandum.

Section 10.6. *Terrorism Sanctions Regulations*. The Company will not and will not permit any Subsidiary to (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) knowingly engage in any dealings or transactions with any such Person.

SECTION 11. EVENTS OF DEFAULT.

An *"Event of Default"* shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in **Section 7.1(d)** or **Sections 10.1** through **10.3**; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in **Sections 11(a)**, **(b)** and **(c)**) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this **Section 11(d)**); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) any event shall occur or condition shall exist under any agreement or instrument relating to Indebtedness of the Company or any Subsidiary (but excluding Indebtedness outstanding hereunder) outstanding in a principal or notional amount of at least $50,000,000 in the aggregate if the effect of such event or condition is to accelerate or require early termination of the maturity or tenor of such Indebtedness, or any such Indebtedness shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption),

terminated, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Indebtedness shall be required to be made, in each case prior to the stated maturity or the original tenor thereof; or

(g) the Company or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Significant Subsidiaries, or any such petition shall be filed against the Company or any of its Significant Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) any judgment or order for the payment of money in excess of $50,000,000 to the extent not paid or insured shall be rendered against the Company or any Subsidiary and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(j) if (i) any Plan which is a pension plan within the meaning of Section 3(2) of ERISA shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the "funding target attainment percentage" (within the meaning of Section 303 of ERISA) under each Plan that is subject to the funding requirements of Section 302 of ERISA or Section 412 of the Code, as most recently certified by the Plan's actuary, shall be less than 70%, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability with respect to any Plan pursuant to Title I or IV of ERISA (other than such liability for benefits as may be

incurred in connection with the administration of such Plan) or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in **Section 11(j)**, the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in **Section 11(g)** or **(h)** (other than an Event of Default described in clause (i) of **Section 11(g)** or described in clause (vi) of **Section 11(g)** by virtue of the fact that such clause encompasses clause (i) of **Section 11(g)**) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 50% in principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in **Section 11(a)** or **(b)** has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this **Section 12.1**, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (i) all accrued and unpaid interest thereon (including, but not limited to, interest accrued thereon at the Default Rate) and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under **Section 12.1**, the holder of any Note at the time outstanding

may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to **Section 12.1(b)** or **(c)**, the holders of not less than 51% in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) neither the Company nor any other Person shall have paid any amounts which have become due solely by reason of such declaration, (c) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to **Section 17**, and (d) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this **Section 12.3** will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under **Section 15**, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this **Section 12**, including, without limitation, reasonable attorneys' fees, expenses and disbursements of one special counsel for all holders of the Notes.

SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note to the Company at the address and to the attention of the designated officer (all as specified in

Section 18(iii)) for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten Business Days thereafter, the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, of the same series and in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of **Exhibit 1-A**, **Exhibit 1-B** or **Exhibit 1-C,** as applicable. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $100,000; *provided* that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in **Section 6.2**.

Section 13.3. Replacement of Notes. Upon receipt by the Company at the address and to the attention of the designated officer (all as specified in **Section 18(iii)**) of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (*provided* that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least $50,000,000 or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

within ten Business Days thereafter, the Company at its own expense shall execute and deliver, in lieu thereof, a new Note of the same series, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to **Section 14.2**, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of Citibank N.A. in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Purchaser or its nominee shall be the holder of any Note, and notwithstanding anything contained in **Section 14.1** or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in **Schedule A**, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to **Section 14.1**. The Company will make such payments in immediately available funds, no later than 11:00 a.m. New York time on the date due. If for any reason whatsoever the Company does not make any such payment by such 11:00 a.m. transmittal time, such payment shall be deemed to have been made on the next following Business Day and such payment shall bear interest at the Default Rate set forth in the Note. Prior to any sale or other disposition of any Note held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes of the same series pursuant to **Section 13.2**. The Company will afford the benefits of this **Section 14.2** to any Institutional Investor that is the direct or indirect transferee of any Note purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchasers have made in this **Section 14.2**.

SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Purchaser and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Notes).

Section 15.2. Survival. The obligations of the Company under this **Section 15** will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

SECTION 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of **Section 1, 2, 3, 4, 5, 6** or **21** hereof, or any defined term (as it is used therein), will be effective as to any Purchaser unless consented to by such Purchaser in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of **Section 12** relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of **Section 8, 11(a), 11(b), 12, 17** or **20**. As used herein and in the Notes "***this Agreement***" and references thereto shall mean this Agreement as may, from time to time, be amended or supplemented.

Section 17.2. Solicitation of Holders of Notes.

(a) *Solicitation*. The Company will provide each holder of the Notes (irrespective of the amount or series of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this **Section 17** to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) *Payment*. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer*. Any consent made pursuant to this **Section 17.2** by the holder of any Note that has transferred or has agreed to transfer, or accepted an offer of prepayment of, such Note to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer or prepayment shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such transferring holder or holder whose Note is being prepaid.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this **Section 17** applies equally to all holders of each series of Notes and is binding upon them and upon each future holder of any Note upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term “this Agreement” and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in **Schedule A**, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Treasurer and Facsimile No.: 614-716-2807 with a copy to the attention of the General Counsel at the same address as above and Facsimile No.: 614-716-1687, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this **Section 18** will be deemed given only when actually received.

SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This **Section 19** shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this **Section 20**, *"Confidential Information"* means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary; *provided* that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any Person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under **Section 7.1** that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such

Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser; *provided* that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this **Section 20**, (iii) any other holder of any Note, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 20**), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 20**), (vi) any federal, state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this **Section 20** as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this **Section 20**.

SECTION 21. SUBSTITUTION OF PURCHASER.

Each Purchaser shall have the right to substitute any one of its Affiliates as the purchaser of the Notes that it has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in **Section 6**. Upon receipt of such notice, any reference to such Purchaser in this Agreement (other than in this **Section 21**) shall be deemed to refer to such Affiliate in lieu of such original Purchaser. In the event that such Affiliate is so substituted as a Purchaser hereunder and such Affiliate thereafter transfers to such original Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, any reference to such Affiliate as a "Purchaser" in this Agreement (other than in this **Section 21**) shall no longer be deemed to refer to such Affiliate, but shall refer to such original Purchaser, and such original Purchaser shall again have all the rights of an original holder of the Notes under this Agreement.

SECTION 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding (but without limiting the requirement in **Section 8.4** that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; *provided* that if the maturity date of any Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

Section 22.3. Accounting Terms. All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in this Agreement, any election by the Company to measure an item of Indebtedness using an amount other than par (as permitted by FASB 159 or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made.

Section 22.4. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.5. Construction, Etc. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 22.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

***Section 22.7. Governing Law*. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York, excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.**

Section 22.8. Jurisdiction and Process; Waiver of Jury Trial. (a) The Company irrevocably submits to the non-exclusive jurisdiction of any New York State or federal court sitting in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to this Agreement or the Notes. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Notes in any suit, action or proceeding of the nature referred to in **Section 22.8(a)** by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in **Section 18** or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this **Section 22.8** shall affect the right of any holder of a Note to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, THE NOTES OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH OR THEREWITH.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

KENTUCKY POWER COMPANY

By_______________________________
Title:

Accepted as of ___________________:

AMERICAN UNITED LIFE INSURANCE COMPANY

By ____________________________________
Name:
Its:

THE STATE LIFE INSURANCE COMPANY
By: American United Life Insurance Company
Its: Agent

By ____________________________________
Name:
Its:

PIONEER MUTUAL LIFE INSURANCE COMPANY
By: American United Life Insurance Company
Its: Agent

By ____________________________________
Name:
Its:

Accepted as of ___________________:

CUNA MUTUAL INSURANCE SOCIETY

By: MEMBERS Capital Advisors, Inc., acting as Investment Advisor:

By________________________________
Name: David Patch
Title: Director, Private Placements

Accepted as of ____________________:

CoBANK, ACB

By ______________________________________
Name:
Title:

Accepted as of ____________________:

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

By ______________________________________
Name:
Title:

By ______________________________________
Name:
Title:

Accepted as of ____________________:

THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

By ______________________________________
Name:
Title:

BERKSHIRE LIFE INSURANCE COMPANY OF AMERICA

By ______________________________________
Name:
Title:

Accepted as of ____________________:

JOHN HANCOCK LIFE INSURANCE COMPANY

By ______________________________________
Name:
Title:

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

By ______________________________________
Name:
Title:

JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A.)

By ______________________________________
Name:
Title:

Accepted as of ____________________:

SUN LIFE ASSURANCE COMPANY OF CANADA

By ______________________________________
Name:
Title:

By ______________________________________
Name:
Title:

INFORMATION RELATING TO PURCHASERS

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED
AMERICAN UNITED LIFE INSURANCE COMPANY Attn: Michael I. Bullock, Securities Department One American Square Post Office Box 368 Indianapolis, IN 46206	SERIES B $4,000,000

Payments

Kentucky Power Company shall make payment of principal and interest on the Bond in immediately available funds by wire transfer to the following bank account:

AMERICAN UNITED LIFE INSURANCE COMPANY
Bank of New York
ABA #021000018
CREDIT A/C: GLA111566
A/C Name: American United Life Insurance Co.
Account #: 186683
P & I Breakdown: (Insert)
Re: PPN# 491386 C@5 / Kentucky Power Company

Payments should contain sufficient information to identify the breakdown of principal and interest and should identify the full description of the note and the payment date.

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 35-0145825

Physical Delivery Instructions:

Bank of New York
One Wall Street, 3rd Floor
New York, NY 10286
American United Life, #186683
Attn: Anthony Saviano/Window A
cc: Michele Morris/ NYC Physical Desk on all correspondence

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED	
THE STATE LIFE INSURANCE COMPANY c/o American United Life Insurance Company Attn: Michael I. Bullock, Securities Department One American Square Post Office Box 368 Indianapolis, IN 46206	SERIES B	$2,500,000

Payments

Kentucky Power Company shall make payment of principal and interest on the Bond in immediately available funds by wire transfer to the following bank account:

> THE STATE LIFE INSURANCE COMPANY
> Bank of New York
> ABA #021000018
> CREDIT A/C: GLA111566
> A/C Name: The State Life Insurance Co.
> Account #: 343761
> P & I Breakdown: (Insert)
> Re: PPN# 491386 C@5 / Kentucky Power Company
>
> Payments should contain sufficient information to identify the breakdown of principal and interest and should identify the full description of the note and the payment date.

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 35-0684263

Physical Delivery Instructions:

> *Bank of New York*
> *One Wall Street, 3rd Floor*
> *New York, NY 10286*
> *The State Life Insurance Co., c/o American United Life Insurance Company, #343761*
> *Attn: Anthony Saviano/Window A*
> *cc: Michele Morris/ NYC Physical Desk on all correspondence*

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED	
PIONEER MUTUAL LIFE INSURANCE COMPANY c/o American United Life Insurance Company Attn: Michael I. Bullock, Securities Department One American Square Post Office Box 368 Indianapolis, IN 46206	SERIES B	$500,000

Payments

Kentucky Power Company shall make payment of principal and interest on the Bond in immediately available funds by wire transfer to the following bank account:

> PIONEER MUTUAL LIFE INSURANCE COMPANY
> Bank of New York
> ABA #021000018
> CREDIT A/C: GLA111566
> A/C Name: Pioneer Mutual Insurance Co.
> Account #: 186709
> P & I Breakdown: (Insert)
> Re: PPN# 491386 C@5 / Kentucky Power Company
>
> Payments should contain sufficient information to identify the breakdown of principal and interest and should identify the full description of the note and the payment date.

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 45-0220640

Physical Delivery Instructions:

Bank of New York
One Wall Street, 3rd Floor
New York, NY 10286
Pioneer Mutual Life Insurance Co. c/o American United Life Insurance Company, #186709
Attn: Anthony Saviano/Window A
cc: Michele Morris/ NYC Physical Desk on all correspondence

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED
CUNA MUTUAL INSURANCE SOCIETY	SERIES B $9,000,000

Attn: Private Placement Analyst
5910 Mineral Point Road
Madison, Wisconsin 53705-4456
Telephone: (608) 232-6089
Facsimile: (608) 236-6703
E-mail: david.patch@cunamutual.com

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Kentucky Power Company, 8.03% Series B Senior Notes due 2029, PPN 491386 C@5, principal, premium or interest") to:

ABA: 011000028
Bank: State Street Bank
City, State: Boston, Massachusetts
Account Name: CUNA MUTUAL INSURANCE SOCIETY
DDA Number: 1044-851-2
Reference Fund: ZT1E / TURNKEYS + CO

Notices

All notices of payments and written confirmations of such wire transfers:

State Street Bank and Trust Company
Attn: Brian Kershner
801 Pennsylvania
Kansas City, MO 64105
Fax: (816) 691-5545
E-mail: bdkersh@statestreet.com
Phone: (816) 871-1621

with a copy to:
CUNA Mutual Insurance Society
Attention: Rosie Pope
5910 Mineral Point Road
Madison, Wisconsin 53705-4456
Fax: (608) 231-8591
E-mail: rosie.pope@cunamutual.com

with a copy to:
CUNA Mutual Insurance Society
Attention: Carrie Ritchie
5910 Mineral Point Road
Madison, Wisconsin 53705-4456
Fax: (608) 236-6859
E-mail: carrie.ritchie@cunamutual.com

All other communications to be addressed as first provided above with a copy to:

CUNA Mutual Insurance Society
Attention: Carrie Ritchie
5910 Mineral Point Road
Madison, Wisconsin 53705-4456
Fax: (608) 236-6859
E-mail: carrie.ritchie@cunamutual.com

Name of Nominee in which Notes are to be issued: TURNKEYS + CO

Purchaser's Taxpayer I.D. Number: 39-0230590

Notes should be delivered to:
State Street Bank
DTC/New York Window
Attention: Robert Mendez
55 Water Street
Plaza Level - 3rd Floor
New York, New York 10041
Ref: ZT1E Turnkeys + CO

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED
CoBANK, ACB 5500 S. Quebec Street Greenwood Village, Colorado 80111 Attn: Matt Brill	SERIES A $18,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Kentucky Power Company, 7.25% Series A Senior Notes due 2021, PPN 491386 C*7, principal, premium or interest") to:

CoBANK ABA Routing Number: 307088754
Short Name: CoBANK
Location: Greenwood Village, CO
Credit Information: The beneficiary of the funds will be Kentucky Power / Beneficiary Account Number 00058994

Notices

All notices and communications, including notices of payments on or in respect of the Notes and written confirmation of each such payment, to be addressed to:

CoBANK, ACB
5500 South Quebec Street
Greenwood Village, Colorado 80111
Attention: Janet Sharman
Phone: (303) 694-5866
Facsimile: (303) 740-4021
E-Mail: agencybank@cobank.com

All notices and communications other than those in respect to payments to be addressed to:

CoBANK, ACB
5500 South Quebec Street
Greenwood Village, Colorado 80111
Attention: Matt Brill
Phone: (303) 740-4144
Facsimile: (303) 796-1481
E-Mail: mbrill@cobank.com

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 84-1286705

Notes should be sent to:

CoBANK, ACB
5500 South Quebec Street
Greenwood Village, Colorado 80111
Attention: Darlene Lowrie

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED
GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY 8515 East Orchard Road, 3T2 Greenwood Village, Colorado 80111 Attention: Investments Division	SERIES A $6,000,000

PAYMENT INSTRUCTIONS – ALL PAYMENTS SHALL BE MADE BY WIRE TRANSFER AS FOLLOWS:

The Bank of New York
ABA No.: 021-000-018
BNF Account No.: IOC566
Further Credit To: Great-West Life/Acct No. 640935
Reference:
1) security description (including PPN)
2) allocation of payment between principal and interest
3) confirmation of principal balance

NOTICES AND COMMUNICATIONS

Great-West Life & Annuity Insurance Company
8515 East Orchard Road, 3T2
Greenwood Village, CO 80111
Attn: Investments Division
Fax Number: (303) 737-6193

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number for : 84-0467907

Securities to be delivered to:
The Bank of New York
3rd Floor, Window A
One Wall Street
New York, NY 10286
Attention: Receive/Deliver Dept (Great-West Life/Acct No. 640935)

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED	
THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA	SERIES A	$11,000,000

7 Hanover Square
New York, NY 10004-2616
Attention: Barry Scheinholtz
Investment Department 20-D
Fax: (212) 919-2658

Payments

All payments on account of the Notes shall be made by wire transfer of immediately available funds to:

JP Morgan Chase
FED ABA #021000021
Chase/NYC/CTR/BNF
A/C 900-9-000200
Reference A/C #G05978, Guardian Life, PPN #491386 C*7, Kentucky Power Company

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 13-5123390

Notes are to be delivered to:

JP Morgan Chase
4 New York Plaza – Ground Floor Receive Window
New York, NY 10004
Ref: A/C #G05978, Guardian Life

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED	
BERKSHIRE LIFE INSURANCE COMPANY OF AMERICA	SERIES A	$5,000,000

c/o The Guardian Life Insurance Company of America
7 Hanover Square
New York, NY 10004-2616
Attention: Barry Scheinholtz
Investment Department 20-D
Fax: (212) 919-2658

Payments

All payments on account of the Notes shall be made by wire transfer of immediately available funds to:

JP Morgan Chase
FED ABA #021000021
Chase/NYC/CTR/BNF
A/C 900-9-000200
Reference A/C #G07064, Berkshire Life Insurance, PPN #491386 C*7, Kentucky Power Company

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 75-1277524

Notes are to be delivered to:

JP Morgan Chase
4 New York Plaza – Ground Floor Receive Window
New York, NY 10004
Ref: A/C #G07064, Berkshire Life Insurance

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED
JOHN HANCOCK LIFE INSURANCE COMPANY c/o John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Fax Number: (617) 572-9269	SERIES C $32,750,000

Payments

All payments to be by bank wire transfer of immediately available funds to:

Bank Name:	Bank of New York Mellon
Intermediary Bank:	Federal Reserve Bank of Boston
ABA Number:	011001234
Account Name:	F008 US PP Collector
DDA Number:	048771
Account Number:	JPPF1001002
On Order of:	Kentucky Power Company

Notices

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

John Hancock Financial Services 200 Berkley Street Boston, MA 02116 Attention: Investment Accounting, B-3 Fax: (617) 572-0628	and	John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Administration, C-2 Fax: (617) 572-5495

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services
197 Clarendon Street
Boston, MA 02116
Attention: Bond and Corporate Finance, C-2
Fax: (617) 572-5068

All other notices shall be sent to:

John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Fax: (617) 572-9269	and	John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Administration, C-2 Fax: (617) 572-5068

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 04-1414660

Notes should be delivered to:

John Hancock Financial Services
197 Clarendon Street, Floor C-3-16
Boston, MA 02116
Attn: Malcolm Pittman, Esq.

Name and Address of Purchaser	Principal Amount and Series of Notes to Be Purchased	
John Hancock Life Insurance Company c/o John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Fax Number: (617) 572-9269	Series C	$250,000

Payments

All payments to be by bank wire transfer of immediately available funds to:

Bank Name: State Street Bank & Trust Company
ABA Number: 011000028
Beneficiary Account: 00335943
Beneficiary Name: JHL SA 1Z - Private Placement Fund, Fund I4BI
On Order of: Kentucky Power Company

Notices

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

State Street Bank & Trust Company
200 Clarendon St., Mail Code CPH0452
Boston, MA 02116
Attention: JHML Group
Fax: (617) 351-4210

and

John Hancock Financial Services
197 Clarendon Street
Boston, MA 02116
Attention: Investment Administration, C-2
Fax: (617) 572-5495

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services
197 Clarendon Street
Boston, MA 02116
Attention: Bond and Corporate Finance, C-2
Fax: (617) 572-5068

All other notices shall be sent to:

John Hancock Financial Services	and	John Hancock Financial Services
197 Clarendon Street		197 Clarendon Street
Boston, MA 02116		Boston, MA 02116
Attention: Investment Law, C-3		Attention: Bond and Corporate Finance, C-2
Fax: (617) 572-9269		Fax: (617) 572-5068

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 04-1414660

Notes should be delivered to:

John Hancock Financial Services
197 Clarendon Street, Floor C-3-16
Boston, MA 02116
Attn: Malcolm Pittman, Esq.

Name and Address of Purchaser	Principal Amount and Series of Notes to Be Purchased	
John Hancock Variable Life Insurance Company c/o John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Fax Number: (617) 572-9269	Series C	$5,000,000

Payments

All payments to be by bank wire transfer of immediately available funds to:

Bank Name:	Bank of New York Mellon
Intermediary Bank:	Federal Reserve Bank of Boston
ABA Number:	011001234
Account Name:	F008 US PP Collector
DDA Number:	048771
Account Number:	JPPF1001002
On Order of:	Kentucky Power Company

Notices

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

John Hancock Financial Services
200 Berkley Street
Boston, MA 02116
Attention: Investment Accounting, B-3
Fax: (617) 572-0628

and

John Hancock Financial Services
197 Clarendon Street
Boston, MA 02116
Attention: Investment Administration, C-2
Fax: (617) 572-5495

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services
197 Clarendon Street
Boston, MA 02116
Attention: Bond and Corporate Finance, C-2
Fax: (617) 572-5068

All other notices shall be sent to:

John Hancock Financial Services	and	John Hancock Financial Services
197 Clarendon Street		197 Clarendon Street
Boston, MA 02116		Boston, MA 02116
Attention: Investment Law, C-3		Attention: Bond and Corporate Finance, C-2
Fax: (617) 572-9269		Fax: (617) 572-5068

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 04-2664016

Notes should be delivered to:

John Hancock Financial Services
197 Clarendon Street, Floor C-3-16
Boston, MA 02116
Attn: Malcolm Pittman, Esq.

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT AND SERIES OF NOTES TO BE PURCHASED	
JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A.) c/o John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Fax Number: (617) 572-9269	SERIES C	$22,000,000

Payments

All payments to be by bank wire transfer of immediately available funds to:

Bank Name:	Bank of New York Mellon
Intermediary Bank:	Federal Reserve Bank of Boston
ABA Number:	011001234
Account Name:	F008 US PP Collector
DDA Number:	048771
Account Number:	JPPF1001002
On Order of:	Kentucky Power Company

Notices

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

John Hancock Financial Services 200 Berkley Street Boston, MA 02116 Attention: Investment Accounting, B-3 Fax: (617) 572-0628	and	John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Administration, C-2 Fax: (617) 572-5495

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services
197 Clarendon Street
Boston, MA 02116
Attention: Bond and Corporate Finance Group, C-2
Fax: (617) 572-5068

All other notices shall be sent to:

John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Fax: (617) 572-9269	and	John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Bond and Corporate Finance, C-2 Fax: (617) 572-5068

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 01-0233346

Notes should be delivered to:

John Hancock Financial Services
197 Clarendon Street, Floor C-3-16
Boston, MA 02116
Attn: Malcolm Pittman, Esq.

Name and Address of Purchaser	Principal Amount and Series of Notes to Be Purchased	
Sun Life Assurance Company of Canada 150 King Street West Toronto, Ontario M5H 1J9 Attention: Michael Bjelic Tel: (416) 204-8010 Fax: (416) 595-0131 Email: michael.bjelic@sunlife.com	Series B	$14,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Wachovia Bank, N.A.
New York, NY
FEDWIRE ABA #026005092
Beneficiary's Bank: Bank of Montreal
International Banking, Head Office
Montreal, Quebec
SWIFT CODE: BOFMCAM2
Account #: 2000192009878
Beneficiary: FFC to 24234600338
Sun Life Assurance Company of Canada
227 King Street South, Waterloo, Ontario N2J 4C5
Refer: (Private Fixed Income) Kentucky Power Company, 8.03% Senior Notes due 2029, PPN #491386 C@5

Notices

All notices of routine payment, on or in respect of the Notes and written confirmation of each such payment and any audit confirmation to be addressed as first provided above.

All other notices and communications, including notices of non-routine payments, to:

Sun Life Assurance Company of Canada
150 King Street West, 3rd Floor
Toronto, Ontario M5H 1J9
Attention: Michael Bjelic
Tel: (416) 204-8010
Fax: (416) 595-0131
Email: michael.bjelic@sunlife.com

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 38-1082080

Notes should be forwarded to:
Sun Life Assurance Company of Canada
227 King Street South
Waterloo, Ontario N2J 4C5
Attention: Private Fixed Income – Nancy Munro

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Acquiring Person" is defined in **Section 10.3(c).**

"Affiliate" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and with respect to the Company, shall include any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, *"Control"* means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an *"Affiliate"* is a reference to an Affiliate of the Company.

"Anti-Terrorism Order" means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49,079 (2001), as amended.

"Business Day" means (a) for the purposes of **Section 8.7** only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Columbus, Ohio are required or authorized to be closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Closing" is defined in **Section 3**.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Kentucky Power Company, a Kentucky corporation, and any successor that becomes such in the manner prescribed in **Section 10.3**.

"Confidential Information" is defined in **Section 20**.

"Consolidated Capital" means the sum of (a) Consolidated Indebtedness and (b) the consolidated equity of all classes of stock (whether common, preferred, mandatorily convertible

preferred or preference) of the Company, in each case determined in accordance with GAAP, but including Equity-Preferred Securities issued by the Company and its Subsidiaries.

"Consolidated Indebtedness" means the total principal amount of all Indebtedness described in clauses (a) through (e) of the definition of Indebtedness and Guaranties of such Indebtedness of the Company and its Subsidiaries, excluding, however, (a) Stranded Cost Recovery Bonds, (b) Equity-Preferred Securities not to exceed 10% of Consolidated Capital (calculated for purposes of this clause without reference to any Equity-Preferred Securities), and (c) any Indebtedness of the Company to any Subsidiary of the Company and any Indebtedness of such Subsidiary of the Company to the Company.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 1% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) 1% over the rate of interest publicly announced by Citibank N.A. in New York, New York as its "base" or "prime" rate.

"Disclosure Documents" is defined in **Section 5.3**.

"Electronic Delivery" is defined in **Section 7.1(a)**.

"*Environmental Action"* means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Laws" means any and all federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"*Equity-Preferred Securities*" shall mean (a) debt or preferred securities that are mandatorily convertible or mandatorily exchangeable into common shares of the Company and (b) any other securities, however denominated, including but not limited to trust originated preferred securities, (i) issued by the Company or any of its consolidated Subsidiaries, (ii) that are not subject to mandatory redemption or the underlying securities, if any, of which are not

subject to mandatory redemption, (iii) that are perpetual or mature no less than 30 years from the date of issuance, (iv) the indebtedness issued in connection with which, including any guaranty, is subordinate in right of payment to the unsecured and unsubordinated indebtedness of the issuer of such indebtedness or guaranty, and (v) the terms of which permit the deferral of the payment of interest or distributions thereon to a date occurring after the maturity date of the Notes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code or under other applicable law.

"Event of Default" is defined in **Section 11**.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" of any Person means any obligation, contingent or otherwise, of such Person (a) to pay any Indebtedness of any other Person or (b) incurred in connection with the issuance by a third person of a Guaranty of Indebtedness of any other Person (whether such obligation arises by agreement to reimburse or indemnify such third Person or otherwise).

"Hazardous Materials" means any and all pollutants, toxic or hazardous wastes or any other substances, including all substances listed in or regulated in any Environmental law that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which

is or shall be restricted, regulated, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

"*holder*" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to **Section 13.1**.

"*Indebtedness*" with respect to any Person means, at any time, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than trade payables not overdue by more than 60 days incurred in the ordinary course of such Person's business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such Person as lessee under leases that have been, in accordance with GAAP, recorded as Capital Leases, (e) all obligations of such Person in respect of reimbursement agreements with respect to acceptances, letters of credit (other than trade letters of credit) or similar extensions of credit, (f) all Guaranties, (g) all reasonably quantifiable obligations under indemnities or under support or capital contribution agreements, and other reasonably quantifiable obligations (contingent or otherwise) to purchase or otherwise to assure a creditor against loss in respect of, or to assure an obligee against loss in respect of, all Indebtedness of others referred to in clauses (a) through (f) above guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (iii) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (iv) otherwise to assure a creditor against loss.

"*Institutional Investor*" means (a) any purchaser of a Note, (b) any holder of a Note holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Notes then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Note.

"*Liens*" is defined in **Section 10.2**.

"*Make-Whole Amount*" is defined in **Section 8.7**.

"*Margin Stock*" shall have the meaning specified Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221).

"*Material*" means material in relation to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Memorandum" is defined in **Section 5.3**.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NAIC" means the National Association of Insurance Commissioners or any successor thereto.

"Net Tangible Assets" is defined in **Section 10.2**.

"Notes" is defined in **Section 1**.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

"Plan" means an "employee benefit plan" (as defined in section 3(3) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or *"properties"* means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"PTE" is defined in **Section 6.2(a)**.

"Purchaser" is defined in the first paragraph of this Agreement.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Qualified Institutional Buyer" means any Person who is a "qualified institutional buyer" within the meaning of such term as set forth in Rule 144A(a)(1) under the Securities Act.

"Related Fund" means, with respect to any holder of any Note, any fund or entity that (a) invests in Securities or bank loans, and (b) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"SEC" shall mean the Securities and Exchange Commission of the United States, or any successor thereto.

"Secured Debt" is defined in **Section 10.2**.

"Securities" or *Security"* shall have the same meaning as in Section 2(1) of the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer, assistant treasurer or comptroller of the Company.

"Senior Debt" means all Indebtedness of the Company which is not expressed to be subordinate or junior in rank to any other Indebtedness of the Company.

"Series A Notes" is defined in **Section 1** of this Agreement.

"Series B Notes" is defined in **Section 1** of this Agreement.

"Series C Notes" is defined in **Section 1** of this Agreement.

"Significant Subsidiary" means, at any time, any Subsidiary of the Company that constitutes at such time a "significant subsidiary" of the Company, as such term is defined in Regulation S-X of the SEC as in effect on the date hereof (17 C.F.R. Part 210); *provided, however,* that "total assets" as used in Regulation S-X shall not include securitization transition assets on the balance sheet of any Subsidiary resulting from the issuance of transition bonds or other asset backed securities of a similar nature.

"*Stranded Cost Recovery Bonds"* means securities, however denominated, that are issued by the Company or any Subsidiary of the Company that are (a) non-recourse to the Company and its Significant Subsidiaries (other than for failure to collect and pay over the charges referred to in clause (b) below) and (b) payable solely from transition or similar charges authorized by law (including, without limitation, any "financing order", as such term is defined in the Texas

Utilities Code) to be invoiced to customers of any Subsidiary of the Company or to retail electric providers.

"Subsidiary" means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Surviving Person" is defined in **Section 10.3(b)**.

"SVO" means the Securities Valuation Office of the NAIC or any successor to such Office.

"USA Patriot Act" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Voting Stock" means Securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or Persons performing similar functions).

"Wholly-owned Subsidiary" means, at any time, any Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-owned Subsidiaries at such time.

DISCLOSURE MATERIALS

Kentucky Power Company 2004 Annual Report

Kentucky Power Company 2005 Annual Report

Kentucky Power Company 2006 Annual Report

Kentucky Power Company 2007 Annual Report

Kentucky Power Company 2008 Annual Report

Kentucky Power Company 2009 First Quarter Report

DIRECTORS AND SENIOR OFFICERS OF THE COMPANY

Directors:

Name

Akins, Nicholas K.
English, Carl L.
Keane, John B.
Koeppel, Holly Keller
Morris, Michael G.
Munczinski, Richard E.
Powers, Robert P.
Tierney, Brian X.
Tomasky, Susan
Welch, Dennis E.

Officers:

Name	**Title**
Morris, Michael G.	Chairman of the Board
Tierney, Brian X.	Vice Chairman of the Board
Morris, Michael G.	Chief Executive Officer
Mosher, T.C.	President
Mosher, T.C.	Chief Operating Officer
Akins, Nicholas K.	Vice President
English, Carl L.	Vice President
Heyeck, Michael	Vice President
Koeppel, Holly Keller	Vice President
LaFleur, Jeffery D.	Vice President
Light, Timothy K.	Vice President
Munczinski, Richard E.	Vice President
Powers, Robert P.	Vice President
Pyle, Mark A.	Vice President-Tax
Tierney, Brian X.	Vice President
Tomasky, Susan	Vice President
Vineyard, William F.	Vice President
Welch, Dennis E.	Vice President
Buonaiuto, Joseph M.	Chief Accounting Officer
Buonaiuto, Joseph M.	Controller
Keane, John B.	Secretary
Koeppel, Holly Keller	Chief Financial Officer
Zebula, Charles E.	Treasurer
Higginson, Susan E.	Assistant Controller
Krawec, Scott M.	Assistant Controller
Berkemeyer, Thomas G.	Assistant Secretary
Cross, Jeffrey D.	Assistant Secretary
Vogel, Anne M.	Assistant Secretary
Wagner, Errol K.	Assistant Secretary
Hawkins, Renee V.	Assistant Treasurer

FINANCIAL STATEMENTS

Statements of Income for the Years Ended December 31, 2008, 2007, 2006, 2005 and 2004

Statements of Changes in Common Shareholder's Equity and Comprehensive Income (Loss) for the years Ended December 31, 2008, 2007, 2006 2005 and 2004

Balance Sheets December 31, 2008, 2007, 2006, 2005 and 2004

Statements of Cash Flows for the Years Ended December 31, 2008, 2007 2006 2005 and 2004

Unaudited Statements of Income for the Three Months Ended March 31, 2009 and 2008

Unaudited Statements of Changes in Common Shareholder's Equity and Comprehensive Income (Loss) for the Three Months Ended March 31, 2009 and 2008

Unaudited Balance Sheets March 31, 2009 and 2008

Unaudited Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008.

CERTAIN LITIGATION

NONE.

Schedule 5.12(b)
January 1, 2008 Defined Benefit Funding Target Attainment Percentages

For each of the Plans which are pension plans within the meaning of Section 3(2) of ERISA (other than Multiemployer Plans) that are subject to the funding requirements of Section 302 of ERISA or Section 412 of the Code, the funding target attainment percentage as of January 1, 2008, determined on the basis of the actuarial assumptions specified for funding purposes in such Plan's actuarial valuation report for the plan year beginning January 1, 2008, is

- For the American Electric Power System Retirement Plan - **88.40%**
- For the Central and South West Corporation Cash Balance Retirement Plan* - **88.02%**

* - The Central and South West Corporation Cash Balance Retirement Plan merged with and into the American Electric Power System Retirement Plan effective December 31, 2008.

Schedule 5.12(d)
2008 Accumulated Post Retirement Benefit Obligation

The unfunded accumulated post retirement benefit obligation (APBO) of the Company as determined as of December 31, 2008, in accordance with Financial Accounting Standards Board Statement No. 106 for retiree medical and life insurance plans, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code: **$20,700,000** (net underfunded position).

EXISTING INDEBTEDNESS

The following details long-term debt outstanding at May 31, 2009:

TYPE OF DEBT	MATURITY	INTEREST RATES AT MAY 31, 2009	BALANCE AT MAY 31, 2009 (a)
Senior Unsecured Notes, Series D	2032	5.625%	$75,000
Senior Unsecured Notes, Series E	2017	6.000%	$325,000
Unamortized Premium (Discount)			($1,375)
Total Senior Unsecured Notes			$398,625
Intercompany Notes	2015	5.250%	20,000
Total Long-term Debt			418,625
Less: Long-term Debt Due Within One Year			-
Long-term Debt			$418,625

(a) Balance at May 31, 2009 in thousands

Short-term debt as of May 31, 2009 was $168,665,181.

Form of Series A Note

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE REGISTRATION UNDER SAID ACT IS IN EFFECT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SAID ACT OR IF SAID ACT DOES NOT APPLY.

KENTUCKY POWER COMPANY

7.25% Senior Notes, Series A, due June 18, 2021

No. _________ Date
$____________ PPN 491386 C*7

FOR VALUE RECEIVED, the undersigned, KENTUCKY POWER COMPANY (herein called the *"Company"*), a corporation organized and existing under the laws of the State of Kentucky, hereby promises to pay to [________________], or registered assigns, the principal sum of [________________] DOLLARS (or so much thereof as shall not have been prepaid) on June 18, 2021, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance hereof at the rate of (a) 7.25% per annum from the date hereof, payable semiannually, on the 18th day of June and December in each year, commencing with the June 18 or December 18 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount, at a rate per annum from time to time equal to the greater of (i) 8.25% or (ii) 1% over the rate of interest publicly announced by Citibank N.A. from time to time in New York, New York as its "base" or "prime" rate payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at Citibank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes, Series A (herein called the *"Notes"*), issued pursuant to the Note Purchase Agreement, dated as of June 18, 2009 (as from time to time amended, the *"Note Purchase Agreement"*), among the Company and the Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in **Section 20** of the Note Purchase Agreement and (ii) made the representation set forth in **Section 6.2** of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written

instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of New York, excluding choice-of-law principles of the law of such State that would permit application of the laws of a jurisdiction other than such State.

KENTUCKY POWER COMPANY

By ___________________________________
[Title]

FORM OF SERIES B NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE REGISTRATION UNDER SAID ACT IS IN EFFECT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SAID ACT OR IF SAID ACT DOES NOT APPLY.

KENTUCKY POWER COMPANY

8.03% Senior Notes, Series B, due June 18, 2029

No. [_________] [Date]
$[____________] PPN 491386 C@5

FOR VALUE RECEIVED, the undersigned, KENTUCKY POWER COMPANY (herein called the *"Company"*), a corporation organized and existing under the laws of the State of Kentucky, hereby promises to pay to [________________], or registered assigns, the principal sum of [________________] DOLLARS (or so much thereof as shall not have been prepaid) on June 18, 2029, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance hereof at the rate of (a) 8.03% per annum from the date hereof, payable semiannually, on the 18th day of June and December in each year, commencing with the June 18 or December 18 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount, at a rate per annum from time to time equal to the greater of (i) 9.03% or (ii) 1% over the rate of interest publicly announced by Citibank N.A. from time to time in New York, New York as its "base" or "prime" rate payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at Citibank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes, Series B, (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of June 18, 2009 (as from time to time amended, the *"Note Purchase Agreement"*), among the Company and the Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in **Section 20** of the Note Purchase Agreement and (ii) made the representation set forth in **Section 6.2** of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of New York, excluding choice-of-law principles of the law of such State that would permit application of the laws of a jurisdiction other than such State.

