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Corporates

Electric-Corporate
U.S. and Canada
Credit Analysis

American Electric Power Co.

Ratings

Security Class	Current Rating
IDR	BBB
Senior Unsecured	BBB
Junior Subordinated Debentures	BB+
Short-Term IDR/Commercial Paper	F2

IDR – Issuer default rating.

Outlook

Stable

Financial Data

American Electric Power Co.
($ Mil.)

	LTM 9/30/09	12/31/08
Revenues	13,197	14,201
Gross Margin	8,554	8,446
Cash from Operations	2,258	2,454
Operating EBITDA	4,061	3,811
Total Capitalization	29,345	27,516
ROE (%)	10.7	13.29
Capex/ Depreciation (%)	235.2	279.8

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Related Research

Applicable Criteria
- *Rating Hybrid Securities, Dec. 29, 2009*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*

Rating Rationale

- Fitch Ratings affirmed the ratings of American Electric Power Co. (AEP) on Jan. 26, 2010. AEP's ratings take into consideration the company's ownership of nine electric utility subsidiaries that provide some cash flow diversity and operate in generally balanced regulatory environments. In addition, Fitch recognizes constructive financial actions taken by management, particularly the significant reduction of capital spending in 2009 and planned capex in 2010, as well as the $1.64 billion equity offering in April of 2009, which has preserved cash flow and liquidity at the company in a challenging economic environment.
- 2009 consolidated financial performance was generally consistent with Fitch's expectations. AEP reported $1.36 billion of ongoing earnings, compared with $1.30 billion for 2008. Despite a reduction in industrial load of 15.6% and demand reduction in the off-system sales market, the company was able to secure approximately $725 million in rate increases throughout the year, primarily from Ohio, Virginia, and West Virginia. This, in combination with cost controls on operating and maintenance expenses, allowed the company to maintain credit metrics that are consistent with utility parent peers in the 'BBB' rating category, with adjusted EBITDA to interest at more than 4.0x and debt leverage, as measured by the ratio of debt to EBITDA, at 3.8x for the year ended Dec. 31, 2009. Fitch projects that credit protection measures will remain at or near current levels over the next two years, assuming reasonable outcomes in pending rate cases, recovery of recent ice storm related costs, and modest load growth as the economy improves.
- Rating concerns primarily relate to AEP's exposure to potential emissions regulations or legislation given the company's large coal-fired generation fleet, as well as weak economies in several service territories, particularly Ohio, Michigan, and Kentucky. In addition, AEP faces some regulatory uncertainty relating to the end of the current electric security plans (ESP) for the Ohio utilities (Ohio Power Co., issuer default rating [IDR] 'BBB', Stable; and Columbus Southern Power Co., IDR 'BBB+', Stable) in 2011 and other regulatory proceedings. In the near term, the Public Utilities Commission of Ohio (PUCO) has yet to determine the methodology for the Significantly Excess Earnings Test (SEET), which requires the PUCO to determine if rate adjustments included in the ESP resulted in significantly excessive earnings. An adverse ruling from the PUCO regarding earnings at the Ohio companies could place pressure on the ratings of AEP and its operating subsidiaries.

Key Rating Drivers

- Regulated operations benefit from relatively stable and predictable cash flows.
- Credit coverages consistent with the rating category and utility parent peers.
- Solid competitive operating position with ownership of low–cost, coal-fired assets.
- Balanced market structure in Ohio through year-end 2011.
- Exposure to potential emissions regulation or legislation.
- An inability to recover significant environmental compliance investments and a deterioration of regulatory relations could negatively affect ratings.

