MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades American Electric Power and certain utility subsidiaries.

Global Credit Research - 31 Jan 2014

Approximately $22 Billion of Debt Affected

New York, January 31, 2014 -- Moody's Investors Service upgraded the long-term ratings of American Electric Power (AEP), senior unsecured rating to Baa1 from Baa2 , and certain of its utility subsidiaries. At the same time, Moody's confirmed the ratings of Kentucky Power Company. The actions conclude the reviews for upgrade of AEP and the six subsidiaries, Moody's initiated on November 8, 2013. All the ratings have a stable outlook.

In the actions, Moody's upgraded the ratings of AEP Texas Central Company (AEP TCC), senior unsecured and Issuer Rating to Baa1 from Baa2; AEP Texas North Company (AEP TNC), Issuer Rating to Baa1 from Baa2; Appalachian Power Company (APCO), senior unsecured and Issuer Rating to Baa1 from Baa2; Public Service of Oklahoma (PSO) senior unsecured and Issuer Rating to A3 from Baa1; Indiana Michigan Power Company (I&M) senior unsecured and Issuer Rating to Baa1 from Baa2; and Southwestern Electric Power Company (SWEPCO), senior unsecured and Issuer Rating to Baa2 from Baa3.

RATINGS RATIONALE

Moody's had placed the ratings on review for upgrade in response to Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in the September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation." Critical factors supporting this view include better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators. The US utility sector's low number of defaults, high recovery rates, and generally strong financial metrics from a global perspective provide additional corroboration for these upgrades.

Moody's upgraded the ratings of AEP based on its diversity of utility subsidiaries cash flows, a supportive regulatory environment, a successfully executed corporate restructuring, and growing rate base. This is offset by weaker financial metrics, high leverage and certain execution challenges and regulatory risks as Ohio Power completes its business restructuring. These challenges include the completion of assets transfers and/or plant retirements, a smooth transition into a competitive market in Ohio -- in addition to the lag in recovery costs associated to the several riders and trackers under the Energy Security Plans (ESPs) I & II-, regulators' concern regarding Transcos' reliability, regulatory oversight, and an impact on base rate increases. A prolonged period of recovering costs associated with any of the riders and trackers under Ohio Power (OPCO)'s Energy Security Plans would be credit negative, as the associated securitization burden would remain in its balance sheet longer, with a negative credit impact on the parent AEP. On December 2013, OPCO filed a new ESP III seeking a more prescriptive, transparent, and efficient ESP for operations after June 2015.

Moody's upgraded the ratings at APCO after regulatory decisions regarding the transfer of assets, specifically the Amos Plant, went smoothly. There is still need, however, for more supportive regulatory decisions to address the completion of plant transfers such as the Mitchell Plant, as well as the merger between WPCO and APCO. However, Moody's believes APCO's regulatory environment will continue to

be supportive and outweighs the slight weakness in key financial metrics. APCO shows three-year average financial metrics within the Baa3 rating category while operating in a service territory that is still economically challenged relative to the rest of the country. In LTM third-quarter 2013, CFO pre-WC to debt and CFO pre WC -- Div to debt were 15% and 11.9% respectively.

Moody's upgraded the ratings of AEP TCC and TNC because of the supportive and constructive regulatory environment for T&Ds in Texas with a relatively transparent regulatory process. The financial profile of both AEP TCC and TNC is strong, and rate base (combined for the two utilities) should grow to roughly $1.0 billion over the next three years. Assuming AEP TCC and TNC can keep their total debt outstanding near $3.4 billion, the ratio of CFO pre-WC to debt should remain in the mid to high-teen's range over the next three years. Their Baa1 ratings also reflect a low business risk and operating profile.

The upgrade of PSO's rating to A3 reflects a reasonable credit-supportive regulatory framework, along with historically robust financial performance. PSO operates in an economically vibrant service territory, shows credit metrics that are strong for the rating, balanced against a sizeable, but manageable environmental capital expenditure program of estimated around $1.0 billion through 2016. We expect reasonable recovery of the environmental costs in future proceedings. Assuming continuous regulatory support, CFO pre WC -- Div to debt should remain in the mid -teen's range over the next three years.