KENTUCKY POWER COMPANY

By ____________________________________
[Title]

FORM OF SERIES C NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE REGISTRATION UNDER SAID ACT IS IN EFFECT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SAID ACT OR IF SAID ACT DOES NOT APPLY.

KENTUCKY POWER COMPANY

8.13% Senior Notes, Series C, due June 18, 2039

No. [_________] [Date]
$[____________] PPN 491386 C#3

FOR VALUE RECEIVED, the undersigned, KENTUCKY POWER COMPANY (herein called the *"Company"*), a corporation organized and existing under the laws of the State of Kentucky, hereby promises to pay to [________________], or registered assigns, the principal sum of [________________] DOLLARS (or so much thereof as shall not have been prepaid) on June 18, 2039, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance hereof at the rate of (a) 8.13% per annum from the date hereof, payable semiannually, on the 18th day of June and December in each year, commencing with the June 18 or December 18 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount, at a rate per annum from time to time equal to the greater of (i) 9.13% or (ii) 1% over the rate of interest publicly announced by Citibank N.A. from time to time in New York, New York as its "base" or "prime" rate payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at Citibank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes, Series C, (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of June 18, 2009 (as from time to time amended, the *"Note Purchase Agreement"*), among the Company and the Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in **Section 20** of the Note Purchase Agreement and (ii) made the representation set forth in **Section 6.2** of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of New York, excluding choice-of-law principles of the law of such State that would permit application of the laws of a jurisdiction other than such State.

KENTUCKY POWER COMPANY

By ___________________________________
[Title]

FORM OF OPINION OF COUNSEL TO THE COMPANY

FORM OF OPINION OF SPECIAL COUNSEL TO THE PURCHASERS

NEW ISSUE - BOOK ENTRY ONLY

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Bonds is an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) the Bonds, and all interest and income thereon, are exempt from all taxation by the State of West Virginia and any county, municipality, political subdivision or agency thereof, except inheritance taxes. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations. See TAX EXEMPTION.

$65,000,000
West Virginia Economic Development Authority
Solid Waste Disposal Facilities Revenue Refunding Bonds
(Kentucky Power Company – Mitchell Project),
Series 2014A

Interest to accrue from date of issuance — Due: April 1, 2036

The Series 2014A Bonds (the "Bonds") are limited obligations of the West Virginia Economic Development Authority (the "Issuer"), and do not constitute an indebtedness or a charge against the general credit of the Issuer or the State of West Virginia. The Bonds are payable solely from, and secured by a pledge of, the loan repayments under a note issued under the terms of a Loan Agreement (the "Agreement") between the Issuer and

KENTUCKY POWER COMPANY

(the "Company") and from funds drawn under an irrevocable direct pay letter of credit (the "Letter of Credit") issued by

SUMITOMO MITSUI BANKING CORPORATION

The Letter of Credit will permit the Trustee, The Bank of New York Mellon Trust Company, N.A., to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity or upon redemption or acceleration and (ii) the portion of the purchase price of the Bonds tendered to the Trustee and not remarketed or for which remarketing proceeds have not been timely received by the draw time under the Letter of Credit corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of the Bonds tendered to the Trustee and not remarketed or for which remarketing proceeds have not been timely received by the draw time under the Letter of Credit corresponding to the accrued interest on such Bonds. The Letter of Credit will expire on June 26, 2017 or on the earliest occurrence of one or more of the events described herein, unless extended by Sumitomo Mitsui Banking Corporation (the "Letter of Credit Bank") (see *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT-- The Letter of Credit* herein). Unless the Letter of Credit is replaced or extended as described herein, the Bonds will be subject to mandatory purchase prior to its expiration.

The Bonds will initially bear interest at a Weekly Rate determined by the Remarketing Agent (as defined herein) as described under *THE BONDS -- Form and Denomination of Bonds; Payments on the Bonds -- Interest* herein, payable on the first Business Day of each month commencing July 1, 2014. Upon satisfaction of the conditions specified in the Indenture, the Company may from time to time change the interest rate determination method for the Bonds to a Daily Rate, a Weekly Rate or certain other interest rate modes provided for in the Indenture.

The Bonds are subject to mandatory tender and redemption as described under *THE BONDS – Mandatory Tender for Purchase* and *THE BONDS -- Redemption of Bonds* herein. When a Daily Rate or Weekly Rate is in effect for the Bonds, holders of the Bonds will have the option to tender their Bonds for purchase as described under *THE BONDS -- Optional Tender* herein.

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued as fully registered bonds in denominations of $100,000 and any larger denominations constituting an integral multiple of $5,000. The Bonds will be issued pursuant to an Indenture of Trust (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in Bonds will not receive certificates representing their interests. Payments of principal or purchase price of and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants. See *THE BONDS – Book-Entry Only System* herein. U.S. Bank Municipal Securities Group, a Division of U.S. Bank National Association, will act as underwriter (the "Underwriter") for the Bonds. U.S. Bancorp Investments, Inc. and U.S. Bank Municipal Securities Group, a Division of U.S. Bank National Association, will act as remarketing agent (the "Remarketing Agent") for the Bonds.

PRICE: 100%

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriter, subject to the approval of their validity by Squire Patton Boggs (US) LLP, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for Federal income tax purposes of interest thereon, will be passed on for the Underwriter by its counsel, Hunton & Williams LLP, New York, New York, for the Letter of Credit Bank by its counsel, Winston & Strawn LLP and for the Company by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about June 26, 2014, through the facilities of DTC in New York, New York, against payment therefor.

US Bancorp

Dated: June 19, 2014

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No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company, the Letter of Credit Bank or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, the Letter of Credit Bank or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE

OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

$65,000,000
West Virginia Economic Development Authority
Solid Waste Disposal Facilities Revenue Refunding Bonds
(Kentucky Power Company - Mitchell Project),
Series 2014A

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance by the West Virginia Economic Development Authority, a public corporation and governmental instrumentality of the State of West Virginia ("Issuer") of its Solid Waste Disposal Facilities Revenue Refunding Bonds (Kentucky Power Company - Mitchell Project), Series 2014A, in the aggregate principal amount of $65,000,000 (the "Bonds"). The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on March 20, 2014 ("Resolution") and an Indenture of Trust, dated as of June 15, 2014 ("Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to a Loan Agreement, dated as of June 15, 2014 ("Agreement"), between the Issuer and Kentucky Power Company ("Company"), the Issuer will loan to the Company the proceeds of the Bonds to be used to provide funds to refund or to pay at redemption the Issuer's Solid Waste Disposal Facilities Revenue Bonds (Ohio Power Company – Mitchell Project) Series 2008A (the "Refunded Bonds"). The Refunded Bonds were issued to redeem bonds that were issued by the Issuer for the purpose of providing a portion of the funds for the acquisition, construction and improvement of solid waste disposal facilities (the "Project"), or portions thereof, designed for the disposal of solid wastes at the Mitchell Generating Station located near Moundsville, West Virginia (the "Plant").

In order to evidence the loan from the Issuer (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds and to make or provide for payments to the paying agent for the Bonds ("Paying Agent"), initially The Bank of New York Mellon Trust Company, N.A., equal to 100% of the principal amount of the Bonds plus accrued interest, if any, upon tender thereof ("Purchase Price"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Project or any other property of the Company.

The Bonds will initially bear interest at a Weekly Rate until converted to another permitted interest rate mode as described herein. While accruing interest at the Daily or Weekly Rates, the Bonds are subject to optional and mandatory tender, as described herein. Bonds converted to a different interest rate mode will be subject to mandatory tender upon conversion.

When a Daily Rate or Weekly Rate is in effect for the Bonds, holders of the Bonds will have the option to tender their Bonds for purchase as described herein. The Daily Rate or Weekly Rate for an interest period for the Bonds will be determined by the Remarketing Agent as set forth in the Indenture.

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued in denominations of $100,000 and any larger denominations constituting an integral multiple of $5,000. The Bonds will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS – Book-Entry Only System*.

Concurrently with the issuance of the Bonds, the Company will cause to be delivered to the Trustee an irrevocable direct pay letter of credit (the "Letter of Credit") issued by the Letter of Credit Bank, in the initial aggregate stated amount of $65,747,945. Under the Letter of Credit, the Trustee will be permitted to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed or for which remarketing proceeds have not been timely received by the draw time under the Letter of Credit corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed or for which remarketing proceeds have not been timely received by the draw time under the Letter of Credit corresponding to the accrued interest on such Bonds. The expiration date of the Letter of Credit is June 26, 2017 unless earlier terminated or extended as described under *The Letter of Credit and Reimbursement Agreement—the Letter of Credit*. The Letter of Credit may be replaced by an Alternate Letter of Credit (as defined herein) prior to its expiration date as described under *The Letter of Credit and Reimbursement Agreement—Replacement of Letter of Credit* herein. If the Letter of Credit expires, is replaced by an Alternate Letter of Credit or is surrendered, the Bonds will be subject to mandatory tender for purchase, as described under *The Bonds — Mandatory Tender for Purchase* herein. The Letter of Credit will be issued pursuant to the Reimbursement Agreement dated as of June 26, 2014 (the "Reimbursement Agreement"), between the Letter of Credit Bank and the Company.

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Agreement and funds drawn under the Letter of Credit. See *THE BONDS – Security for the Bonds.*

Brief descriptions of the Issuer, the Company, the Letter of Credit Bank and the Project and certain provisions of the Bonds, the Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are included in this Official Statement. Certain information with respect to the Company is set forth in Appendix A hereto. Certain information with respect to the Letter of Credit Bank is set forth in Appendix B hereto. Appendix C to this Official Statement sets forth the form of opinion Bond Counsel proposes to deliver relating to the Bonds. The descriptions herein of provisions of the Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are qualified in their entirety by reference to such documents, and the description herein of provisions of the Bonds is qualified in its entirety by reference to

the form thereof included in the Indenture and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditor's rights. Copies of such documents may be obtained from the office of the Company and are available for inspection at the office of the Trustee. Words and terms not defined herein shall have the meanings set forth in the respective documents.

THE ISSUER

The West Virginia Economic Development Authority, empowered and authorized pursuant to Chapter 31, Article 15, Section 1, et. seq. of the Code of West Virginia, 1931, as amended (the "Act"), is a body corporate and politic, constituting a public corporation and government instrumentality of the State of West Virginia, with the power to borrow money and issue its bonds and other debt instruments for any of its purposes, and to finance making loans to finance any project to private corporations or to refund bonds issued for such purposes. Such projects include solid waste disposal facilities. The Issuer has no taxing power.

THE BONDS SHALL NOT CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF WEST VIRGINIA OR OF ANY COUNTY, MUNICIPALITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF WEST VIRGINIA, AND THE HOLDERS AND OWNERS THEREOF SHALL HAVE NO RIGHT TO HAVE TAXES LEVIED BY THE LEGISLATURE OF THE STATE OF WEST VIRGINIA OR THE TAXING AUTHORITY OF ANY COUNTY, MUNICIPALITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF WEST VIRGINIA FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PURCHASE PRICE OF THE BONDS, BUT SHALL BE PAYABLE SOLELY FROM REVENUES AND FUNDS PLEDGED FOR ITS PAYMENT AS AUTHORIZED BY THE ACT.

THE PROJECT

The Project consists of various systems which are designed for the disposal of solid wastes resulting from the operation of the Plant. The solid waste disposal facilities are comprised of the portion of the flue gas desulfurization system (the "FGD System") constructed with respect to the two 800 megawatt units at the Plant that relates to the disposal of solid waste generated as part of the FGD System.

USE OF PROCEEDS

The Issuer will cause the proceeds received upon sale of the Bonds to be deposited into the Refunding Fund created under the Indenture to be used to refund the Refunded Bonds within 90 days of the issuance of the Bonds. See *THE INDENTURE– Refunding Fund*.

THE BONDS

This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than a Daily Rate or Weekly Rate. The Bonds are subject to

mandatory tender in the event of any such conversion. See *THE BONDS -- Mandatory Tender for Purchase* below.

The Bonds are special obligations of the Issuer and will be payable solely from the revenues and receipts arising out of or in connection with the Loan Agreement and funds drawn under the Letter of Credit.

General

The Bonds will be dated as of the date of the initial authentication and delivery thereof and will mature on April 1, 2036. The Bonds initially will bear interest at a Weekly Rate commencing on the date of the issuance of the Bonds, subject to conversion to other interest rate modes as described herein.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

Upon surrender of the Bonds, principal of and premium, if any, on the Bonds are payable at maturity or upon redemption at the principal office of the Trustee. As long as the Bonds are held by DTC, interest will be paid to DTC on each payment date. If the book-entry system is discontinued, interest on the Bonds will be payable by check or draft mailed by the Trustee to the registered owners.

Form and Denomination of Bonds; Payments on the Bonds

General

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued only as fully registered bonds, without coupons, in denominations of $100,000 and any larger denomination constituting an integral multiple of $5,000 (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of such Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such

amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Bank of New York Mellon Trust Company, N.A. has been appointed as Trustee and Paying Agent under the Indenture. The designated office of the Trustee and Paying Agent is located at 6525 W. Campus Oval, 2nd Floor, New Albany, Ohio 43054.

The Trustee will not be required to make any transfer or exchange of any Bond during the ten days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

Interest

Interest on the Bonds will be payable as described below. Interest on the Bonds initially will be payable at a Weekly Rate on the first Business Day of each month, commencing July 1, 2014. The interest rate determination method for the Bonds may be changed by the Company as described under *Change in Interest Rate Determination Method* below. See *Summary* below for a table summarizing certain provisions of the Bonds.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York or the city in which the designated corporate trust office of the Trustee or the principal office of the Remarketing Agent or payment office of the Letter of Credit Bank is located, are required or authorized by law to close, or (iii) a day on which the New York Stock Exchange is closed.

Interest will accrue on the unpaid portion of the principal of the Bonds from the last date to which interest was paid, or if no interest has been paid, from the date of the original issuance of the Bonds until the entire principal amount of the Bonds is paid. When interest is payable at a Daily or Weekly Rate, interest will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years).

Daily Rate. When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 10:00 A.M., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the Daily Rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

Weekly Rate. When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 P.M., New York City time, on the last Business Day before the commencement of a period during which the Bonds are to bear interest at a Weekly Rate and on each Wednesday thereafter so long as interest on the Bonds is to be payable

at a Weekly Rate or, if any Wednesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the Weekly Rate is set at their principal amount (without regard to accrued interest). Each Weekly Rate shall apply to (i) the period beginning on the Thursday after the Weekly Rate is set and ending on the following Wednesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Wednesday.

Fallback Interest Period and Rate. If the appropriate Daily or Weekly Rate is not or cannot be determined for any reason, the method of determining interest on the Bonds will be payable at the Alternate Rate.

"Alternate Rate" means, as of any date, the rate equal to The Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index of Municipal Market Data most recently available as of the date of determination or, if such index is no longer available, or if the rate is no longer published, a comparable index as described in the Indenture.

Calculation and Notice of Interest. The Remarketing Agent will provide the Trustee and the Company with notice in writing or by other written electronic means or by telephone promptly confirmed by facsimile transmission by 1:00 P.M., New York City time, (i) on the last Business Day of a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month, (ii) on each day on which a Weekly Rate becomes effective, of the Weekly Rate and (iii) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date. Using the rates supplied by such notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent will inform the Trustee and the Company orally at the oral request of either of them of any interest rate so set. The Trustee will confirm the effective interest rate in writing to any Bondholder who requests it.

The setting of the rates by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in the Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

Change in Interest Rate Determination Method. The Company may change the method of determining the interest rate on all but not part of the Bonds, from time to time by notifying the Issuer, the Trustee, the Letter of Credit Bank and the Remarketing Agent. The Company's notice will specify (i) the effective date of the proposed change in interest rate determination method, (ii) the proposed interest rate determination method and (iii) a statement as to whether the Letter of Credit shall be terminated in connection with such change. The interest rate payable on the Bonds will be payable at the proposed rate on the effective date specified in the Company's notice, provided that: (i) the Company's notice complies with the provisions of the Indenture and the change to the proposed interest rate determination method complies with

certain limitations set forth in the Indenture; and (ii) a Favorable Opinion of Tax Counsel required under the Indenture has been delivered with the notice (see *Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed* below). It is currently anticipated that, should any of the Bonds be converted to bear interest at any rate other than a Daily Rate or a Weekly Rate, a reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest at any such interest rate.

Notice of Change in Interest Rate Determination Method. The Trustee, upon receiving notice from the Company pursuant to the Indenture, is required to give at least 15 days written notice by first-class mail to the Bondholders before the effective date of a change in the interest rate determination method. Each notice will be effective when sent and will state: (i) that the interest rate determination method will change and what the new method will be; (ii) the proposed effective date of the new interest rate; and (iii) that the Bonds will be subject to mandatory tender on the effective date of the change and the information required to be included in a notice of tender pursuant to the Indenture. See *Mandatory Tender for Purchase-Notice of Tender* below.

Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed. No change will be made in the interest rate determination method at the direction of the Company as described under *Change in Interest Rate Determination Method* above if the Company shall fail to deliver the Favorable Opinion of Tax Counsel described under *Change in Interest Rate Determination Method* above. If notice of a change in the interest rate determination method has been mailed and, subsequently, a Favorable Opinion of Tax Counsel is rescinded, then the Trustee shall so notify the bondholders and the Bonds shall still be subject to a mandatory tender on the proposed date of change in the interest rate determination method and the Remarketing Agent shall remarket the Bonds pursuant to the terms of the Indenture.

Special Considerations Relating to the Bonds

The Remarketing Agent is Paid by the Company

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement (as defined herein)), all as further described in this Official Statement. The Remarketing Agent is appointed by the Company and is paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional

or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds may be Offered at Different Prices on Any Date

Pursuant to the Indenture, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds is set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May be Limited

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named

Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement and the Indenture.

Optional Tender

While the Bonds bear interest at a Daily Rate or a Weekly Rate, the holder of any Bond may elect to have its Bond (or any portion of its Bond equal to the lowest authorized denomination or whole multiples thereof) purchased by the Trustee at the Purchase Price.

Daily Rate Tender. When interest on a Bond is payable at a Daily Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant (as defined in *Book-Entry Only System* below) in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice by telecopy, facsimile transmission or e-mail transmission to the Trustee and an irrevocable notice to the Remarketing Agent by telephone, telegraph or facsimile transmission, in each case prior to 11:00 A.M., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the Purchase Price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner will effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee with the Securities Depository. Any notice received by the Trustee after 11:00 A.M., New York City time, will be deemed to have been given on the next Business Day.

When interest on a Bond is payable at a Daily Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices described above (which must include the certificate number of the Bond) and (ii) the Bond, to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Weekly Rate Tender. When interest on a Bond is payable at a Weekly Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice by telecopy, facsimile transmission or e-mail transmission to the Trustee and an irrevocable notice to the Remarketing Agent by telephone, telegraph or facsimile transmission, in each case prior to 5:00 P.M., New York City time, on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the Purchase Price and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on a Bond is payable at a Weekly Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices as described above (which must include the certificate number of the Bond) and (ii) the Bond, to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Payment of Purchase Price. Payment of the Purchase Price of Bonds to be purchased upon optional tender as described above will be made by the Trustee in immediately available funds by 4:00 P.M., New York City time, on the date of purchase. No purchase of Bonds by the

Trustee will be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds. So long as the Letter of Credit is in effect, all payments of Purchase Price for the Bonds shall be made in accordance with the Indenture. See *Summary* below.

Provisions Applicable to All Tenders. Bonds for which the owners have given notice of tender for purchase but which are not delivered on the tender date shall be deemed tendered. Bonds tendered for purchase on a date after a call for redemption has been given but before the redemption date will be purchased pursuant to the tender.

Notice in respect of tenders and Bonds tendered must be delivered as follows:

Trustee	Remarketing Agent
The Bank of New York Mellon Trust Company, N.A. 6525 W. Campus Oval, 2nd Floor New Albany, Ohio 43054 Attention: Corporate Trust Administration Telephone: (614) 775-5280 Telecopier: (614) 775-5636	U.S. Bancorp Municipal Securities Group 461 Fifth Avenue New York, New York 10017 Attn: Short-Term Trading Telephone: 827-497-0032

Irrevocability

Each notice of tender constitutes an irrevocable tender for purchase of the Bond (or portion thereof) to which the notice relates on the purchase date at a price equal to 100% of the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the purchase date. The determination of the Trustee as to whether a notice of tender has been properly sent will be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver its Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver its Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, its Bond shall constitute an undelivered Bond and interest shall cease to accrue on its Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the Purchase Price thereof.

Remarketing and Purchase

Except to the extent the Company directs the Remarketing Agent not to remarket Bonds and except as otherwise provided in the Indenture, the Remarketing Agent for the Bonds will offer for sale and use reasonable efforts to sell all Bonds tendered for purchase (as described below) at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Trustee will pay the Purchase Price of the Bonds tendered for purchase first from the proceeds of the remarketing of such Bonds to persons other than the Company, the

affiliates of the Company and the Issuer and, if such proceeds are insufficient, second from the proceeds of a draw upon the Letter of Credit and, third, from money provided by the Company or otherwise available. See *THE REMARKETING AGREEMENT* below.

Redemption of Bonds

The Bonds are subject to redemption as described below:

Extraordinary Optional Redemption. The Bonds are subject to redemption by the Issuer in whole or in part on any date if the Company, upon the occurrence of any of the following events, exercises its option to direct that redemption from moneys available therefor at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date:

(a) The Project or the Plant (each as defined in the Agreement) shall have been damaged or destroyed to such an extent that the Company deems it not practical or desirable to rebuild, repair or restore the Project or Plant, as the case may be.

(b) Title to, or the temporary use of, all or a significant part of the Project or the Plant shall have been taken under the exercise of the power of eminent domain so as to render the Project unsatisfactory to the Company for its intended purpose.

(c) As a result of any changes in the Constitution of the State of West Virginia, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as described therein.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or the Plant occur or technological or other changes occur which in the Company's reasonable judgment render the Project or the Plant uneconomic or obsolete.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project or the Plant to such extent that the Company is or will be prevented from carrying on its normal operations at the Project or the Plant for a period of six consecutive months.

(g) The termination by the Company of operations at the Plant.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption at any time in whole, or in part if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service, in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on Bonds to a person, other than, as provided in Section 147(a) of the Code, a "substantial user" of the Project or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement or receipt by the Company of an Opinion of Tax Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the Bondholder or Beneficial Owner involved in such proceeding or action (i) gives the Company and the Trustee prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such Bondholder or Beneficial Owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Trustee not more than 180 days after the date of such final decree, judgment or action. The Trustee shall give the Issuer and the Company not less than 45 days written notice of such date.

Optional Redemption. When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on any Business Day.

Notice of Redemption. Whenever Bonds are to be redeemed, the Trustee shall give notice of redemption by mailing such notice to the registered owner of each Bond to be redeemed, at least 30 days prior to the redemption date, as provided in the Indenture.

During the period that DTC or the DTC nominee is the registered holder of the Bonds, the Trustee will not be responsible for mailing notices of redemption, or other notices described herein, to the Beneficial Owners of the Bonds. See - *Book-Entry Only System*.

Mandatory Tender for Purchase

The Bonds are subject to mandatory tender for purchase under certain circumstances. By acceptance of each Bond, the holder agrees to sell and surrender its Bond, properly endorsed, under the conditions described below. All purchases will be made in funds immediately available on the purchase date and will be at the Purchase Price. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds

or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

Mandatory Tender Upon a Change in the Method of Determining the Interest Rate on the Bonds. On the effective date of the change in the method of determining the interest rate on the Bonds, the Bonds will be purchased on the effective date of such change at the Purchase Price.

At least 15 days before each mandatory tender occasioned by such change, the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Each notice of tender will identify the Bonds to be purchased and will state, among other things, (i) the purchase date; (ii) the Purchase Price; (iii) that the Bonds to be tendered must be surrendered to collect the Purchase Price; (iv) the address at which the Bonds must be surrendered; and (v) that interest on the Bonds to be tendered ceases to accrue to such holder on the purchase date.

Mandatory Tender Upon Substitution of Alternate Letter of Credit. The Bonds shall be subject to mandatory tender at the Purchase Price on the date on which an Alternate Letter of Credit is to be substituted for the Letter of Credit (the "Substitution Date"). Bonds purchased pursuant to this provision shall be delivered by the holders at or before 12:00 noon, New York City time, on such Substitution Date, and, subject to the Indenture, payment of the Purchase Price of such Bonds shall be made by wire transfer in immediately available funds by the Trustee on such Substitution Date. The Trustee shall give notice of such mandatory tender by mail to the holders of the Bonds no less than twenty (20) days prior to the Substitution Date. The notice shall state (i) that the Bonds are subject to mandatory tender, (ii) the Substitution Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; and (vi) that interest on Bonds subject to mandatory tender will cease to accrue to such holder from and after the Substitution Date and such holder will be entitled only to the Purchase Price on the Substitution Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

"Alternate Letter of Credit" means, with respect to the Bonds, a letter of credit or other security or liquidity device issued in accordance with the requirements of the Indenture which will have a term of not less than one year and will have substantially the same material terms as the Letter of Credit; provided that such letter of credit or other security or liquidity device may (and shall if the Bonds shall provide for redemption premium while it is in effect) provide for coverage of premium payable upon redemption of the Bonds.

Mandatory Tender Due to an Event of Default Under Reimbursement Agreement. Whenever the Letter of Credit is in effect, the Bonds will be subject to mandatory tender if the Trustee receives a written notice from the Letter of Credit Bank that an event of default, as defined in the Reimbursement Agreement, has occurred and is continuing, and the Letter of Credit Bank directs the Trustee to effect such mandatory tender. Such Bonds subject to mandatory tender will be purchased at the Purchase Price on the default tender date specified by the Letter of Credit Bank in such written notice (the "Default Tender Date"). Such Default

Tender Date shall be a Business Day not more than nine (9) nor less than five (5) days after the day such notice is received. The Trustee shall immediately notify the paying agent of receipt of such notice and of the Default Tender Date. Bonds purchased pursuant to this provision will be delivered by the holders (with all necessary endorsements) to the designated corporate trust office of the Trustee, at or before 12:00 noon, New York City time, on the Default Tender Date, and, subject to the Indenture, payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Trustee on the Default Tender Date; provided, however, that payment of the Purchase Price shall be made pursuant to this provision only if the Bond is so delivered to the Trustee.

The Trustee will give notice to the Issuer, the Remarketing Agent, the Company and the Letter of Credit Bank (the "Notice Parties") and all holders prior to the close of business on the Business Day after receipt of the notice described in the preceding paragraph stating (i) that the Bonds are subject to mandatory tender; (ii) the Default Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; (vi) that interest on such Bonds will cease to accrue to such holder from and after the Default Tender Date and such holder will be entitled only to the Purchase Price on the Default Tender Date; and (vii) if the Bonds are then rated by Moody's Investor Service, Inc. ("Moody's"), Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's") or Fitch, Inc. ("Fitch"), that such rating or ratings will terminate on the Default Tender Date. The failure to mail such notice with respect to any Bond will not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by a holder.

Mandatory Tender Upon Expiration or Termination of Letter of Credit. If (i) the Letter of Credit is scheduled to expire on the Expiration Date (as defined below) and by the Renewal Date (as defined below) no extension of such Letter of Credit or Alternate Letter of Credit has been delivered to the Trustee or (ii) on or before the Renewal Date, the Company has delivered notice in accordance with the Reimbursement Agreement, stating that the Letter of Credit will be terminated with respect to all the Bonds on the Expiration Date, then the Bonds shall be subject to mandatory tender on the date five Business Days prior to the Expiration Date (the "Expiration Tender Date") at the Purchase Price. Bonds purchased pursuant to this provision will be delivered by the holders at or before 12:00 noon, New York City time, on the Expiration Tender Date, and subject to the Indenture, payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Trustee on such Expiration Tender Date; provided, however, that payment of the Purchase Price will be made pursuant to this provision only if the Bond is so delivered to the Trustee.

The Trustee will give notice to all holders and the Notice Parties no less than twenty (20) days prior to the Expiration Tender Date. The notice will state (i) that the Bonds are subject to mandatory tender; (ii) the Expiration Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; (vi) that the Letter of Credit will terminate on the date specified in such notice; (vii) that interest on such Bonds will cease to accrue to such holder from and after the Expiration Tender Date and such holder will be entitled only to the Purchase Price on the Expiration Tender

Date; and (viii) if the Bonds are then rated by Moody's, Standard & Poor's or Fitch, that such rating or ratings will terminate on the Expiration Tender Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by a holder.

"Expiration Date" means the stated expiration date of the Letter of Credit, or such stated expiration date as it may be extended from time to time as provided in the Letter of Credit, or any earlier date on which the Letter of Credit shall expire or be terminated or cancelled.

"Renewal Date" means the thirty-fifth (35th) day prior to the Expiration Date.

Notice of Tender. Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect occurs. Any notice mailed as described above shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice of Tender. When notice is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

Summary

Certain provisions of the Bonds and the Indenture (other than when the Bonds bear interest at a rate other than a Daily Rate or Weekly Rate) are summarized in the following table:

	DAILY RATE	WEEKLY RATE
OPTIONAL TENDER; NOTICE	On any Business Day; notice no later than 11:00 A.M., New York City time, same Business Day	On any Business Day; notice no later than 5:00 P.M., New York City time, seven days in advance
INTEREST PERIODS	Each day	Thursday through Wednesday
INTEREST RATE DETERMINED	Each Business Day by 10:00 A.M., New York City time	Each Wednesday (or next preceding Business Day)
INTEREST ACCRUAL PERIOD	Interest Payment Date to Interest Payment Date	Interest Payment Date to Interest Payment Date
INTEREST PAYMENT DATE	First Business Day of next month	First Business Day of next month

	DAILY RATE	WEEKLY RATE
RECORD DATE	Business Day before Interest Payment Date	Business Day before Interest Payment Date
OPTIONAL REDEMPTION BY COMPANY	On any Business Day	On any Business Day
MANDATORY TENDER	(i) On effective date of change in interest rate determination method, (ii) substitution of Alternate Letter of Credit, (iii) event of default under Reimbursement Agreement, and (iv) expiration or termination of Letter of Credit	(i) On effective date of change in interest rate determination method, (ii) substitution of Alternate Letter of Credit, (iii) event of default under Reimbursement Agreement, and (iv) expiration or termination of Letter of Credit

Book-Entry Only System

DTC, New York, New York will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, representing in the aggregate the total principal amount of the Bonds, and will be deposited with the Trustee on behalf of DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The DTC rules applicable to its Participants are on file

with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at www.dtcc.com (it being understood that information available at this website is not incorporated herein by reference).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bond to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Company or the Trustee, on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Company, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee and Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of the Bonds in connection with an optional tender or a mandatory tender for purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Bonds are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor Securities Depository) with respect to the Bonds. In that event, certificates for the Bonds will be printed and delivered and thereafter, transfer, exchange, and replacement of Bonds would be governed by the applicable terms of the Indenture.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the Issuer, the Company and the Trustee believe to be reliable, but none of the Issuer, the Company or the Trustee takes any responsibility for the accuracy of such statements. None of the Issuer, the Company or the Trustee has any responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

None of the Issuer, the Underwriter, the Company, the Letter of Credit Bank, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or

the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

Security for the Bonds

The Bonds will be special obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from (i) the payments to be made by the Company under the Agreement and the Note, which are pledged to the Trustee and (ii) the funds drawn under the Letter of Credit. The pledge does not extend to funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company. The Agreement provides that Loan Payments will be paid to the Trustee by the Company for the account of the Issuer.

THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

In addition to the descriptions of certain provisions of the Letter of Credit and the Reimbursement Agreement contained elsewhere herein, the following is a summary of certain provisions of the Letter of Credit and the Reimbursement Agreement and does not purport to be comprehensive or definitive. All references herein to the Letter of Credit or the Reimbursement Agreement are qualified in their entirety by reference to the Letter of Credit or the Reimbursement Agreement, as applicable, for the detailed provisions thereof. Any future credit agreement or reimbursement agreement pursuant to which an Alternate Letter of Credit is issued may have terms substantially different from those described below.

The Letter of Credit

Concurrently with the issuance of the Bonds, the Company will cause to be delivered to the Trustee the Letter of Credit issued by the Letter of Credit Bank, in the initial aggregate stated amount of $65,747,945. Under the Letter of Credit, the Trustee will be permitted to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed or for which remarketing proceeds have not been timely received by the draw time under the Letter of Credit corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed or for which remarketing proceeds have not been timely received by the draw time under the Letter of Credit corresponding to the accrued interest on such Bonds. The Letter of Credit will expire on June 26, 2017 or on the earliest occurrence of one or more events described below. The Letter of Credit may be extended from time to time by the Letter of Credit Bank in its discretion, unless terminated earlier pursuant to its terms.

The Letter of Credit is subject to termination on (a) the Letter of Credit Bank's close of business on June 26, 2017 (unless extended from time to time), (b) the earlier of (1) the fifteenth

calendar day following conversion of all of the Bonds to a rate other than a Daily Rate or Weekly Rate and (2) the date on which the Letter of Credit Bank honors a drawing under the Letter of Credit on or after the conversion of all of the Bonds to a rate other than a Daily Rate or Weekly Rate, (c) the fifteenth calendar day following the Letter of Credit Bank's receipt of a notice of termination from the Trustee, (d) the date on which an Acceleration Drawing (as defined in the Letter of Credit) is honored by the Letter of Credit Bank, (e) the fifteenth calendar day after receipt by the Trustee of a written notice from the Letter of Credit Bank stating that there is an event of default (as defined in the Reimbursement Agreement) under the Reimbursement Agreement and directing the Trustee either to accelerate the Bonds or to effect a mandatory tender of the Bonds, and (f) the date on which the Letter of Credit Bank honors a Stated Maturity Drawing (as defined in the Letter of Credit).

The stated amount of the Letter of Credit (originally $65,747,945) is subject to adjustment for payments made by the Letter of Credit Bank to the Trustee pursuant to drawings under the Letter of Credit. Payments made (i) pursuant to drawings on the Letter of Credit to make scheduled principal payments on the Bonds, (ii) to pay the unpaid principal and accrued interest on the Bonds on redemption, and (iii) to pay the unpaid principal and accrued interest on the Bonds upon acceleration, permanently reduce the principal component of the stated amount of the Letter of Credit by an amount equal to such payments. Payments made pursuant to drawings on the Letter of Credit to pay interest on the Bonds and to pay the Purchase Price of Bonds tendered to the Trustee in accordance with the Indenture will reduce the stated amount by an amount equal to such payments; provided that (i) such amounts reduced with respect to the payment of accrued and unpaid interest only are reinstated automatically upon payment of such interest drawings by the Letter of Credit Bank and (ii) such amounts reduced with respect to drawings to pay the Purchase Price of tendered Bonds are reinstated upon notice from the Trustee when such Bonds are remarketed and the Letter of Credit Bank is reimbursed for such drawing.

Replacement of Letter of Credit

The Company may surrender the Letter of Credit or replace the Letter of Credit with an Alternate Letter of Credit or other facility meeting the requirements of the Indenture. The Bonds will be subject to mandatory tender for purchase (i) on the date five Business Days prior to the date of the surrender of the Letter of Credit without the delivery of an Alternate Letter of Credit or (ii) on the date of the replacement of the Letter of Credit with an Alternate Letter of Credit.

The Reimbursement Agreement

In addition to the description of certain provisions of the Reimbursement Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Reimbursement Agreement and does not purport to be comprehensive or definitive. All references herein to the Reimbursement Agreement are qualified in their entirety by reference to the Reimbursement Agreement for the detailed provisions thereof.

The Letter of Credit will be issued pursuant to a Reimbursement Agreement between the Company and the Letter of Credit Bank.

The Reimbursement Agreement contains, among other matters, representations, warranties and covenants on the part of the Company, the breach of which or material inaccuracy of which entitles the Letter of Credit Bank to notify the Trustee of an "event of default" (as defined in the Reimbursement Agreement) under the Reimbursement Agreement and directing the Trustee either to accelerate the Bonds or to effect a mandatory tender of the Bonds. The following events constitute "events of default" under the Reimbursement Agreement:

(a) The Company shall default in (i) the payment of any amount payable to the Letter of Credit Bank in reimbursement of any drawing under a Letter of Credit within three days after the same becomes due and payable; or (ii) the failure to make any other payment of fees or other amounts payable under the Reimbursement Agreement when the same becomes due and payable and such default shall continue unremedied for five or more calendar days; or

(b) Any representation or warranty made by the Company in the Reimbursement Agreement or by the Company (or any of its officers) in connection with the Reimbursement Agreement or in any certificate, financial or other statement furnished by the Company pursuant to the Reimbursement Agreement or any document related thereto shall prove to have been incorrect in any material respect when made; or

(c) (i) The Company shall fail to perform or observe certain specified terms, covenants or agreements contained in the Reimbursement Agreement (e.g., maintenance of existence, failure to give notice within five days after obtaining knowledge of a default, restriction on mergers and consolidations, restriction on disposition of any of the Company's equity in its subsidiaries, subjecting Bonds purchased with the Letter of Credit proceeds to be registered in the name of the Letter of Credit Bank, causing or providing notice of an optional redemption or purchase or change in interest rate determination method (other than to or from a Daily Rate or a Weekly Rate) resulting in a mandatory redemption or purchase unless sufficient funds are deposited on or prior to the date of such redemption or purchase or unless such notice is conditional upon receipt of such funds, agreeing to certain amendments to the Indenture, making or amending references to the Letter of Credit Bank in this Official Statement, use of Letter of Credit proceeds for a purpose other than payment of principal of, interest on, redemption price of and Purchase Price of the Bonds, a disposition by the Company or any of its subsidiaries of certain assets, creation by the Company and its subsidiaries of certain liens and encumbrances, restriction on entering into certain restrictive agreements, or (ii) the Company shall fail to perform or observe any other term, covenant or agreement contained in the Reimbursement Agreement or any other Loan Document (as defined in the Reimbursement Agreement) if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Company; or

(d) Any event shall occur or condition shall exist under any agreement or instrument relating to debt of the Company (but excluding debt outstanding under the Reimbursement Agreement) or any subsidiary outstanding in a principal or notional amount of at least $50,000,000 in the aggregate if the effect of such event or condition is to accelerate or require early termination of the maturity or tenor of such debt, or any such debt shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), terminated, purchased or defeased, or an offer to prepay,

redeem, purchase or defease such debt shall be required to be made, in each case prior to the stated maturity or the original tenor thereof; or

(e) The Company or any subsidiary shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company or any subsidiary seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Company or any subsidiary shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of $50,000,000 in the case of the Company or any subsidiary to the extent not paid or covered by insurance shall be rendered against the Company or any subsidiary and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Certain events related to employee benefit matters shall have occurred and the liability of the Company and certain of its affiliates related to such employee benefit related event exceeds $50,000,000; or

(h) An "Event of Default" under and as defined in the Indenture shall have occurred and be continuing; or

(i) There shall be no Remarketing Agreement in effect at a time when support for the payment of principal and purchase price of and interest on any Bonds is required to be provided by the Company pursuant to the Indenture.