Related Research

Applicable Criteria (Continued)
- *Parent and Subsidiary Rating Linkage (Fitch's Approach to Rating Entities Within a Corporate Group Structure), June 19, 2007*
- *Issuer Default Ratings and Recovery Ratings in the Power and Gas Sector, Nov. 7, 2005*

Other Research
- *Fitch Affirms Ratings for American Electric Power Co.; Outlook Stable, Jan. 26, 2010*
- *Columbus Southern Power Co. and Ohio Power Co. (Subsidiaries of American Electric Power Co.), Jan. 15, 2010*
- *Appalachian Power Co. (A Subsidiary of American Electric Power Co.), Sept. 23, 2009*
- *Kentucky Power Co. (A Subsidiary of American Electric Power Co.), Sept. 11, 2009*

Recent Developments

Regulatory Update

Arkansas: In November 2009, the Arkansas Public Service Commission (APSC) approved a $17.8 million base rate increase for Southwestern Electric Power Co. (SWEPCO, IDR 'BBB'; Negative Outlook), premised upon a return on equity (ROE) of 10.25%. The rate order also includes a separate generation rider of approximately $11 million annually related to the recovery of carrying costs, depreciation, and operations and maintenance (O&M) expenses on the 508-MW natural gas-fired stall unit once it is placed into service as expected in mid-2010.

Texas: In August 2009, SWEPCO filed a rate case with the Public Utility Commission of Texas (PUCT) to increase non-fuel base rates by approximately $75 million, including an ROE of 11.5%.

West Virginia: In September 2009, the West Virginia Public Service Commission (WVPSC) issued an order granting a $355 million increase over a four-year phase in period for Appalachian Power Co. (APCo, IDR 'BBB–'; Stable) related to the company's expanded net energy charge (ENEC).

Cook Nuclear Power Plant

On Dec. 23, 2009, the Cook nuclear plant Unit 1 reached full power after completing testing and monitoring of the restored turbine generator system. Reactor start-up and reconnection to the transmission grid has also taken place. The 1,030-MW unit has been out of service since September 2008 when turbine vibrations damaged the turbine generator, support structure, and associated systems. Repair of the property damage and replacement of the turbine rotors and other equipment could cost up to approximately $330 million. Management believes that the company should recover a significant portion of these costs through the turbine vendor's warranty, insurance, and regulatory mechanisms.

AEP maintains property insurance through NEIL with a $1 million deductible. As of Sept. 30, 2009, the company recorded $119 million in prepayments and other current assets representing recoverable amounts under the insurance policy. The company also maintains a separate accidental outage policy with NEIL whereby, after a 12-week deductible period, AEP is entitled to weekly payments of $3.5 million for the first 52 weeks following the deductible period. After the first 52 weeks, the policy pays $2.8 million per week of up to an additional 110 weeks. To date, AEP has recorded $185 million in revenues.

Capital Expenditure Update

While AEP has announced reductions in capital spending for 2010, Fitch notes that capex budgets remain relatively high compared to historical levels, with $2.0 billion forecasted in 2010 and 2011. The largest components of capex include: investments in distribution and transmission, environmental compliance costs and new generation. AEP is actively involved in several electric transmission investment initiatives, including pursuing opportunities in Texas, as well as areas in the Southwest, Midwest and on the East Coast.

New Generation

Turk Plant Update: On Jan. 22, 2010, the Arkansas Pollution Control and Ecology Commission affirmed the air permit for Turk, which was under appeal by plant opponents in June 2009. To date, SWEPCO has spent $717 million on constructing the Turk plant, with a total projected cost of $1.6 billion.

AEP New Generation Update

(As of Sept. 30, 2009)

Company	Name	Location	Cost ($ Mil.)	Fuel Type	Capacity (MW)	Operating Date
AEGCo	Dresden	Ohio	321	Gas	580	2013
SWEPCo	Stall	Louisiana	386	Gas	500	2010
SWEPCo	Turk	Arkansas	1,633	Coal	600	2012
APCo[a]	Mountaineer	West Virginia	—	Coal	629	—
CSPCo/OPCo[a]	Great Bend	Ohio	—	Coal	629	—

[a]The construction of the IGCC plants is subject to regulatory approvals.
Source: Company reports.

New Technology: Carbon Capture Storage

AEP has been selected to receive funding from the U.S. Department of Energy (DOE) through the Clean Coal Power Initiative Round 3 to pay part of the costs of installing a commercial-scale carbon dioxide (CO2) capture and storage system on its Mountaineer coal-fired power plant in West Virginia. The company will receive $334 million to assist with the installation of a system that will use a chilled ammonia process to capture at least 90% of the CO2 from a 235-MW commercial scale portion of the plant's 1,300 MW of capacity. The system will begin commercial operation in 2015. In September 2009, the initial 20-MW demonstration capture portion of the project was placed into service, and in October 2009 the company started injecting CO2 successfully in underground storage.