The upgrade of I&M's rating to Baa1 incorporates Moody's expectation that regulatory support in both Michigan and Indiana will continue to be strong and include timely recovery of a sizeable, multi-year environmental and nuclear capital expenditure program. Financial metrics have also historically been adequate for the Baa1 rating. The LTM third-quarter 2013 key financial indicators show no significant deterioration considering the sizable environmental costs of Cook and Rockport plants. Moody's expects the financial profile to remain appropriate for the ratings category, with CFO pre-WC to debt averaging in the high teens range and CFO pre WC -- Div to debt averaging in the mid teens range.

The upgrade of SWEPCO's to Baa2 encompasses the company's diversified territory, with Moody's expecting regulatory support to continue in jurisdictions such as Louisiana and Arkansas. The treatment of the inclusion of the Turk Plant is a credit positive for the company. Texas remains a challenging regulatory jurisdiction for vertically integrated utilities. Financial key metrics for LTM third-quarter 2013, CFO pre-WC to debt of 16.5%, and CFO pre WC -- Div to debt of 12.5% show deterioration compared to the levels of 2011 and 2010. Moody's expects no major improvements in financial metrics for the period 2014-16, with CFO pre-WC to debt averaging between 13-15%, and CFO pre WC -- Div to debt averaging between 11-13%.

Moody's confirmed the ratings of Kentucky Power Company because of a regulatory environment that has been relatively supportive offset by high leverage, a large capital expenditure program and weak financial metrics. The settlement outcome of last October clears the path to complete the transfer of the Mitchell Plant (including addressing potential greenhouse initiatives), authorization to record the FGD costs as a regulatory asset, and the conversion of the Big Sandy Unit 1 to natural gas. KEPCO'S financial metrics for LTM third-quarter 2013, are reasonably within the range for the rating category. However on a forward looking basis, a large capital expenditure program and increased leverage will contribute to weaker financial metrics such as CFO pre-WC to debt will average between 12-14% and CFO pre WC -- Div to debt will average between 9-11%.

RATING OUTLOOK

The outlook on all ratings is stable. Over the next few years, AEP's regulated subsidiaries (vertically integrated and T&D subsidiaries) will produce predictable and stable cash flows and financial metrics. According to AEP, 95% of capital allocation will be deployed into the regulated business to fuel a base rate growth of approximately 6% CAGR.

On the unregulated business side, Moody's views AEP Generation Resources (AGR, Not Rated) as bringing unpredictable financial metrics and a volatile business edge to AEP's regulated and low risk business and operating strategy. However, Moody's considers AGR to be a non-core business, likely to be divested over the next 3-5 years, although the rating agency also regards AEP as an experienced operator of generation assets.

AEP' s metrics will remain weak for the rating category on a forward-looking basis. Moody's expects key financial metrics such as CFO pre-WC to debt and CFO pre WC -- Div to debt to average between 14-16% and 10-12% respectively.

WHAT COULD CHANGE RATING -- UP

AEP's ratings are unlikely to be upgraded in the near term, however, ratings could be upgraded if APCO's performance metrics were to be robust and sustained through 2017, showing CFO pre-WC to debt in the high teens and CFO pre-WC -- Div to debt in the mid to high teens on a sustainable basis. There would also have to be clarity on pending decisions for the several riders' and trackers' recovery costs in Ohio under the Electricity Security Plans during the transition, as well as pending approval of ESP III filed last December 2013.

AEP TCC and TNC could both be considered for upgrade if their financial metrics improved over a sustained period of time, with CFO pre-WC to debt close to 20%, and CFO pre WC -- Div to debt in the high-teens.

Any upgrade among KEPCO, PSO, SWEPCO, and I&M is unlikely near term primarily because of the size of environmental costs, the level of capital expenditures, and a nuclear management program, all of which will likely challenge the historically stable financial metrics through 2016. In order for them to be upgraded, there would need to be robust and sustained financial metrics over time for factors such as CFO pre-WC to debt, and CFO pre WC -- Div to debt.