THE LOAN AGREEMENT

Loan of Proceeds

The Issuer will loan the proceeds of the sale of the Bonds to the Company, in accordance with the Loan Agreement and the Indenture.

Term of Loan Agreement

The term of the Loan Agreement will continue until such time as all of the outstanding Bonds are fully paid (or provision has been made for such payment) pursuant to the Indenture and all other money payable by the Company under the Loan Agreement shall have been paid.

Payments

The Company will make payments on the Loan Agreement which will be sufficient to pay, when due, the principal of, and premium, if any, interest on, and Purchase Price of, the Bonds. To evidence the obligations of the Company to make the Loan Payments and repay the Loan, the Company will, concurrently with the issuance of the Bonds, execute and deliver the Note to the Trustee, as assignee of the Issuer under the Indenture, in an aggregate principal amount equal to the aggregate principal amount of the Bonds. The Company will receive as a credit against its obligations to make payments under the Agreement with respect to the Bonds all payments made by the Letter of Credit Bank under the Letter of Credit.

Obligations Unconditional

The obligations of the Company to make Loan Payments and other payments required to be made pursuant to the Loan Agreement are absolute and unconditional, and the Company will make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee, the Remarketing Agent, the Letter of Credit Bank or any other Person.

Maintenance and Modification

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain, or cause to be kept and maintained, the Project, including all appurtenances thereto and any personal property therein or thereon, in satisfactory operating order, repair, condition and appearance, subject to reasonable wear and tear, so that the Project will continue to constitute a facility that can be financed by the Issuer under the Act for the purpose for which it was designed. Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

Tax Exemption

The Company will covenant and represent in the Loan Agreement that it has taken and caused or required to be taken and will take and cause or require to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Assignment of the Loan Agreement

The Loan Agreement may be assigned in whole or in part by the Company only with the consent of the Issuer, subject to the following conditions: (a) no assignment will relieve the Company from primary liability for any of its obligations under the Loan Agreement; (b) any assignment by the Company must retain for the Company such rights and interests to permit it to perform its remaining obligations under the Loan Agreement, and any assignee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned; (c) the Company will, within 30 days after the execution thereof, furnish or cause to be furnished to the Issuer, the Letter of Credit Bank and the Trustee a true and complete copy of each assignment together with any instrument of assumption; and (d) any assignment from the Company will not materially impair fulfillment of the purposes of the Project to be accomplished by operation of the Project as provided in the Loan Agreement.

Events of Default and Remedies

The Loan Agreement provides that the occurrence of one or more of the following events will constitute an "Event of Default:"

(a) The failure to pay any Loan Payment or any payment required to be made to pay the Purchase Price when due;

(b) The occurrence of an event of default described in paragraphs (a), (b) or (c) under *THE INDENTURE—Events of Defaults and Remedies*;

(c) Failure by the Company to observe and perform any other agreement, term or condition under the Loan Agreement, other than such failure which will result in an event of default described in (a) or (b) above, which continues for a period of 90 days after notice to the Company by the Issuer or the Trustee or such longer period as the Issuer and the Trustee may agree to in writing; *provided* that the failure shall not constitute an Event of Default if the Company institutes curative action within the applicable period and diligently pursues that action to completion;

(d) Any representation or warranty under the Loan Agreement shall not have been true in all material respects when made; and

(e) Certain events relating to bankruptcy, insolvency or reorganization of the Company.

A failure by the Company described in subparagraph (c) above is not a default under that subparagraph if it occurs by reason of certain courses, circumstances and events of force majeure specified in the Loan Agreement that are not reasonably within the control of the Company.

Whenever any Event of Default under a Loan Agreement has happened and is subsisting, the Issuer or the Trustee may take either or both of the following remedial steps:

(a) Inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; and

(b) Pursue all remedies to recover all amounts then due and thereafter to become due under the Loan Agreement and the Note, or to enforce the performance and observance of any other obligation or agreement of the Company under those instruments.

So long as the Letter of Credit is in full force and effect and the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, the exercise of remedies under the Loan Agreement with respect to Events of Default (other than with respect to defaults resulting from failures of the Company relating to certain rights of the Issuer not assigned under the Indenture), and any waivers of Events of Default shall be at the direction or with the written consent of the Letter of Credit Bank.

Any amounts collected pursuant to action taken upon the happening of an Event of Default will be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the outstanding Bonds have been paid and discharged in accordance with the provisions of the Indenture, will be paid as provided in the Indenture for transfers of remaining amounts in the Bond Fund.

Amendments to the Loan Agreement

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the owners of the Bonds only as may be required or permitted (i) by the provisions of the Loan Agreement or the Indenture or for the purposes for which the Indenture may be amended or supplemented without the consent of the owners, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Bonds. Any other amendments to the Loan Agreement may be made only with the written approval or consent of (i) the owners of not less than a majority in aggregate principal amount of the Bonds outstanding and (ii) the Letter of Credit Bank, so long as the Letter of Credit is in effect and the Letter of Credit Bank has not wrongfully dishonored a drawing thereunder or wrongfully repudiated the Letter of Credit. An opinion of Bond Counsel to the effect that such action is permitted under the Act and the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes (a "Favorable Opinion of Tax Counsel") is required for any amendment to the Loan Agreement.

THE INDENTURE

Additional information summarizing certain provisions of the Indenture is contained under the heading *THE BONDS*. So long as DTC or its nominee is the registered owner of the Bonds, all references to owners or holders shall mean DTC. See *THE BONDS - Book-Entry Only System* herein.

Pledge and Security

Pursuant to the Indenture, the payments to be made by the Company under the Loan Agreement and the Note will be assigned by the Issuer to the Trustee to secure the payment, when due, of the principal of, and premium, if any, and interest on, the Bonds. The Issuer will

also absolutely and irrevocably assign to the Trustee all right, title and interest in and to the Letter of Credit Account in the Bond Fund and all moneys therein, and will mortgage, pledge and grant a security interest to the Trustee in all right, title and interest of the Issuer in and to (i) the Revenues (other than the Letter of Credit Account in the Bond Fund, and the moneys therein, assigned above), including without limitation, all Loan Payments and all other amounts receivable by the Issuer under the Loan Agreement in respect of repayment of the loan and (ii) the Note and the Loan Agreement (except certain rights to the payment of its costs and expenses, to indemnification and to enforce certain covenants of the Company); provided, that the Trustee, in case of an acceleration of the Bonds, will have a prior claim on the Bond Fund, other than money in the Letter of Credit Account, for the payment of its compensation and expenses.

Purchase Fund

The Trustee will apply money contained in the accounts described below maintained within the Purchase Fund as follows:

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a purchase date, the Trustee will directly deposit such proceeds, and will deposit only such proceeds, in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds; provided that, at any time when the Letter of Credit is in effect, proceeds of any remarketing of Bonds to the Issuer, the Company or any affiliate of either of them and proceeds of the remarketing of any other Company-Held Bonds and any Bank-Owned Bonds which have been remarketed will be held and maintained in a subaccount for the benefit of the Letter of Credit Bank, separated and segregated from all other money in the Remarketing Proceeds Account. Upon instruction from the Letter of Credit Bank, any amount held by the Trustee in the subaccount described in the preceding sentence will be paid to the Letter of Credit Bank. Neither the Issuer nor the Company will have any interest in the Remarketing Proceeds Account.

Letter of Credit Purchase Account. Upon receipt of the immediately available funds provided to the Trustee under the Letter of Credit pursuant to the Indenture, the Trustee will directly deposit such money, and will deposit only such money, in the Letter of Credit Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Letter of Credit Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds will be promptly returned following such determination to the Letter of Credit Bank with written notice to the Company. Neither the Issuer nor the Company will have any interest in the Letter of Credit Purchase Account.

Company Purchase Account. Upon receipt of immediately available funds provided to the Trustee by the Company pursuant to the Indenture, the Trustee shall directly deposit such money, and shall deposit only such money, in the Company Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Company Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds shall be promptly returned following such determination to the Company.

Bond Fund

Payments made by the Company under the Agreement with respect to the Bonds and certain other amounts specified in the Indenture will be deposited in the Bond Fund. The Trustee will apply money contained in the accounts described below maintained within the Bond Fund as follows:

(a) Interest Account. The Trustee, on each Interest Payment Date, will withdraw and apply from moneys on deposit in the Interest Account an amount sufficient to pay interest on the outstanding Bonds on such Interest Payment Date; *provided, however*, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall withdraw and apply moneys in the Interest Account, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(b) Principal Account. The Trustee, on each Principal Payment Date (as defined in the Indenture), will withdraw and apply from moneys on deposit in the Principal Account, an amount equal to the principal becoming due on the Bonds on such Principal Payment Date (other than a redemption date). Money in such Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of outstanding Bonds; *provided, however*, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee will apply such amounts, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(c) Redemption Account. The Trustee, on or before each redemption date, will withdraw and apply from moneys on deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on Bonds to be redeemed prior to their stated maturity. Money in such Redemption Account will be used and withdrawn by the Trustee on each redemption date solely for the payment of the principal of and premium, if any, and accrued interest on outstanding Bonds upon the redemption thereof prior to their stated maturity; *provided, however*, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee shall apply such amounts, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(d) Letter of Credit Account. The Trustee will directly deposit, or cause to be directly deposited, the proceeds of draws on the Letter of Credit or an Alternate Letter of Credit to pay interest on and principal of the Bonds in such Letter of Credit Account, and shall deposit only those proceeds therein. Money in such Letter of Credit Account will be used and withdrawn by the Trustee on each Interest Payment Date and each Principal Payment Date first, before any other source of funds, to pay the principal of and interest on the Bonds; *provided, however*, that in no event shall moneys in such Letter of Credit Account be used to pay interest and premium on or principal of Bonds that are Bank-Owned Bonds or Company-Held Bonds (each as defined in the Indenture) if the Letter of Credit or Alternate Letter of Credit does not permit drawings thereunder with respect to Bank-Owned Bonds or Company-Held Bonds. Amounts in the Letter of Credit Account shall be held uninvested. Neither the Issuer nor the Company shall have any interest in the Letter of Credit Account.

(e) Payments by Company. If during any period that a Letter of Credit is in effect there is not sufficient money in the Letter of Credit Account to make the payments on an Interest Payment Date or Principal Payment Date, the Trustee will make such payments from money provided by the Company and deposited into the other accounts of the Bond Fund.

Refunding Fund

The proceeds received from the sale of the Bonds (other than any accrued interest) will be deposited in the Refunding Fund. Moneys on deposit in the Refunding Fund shall be transferred to the Refunded Bonds Trustee on the date specified in the Indenture for deposit into the purchase fund created in the Refunded Bonds Indenture and used, together with other moneys provided by the Company, to purchase the Refunded Bonds. After such purchase of the Refunded Bonds, the Refunded Bonds Trustee will thereupon retire, cancel and extinguish the Refunded Bonds so that the same are no longer outstanding under the Refunded Bonds Indenture.

Investment of Moneys Held by the Trustee

Moneys deposited in the Refunding Fund and in the accounts maintained within the Bond Fund (except the Letter of Credit Account) will be invested at the direction of the Company in Permitted Investments (as defined in the Indenture). Moneys held in the Purchase Fund will be held uninvested.

The Loan Agreement provides that the Company and the Issuer shall take no action, nor shall the Company approve the Trustee taking any action, or making any investment or use of the proceeds of the Bonds, which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

Events of Default and Remedies

The following events are Events of Default under the Indenture:

(a) Default in the payment when due of any interest on any Bond;

(b) Default in the due and punctual payment of the principal of, or premium, if any, on any Bond, whether at the stated maturity thereof, or upon unconditional proceedings for redemption thereof;

(c) Default in the due and punctual payment of the Purchase Price of any Bond required to be purchased in accordance with its terms;

(d) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds, continuing 30 days after delivery of notice thereof;

(e) The occurrence and continuance of an event of default under the Loan Agreement as described under *THE LOAN AGREEMENT – Events of Default and Remedies*; or

(f) Receipt by the Trustee of a written notice from the Letter of Credit Bank stating that an event of default has occurred under the Reimbursement Agreement and directing the Trustee to declare the principal of the outstanding Bonds immediately due and payable.

Upon the occurrence and continuance of an Event of Default under (a), (b) or (c) above the Trustee may, and upon the written request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately. If an Event of Default under paragraph (d) or (e) above occurs and is continuing, the Trustee may, and upon the request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding, shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately, *provided, however,* when the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit (or otherwise repudiated the Letter of Credit), the Trustee will make such a declaration only with the written consent of the Letter of Credit Bank. If an Event of Default under paragraph (f) above occurs and is continuing, the Trustee shall declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately.

Upon any such declaration, the principal of and accrued interest on the outstanding Bonds shall be due and payable immediately. Notwithstanding anything else herein to the contrary, interest on the outstanding Bonds will cease to accrue immediately upon a declaration of acceleration for an Event of Default under (f) above. When the Letter of Credit is in effect, the Trustee shall, immediately upon a declaration of acceleration, draw upon the Letter of Credit to pay the principal of and interest on the outstanding Bonds; *provided*, that in no event shall a drawing be made with respect to Bank-Owned Bonds or Company-Held Bonds, if the Letter of Credit by its terms does not permit such a drawing. In the event the Letter of Credit Bank fails to honor a draw on the Letter of Credit (or otherwise repudiates the Letter of Credit) in accordance with the immediately preceding sentence, the Trustee shall immediately notify the Company of such failure and shall request that the Company transfer sufficient amounts to pay the principal of and interest on the Bonds.

The Trustee may rescind an acceleration of the Bonds and its consequences if (1) all payment defaults with respect to the Bonds have been cured and all reasonable fees and charges of the Trustee, including reasonable attorneys' fees, have been paid, and (2) the Bondholders have not been notified of the acceleration, and (3) while the Letter of Credit is in effect, the Letter of Credit Bank has notified the Trustee in writing (i) that the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in any amount equal to the principal amount of the Bonds outstanding less the principal amount of any Bank-Owned Bonds, plus the applicable Letter of Credit Interest Amount (as defined in the Indenture) and any required premium coverage and (ii) that the Letter of Credit Bank has rescinded in writing any event of default under the Reimbursement Agreement. Except as provided in this section, the Trustee will not declare the Bonds to be due and payable.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of and premium, if any, or interest on the Bonds or to enforce the performance of any provision of the Bonds or the Indenture. So long as the Letter of Credit is in effect and the Letter of Credit Bank has not wrongfully dishonored a drawing thereunder or wrongfully repudiated the Letter of Credit, the Trustee will pursue any remedy only at the direction of or with the consent of the Letter of Credit Bank.

A majority in aggregate principal amount of the outstanding Bonds by notice to the Trustee may waive an existing Event of Default and its consequences; *provided, however*, that, when the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under such Letter of Credit or wrongfully repudiated the Letter of Credit, no such waiver shall be effective with respect to the Bonds unless and until the Letter of Credit Bank has notified the Trustee in writing (i) that the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in an amount equal to the principal amount of the Bonds outstanding less the principal amount of any Bank-Owned Bonds, plus the applicable Letter of Credit Interest Amount and any required premium coverage, (ii) that the Letter of Credit Bank has rescinded in writing the notice of default, and (iii) that the Letter of Credit Bank has waived in writing any event of default under the Reimbursement Agreement. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

When there is a Letter of Credit in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under such Letter of Credit or wrongfully repudiated the Letter of Credit, the Letter of Credit Bank may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it with respect to the Bonds. When there is no Letter of Credit in effect or when the Letter of Credit Bank has wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, the holders of a majority in aggregate principal amount of Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it.

An owner of a Bond may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the owner gives the Trustee notice stating that an Event of Default is continuing, (b) the owners of at least 25% in aggregate principal amount of the outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such owner or owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity, and (e) with respect to the Bonds, the Letter of Credit is either not in effect or the Letter of Credit Bank has wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit.

Except as described below, funds drawn under the Letter of Credit will be used only for the payment of principal of and interest on, premium, if any (to the extent that the Letter of Credit covers premium) and the Purchase Price of, the Bonds, as provided in the Letter of Credit. If the Trustee collects any money pursuant to the Indenture or if any moneys shall be on deposit

in the Bond Fund at the time of acceleration of the Bonds or shall be deposited into the Bond Fund as a result of such an acceleration, it will pay out such monies in the following order: first to the Trustee for amounts to which it is entitled under such Indenture (*provided*, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall only use such proceeds to pay the owners of the Bonds); second to owners for amounts due and unpaid on the Bonds for principal, premium and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal, premium and interest, respectively, third to the Letter of Credit Bank to the extent it certifies that the Company is indebted to it on account of draws Letter of Credit or otherwise under the Reimbursement Agreement; and fourth to the Company (*provided*, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall pay the Letter of Credit Bank rather than the Company). Any lien of the Trustee provided for in the Indenture will in no event apply to any funds drawn under the Letter of Credit or to other funds held for the benefit of the Bondholders. The Trustee may fix a payment date for any payment to the Bondholders.

Supplemental Indentures

The Issuer and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof:

(a) to cure any ambiguity, defect or omission in the Indenture, or otherwise amend the Indenture, in such manner as shall not in the opinion of the Trustee impair the security under the Indenture;

(b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) to evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Agreement and the Bonds, to add additional covenants of the Issuer or surrender any right or power therein conferred upon the Issuer;

(d) to subject to the pledge of the Indenture additional revenues, properties or collateral, which may be accomplished by, among other things, entering into instruments with the Company and/or other persons providing for further security, covenants, limitations or restrictions for the benefit of the Bonds;

(e) to modify the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar statute at the time in effect;

(f) to amend any provision pertaining to matters under federal income tax laws, including Section 148(f) of the Code;

(g) to authorize different Authorized Denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds

of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(h) to increase or decrease the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; *provided*, that no decreases in any such number of days will become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(i) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(j) to evidence the succession of a new trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder; and

(l) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

The Indenture also provides that the owners of not less than a majority in aggregate principal amount of the Bonds outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or supplemental indentures as shall be deemed necessary and desirable by the Issuer and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; *provided, however,* that nothing shall permit, without certain additional consents, (a) an extension of the maturity date of the principal of or the interest on any Bond; (b) a reduction in the principal amount of any Bond, the rate of interest thereon or any redemption premium; or (c) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or for actions related to amendments to the Loan Agreement. A Favorable Opinion of Bond Counsel is required for any supplement to the Indenture.

When the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, no waiver of or amendment or supplement to the Indenture other than certain of those enumerated in the Indenture shall be made without the prior written consent of the Letter of Credit Bank to such amendment or supplement.

Discharge of the Indenture

If the whole amount of principal and interest due and payable on the Bonds has been paid and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease

to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer hereunder shall cease, terminate, become void and be completely discharged as to such Bonds.

No Personal Liability of Issuer's Officials

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No member of the Issuer or official executing the Bonds, the Indenture, the Loan Agreement or any amendment or supplement to the Indenture or the Loan Agreement will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

Removal of Trustee

The Trustee may be removed by the owners of not less than a majority in principal amount of Bonds at the time outstanding or by the Issuer and the Company. The Trustee shall continue to serve as such until a successor Trustee shall be appointed under the Indenture and such successor Trustee has accepted such appointment.

THE REMARKETING AGREEMENT

U.S. Bancorp Investments, Inc. and U.S. Bank Municipal Securities Group, a Division of U.S. Bank National Association, have been appointed as the Remarketing Agent for the Bonds. If and to the extent the Company directs the Remarketing Agent to remarket the Bonds delivered for purchase pursuant to the Indenture, the Remarketing Agent, pursuant to and subject to the provisions of a remarketing agreement with the Company (the "Remarketing Agreement"), will offer for sale and use reasonable efforts to sell such Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Remarketing Agent may resign by giving notice to the Issuer, the Company and the Trustee (such resignation will be effective upon the appointment of a successor remarketing agent or 30 days after such notice has been sent) and may suspend remarketing upon the occurrence of certain events. The Company may remove the Remarketing Agent at any time upon 30 days' notice and appoint a successor by notifying the Remarketing Agent, the Issuer and the Trustee.

THE TRUSTEE

The Bank of New York Mellon Trust Company, N.A. serves as trustee under other indentures providing for certain tax-exempt bonds for the benefit of the Company. The Company and certain of its affiliates maintain banking relationships with affiliates of The Bank of New York Mellon, N.A. and borrow from such affiliates from time to time. The Bank of New York Mellon Trust Company, N.A., and its affiliates, serve as trustee under other indentures with, or for the benefit of, affiliates of the Company.

UNDERWRITING

Subject to the terms and conditions set forth in a Bond Purchase Agreement ("Purchase Agreement") to be entered into between the Issuer and the Underwriter, the Underwriter has agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Purchase Agreement, the Underwriter is committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriter $97,500 as compensation and to reimburse the Underwriter for its reasonable expenses.

The Issuer has been advised by the Underwriter that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriter.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering into stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriter and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriter or the Issuer may be required to make in respect thereof.

In the ordinary course of its business, the Underwriter and certain of its affiliates have in the past and may in the future engage in investment banking, commercial banking or other transactions of a financial nature with the Company and its affiliates, for which it has received, or may receive, customary compensation.

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bank Municipal Securities Group, a Division of U.S. Bank National Association ("USB MSG"), which is serving as the Underwriter of the Bonds, and U.S. Bancorp Investments, Inc., which, along with USB MSG, is serving as Remarketing Agent for the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Company has agreed to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 ("Rule") under the 1934 Act. The Company will undertake in a written agreement for the benefit of the holders and beneficial owners of the Bonds (the "Continuing Disclosure Undertaking") to provide the Municipal Securities Rulemaking Board ("MSRB") as the sole nationally recognized securities repository through the MSRB's Electronic Municipal Market Access ("EMMA") certain financial and operating data concerning the Company. In addition, the Company will undertake, for the benefit of the holders and beneficial owners of the Bonds, to provide to the MSRB through EMMA, in a timely manner (not in excess of ten (10) business days after the occurrence of such event), notices of any of the events enumerated in the Rule. Notices of the aforesaid events and any filing to be made under the Continuing Disclosure Undertaking may be made solely by transmitting such filing to the MSRB through EMMA as provided at http://emma.msrb.org. The contents of such website do not constitute a part of this Official Statement.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Undertaking is an action to compel specific performance of the undertakings of the Company and no person, including a holder of the Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Continuing Disclosure Undertaking shall not constitute an event of default under the Indenture or the Agreement. In addition, if all or any part of the Rule ceases to be in effect for any reason, then, subject to the terms of the Continuing Disclosure Undertaking, the information required to be provided under the Continuing Disclosure Undertaking, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

TAX EXEMPTION

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (iii) the Bonds, and all interest and income thereon, are exempt from all taxation by the State of West Virginia and any county, municipality, political subdivision or agency thereof, except inheritance taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer and the Company contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Issuer's and the Company's certifications and representations or the continuing compliance with the Issuer's and the Company's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service (the "IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Issuer or the Company may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Company and the Issuer have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market value of the Bonds.

A portion of the interest on the Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the excludability of such interest from gross income for federal income tax purposes.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Company or the owners of the Bonds regarding the tax status of interest on the Bonds in the

event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value for the Bonds.

Prospective purchasers of the Bonds upon their original issuance at prices other than the respective prices indicated on the cover of this Official Statement, and prospective purchasers of the Bonds at other than their original issuance, should consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Risk of Future Legislative Changes and/or Court Decisions

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, recent presidential and legislative proposals would eliminate, reduce or otherwise alter the tax benefits currently provided to certain owners of state and local government bonds, including proposals that would result in additional federal income tax on taxpayers that own tax-exempt obligations if their incomes exceed certain thresholds. Investors in the Bonds should be aware that any such future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Bonds for federal income tax purposes for all or certain taxpayers. In such event, the market value of the Bonds may be adversely affected and the ability of holders to sell their Bonds in the secondary market may be reduced. The interest rates on the Bonds are not subject to adjustment in the event of any such change.

Investors should consult their own financial and tax advisers to analyze the importance of these risks.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Squire Patton Boggs (US) LLP, Bond Counsel, which will be furnished at the expense of the Company upon delivery of the Bonds, in substantially the form

set forth as Appendix C (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section *TAX EXEMPTION*. Bond Counsel has not been engaged to investigate the financial resources of the Company or its ability to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

Certain legal matters will be passed upon by Jeffrey D. Cross or Thomas G. Berkemeyer, each as counsel for the Company. Jeffrey D. Cross is Deputy General Counsel of American Electric Power Service Corporation, an affiliate of the Company. Thomas G. Berkemeyer is Associate General Counsel of American Electric Power Service Corporation. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Hunton & Williams LLP, New York, New York, counsel for the Underwriter. Certain legal matters will be passed upon for the Letter of Credit Bank by its counsel, Winston & Strawn LLP. Squire Patton Boggs (US) LLP and Hunton & Williams LLP each act as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

MISCELLANEOUS

The attached Appendices are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement other than information under *THE ISSUER*. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under West Virginia law.

APPENDIX A

KENTUCKY POWER COMPANY

Kentucky Power Company (the "Company") is engaged in the generation, transmission and distribution of electric power to approximately 172,000 retail customers in eastern Kentucky, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities and other market participants. The Company owns 1,858 MW of generating capacity, including 780 MW which acquired it from Ohio Power Company in a year-end transaction. The Company uses its generation to serve its retail and other customers. As of December 31, 2013, the Company had 642 employees. The principal industries served by the Company include petroleum refining, coal mining and chemical production. The Company's principal executive offices are located at 1 Riverside Plaza, Columbus, Ohio, and the telephone number is (614) 716-1000.

AVAILABLE INFORMATION

On July 31, 2007, the Company filed a Form 15 under the Securities Exchange Act of 1934 (the "1934 Act"), which suspended its duty to file reports under Section 13 and 15(d) under the 1934 Act. Accordingly, the Company no longer files reports and other information with the Securities and Exchange Commission (the "SEC").

FINANCIAL STATEMENTS

Annex 1 to this Appendix A contains the balance sheets of the Company as of December 31, 2013 and 2012 and the statements of income, comprehensive income (loss), changes in common shareholder's equity and cash flows for each of the three years in the period ended December 31, 2013 and the related notes thereto. Annex 2 to this Appendix A contains the unaudited condensed balance sheets of the Company as of March 31, 2014 and December 31, 2013 and the unaudited condensed statements of income, comprehensive income (loss), changes in common shareholder's equity and statements of cash flows of the Company for the three months in the periods ended March 31, 2014 and 2013 and the related notes thereto.

RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described below. Before making an investment decision, you should carefully consider these risks. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of the Bonds.

GENERAL RISKS OF OUR REGULATED OPERATIONS

We may not be able to recover the costs of our substantial planned investment in capital improvements and additions.

Our business plan calls for extensive investment in capital improvements and additions, including the installation of environmental upgrades and retrofits, construction of additional transmission facilities, modernizing existing infrastructure as well as other initiatives. We provide service at rates approved by the Kentucky Public Service Commission (the "KPSC"). If the KPSC does not approve adjustments to the rates we charge, we would not be able to recover the costs associated with our planned extensive investment. This would cause our financial results to be diminished.

We may not recover costs incurred to begin construction on projects that are canceled.

Our business plan for the construction of new projects involves a number of risks, including construction delays, nonperformance by equipment and other third party suppliers, and increases in equipment and labor costs. To limit the risks of these construction projects, we enter into equipment purchase orders and construction contracts and incur engineering and design service costs in advance of receiving necessary regulatory approvals and/or siting or environmental permits. If any of these projects is canceled for any reason, including our failure to receive necessary regulatory approvals and/or siting or environmental permits, we could incur significant cancellation penalties under the equipment purchase orders and construction contracts. In addition, if we have recorded any construction work or investments as an asset, we may need to impair that asset in the event the project is canceled.

Rate regulation may delay or deny full recovery of capital improvements, additions, storm damage operations and maintenance expense repairs and other costs.

We provide service at rates approved by the KPSC. These rates are generally regulated based on an analysis of our expenses incurred in a test year. Thus, KPSC-approved rates may or may not match our expenses at any given time. There may also be a delay between the timing of when these costs are incurred and when these costs are recovered. We often finance the operations and maintenance expense to repair facilities damaged by storms or other severe weather events until the operations and maintenance storm costs, including any deferred regulatory assets, are recovered in rates. We have also traditionally financed capital investments and improvements until the new asset was placed in service. Provided the asset was found to be a prudent investment, the asset was then added to rate base and entitled to a return through rate recovery. Similarly, long lead times in construction and scheduled repairs, the high costs of plant and equipment and volatile capital markets have heightened the risks involved in our capital investments, repairs and improvements. While we are actively pursuing strategies to accelerate rate recognition of investments and cash flow, including pre-approvals, a return on construction work in progress, rider/trackers, formula rates and the inclusion of future test-year projections into rates, there can be no assurance that these will be adopted, that the applicable regulatory commission will judge all of our costs to have been prudently incurred or that the regulatory process in which rates are determined will be done in a timely manner.

Certain of our revenues and results of operations are subject to risks that are beyond our control.

Our operations are structured to comply with all applicable federal and state laws and regulations and we take measures to minimize the risk of significant disruptions. Material disruptions at one or more of our operational facilities, however, could negatively impact our revenues, operating and capital expenditures and results of operations. Such events may also create additional risks related to the supply and/or cost of equipment and materials. We could experience unexpected but significant interruption due to several events, including, but not limited to:

- Major facility or equipment failure.
- An environmental event such as a serious spill or release.
- Fires, floods, droughts, earthquakes, hurricanes, tornados or other natural disasters.
- Wars, terrorist acts (including cyber-terrorism) or threats and other catastrophic events.
- Significant health impairments or disease events.
- Other serious operational problems.

PJM has changing market and transmission structures, which could affect our performance.

Our results are likely to be affected by differences in the market and transmission structures in PJM. The rules governing PJM may also change from time to time which could affect our costs or revenues. Because the manner in which PJM will evolve remains unclear, we are unable to assess fully the impact that changes in these power markets may have on our business.

We could be subject to higher costs and/or penalties related to mandatory reliability standards.

As a result of EPACT, owners and operators of the bulk power transmission system are subject to mandatory reliability standards promulgated by the North American Electric Reliability Corporation and enforced by the Federal Energy Regulatory Commission (the “FERC”). The standards are based on the functions that need to be performed to ensure the bulk power system operates reliably and are guided by reliability and market interface principles. Compliance with new reliability standards may subject us to higher operating costs and/or increased capital expenditures. While we expect to recover costs and expenditures from customers through regulated rates, there can be no assurance that the applicable commissions will approve full recovery in a timely manner. If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties, which likely would not be recoverable from customers through regulated rates.

RISKS RELATED TO MARKET, ECONOMIC OR FINANCIAL VOLATILITY AND OTHER RISKS

Our financial performance may be adversely affected if we are unable to successfully operate our facilities or perform certain corporate functions.

Our performance is highly dependent on the successful operation of our generation, transmission and distribution facilities. Operating these facilities involves many risks, including:

- Operator error and breakdown or failure of equipment or processes.

- Operating limitations that may be imposed by environmental or other regulatory requirements.
- Labor disputes.
- Compliance with mandatory reliability standards, including mandatory cyber security standards.
- Information technology failure that impairs our information technology infrastructure or disrupts normal business operations.
- Information technology failure that affects our ability to access customer information or causes us to lose confidential or proprietary data that materially and adversely affects our reputation or exposes us to legal claims.
- Fuel or water supply interruptions caused by transportation constraints, adverse weather such as drought, non-performance by our suppliers and other factors.
- Catastrophic events such as fires, earthquakes, explosions, hurricanes, tornados, ice storms, terrorism (including cyber-terrorism), floods or other similar occurrences.

Hostile cyber intrusions could severely impair our operations, lead to the disclosure of confidential information and damage our reputation.

We own assets deemed as critical infrastructure, the operation of which is dependent on information technology systems. Further, the computer systems that run our facilities are not completely isolated from external networks. Parties that wish to disrupt the U.S. bulk power system or our operations could view our computer systems, software or networks as targets for cyber attack. In addition, our business requires that we collect and maintain sensitive customer data, as well as confidential employee and shareholder information, which is subject to electronic theft or loss.

A successful cyber attack on the systems that control our generation, transmission, distribution or other assets could severely disrupt business operations, preventing us from serving customers or collecting revenues. The breach of certain business systems could affect our ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and repair security breaches or system damage and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation. In addition, the misappropriation, corruption or loss of personally identifiable information and other confidential data could lead to significant breach notification expenses and mitigation expenses such as credit monitoring. We maintain property and casualty insurance that may cover certain physical damage or third-party injuries caused by potential cyber security incidents. However, other damage and claims arising from such incidents may not be covered or may exceed the amount of any insurance available. For these reasons, a significant cyber incident could reduce future net income and cash flows and impact financial condition.

In an effort to reduce the likelihood and severity of cyber intrusions, we have a comprehensive cyber security program designed to protect and preserve the confidentiality, integrity and availability of data and systems. In addition, we are subject to mandatory cyber security regulatory requirements. However, cyber threats continue to evolve and adapt, and, as a result, there is a risk that we could experience a successful cyber attack despite our current security posture and regulatory compliance efforts.

If we are unable to access capital markets on reasonable terms, it could reduce future net income and cash flows and impact financial condition.

We rely on access to capital markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. Volatility and reduced liquidity in the financial markets could affect our ability to raise capital and fund our capital needs, including construction costs and refinancing maturing indebtedness. In addition, if capital is available only on less than reasonable terms or to borrowers whose creditworthiness is better than ours, capital costs could increase materially. Restricted access to capital markets and/or increased borrowing costs could reduce future net income and cash flows and impact financial condition.

Downgrades in our credit ratings could negatively affect our ability to access capital and/or to operate our power trading businesses.

The credit ratings agencies periodically review our capital structure and the quality and stability of our earnings. Any negative ratings actions could constrain the capital available to us and could limit our access to funding for our operations. Our business is capital intensive, and we are dependent upon our ability to access capital at rates and on terms we determine to be attractive. In periods of market turmoil, access to capital is difficult for all borrowers. If our ability to access capital becomes significantly constrained, our interest costs will likely increase and could reduce future net income and cash flows and impact financial condition.

Our power trading business relies on our investment grade ratings. Most of our counterparties require the creditworthiness of an investment grade entity to stand behind transactions. If our ratings were to decline below investment grade, our ability to operate our power trading business profitably would be diminished because we would likely have to deposit cash or cash-related instruments which would reduce our profits.

Our operating results may fluctuate on a seasonal or quarterly basis and with general economic and weather conditions.

Electric power generation is generally a seasonal business. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis. The pattern of this fluctuation may change depending on the terms of power sale contracts that we enter into. In addition, we have historically sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could diminish our results of operations and harm our financial condition. Conversely, unusually extreme weather conditions could increase our results of operations in a manner that would not likely be sustainable.

Further, deteriorating economic conditions generally result in reduced consumption by our customers, particularly industrial customers who may curtail operations or cease production entirely, while an expanding economic environment generally results in increased revenues. As

a result, our overall operating results in the future may fluctuate on the basis of prevailing economic conditions.

Failure to attract and retain an appropriately qualified workforce could harm our results of operations.

Certain events, such as an aging workforce without appropriate replacements, mismatch of skillset or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include lack of resources, loss of knowledge and a lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate our business. If we are unable to successfully attract and retain an appropriately qualified workforce, our results of operations could be negatively affected.

Parties we have engaged to provide construction materials or services may fail to perform their obligations, which could harm our results of operations.

Our business plan calls for extensive investment in capital improvements and additions, including the installation of environmental upgrades, construction of additional generation units and transmission facilities as well as other initiatives. We are exposed to the risk of substantial price increases in the costs of materials used in construction. We have engaged numerous contractors and entered into a large number of agreements to acquire the necessary materials and/or obtain the required construction related services. As a result, we are also exposed to the risk that these contractors and other counterparties could breach their obligations to us. Should the counterparties to these arrangements fail to perform, we may be forced to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and almost certainly cause delays in that and related projects. Although our agreements are designed to mitigate the consequences of a potential default by the counterparty, our actual exposure may be greater than these mitigation provisions. This would cause our financial results to be diminished, and we might incur losses or delays in completing construction.

Changes in commodity prices and the costs of transport may increase our cost of producing power or decrease the amount we receive from selling power, harming our financial performance.

We are exposed to changes in the price and availability of coal and the price and availability to transport coal. We have existing contracts of varying durations for the supply of coal, but as these contracts end or otherwise are not honored, we may not be able to purchase coal on terms as favorable as the current contracts. Similarly, we are exposed to changes in the price and availability of emission allowances. We use emission allowances based on the amount of coal we use as fuel and the reductions achieved through emission controls and other measures. As long as current environmental programs remain in effect, we have sufficient emission allowances

to cover the majority of our projected needs for the next two years and beyond. If the United States Environmental Protection Agency (the "Federal EPA") is able to create a replacement rule to reduce interstate transport, and it is acceptable by the courts, additional costs may be incurred either to acquire additional allowances or to achieve further reductions in emissions. If we need to obtain allowances under a replacement rule, those purchases may not be on as favorable terms as those under the current environmental programs. Our risks relative to the price and availability to transport coal include the volatility of the price of diesel which is the primary fuel used in transporting coal by barge.

We also have plans to convert a generating unit from coal to natural gas-fired facilities. This would expose us to market prices of natural gas. Historically, natural gas prices have tended to be more volatile than prices for other fuel sources. Recently however, the availability of natural gas from shale production has lessened price volatility. Our ability to make off-system sales at a profit is highly dependent on the price of natural gas. As the price of natural gas falls, other market participants that utilize natural gas-fired generation will be able to offer electricity at increasingly competitive prices relative to our off-system sales prices, so the margins we realize from sales will be lower and, on occasion, we may need to curtail operation of marginal plants. We expect the availability of shale natural gas and issues related to its accessibility will have a long-term material effect on the price and volatility of natural gas.