AEP has also received DOE funds for an $87 million investment in gridSMART technology.

Transmission Update

AEP is pursuing a significant number of capital intensive transmission projects. The majority of these efforts are being undertaken with utility partners in joint venture ownership structures to offset business and financial risk.

Please reference the table below for AEP's active transmission projects.

- **Upper Midwest EHV Development — SMART Study:** In August 2009, AEP joined several other Midwest utilities, including American Transmission Co., Exelon Corp., NorthWestern Energy, and MidAmerican Energy Co. to sponsor a comprehensive study of the transmission needed in the Upper Midwest to support renewable energy development and to transport that energy to consumers in markets to the east. The study will provide recommendations for new transmission development in the Upper Midwest, including North Dakota, South Dakota, Iowa, Indiana, Ohio, Illinois, Minnesota, and Wisconsin. The Strategic Midwest Area Transmission Study (SMARTransmission Study) is scheduled for completion at the end of the first quarter 2010.

AEP New Transmission Projects

Project Name	Location	Expected Completion Date	Owners	Total Est. Cost at Completion ($ Mil.)	Approved ROE (%)
Electric Transmission Texas (ETT)	ERCOT (Texas)	2017	MidAmerican Energy Holdings (50%), AEP (50%)	3,097	9.96
PATH	Ohio/West Virginia	2014	Allegheny Energy (50%), AEP (50%)	1,800	14.30
Tallgrass	Oklahoma	2013	OGE Energy (50%), Electric Transmission Assets (50%)	500	12.80
Prairie Wind	Kansas	2013	Westar Energy, ETA (50%)	400	12.80
Pioneer	Indiana	2015	Duke Energy (50%), AEP (50%)	1,000	12.54

Source: Company reports.

- **Potomac-Appalachian Transmission Highline (PATH) Project Postponed:** In December 2009, AEP and its partner, Allegheny Energy (AYE) withdrew their applications for PATH in Virginia at the request of PJM. Due to the change in load and demand in the PJM region, the regional transmission operator is reviewing its long-term transmission needs for its footprint.

Liquidity

As of Dec. 31, 2009, AEP has sufficient liquidity to meet ongoing financial needs. The company has approximately $3.6 billion in credit facilities, with maturities from March 2011 through April 2012. The revolving credit agreements contain a covenant that requires AEP to maintain a debt to total capitalization ratio at or below 67.5%. As of Dec. 31, 2009, AEP has net available liquidity of $3.4 billion, including cash on hand of $490 million.

The utility subsidiaries have access to short-term borrowings through a cash pool managed by AEP, whereby entities with excess short-term liquidity lend to affiliates with cash needs. External financing needs of this pool are sourced directly by the parent.

AEP Liquidity Position

(As of Dec. 31, 2009)

Sources and Uses	Amount ($ Mil)	Maturity
Commercial Paper Backup:		
Revolving Credit Facility	1,500	3/11
Revolving Credit Facility	1,454	4/12
Revolving Credit Facility	627	4/11
Total	**3,581**	—
Cash and Cash Equivalents	490	—
Total Liquidity Sources	4,071	—
Less: AEP Commercial Paper Outstanding	(119)	—
Letters of Credit Issued	(568)	—
Net Available Liquidity	3,384	—

Source: Company reports.

Debt Maturities

AEP's debt maturities are manageable with maturing debt expected to be funded through a combination of internal cash generation and external financings as needed. AEP's parent maturities are minimal with $490 million maturing in 2010 and $243 million maturing in 2015.

AEP Long-Term Debt Maturities

($ Mil, As of Sept. 30, 2009)

2010	2011	2012	2013	2014
1,908	1,018	857	1,847	1,060

Source: Company reports.

Capital Structure

Capital Structure — American Electric Power Co. Inc.

($ Mil As of Dec. 31, 2009)

Short-Term Debt	126
Long-Term Debt	15,518
Total Debt	**15,644**
Total Hybrid Equity and Minority Interest	46
Common Equity	13,140
Total Capital	**28,830**
Total Debt/Total Capital (%)	54.3
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.2
Common Equity/Total Capital (%)	45.6

Source: Company reports.