APCO's rating could be upgraded if sufficient clarity materialized on pending decisions regarding the plan transfers, along with sustainable and robust financial credit metrics. Specifically, on a three-year projected basis CFO pre-WC to debt to average between 18-20% and CFO pre-WC --Div to debt averaging between 15-17% on sustainable basis

WHAT COULD CHANGE RATING -- DOWN

Ratings of the AEP subsidiaries could be downgraded if, in Moody's view, the regulatory environment and proceedings in jurisdictions in which the AEP subsidiary operates were to take a dramatically negative turn, leading to steady and prolonged period of deterioration in regulatory proceedings and subsidiaries financial performance. In addition, significant deterioration in the regulatory frameworks across territories where APCO and OPCO operate (Virginia, West Virginia and Ohio) could have a more pronounced negative impact on AEP overall financial performance due to sizable cash flow contribution to their parent.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Rating's Upgrades and Confirmations:

American Electric Power:

Senior Unsecured Rating to Baa1 from Baa2

Senior Unsecured Shelf to (P)Baa1 from (P)Baa2

Junior Subordinate Shelf to (P)Baa2 from (P)Baa3

Commercial Paper Affirmed at to P-2

AEP Texas Central:

LT Issuer Rating to Baa1 from Baa2

Senior Unsecured Rating to Baa1 from Baa2

Backed Senior Unsecured to A3 from Baa1

AEP Texas North:

LT Issuer Rating to Baa1 from Baa2

Indiana Michigan Power Company:

LT Issuer Rating to Baa1 from Baa2

Senior Unsecured Rating to Baa1 from Baa2

Senior Unsecured MTN to (P)Baa1 from (P)Baa2

Public Service Company of Oklahoma

LT Issuer Rating to A3 from Baa1

Senior Unsecured Rating to A3 from Baa1

Backed Senior Unsecured to A3 from Baa1

Southwestern Electric Power Company

LT Issuer Rating to Baa2 from Baa3

Senior Unsecured Rating to Baa2 from Baa3

Underlying Senior Unsecured to Baa2 from Baa3

Appalachian Power Company

LT Issuer Rating to Baa1 from Baa2

Senior Unsecured Rating to Baa1 from Baa2

Senior Unsecured MTN to (P)Baa1 from (P)Baa2

Backed Senior Unsecured to Baa1 from Baa2

Underlying Senior Unsecured to Baa1 from Baa2

Senior Unsecured Shelf to (P)Baa1 from (P)Baa2

Kentucky Power Company

LT Issuer Rating Confirmed at Baa2

Senior Unsecured Rating Confirmed at Baa2

RGS (I&M) Funding Corporation

Senior Secured to Baa1 from Baa2

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Susana Vivares
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

William L. Hess
MD - Utilities
Corporate Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S INVESTORS SERVICE

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

S&P Global
Ratings

Research

Research Update:

American Electric Power Co. Inc. And Subsidiaries Upgraded To 'A-', Off Watch; Outlook Stable

Primary Credit Analyst:
Dimitri Nikas, New York (1) 212-438-7807; dimitri.nikas@spglobal.com

Secondary Contact:
Michael Pastrich, New York 212-438-0604; michael.pastrich@spglobal.com

Research Contributor:
Swapna Pillai, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Research Update:

American Electric Power Co. Inc. And Subsidiaries Upgraded To 'A-', Off Watch; Outlook Stable

Overview

- American Electric Power Co. Inc. (AEP) completed the sale of 5,200 megawatts (MW) of merchant generation capacity raising about $1.6 billion in after-tax proceeds. Divesting the high-risk assets improves AEP's credit profile that will now be dominated by regulated utilities.
- We are raising our issuer credit ratings on AEP and all its utility subsidiaries--Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Ohio Power Co., Public Service Co. of Oklahoma, Southwestern Electric Power Co., AEP Texas Inc., AEP Transmission Co. LLC, and Wheeling Power Co.--to 'A-' from 'BBB+'. At the same time, we are removing the ratings from CreditWatch, where we placed them with positive implications on Sept. 16, 2016. The outlook is stable.
- The stable outlook on AEP and its subsidiaries reflects the company's improved business risk profile that now benefits from a preponderance of regulated utility operations, expectations that non-utility operations will remain a modest part of AEP, and that the company's financial profile will remain robust, with funds from operations (FFO) to debt of about 18% on a consistent basis.