Prices for coal, natural gas and emission allowances have shown material upward and downward swings in the past. Changes in the cost of coal, emission allowances or natural gas and changes in the relationship between such costs and the market prices of power will affect our financial results.

In addition, actual power prices and fuel costs will differ from those assumed in financial projections used to value our trading and marketing transactions, and those differences may be material. As a result, our financial results may be diminished in the future as those transactions are marked to market.

We are subject to physical and financial risks associated with climate change.

There is a growing consensus on the evidence of global climate change. Climate change creates physical and financial risk. Physical risks from climate change include an increase in sea level and changes in weather conditions, such as changes in precipitation and extreme weather events. Our customers' energy needs vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling represent their largest energy use. To the extent weather conditions are affected by climate change, customers' energy use could increase or decrease depending on the duration and magnitude of the changes.

Increased energy use due to weather changes may require us to invest in additional generating assets, transmission and other infrastructure to serve increased load. Decreased energy use due to weather changes may affect our financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stress, including service interruptions. Weather conditions outside of our service territory could also have an impact on our revenues. We buy and sell electricity depending upon system needs and market opportunities. Extreme weather conditions creating

high energy demand on our own and/or other systems may raise electricity prices as we buy short-term energy to serve our own system, which would increase the cost of energy we provide to our customers.

Severe weather impacts our service territories, primarily when thunderstorms, tornadoes, hurricanes and snow or ice storms occur. To the extent the frequency of extreme weather events increases, this could increase our cost of providing service. Changes in precipitation resulting in droughts or water shortages could adversely affect our operations, principally our fossil generating units. A negative impact to water supplies due to long-term drought conditions could adversely impact our ability to provide electricity to customers, as well as increase the price they pay for energy. We may not recover all costs related to mitigating these physical and financial risks.

To the extent climate change impacts a region's economic health, it may also impact our revenues. Our financial performance is tied to the health of the regional economies we serve. The price of energy, as a factor in a region's cost of living as well as an important input into the cost of goods and services, has an impact on the economic health of our communities.

We cannot predict the outcome of the legal proceedings relating to our business activities.

We are involved in legal proceedings, claims and litigation arising out of our business operations. Adverse outcomes in these proceedings could require significant expenditures that could have a material adverse effect on our results of operations.

RISKS RELATED TO OWNING AND OPERATING GENERATION ASSETS AND SELLING POWER

Our costs of compliance with existing environmental laws are significant.

Our operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and health and safety. The electricity we generate is produced by the combustion of fossil fuels. Emissions of nitrogen and sulfur oxides, mercury and particulates from fossil fueled generation plants are subject to increased regulations, controls and mitigation expenses. Compliance with these legal requirements requires us to commit significant capital toward environmental monitoring, installation of pollution control equipment, emission fees and permits at all of our facilities and could cause us to retire generating capacity prior to the end of its estimated useful life. These expenditures have been significant in the past and we expect that they will continue to be significant in order to comply with the current and proposed regulations. Costs of compliance with environmental regulations could reduce future net income and impact financial condition, especially if emission and/or discharge limits are tightened, more extensive permitting requirements are imposed and additional substances become regulated. If we retire generation plants prior to the end of their estimated useful life, there can be no assurance that we will recover the remaining costs associated with such plants. We typically recover our expenditures for pollution control technologies, replacement generation and associated operating costs from customers through regulated rates in regulated jurisdictions. Failure to recover these costs could reduce our future net income and cash flows and possibly harm our financial condition.

Regulation of CO_2 emissions, either through legislation or by the Federal EPA, could materially increase costs to us and our customers or cause some of our electric generating units to be uneconomical to operate or maintain.

In June 2014, Federal EPA issued standards for modified and reconstructed units, and a guideline for the development of state implementation plans that would reduce carbon emissions from existing utility units. Federal EPA is to finalize those standards by June 2015, and to require states to submit implementation plans no later than June 2016.

If CO_2 and other emission standards are imposed, the standards could require significant increases in capital expenditures and operating costs which would impact the ultimate retirement of older, less-efficient, coal-fired units. We typically recover costs of complying with new requirements such as the potential CO_2 and other greenhouse gases emission standards from customers through regulated rates in regulated jurisdictions. For our sales of energy based on market rate authority, however, there is no such recovery mechanism. Failure to recover these costs, should they arise, could reduce our future net income and cash flows and possibly harm our financial condition.

Courts adjudicating nuisance and other similar claims against us may order us to pay damages or to limit or reduce our CO_2 emissions.

In the past, there have been several cases seeking damages based on allegations of federal and state common law nuisance in which we or our affiliates, among others, were defendants. In general, the actions allege that CO_2 emissions from the defendants' power plants constitute a public nuisance due to impacts of global warming and climate change. The plaintiffs in these actions generally seek recovery of damages and other relief. If the pending or other future actions are resolved against us, substantial modifications of our existing coal-fired power plants could be required and we might be required to limit or reduce CO_2 emissions. Such remedies could require us to purchase power from third parties to fulfill our commitments to supply power to our customers. This could have a material impact on our costs. In addition, we could be required to invest significantly in additional emission control equipment, accelerate the timing of capital expenditures, pay damages or penalties and/or halt operations. While management believes such costs should be recoverable from customers as costs of doing business in our jurisdictions where generation rates are set on a cost of service basis, without such recovery those costs could reduce our future net income and cash flows and harm our financial condition. Moreover, our results of operations and financial position could be reduced due to the timing of recovery of these investments and the expense of ongoing litigation.

Changes in technology and regulatory policies may cause our generating facilities to be less competitive.

We primarily generate electricity at large central facilities. This method results in economies of scale and lower costs than newer technologies such as fuel cells, microturbines, windmills and photovoltaic solar cells. It is possible that advances in technologies or changes in regulatory policies will reduce costs of new technology to levels that are equal to or below that of most central station electricity production, which could have a material adverse effect on our results of operations.

Our profitability is impacted by our continued authorization to sell power at market-based rates.

FERC has granted us authority to sell electricity at market-based rates. FERC reserves the right to revoke or revise this market-based rate authority if it subsequently determines that we or our affiliates can exercise market power in transmission or generation, create barriers to entry or engage in abusive affiliate transactions. We must file a market power update every three years to show that we continue to meet FERC's standards with respect to generation market power and other criteria used to evaluate whether entities qualify for market-based rates. The loss of market-based rate authority by any of these entities could have a material adverse effect on our results of operations.

Our revenues and results of operations from selling power are subject to market risks that are beyond our control.

We sell power from our generation facilities into the spot market and other competitive power markets on a contractual basis. We also enter into contracts to purchase and sell electricity, natural gas, emission allowances and coal as part of our power marketing and energy trading operations. With respect to such transactions, the rate of return on our capital investments is not determined through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for power in our regional markets and other competitive markets. These market prices can fluctuate substantially over relatively short periods of time. Trading margins may erode as markets mature and there may be diminished opportunities for gain should volatility decline. In addition, the FERC, which has jurisdiction over wholesale power rates, as well as RTOs that oversee some of these markets, may impose price limitations, bidding rules and other mechanisms to address some of the volatility in these markets. Power supply and other similar agreements entered into during extreme market conditions may subsequently be held to be unenforceable by a reviewing court or the FERC. Fuel and emissions prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel and/or emissions costs. These factors could reduce our margins and therefore diminish our revenues and results of operations. Volatility in market prices for fuel and power may result from:

- Weather conditions, including storms.
- Economic conditions.
- Outages of major generation or transmission facilities.
- Seasonality.
- Power usage.
- Illiquid markets.
- Transmission or transportation constraints or inefficiencies.
- Availability of competitively priced alternative energy sources.
- Demand for energy commodities.
- Natural gas, crude oil and refined products and coal production levels.
- Natural disasters, wars, embargoes and other catastrophic events.
- Federal, state and foreign energy and environmental regulation and legislation and/or incentives.

Commodity trading and marketing activities are subject to inherent risks which can be reduced and controlled but not eliminated.

We attempt to manage the exposure of our power trading activities by establishing and enforcing risk limits and risk management procedures. These risk limits and risk management procedures may not work as planned and cannot eliminate the risks associated with these activities. As a result, we cannot predict the impact that our energy trading and risk management decisions may have on our business, operating results or financial position.

We routinely have open trading positions in the market, within guidelines we set, resulting from the management of our trading portfolio. To the extent open trading positions exist, fluctuating commodity prices can improve or diminish our financial results and financial position.

Our power trading risk management activities, including our power sales agreements with counterparties, rely on projections that depend heavily on judgments and assumptions by management of factors such as the future market prices and demand for power and other energy-related commodities. These factors become more difficult to predict and the calculations become less reliable the further into the future these estimates are made. Even when our policies and procedures are followed and decisions are made based on these estimates, results of operations may be diminished if the judgments and assumptions underlying those calculations prove to be inaccurate.

We may not successfully manage the uncertainty involved with our power trading (including coal, natural gas and emission allowances trading and power marketing).

Our power trading activities also expose us to risks of commodity price movements. To the extent that our power trading does not hedge the price risk associated with the generation it owns, or controls, through long-term power purchase agreements, we would be exposed to the risk of rising and falling spot market prices.

For example, the use of new technologies to recover natural gas from shale deposits has increased natural gas supply and reserves, placing further downward pressure on natural gas prices and has reduced the need for our coal-fired generation. Further, in the event that alternative generation resources, such as wind and solar, are mandated or otherwise subsidized or encouraged through climate legislation or regulation and added to the available generation supply, such resources could displace a higher marginal cost fossil plant, which could reduce the price at which market participants sell their electricity. This occurrence could then reduce the market price at which all generators in that region would be able to sell their output. These events could adversely affect our financial condition, results of operations and cash flows, and could also result in an impairment of certain long-lived assets.

In connection with these trading activities, we routinely enter into financial contracts, including futures and options, over-the counter options, financially-settled swaps and other derivative contracts. These activities expose us to risks from price movements. If the values of the financial contracts change in a manner we do not anticipate, it could harm our financial position or reduce the financial contribution of our trading operations.

Parties with whom we have contracts may fail to perform their obligations, which could harm our results of operations.

We are exposed to the risk that counterparties that owe us money or power could breach their obligations. Should the counterparties to these arrangements fail to perform, we may be forced to enter into alternative hedging arrangements or honor underlying commitments at then-current market prices that may exceed our contractual prices, which would cause our financial results to be diminished and we might incur losses. Although our estimates take into account the expected probability of default by a counterparty, our actual exposure to a default by a counterparty may be greater than the estimates predict.

We rely on electric transmission facilities that we do not own or control. If these facilities do not provide us with adequate transmission capacity, we may not be able to deliver our wholesale electric power to the purchasers of our power.

We depend on transmission facilities owned and operated by other nonaffiliated power companies to deliver the power we sell at wholesale. This dependence exposes us to a variety of risks. If transmission is disrupted, or transmission capacity is inadequate, we may not be able to sell and deliver our wholesale power. If a region's power transmission infrastructure is inadequate, our recovery of wholesale costs and profits may be limited. If restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure.

The FERC has issued electric transmission initiatives that require electric transmission services to be offered unbundled from commodity sales. Although these initiatives are designed to encourage wholesale market transactions, access to transmission systems may in fact not be available if transmission capacity is insufficient because of physical constraints or because it is contractually unavailable. We also cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets.

Financial derivatives reforms could increase the liquidity needs and costs of our commercial trading operations.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law (the "Dodd-Frank Act"). The federal legislation was enacted to reform financial markets and significantly alter how over-the-counter ("OTC") derivatives are regulated. The law increased regulatory oversight of OTC energy derivatives, including: (a) imposing pervasive regulation by the Commodity Futures Trading Commission (the "CFTC") on dealers and traders who hold significant positions in swaps, (b) requiring certain standardized OTC derivatives to be traded on registered exchanges as directed by CFTC, (c) imposing new and potentially higher capital and margin requirements on swap dealers and traders who hold significant positions in swaps and (d) increasing the monitoring and compliance obligations of parties who engage in swaps, including new recordkeeping and reporting requirements with governmental entities. The CFTC has issued regulations exempting certain end users of energy commodities from being required to clear OTC derivatives, provided that they (a) are using the swaps to hedge or mitigate commercial risk and (b) satisfy certain other requirements. To the extent we meet such requirements, the end user exemption could reduce the effect of the law's clearing requirements

on our hedging activity. Pursuant to authority granted under the Dodd-Frank Act, the CFTC has also issued rules that, among other things, further define the OTC derivative products and entities subject to additional regulatory oversight, which recently became effective. These requirements could subject us to additional regulatory oversight related to our OTC derivative transactions, cause our OTC derivative transactions to be more costly and have an impact on financial condition due to additional capital requirements. In addition, as these reforms aim to standardize OTC products it could limit the effectiveness of our hedging programs because we would have less ability to tailor OTC derivatives to match the precise risk we are seeking to manage.

RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

Twelve Months Period Ended	Ratio
December 31, 2011	2.61
December 31, 2012	2.46
December 31, 2013	1.33
March 31, 2014	2.00

The Ratio of Earning to Fixed Charges for the three months ended March 31, 2014 was 6.09. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

INDEPENDENT AUDITORS

The financial statements of Kentucky Power Company as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

Annex 1 to Appendix A

Kentucky Power Company

2013 Annual Report

Audited Financial Statements

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc., an electric utility holding company.
AEP Credit	AEP Credit, Inc., a consolidated variable interest entity of AEP which securitizes accounts receivable and accrued utility revenues for affiliated electric utility companies.
AEP East Companies	APCo, I&M, KPCo and OPCo.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEP West Companies	PSO, SWEPCo, TCC and TNC.
AEPES	AEP Energy Services, Inc., a subsidiary of AEP Resources, Inc.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AFUDC	Allowance for Funds Used During Construction.
AGR	AEP Generation Resources Inc., a nonregulated AEP subsidiary that acquired the generation assets and liabilities of OPCo.
AOCI	Accumulated Other Comprehensive Income.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
CAA	Clean Air Act.
CO_2	Carbon dioxide and other greenhouse gases.
CWIP	Construction Work in Progress.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated variable interest entity of AEP.
FAC	Fuel Adjustment Clause.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FGD	Flue Gas Desulfurization or scrubbers.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IAA	AEP System Interim Allowance Agreement.
Interconnection Agreement	An agreement by and among APCo, I&M, KPCo and OPCo which defined the sharing of costs and benefits associated with their respective generating plants. This agreement was terminated January 1, 2014.
IRS	Internal Revenue Service.
KGPCo	Kingsport Power Company, an AEP electric utility subsidiary.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
MISO	Midwest Independent Transmission System Operator.
MLR	Member load ratio, the method used to allocate transactions among members of the Interconnection Agreement.
MMBtu	Million British Thermal Units.
MTM	Mark-to-Market.
MW	Megawatt.
MWh	Megawatthour.
NO_x	Nitrogen oxide.

Term	Meaning
OATT	Open Access Transmission Tariff.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.
OPEB	Other Postretirement Benefit Plans.
Operating Agreement	Agreement, dated January 1, 1997, as amended, by and among PSO and SWEPCo governing generating capacity allocation, energy pricing, and revenues and costs of third party sales. AEPSC acts as the agent.
OTC	Over the counter.
OVEC	Ohio Valley Electric Corporation, which is 43.47% owned by AEP.
PCA	Power Coordination Agreement.
PJM	Pennsylvania – New Jersey – Maryland regional transmission organization.
PSO	Public Service Company of Oklahoma, an AEP electric utility subsidiary.
PUCO	Public Utility Commission of Ohio.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
Rockport Plant	A generating plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
RTO	Regional Transmission Organization, responsible for moving electricity over large interstate areas.
SIA	System Integration Agreement, effective June 15, 2000, provides contractual basis for coordinated planning, operation and maintenance of the power supply sources of the combined AEP.
SO_2	Sulfur dioxide.
SPP	Southwest Power Pool regional transmission organization.
SWEPCo	Southwestern Electric Power Company, an AEP electric utility subsidiary.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
TNC	AEP Texas North Company, an AEP electric utility subsidiary.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.
Virginia SCC	Virginia State Corporation Commission.
WPCo	Wheeling Power Company, an AEP electric utility subsidiary.
WVPSC	Public Service Commission of West Virginia.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Kentucky Power Company:

We have audited the accompanying financial statements of Kentucky Power Company (the "Company"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, comprehensive income (loss), changes in common shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Power Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements give retroactive effect to the transfer of a fifty percent interest in Units 1 and 2 of the Mitchell Plant to the Company on December 31, 2013, which has been accounted for at historical cost as a transfer between entities under common control as described in Note 1 to the financial statements. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

Columbus, Ohio
February 25, 2014

KENTUCKY POWER COMPANY
STATEMENTS OF INCOME
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	Years Ended December 31,		
	2013	**2012**	**2011**
REVENUES			
Electric Generation, Transmission and Distribution	$ 721,840	$ 753,095	$ 847,867
Sales to AEP Affiliates	103,731	70,776	104,682
Other Revenues	684	546	494
TOTAL REVENUES	826,255	824,417	953,043
EXPENSES			
Fuel and Other Consumables Used for Electric Generation	200,139	219,328	336,164
Purchased Electricity for Resale	11,003	11,319	23,924
Purchased Electricity from AEP Affiliates	269,088	223,649	210,299
Other Operation	75,038	75,410	77,804
Maintenance	66,977	63,125	67,094
Asset Impairments and Other Related Charges	32,847	-	-
Depreciation and Amortization	91,692	87,995	86,498
Taxes Other Than Income Taxes	20,272	19,659	18,567
TOTAL EXPENSES	767,056	700,485	820,350
OPERATING INCOME	59,199	123,932	132,693
Other Income (Expense):			
Interest Income	231	351	2,324
Allowance for Equity Funds Used During Construction	1,367	1,574	1,229
Interest Expense	(44,509)	(49,375)	(51,101)
INCOME BEFORE INCOME TAX EXPENSE	16,288	76,482	85,145
Income Tax Expense	7,382	23,507	31,169
NET INCOME	$ 8,906	$ 52,975	$ 53,976

The common stock of KPCo is wholly-owned by AEP.

See Notes to Financial Statements beginning on page 10.

KENTUCKY POWER COMPANY
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	Years Ended December 31,		
	2013	**2012**	**2011**
Net Income	$ 8,906	$ 52,975	$ 53,976
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Cash Flow Hedges, Net of Tax of $113, $117 and $94 in 2013, 2012 and 2011, Respectively	210	216	(174)
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $755, $687 and $540 in 2013, 2012 and 2011, Respectively	1,402	1,275	1,002
Pension and OPEB Funded Status, Net of Tax of $4,168, $1,801 and $400 in 2013, 2012 and 2011, Respectively	7,741	3,345	(743)
TOTAL OTHER COMPREHENSIVE INCOME	9,353	4,836	85
TOTAL COMPREHENSIVE INCOME	$ 18,259	$ 57,811	$ 54,061

See Notes to Financial Statements beginning on page 10.

KENTUCKY POWER COMPANY
STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2010	$ 50,450	$ 478,022	$ 157,467	$ (24,915)	$ 661,024
Capital Contribution from Parent		41,972			41,972
Common Stock Dividends			(39,602)		(39,602)
Net Income			53,976		53,976
Other Comprehensive Income				85	85
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2011	50,450	519,994	171,841	(24,830)	717,455
Capital Contribution from Parent		11,542			11,542
Common Stock Dividends			(33,997)		(33,997)
Net Income			52,975		52,975
Other Comprehensive Income				4,836	4,836
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2012	50,450	531,536	190,819	(19,994)	752,811
Capital Contribution from Parent		83,112			83,112
Common Stock Dividends			(20,034)		(20,034)
Net Income			8,906		8,906
Other Comprehensive Income				9,353	9,353
Pension and OPEB Adjustment Related to Mitchell Plant				5,221	5,221
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2013	$ 50,450	$ 614,648	$ 179,691	$ (5,420)	$ 839,369

See Notes to Financial Statements beginning on page 10.

KENTUCKY POWER COMPANY
BALANCE SHEETS
ASSETS
December 31, 2013 and 2012
(in thousands)

	December 31, 2013	December 31, 2012
CURRENT ASSETS		
Cash and Cash Equivalents	$ 743	$ 1,482
Accounts Receivable:		
Customers	17,889	25,826
Affiliated Companies	9,781	53,285
Accrued Unbilled Revenues	857	4,472
Miscellaneous	75	249
Allowance for Uncollectible Accounts	(78)	(164)
Total Accounts Receivable	28,524	83,668
Fuel	92,313	98,717
Materials and Supplies	43,940	38,306
Risk Management Assets	4,356	6,175
Accrued Tax Benefits	5,249	5,186
Prepayments and Other Current Assets	3,284	6,791
TOTAL CURRENT ASSETS	178,409	240,325
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,052,757	1,438,999
Transmission	507,844	495,981
Distribution	693,481	652,615
Other Property, Plant and Equipment (Including Plant to be Retired)	480,759	65,150
Construction Work in Progress	128,599	87,924
Total Property, Plant and Equipment	2,863,440	2,740,669
Accumulated Depreciation and Amortization	943,889	884,016
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	1,919,551	1,856,653
OTHER NONCURRENT ASSETS		
Regulatory Assets	216,360	213,734
Long-term Risk Management Assets	3,484	6,882
Employee Benefits and Pension Assets	11,446	-
Deferred Charges and Other Noncurrent Assets	20,207	54,986
TOTAL OTHER NONCURRENT ASSETS	251,497	275,602
TOTAL ASSETS	$ 2,349,457	$ 2,372,580

See Notes to Financial Statements beginning on page 10.

KENTUCKY POWER COMPANY
BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 8,564	$ 13,359
Accounts Payable:		
General	21,619	75,444
Affiliated Companies	39,171	56,256
Long-term Debt Due Within One Year – Nonaffiliated	-	250,000
Risk Management Liabilities	1,828	3,320
Customer Deposits	25,211	23,485
Deferred Income Taxes	6,486	2,376
Accrued Taxes	20,801	16,650
Accrued Interest	6,678	12,002
Regulatory Liability for Over-Recovered Fuel Costs	2,851	7,928
Other Current Liabilities	19,411	29,480
TOTAL CURRENT LIABILITIES	152,620	490,300
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	729,389	529,195
Long-term Debt – Affiliated	20,000	20,000
Long-term Risk Management Liabilities	2,105	3,700
Deferred Income Taxes	549,672	503,147
Regulatory Liabilities and Deferred Investment Tax Credits	22,926	26,159
Employee Benefits and Pension Obligations	6,041	32,387
Deferred Credits and Other Noncurrent Liabilities	27,335	14,881
TOTAL NONCURRENT LIABILITIES	1,357,468	1,129,469
TOTAL LIABILITIES	1,510,088	1,619,769
Rate Matters (Note 3)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER’S EQUITY		
Common Stock – Par Value – $50 Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	614,648	531,536
Retained Earnings	179,691	190,819
Accumulated Other Comprehensive Income (Loss)	(5,420)	(19,994)
TOTAL COMMON SHAREHOLDER’S EQUITY	839,369	752,811
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 2,349,457	$ 2,372,580

See Notes to Financial Statements beginning on page 10.

KENTUCKY POWER COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	Years Ended December 31,		
	2013	2012	2011
OPERATING ACTIVITIES			
Net Income	$ 8,906	$ 52,975	$ 53,976
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	91,692	87,995	86,498
Deferred Income Taxes	12,440	10,168	33,153
Asset Impairments and Other Related Charges	32,847	-	-
Allowance for Equity Funds Used During Construction	(1,367)	(1,574)	(1,229)
Mark-to-Market of Risk Management Contracts	2,357	2,510	(220)
Pension Contributions to Qualified Plan Trust	-	(5,547)	(18,239)
Fuel Over/Under-Recovery, Net	(5,078)	4,790	2,274
Change in Other Noncurrent Assets	7,334	(13,338)	(10,711)
Change in Other Noncurrent Liabilities	(2,953)	697	2,927
Changes in Certain Components of Working Capital:			
Accounts Receivable, Net	55,144	(7,523)	14,707
Fuel, Materials and Supplies	3,130	(55,120)	(3,618)
Accounts Payable	(68,480)	3,429	(9,748)
Accrued Taxes, Net	4,013	(11,400)	(2,152)
Accrued Interest	(5,324)	(545)	131
Other Current Assets	3,817	607	730
Other Current Liabilities	(9,186)	2,974	4,363
Net Cash Flows from Operating Activities	129,292	71,098	152,842
INVESTING ACTIVITIES			
Construction Expenditures	(141,832)	(130,964)	(83,902)
Change in Advances to Affiliates, Net	-	70,332	(3,272)
Acquisitions of Assets	(563)	(419)	(1,289)
Proceeds from Sales of Assets	5,566	1,032	439
Net Cash Flows Used for Investing Activities	(136,829)	(60,019)	(88,024)
FINANCING ACTIVITIES			
Capital Contribution from Parent	83,112	11,542	41,972
Issuance of Long-term Debt – Nonaffiliated	199,700	-	-
Change in Advances from Affiliates, Net	(4,795)	13,359	-
Retirement of Long-term Debt – Nonaffiliated	(250,000)	-	(65,000)
Principal Payments for Capital Lease Obligations	(1,440)	(1,503)	(1,742)
Dividends Paid on Common Stock	(20,034)	(33,997)	(39,602)
Other Financing Activities	255	224	51
Net Cash Flows from (Used for) Financing Activities	6,798	(10,375)	(64,321)
Net Increase (Decrease) in Cash and Cash Equivalents	(739)	704	497
Cash and Cash Equivalents at Beginning of Period	1,482	778	281
Cash and Cash Equivalents at End of Period	$ 743	$ 1,482	$ 778
SUPPLEMENTARY INFORMATION			
Cash Paid for Interest, Net of Capitalized Amounts	$ 48,602	$ 48,740	$ 50,429
Net Cash Paid for Income Taxes	6,100	23,089	7,785
Noncash Acquisitions Under Capital Leases	3,448	2,136	621
Construction Expenditures Included in Current Liabilities as of December 31,	7,253	28,565	13,735

See Notes to Financial Statements beginning on page 10.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

As a public utility, KPCo engages in the generation and purchase of electric power, and the subsequent sale, transmission and distribution of that power to 172,000 retail customers in its service territory in eastern Kentucky. KPCo also sells power at wholesale to municipalities.

In accordance with management's December 2010 announcement and an October 2012 filing with the FERC, the Interconnection Agreement was terminated effective January 1, 2014. The AEP System Interim Allowance Agreement which provided for, among other things, the transfer of SO_2 emission allowances associated with transactions under the Interconnection Agreement was also terminated.

Effective January 1, 2014, the FERC approved a Power Coordination Agreement (PCA) among APCo, I&M and KPCo with AEPSC as the agent to coordinate the participants' respective power supply resources. Under the PCA, APCo, I&M and KPCo will be individually responsible for planning their respective capacity obligations and there will be no capacity equalization charges/credits on deficit/surplus companies. Further, the PCA allows, but does not obligate, APCo, I&M and KPCo to participate collectively under a common fixed resource requirement capacity plan in PJM and to participate in specified collective off-system sales and purchase activities.

Also effective January 1, 2014, the FERC approved the creation of a Bridge Agreement among AGR, APCo, I&M, KPCo and OPCo with AEPSC as agent. The Bridge Agreement is an interim arrangement to: (a) address the treatment of purchases and sales made by AEPSC on behalf of member companies that extend beyond termination of the Interconnection Agreement and (b) address how member companies will fulfill their existing obligations under the PJM Reliability Assurance Agreement through the 2014/2015 PJM planning year. Under the Bridge Agreement, AGR is committed to meet capacity obligations of member companies.

Effective January 1, 2014, AEPSC conducts power, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other risk management activities on behalf of APCo, I&M and KPCo. Power and natural gas risk management activities are allocated based on the three member companies' respective equity positions and the SIA. KPCo shared in coal risk management activities based on its proportion of fossil fuels burned by the AEP System. Risk management activities primarily involve the purchase and sale of electricity under physical forward contracts at fixed and variable prices and, to a lesser extent, natural gas and coal. The power, natural gas and coal contracts include physical transactions, OTC options and financially-settled swaps and exchange-traded futures and options. AEPSC settles the majority of the physical forward contracts by entering into offsetting contracts. For contracts entered and settled prior to January 1, 2014, power and natural gas risk management activities were allocated based on the Interconnection Agreement and the SIA. For contracts entered prior to January 1, 2014 and settled after January 1, 2014, power and natural gas risk management activities are allocated based on frozen MLR ratios as of December 31, 2013. KPCo shared in the revenues and expenses associated with these risk management activities with the other AEP East Companies, PSO and SWEPCo.

Under a unit power agreement with AEGCo, an affiliated company that was not a member of the Interconnection Agreement, KPCo purchases 30% of AEGCo's 50% share of the total output of the 2,600 MW Rockport Plant capacity. Therefore, KPCo purchases 390 MWs of Rockport Plant capacity. The unit power agreement expires in December 2022. KPCo pays a demand charge for the right to receive the power, which is payable even if the power is not taken.

Under the SIA, AEPSC allocates physical and financial revenues and expenses from transactions with neighboring utilities, power marketers and other power and natural gas risk management activities based upon the location of such activity, with margins resulting from trading and marketing activities originating in PJM and MISO generally accruing to the benefit of the AEP East Companies and trading and marketing activities originating in SPP generally accruing to the benefit of PSO and SWEPCo. Margins resulting from other transactions are allocated among the AEP East Companies, PSO and SWEPCo in proportion to the marketing realization directly assigned to each zone for the current month plus the preceding eleven months.

Prior to January 1, 2014, the Interconnection Agreement permitted the AEP East Companies to pool their generation assets on a cost basis. It established an allocation method for generating capacity among its members based on relative peak demands and generating reserves through the payment of capacity charges and the receipt of capacity revenues. Members of the Interconnection Agreement were compensated for their costs of energy delivered and charged for energy received. The capacity reserve relationship of the Interconnection Agreement members changed as generating assets were added, retired or sold and relative peak demand changed. The Interconnection Agreement calculated each member's prior twelve-month peak demand relative to the sum of the peak demands of all members as a basis for sharing revenues and costs. The result of this calculation was the MLR, which determined each member's percentage share of revenues and costs.

To minimize the credit requirements and operating constraints when operating within PJM, the AEP East Companies, as well as KGPCo and WPCo, agreed to a netting of all payment obligations incurred by any of the AEP East Companies against all balances due to the AEP East Companies and to hold PJM harmless from actions that any one or more AEP East Companies may take with respect to PJM.

Corporate Separation

Background

On December 31, 2013, based on FERC and PUCO orders which approved the corporate separation of OPCo's generation assets and generation liabilities, OPCo transferred its generation assets and related generation liabilities at net book value to AGR. Also on December 31, 2013, AGR subsequently transferred at net book value a one-half interest (780 MW) in the Mitchell Plant to KPCo. The transfer of these generation assets and associated liabilities was approved by the FERC and the KPSC.

Significant Accounting Issues

AGR's transfer of a one-half ownership in the Mitchell Plant to KPCo at net book value qualifies as an acquisition of a business under common control. Pursuant to "Business Combinations" accounting guidance, KPCo retrospectively adjusted its financial statements as if the transfer had occurred at the beginning of the earliest period presented.

None of the OPCo regulatory assets and regulatory liabilities were transferred to KPCo. As previously approved by the PUCO, these regulatory assets and liabilities will be recovered/refunded primarily through OPCo non-bypassable riders.

Substantially all of the current income tax receivables and payables related to OPCo's generation activities prior to December 31, 2013 will remain on OPCo's balance sheet. These current income tax receivables and payables are the responsibility of OPCo. Deferred tax assets and liabilities related to KPCo's acquired share of the Mitchell Plant were transferred to KPCo based upon the Mitchell Plant's related asset and liability values. Following these transfers, KPCo adjusted its deferred tax balances and related regulatory assets to reflect its respective deferred state tax rates.

Long-term Debt

On December 31, 2013, KPCo was assigned $200 million of Long-term Debt – Nonaffiliated from AGR related to a term credit facility.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rates and Service Regulation

KPCo's rates are regulated by the FERC and the KPSC. The FERC also regulates KPCo's affiliated transactions, including AEPSC intercompany service billings which are generally at cost, under the 2005 Public Utility Holding Company Act and the Federal Power Act. The FERC also has jurisdiction over the issuances and acquisitions of securities of the public utility subsidiaries, the acquisition or sale of certain utility assets and mergers with another electric utility or holding company. For non-power goods and services, the FERC requires a nonregulated affiliate

to bill an affiliated public utility company at no more than market while a public utility must bill the higher of cost or market to a nonregulated affiliate. The KPSC also regulates certain intercompany transactions under its affiliate statutes. Both the FERC and state regulatory commissions are permitted to review and audit the relevant books and records of companies within a public utility holding company system.

The FERC regulates wholesale power markets, wholesale power transactions and wholesale transmission operations and rates. KPCo's wholesale power transactions are generally market-based. Wholesale power transactions are cost-based regulated when KPCo negotiates and files a cost-based contract with the FERC or the FERC determines that KPCo has "market power" in the region where the transaction occurs. KPCo has entered into wholesale power supply contracts with various municipalities that are FERC-regulated, cost-based contracts. These contracts are generally formula rate mechanisms, which are trued up to actual costs annually.

The KPSC regulates all of the distribution operations and rates and retail transmission rates on a cost basis. The KPSC also regulates the retail generation/power supply operations and rates.

In addition, the FERC regulates the SIA, the System Transmission Integration Agreement and the Transmission Agreement, all of which are still active and allocate shared system costs and revenues to the utility subsidiaries that are parties to each agreement. In accordance with management's December 2010 announcement and October 2012 filing with the FERC, the Interconnection Agreement was terminated effective January 1, 2014. The AEP System Interim Allowance Agreement which provided for, among other things, the transfer of SO_2 emission allowances associated with transactions under the Interconnection Agreement was also terminated. In December 2013, the FERC issued orders approving the creation of a Power Coordination Agreement (PCA), effective January 1, 2014. Also effective January 1, 2014, the FERC approved the creation of a Bridge Agreement among AGR, APCo, I&M, KPCo and OPCo with AEPSC as the agent.

Accounting for the Effects of Cost-Based Regulation

As a rate-regulated electric public utility company, KPCo's financial statements reflect the actions of regulators that result in the recognition of certain revenues and expenses in different time periods than enterprises that are not rate-regulated. In accordance with accounting guidance for "Regulated Operations," KPCo records regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates include but are not limited to inventory valuation, allowance for doubtful accounts, long-lived asset impairment, unbilled electricity revenue, valuation of long-term energy contracts, the effects of regulation, long-lived asset recovery, storm costs, the effects of contingencies and certain assumptions made in accounting for pension and postretirement benefits. The estimates and assumptions used are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could ultimately differ from those estimates.

Cash and Cash Equivalents

Cash and Cash Equivalents include temporary cash investments with original maturities of three months or less.

Inventory

Fossil fuel inventories and materials and supplies inventories are carried at average cost.

Accounts Receivable

Customer accounts receivable primarily include receivables from wholesale and retail energy customers, receivables from energy contract counterparties related to risk management activities and customer receivables primarily related to other revenue-generating activities.

Revenue is recognized from electric power sales when power is delivered to customers. To the extent that deliveries have occurred but a bill has not been issued, KPCo accrues and recognizes, as Accrued Unbilled Revenues on the balance sheets, an estimate of the revenues for energy delivered since the last billing.

AEP Credit factors accounts receivable on a daily basis, excluding receivables from risk management activities, for KPCo. See "Sale of Receivables – AEP Credit" section of Note 13 for additional information.

Allowance for Uncollectible Accounts

Generally, AEP Credit records bad debt expense related to receivables purchased from KPCo under a sale of receivables agreement. For customer accounts receivables relating to risk management activities, accounts receivables are reviewed for bad debt reserves at a specific counterparty level basis. For miscellaneous accounts receivable, bad debt expense is recorded for all amounts outstanding 180 days or greater at 100%, unless specifically identified. Miscellaneous accounts receivable items open less than 180 days may be reserved using specific identification for bad debt reserves.

Concentrations of Credit Risk and Significant Customers

KPCo does not have any significant customers that comprise 10% or more of its operating revenues as of December 31, 2013.

Management monitors credit levels and the financial condition of KPCo's customers on a continuing basis to minimize credit risk. The KPSC allows recovery in rates for a reasonable level of bad debt costs. Management believes adequate provision for credit loss has been made in the accompanying financial statements.

Emission Allowances

KPCo records emission allowances at cost, including the annual SO_2 and NO_x emission allowance entitlements received at no cost from the Federal EPA. KPCo follows the inventory model for these allowances. Allowances expected to be consumed within one year are reported in Materials and Supplies. Allowances with expected consumption beyond one year are included in Deferred Charges and Other Noncurrent Assets. These allowances are consumed in the production of energy and are recorded in Fuel and Other Consumables Used for Electric Generation at an average cost. The purchases and sales of allowances are reported in the Operating Activities section of the statements of cash flows. The net margin on sales of emission allowances is included in Electric Generation, Transmission and Distribution Revenues for nonaffiliated transactions and in Sales to AEP Affiliates Revenues for affiliated transactions because of its integral nature to the production process of energy and KPCo's revenue optimization strategy for operations. The net margin on sales of emission allowances affects the determination of deferred fuel or deferred emission allowance costs and the amortization of regulatory assets.

Property, Plant and Equipment

Electric utility property, plant and equipment are stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Under the group composite method of depreciation, continuous interim routine replacements of items such as boiler tubes, pumps, motors, etc. result in original cost retirements, less salvage, being charged to accumulated depreciation. The group composite method of depreciation assumes that on average, asset components are retired at the end of their useful lives and thus there is no gain or loss. The equipment in each primary electric plant account is identified as a separate group. The depreciation rates that are established take into account the past history of interim capital replacements and the amount of salvage received. These rates and the related lives are subject to periodic review. Removal costs are charged to regulatory liabilities. The costs of labor, materials and overhead incurred to operate and maintain the plants are included in operating expenses.

Long-lived assets are required to be tested for impairment when it is determined that the carrying value of the assets may no longer be recoverable or when the assets meet the held-for-sale criteria under the accounting guidance for "Impairment or Disposal of Long-lived Assets." When it becomes probable that an asset in service or an asset under construction will be abandoned and regulatory cost recovery has been disallowed, the cost of that asset shall be removed from plant-in-service or CWIP and charged to expense.