Financial Summary — American Electric Power Co., Inc.

($ Mil., Fiscal Year-End Dec. 31, 2010)

	LTM 9/30/09	Year End 2008	2007	2006	2005
Fundamental Ratios (x)					
FFO/Interest Expense	4.2	3.9	4.1	4.6	2.9
CFO/Interest Expense	3.3	3.7	3.9	4.7	3.6
Debt/FFO	5.2	6.3	5.9	4.7	9.0
Operating EBIT/Interest Expense	2.7	2.7	2.8	2.9	2.6
Operating EBITDA/Interest Expense	4.2	4.2	4.6	4.8	4.4
Debt/Operating EBITDA	4.0	4.4	4.0	3.5	4.0
Common Dividend Payout (%)	96.3	47.8	—	—	—
Internal Cash/Capex (%)	45.5	47.1	46.1	58.9	53.0
Capex/Depreciation (%)	235.2	279.8	254.9	251.1	189.7
Profitability					
Adjusted Revenues	13,197	14,201	13,141	12,500	12,022
Net Revenues	8,554	8,446	8,174	7,827	7,487
Operating and Maintenance Expense	3,779	3,925	3,867	3,639	3,649
Operating EBITDA	4,061	3,811	3,604	3,505	3,130
Depreciation and Amortization Expense	1,423	1,358	1,395	1,405	1,267
Operating EBIT	2,638	2,453	2,209	2,100	1,863
Gross Interest Expense	965	904	779	726	714
Net Income for Common	1,271	1,380	1,089	1,002	814
Operating and Maintenance Expense % of Net Revenues	44.2	46.5	47.3	46.5	48.7
Operating EBIT % of Net Revenues	30.8	29.0	27.0	26.8	24.9
Cash Flow					
Cash Flow from Operations	2,258	2,454	2,273	2,673	1,833
Change in Working Capital	(835)	(207)	(163)	61	442
Funds from Operations	3,093	2,661	2,436	2,612	1,391
Dividends	(736)	(666)	(633)	(594)	(560)
Capital Expenditures	(3,347)	(3,800)	(3,556)	(3,528)	(2,404)
Free Cash Flow	(1,825)	(2,012)	(1,916)	(1,449)	(1,131)
Net Other Investment Cash Flow	77	40	(202)	(122)	55
Net Change in Debt	191	2,169	1,835	1,420	(91)
Net Equity Proceeds	1,759	159	144	99	(25)
Capital Structure					
Short-Term Debt	352	1,976	660	18	10
Long-Term Debt	15,883	14,801	13,756	12,324	12,520
Total Debt	**16,235**	**16,777**	**14,416**	**12,342**	**12,530**
Total Hybrid Equity and Minority Interest	46	46	46	46	46
Common Equity	13,064	10,693	10,079	9,412	9,088
Total Capital	**29,345**	**27,516**	**24,541**	**21,800**	**21,664**
Total Debt/Total Capital (%)	55.3	61.0	58.7	56.6	57.8
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.2	0.2	0.2	0.2	0.2
Common Equity/Total Capital (%)	44.5	38.9	41.1	43.2	41.9

Note: Numbers are adjusted to exclude interest, principal payments and amortization on utility tariff bonds. LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports and Fitch Ratings.

Utilities, Power, and Gas
U.S. and Canada
Full Rating Report

American Electric Power Co., Inc.

Ratings

Security Class	Current Rating
IDR	BBB
Senior Unsecured Debt	BBB
Junior Subordinated Debentures	BB+
Short-Term IDR/Commercial Paper	F2

IDR — Issuer default rating.

Rating Outlook

Stable

Financial Data

American Electric Power Co.
($ Mil.)