Rating Action

On Feb. 2, 2017, S&P Global Ratings raised its issuer credit ratings on American Electric Power Co. Inc. (AEP) and all its subsidiaries--Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Ohio Power Co., Public Service Co. of Oklahoma, Southwestern Electric Power Co., AEP Texas Inc., AEP Transmission Co. LLC, and Wheeling Power Co. --to 'A-' from 'BBB+'. At the same time, we are removing the ratings from CreditWatch, where we placed them with positive implications on Sept. 16, 2016. The outlook is stable.

Rationale

The upgrade on AEP and its subsidiaries reflects the improvement in business risk stemming from the close of the sale of 5,200 MW of merchant generation capacity to a third party while the company's financial performance remains robust with FFO to debt of about 18%.

The asset sale, along with the impairment of AEP's remaining merchant generation assets totaling about 2,700 MW of capacity in third quarter 2016, is in line with AEP's strategy to exit the merchant generation business and focus primarily on regulated utility operations. AEP's emphasis on its regulated operations is evident through a recent round of generally constructive regulatory outcomes and earned returns that have been improving at the individual regulated utility company level. AEP plans to use the $1.6 billion in after-tax sales proceeds to supplement funding needs, reducing the total amount of debt that needs to be issued, and supporting its financial risk profile. While AEP plans to continue growing its renewable generation investments, we do not expect that such investments will contribute more than 5% of the company's total credit profile over the next several years, especially given the modest level of planned capital spending relative to AEP's total capital spending plan.

Over the next several years AEP's capital spending program will range from $5.5 billion to $6 billion annually with about 5% allocated to contracted renewables and the balance to regulated operations, including over 50% allocated to Federal Energy Regulatory Commission (FERC)-regulated transmission investments which benefit from a constructive regulatory framework that provides for timely investment recovery. The use of the asset sale proceeds to fund capital spending and other needs will help support AEP's financial profile by offsetting the need for external borrowings and highlighting the company's generally conservative financial policies.

Under our base-case scenario we account for the loss of gross margin from the sale of the merchant generation operations. We expect gross margins to grow by about 4% to 6% annually; capital spending of $5.7 billion in 2017, $6 billion in 2018, and $5.7 billion in 2019; use of the after-tax asset sale proceeds of about $1.6 billion in the prompt year; dividend payout ratio of about 60% and modest growth in operations and maintenance costs. Over the next few years we project that AEP will generate funds from operations (FFO) to debt that ranges from 18%-19% while its debt leverage will average about 4x, with both measures demonstrating the strength of the company's financial profile.

Liquidity

We assess AEP's liquidity as adequate to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an adequate designation under our criteria, and that the company will also meet our other criteria for such a designation. AEP benefits from the preponderance of regulated utility operations that provide for stable cash flow generation. Moreover, we expect that liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, well-established and solid relationships with banks, and its satisfactory standing in the credit markets.

AEP has $3.5 billion in revolving credit facilities with $3 billion maturing in 2021 and $500 million maturing in 2018.

Principal liquidity sources:

- Cash FFO of about $4.8 billion-$5 billion;

- Credit facility availability of $3.5 billion and cash on hand of about $200 million;
- After tax proceeds from asset sale of about $1.6 billion in 2017

Principal liquidity uses:
- Maintenance capital spending of about $4.5 billion;
- Debt maturities and outstanding commercial of about $3.3 billion; and
- Dividends of about $1.1 billion to $1.2 billion.

Outlook

The stable outlook on AEP and its subsidiaries reflects the company's improved business risk profile that now benefits from a preponderance of regulated utility operations while generating FFO to debt of about 18% on a consistent basis.

Downside scenario

We could lower the ratings on AEP and its subsidiaries if the company's financial performance weakens such that FFO to debt is consistently below 14% or if its business risk increases as a result of ineffective management of regulatory risk or the pursuit of un-regulated operations.