The fair value of an asset or investment is the amount at which that asset or investment could be bought or sold in a current transaction between willing parties, as opposed to a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, if available. In the absence of quoted prices for identical or similar assets or investments in active markets, fair value is estimated using various internal and external valuation methods including cash flow analysis and appraisals.

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the estimated cost of borrowed and equity funds used to finance construction projects that is capitalized and recovered through depreciation over the service life of regulated electric utility plant. KPCo records the equity component of AFUDC in Allowance for Equity Funds Used During Construction and the debt component of AFUDC as a reduction to Interest Expense.

Valuation of Nonderivative Financial Instruments

The book values of Cash and Cash Equivalents, Advances to/from Affiliates, Accounts Receivable and Accounts Payable approximate fair value because of the short-term maturity of these instruments.

Fair Value Measurements of Assets and Liabilities

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability. The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with established risk management policies as approved by the Finance Committee of AEP's Board of Directors. The AEP System's market risk oversight staff independently monitors risk policies, procedures and risk levels and provides members of the Commercial Operations Risk Committee (Regulated Risk Committee) various daily, weekly and/or monthly reports regarding compliance with policies, limits and procedures. The Regulated Risk Committee consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Generation, Senior Vice President of Commercial Operations and Chief Risk Officer.

For commercial activities, exchange traded derivatives, namely futures contracts, are generally fair valued based on unadjusted quoted prices in active markets and are classified as Level 1. Level 2 inputs primarily consist of OTC broker quotes in moderately active or less active markets, as well as exchange traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1. Management verifies price curves using these broker quotes and classifies these fair values within Level 2 when substantially all of the fair value can be corroborated. Management typically obtains multiple broker quotes, which are nonbinding in nature, but are based on recent trades in the marketplace. When multiple broker quotes are obtained, the quoted bid and ask prices are averaged. In certain circumstances, a broker quote may be discarded if it is a clear outlier. Management uses a historical correlation analysis between the broker quoted location and the illiquid locations. If the points are highly correlated, these locations are included within Level 2 as well. Certain OTC and bilaterally executed derivative instruments are executed in less active markets with a lower availability of pricing information. Illiquid transactions, complex structured transactions, FTRs and counterparty credit risk may require nonmarket based inputs. Some of these

inputs may be internally developed or extrapolated and utilized to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The main driver of contracts being classified as Level 3 is the inability to substantiate energy price curves in the market. A significant portion of the Level 3 instruments have been economically hedged which greatly limits potential earnings volatility.

AEP utilizes its trustee's external pricing service to estimate the fair value of the underlying investments held in the benefit plan trusts. AEP's investment managers review and validate the prices utilized by the trustee to determine fair value. AEP's management performs its own valuation testing to verify the fair values of the securities. AEP receives audit reports of the trustee's operating controls and valuation processes. The trustee uses multiple pricing vendors for the assets held in the trusts.

Assets in the benefits trusts are classified using the following methods. Equities are classified as Level 1 holdings if they are actively traded on exchanges. Items classified as Level 1 are investments in money market funds, fixed income and equity mutual funds and domestic equity securities. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets. Items classified as Level 2 are primarily investments in individual fixed income securities and cash equivalents funds. Fixed income securities do not trade on an exchange and do not have an official closing price but their valuation inputs are based on observable market data. Pricing vendors calculate bond valuations using financial models and matrices. The models use observable inputs including yields on benchmark securities, quotes by securities brokers, rating agency actions, discounts or premiums on securities compared to par prices, changes in yields for U.S. Treasury securities, corporate actions by bond issuers, prepayment schedules and histories, economic events and, for certain securities, adjustments to yields to reflect changes in the rate of inflation. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments. Benefit plan assets included in Level 3 are primarily real estate and private equity investments that are valued using methods requiring judgment including appraisals.

Deferred Fuel Costs

The cost of fuel and related emission allowances and emission control chemicals/consumables is charged to Fuel and Other Consumables Used for Electric Generation expense when the fuel is burned or the allowance or consumable is utilized. Fuel cost over-recoveries (the excess of fuel revenues billed to customers over applicable fuel costs incurred) are generally deferred as current regulatory liabilities and under-recoveries (the excess of applicable fuel costs incurred over fuel revenues billed to customers) are generally deferred as current regulatory assets. Fuel cost over-recovery and under-recovery balances are classified as noncurrent when there is a phase-in plan or the FAC has been suspended. These deferrals are amortized when refunded or when billed to customers in later months with the KPSC's review and approval. The amount of an over-recovery or under-recovery can also be affected by actions of the KPSC. On a routine basis, the KPSC reviews and/or audits KPCo's fuel procurement policies and practices, the fuel cost calculations and FAC deferrals. When a FAC under-recovery is no longer probable of recovery, KPCo adjusts its FAC deferrals and records a provision for estimated refunds to recognize these probable outcomes. Changes in fuel costs, including purchased power, are reflected in rates in a timely manner through the FAC. A portion of profits from off-system sales are given to customers through the FAC.

Revenue Recognition

Regulatory Accounting

KPCo's financial statements reflect the actions of regulators that can result in the recognition of revenues and expenses in different time periods than enterprises that are not rate-regulated. Regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) are recorded to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

When regulatory assets are probable of recovery through regulated rates, KPCo records them as assets on its balance sheets. KPCo tests for probability of recovery at each balance sheet date or whenever new events occur. Examples of new events include the issuance of a regulatory commission order or passage of new legislation. If it is determined that recovery of a regulatory asset is no longer probable, KPCo writes off that regulatory asset as a charge against income.

Electricity Supply and Delivery Activities

KPCo recognizes revenues from retail and wholesale electricity sales and electricity transmission and distribution delivery services. KPCo recognizes the revenues on the statements of income upon delivery of the energy to the customer and includes unbilled as well as billed amounts.

Most of the power produced at the generation plants of the AEP East Companies is sold to PJM. The AEP East Companies purchase power from PJM to supply power to their customers. Generally, these power sales and purchases are reported on a net basis in revenues on the statements of income. However, purchases of power in excess of sales to PJM, on an hourly net basis, used to serve retail load are recorded gross as Purchased Electricity for Resale on the statements of income. Other RTOs in which KPCo participates do not function in the same manner as PJM. They function as balancing organizations and not as exchanges.

Physical energy purchases arising from non-derivative contracts are accounted for on a gross basis in Purchased Electricity for Resale on the statements of income. Energy purchases arising from non-trading derivative contracts are recorded based on the transaction's economic substance. Purchases under non-trading derivatives used to serve accrual based obligations are recorded in Purchased Electricity for Resale on the statements of income. All other non-trading derivative purchases are recorded net in revenues.

In general, KPCo records expenses when purchased electricity is received and when expenses are incurred, with the exception of certain power purchase contracts that are derivatives and accounted for using MTM accounting. KPCo defers the unrealized MTM amounts as regulatory assets (for losses) and regulatory liabilities (for gains).

Energy Marketing and Risk Management Activities

AEPSC, on behalf of the AEP East Companies, engages in wholesale power, coal and natural gas marketing and risk management activities focused on wholesale markets where the AEP System owns assets and adjacent markets. These activities include the purchase and sale of energy under forward contracts at fixed and variable prices. These contracts include physical transactions, exchange-traded futures, and to a lesser extent, OTC swaps and options. Certain energy marketing and risk management transactions are with RTOs.

KPCo recognizes revenues and expenses from wholesale marketing and risk management transactions that are not derivatives upon delivery of the commodity. KPCo uses MTM accounting for wholesale marketing and risk management transactions that are derivatives unless the derivative is designated in a qualifying cash flow hedge relationship or a normal purchase or sale. The realized gains and losses on wholesale marketing and risk management transactions are included in Revenues on the statements of income on a net basis. The unrealized MTM amounts are deferred as regulatory assets (for losses) and regulatory liabilities (for gains). Unrealized MTM gains and losses are included on the balance sheets as Risk Management Assets or Liabilities as appropriate.

Certain qualifying wholesale marketing and risk management derivative transactions are designated as hedges of variability in future cash flows as a result of forecasted transactions (cash flow hedge). KPCo initially records the effective portion of the cash flow hedge's gain or loss as a component of AOCI. When the forecasted transaction is realized and affects net income, KPCo subsequently reclassifies the gain or loss on the hedge from AOCI into revenues or expenses within the same financial statement line item as the forecasted transaction on the statements of income. KPCo defers the ineffective portion as regulatory assets (for losses) and regulatory liabilities (for gains). See "Accounting for Cash Flow Hedging Strategies" section of Note 9.

Maintenance

Maintenance costs are expensed as incurred. If it becomes probable that KPCo will recover specifically-incurred costs through future rates, a regulatory asset is established to match the expensing of those maintenance costs with their recovery in cost-based regulated revenues.

Income Taxes and Investment Tax Credits

KPCo uses the liability method of accounting for income taxes. Under the liability method, deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence.

When the flow-through method of accounting for temporary differences is reflected in regulated revenues (that is, when deferred taxes are not included in the cost of service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established to match the regulated revenues and tax expense.

Investment tax credits are accounted for under the flow-through method except where regulatory commissions have reflected investment tax credits in the rate-making process on a deferral basis. Investment tax credits that have been deferred are amortized over the life of the plant investment.

KPCo accounts for uncertain tax positions in accordance with the accounting guidance for "Income Taxes." KPCo classifies interest expense or income related to uncertain tax positions as interest expense or income as appropriate and classifies penalties as Other Operation expense.

Excise Taxes

As an agent for some state and local governments, KPCo collects from customers certain excise taxes levied by those state or local governments on customers. KPCo does not recognize these taxes as revenue or expense.

Debt

Gains and losses from the reacquisition of debt used to finance regulated electric utility plants are deferred and amortized over the remaining term of the reacquired debt in accordance with their rate-making treatment unless the debt is refinanced. If the reacquired debt is refinanced, the reacquisition costs are generally deferred and amortized over the term of the replacement debt consistent with its recovery in rates.

Debt discount or premium and debt issuance expenses are deferred and amortized generally utilizing the straight-line method over the term of the related debt. The straight-line method approximates the effective interest method and is consistent with the treatment in rates for regulated operations. The net amortization expense is included in Interest Expense.

Investments Held in Trust for Future Liabilities

AEP has several trust funds with significant investments intended to provide for future payments of pension and OPEB benefits. All of the trust funds' investments are diversified and managed in compliance with all laws and regulations. The investment strategy for trust funds is to use a diversified portfolio of investments to achieve an acceptable rate of return while managing the interest rate sensitivity of the assets relative to the associated liabilities. To minimize investment risk, the trust funds are broadly diversified among classes of assets, investment strategies and investment managers. Management regularly reviews the actual asset allocations and periodically rebalances the investments to targeted allocations when appropriate. Investment policies and guidelines allow investment managers in approved strategies to use financial derivatives to obtain or manage market exposures and to hedge assets and liabilities. The investments are reported at fair value under the "Fair Value Measurements and Disclosures" accounting guidance.

Benefit Plans

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies and target asset allocations by plan.

The investment philosophies for AEP's benefit plans support the allocation of assets to minimize risks and optimize net returns. Strategies used include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs and tax liabilities to maximize investment earnings.
- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style-neutral to limit volatility compared to applicable benchmarks.
- Using alternative asset classes such as real estate and private equity to maximize return and provide additional portfolio diversification.

The investment policy for the pension fund allocates assets based on the funded status of the pension plan. The objective of the asset allocation policy is to reduce the investment volatility of the plan over time. Generally, more of the investment mix will be allocated to fixed income investments as the plan becomes better funded. Assets will be transferred away from equity investments into fixed income investments based on the market value of plan assets compared to the plan's projected benefit obligation. The current target asset allocations are as follows:

Pension Plan Assets	Target
Equity	30.0 %
Fixed Income	55.0 %
Other Investments	15.0 %

OPEB Plans Assets	Target
Equity	66.0 %
Fixed Income	33.0 %
Cash	1.0 %

The investment policy for each benefit plan contains various investment limitations. The investment policies establish concentration limits for securities and prohibit the purchase of securities issued by AEP (with the exception of proportionate and immaterial holdings of AEP securities in passive index strategies). However, the investment policies do not preclude the benefit trust funds from receiving contributions in the form of AEP securities, provided that the AEP securities acquired by each plan may not exceed the limitations imposed by law. Each investment manager's portfolio is compared to a diversified benchmark index.

For equity investments, the limits are as follows:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of an investment manager's equity portfolio.
- No individual stock may be more than 10% of each manager's equity portfolio.
- No investment in excess of 5% of an outstanding class of any company.
- No securities may be bought or sold on margin or other use of leverage.

For fixed income investments, the concentration limits must not exceed:

- 3% in any single issuer
- 5% for private placements
- 5% for convertible securities
- 60% for bonds rated AA+ or lower
- 50% for bonds rated A+ or lower
- 10% for bonds rated BBB- or lower

For obligations of non-government issuers, the following limitations apply:

- AAA rated debt: a single issuer should account for no more than 5% of the portfolio.
- AA+, AA, AA- rated debt: a single issuer should account for no more than 3% of the portfolio.
- Debt rated A+ or lower: a single issuer should account for no more than 2% of the portfolio.
- No more than 10% of the portfolio may be invested in high yield and emerging market debt combined at any time.

A portion of the pension assets is invested in real estate funds to provide diversification, add return and hedge against inflation. Real estate properties are illiquid, difficult to value and not actively traded. The pension plan uses external real estate investment managers to invest in commingled funds that hold real estate properties. To mitigate investment risk in the real estate portfolio, commingled real estate funds are used to ensure that holdings are diversified by region, property type and risk classification. Real estate holdings include core, value-added and development risk classifications and some investments in Real Estate Investment Trusts, which are publicly traded real estate securities.

A portion of the pension assets is invested in private equity. Private equity investments add return and provide diversification and typically require a long-term time horizon to evaluate investment performance. Private equity is classified as an alternative investment because it is illiquid, difficult to value and not actively traded. The pension plan uses limited partnerships and commingled funds to invest across the private equity investment spectrum. The private equity holdings are with multiple general partners who help monitor the investments and provide investment selection expertise. The holdings are currently comprised of venture capital, buyout and hybrid debt and equity investment instruments. Commingled private equity funds are used to enhance the holdings' diversity.

AEP participates in a securities lending program with BNY Mellon to provide incremental income on idle assets and to provide income to offset custody fees and other administrative expenses. AEP lends securities to borrowers approved by BNY Mellon in exchange for cash collateral. All loans are collateralized by at least 102% of the loaned asset's market value and the cash collateral is invested. The difference between the rebate owed to the borrower and the cash collateral rate of return determines the earnings on the loaned security. The securities lending program's objective is providing modest incremental income with a limited increase in risk.

Trust owned life insurance (TOLI) underwritten by The Prudential Insurance Company is held in the OPEB plan trusts. The strategy for holding life insurance contracts in the taxable Voluntary Employees' Beneficiary Association trust is to minimize taxes paid on the asset growth in the trust. Earnings on plan assets are tax-deferred within the TOLI contract and can be tax-free if held until claims are paid. Life insurance proceeds remain in the trust and are used to fund future retiree medical benefit liabilities. With consideration to other investments held in the trust, the cash value of the TOLI contracts is invested in two diversified funds. A portion is invested in a commingled fund with underlying investments in stocks that are actively traded on major international equity exchanges. The other portion of the TOLI cash value is invested in a diversified, commingled fixed income fund with underlying investments in government bonds, corporate bonds and asset-backed securities.

Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments including commercial paper, certificates of deposit, treasury bills and other types of investment grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components: net income (loss) and other comprehensive income (loss).

Earnings Per Share (EPS)

KPCo is a wholly-owned subsidiary of AEP. Therefore, KPCo is not required to report EPS.

Subsequent Events

Management reviewed subsequent events through February 25, 2014, the date that KPCo's 2013 annual report was issued.

2. COMPREHENSIVE INCOME

Presentation of Comprehensive Income

The following table provides the components of changes in AOCI for the year ended December 31, 2013. All amounts in the following tables are presented net of related income taxes.

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Year Ended December 31, 2013

	Cash Flow Hedges		Pension and OPEB		
	Commodity	Interest Rate and Foreign Currency	Amortization of Deferred Costs	Changes in Funded Status	Total
			(in thousands)		
Balance in AOCI as of December 31, 2012	$ (127)	$ (282)	$ 1,275	$ (20,860)	$ (19,994)
Change in Fair Value Recognized in AOCI	152	-	-	7,741	7,893
Amounts Reclassified from AOCI	(2)	60	1,402	-	1,460
Net Current Period Other Comprehensive Income	150	60	1,402	7,741	9,353
Pension and OPEB Adjustment Related to Mitchell Plant	-	-	-	5,221	5,221
Balance in AOCI as of December 31, 2013	$ 23	$ (222)	$ 2,677	$ (7,898)	$ (5,420)

Reclassifications from Accumulated Other Comprehensive Income

The following table provides details of reclassifications from AOCI for the year ended December 31, 2013.

Reclassifications from Accumulated Other Comprehensive Income (Loss)
For the Year Ended December 31, 2013

Gains and Losses on Cash Flow Hedges	Amount of (Gain) Loss Reclassified from AOCI (in thousands)
Commodity:	
Electric Generation, Transmission and Distribution Revenues	$ (64)
Purchased Electricity for Resale	84
Other Operation Expense	(8)
Maintenance Expense	(5)
Property, Plant and Equipment	(11)
Subtotal - Commodity	(4)
Interest Rate and Foreign Currency:	
Interest Expense	93
Subtotal - Interest Rate and Foreign Currency	93
Reclassifications from AOCI, before Income Tax (Expense) Credit	89
Income Tax (Expense) Credit	31
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	58
Pension and OPEB	
Amortization of Prior Service Cost (Credit)	(364)
Amortization of Actuarial (Gains)/Losses	2,521
Change in Funded Status	-
Reclassifications from AOCI, before Income Tax (Expense) Credit	2,157
Income Tax (Expense) Credit	755
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	1,402
Total Reclassifications from AOCI, Net of Income Tax (Expense) Credit	$ 1,460

The following tables provide details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on KPCo's balance sheets and the reasons for changes in cash flow hedges for the years ended December 31, 2012 and 2011. All amounts in the following tables are presented net of related income taxes.

Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
Year Ended December 31, 2012

	Commodity	Interest Rate	Total
		(in thousands)	
Balance in AOCI as of December 31, 2011	$ (283)	$ (342)	$ (625)
Changes in Fair Value Recognized in AOCI	(246)	-	(246)
Amount of (Gain) or Loss Reclassified from AOCI			
to Statement of Income/within Balance Sheet:			
Electric Generation, Transmission and Distribution Revenues	(16)	-	(16)
Purchased Electricity for Resale	427	-	427
Other Operation Expense	(5)	-	(5)
Maintenance Expense	-	-	-
Interest Expense	-	60	60
Property, Plant and Equipment	(4)	-	(4)
Regulatory Assets (a)	-	-	-
Regulatory Liabilities (a)	-	-	-
Balance in AOCI as of December 31, 2012	$ (127)	$ (282)	$ (409)

Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
Year Ended December 31, 2011

	Commodity	Interest Rate	Total
		(in thousands)	
Balance in AOCI as of December 31, 2010	$ (48)	$ (403)	$ (451)
Changes in Fair Value Recognized in AOCI	(431)	-	(431)
Amount of (Gain) or Loss Reclassified from AOCI			
to Statement of Income/within Balance Sheet:			
Electric Generation, Transmission and Distribution Revenues	205	-	205
Purchased Electricity for Resale	51	-	51
Other Operation Expense	(32)	-	(32)
Maintenance Expense	(37)	-	(37)
Interest Expense	-	61	61
Property, Plant and Equipment	(47)	-	(47)
Regulatory Assets (a)	56	-	56
Regulatory Liabilities (a)	-	-	-
Balance in AOCI as of December 31, 2011	$ (283)	$ (342)	$ (625)

(a) Represents realized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets.

3. RATE MATTERS

KPCo is involved in rate and regulatory proceedings at the FERC and the KPSC. Rate matters can have a material impact on net income, cash flows and possibly financial condition. KPCo's recent significant rate orders and pending rate filings are addressed in this note.

Plant Transfer

In October 2012, the AEP East Companies submitted several filings with the FERC. See the "Corporate Separation and Termination of Interconnection Agreement" section of FERC Rate Matters. In December 2012, KPCo filed a request with the KPSC for approval to transfer at net book value to KPCo a one-half interest in the Mitchell Plant, comprising 780 MW of average annual generating capacity. KPCo also requested that costs related to the Big Sandy Plant, Unit 2 FGD project be established as a regulatory asset. As of December 31, 2013, the net book value of Big Sandy Plant, Unit 2 was $249 million, before cost of removal, including materials and supplies inventory and CWIP. In March 2013, KPCo issued a Request for Proposal (RFP) to purchase up to 250 MW of long-term capacity and energy to replace a portion of the capacity from Big Sandy Plant, Unit 1. In June 2013, KPCo filed the results of its RFP with the KPSC.

In October 2013, the KPSC issued an order approving a modified settlement agreement between KPCo, Kentucky Industrial Utility Customers, Inc. and the Sierra Club. The modified settlement approved the transfer of a one-half interest in the Mitchell Plant to KPCo at net book value on December 31, 2013 with the limitation that the net book value of the Mitchell Plant transfer not exceed the amount to be determined by a WVPSC order. The WVPSC order was subsequently issued in December 2013, but the WVPSC deferred a decision on the transfer of the one-half interest in the Mitchell Plant to APCo. The settlement also included the implementation of an Asset Transfer Rider to collect $44 million annually effective January 2014, subject to true-up, and allowed KPCo to retain any off-system sales margins above the $15.3 million annual level in base rates. Additionally, the settlement allows for KPCo to file a Certificate of Public Convenience and Necessity to convert Big Sandy Plant, Unit 1 to natural gas, provided the cost is approximately $60 million, and addressed potential greenhouse gas initiatives on the Mitchell Plant. The settlement also approved recovery, including a return, of coal-related retirement costs related to Big Sandy Plant over 25 years when base rates are set in the next base rate case (no earlier than June 2015), but rejected KPCo's request to defer FGD project costs for Big Sandy Plant, Unit 2. As a result of this order, in 2013, KPCo recorded a pretax regulatory disallowance of $33 million in Asset Impairments and Other Related Charges on the statement of income. In November 2013, the KPSC denied the Attorney General's petition for rehearing. In December 2013, the Attorney General filed an appeal with the Franklin County Circuit Court. In December 2013, KPCo filed motions with the Franklin County Circuit Court to dismiss the appeal. A hearing on the motions to dismiss was held in January 2014. In December 2013, the transfer of a one-half interest in the Mitchell Plant to KPCo was completed.

2013 Kentucky Base Rate Case

In June 2013, KPCo filed a request with the KPSC for an annual increase in base rates of $114 million based upon a return on common equity of 10.65% to be effective January 2014. The proposed revenue increase included cost recovery of the proposed transfer of the one-half interest in the Mitchell Plant (780 MW). In October 2013, the KPSC issued an order in the plant transfer case which modified and approved a settlement agreement that included the approval of the proposed transfer of the one-half interest in the Mitchell Plant to KPCo. The modified and approved settlement agreement also included KPCo's agreement to withdraw this base rate case request and file a base case proceeding no later than December 2014 with its current base rates to remain in effect until at least May 2015. In November 2013, KPCo withdrew this base rate request and the withdrawal was approved by the KPSC.

FERC Rate Matters

Corporate Separation and Termination of Interconnection Agreement

In October 2012, the AEP East Companies submitted several filings with the FERC seeking approval to fully separate OPCo's generation assets from its distribution and transmission operations and to transfer at net book value AGR's Mitchell Plant to APCo and KPCo in equal one-half interests (780 MW each), to be effective December 31, 2013. In April 2013, the FERC issued orders approving the transfer of OPCo's generation assets to AGR, and the

Mitchell Plant assets to APCo and KPCo. In January 2014, the FERC dismissed an Industry Energy Users-Ohio petition for rehearing of its order granting OPCo authority to implement corporate separation by transferring its generation assets to AGR. In December 2013, the transfer of the Mitchell Plant to KPCo was completed. See the "Plant Transfer" section of Rate Matters.

In accordance with management's December 2010 announcement and October 2012 filing with the FERC, the Interconnection Agreement was terminated effective January 1, 2014. The AEP System Interim Allowance Agreement which provided for, among other things, the transfer of SO_2 emission allowances associated with transactions under the Interconnection Agreement was also terminated.

In December 2013, the FERC issued orders approving the creation of a Power Coordination Agreement (PCA), effective January 1, 2014, conditioned upon certain compliance filings which were filed with the FERC in January 2014. The PCA was established among APCo, I&M and KPCo with AEPSC as the agent to coordinate their respective power supply resources. Under the PCA, KPCo would be individually responsible for planning its respective capacity obligations and there would be no capacity equalization charges/credits on deficit/surplus companies. Further, the PCA allows, but does not obligate, KPCo to participate collectively under a common fixed resource requirement capacity plan in PJM and to participate in specified collective off-system sales and purchase activities.

Also effective January 1, 2014, the FERC approved the creation of a Bridge Agreement among AGR, APCo, I&M, KPCo and OPCo with AEPSC as the agent. The Bridge Agreement is an interim arrangement to: (a) address the treatment of purchases and sales made by AEPSC on behalf of member companies that extend beyond termination of the Interconnection Agreement and (b) address how member companies will fulfill their existing obligations under the PJM Reliability Assurance Agreement through the 2014/2015 PJM planning year. Under the Bridge Agreement, AGR is committed to meet capacity obligations of member companies through May 31, 2015.

In October 2013, the AEP East Companies submitted additional filings with the FERC updating the October 2012 filings to reflect changes necessitated by orders from the Virginia SCC and the KPSC related to the proposed asset transfers and to position the company for the final stages of corporate separation. In December 2013, the FERC issued an order approving these additional filings. See the "Plant Transfers" section of Rate Matters.

If KPCo experiences decreases in revenues or increases in expenses as a result of changes to its relationship with affiliates and is unable to recover the change in revenues and costs through rates, prices or additional sales, it could reduce future net income and cash flows.

4. EFFECTS OF REGULATION

Regulated Generating Unit to be Retired Before or During 2016

The following regulated generating unit is probable of abandonment. Accordingly, CWIP and Plant in Service has been reclassified as Other Property, Plant and Equipment on the balance sheet as of December 31, 2013. The following table summarizes the plant investment and cost of removal, currently being recovered, for the generating unit as of December 31, 2013.

Plant Name and Unit	Gross Investment	Accumulated Depreciation	Net Investment	Cost of Removal Regulatory Liability	Expected Retirement Date	Remaining Recovery Period
		(in thousands)				
Big Sandy Plant, Unit 2	$ 423,687	$ 180,192	$ 243,495	$ 47,181	2015	27 years
Total	$ 423,687	$ 180,192	$ 243,495	$ 47,181		

Regulatory Assets and Liabilities

Regulatory assets and liabilities are comprised of the following items:

Regulatory Assets:	**December 31, 2013**	**December 31, 2012**	**Remaining Recovery Period**
	(in thousands)		
Noncurrent Regulatory Assets			
Regulatory assets not yet being recovered pending future proceedings to determine the recovery method and timing:			
Regulatory Assets Currently Not Earning a Return			
Storm Related Costs	$ 12,146	$ 12,146	
Mountaineer Carbon Capture and Storage Commercial Scale Facility	-	873	
Total Regulatory Assets Not Yet Being Recovered	12,146	13,019	
Regulatory assets being recovered:			
Regulatory Assets Currently Earning a Return			
Other Regulatory Assets Being Recovered	1,422	1,668	various
Regulatory Assets Currently Not Earning a Return			
Income Taxes, Net	154,603	127,489	22 years
Pension and OPEB Funded Status	32,458	52,048	11 years
Storm Related Costs	7,048	11,746	2 years
Postemployment Benefits	4,530	5,230	5 years
Medicare Subsidy	2,383	-	11 years
Peak Demand Reduction/Energy Efficiency	914	1,589	1 year
Other Regulatory Assets Being Recovered	856	945	various
Total Regulatory Assets Being Recovered	204,214	200,715	
Total Noncurrent Regulatory Assets	$ 216,360	$ 213,734	

Regulatory Liabilities:	**December 31, 2013**	**December 31, 2012**	**Remaining Refund Period**
	(in thousands)		
Current Regulatory Liability			
Over-recovered Fuel Costs - does not pay a return	$ 2,851	$ 7,928	1 year
Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits			
Regulatory liabilities being paid:			
Regulatory Liabilities Currently Paying a Return			
Asset Removal Costs	$ 19,231	$ 21,066	(a)
Regulatory Liabilities Currently Not Paying a Return			
Unrealized Gain on Forward Commitments	3,259	4,288	4 years
Deferred Investment Tax Credits	126	356	7 years
Other Regulatory Liabilities Being Paid	310	449	various
Total Regulatory Liabilities Being Paid	22,926	26,159	
Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits	$ 22,926	$ 26,159	

(a) Relieved as removal costs are incurred.

5. COMMITMENTS, GUARANTEES AND CONTINGENCIES

KPCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, KPCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements.

COMMITMENTS

Construction and Commitments

KPCo has substantial construction commitments to support its operations and environmental investments. In managing the overall construction program and in the normal course of business, KPCo contractually commits to third-party construction vendors for certain material purchases and other construction services. KPCo also purchases fuel, materials, supplies, services and property, plant and equipment under contract as part of its normal course of business. Certain supply contracts contain penalty provisions for early termination.

The following table summarizes KPCo's actual contractual commitments as of December 31, 2013:

Contractual Commitments	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
			(in thousands)		
Fuel Purchase Contracts (a)	$ 198,192	$ 246,401	$ 232,240	$ 348,360	$ 1,025,193
Energy and Capacity Purchase Contracts	35,144	70,156	69,993	139,846	315,139
Construction Contracts for Capital Assets (b)	1,786	-	-	-	1,786
Total	$ 235,122	$ 316,557	$ 302,233	$ 488,206	$ 1,342,118

(a) Represents contractual commitments to purchase coal and other consumables as fuel for electric generation along with related transportation of the fuel.
(b) Represents only capital assets for which there are signed contracts. Actual payments are dependent upon and may vary significantly based upon the decision to build, regulatory approval schedules, timing and escalation of project costs.

GUARANTEES

Liabilities for guarantees are recorded in accordance with the accounting guidance for "Guarantees." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third parties unless specified below.

Indemnifications and Other Guarantees

Contracts

KPCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of December 31, 2013, there were no material liabilities recorded for any indemnifications.

KPCo is jointly and severally liable for activity conducted by AEPSC on behalf of the AEP East Companies related to power purchase and sale activity pursuant to the SIA.

Lease Obligations

KPCo leases certain equipment under master lease agreements. See "Master Lease Agreements" section of Note 12 for disclosure of lease residual value guarantees.

CONTINGENCIES

Insurance and Potential Losses

KPCo maintains insurance coverage normal and customary for an electric utility, subject to various deductibles. Insurance coverage includes all risks of physical loss or damage to assets, subject to insurance policy conditions and exclusions. Covered property generally includes power plants, substations, facilities and inventories. Excluded property generally includes transmission and distribution lines, poles and towers. The insurance programs also generally provide coverage against loss arising from certain claims made by third parties and are in excess of KPCo's retentions. Coverage is generally provided by a combination of the protected cell of EIS and/or various industry mutual and/or commercial insurance carriers.

Some potential losses or liabilities may not be insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities. Future losses or liabilities, if they occur, which are not completely insured, unless recovered from customers, could reduce future net income and cash flows and impact financial condition.

Carbon Dioxide Public Nuisance Claims

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO_2 emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. In May 2013, the U.S. Court of Appeals for the Fifth Circuit affirmed the district court's dismissal of the complaint. The plaintiffs did not appeal to the U.S. Supreme Court.

Alaskan Villages' Claims

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company and other electric generating companies. The complaint alleges that the defendants' emissions of CO_2 contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of $95 million to $400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. In September 2012, the Ninth Circuit Court of Appeals affirmed the trial court's decision, holding that the CAA displaced Kivalina's claims for damages. Plaintiffs filed seeking further review in the U.S. Supreme Court. In May 2013, the U.S. Supreme Court denied the plaintiffs' request for review.

The Comprehensive Environmental Response Compensation and Liability Act (Superfund) and State Remediation

By-products from the generation of electricity include materials such as ash, slag and sludge. Coal combustion by-products, which constitute the overwhelming percentage of these materials, are typically treated and deposited in captive disposal facilities or are beneficially utilized. In addition, the generating plants and transmission and distribution facilities have used asbestos, polychlorinated biphenyls and other hazardous and nonhazardous materials. KPCo currently incurs costs to dispose of these substances safely.

Superfund addresses clean-up of hazardous substances that have been released to the environment. The Federal EPA administers the clean-up programs. Several states have enacted similar laws. As of December 31, 2013, there is one site for which KPCo has received an information request which could lead to a Potentially Responsible Party designation. In the instance where KPCo has been named a defendant, disposal or recycling activities were in accordance with the then-applicable laws and regulations. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. Liability has been resolved for a number of sites with no significant effect on net income.

Management evaluates the potential liability for each site separately, but several general statements can be made about potential future liability. Allegations that materials were disposed at a particular site are often unsubstantiated and the quantity of materials deposited at a site can be small and often nonhazardous. Although Superfund liability has been interpreted by the courts as joint and several, typically many parties are named for each site and several of the parties are financially sound enterprises. At present, management's estimates do not anticipate material cleanup costs for identified sites.

6. IMPAIRMENT

2013

Big Sandy Plant, Unit 2 FGD Project

In the third quarter of 2013, KPCo recorded a pretax write-off of $33 million in Asset Impairments and Other Related Charges on the statement of income primarily related to the Big Sandy Plant, Unit 2 FGD project. See the "Plant Transfer" section of Note 3.

7. BENEFIT PLANS

For a discussion of investment strategy, investment limitations, target asset allocations and the classification of investments within the fair value hierarchy, see "Investments Held in Trust for Future Liabilities" and "Fair Value Measurements of Assets and Liabilities" sections of Note 1.

KPCo participates in an AEP sponsored qualified pension plan and an unfunded nonqualified pension plan. Substantially all of KPCo's employees are covered by the qualified plan or both the qualified and nonqualified pension plans. KPCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

KPCo recognizes its funded status associated with defined benefit pension and OPEB plans in its balance sheets. Disclosures about the plans are required by the "Compensation – Retirement Benefits" accounting guidance. KPCo recognizes an asset for a plan's overfunded status or a liability for a plan's underfunded status and recognizes, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. KPCo records a regulatory asset instead of other comprehensive income for qualifying benefit costs of regulated operations that for ratemaking purposes are deferred for future recovery. The cumulative funded status adjustment is equal to the remaining unrecognized deferrals for unamortized actuarial losses or gains, prior service costs and transition obligations, such that remaining deferred costs result in an AOCI equity reduction or regulatory asset and deferred gains result in an AOCI equity addition or regulatory liability.

Actuarial Assumptions for Benefit Obligations

The weighted-average assumptions as of December 31 of each year used in the measurement of KPCo's benefit obligations are shown in the following table:

	Pension Plans		Other Postretirement Benefit Plans	
Assumptions	**2013**	**2012**	**2013**	**2012**
Discount Rate	4.70 %	3.95 %	4.70 %	3.95 %
Rate of Compensation Increase	4.50 % (a)	4.50 % (a)	NA	NA

(a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.

NA Not applicable.

A duration-based method is used to determine the discount rate for the plans. A hypothetical portfolio of high-quality corporate bonds is constructed with cash flows matching the benefit plan liability. The composite yield on the hypothetical bond portfolio is used as the discount rate for the plan.

For 2013, the rate of compensation increase assumed varies with the age of the employee, ranging from 3.5% per year to 11.5% per year, with an average increase of 4.5%.

Actuarial Assumptions for Net Periodic Benefit Costs

The weighted-average assumptions as of January 1 of each year used in the measurement of KPCo's benefit costs are shown in the following table:

	Pension Plans			Other Postretirement Benefit Plans		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Discount Rate	3.95 %	4.55 %	5.05 %	3.95 %	4.75 %	5.25 %
Expected Return on Plan Assets	6.50 %	7.25 %	7.75 %	7.00 %	7.25 %	7.50 %
Rate of Compensation Increase	4.50 %	4.50 %	4.50 %	NA	NA	NA

NA Not applicable.

The expected return on plan assets for 2013 was determined by evaluating historical returns, the current investment climate (yield on fixed income securities and other recent investment market indicators), rate of inflation and current prospects for economic growth.

The health care trend rate assumptions as of January 1 of each year used for OPEB plans measurement purposes are shown below:

Health Care Trend Rates	2013	2012
Initial	6.75 %	7.00 %
Ultimate	5.00 %	5.00 %
Year Ultimate Reached	2020	2020

Assumed health care cost trend rates have a significant effect on the amounts reported for the OPEB health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
	(in thousands)	
Effect on Total Service and Interest Cost Components of Net Periodic Postretirement Health Care Benefit Cost	$ 164	$ (108)
Effect on the Health Care Component of the Accumulated Postretirement Benefit Obligation	2,101	(1,710)

Significant Concentrations of Risk within Plan Assets

In addition to establishing the target asset allocation of plan assets, the investment policy also places restrictions on securities to limit significant concentrations within plan assets. The investment policy establishes guidelines that govern maximum market exposure, security restrictions, prohibited asset classes, prohibited types of transactions, minimum credit quality, average portfolio credit quality, portfolio duration and concentration limits. The guidelines were established to mitigate the risk of loss due to significant concentrations in any investment. The plans are monitored to control security diversification and ensure compliance with the investment policy. As of December 31, 2013, the assets were invested in compliance with all investment limits. See "Investments Held in Trust for Future Liabilities" section of Note 1 for limit details.

Benefit Plan Obligations, Plan Assets and Funded Status as of December 31, 2013 and 2012

The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets and funded status as of December 31. The benefit obligation for the defined benefit pension and OPEB plans are the projected benefit obligation and the accumulated benefit obligation, respectively.