	12/31/10	12/31/09
Revenues	14,427	13,489
Gross Margin	9,151	8,714
Funds from Operations	2,881	3,550
Operating EBITDA	4,131	4,198
Total Debt	16,868	16,214
Total Capitalization	30,551	29,415
Capex/Depreciation (%)	157.1	191.2

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Related Research

Applicable Criteria
- *Corporate Rating Methodology, Aug. 16, 2010*
- *Parent and Subsidiary Rating Linkage, July 14, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*

Rating Rationale

- **Rating Affirmation:** Fitch affirmed the ratings of American Electric Power Co., Inc. (AEP) on Feb. 28, 2011.
- **Stable Credit Profile:** AEP's ratings are supported by regulatory and geographic diversification via ownership of nine rated electric utility subsidiaries. Additionally, the company has generally balanced regulatory environments, a solid competitive position with a fleet of low-cost coal-fired assets, and a relatively low-risk strategy of investing in transmission assets.
- **Consistent Credit Metrics:** Consolidated credit metrics are consistent with Fitch's 'BBB' issuer default rating (IDR) guidelines. AEP's recent financial performance has been bolstered by base rate increases in Kentucky and West Virginia, favorable weather across the company's service territories, effective cost-control measures, and continued improvement in the economy, particularly in the industrial sector. AEP's ratios of EBITDA to interest and funds from operations to interest were 4.4x and 4.30x, respectively, for the year ended Dec. 31, 2010. Consolidated leverage, as measured by the ratio of debt to EBITDA, was 4.1x for the same time period. AEP has modest levels of parent debt.
- Fitch forecasts AEP's consolidated credit metrics will remain at or near current levels through 2014. This analysis takes into account previously received and planned rate increases, normalized weather, and continued economic recovery.
- **Credit Concerns:** Fitch is primarily concerned about AEP's exposure to emissions regulations and legislation, given the company's large coal-fired generation fleet. Additional concerns include regulatory uncertainty in Ohio regarding the pending electric security plan (ESP) filing at AEP Ohio (Columbus Southern Power [CSP], IDR 'BBB+'/Stable and Ohio Power Co. [OPC], IDR 'BBB'/Positive) and increased customer switching in CSP's commercial sector. Additional concerns include ongoing permitting litigation and merchant price risk issues surrounding Southwestern Electric Power Co.'s (SWEPCO, IDR 'BBB'/Stable) Turk coal plant construction project. The uncertainty related to the termination of the AEP East power pool is of additional concern.
- **Environmental Legislation:** Fitch notes that Ohio Senate Bill 221, which was enacted in May 2008, specifically provides Ohio electric utilities with the ability to recover carbon-related environmental costs, which reduces exposure to carbon in this state. However, several AEP jurisdictions, including Arkansas, Louisiana, and Oklahoma, have no automatic environmental cost recovery clause or law in place.

Key Ratings Drivers

- Diversity of regulatory jurisdictions.
- Conservative utility management strategy.
- Low parent-level debt.
- Consolidated credit metrics consistent with 'BBB' guidelines.
- Issues at the Turk coal plant.

- Exposure to emissions regulations and legislation.
- ESP filing in Ohio.
- Uncertainty surrounding termination of AEP East power pool.

Recent Developments

Turk Litigation

AEP is in the midst of ongoing litigation related to Turk's air and water permits. Fitch is mostly concerned about the wetlands permit. The Sierra Club, the Audubon Society, and other parties have filed complaints with the Federal District Court, the U.S. Army Corps of Engineers, and the U.S. Department of the Interior, among others, and received a temporary restraining order and preliminary court injunction to stop the construction of Turk. The 8th Circuit Court issued a temporary injunction against Turk, which was lifted and then reinstated in December 2010. The complaints are specifically directed toward the water intake and river crossing associated with the transmission lines.

SWEPCO is reviewing alternatives to assuage these complaints and lift the injunction. On March 30, 2011, SWEPCO and the city of Hope, AR, signed a short-term agreement to provide start-up water during the construction of Turk. This agreement does not violate the federal court's preliminary injunction mentioned above. However, by drawing water from the Hope facility, SWEPCO can maintain its current construction schedule. The agreement expires on Dec. 31, 2012, and the water supplied will allow the plant to perform start-up and testing activities but will not support full operations once the unit is completed. (Please refer to the full rating report on SWEPCO, dated April 27, 2011, for further details on Turk.)

Electric Security Plan in Ohio

On Jan. 27, 2011, AEP Ohio filed a petition with the Public Utilities Commission of Ohio (PUCO) to establish a new ESP for the period of Jan. 1, 2012–May 31, 2014. In addition, the companies filed a $93.8 million joint distribution rate case in February of this year. The PUCO is expected to rule on the ESP and distribution case no later than the fourth quarter of this year.