Upside scenario

While not expected under our base-case scenario, we could raise the ratings on AEP and its subsidiaries primarily if the company's financial performance improves with FFO to debt that remains consistently above 20% while business risk remains unchanged.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/A-2

Business risk: Excellent
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: 'a-'

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)

- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'a-'
- Group credit profile: 'a-'

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
AEP Texas Inc.		
Wheeling Power Company		
Southwestern Electric Power Co.		
RGS (I&M) Funding Corp.		
RGS (AEGCO) Funding Corp.		
Public Service Co. of Oklahoma		
Ohio Power Co.		
Kentucky Power Co.		
Indiana Michigan Power Co.		
AEP Transmission Company, LLC		
Corporate Credit Rating	A-/Stable/--	BBB+/Watch Pos/--
American Electric Power Co. Inc.		
Senior Unsecured	BBB+	BBB/Watch Pos
AEP Texas Inc.		
Senior Unsecured	A-	BBB+/Watch Pos

AEP Transmission Company, LLC		
Senior Unsecured	A-	BBB+/Watch Pos
Appalachian Power Co.		
Senior Unsecured	A-	BBB+/Watch Pos
Indiana Michigan Power Co.		
Senior Unsecured	A-	BBB+/Watch Pos
Kentucky Power Co.		
Senior Unsecured	A-	BBB+/Watch Pos
Ohio Power Co.		
Senior Unsecured	A-	BBB+/Watch Pos
Public Service Co. of Oklahoma		
Senior Unsecured	A-	BBB+/Watch Pos
RGS (AEGCO) Funding Corp.		
Senior Unsecured	BBB+	BBB/Watch Pos
RGS (I&M) Funding Corp.		
Senior Unsecured	BBB+	BBB/Watch Pos
Southwestern Electric Power Co.		
Senior Unsecured	A-	BBB+/Watch Pos

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
American Electric Power Co. Inc.		
Appalachian Power Co.		
Corporate Credit Rating	A-/Stable/A-2	BBB+/Watch Pos/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

S&P Global
Ratings

RatingsDirect®

Research Update:

American Electric Power Co. Inc. Ratings Raised And Placed On Watch Positive On Sale Of Merchant Generation Assets

Primary Credit Analyst:
Dimitri Nikas, New York (1) 212-438-7807; dimitri.nikas@spglobal.com

Secondary Contact:
Michael Pastrich, New York 212-438-0604; michael.pastrich@spglobal.com

Table Of Contents

Research Update:

American Electric Power Co. Inc. Ratings Raised And Placed On Watch Positive On Sale Of Merchant Generation Assets

Overview

- American Electric Power Co. Inc. (AEP) has agreed to sell 5,200 MW of merchant generation capacity for $2.217 billion with the transaction expected to close in first-quarter 2017.
- We are raising the issuer credit rating on AEP and its subsidiaries--Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Ohio Power Co., Public Service Co. of Oklahoma, Southwestern Electric Power Co., AEP Texas Central Co., and AEP Texas North Co.--to 'BBB+' from 'BBB' and placing the ratings on CreditWatch with positive implications.
- We are revising the comparable rating analysis assessment on AEP to positive from neutral, reflecting our view that the company's business risk profile is at the higher end of the strong business risk profile category. This incorporates our view that the proposed transaction demonstrates AEP's efforts to focus on regulated utility operations, strengthening the company's business risk profile.
- The CreditWatch with positive implications reflects the possibility for higher ratings upon the close of the sale of the 5,200 MW of merchant generation capacity.

Rating Action

On Sept. 16, 2016, S&P Global Ratings raised its issuer credit ratings on American Electric Power Co. Inc. (AEP) and its subsidiaries--Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Ohio Power Co., Public Service Co. of Oklahoma, Southwestern Electric Power Co., AEP Texas Central Co., and AEP Texas North Co.--to 'BBB+' from 'BBB' and placed the ratings on CreditWatch with positive implications. In addition, we are raising the senior unsecured debt ratings at AEP and its subsidiaries by one notch, and placing the ratings on CreditWatch with positive implications.

Rationale

The rating action reflects the reduced contribution of AEP's merchant generation operation overall along management's strategy to grow the company primarily through lower-risk regulated utility operations. Additionally, the potential for higher ratings is dependent upon the successful close of the sale of about 5,200 MW of the company's merchant generation capacity, which could lead to an improved business risk profile.