	Pension Plans		Other Postretirement Benefit Plans	
	2013	2012	2013	2012
Change in Benefit Obligation	(in thousands)			
Benefit Obligation as of January 1,	$ 183,994	$ 170,910	$ 66,513	$ 83,480
Service Cost	1,763	2,231	750	1,636
Interest Cost	7,074	7,762	2,491	3,821
Actuarial (Gain) Loss	(13,578)	15,617	(15,950)	437
Plan Amendment Prior Service Credit	-	-	-	(19,043)
Benefit Payments	(9,821)	(12,526)	(4,423)	(5,319)
Participant Contributions	-	-	1,198	1,194
Medicare Subsidy	-	-	227	307
Benefit Obligation as of December 31,	$ 169,432	$ 183,994	$ 50,806	$ 66,513
Change in Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1,	$ 165,534	$ 151,450	$ 60,402	$ 55,418
Actual Gain on Plan Assets	13,865	21,063	5,748	5,752
Company Contributions	-	5,547	-	3,357
Participant Contributions	-	-	1,198	1,194
Benefit Payments	(9,821)	(12,526)	(4,423)	(5,319)
Fair Value of Plan Assets as of December 31,	$ 169,578	$ 165,534	$ 62,925	$ 60,402
Funded (Underfunded) Status as of December 31,	$ 146	$ (18,460)	$ 12,119	$ (6,111)

Amounts Recognized on the Balance Sheets as of December 31, 2013 and 2012

	Pension Plans		Other Postretirement Benefit Plans	
	December 31,			
	2013	2012	2013	2012
	(in thousands)			
Employee Benefits and Pension Assets - Prepaid Benefit Costs	$ 146	$ -	$ 11,300	$ -
Employee Benefits and Pension Obligations - Accrued Long-term Benefit Liability	-	(18,460)	819	(6,111)
Funded (Underfunded) Status	$ 146	$ (18,460)	$ 12,119	$ (6,111)

Amounts Included in AOCI and Regulatory Assets as of December 31, 2013 and 2012

	Pension Plans		Other Postretirement Benefit Plans	
	December 31,			
	2013	2012	2013	2012
Components	(in thousands)			
Net Actuarial Loss	$ 51,587	$ 75,591	$ 12,769	$ 32,797
Prior Service Cost (Credit)	203	259	(24,069)	(26,468)
Recorded as				
Regulatory Assets	$ 42,089	$ 47,519	$ (9,631)	$ 4,529
Deferred Income Taxes	3,395	9,916	(584)	630
Net of Tax AOCI	6,306	18,415	(1,085)	1,170

Components of the change in amounts included in AOCI and Regulatory Assets during the years ended December 31, 2013 and 2012 are as follows:

	Pension Plans		Other Postretirement Benefit Plans	
	Years Ended December 31,			
	2013	2012	2013	2012
Components	(in thousands)			
Actuarial (Gain) Loss During the Year	$ (17,611)	$ 5,845	$ (17,745)	$ (1,467)
Prior Service Credit	-	-	-	(19,043)
Amortization of Actuarial Loss	(6,393)	(5,225)	(2,283)	(2,117)
Amortization of Prior Service Credit (Cost)	(56)	(120)	2,399	676
Change for the Year	$ (24,060)	$ 500	$ (17,629)	$ (21,951)

Pension and Other Postretirement Plans' Assets

The following table presents the classification of pension plan assets within the fair value hierarchy as of December 31, 2013:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in thousands)			
Equities:						
Domestic	$ 39,294	$ -	$ -	$ -	$ 39,294	23.2 %
International	18,522	-	-	-	18,522	10.9 %
Real Estate Investment Trusts	2,084	-	-	-	2,084	1.2 %
Common Collective Trust - International	-	352	-	-	352	0.2 %
Subtotal - Equities	59,900	352	-	-	60,252	35.5 %
Fixed Income:						
Common Collective Trust - Debt	-	933	-	-	933	0.5 %
United States Government and Agency Securities	-	13,922	-	-	13,922	8.2 %
Corporate Debt	-	57,592	-	-	57,592	34.0 %
Foreign Debt	-	12,372	-	-	12,372	7.3 %
State and Local Government	-	1,007	-	-	1,007	0.6 %
Other - Asset Backed	-	1,198	-	-	1,198	0.7 %
Subtotal - Fixed Income	-	87,024	-	-	87,024	51.3 %
Real Estate	-	-	8,575	-	8,575	5.0 %
Alternative Investments	-	-	11,865	-	11,865	7.0 %
Securities Lending	-	1,266	-	-	1,266	0.8 %
Securities Lending Collateral (a)	-	-	-	(1,627)	(1,627)	(0.9)%
Cash and Cash Equivalents	-	1,749	-	-	1,749	1.0 %
Other - Pending Transactions and Accrued Income (b)	-	-	-	474	474	0.3 %
Total	$ 59,900	$ 90,391	$ 20,440	$ (1,153)	$ 169,578	100.0 %

(a) Amounts in "Other" column primarily represent an obligation to repay cash collateral received as part of the Securities Lending Program.

(b) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table sets forth a reconciliation of changes in the fair value of assets classified as Level 3 in the fair value hierarchy for the pension assets:

	Real Estate	Alternative Investments	Total Level 3
		(in thousands)	
Balance as of January 1, 2013	$ 7,740	$ 6,894	$ 14,634
Actual Return on Plan Assets			
Relating to Assets Still Held as of the Reporting Date	1,197	532	1,729
Relating to Assets Sold During the Period	-	537	537
Purchases and Sales	(362)	3,902	3,540
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Balance as of December 31, 2013	$ 8,575	$ 11,865	$ 20,440

The following table presents the classification of OPEB plan assets within the fair value hierarchy as of December 31, 2013:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in thousands)			
Equities:						
Domestic	$ 17,535	$ -	$ -	$ -	$ 17,535	27.9 %
International	22,796	-	-	-	22,796	36.2 %
Common Collective Trust - Global	-	544	-	-	544	0.9 %
Subtotal - Equities	40,331	544	-	-	40,875	65.0 %
Fixed Income:						
Common Collective Trust - Debt	-	3,255	-	-	3,255	5.2 %
United States Government and Agency Securities	-	2,093	-	-	2,093	3.3 %
Corporate Debt	-	4,078	-	-	4,078	6.5 %
Foreign Debt	-	796	-	-	796	1.2 %
State and Local Government	-	171	-	-	171	0.3 %
Other - Asset Backed	-	301	-	-	301	0.5 %
Subtotal - Fixed Income	-	10,694	-	-	10,694	17.0 %
Trust Owned Life Insurance:						
International Equities	-	490	-	-	490	0.8 %
United States Bonds	-	7,836	-	-	7,836	12.4 %
Cash and Cash Equivalents	2,527	325	-	-	2,852	4.5 %
Other - Pending Transactions and Accrued Income (a)	-	-	-	178	178	0.3 %
Total	$ 42,858	$ 19,889	$ -	$ 178	$ 62,925	100.0 %

(a) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table presents the classification of pension plan assets within the fair value hierarchy as of December 31, 2012:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in thousands)			
Equities:						
Domestic	$ 46,114	$ -	$ -	$ -	$ 46,114	27.9 %
International	17,512	-	-	-	17,512	10.5 %
Real Estate Investment Trusts	3,192	-	-	-	3,192	1.9 %
Common Collective Trust - International	-	153	-	-	153	0.1 %
Subtotal - Equities	66,818	153	-	-	66,971	40.4 %
Fixed Income:						
Common Collective Trust - Debt	-	1,118	-	-	1,118	0.7 %
United States Government and Agency Securities	-	25,215	-	-	25,215	15.2 %
Corporate Debt	-	43,539	-	-	43,539	26.3 %
Foreign Debt	-	7,002	-	-	7,002	4.2 %
State and Local Government	-	1,550	-	-	1,550	0.9 %
Other - Asset Backed	-	1,255	-	-	1,255	0.8 %
Subtotal - Fixed Income	-	79,679	-	-	79,679	48.1 %
Real Estate	-	-	7,740	-	7,740	4.7 %
Alternative Investments	-	-	6,894	-	6,894	4.2 %
Securities Lending	-	2,832	-	-	2,832	1.7 %
Securities Lending Collateral (a)	-	-	-	(3,203)	(3,203)	(1.9)%
Cash and Cash Equivalents	-	4,433	-	-	4,433	2.7 %
Other - Pending Transactions and Accrued Income (b)	-	-	-	188	188	0.1 %
Total	$ 66,818	$ 87,097	$ 14,634	$ (3,015)	$ 165,534	100.0 %

(a) Amounts in "Other" column primarily represent an obligation to repay cash collateral received as part of the Securities Lending Program.

(b) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table sets forth a reconciliation of changes in the fair value of assets classified as Level 3 in the fair value hierarchy for the pension assets:

	Corporate Debt	Real Estate	Alternative Investments	Total Level 3
		(in thousands)		
Balance as of January 1, 2012	$ 224	$ 5,757	$ 5,652	$ 11,633
Actual Return on Plan Assets				
Relating to Assets Still Held as of the Reporting Date	-	1,049	355	1,404
Relating to Assets Sold During the Period	(79)	-	172	93
Purchases and Sales	(145)	934	715	1,504
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Balance as of December 31, 2012	$ -	$ 7,740	$ 6,894	$ 14,634

The following table presents the classification of OPEB plan assets within the fair value hierarchy as of December 31, 2012:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in thousands)			
Equities:						
Domestic	$ 16,255	$ -	$ -	$ -	$ 16,255	26.9 %
International	19,436	-	-	-	19,436	32.2 %
Subtotal - Equities	35,691	-	-	-	35,691	59.1 %
Fixed Income:						
Common Collective Trust - Debt	-	2,795	-	-	2,795	4.6 %
United States Government and Agency Securities	-	3,166	-	-	3,166	5.2 %
Corporate Debt	-	5,964	-	-	5,964	9.9 %
Foreign Debt	-	1,008	-	-	1,008	1.7 %
State and Local Government	-	280	-	-	280	0.5 %
Other - Asset Backed	-	379	-	-	379	0.6 %
Subtotal - Fixed Income	-	13,592	-	-	13,592	22.5 %
Trust Owned Life Insurance:						
International Equities	-	1,985	-	-	1,985	3.3 %
United States Bonds	-	6,263	-	-	6,263	10.3 %
Cash and Cash Equivalents	2,391	439	-	-	2,830	4.7 %
Other - Pending Transactions and Accrued Income (a)	-	-	-	41	41	0.1 %
Total	$ 38,082	$ 22,279	$ -	$ 41	$ 60,402	100.0 %

(a) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

Determination of Pension Expense

The determination of pension expense or income is based on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return.

The accumulated benefit obligation for the pension plan is as follows:

Accumulated Benefit Obligation	December 31, 2013	2012
	(in thousands)	
Qualified Pension Plan	$ 166,951	$ 180,892
Total	$ 166,951	$ 180,892

For the underfunded pension plans that had an accumulated benefit obligation in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets of these plans as of December 31, 2012 were as follows:

		Underfunded Pension Plans
		2012
		(in thousands)
Projected Benefit Obligation	$	183,994
Accumulated Benefit Obligation	$	180,892
Fair Value of Plan Assets		165,534
Underfunded Accumulated Benefit Obligation	$	(15,358)

Estimated Future Benefit Payments and Contributions

KPCo expects contributions and payments for the pension plans of $2.7 million during 2014. The estimated contributions to the pension trust are at least the minimum amount required by the Employee Retirement Income Security Act and additional discretionary contributions may also be made to maintain the funded status of the plan.

The table below reflects the total benefits expected to be paid from the plan or from KPCo's assets. The payments include the participants' contributions to the plan for their share of the cost. In November 2012, changes to the retiree medical coverage were announced. Effective for retirements after December 2012, contributions to retiree medical coverage were capped reducing exposure to future medical cost inflation. Effective for employees hired after December 2013, retiree medical coverage will not be provided. The impact of the changes is reflected in the Benefit Plan Obligation table as plan amendments. Future benefit payments are dependent on the number of employees retiring, whether the retiring employees elect to receive pension benefits as annuities or as lump sum distributions, future integration of the benefit plans with changes to Medicare and other legislation, future levels of interest rates and variances in actuarial results. The estimated payments for pension benefits and OPEB are as follows:

	Estimated Payments			
	Pension Plans		Other Postretirement Benefit Plans	
	(in thousands)			
2014	$	10,760	$	4,508
2015		11,334		4,820
2016		11,489		5,126
2017		11,946		5,385
2018		12,674		5,538
Years 2019 to 2023, in Total		64,896		30,389

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost (credit) for the years ended December 31, 2013, 2012 and 2011:

	Pension Plans			Other Postretirement Benefit Plans		
	Years Ended December 31,					
	2013	2012	2011	2013	2012	2011
	(in thousands)					
Service Cost	$ 1,763	$ 2,231	$ 2,188	$ 750	$ 1,636	$ 1,513
Interest Cost	7,074	7,762	8,105	2,491	3,821	4,082
Expected Return on Plan Assets	(9,832)	(11,290)	(10,847)	(3,999)	(3,931)	(4,255)
Amortization of Prior Service Cost (Credit)	56	120	194	(2,399)	(676)	(46)
Amortization of Net Actuarial Loss	6,393	5,225	4,155	2,283	2,117	1,055
Net Periodic Benefit Cost (Credit)	5,454	4,048	3,795	(874)	2,967	2,349
Capitalized Portion	(2,372)	(1,388)	(1,139)	380	(1,018)	(705)
Net Periodic Benefit Cost (Credit) Recognized in Expense	$ 3,082	$ 2,660	$ 2,656	$ (494)	$ 1,949	$ 1,644

Estimated amounts expected to be amortized to net periodic benefit costs (credits) and the impact on the balance sheet during 2014 are shown in the following table:

Components	Pension Plans	Other Postretirement Benefit Plans
	(in thousands)	
Net Actuarial Loss	$ 4,335	$ 734
Prior Service Cost (Credit)	55	(2,443)
Total Estimated 2014 Amortization	$ 4,390	$ (1,709)
Expected to be Recorded as		
Regulatory Asset	$ 3,731	$ (1,595)
Deferred Income Taxes	231	(40)
Net of Tax AOCI	428	(74)
Total	$ 4,390	$ (1,709)

American Electric Power System Retirement Savings Plan

KPCo participates in an AEP sponsored defined contribution retirement savings plan, the American Electric Power System Retirement Savings Plan, for substantially all employees. This qualified plan offers participants an opportunity to contribute a portion of their pay, includes features under Section 401(k) of the Internal Revenue Code and provides for matching contributions. The matching contributions to the plan are 100% of the first 1% of eligible employee contributions and 70% of the next 5% of contributions. The cost for matching contributions totaled $2.3 million in 2013, $2.3 million in 2012 and $2.2 million in 2011.

8. BUSINESS SEGMENTS

KPCo has one reportable segment, an integrated electricity generation, transmission and distribution business. KPCo’s other activities are insignificant.

9. DERIVATIVES AND HEDGING

OBJECTIVES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS

KPCo is exposed to certain market risks as a major power producer and marketer of wholesale electricity, natural gas, coal and emission allowances. These risks include commodity price risk, interest rate risk, credit risk and, to a lesser extent, foreign currency exchange risk. These risks represent the risk of loss that may impact KPCo due to changes in the underlying market prices or rates. AEPSC, on behalf of KPCo, manages these risks using derivative instruments.

STRATEGIES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS TO ACHIEVE OBJECTIVES

Risk Management Strategies

The strategy surrounding the use of derivative instruments primarily focuses on managing risk exposures, future cash flows and creating value utilizing both economic and formal hedging strategies. The risk management strategies also include the use of derivative instruments for trading purposes, focusing on seizing market opportunities to create value driven by expected changes in the market prices of the commodities in which AEPSC transacts on behalf of KPCo. To accomplish these objectives, AEPSC, on behalf of KPCo, primarily employs risk management contracts including physical and financial forward purchase-and-sale contracts and, to a lesser extent, OTC swaps and options. Not all risk management contracts meet the definition of a derivative under the accounting guidance for "Derivatives and Hedging." Derivative risk management contracts elected normal under the normal purchases and normal sales scope exception are not subject to the requirements of this accounting guidance.

AEPSC, on behalf of KPCo, enters into power, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other commodity contracts to manage the risk associated with the energy business. AEPSC, on behalf of KPCo, enters into interest rate derivative contracts in order to manage the interest rate exposure associated with KPCo's commodity portfolio. For disclosure purposes, such risks are grouped as "Commodity," as these risks are related to energy risk management activities. AEPSC, on behalf of KPCo, also engages in risk management of interest rate risk associated with debt financing and foreign currency risk associated with future purchase obligations denominated in foreign currencies. The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with the established risk management policies as approved by the Finance Committee of AEP's Board of Directors.

The following table represents the gross notional volume of KPCo's outstanding derivative contracts as of December 31, 2013 and 2012:

Notional Volume of Derivative Instruments

	Volume December 31,		
Primary Risk Exposure	**2013**	**2012**	**Unit of Measure**
	(in thousands)		
Commodity:			
Power	10,071	18,838	MWhs
Coal	2	247	Tons
Natural Gas	509	2,018	MMBtus
Heating Oil and Gasoline	261	269	Gallons
Interest Rate	$ 2,615	$ 4,836	USD

Fair Value Hedging Strategies

AEPSC, on behalf of KPCo, enters into interest rate derivative transactions as part of an overall strategy to manage the mix of fixed-rate and floating-rate debt. Certain interest rate derivative transactions effectively modify KPCo's exposure to interest rate risk by converting a portion of KPCo's fixed-rate debt to a floating rate. Provided specific criteria are met, these interest rate derivatives are designated as fair value hedges.

Cash Flow Hedging Strategies

AEPSC, on behalf of KPCo, enters into and designates as cash flow hedges certain derivative transactions for the purchase and sale of power, coal, natural gas and heating oil and gasoline ("Commodity") in order to manage the variable price risk related to the forecasted purchase and sale of these commodities. Management monitors the potential impacts of commodity price changes and, where appropriate, enters into derivative transactions to protect profit margins for a portion of future electricity sales and fuel or energy purchases. KPCo does not hedge all commodity price risk.

KPCo's vehicle fleet is exposed to gasoline and diesel fuel price volatility. AEPSC, on behalf of KPCo, enters into financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. For disclosure purposes, these contracts are included with other hedging activities as "Commodity." KPCo does not hedge all fuel price risk.

AEPSC, on behalf of KPCo, enters into a variety of interest rate derivative transactions in order to manage interest rate risk exposure. Some interest rate derivative transactions effectively modify exposure to interest rate risk by converting a portion of floating-rate debt to a fixed rate. AEPSC, on behalf of KPCo, also enters into interest rate derivative contracts to manage interest rate exposure related to future borrowings of fixed-rate debt. The forecasted fixed-rate debt offerings have a high probability of occurrence as the proceeds will be used to fund existing debt maturities and projected capital expenditures. KPCo does not hedge all interest rate exposure.

At times, KPCo is exposed to foreign currency exchange rate risks primarily when KPCo purchases certain fixed assets from foreign suppliers. In accordance with AEP's risk management policy, AEPSC, on behalf of KPCo, may enter into foreign currency derivative transactions to protect against the risk of increased cash outflows resulting from a foreign currency's appreciation against the dollar. KPCo does not hedge all foreign currency exposure.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND THE IMPACT ON KPCo's FINANCIAL STATEMENTS

The accounting guidance for "Derivatives and Hedging" requires recognition of all qualifying derivative instruments as either assets or liabilities on the balance sheets at fair value. The fair values of derivative instruments accounted for using MTM accounting or hedge accounting are based on exchange prices and broker quotes. If a quoted market price is not available, the estimate of fair value is based on the best information available including valuation models that estimate future energy prices based on existing market and broker quotes, supply and demand market data and assumptions. In order to determine the relevant fair values of the derivative instruments, KPCo applies valuation adjustments for discounting, liquidity and credit quality.

Credit risk is the risk that a counterparty will fail to perform on the contract or fail to pay amounts due. Liquidity risk represents the risk that imperfections in the market will cause the price to vary from estimated fair value based upon prevailing market supply and demand conditions. Since energy markets are imperfect and volatile, there are inherent risks related to the underlying assumptions in models used to fair value risk management contracts. Unforeseen events may cause reasonable price curves to differ from actual price curves throughout a contract's term and at the time a contract settles. Consequently, there could be significant adverse or favorable effects on future net income and cash flows if market prices are not consistent with management's estimates of current market consensus for forward prices in the current period. This is particularly true for longer term contracts. Cash flows may vary based on market conditions, margin requirements and the timing of settlement of KPCo's risk management contracts.

According to the accounting guidance for "Derivatives and Hedging," KPCo reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, KPCo is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the December 31, 2013 and 2012 balance sheets, KPCo netted $0 and $253 thousand, respectively, of cash collateral received from third parties against short-term and long-term risk management assets and $1 million and $2.2 million, respectively, of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of KPCo's derivative activity on the balance sheets as of December 31, 2013 and 2012:

Fair Value of Derivative Instruments
December 31, 2013

Balance Sheet Location	Risk Management Contracts – Commodity (a)	Hedging Contracts – Commodity (a)	Hedging Contracts – Interest Rate (a)	Gross Amounts of Risk Management Assets/ Liabilities Recognized	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
			(in thousands)			
Current Risk Management Assets	$ 9,520	$ 85	$ -	$ 9,605	$ (5,249)	$ 4,356
Long-term Risk Management Assets	4,306	-	-	4,306	(822)	3,484
Total Assets	13,826	85	-	13,911	(6,071)	7,840
Current Risk Management Liabilities	7,583	65	-	7,648	(5,820)	1,828
Long-term Risk Management Liabilities	2,970	-	-	2,970	(865)	2,105
Total Liabilities	10,553	65	-	10,618	(6,685)	3,933
Total MTM Derivative Contract Net Assets (Liabilities)	$ 3,273	$ 20	$ -	$ 3,293	$ 614	$ 3,907

Fair Value of Derivative Instruments
December 31, 2012

Balance Sheet Location	Risk Management Contracts – Commodity (a)	Hedging Contracts – Commodity (a)	Hedging Contracts – Interest Rate (a)	Gross Amounts of Risk Management Assets/ Liabilities Recognized	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
			(in thousands)			
Current Risk Management Assets	$ 25,448	$ 72	$ -	$ 25,520	$ (19,345)	$ 6,175
Long-term Risk Management Assets	12,117	43	-	12,160	(5,278)	6,882
Total Assets	37,565	115	-	37,680	(24,623)	13,057
Current Risk Management Liabilities	23,806	239	-	24,045	(20,725)	3,320
Long-term Risk Management Liabilities	9,469	85	-	9,554	(5,854)	3,700
Total Liabilities	33,275	324	-	33,599	(26,579)	7,020
Total MTM Derivative Contract Net Assets (Liabilities)	$ 4,290	$ (209)	$ -	$ 4,081	$ 1,956	$ 6,037

(a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
(b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
(c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

The table below presents KPCo's activity of derivative risk management contracts for the years ended December 31, 2013, 2012 and 2011:

Amount of Gain (Loss) Recognized on
Risk Management Contracts

Location of Gain (Loss)	2013	2012	2011
		(in thousands)	
Electric Generation, Transmission and Distribution Revenues	$ 1,483	$ (1,597)	$ 2,248
Sales to AEP Affiliates	-	-	31
Fuel and Other Consumables Used for Electric Generation	-	-	(3)
Regulatory Assets (a)	-	-	93
Regulatory Liabilities (a)	(1,029)	1,047	(1,158)
Total Gain (Loss) on Risk Management Contracts	$ 454	$ (550)	$ 1,211

Years Ended December 31 apply to the 2013, 2012 and 2011 columns.

(a) Represents realized and unrealized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets.

Certain qualifying derivative instruments have been designated as normal purchase or normal sale contracts, as provided in the accounting guidance for "Derivatives and Hedging." Derivative contracts that have been designated as normal purchases or normal sales under that accounting guidance are not subject to MTM accounting treatment and are recognized on the statements of income on an accrual basis.

KPCo's accounting for the changes in the fair value of a derivative instrument depends on whether it qualifies for and has been designated as part of a hedging relationship and further, on the type of hedging relationship. Depending on the exposure, management designates a hedging instrument as a fair value hedge or a cash flow hedge.

For contracts that have not been designated as part of a hedging relationship, the accounting for changes in fair value depends on whether the derivative instrument is held for trading purposes. Unrealized and realized gains and losses on derivative instruments held for trading purposes are included in revenues on a net basis on KPCo's statements of income. Unrealized and realized gains and losses on derivative instruments not held for trading purposes are included in revenues or expenses on KPCo's statements of income depending on the relevant facts and circumstances. However, unrealized and some realized gains and losses for both trading and non-trading derivative instruments are recorded as regulatory assets (for losses) or regulatory liabilities (for gains), in accordance with the accounting guidance for "Regulated Operations."

Accounting for Fair Value Hedging Strategies

For fair value hedges (i.e. hedging the exposure to changes in the fair value of an asset, liability or an identified portion thereof attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item associated with the hedged risk affects Net Income during the period of change.

KPCo records realized and unrealized gains or losses on interest rate swaps that qualify for fair value hedge accounting treatment and any offsetting changes in the fair value of the debt being hedged in Interest Expense on KPCo's statements of income. During 2013, 2012 and 2011, KPCo did not designate any fair value hedging strategies.

Accounting for Cash Flow Hedging Strategies

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), KPCo initially reports the effective portion of the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on the balance sheets until the period the hedged item affects Net Income. KPCo recognizes any hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains).

Realized gains and losses on derivative contracts for the purchase and sale of power, coal and natural gas designated as cash flow hedges are included in Revenues, Fuel and Other Consumables Used for Electric Generation or Purchased Electricity for Resale on KPCo's statements of income, or in Regulatory Assets or Regulatory Liabilities on KPCo's balance sheets, depending on the specific nature of the risk being hedged. During 2013, 2012 and 2011, KPCo designated power, coal and natural gas derivatives as cash flow hedges.

KPCo reclassifies gains and losses on heating oil and gasoline derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on the statements of income. During 2013, 2012 and 2011, KPCo designated heating oil and gasoline derivatives as cash flow hedges.

KPCo reclassifies gains and losses on interest rate derivative hedges related to debt financings from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Interest Expense on its statements of income in those periods in which hedged interest payments occur. During 2013, 2012 and 2011, KPCo did not designate any interest rate derivatives as cash flow hedges.

The accumulated gains or losses related to foreign currency hedges are reclassified from Accumulated Other Comprehensive Income (Loss) on KPCo's balance sheets into Depreciation and Amortization expense on the statements of income over the depreciable lives of the fixed assets designated as the hedged items in qualifying foreign currency hedging relationships. During 2013, 2012 and 2011, KPCo did not designate any foreign currency derivatives as cash flow hedges.

During 2013, 2012 and 2011, hedge ineffectiveness was immaterial or nonexistent for all cash flow hedge strategies disclosed above.

For details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on KPCo's balance sheets and the reasons for changes in cash flow hedges, see Note 2.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on KPCo's balance sheets as of December 31, 2013 and 2012 were:

Impact of Cash Flow Hedges on the Balance Sheet
December 31, 2013

	Commodity	Interest Rate	Total
		(in thousands)	
Hedging Assets (a)	$ 79	$ -	$ 79
Hedging Liabilities (a)	59	-	59
AOCI Loss Net of Tax	23	(222)	(199)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	23	(60)	(37)

Impact of Cash Flow Hedges on the Balance Sheet
December 31, 2012

	Commodity	Interest Rate	Total
		(in thousands)	
Hedging Assets (a)	$ 63	$ -	$ 63
Hedging Liabilities (a)	272	-	272
AOCI Loss Net of Tax	(127)	(282)	(409)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	(100)	(60)	(160)

(a) Hedging Assets and Hedging Liabilities are included in Risk Management Assets and Liabilities on KPCo's balance sheets.

The actual amounts that KPCo reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of December 31, 2013, the maximum length of time that KPCo is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions was 12 months.

Credit Risk

AEPSC, on behalf of KPCo, limits credit risk in KPCo's wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis. AEPSC, on behalf of KPCo, uses Moody's, Standard and Poor's and current market-based qualitative and quantitative data as well as financial statements to assess the financial health of counterparties on an ongoing basis.

When AEPSC, on behalf of KPCo, uses standardized master agreements, these agreements may include collateral requirements. These master agreements facilitate the netting of cash flows associated with a single counterparty. Cash, letters of credit and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. The collateral agreements require a counterparty to post cash or letters of credit in the event an exposure exceeds the established threshold. The threshold represents an unsecured credit limit which may be supported by a parental/affiliate guaranty, as determined in accordance with AEP's credit policy. In addition, collateral agreements allow for termination and liquidation of all positions in the event of a failure or inability to post collateral.

Collateral Triggering Events

Under the tariffs of the RTOs and Independent System Operators (ISOs) and a limited number of derivative and non-derivative contracts primarily related to competitive retail auction loads, KPCo is obligated to post an additional amount of collateral if certain credit ratings decline below investment grade. The amount of collateral required fluctuates based on market prices and total exposure. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these collateral triggering items in contracts. KPCo has not experienced a downgrade below investment grade. The following table represents: (a) KPCo's fair value of such derivative contracts, (b) the amount of collateral KPCo would have been required to post for all derivative and non-derivative contracts if the credit ratings had declined below investment grade and (c) how much was attributable to RTO and ISO activities as of December 31, 2013 and 2012:

	December 31,	
	2013	**2012**
	(in thousands)	
Liabilities for Derivative Contracts with Credit Downgrade Triggers	$ 118	$ 432
Amount of Collateral KPCo Would Have Been Required to Post	565	741
Amount Attributable to RTO and ISO Activities	522	703

In addition, a majority of KPCo's non-exchange traded commodity contracts contain cross-default provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-default provisions could be triggered if there was a non-performance event by Parent or the obligor under outstanding debt or a third party obligation in excess of $50 million. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-default provisions in the contracts. The following table represents: (a) the fair value of these derivative liabilities subject to cross-default provisions prior to consideration of contractual netting arrangements, (b) the amount this exposure has been reduced by cash collateral posted by KPCo and (c) if a cross-default provision would have been triggered, the settlement amount that would be required after considering KPCo's contractual netting arrangements as of December 31, 2013 and 2012:

	December 31,	
	2013	**2012**
	(in thousands)	
Liabilities for Contracts with Cross Default Provisions Prior to Contractual Netting Arrangements	$ 4,039	$ 9,907
Amount of Cash Collateral Posted	-	365
Additional Settlement Liability if Cross Default Provision is Triggered	3,817	6,041

10. FAIR VALUE MEASUREMENTS

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of KPCo's Long-term Debt as of December 31, 2013 and 2012 are summarized in the following table:

	December 31,			
	2013		2012	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 749,389	$ 841,594	$ 799,195	$ 967,366

Fair Value Measurements of Financial Assets and Liabilities

For a discussion of fair value accounting and the classification of assets and liabilities within the fair value hierarchy, see the “Fair Value Measurements of Assets and Liabilities” section of Note 1.

The following tables set forth, by level within the fair value hierarchy, KPCo’s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2013 and 2012. As required by the accounting guidance for “Fair Value Measurements and Disclosures,” financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management’s valuation techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2013

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Risk Management Assets					
Risk Management Commodity Contracts (a) (b)	$ 170	$ 11,168	$ 2,487	$ (6,064)	$ 7,761
Cash Flow Hedges:					
Commodity Hedges (a)	-	85	-	(6)	79
Total Risk Management Assets	$ 170	$ 11,253	$ 2,487	$ (6,070)	$ 7,840
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a) (b)	$ 144	$ 10,092	$ 316	$ (6,678)	$ 3,874
Cash Flow Hedges:					
Commodity Hedges (a)	-	65	-	(6)	59
Total Risk Management Liabilities	$ 144	$ 10,157	$ 316	$ (6,684)	$ 3,933

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2012

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Risk Management Assets					
Risk Management Commodity Contracts (a) (b)	$ 833	$ 33,315	$ 3,417	$ (24,571)	$ 12,994
Cash Flow Hedges:					
Commodity Hedges (a)	-	103	-	(40)	63
Total Risk Management Assets	$ 833	$ 33,418	$ 3,417	$ (24,611)	$ 13,057
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a) (b)	$ 392	$ 31,665	$ 1,218	$ (26,527)	$ 6,748
Cash Flow Hedges:					
Commodity Hedges (a)	-	312	-	(40)	272
Total Risk Management Liabilities	$ 392	$ 31,977	$ 1,218	$ (26,567)	$ 7,020

(a) Amounts in “Other” column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for “Derivatives and Hedging.”
(b) Substantially comprised of power contracts.

There have been no transfers between Level 1 and Level 2 during the years ended December 31, 2013, 2012 and 2011.

The following tables set forth a reconciliation of changes in the fair value of net trading derivatives and other investments classified as Level 3 in the fair value hierarchy:

Year Ended December 31, 2013	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of December 31, 2012	$ 2,199
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(732)
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a)	-
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	-
Purchases, Issuances and Settlements (c)	101
Transfers into Level 3 (d) (e)	273
Transfers out of Level 3 (e) (f)	(187)
Changes in Fair Value Allocated to Regulated Jurisdictions (g)	517
Balance as of December 31, 2013	$ 2,171

Year Ended December 31, 2012	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of December 31, 2011	$ 416
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(1,071)
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a)	-
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	5
Purchases, Issuances and Settlements (c)	2,282
Transfers into Level 3 (d) (e)	309
Transfers out of Level 3 (e) (f)	(434)
Changes in Fair Value Allocated to Regulated Jurisdictions (g)	692
Balance as of December 31, 2012	$ 2,199

Year Ended December 31, 2011	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of December 31, 2010	$ 1,073
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(454)
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a)	-
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	(16)
Purchases, Issuances and Settlements (c)	336
Transfers into Level 3 (d) (e)	524
Transfers out of Level 3 (e) (f)	(635)
Changes in Fair Value Allocated to Regulated Jurisdictions (g)	(412)
Balance as of December 31, 2011	$ 416

(a) Included in revenues on KPCo's statements of income.
(b) Represents the change in fair value between the beginning of the reporting period and the settlement of the risk management commodity contract.
(c) Represents the settlement of risk management commodity contracts for the reporting period.
(d) Represents existing assets or liabilities that were previously categorized as Level 2.
(e) Transfers are recognized based on their value at the beginning of the reporting period that the transfer occurred.
(f) Represents existing assets or liabilities that were previously categorized as Level 3.
(g) Relates to the net gains (losses) of those contracts that are not reflected on KPCo's statements of income. These net gains (losses) are recorded as regulatory assets/liabilities.

The following tables quantify the significant unobservable inputs used in developing the fair value of Level 3 positions as of December 31, 2013 and 2012:

Significant Unobservable Inputs
December 31, 2013

	Fair Value Assets	Fair Value Liabilities	Valuation Technique	Significant Unobservable Input (a)	Forward Price Range Low	Forward Price Range High
	(in thousands)					
Energy Contracts	$ 1,924	$ 198	Discounted Cash Flow	Forward Market Price	$ 13.04	$ 80.50
FTRs	563	118	Discounted Cash Flow	Forward Market Price	(5.10)	10.44
Total	$ 2,487	$ 316				

Significant Unobservable Inputs
December 31, 2012

	Fair Value Assets	Fair Value Liabilities	Valuation Technique	Significant Unobservable Input (a)	Forward Price Range Low	Forward Price Range High
	(in thousands)					
Energy Contracts	$ 3,067	$ 786	Discounted Cash Flow	Forward Market Price	$ 9.40	$ 68.80
FTRs	350	432	Discounted Cash Flow	Forward Market Price	(3.21)	14.79
Total	$ 3,417	$ 1,218				

(a) Represents market prices in dollars per MWh.

11. INCOME TAXES

The details of KPCo's income taxes as reported are as follows:

	Years Ended December 31, 2013	2012	2011
		(in thousands)	
Income Tax Expense (Credit):			
Current	$ (4,828)	$ 13,617	$ (1,625)
Deferred	12,440	10,168	33,153
Deferred Investment Tax Credits	(230)	(278)	(359)
Income Tax Expense	$ 7,382	$ 23,507	$ 31,169

The following is a reconciliation of the difference between the amount of federal income taxes computed by multiplying book income before income taxes by the federal statutory tax rate and the amount of income taxes reported:

	Years Ended December 31, 2013	2012	2011
		(in thousands)	
Net Income	$ 8,906	$ 52,975	$ 53,976
Income Tax Expense	7,382	23,507	31,169
Pretax Income	$ 16,288	$ 76,482	$ 85,145
Income Taxes on Pretax Income at Statutory Rate (35%)	$ 5,701	$ 26,769	$ 29,801
Increase (Decrease) in Income Taxes resulting from the following items:			
Depreciation	2,648	2,382	2,563
AFUDC	(749)	(894)	(818)
Removal Costs	(2,475)	(3,885)	(2,010)
Investment Tax Credits, Net	(230)	(278)	(359)
State and Local Income Taxes, Net	1,581	1,535	2,261
Tax Adjustments	1,097	(1,076)	751
Other	(191)	(1,046)	(1,020)
Income Tax Expense	$ 7,382	$ 23,507	$ 31,169
Effective Income Tax Rate	45.3 %	30.7 %	36.6 %

The following table shows elements of KPCo's net deferred tax liability and significant temporary differences:

	December 31,	
	2013	2012
	(in thousands)	
Deferred Tax Assets	$ 56,347	$ 42,212
Deferred Tax Liabilities	(612,505)	(547,735)
Net Deferred Tax Liabilities	$ (556,158)	$ (505,523)
Property Related Temporary Differences	$ (436,812)	$ (410,100)
Amounts Due from Customers for Future Federal Income Taxes	(29,842)	(29,800)
Deferred State Income Taxes	(80,357)	(54,658)
Deferred Income Taxes on Other Comprehensive Loss	2,918	10,760
Regulatory Assets	(17,063)	(20,604)
All Other, Net	4,998	(1,121)
Net Deferred Tax Liabilities	$ (556,158)	$ (505,523)

AEP System Tax Allocation Agreement

KPCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

Federal and State Income Tax Audit Status

KPCo and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2011. KPCo and other AEP subsidiaries completed the examination of the years 2007 and 2008 in April 2011 and settled all outstanding issues on appeal for the years 2001 through 2006 in October 2011. The settlements did not have a material impact on KPCo and other AEP subsidiaries' net income, cash flows or financial condition. The IRS examination of years 2009 and 2010 started in October 2011 and was completed in the second quarter of 2013. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, KPCo accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

KPCo and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and KPCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. However, it is possible that previously filed tax returns have positions that may be challenged by these tax authorities. Management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. KPCo is no longer subject to state or local income tax examinations by tax authorities for years before 2009.