An additional issue that has recently arisen in Ohio is the increased customer switching in CSP's southern commercial jurisdiction. This amount was, in total, about 3% in 2010 and is expected to grow to 17% in 2011. This equates to approximately 6% of AEP Ohio's total load and 1.5% of total AEP load. However, the higher shopping levels, coupled with the three-year ESP plans, could place pressure on the operating efficiencies of the Ohio utilities over the longer term.

AEP East Power Pool

On Jan. 4, 2011, Appalachian Power Co. (APCo) made a filing with the Virginia State Corporation Commission (VSCC) that detailed the AEP East pool members' (Appalachian Power CO. [APCo], IDR 'BBB–'/Stable; Indiana Michigan Power Co. [I&M], IDR 'BBB–'/Stable; Kentucky Power Co. [KPC], IDR 'BBB–'/Stable; CSP; and OPC) intent to terminate the interconnection agreement. The pool members now have a three-year time frame in which to work out a settlement and new arrangement. The decision to evaluate the pool was initially raised by regulatory concerns, particularly from Virginia, that the current pool arrangement resulted in a lack of transparency. At this time, Fitch believes it is unlikely the new arrangements to replace the current pool will have material credit rating impacts. Fitch will continue to monitor developments.

Bonus Depreciation

AEP expects to generate about $1.1 billion of cash through accelerated depreciation during the 2011–2013 period. Management has not specified how it intends to use the cash but has indicated it is reviewing several options, including reducing parent-level debt and/or funding pension expense and a lawsuit settlement. Fitch recognizes the temporary nature of bonus depreciation cash flows and normalizes cash flows for bonus depreciation tax deferrals in its analysis.

Transmission Update

AEP continues to view transmission investments as significant growth opportunities both within and outside of the company's traditional service territories. Currently, the strategy is based on three major platforms: Electric Transmission Texas (ETT), AEP Transmission Co. (AEP Transco), and several joint-venture projects. In Fitch's view, the transmission projects are positive to the credit profile of AEP because of the low-risk nature of the business and the above-average Federal Energy Regulatory Commission (FERC) incentive ROEs.

ETT

ETT is a joint-venture company with MidAmerican Energy Holdings Co. (MEHC, IDR 'BBB+'/Stable) that was established to fund, own, and operate electric transmission assets in the Electricity Reliability Council of Texas (ERCOT). ETT's current rate base is $412 million. This is expected to grow as follows: $473 million in 2011, $778 million in 2012, and $1.35 billion in 2013, when the first Competitive Renewable Energy Zone (CREZ) projects come online.

ETT's assigned CREZ projects are estimated to cost a total of approximately $1.1 billion, including seven double-circuit 345-kV transmission lines (around $750 million), eight major 345-kV stations, and several series compensation installations (about $350 million). The Public Utilities Commission of Texas certificate of convenience and necessity (CCN) proceedings are currently underway. ETT received CCN approval on three CREZ lines, and one more is expected during the first half of 2011. There are additional projects in the pipeline of approximately $1.6 billion, with around 822 miles of lines and 28 substations with in-service dates through 2017.

AEP Transco

In September 2010, AEP Transco filed a formula rate settlement with the FERC, requesting an ROE of 11.49% in the Pennsylvania New Jersey Maryland Interconnection (PJM) and 11.2% in the Southwest Power Pool. AEP Transco's application for public utility status was approved by the PUCO in December 2010. No filings were required in Oklahoma and Michigan. Additional AEP Transco applications are on file in West Virginia, Indiana, and Kentucky. Currently, the company has $50 million invested in the three states with baseline capital spending targets of $160 million in 2011 and $350 million in 2012.

Major projects identified include a substation in Ohio (at a cost of $250 million) and line extensions in the other states. The company will pursue regulatory approvals in other states in 2011, including Arkansas, Louisiana, West Virginia, Virginia, Indiana, and Kentucky. Fitch expects capital spending will increase commensurately in these states for 2012 and beyond as these approvals are received.