The ratings on AEP reflect our assessments of the company's currently strong business and significant financial risk profiles. Moreover, the ratings on AEP reflect our view that the company's business risk profile is improving, given the declining contribution of the merchant assets, management's explicit strategy to primarily grow through lower-risk regulated utility operations, and plans to eliminate the remaining merchant generation exposure.

We expect AEP's financial risk profile to remain robust and well within the significant financial risk profile category. Under our base-case scenario, which assumes that the asset sale closes in first-quarter 2017, generating about $1.6 billion of cash after tax, but before any debt repayments, we expect that AEP will achieve funds from operations (FFO) to debt of about 18% and debt to EBITDA of consistently below 4.5x, with both measures readily supporting the company's significant financial risk profile assessment.

Liquidity

We assess AEP's liquidity as adequate to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an adequate designation under our criteria, and that the company will also meet our other criteria for such a designation. AEP benefits from the preponderance of regulated utility operations that provide for stable cash flow generation. Moreover, we expect that liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, well-established and solid relationships with banks, and its satisfactory standing in the credit markets.

AEP has $3.5 billion in revolving credit facilities with $3 billion maturing in 2021 and $500 million maturing in 2018.

Principal liquidity sources:

- FFO of about $4.6 billion annually;
- Credit facility availability of $3.5 billion; and
- After tax proceeds from pending asset sale of about $1.6 billion in next 12 months.

Principal Liquidity uses:

- Projected maintenance capital spending of about $3.4 billion;
- Debt maturities and outstanding commercial of about $4.1 billion as of June 30, 2016; and
- Dividends of about $1.1 billion annually.

CreditWatch

The CreditWatch listing with positive implications on AEP and its subsidiaries reflects the potential for higher ratings in the next three to six months upon the close of the sale of 5,200 MW of merchant generation capacity that would lead to an improvement of the company's business risk profile, while the company maintains FFO to debt of about 18%.

We could affirm the ratings if AEP's business risk remains unchanged while its financial risk profile remains toward the middle of the significant category, with FFO to debt of 15%-20%. Alternatively, we could affirm the ratings if the business risk profile improves but FFO to debt consistently weakens to below 15%.

Upon the close of the transaction, expected in the next three to six months, we could raise the issuer credit rating on AEP and its subsidiaries by one notch, reflecting improvement in business risk stemming from the sale of a portion of its merchant generation assets while the company maintains FFO to debt of about 18% or consistent with the middle of the range for the significant financial risk profile category.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
AEP Texas Central Co.		
Wheeling Power Company		
Southwestern Electric Power Co.		

RGS (I&M) Funding Corp.		
RGS (AEGCO) Funding Corp.		
Public Service Co. of Oklahoma		
Ohio Power Co.		
Kentucky Power Co.		
Indiana Michigan Power Co.		
AEP Texas North Co.		
Corporate Credit Rating	BBB+/Watch Pos/--	BBB/Positive/--
American Electric Power Co. Inc.		
Senior Unsecured	BBB/Watch Pos	BBB-
AEP Texas Central Co.		
Senior Unsecured	BBB+/Watch Pos	BBB
Appalachian Power Co.		
Senior Unsecured	BBB+/Watch Pos	BBB
Indiana Michigan Power Co.		
Senior Unsecured	BBB+/Watch Pos	BBB
Kentucky Power Co.		
Senior Unsecured	BBB+/Watch Pos	BBB
Ohio Power Co.		
Senior Unsecured	BBB+/Watch Pos	BBB
Public Service Co. of Oklahoma		
Senior Unsecured	BBB+/Watch Pos	BBB
RGS (AEGCO) Funding Corp.		
Senior Unsecured	BBB/Watch Pos	BBB-
RGS (I&M) Funding Corp.		
Senior Unsecured	BBB/Watch Pos	BBB-
Southwestern Electric Power Co.		
Senior Unsecured	BBB+/Watch Pos	BBB

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
American Electric Power Co. Inc.		
Appalachian Power Co.		
Corporate Credit Rating	BBB+/Watch Pos/A-2	BBB/Positive/A-2

Ratings Affirmed

American Electric Power Co. Inc.		
Commercial Paper	A-2	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.