Tax Credit Carryforward

A federal income tax operating loss sustained in 2009 along with lower federal taxable income in 2012, 2011 and 2010 resulted in unused federal income tax credits of $232 thousand, not all of which have an expiration date. As of December 31, 2013, KPCo had federal general business tax credit carryforwards of $218 thousand. If these credits are not utilized, the federal general business tax credits will expire in the years 2029 through 2032.

KPCo anticipates future federal taxable income will be sufficient to realize the tax benefits of the federal tax credits before they expire unused.

Uncertain Tax Positions

KPCo recognizes interest accruals related to uncertain tax positions in interest income or expense as applicable, and penalties in Other Operation expense in accordance with the accounting guidance for "Income Taxes."

The following table shows amounts reported for interest expense, interest income and reversal of prior period interest expense:

	Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Interest Expense	$ -	$ 23	$ 193
Interest Income	99	-	1,849
Reversal of Prior Period Interest Expense	-	-	284

The following table shows balances for amounts accrued for the receipt of interest and the payment of interest and penalties:

	December 31,	
	2013	2012
	(in thousands)	
Accrual for Receipt of Interest	$ 1	$ 1
Accrual for Payment of Interest and Penalties	98	92

The reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2013	2012	2011
		(in thousands)	
Balance as of January 1,	$ 1,333	$ 1,608	$ 2,711
Increase - Tax Positions Taken During a Prior Period	-	-	1,604
Decrease - Tax Positions Taken During a Prior Period	(725)	(93)	(1,586)
Increase - Tax Positions Taken During the Current Year	-	-	-
Decrease - Tax Positions Taken During the Current Year	-	-	-
Decrease - Settlements with Taxing Authorities	-	(182)	(99)
Decrease - Lapse of the Applicable Statute of Limitations	-	-	(1,022)
Balance as of December 31,	$ 608	$ 1,333	$ 1,608

The total amount of unrecognized tax benefits (costs) that, if recognized, would affect the effective tax rate is $0 thousand for 2013 and 2012 and $(4) thousand for 2011. Management believes there will be no significant net increase or decrease in unrecognized tax benefits within 12 months of the reporting date.

Federal Tax Legislation

The American Taxpayer Relief Act of 2012 (the 2012 Act) was enacted in January 2013. Included in the 2012 Act was a one-year extension of the 50% bonus depreciation. The 2012 Act also retroactively extended the life of research and development, employment and several energy tax credits, which expired at the end of 2011. The enacted provisions will not materially impact KPCo's net income or financial condition but did have a favorable impact on cash flows in 2013.

Federal Tax Regulations

In 2013, the U.S. Treasury Department issued final and re-proposed regulations regarding the deduction and capitalization of expenditures related to tangible property, effective for the tax years beginning in 2014. In addition, the IRS issued Revenue Procedures under the Industry Issue Resolutions program that provides specific guidance for the implementation of the regulations for the electric utility industry. The impact of these final regulations is not material to net income, cash flows or financial condition.

State Tax Legislation

In May 2011, Michigan repealed its Business Tax regime and replaced it with a traditional corporate net income tax rate of 6%, effective January 1, 2012.

During the third quarter of 2013, it was determined that the state of West Virginia had achieved certain minimum levels of shortfall reserve funds. As a result, the West Virginia corporate income tax rate will be reduced from 7.0% to 6.5% in 2014. The enacted provisions will not materially impact KPCo's net income, cash flows or financial condition.

12. LEASES

Leases of property, plant and equipment are for remaining periods up to 10 years and require payments of related property taxes, maintenance and operating costs. The majority of the leases have purchase or renewal options and will be renewed or replaced by other leases.

Lease rentals for both operating and capital leases are generally charged to Other Operation and Maintenance expense in accordance with rate-making treatment for regulated operations. For capital leases, a capital lease asset and offsetting liability are recorded at the present value of the remaining lease payments for each reporting period. The components of rental costs are as follows:

Lease Rental Costs	Years Ended December 31, 2013	2012	2011
		(in thousands)	
Net Lease Expense on Operating Leases	$ 1,387	$ 1,141	$ 835
Amortization of Capital Leases	1,743	1,710	1,897
Interest on Capital Leases	311	311	344
Total Lease Rental Costs	$ 3,441	$ 3,162	$ 3,076

The following table shows the property, plant and equipment under capital leases and related obligations recorded on KPCo's balance sheets. Capital lease obligations are included in Other Current Liabilities and Deferred Credits and Other Noncurrent Liabilities on KPCo's balance sheets.

	December 31, 2013	2012
	(in thousands)	
Property, Plant and Equipment Under Capital Leases		
Generation	$ 2,854	$ 2,776
Other Property, Plant and Equipment	3,425	4,618
Total Property, Plant and Equipment Under Capital Leases	6,279	7,394
Accumulated Amortization	1,869	2,576
Net Property, Plant and Equipment Under Capital Leases	$ 4,410	$ 4,818
Obligations Under Capital Leases		
Noncurrent Liability	$ 3,420	$ 3,128
Liability Due Within One Year	990	1,729
Total Obligations Under Capital Leases	$ 4,410	$ 4,857

Future minimum lease payments consisted of the following as of December 31, 2013:

Future Minimum Lease Payments	Capital Leases	Noncancelable Operating Leases
	(in thousands)	
2014	$ 1,147	$ 1,324
2015	1,025	1,153
2016	812	1,091
2017	672	923
2018	471	629
Later Years	851	1,493
Total Future Minimum Lease Payments	4,978	$ 6,613
Less Estimated Interest Element	568	
Estimated Present Value of Future Minimum Lease Payments	$ 4,410	

Master Lease Agreements

KPCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, KPCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of December 31, 2013, the maximum potential loss for these lease agreements was approximately $1.1 million assuming the fair value of the equipment is zero at the end of the lease term.

13. FINANCING ACTIVITIES

Long-term Debt

There are certain limitations on establishing liens against KPCo's assets under its indentures. None of the long-term debt obligations of KPCo have been guaranteed or secured by AEP or any of its affiliates.

The following details long-term debt outstanding as of December 31, 2013 and 2012:

Type of Debt	Maturity	Weighted Average Interest rate as of December 31, 2013	Interest Rate Ranges as of December 31, 2013	Interest Rate Ranges as of December 31, 2012	Outstanding as of December 31, 2013	Outstanding as of December 31, 2012
					(in thousands)	
Senior Unsecured Notes	2017-2039	6.40%	5.625%-8.13%	5.625%-8.13%	$ 530,000	$ 780,000
Notes Payable - Affiliated	2015	5.25%	5.25%	5.25%	20,000	20,000
Other Long-term Debt (a)	2015	1.188%	1.188%		200,000	-
Unamortized Discount, Net					(611)	(805)
Total Long-term Debt Outstanding					749,389	799,195
Long-term Debt Due Within One Year					-	250,000
Long-term Debt					$ 749,389	$ 549,195

(a) In July 2013, AGR, APCo, KPCo and OPCo entered into a $1 billion term credit facility due in May 2015 to provide liquidity during the corporate separation process. In 2013, OPCo borrowed $1 billion under the credit facility and retired other certain debt. On December 31, 2013, OPCo assigned the $1 billion in credit facility borrowings to AGR upon the transfer of OPCo's generation assets to AGR. Also on December 31, 2013, AGR subsequently assigned a portion of the borrowings to KPCo in the amount of $200 million upon AGR's transfer of certain of those generation assets.

Long-term debt outstanding as of December 31, 2013 is payable as follows:

	2014	2015	2016	2017	2018	After 2018	Total
				(in thousands)			
Principal Amount	$ -	$ 220,000	$ -	$ 325,000	$ -	$ 205,000	$ 750,000
Unamortized Discount, Net							(611)
Total Long-term Debt Outstanding							$ 749,389

Dividend Restrictions

KPCo pays dividends to Parent provided funds are legally available. Various financing arrangements and regulatory requirements may impose certain restrictions on the ability of KPCo to transfer funds to Parent in the form of dividends.

Federal Power Act

The Federal Power Act prohibits KPCo from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of KPCo to pay dividends out of retained earnings.

Leverage Restrictions

Pursuant to the credit agreement leverage restrictions, KPCo must maintain a percentage of debt to total capitalization at a level that does not exceed 67.5%. As of December 31, 2013, none of KPCo's retained earnings have restrictions related to the payment of dividends to Parent.

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of December 31, 2013 and 2012 are included in Advances from Affiliates on KPCo's balance sheets. KPCo's Utility Money Pool activity and corresponding authorized borrowing limits for the years ended December 31, 2013 and 2012 are described in the following table:

Year	Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of December 31,	Authorized Short-Term Borrowing Limit
			(in thousands)			
2013	$ 32,649	$ 31,421	$ 10,911	$ 14,584	$ 8,564	$ 250,000
2012	13,359	80,205	9,200	46,187	13,359	250,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the years ended December 31, 2013, 2012 and 2011 are summarized in the following table:

Year Ended December 31,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2013	0.43 %	0.29 %	0.41 %	0.24 %	0.37 %	0.32 %
2012	0.42 %	0.42 %	0.56 %	0.39 %	0.42 %	0.48 %
2011	- %	- %	0.56 %	0.06 %	- %	0.35 %

Interest expense and interest income related to the Utility Money Pool are included in Interest Expense and Interest Income, respectively, on KPCo's statements of income. For amounts borrowed from and advanced to the Utility Money Pool, KPCo incurred the following amounts of interest expense and earned the following amounts of interest income, respectively, for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Interest Expense	$ 12	$ 1	$ -
Interest Income	36	222	318

Sale of Receivables – AEP Credit

Under a sale of receivables arrangement, KPCo sells, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit and is charged a fee based on AEP Credit's financing costs, administrative costs and uncollectible accounts experience for KPCo's receivables. The costs of customer accounts receivable sold are reported in Other Operation expense on KPCo's statements of income. KPCo manages and services its accounts receivable sold.

In June 2013, AEP Credit amended its receivables securitization agreement to extend through June 2014. The agreement provides a commitment of $700 million from bank conduits to purchase receivables. AEP Credit amended a commitment of $385 million to now expire in June 2014. The remaining commitment of $315 million expires in June 2015. AEP Credit intends to extend or replace the agreement expiring in June 2014 on or before its maturity.

KPCo's amount of accounts receivable and accrued unbilled revenues sold under the sale of receivables agreement was $43 million and $46 million as of December 31, 2013 and 2012, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold were $2 million for each of the years ended December 31, 2013, 2012 and 2011.

KPCo's proceeds on the sale of receivables to AEP Credit were $522 million, $517 million and $579 million for the years ended December 31, 2013, 2012 and 2011, respectively.

14. RELATED PARTY TRANSACTIONS

For other related party transactions, also see "AEP System Tax Allocation Agreement" section of Note 11 in addition to "Utility Money Pool – AEP System" and "Sale of Receivables – AEP Credit" sections of Note 13.

Interconnection Agreement

In accordance with management's December 2010 announcement and October 2012 filing with the FERC, the Interconnection Agreement was terminated effective January 1, 2014. The AEP System Interim Allowance Agreement which provided for, among other things, the transfer of SO_2 emission allowances associated with transactions under the Interconnection Agreement was also terminated.

APCo, I&M, KPCo, OPCo and AEPSC were parties to the Interconnection Agreement which defined the sharing of costs and benefits associated with the respective generating plants. This sharing was based upon each AEP utility subsidiary's MLR and was calculated monthly on the basis of each AEP utility subsidiary's maximum peak demand in relation to the sum of the maximum peak demands of all four AEP utility subsidiaries during the preceding 12 months.

Effective January 1, 2014, the FERC approved the creation of the Power Coordination Agreement among APCo, I&M and KPCo with AEPSC as the agent to coordinate the participants' respective power supply resources. Also effective January 1, 2014, the FERC approved the Bridge Agreement among AGR, APCo, I&M, KPCo and OPCo with AEPSC as agent to address open commitments related to the termination of the Interconnection Agreement and responsibilities to PJM. See "Corporate Separation and Termination of Interconnection Agreement" section of FERC Rate Matters in Note 3.

Prior to January 1, 2014, power, natural gas and risk management activities were conducted by AEPSC and profits and losses were allocated under the SIA to members of the Interconnection Agreement, PSO and SWEPCo. Risk management activities involved the purchase and sale of power and natural gas under physical forward contracts at fixed and variable prices. In addition, the risk management of power, and to a lesser extent natural gas contracts, included exchange traded futures and options and OTC options and swaps. The majority of these transactions represented physical forward contracts in the AEP System's traditional marketing area and were typically settled by entering into offsetting contracts. In addition, AEPSC entered into transactions for the purchase and sale of power and natural gas options, futures and swaps, and for the forward purchase and sale of power outside of the AEP System's traditional marketing area.

Operating Agreement

PSO, SWEPCo and AEPSC are parties to the Operating Agreement which was approved by the FERC. The Operating Agreement requires PSO and SWEPCo to maintain adequate annual planning reserve margins and requires that capacity in excess of the required margins be made available for sale to other operating companies as capacity commitments. Parties are compensated for energy delivered to recipients based upon the deliverer's incremental cost plus a portion of the recipient's savings realized by the purchaser that avoids more costly alternatives. Revenues and costs arising from third party sales are generally shared based on the amount of energy PSO or SWEPCo contributes that is sold to third parties.

System Integration Agreement (SIA)

The SIA provides for the integration and coordination of AEP East Companies' and AEP West Companies' zones. This includes joint dispatch of generation within the AEP System and the distribution, between the two zones, of costs and benefits associated with the transfers of power between the two zones (including sales to third parties and risk management and trading activities). The SIA is designed to function as an umbrella agreement in addition to the Interconnection Agreement (prior to January 1, 2014) and the Operating Agreement, each of which controls the distribution of costs and benefits within a zone.

Power generated, allocated or provided under the Interconnection Agreement or the Operating Agreement is primarily sold to customers at rates approved by the public utility commission in the jurisdiction of sale.

Under both the Interconnection Agreement and the Operating Agreement, power generated that is not needed to serve the AEP System's native load is sold in the wholesale market by AEPSC on behalf of the generating subsidiary.

Affiliated Revenues and Purchases

The following table shows the revenues derived from sales under the Interconnection Agreement, direct sales to affiliates, net transmission agreement sales, natural gas contracts with AEPES and other revenues for the years ended December 31, 2013, 2012 and 2011:

Related Party Revenues	Years Ended December 31, 2013	2012	2011
		(in thousands)	
Sales under Interconnection Agreement	$ 79,909	$ 60,198	$ 99,593
Direct Sales to West Affiliates	119	64	314
Transmission Agreement Sales	862	3,022	4,480
Natural Gas Contracts with AEPES	-	-	32
Other Revenues	22,841	7,492	263
Total Affiliated Revenues	$ 103,731	$ 70,776	$ 104,682

The following table shows the purchased power expenses incurred for purchases under the Interconnection Agreement and from affiliates for the years ended December 31, 2013, 2012 and 2011:

Related Party Purchases	Years Ended December 31, 2013	2012	2011
		(in thousands)	
Purchases under Interconnection Agreement	$ 161,293	$ 121,267	$ 112,217
Direct Purchases from West Affiliates	1	11	51
Purchases from AEGCo	107,794	102,371	98,031
Total Affiliated Purchases	$ 269,088	$ 223,649	$ 210,299

The above summarized related party revenues and expenses are reported in Sales to AEP Affiliates and Purchased Electricity from AEP Affiliates on KPCo's statements of income.

System Transmission Integration Agreement

AEP's System Transmission Integration Agreement provides for the integration and coordination of the planning, operation and maintenance of the transmission facilities of AEP East Companies' and AEP West Companies' zones. Similar to the SIA, the System Transmission Integration Agreement functions as an umbrella agreement in addition to the Transmission Agreement (TA) and the Transmission Coordination Agreement (TCA). The System Transmission Integration Agreement contains two service schedules that govern:

- The allocation of transmission costs and revenues.
- The allocation of third-party transmission costs and revenues and AEP System dispatch costs.

The System Transmission Integration Agreement anticipates that additional service schedules may be added as circumstances warrant.

APCo, I&M, KGPCo, KPCo, OPCo and WPCo are parties to the TA, effective November 2010, which defines how transmission costs through PJM OATT are allocated among the AEP East Companies, KGPCo and WPCo on a 12-month average coincident peak basis.

KPCo's net charges recorded as a result of the TA for the years ended December 31, 2013, 2012 and 2011 were $3 million, $1.1 million and $410 thousand, respectively, and were recorded in Other Operation expenses on KPCo's statements of income.

PSO, SWEPCo and AEPSC are parties to the TCA, dated January 1, 1997, revised 1999 and 2011, as restated and amended, by and among PSO, SWEPCo and AEPSC, in connection with the operation of the transmission assets of the two AEP utility subsidiaries. The TCA has been approved by the FERC and establishes a coordinating committee, which is charged with overseeing the coordinated planning of the transmission facilities of the parties to the agreement.

Fuel Agreement between OPCo and AEPES

OPCo and National Power Cooperative, Inc. (NPC) have an agreement whereby OPCo operates a 500 MW natural gas plant owned by NPC (Mone Plant). AEPES entered into a fuel management agreement with OPCo and NPC to manage and procure fuel for the Mone Plant. The natural gas purchased by AEPES and used in generation is first sold to OPCo then allocated to the AEP East Companies, who have an agreement to purchase 100% of the available generating capacity from the plant through May 2014. KPCo's related purchases of natural gas managed by AEPES were $124 thousand, $173 thousand and $183 thousand for the years ended December 31, 2013, 2012 and 2011, respectively. These purchases are reflected in Purchased Electricity for Resale on KPCo's statements of income.

Unit Power Agreements (UPA)

A UPA between AEGCo and I&M (the I&M Power Agreement) provides for the sale by AEGCo to I&M of all the power (and the energy associated therewith) available to AEGCo at the Rockport Plant unless it is sold to another utility. Subsequently, I&M assigns 30% of the power to KPCo. I&M is obligated, whether or not power is available

from AEGCo, to pay as a demand charge for the right to receive such power (and as an energy charge for any associated energy taken by I&M) net of amounts received by AEGCo from any other sources, sufficient to enable AEGCo to pay all its operating and other expenses, including a rate of return on the common equity of AEGCo as approved by the FERC. The I&M Power Agreement will continue in effect until the expiration of the lease term of Unit 2 of the Rockport Plant unless extended in specified circumstances.

Pursuant to an assignment between I&M and KPCo and a UPA between KPCo and AEGCo, AEGCo sells KPCo 30% of the power (and the energy associated therewith) available to AEGCo from both units of the Rockport Plant. KPCo pays to AEGCo in consideration for the right to receive such power the same amounts which I&M would have paid AEGCo under the terms of the I&M Power Agreement for such entitlement. The KPCo UPA ends in December 2022.

I&M Barging, Urea Transloading and Other Services

I&M provides barging, urea transloading and other transportation services to affiliates. Urea is a chemical used to control NO_x emissions at certain generation plants in the AEP System. KPCo recorded expenses of $4 million, $1.6 million and $2.2 million in 2013, 2012 and 2011, respectively, for urea transloading provided by I&M. These expenses were recorded as fuel expenses or other operation expenses.

Central Machine Shop

APCo operates a facility which repairs and rebuilds specialized components for the generation plants across the AEP System. APCo defers the cost of performing these services on the balance sheet, then transfers the cost to the affiliate for reimbursement. KPCo recorded its assigned portion of these billings as capital or maintenance expenses depending on the nature of the services received. These billings are recoverable from customers. KPCo's billed amounts were $1.1 million, $647 thousand and $672 thousand for the years ended December 31, 2013, 2012 and 2011, respectively.

Affiliate Railcar Agreement

KPCo has an agreement providing for the use of its affiliates' leased or owned railcars when available. The agreement specifies that the company using the railcar will be billed, at cost, by the company furnishing the railcar. KPCo recorded these costs in Fuel on the balance sheets and such costs are recoverable from customers. The following table shows the net effect of the railcar agreement on KPCo's balance sheets:

	December 31,	
Billing Company	**2013**	**2012**
	(in thousands)	
AGR	$ (20)	$ 381
APCo	26	436

Purchases from OVEC under the Interconnection Agreement

In 2011, the parties to the Interconnection Agreement purchased power from OVEC to serve off-system sales and retail sales. These purchases are reported in Purchased Electricity for Resale on KPCo's statement of income. KPCo recorded $4.5 million in expense for the year ended December 31, 2011.

Sales and Purchases of Property

KPCo had affiliated sales and purchases of electric property individually amounting to $100 thousand or more, sales and purchases of meters and transformers, and sales and purchases of transmission property. There were no gains or losses recorded on the transactions. The following table shows the sales and purchases, recorded at net book value, for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	**2012**	**2011**
		(in thousands)	
Sales	$ 951	$ 1,032	$ 404
Purchases	1,702	1,078	2,188

The amounts above are recorded in Property, Plant and Equipment on the balance sheets.

Global Borrowing Notes

As of December 31, 2013 and 2012, AEP has an intercompany note in place with KPCo. The debt is reflected in Long-term Debt – Affiliated on KPCo's balance sheets. KPCo accrues interest for its share of the global borrowing and remits the interest to AEP. The accrued interest is reflected in Accrued Interest on KPCo's balance sheets.

Intercompany Billings

KPCo performs certain utility services for other AEP subsidiaries when necessary or practical. The costs of these services are billed on a direct-charge basis, whenever possible, or on reasonable basis of proration for services that benefit multiple companies. The billings for services are made at cost and include no compensation for the use of equity capital.

15. VARIABLE INTEREST ENTITIES

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether KPCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability KPCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently. KPCo is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. KPCo's total billings from AEPSC for the years ended December 31, 2013, 2012 and 2011 were $38 million, $40 million and $35 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2013 and 2012 was $4 million and $6 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

AEGCo, a wholly-owned subsidiary of AEP, is consolidated by AEP. AEGCo owns a 50% ownership interest in Rockport Plant, Unit 1 and leases a 50% interest in Rockport Plant, Unit 2. AEGCo sells all the output from the Rockport Plant to I&M and KPCo. AEP has agreed to provide AEGCo with the funds necessary to satisfy all of the debt obligations of AEGCo. KPCo is considered to have a significant interest in AEGCo due to its transactions. KPCo is exposed to losses to the extent it cannot recover the costs of AEGCo through its normal business operations. Due to AEP management's control over AEGCo, KPCo is not considered the primary beneficiary of AEGCo. In the event AEGCo would require financing or other support outside the billings to KPCo, this financing would be provided by AEP. Total billings from AEGCo for the years ended December 31, 2013, 2012 and 2011 were $108 million, $102 million and $98 million, respectively. The carrying amount of liabilities associated with AEGCo as of December 31, 2013 and 2012 was $11 million and $10 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

16. PROPERTY, PLANT AND EQUIPMENT

Depreciation

KPCo provides for depreciation of Property, Plant and Equipment on a straight-line basis over the estimated useful lives of property, generally using composite rates by functional class. The following tables provide KPCo's annual property information:

2013	Regulated (a)				Nonregulated			
Functional Class of Property	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges
	(in thousands)			(in years)	(in thousands)			(in years)
Generation	$ 1,052,757	$ 365,645	3.7%	40-60	$ -	$ -	NA	NA
Transmission	507,844	172,604	1.8%	25-75	-	-	NA	NA
Distribution	693,481	216,771	3.4%	11-75	-	-	NA	NA
CWIP	128,599	(8,320)	NM	NM	-	-	NA	NA
Other	475,229	196,977	4.3%	20-75	5,530	212	NM	NM
Total	$ 2,857,910	$ 943,677			$ 5,530	$ 212		

2012	Regulated				Nonregulated (a)			
Functional Class of Property	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges
	(in thousands)			(in years)	(in thousands)			(in years)
Generation	$ 558,935	$ 221,976	3.8%	40-50	$ 880,064	$ 277,074	3.8%	60
Transmission	490,152	162,774	1.6%	25-75	5,829	3,082	2.3%	NM
Distribution	652,615	200,340	3.4%	11-75	-	-	NA	NA
CWIP	44,281	(6,327)	NM	NM	43,643	380	NM	NM
Other	57,451	24,409	7.2%	20-75	7,699	308	NM	NM
Total	$ 1,803,434	$ 603,172			$ 937,235	$ 280,844		

2011	Regulated		Nonregulated (a)	
Functional Class of Property	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)
Generation	3.8%	40-50	3.8%	60
Transmission	1.7%	25-75	2.4%	NA
Distribution	3.5%	11-75	NA	NA
CWIP	NM	NM	NM	NM
Other	8.2%	NM	3.4%	NM

(a) For 2013, KPCo's ownership in the Mitchell Plant is included in the Regulated amounts listed above. For 2012 and 2011, KPCo's ownership in the Mitchell Plant is included in the Nonregulated amounts listed above.

NA Not applicable.

NM Not meaningful.

The composite depreciation rate generally includes a component for nonasset retirement obligation (non-ARO) removal costs, which is credited to Accumulated Depreciation and Amortization. Actual removal costs incurred are charged to Accumulated Depreciation and Amortization. Any excess of accrued non-ARO removal costs over actual removal costs incurred is reclassified from Accumulated Depreciation and Amortization and reflected as a regulatory liability.

Asset Retirement Obligations (ARO)

KPCo records ARO in accordance with the accounting guidance for "Asset Retirement and Environmental Obligations" for the retirement of asbestos removal. KPCo has identified, but not recognized, ARO liabilities related to electric transmission and distribution assets, as a result of certain easements on property on which assets are owned. Generally, such easements are perpetual and require only the retirement and removal of assets upon the cessation of the property's use. The retirement obligation is not estimable for such easements since KPCo plans to use its facilities indefinitely. The retirement obligation would only be recognized if and when KPCo abandons or ceases the use of specific easements, which is not expected.

The following is a reconciliation of the 2013 and 2012 aggregate carrying amounts of ARO for KPCo:

Year	ARO as of January 1,	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO as of December 31,
			(in thousands)			
2013	$ 8,759	$ 742	$ -	$ (255)	$ 11,280	$ 20,526
2012	8,488	709	-	(438)	-	8,759

Allowance for Funds Used During Construction (AFUDC)

KPCo's amounts of allowance for borrowed and equity funds used during construction are summarized in the following table:

	Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Allowance for Equity Funds Used During Construction	$ 1,367	$ 1,574	$ 1,229
Allowance for Borrowed Funds Used During Construction	3,047	2,275	996

Jointly-owned Electric Facilities

KPCo has a 50.0% ownership share of Units 1 and 2 at the Mitchell Generating Station. In addition to KPCo, the Mitchell Generating Station is jointly-owned by AGR. Using its own financing, each participating company is obligated to pay its share of the costs in the same proportion as its ownership interest. KPCo's proportionate share of the operating costs associated with this facility is included in its statements of income and the investment and accumulated depreciation are reflected in its balance sheets under Property, Plant and Equipment as follows:

	Fuel Type	Percent of Ownership	Utility Plant in Service	Construction Work in Progress	Accumulated Depreciation
				(in thousands)	
KPCo's Share as of December 31, 2013					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	$ 907,304	$ 75,253	$ 305,170
KPCo's Share as of December 31, 2012					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	$ 878,036	$ 43,106	$ 276,658

(a) Operated by KPCo.

17. SUSTAINABLE COST REDUCTIONS

In April 2012, management initiated a process to identify strategic repositioning opportunities and efficiencies that will result in sustainable cost savings. Management selected a consulting firm to facilitate an organizational and process evaluation and a second firm to evaluate current employee benefit programs. The process resulted in involuntary severances and was completed by the end of the first quarter of 2013. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

KPCo recorded a charge of $2 million to Other Operation expense in 2012 primarily related to severance benefits as a result of the sustainable cost reductions initiative. In addition, the sustainable cost reduction activity for the year ended December 31, 2013 is described in the following table:

Balance as of December 31, 2012	Expense Allocation from AEPSC	Incurred	Settled	Adjustments	Remaining Balance as of December 31, 2013
		(in thousands)			
$ 497	$ 180	$ -	$ (276)	$ (401)	$ -

These expenses, net of adjustments, relate primarily to severance benefits and are included primarily in Other Operation expense on the statements of income. Management does not expect additional costs to be incurred related to this initiative.

18. UNAUDITED QUARTERLY FINANCIAL INFORMATION

In management's opinion, the unaudited quarterly information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of the results of operations for interim periods. Quarterly results are not necessarily indicative of a full year's operations because of various factors. KPCo's unaudited quarterly financial information is as follows:

	2013 Quarterly Periods Ended			
	March 31	June 30	September 30	December 31
		(in thousands)		
Total Revenues	$ 230,644	$ 181,549	$ 211,536	$ 202,526
Operating Income (Loss)	32,607	18,214	(14,044)(a)	22,422
Net Income (Loss)	14,403	4,985	(16,513)(a)	6,031

	2012 Quarterly Periods Ended			
	March 31	June 30	September 30	December 31
		(in thousands)		
Total Revenues	$ 210,365	$ 185,183	$ 213,995	$ 214,874
Operating Income	29,309	33,392	34,990	26,241
Net Income	12,154	15,345	15,754	9,722

(a) Includes a regulatory disallowance for Big Sandy Plant, Unit 2 (see Note 3 and Note 6).

Kentucky Power Company

2014 First Quarter Report

Financial Statements

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc., an electric utility holding company.
AEP Credit	AEP Credit, Inc., a consolidated variable interest entity of AEP which securitizes accounts receivable and accrued utility revenues for affiliated electric utility companies.
AEP East Companies	APCo, I&M, KPCo and OPCo.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AOCI	Accumulated Other Comprehensive Income.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
ASU	Accounting Standards Update.
CWIP	Construction Work in Progress.
FASB	Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission.
FGD	Flue Gas Desulfurization or scrubbers.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Accounting Principles Generally Accepted in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRS	Internal Revenue Service.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
MMBtu	Million British Thermal Units.
MTM	Mark-to-Market.
MW	Megawatt.
MWh	Megawatthour.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
Rockport Plant	A generation plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
RTO	Regional Transmission Organization, responsible for moving electricity over large interstate areas.
SIA	System Integration Agreement, effective June 15, 2000, provides contractual basis for coordinated planning, operation and maintenance of the power supply sources of the combined AEP.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.
WVPSC	Public Service Commission of West Virginia.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2014 and 2013
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2014	**2013**
REVENUES		
Electric Generation, Transmission and Distribution	$ 227,631	$ 201,315
Sales to AEP Affiliates	5,415	29,197
Other Revenues	84	132
TOTAL REVENUES	233,130	230,644
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	72,362	74,680
Purchased Electricity for Resale	3,113	3,370
Purchased Electricity from AEP Affiliates	31,422	56,490
Other Operation	19,865	18,333
Maintenance	18,642	17,083
Depreciation and Amortization	23,522	23,109
Taxes Other Than Income Taxes	5,303	4,972
TOTAL EXPENSES	174,229	198,037
OPERATING INCOME	58,901	32,607
Other Income (Expense):		
Interest Income	33	27
Allowance for Equity Funds Used During Construction	1,456	261
Interest Expense	(9,101)	(11,572)
INCOME BEFORE INCOME TAX EXPENSE	51,289	21,323
Income Tax Expense	18,741	6,920
NET INCOME	$ 32,548	$ 14,403

The common stock of KPCo is wholly-owned by AEP.

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended March 31, 2014 and 2013
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net Income	$ 32,548	$ 14,403
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Cash Flow Hedges, Net of Tax of $5 and $118 in 2014 and 2013, Respectively	10	218
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $63 and $134 in 2014 and 2013, Respectively	117	248
TOTAL OTHER COMPREHENSIVE INCOME	127	466
TOTAL COMPREHENSIVE INCOME	$ 32,675	$ 14,869

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Three Months Ended March 31, 2014 and 2013
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2012	$ 50,450	$ 531,536	$ 190,819	$ (19,994)	$ 752,811
Capital Contribution from Parent		231			231
Common Stock Dividends			(3,892)		(3,892)
Net Income			14,403		14,403
Other Comprehensive Income				466	466
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2013	$ 50,450	$ 531,767	$ 201,330	$ (19,528)	$ 764,019
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2013	$ 50,450	$ 614,648	$ 179,691	$ (5,420)	$ 839,369
Capital Contribution Returned to Parent		(100,000)			(100,000)
Common Stock Dividends			(15,000)		(15,000)
Other Changes in Common Shareholder's Equity		2,812			2,812
Net Income			32,548		32,548
Other Comprehensive Income				127	127
Pension and OPEB Adjustment Related to Kammer Plant				(1,308)	(1,308)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2014	$ 50,450	$ 517,460	$ 197,239	$ (6,601)	$ 758,548

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED BALANCE SHEETS
ASSETS
March 31, 2014 and December 31, 2013
(in thousands)
(Unaudited)

	March 31, 2014	December 31, 2013
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,244	$ 743
Accounts Receivable:		
Customers	11,974	17,889
Affiliated Companies	28,281	9,781
Accrued Unbilled Revenues	12	857
Miscellaneous	106	75
Allowance for Uncollectible Accounts	(63)	(78)
Total Accounts Receivable	40,310	28,524
Fuel	45,433	92,313
Materials and Supplies	41,141	43,940
Risk Management Assets	4,277	4,356
Accrued Tax Benefits	35	5,249
Regulatory Asset for Under-Recovered Fuel Costs	10,594	-
Prepayments and Other Current Assets	5,595	3,284
TOTAL CURRENT ASSETS	148,629	178,409
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,063,586	1,052,757
Transmission	510,963	507,844
Distribution	698,685	693,481
Other Property, Plant and Equipment (Including Plant to be Retired)	477,716	480,759
Construction Work in Progress	139,321	128,599
Total Property, Plant and Equipment	2,890,271	2,863,440
Accumulated Depreciation and Amortization	962,785	943,889
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	1,927,486	1,919,551
OTHER NONCURRENT ASSETS		
Regulatory Assets	214,765	216,360
Long-term Risk Management Assets	2,880	3,484
Employee Benefits and Pension Assets	13,804	11,446
Deferred Charges and Other Noncurrent Assets	14,618	20,207
TOTAL OTHER NONCURRENT ASSETS	246,067	251,497
TOTAL ASSETS	$ 2,322,182	$ 2,349,457

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
March 31, 2014 and December 31, 2013
(Unaudited)

	March 31, 2014	December 31, 2013
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 49,404	$ 8,564
Accounts Payable:		
General	42,993	21,619
Affiliated Companies	25,648	39,171
Risk Management Liabilities	905	1,828
Customer Deposits	25,289	25,211
Deferred Income Taxes	10,055	6,486
Accrued Taxes	26,216	20,801
Accrued Interest	5,640	6,678
Regulatory Liability for Over-Recovered Fuel Costs	-	2,851
Other Current Liabilities	20,681	19,411
TOTAL CURRENT LIABILITIES	206,831	152,620
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	729,430	729,389
Long-term Debt – Affiliated	20,000	20,000
Long-term Risk Management Liabilities	1,630	2,105
Deferred Income Taxes	546,344	549,672
Regulatory Liabilities and Deferred Investment Tax Credits	24,490	22,926
Employee Benefits and Pension Obligations	7,754	6,041
Deferred Credits and Other Noncurrent Liabilities	27,155	27,335
TOTAL NONCURRENT LIABILITIES	1,356,803	1,357,468
TOTAL LIABILITIES	1,563,634	1,510,088
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER’S EQUITY		
Common Stock – Par Value – $50 Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	517,460	614,648
Retained Earnings	197,239	179,691
Accumulated Other Comprehensive Income (Loss)	(6,601)	(5,420)
TOTAL COMMON SHAREHOLDER’S EQUITY	758,548	839,369
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 2,322,182	$ 2,349,457

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2014 and 2013
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2014	2013
OPERATING ACTIVITIES		
Net Income	$ 32,548	$ 14,403
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	23,522	23,109
Deferred Income Taxes	2,118	7,924
Allowance for Equity Funds Used During Construction	(1,456)	(261)
Mark-to-Market of Risk Management Contracts	(707)	1,798
Property Taxes	3,784	3,603
Fuel Over/Under-Recovery, Net	(13,445)	(7,945)
Change in Other Noncurrent Assets	626	373
Change in Other Noncurrent Liabilities	717	1,017
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(11,786)	15,743
Fuel, Materials and Supplies	49,679	25,257
Accounts Payable	(505)	(35,052)
Accrued Taxes, Net	10,629	(76)
Accrued Interest	(1,038)	(5,229)
Other Current Assets	(1,530)	904
Other Current Liabilities	1,481	(6,083)
Net Cash Flows from Operating Activities	94,637	39,485
INVESTING ACTIVITIES		
Construction Expenditures	(20,979)	(35,241)
Acquisitions of Assets	(1,036)	(18)
Proceeds from Sales of Assets	85	1,255
Other Investing Activities	98	-
Net Cash Flows Used for Investing Activities	(21,832)	(34,004)
FINANCING ACTIVITIES		
Capital Contribution from (Returned to) Parent	(100,000)	231
Change in Advances from Affiliates, Net	40,840	(2,320)
Principal Payments for Capital Lease Obligations	(1,208)	(317)
Dividends Paid on Common Stock	(15,000)	(3,892)
Other Financing Activities	3,064	197
Net Cash Flows Used for Financing Activities	(72,304)	(6,101)
Net Increase (Decrease) in Cash and Cash Equivalents	501	(620)
Cash and Cash Equivalents at Beginning of Period	743	1,482
Cash and Cash Equivalents at End of Period	$ 1,244	$ 862
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 9,888	$ 16,596
Net Cash Paid for Income Taxes	-	111
Noncash Acquisitions Under Capital Leases	596	721
Construction Expenditures Included in Current Liabilities as of March 31,	15,540	19,185

See Condensed Notes to Condensed Financial Statements beginning on page 8.

INDEX OF CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

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1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual financial statements.

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three months ended March 31, 2014 is not necessarily indicative of results that may be expected for the year ending December 31, 2014. The condensed financial statements are unaudited and should be read in conjunction with the audited 2013 financial statements and notes thereto, which are included in KPCo's 2013 Annual Report.

Management reviewed subsequent events through April 25, 2014, the date that the first quarter 2014 report was issued.

Revenue Recognition

Electricity Supply and Delivery Activities – Transactions with PJM

Revenues are recognized from retail and wholesale electricity sales and electricity transmission and distribution delivery services. KPCo recognizes the revenues on the statements of income upon delivery of the energy to the customer and include unbilled as well as billed amounts.