Joint Ventures

Transmission Joint Ventures

Project Name	Partners	Route	Total Cost	AEP Share	Estimated Completion Date	FERC Incentives	Update
Potomac-Appalachian Transmission Highline (PATH)	Allegheny Energy, Inc. ('BBB–'/ Stable)	275 miles from WV to MD	$2.1 billion	$700 million	June 2015	Cash return on CWIP; 14.3% ROE; recovery of all prudent costs incurred prior to development; recovery of abandonment costs.	Applications have been withdrawn for PATH following PJM announcement that the project had been suspended.
Prairie Wind Transmission (PWT)	MEHC, Westar Energy, Inc.	110 miles in KS	$225 million	$56 million	2013–2014	Cash return on CWIP; 12.8% ROE; recovery of all prudent costs incurred prior to construction; recovery of abandonment costs.	Project was approved as an SPP Priority Project in April 2010. Siting permit application filed in February 2011.
Pioneer Transmission	Duke	Up to 240 miles in IN	Up to $1 billion	Up to $500 million	2016 (Est.)	Cash return on CWIP; 12.54% ROE; recovery of all prudent costs incurred prior to construction; recovery of abandonment costs.	MISO has included Pioneer in its proposed Extra High Voltage plan. Project is still waiting to receive MISO and PJM approval.
RITELine Project	AEP, Electric Transmission America, Exelon Corp.	420 miles in IL, OH, and IN	$1.6 billion	$327 million	2018	Parties plan to file with the FERC in first-half 2011.	MOU executed in October 2010.

AEP – American Electric Power Co., Inc. FERC – Federal Energy Regulatory Commission. CWIP – Construction work in progress. MEHC – MidAmerican Energy Holdings Co. SPP – Southwest Power Pool. MISO –Midwest Independent System Operator. MOU – Memorandum of understanding.
Source: Company reports.

New Projects

RITELine Project

AEP, MEHC, and Exelon Corp. executed a memorandum of understanding (MOU) in October 2010 for the development of the Reliability Interregional Transmission Extension Line (RITELine) project. The proposed 765-kV transmission line extends approximately 420 miles between Illinois and Indiana. The total project cost is currently estimated to be $1.6 billion.

AEP and MidAmerican Energy Co. (MEC, a subsidiary of MEHC) executed an MOU in October 2010 for the development of a new MEC project, a proposed 765-kV line that extends approximately 180 miles between Iowa and Illinois. The estimated project cost is currently $650 million.

Liquidity and Debt Structure

AEP has a sufficient short-term liquidity position, with approximately $2.5 billion of net available liquidity as of Dec. 31, 2010, including $294 million of cash on hand. The company has credit facilities totaling $3.4 billion, of which two $1.5 billion credit facilities support its commercial paper program. The revolving credit agreements contain a covenant that requires AEP to maintain a debt to total capitalization at or below 67.5% and expire in April 2012 and June 2013. In March 2011, AEP extinguished

AEP Debt Structure

($ Mil., as of Dec. 31, 2010)

	Amount	% of Total
Short-Term Debt	1,346	4.4
Long-Term Debt	15,522	50.8
Total Debt	**16,868**	**55.2**
Preferred Stock	61	0.2
Common Equity	13,622	44.6
Total Capitalization	**30,551**	**100.0**

Source: Company reports.

its $478 million credit facility supporting its variable-rate demand notes.

Consolidated debt maturities over the next several years are considered manageable and are as follows: $616 million in 2011, $540 million in 2012, and $1.3 billion in 2013. The next parent-only maturity is in 2015, when $243 million of senior notes becomes due. Fitch expects maturing debt to be funded through a mix of internal cash generation and external refinancings.

AEP's 2011 capital-spending budget is approximately $2.6 billion, with $2.9 billion projected in 2012. Major projects and investments include transmission projects and environmental compliance. Capital-expenditure financing is anticipated to be met through a combination of internally generated cash and external debt issuances.

Financial Summary — American Electric Power Co., Inc.