KPCo sells power produced at its generation plants to PJM and purchase power from PJM to supply its retail load. These power sales and purchases for retail load are netted hourly for financial reporting purposes. On an hourly net basis, KPCo records sales of power to PJM in excess of purchases of power as revenues. Also, on an hourly net basis, KPCo records purchases of power from PJM to serve retail load in excess of sales of power to PJM as Purchased Electricity for Resale. Upon termination of the Interconnection Agreement, KPCo manages and accounts for its purchases and sales with PJM individually based on market prices.

2. NEW ACCOUNTING PRONOUNCEMENT

Upon issuance of final pronouncements, management reviews the new accounting literature to determine its relevance, if any, to KPCo's business. The following summary of a final pronouncement will impact the financial statements.

ASU 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment" (ASU 2014-08)

In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held for sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard must be prospectively applied to all reporting periods presented in financial reports issued after the effective date. Early adoption is permitted for disposals that have not been reported in financial statements previously issued or available for issuance.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. If applicable, this standard will change the presentation of financial statements but will not affect the calculation of net income, comprehensive income or earnings per share. Management plans to adopt ASU 2014-08 effective January 1, 2015.

3. COMPREHENSIVE INCOME

Presentation of Comprehensive Income

The following tables provide the components of changes in AOCI for the three months ended March 31, 2014 and 2013. All amounts in the following tables are presented net of related income taxes.

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended March 31, 2014

	Cash Flow Hedges			
	Commodity	Interest Rate and Foreign Currency	Pension and OPEB	Total
		(in thousands)		
Balance in AOCI as of December 31, 2013	$ 23	$ (222)	$ (5,221)	$ (5,420)
Change in Fair Value Recognized in AOCI	326	-		326
Amounts Reclassified from AOCI	(332)	16	117	(199)
Net Current Period Other Comprehensive Income	(6)	16	117	127
Pension and OPEB Adjustment Related to Kammer Plant	-	-	(1,308)	(1,308)
Balance in AOCI as of March 31, 2014	$ 17	$ (206)	$ (6,412)	$ (6,601)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended March 31, 2013

	Cash Flow Hedges			
	Commodity	Interest Rate and Foreign Currency	Pension and OPEB	Total
		(in thousands)		
Balance in AOCI as of December 31, 2012	$ (127)	$ (282)	$ (19,585)	$ (19,994)
Change in Fair Value Recognized in AOCI	161	-	-	161
Amounts Reclassified from AOCI	42	15	248	305
Net Current Period Other Comprehensive Income	203	15	248	466
Balance in AOCI as of March 31, 2013	$ 76	$ (267)	$ (19,337)	$ (19,528)

Reclassifications Out of Accumulated Other Comprehensive Income

The following table provides details of reclassifications from AOCI for the three months ended March 31, 2014 and 2013.

Reclassifications from Accumulated Other Comprehensive Income (Loss)
For the Three Months Ended March 31, 2014 and 2013

	Amount of (Gain) Loss Reclassified from AOCI	
	Three Months Ended March 31,	
	2014	2013
Gains and Losses on Cash Flow Hedges	(in thousands)	
Commodity:		
Electric Generation, Transmission and Distribution Revenues	$ -	$ 19
Purchased Electricity for Resale	(452)	54
Other Operation Expense	(3)	(3)
Maintenance Expense	(5)	(2)
Property, Plant and Equipment	(6)	(4)
Regulatory Assets/(Liabilities), Net (a)	(43)	-
Subtotal - Commodity	(509)	64
Interest Rate and Foreign Currency:		
Interest Expense	23	23
Subtotal - Interest Rate and Foreign Currency	23	23
Reclassifications from AOCI, before Income Tax (Expense) Credit	(486)	87
Income Tax (Expense) Credit	(170)	30
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	(316)	57
Pension and OPEB		
Amortization of Prior Service Cost (Credit)	(54)	(91)
Amortization of Actuarial (Gains)/Losses	234	472
Reclassifications from AOCI, before Income Tax (Expense) Credit	180	381
Income Tax (Expense) Credit	63	133
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	117	248
Total Reclassifications from AOCI, Net of Income Tax (Expense) Credit	$ (199)	$ 305

(a) Represents realized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the condensed balance sheets.

4. RATE MATTERS

As discussed in KPCo's 2013 Annual Report, KPCo is involved in rate and regulatory proceedings at the FERC and the KPSC. The Rate Matters note within KPCo's 2013 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2014 and updates KPCo's 2013 Annual Report.

Regulatory Assets Not Yet Being Recovered

Noncurrent Regulatory Assets	March 31, 2014	December 31, 2013
	(in thousands)	
Regulatory assets not yet being recovered pending future proceedings:		
Regulatory Assets Currently Not Earning a Return		
Storm Related Costs	$ 12,146	$ 12,146
Total Regulatory Assets Not Yet Being Recovered	$ 12,146	$ 12,146

If these costs are ultimately determined not to be recoverable, it could reduce future net income and cash flows and impact financial condition.

Plant Transfer

In October 2012, the AEP East Companies submitted several filings with the FERC. In December 2012, KPCo filed a request with the KPSC for approval to transfer at net book value to KPCo a one-half interest in the Mitchell Plant, comprising 780 MW of average annual generating capacity. KPCo also requested that costs related to the Big Sandy Plant, Unit 2 FGD project be established as a regulatory asset. As of March 31, 2014, the net book value of Big Sandy Plant, Unit 2 was $247 million, before cost of removal, including materials and supplies inventory and CWIP.

In October 2013, the KPSC issued an order approving a modified settlement agreement between KPCo, Kentucky Industrial Utility Customers, Inc. and the Sierra Club. The modified settlement approved the transfer of a one-half interest in the Mitchell Plant to KPCo at net book value on December 31, 2013 with the limitation that the net book value of the Mitchell Plant transfer not exceed the amount to be determined by a WVPSC order. The WVPSC order was subsequently issued in December 2013, but the WVPSC deferred a decision on the transfer of the one-half interest in the Mitchell Plant to APCo. The settlement also included the implementation of an Asset Transfer Rider to collect $44 million annually effective January 2014, subject to true-up, and allowed KPCo to retain any off-system sales margins above the $15.3 million annual level in base rates. Additionally, the settlement allows for KPCo to file a Certificate of Public Convenience and Necessity to convert Big Sandy Plant, Unit 1 to natural gas, provided the cost is approximately $60 million, and addressed potential greenhouse gas initiatives on the Mitchell Plant. The settlement also approved recovery, including a return, of coal-related retirement costs related to Big Sandy Plant over 25 years when base rates are set in the next base rate case (no earlier than June 2015), but rejected KPCo's request to defer FGD project costs for Big Sandy Plant, Unit 2. As a result of this order, in 2013, KPCo recorded a pretax regulatory disallowance of $33 million in Asset Impairments and Other Related Charges on the statement of income. In December 2013, the Attorney General filed an appeal with the Franklin County Circuit Court. In December 2013, KPCo filed motions with the Franklin County Circuit Court to dismiss the appeal. A hearing on the motions to dismiss was held in January 2014. In December 2013, the transfer of a one-half interest in the Mitchell Plant to KPCo was completed. If any part of the KPSC order is overturned, it could reduce future net income and cash flows and impact financial condition.

5. COMMITMENTS, GUARANTEES AND CONTINGENCIES

KPCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, KPCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within KPCo's 2013 Annual Report should be read in conjunction with this report.

GUARANTEES

Liabilities for guarantees are recorded in accordance with the accounting guidance for "Guarantees." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third parties unless specified below.

Indemnifications and Other Guarantees

Contracts

KPCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of March 31, 2014, there were no material liabilities recorded for any indemnifications.

KPCo is jointly and severally liable for activity conducted by AEPSC on behalf of the AEP East Companies related to power purchase and sale activity conducted pursuant to the SIA.

Master Lease Agreements

KPCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, KPCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of March 31, 2014, the maximum potential loss for these lease agreements was approximately $1.2 million assuming the fair value of the equipment is zero at the end of the lease term.

6. BENEFIT PLANS

KPCo participates in an AEP sponsored qualified pension plan and an unfunded nonqualified pension plan. Substantially all of KPCo's employees are covered by the qualified plan or both the qualified and nonqualified pension plans. KPCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

Components of Net Periodic Benefit Cost

The following table provides the components of KPCo's net periodic benefit cost (credit) for the plans for the three months ended March 31, 2014 and 2013:

	Pension Plans		Other Postretirement Benefit Plans	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2014	2013	2014	2013
	(in thousands)			
Service Cost	$ 575	$ 470	$ 118	$ 208
Interest Cost	2,010	1,827	601	643
Expected Return on Plan Assets	(2,418)	(2,564)	(1,060)	(1,030)
Amortization of Prior Service Cost (Credit)	14	14	(606)	(611)
Amortization of Net Actuarial Loss	1,117	1,651	187	588
Net Periodic Benefit Cost (Credit)	$ 1,298	$ 1,398	$ (760)	$ (202)

7. BUSINESS SEGMENTS

KPCo has one reportable segment, an integrated electricity generation, transmission and distribution business. KPCo's other activities are insignificant.

8. DERIVATIVES AND HEDGING

OBJECTIVES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS

KPCo is exposed to certain market risks as a major power producer and marketer of wholesale electricity, natural gas, coal and emission allowances. These risks include commodity price risk, interest rate risk, credit risk and, to a lesser extent, foreign currency exchange risk. These risks represent the risk of loss that may impact KPCo due to changes in the underlying market prices or rates. AEPSC, on behalf of KPCo, manages these risks using derivative instruments.

STRATEGIES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS TO ACHIEVE OBJECTIVES

Risk Management Strategies

The strategy surrounding the use of derivative instruments primarily focuses on managing risk exposures, future cash flows and creating value utilizing both economic and formal hedging strategies. The risk management strategies also include the use of derivative instruments for trading purposes, focusing on seizing market opportunities to create value driven by expected changes in the market prices of the commodities in which AEPSC transacts on behalf of KPCo. To accomplish these objectives, AEPSC, on behalf of KPCo, primarily employs risk management contracts including physical and financial forward purchase-and-sale contracts and, to a lesser extent, OTC swaps and options. Not all risk management contracts meet the definition of a derivative under the accounting guidance for "Derivatives and Hedging." Derivative risk management contracts elected normal under the normal purchases and normal sales scope exception are not subject to the requirements of this accounting guidance.

AEPSC, on behalf of KPCo, enters into power, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other commodity contracts to manage the risk associated with the energy business. AEPSC, on behalf of KPCo, enters into interest rate derivative contracts in order to manage the interest rate exposure associated with KPCo's commodity portfolio. For disclosure purposes, such risks are grouped as "Commodity," as these risks are related to energy risk management activities. AEPSC, on behalf of KPCo, also engages in risk management of interest rate risk associated with debt financing and foreign currency risk associated with future purchase obligations denominated in foreign currencies. The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with the established risk management policies as approved by the Finance Committee of AEP's Board of Directors.

The following table represents the gross notional volume of the KPCo's outstanding derivative contracts as of March 31, 2014 and December 31, 2013:

Notional Volume of Derivative Instruments

	Volume		
	March 31, 2014	**December 31, 2013**	**Unit of Measure**
	(in thousands)		
Commodity:			
Power	5,900	10,071	MWhs
Coal	447	2	Tons
Natural Gas	398	509	MMBtus
Heating Oil and Gasoline	190	261	Gallons
Interest Rate	$ 2,236	$ 2,615	USD

Fair Value Hedging Strategies

AEPSC, on behalf of KPCo, enters into interest rate derivative transactions as part of an overall strategy to manage the mix of fixed-rate and floating-rate debt. Certain interest rate derivative transactions effectively modify KPCo's exposure to interest rate risk by converting a portion of KPCo's fixed-rate debt to a floating rate. Provided specific criteria are met, these interest rate derivatives are designated as fair value hedges.

Cash Flow Hedging Strategies

AEPSC, on behalf of KPCo, enters into and designates as cash flow hedges certain derivative transactions for the purchase and sale of power and natural gas ("Commodity") in order to manage the variable price risk related to the forecasted purchase and sale of these commodities. Management monitors the potential impacts of commodity price changes and, where appropriate, enters into derivative transactions to protect profit margins for a portion of future electricity sales and fuel or energy purchases. KPCo does not hedge all commodity price risk.

KPCo's vehicle fleet is exposed to gasoline and diesel fuel price volatility. AEPSC, on behalf of KPCo, enters into financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. Cash flow hedge accounting for these derivative contracts was discontinued effective March 31, 2014. For disclosure purposes, these contracts were included with other hedging activities as "Commodity" as of December 31, 2013. As of March 31, 2014, these contracts will be grouped as "Commodity" with other risk management activities. KPCo does not hedge all fuel price risk.

AEPSC, on behalf of KPCo, enters into a variety of interest rate derivative transactions in order to manage interest rate risk exposure. Some interest rate derivative transactions effectively modify exposure to interest rate risk by converting a portion of floating-rate debt to a fixed rate. AEPSC, on behalf of KPCo, also enters into interest rate derivative contracts to manage interest rate exposure related to future borrowings of fixed-rate debt. The forecasted fixed-rate debt offerings have a high probability of occurrence as the proceeds will be used to fund existing debt maturities and projected capital expenditures. KPCo does not hedge all interest rate exposure.

At times, KPCo is exposed to foreign currency exchange rate risks primarily when KPCo purchases certain fixed assets from foreign suppliers. In accordance with AEP's risk management policy, AEPSC, on behalf of KPCo, may enter into foreign currency derivative transactions to protect against the risk of increased cash outflows resulting from a foreign currency's appreciation against the dollar. KPCo does not hedge all foreign currency exposure.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND THE IMPACT ON KPCo's FINANCIAL STATEMENTS

The accounting guidance for "Derivatives and Hedging" requires recognition of all qualifying derivative instruments as either assets or liabilities on the condensed balance sheets at fair value. The fair values of derivative instruments accounted for using MTM accounting or hedge accounting are based on exchange prices and broker quotes. If a quoted market price is not available, the estimate of fair value is based on the best information available including valuation models that estimate future energy prices based on existing market and broker quotes, supply and demand market data and assumptions. In order to determine the relevant fair values of the derivative instruments, KPCo applies valuation adjustments for discounting, liquidity and credit quality.

Credit risk is the risk that a counterparty will fail to perform on the contract or fail to pay amounts due. Liquidity risk represents the risk that imperfections in the market will cause the price to vary from estimated fair value based upon prevailing market supply and demand conditions. Since energy markets are imperfect and volatile, there are inherent risks related to the underlying assumptions in models used to fair value risk management contracts. Unforeseen events may cause reasonable price curves to differ from actual price curves throughout a contract's term and at the time a contract settles. Consequently, there could be significant adverse or favorable effects on future net income and cash flows if market prices are not consistent with management's estimates of current market consensus for forward prices in the current period. This is particularly true for longer term contracts. Cash flows may vary based on market conditions, margin requirements and the timing of settlement of KPCo's risk management contracts.

According to the accounting guidance for "Derivatives and Hedging," KPCo reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, KPCo is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the March 31, 2014 and December 31, 2013 condensed balance sheets, KPCo netted $7 thousand and $0 thousand, respectively, of cash collateral received from third parties against short-term and long-term risk management assets and $280 thousand and $1 million, respectively, of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of KPCo's derivative activity on the condensed balance sheets as of March 31, 2014 and December 31, 2013:

Fair Value of Derivative Instruments
March 31, 2014

Balance Sheet Location	Risk Management Contracts: Commodity (a)	Hedging Contracts: Commodity (a)	Hedging Contracts: Interest Rate (a)	Gross Amounts of Risk Management Assets/ Liabilities Recognized	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
			(in thousands)			
Current Risk Management Assets	$ 8,291	$ 46	$ -	$ 8,337	$ (4,060)	$ 4,277
Long-term Risk Management Assets	3,557	-	-	3,557	(677)	2,880
Total Assets	11,848	46	-	11,894	(4,737)	7,157
Current Risk Management Liabilities	5,151	18	-	5,169	(4,264)	905
Long-term Risk Management Liabilities	2,376	-	-	2,376	(746)	1,630
Total Liabilities	7,527	18	-	7,545	(5,010)	2,535
Total MTM Derivative Contract Net Assets (Liabilities)	$ 4,321	$ 28	$ -	$ 4,349	$ 273	$ 4,622

Fair Value of Derivative Instruments
December 31, 2013

Balance Sheet Location	Risk Management Contracts: Commodity (a)	Hedging Contracts: Commodity (a)	Hedging Contracts: Interest Rate (a)	Gross Amounts of Risk Management Assets/ Liabilities Recognized	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
			(in thousands)			
Current Risk Management Assets	$ 9,520	$ 85	$ -	$ 9,605	$ (5,249)	$ 4,356
Long-term Risk Management Assets	4,306	-	-	4,306	(822)	3,484
Total Assets	13,826	85	-	13,911	(6,071)	7,840
Current Risk Management Liabilities	7,583	65	-	7,648	(5,820)	1,828
Long-term Risk Management Liabilities	2,970	-	-	2,970	(865)	2,105
Total Liabilities	10,553	65	-	10,618	(6,685)	3,933
Total MTM Derivative Contract Net Assets (Liabilities)	$ 3,273	$ 20	$ -	$ 3,293	$ 614	$ 3,907

(a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the condensed balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
(b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
(c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

The table below presents KPCo's activity of derivative risk management contracts for the three months ended March 31, 2014 and 2013:

Amount of Gain (Loss) Recognized on
Risk Management Contracts
For the Three Months Ended March 31, 2014 and 2013

Location of Gain (Loss)	2014	2013
	(in thousands)	
Electric Generation, Transmission and Distribution Revenues	$ 6,940	$ 596
Fuel and Other Consumables Used for Electric Generation	1	-
Regulatory Assets (a)	-	-
Regulatory Liabilities (a)	1,120	(467)
Total Gain on Risk Management Contracts	$ 8,061	$ 129

(a) Represents realized and unrealized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the condensed balance sheets.

Certain qualifying derivative instruments have been designated as normal purchase or normal sale contracts, as provided in the accounting guidance for "Derivatives and Hedging." Derivative contracts that have been designated as normal purchases or normal sales under that accounting guidance are not subject to MTM accounting treatment and are recognized on the condensed statements of income on an accrual basis.

KPCo's accounting for the changes in the fair value of a derivative instrument depends on whether it qualifies for and has been designated as part of a hedging relationship and further, on the type of hedging relationship. Depending on the exposure, management designates a hedging instrument as a fair value hedge or a cash flow hedge.

For contracts that have not been designated as part of a hedging relationship, the accounting for changes in fair value depends on whether the derivative instrument is held for trading purposes. Unrealized and realized gains and losses on derivative instruments held for trading purposes are included in revenues on a net basis on KPCo's condensed statements of income. Unrealized and realized gains and losses on derivative instruments not held for trading purposes are included in revenues or expenses on KPCo's condensed statements of income depending on the relevant facts and circumstances. However, unrealized and some realized gains and losses for both trading and non-trading derivative instruments are recorded as regulatory assets (for losses) or regulatory liabilities (for gains), in accordance with the accounting guidance for "Regulated Operations."

Accounting for Fair Value Hedging Strategies

For fair value hedges (i.e. hedging the exposure to changes in the fair value of an asset, liability or an identified portion thereof attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item associated with the hedged risk affects Net Income during the period of change.

KPCo records realized and unrealized gains or losses on interest rate swaps that qualify for fair value hedge accounting treatment and any offsetting changes in the fair value of the debt being hedged in Interest Expense on KPCo's condensed statements of income. During the three months ended March 31, 2014 and 2013, KPCo did not designate any fair value hedging strategies.

Accounting for Cash Flow Hedging Strategies

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), KPCo initially reports the effective portion of the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on the condensed balance sheets until the period the hedged item affects Net Income. KPCo recognizes any hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains).

Realized gains and losses on derivative contracts for the purchase and sale of power, coal and natural gas designated as cash flow hedges are included in Revenues, Fuel and Other Consumables Used for Electric Generation or Purchased Electricity for Resale on KPCo's condensed statements of income, or in Regulatory Assets or Regulatory Liabilities on KPCo's condensed balance sheets, depending on the specific nature of the risk being hedged. During the three months ended March 31, 2014 and 2013, KPCo designated power, coal and natural gas derivatives as cash flow hedges.

KPCo reclassifies gains and losses on heating oil and gasoline derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its condensed balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on the condensed statements of income. During the three months ended March 31, 2013, KPCo designated heating oil and gasoline derivatives as cash flow hedges. KPCo discontinued cash flow hedge accounting for these derivative contracts effective March 31, 2014.

KPCo reclassifies gains and losses on interest rate derivative hedges related to debt financings from Accumulated Other Comprehensive Income (Loss) on its condensed balance sheets into Interest Expense on its condensed statements of income in those periods in which hedged interest payments occur. During the three months ended March 31, 2014 and 2013, KPCo did not designate any interest rate derivatives as cash flow hedges.

The accumulated gains or losses related to foreign currency hedges are reclassified from Accumulated Other Comprehensive Income (Loss) on KPCo's condensed balance sheets into Depreciation and Amortization expense on the condensed statements of income over the depreciable lives of the fixed assets designated as the hedged items in qualifying foreign currency hedging relationships. During the three months ended March 31, 2014 and 2013, KPCo did not designate any foreign currency derivatives as cash flow hedges.

During the three months ended March 31, 2014 and 2013, hedge ineffectiveness was immaterial or nonexistent for all cash flow hedge strategies disclosed above.

For details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on KPCo's condensed balance sheets and the reasons for changes in cash flow hedges for the three months ended March 31, 2014 and 2013, see Note 3.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on KPCo's condensed balance sheets as of March 31, 2014 and December 31, 2013 were:

Impact of Cash Flow Hedges on the Condensed Balance Sheet
March 31, 2014

	Commodity	Interest Rate	Total
		(in thousands)	
Hedging Assets (a)	$ 43	$ -	$ 43
Hedging Liabilities (a)	15	-	15
AOCI Gain (Loss) Net of Tax	17	(206)	(189)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	17	(60)	(43)

Impact of Cash Flow Hedges on the Condensed Balance Sheet
December 31, 2013

	Commodity	Interest Rate	Total
		(in thousands)	
Hedging Assets (a)	$ 79	$ -	$ 79
Hedging Liabilities (a)	59	-	59
AOCI Gain (Loss) Net of Tax	23	(222)	(199)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	23	(60)	(37)

(a) Hedging Assets and Hedging Liabilities are included in Risk Management Assets and Liabilities on KPCo's condensed balance sheets.

The actual amounts that KPCo reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of March 31, 2014, the maximum length of time that KPCo is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions was 2 months.

Credit Risk

AEPSC, on behalf of KPCo, limits credit risk in KPCo's wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis. AEPSC, on behalf of KPCo, uses Moody's, Standard and Poor's and current market-based qualitative and quantitative data as well as financial statements to assess the financial health of counterparties on an ongoing basis.

When AEPSC, on behalf of KPCo, uses standardized master agreements, these agreements may include collateral requirements. These master agreements facilitate the netting of cash flows associated with a single counterparty. Cash, letters of credit and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. The collateral agreements require a counterparty to post cash or letters of credit in the event an exposure exceeds the established threshold. The threshold represents an unsecured credit limit which may be supported by a parental/affiliate guaranty, as determined in accordance with AEP's credit policy. In addition, collateral agreements allow for termination and liquidation of all positions in the event of a failure or inability to post collateral.

Collateral Triggering Events

Under the tariffs of the RTOs and Independent System Operators (ISOs) and a limited number of derivative and non-derivative contracts primarily related to competitive retail auction loads, KPCo is obligated to post an additional amount of collateral if certain credit ratings decline below investment grade. The amount of collateral required fluctuates based on market prices and total exposure. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these collateral triggering items in contracts. KPCo has not experienced a downgrade below investment grade. The following table represents: (a) KPCo's fair value of such derivative contracts, (b) the amount of collateral KPCo would have been required to post for all derivative and non-derivative contracts if the credit ratings had declined below investment grade and (c) how much was attributable to RTO and ISO activities as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
	(in thousands)	
Liabilities for Derivative Contracts with Credit Downgrade Triggers	$ 57	$ 118
Amount of Collateral KPCo Would Have Been Required to Post	1,079	565
Amount Attributable to RTO and ISO Activities	981	522

In addition, a majority of KPCo's non-exchange traded commodity contracts contain cross-default provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-default provisions could be triggered if there was a non-performance event by Parent or the obligor under outstanding debt or a third party obligation in excess of $50 million. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-default provisions in the contracts. The following table represents: (a) the fair value of these derivative liabilities subject to cross-default provisions prior to consideration of contractual netting arrangements, (b) the amount this exposure has been reduced by cash collateral posted by KPCo and (c) if a cross-default provision would have been triggered, the settlement amount that would be required after considering KPCo's contractual netting arrangements as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
	(in thousands)	
Liabilities for Contracts with Cross Default Provisions Prior to Contractual Netting Arrangements	$ 3,366	$ 4,039
Amount of Cash Collateral Posted	-	-
Additional Settlement Liability if Cross Default Provision is Triggered	2,644	3,817

9. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and

credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability. The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with established risk management policies as approved by the Finance Committee of AEP's Board of Directors. The AEP System's market risk oversight staff independently monitors the risk policies, procedures and risk levels and provides members of the Commercial Operations Risk Committee (Regulated Risk Committee) various daily, weekly and/or monthly reports regarding compliance with policies, limits and procedures. The Regulated Risk Committee consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Generation, Senior Vice President of Commercial Operations and Chief Risk Officer.

For commercial activities, exchange traded derivatives, namely futures contracts, are generally fair valued based on unadjusted quoted prices in active markets and are classified as Level 1. Level 2 inputs primarily consist of OTC broker quotes in moderately active or less active markets, as well as exchange traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1. Management verifies price curves using these broker quotes and classifies these fair values within Level 2 when substantially all of the fair value can be corroborated. Management typically obtains multiple broker quotes, which are nonbinding in nature, but are based on recent trades in the marketplace. When multiple broker quotes are obtained, the quoted bid and ask prices are averaged. In certain circumstances, a broker quote may be discarded if it is a clear outlier. Management uses a historical correlation analysis between the broker quoted location and the illiquid locations. If the points are highly correlated, these locations are included within Level 2 as well. Certain OTC and bilaterally executed derivative instruments are executed in less active markets with a lower availability of pricing information. Illiquid transactions, complex structured transactions, FTRs and counterparty credit risk may require nonmarket based inputs. Some of these inputs may be internally developed or extrapolated and utilized to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The main driver of the contracts being classified as Level 3 is the inability to substantiate energy price curves in the market. A significant portion of the Level 3 instruments have been economically hedged which greatly limits potential earnings volatility.

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of KPCo's Long-term Debt as of March 31, 2014 and December 31, 2013 are summarized in the following table:

	March 31, 2014		December 31, 2013	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 749,430	$ 860,557	$ 749,389	$ 841,594

Fair Value Measurements of Financial Assets and Liabilities

The following tables set forth, by level within the fair value hierarchy, KPCo's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2014 and December 31, 2013. As required by the accounting guidance for "Fair Value Measurements and Disclosures," financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management's valuation techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
March 31, 2014

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Risk Management Assets					
Risk Management Commodity Contracts (a) (b)	$ 81	$ 9,058	$ 2,087	$ (4,112)	$ 7,114
Cash Flow Hedges:					
Commodity Hedges (a)	-	46	-	(3)	43
Total Risk Management Assets	$ 81	$ 9,104	$ 2,087	$ (4,115)	$ 7,157
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a) (b)	$ 63	$ 6,205	$ 637	$ (4,385)	$ 2,520
Cash Flow Hedges:					
Commodity Hedges (a)	-	18	-	(3)	15
Total Risk Management Liabilities	$ 63	$ 6,223	$ 637	$ (4,388)	$ 2,535

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2013

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Risk Management Assets					
Risk Management Commodity Contracts (a) (b)	$ 170	$ 11,168	$ 2,487	$ (6,064)	$ 7,761
Cash Flow Hedges:					
Commodity Hedges (a)	-	85	-	(6)	79
Total Risk Management Assets	$ 170	$ 11,253	$ 2,487	$ (6,070)	$ 7,840
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a) (b)	$ 144	$ 10,092	$ 316	$ (6,678)	$ 3,874
Cash Flow Hedges:					
Commodity Hedges (a)	-	65	-	(6)	59
Total Risk Management Liabilities	$ 144	$ 10,157	$ 316	$ (6,684)	$ 3,933

(a) Amounts in "Other" column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for "Derivatives and Hedging."
(b) Substantially comprised of power contracts.

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2014 and 2013.

The following tables set forth a reconciliation of changes in the fair value of net trading derivatives and other investments classified as Level 3 in the fair value hierarchy:

Three Months Ended March 31, 2014	**Net Risk Management Assets (Liabilities)**
	(in thousands)
Balance as of December 31, 2013	$ 2,171
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	5,374
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a)	-
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	-
Purchases, Issuances and Settlements (c)	(5,913)
Transfers into Level 3 (d) (e)	(786)
Transfers out of Level 3 (e) (f)	(1)
Changes in Fair Value Allocated to Regulated Jurisdictions (g)	605
Balance as of March 31, 2014	$ 1,450

Three Months Ended March 31, 2013	**Net Risk Management Assets (Liabilities)**
	(in thousands)
Balance as of December 31, 2012	$ 2,199
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(297)
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a)	-
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	-
Purchases, Issuances and Settlements (c)	55
Transfers into Level 3 (d) (e)	126
Transfers out of Level 3 (e) (f)	(107)
Changes in Fair Value Allocated to Regulated Jurisdictions (g)	(172)
Balance as of March 31, 2013	$ 1,804

(a) Included in revenues on KPCo’s condensed statements of income.

(b) Represents the change in fair value between the beginning of the reporting period and the settlement of the risk management commodity contract.

(c) Represents the settlement of risk management commodity contracts for the reporting period.

(d) Represents existing assets or liabilities that were previously categorized as Level 2.

(e) Transfers are recognized based on their value at the beginning of the reporting period that the transfer occurred.

(f) Represents existing assets or liabilities that were previously categorized as Level 3.

(g) Relates to the net gains (losses) of those contracts that are not reflected on KPCo’s condensed statements of income. These net gains (losses) are recorded as regulatory liabilities/assets.

The following tables quantify the significant unobservable inputs used in developing the fair value of Level 3 positions as of March 31, 2014 and December 31, 2013:

Significant Unobservable Inputs
March 31, 2014

	Fair Value Assets	Fair Value Liabilities	Valuation Technique	Significant Unobservable Input (a)	Forward Price Range Low	Forward Price Range High
	(in thousands)					
Energy Contracts	$ 1,327	$ 580	Discounted Cash Flow	Forward Market Price	$ 13.34	$ 59.60
FTRs	760	57	Discounted Cash Flow	Forward Market Price	(5.05)	9.17
Total	$ 2,087	$ 637				

Significant Unobservable Inputs
December 31, 2013

	Fair Value Assets	Fair Value Liabilities	Valuation Technique	Significant Unobservable Input (a)	Forward Price Range Low	Forward Price Range High
	(in thousands)					
Energy Contracts	$ 1,924	$ 198	Discounted Cash Flow	Forward Market Price	$ 13.04	$ 80.50
FTRs	563	118	Discounted Cash Flow	Forward Market Price	(5.10)	10.44
Total	$ 2,487	$ 316				

(a) Represents market prices in dollars per MWh.

10. INCOME TAXES

AEP System Tax Allocation Agreement

KPCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

Federal and State Income Tax Audit Status

The IRS examination of years 2009 and 2010 started in October 2011 and was completed in the second quarter of 2013. The IRS examination of years 2011 and 2012 started in April 2014. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, KPCo accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

KPCo and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns. KPCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. However, it is possible that previously filed tax returns have positions that may be challenged by these tax authorities. Management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. KPCo is no longer subject to state or local income tax examinations by tax authorities for years before 2009.

11. FINANCING ACTIVITIES

Long-term Debt

KPCo did not have any long-term debt issuances or retirements during the first three months of 2014.

Dividend Restrictions

KPCo pays dividends to Parent provided funds are legally available. Various financing arrangements and regulatory requirements may impose certain restrictions on the ability of KPCo to transfer funds to Parent in the form of dividends.

Federal Power Act

The Federal Power Act prohibits KPCo from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of KPCo to pay dividends out of retained earnings.

Leverage Restrictions

Pursuant to the credit agreement leverage restrictions, KPCo must maintain a percentage of debt to total capitalization at a level that does not exceed 67.5%.

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of March 31, 2014 and December 31, 2013 are included in Advances from Affiliates on KPCo's condensed balance sheets. KPCo's Utility Money Pool activity and corresponding authorized borrowing limits for the three months ended March 31, 2014 are described in the following table:

Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of March 31, 2014	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 50,366	$ 50,332	$ 20,343	$ 34,026	$ 49,404	$ 250,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the three months ended March 31, 2014 and 2013 are summarized in the following table:

Three Months Ended March 31,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2014	0.33 %	0.28 %	0.33 %	0.28 %	0.31 %	0.32 %
2013	0.43 %	0.35 %	0.36 %	0.36 %	0.38 %	0.36 %

Sale of Receivables – AEP Credit

Under a sale of receivables arrangement, KPCo sells, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit and is charged a fee based on AEP Credit's financing costs, administrative costs and uncollectible accounts experience for KPCo's receivables. The costs of customer accounts receivable sold are reported in Other Operation expense on KPCo's condensed statements of income. KPCo manages and services its accounts receivable sold.

AEP Credit's receivables securitization agreement provides a commitment of $700 million from bank conduits to purchase receivables. A commitment of $385 million expires in June 2014. The remaining commitment of $315 million expires in June 2015. AEP Credit intends to extend or replace the agreement expiring in June 2014 on or before its maturity.

KPCo's amount of accounts receivable and accrued unbilled revenues sold under the sale of receivables agreement was $60 million and $43 million as of March 31, 2014 and December 31, 2013, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold for the three months ended March 31, 2014 and 2013 were $763 thousand and $520 thousand, respectively.

KPCo's proceeds on the sale of receivables to AEP Credit for the three months ended March 31, 2014 and 2013 were $179 million and $140 million, respectively.

12. VARIABLE INTEREST ENTITIES

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether KPCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability KPCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently. KPCo is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. KPCo's total billings from AEPSC for the three months ended March 31, 2014 and 2013 were $13 million and $7 million, respectively. The carrying amount of liabilities associated with AEPSC as of March 31, 2014 and December 31, 2013 was $5 million and $4 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

AEGCo, a wholly-owned subsidiary of AEP, is consolidated by AEP. AEGCo owns a 50% ownership interest in Rockport Plant, Unit 1 and leases a 50% interest in Rockport Plant, Unit 2. AEGCo sells all the output from the Rockport Plant to I&M and KPCo. AEP has agreed to provide AEGCo with the funds necessary to satisfy all of the debt obligations of AEGCo. KPCo is considered to have a significant interest in AEGCo due to its transactions. KPCo is exposed to losses to the extent it cannot recover the costs of AEGCo through its normal business operations. Due to AEP management's control over AEGCo, KPCo is not considered the primary beneficiary of AEGCo. In the event AEGCo would require financing or other support outside the billings to KPCo, this financing would be provided by AEP. Total billings from AEGCo for the three months ended March 31, 2014 and 2013 were $30 million and $25 million, respectively. The carrying amount of liabilities associated with AEGCo as of March 31, 2014 and December 31, 2013 was $11 million and $11 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

APPENDIX B

DESCRIPTION OF SUMITOMO MITSUI BANKING CORPORATION

The information included in this Appendix B has been obtained from the Bank. None of the Issuer, the Company or the Underwriter makes any representation as to the accuracy or completeness of such information.

The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of Sumitomo Mitsui Banking Corporation since the date hereof, or that the information contained or referred to in this Appendix B is correct as of any time subsequent to its date.

SUMITOMO MITSUI BANKING CORPORATION

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) ("SMBC") is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. ("SMFG") was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. **SMFG reported ¥ 161,534,387 million (USD 1,564,702 million) in consolidated total assets as of March 31, 2014.**

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Financial and Other Information

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2013, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

We have examined the transcript of proceedings relating to the issuance by the West Virginia Economic Development Authority (the "Issuer") of $65,000,000 principal amount of Solid Waste Disposal Facilities Revenue Refunding Bonds (Kentucky Power Company – Mitchell Project), Series 2014A (the "Bonds"). The Bonds are being issued pursuant to Chapter 31, Article 15, Section 1, et seq., of the Code of West Virginia, 1931 (the "Act"), for the purpose of making a loan to assist Kentucky Power Company (the "Company") in the refunding of $65,000,000 Solid Waste Disposal Facilities Revenue Refunding Bonds (Ohio Power Company – Mitchell Project), Series 2008A, previously issued by the Issuer to assist a certain affiliate of the Company in refinancing of a portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities qualified for financing under the Act, as more particularly described in the Indenture of Trust dated as of June 15, 2014 (the "Indenture") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and in the Loan Agreement dated as of June 15, 2014 (the "Agreement") between the Issuer and the Company. We have also examined executed counterparts of the Indenture and the Agreement and a conformed copy of an executed Bond.

Based on such examination and subject to the limitations stated below, we are of the opinion that, under existing law:

1. The Bonds, the Indenture and the Agreement are valid and binding obligations of the Issuer, enforceable in accordance with their respective terms.

2. The Bonds constitute special obligations of the Issuer, and the principal of and interest on the Bonds and the purchase price of the Bonds (collectively, "debt charges") are payable solely from the revenues and other moneys assigned by the Indenture to secure those payments. Those revenues and other moneys include the payments required to be made by the Company under its promissory note delivered to the Issuer, and irrevocably assigned by the Issuer to the Trustee, all pursuant to the Agreement. The payment of debt service on the Bonds is not secured by an obligation or pledge of any money raised by taxation, and the Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Issuer, the State of West Virginia or any of its political subdivisions.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code, and is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds, and all interest and income thereon, are exempt from all taxation by the State of West Virginia and any county, municipality, political subdivision or agency thereof, except inheritance taxes. We express no opinion as to any other tax consequences regarding the Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined, (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any

parties other than the Issuer and (iii) the correctness of the legal conclusions contained in the legal opinion letter of counsel to the Company and in the legal opinion letter of counsel to the Issuer delivered in connection with this matter.

In rendering those opinions with respect to the treatment of the interest on the Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Issuer and the Company. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Agreement are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Bonds, the Indenture or the Agreement.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Bonds has concluded on this date.

Respectfully submitted,