($ Mil., Fiscal Years Ended Dec. 31)

	2010	2009	2008	2007	2006
Fundamental Ratios (x)					
FFO/Interest Expense	4.0	4.9	3.9	4.1	4.6
CFO/Interest Expense	3.6	3.5	3.7	3.9	4.7
FFO/Debt (%)	17.1	21.9	15.9	16.9	21.2
Operating EBIT/Interest Expense	2.8	2.9	2.7	2.8	2.9
Operating EBITDA/Interest Expense	4.4	4.6	4.2	4.7	4.9
Operating EBITDAR/(Interest Expense + Rent)	4.0	4.2	3.9	4.3	4.4
Debt/Operating EBITDA	4.1	3.9	4.4	4.0	3.5
Common Dividend Payout (%)	68.0	55.9	47.8	—	—
Internal Cash/Capital Expenditures (%)	71.9	56.5	47.1	46.1	58.9
Capital Expenditures/Depreciation (%)	157.1	191.2	279.8	254.9	251.1
Profitability					
Adjusted Revenues	14,180	13,245	14,201	13,141	12,500
Net Revenues	9,151	8,714	8,446	8,174	7,827
Operating and Maintenance Expense	4,274	3,825	3,925	3,867	3,639
Operating EBITDA	4,131	4,198	3,834	3,626	3,525
Depreciation and Amortization Expense	1,493	1,460	1,358	1,395	1,405
Operating EBIT	2,611	2,713	2,453	2,209	2,100
Gross Interest Expense	949	921	904	779	726
Net Income for Common	1,211	1,357	1,380	1,089	1,002
Operating and Maintenance Expense % of Net Revenues	46.7	43.9	46.5	47.3	46.5
Operating EBIT % of Net Revenues	28.5	31.1	29.0	27.0	26.8
Cash Flow					
Cash Flow from Operations	2,514	2,338	2,454	2,273	2,673
Change in Working Capital	(367)	(1,212)	(207)	(163)	61
Funds from Operations	2,881	3,550	2,661	2,436	2,612
Dividends	(827)	(761)	(666)	(633)	(594)
Capital Expenditures	(2,345)	(2,792)	(3,800)	(3,556)	(3,528)
Free Cash Flow	(658)	(1,215)	(2,012)	(1,916)	(1,449)
Net Other Investment Cash Flow	(119)	(24)	40	(202)	(122)
Net Change in Debt	402	(442)	2,169	1,835	1,420
Net Equity Proceeds	93	1,728	159	144	99
Capital Structure					
Short-Term Debt	1,346	126	1,976	660	18
Long-Term Debt	15,522	16,088	14,786	13,741	12,309
Total Debt	**16,868**	**16,214**	**16,762**	**14,401**	**12,327**
Total Hybrid Equity and Minority Interest	61	61	61	61	61
Common Equity	13,622	13,140	10,693	10,079	9,412
Total Capital	**30,551**	**29,415**	**27,516**	**24,541**	**21,800**
Total Debt/Total Capital (%)	55.2	55.1	60.9	58.7	56.5
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.2	0.2	0.2	0.2	0.3
Common Equity/Total Capital (%)	44.6	44.7	38.9	41.1	43.2

Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Notes: 1. Numbers may not add due to rounding. 2. Numbers are adjusted to exclude interest, principal payments, and amortization on utility tariff bonds.
Source: Company reports and Fitch Ratings.

American Electric Power Company

Columbus, Ohio, United States

Business Profile

American Electric Power Company, Inc. (AEP) is a large portfolio of individual electric utility companies that serve approximately 5 million retail customers across 11 states.[1] In addition, AEP owns a sizeable barge and coal-handling business, an energy trading operation and a small wholesale generation company, which are not regulated.

Roughly 90% of AEP's consolidated financials are associated with its rate-regulated electric utility operations. These operations are primarily conducted through nine separate utility companies, of which seven are vertically integrated. Two utilities enjoy monopolistic electric transmission and distribution (T&D) only service territories in Texas.

AEP owns or leases roughly 39 GW of electric generation capacity, much of it fueled by coal. These generating assets are diversified by geographic region and regulatory jurisdiction. Approximately 87% of this generation capacity (about 34 GW) is associated with vertically-integrated electric utilities, and roughly one-third (12 GW) is associated with the Ohio-based regulated utilities. Ohio is currently under on-going legislative intervention and market restructuring and these assets could be viewed as quasi-regulated or quasi-unregulated.[2] Roughly 13% (5 GW) is clearly non-regulated, although the capacity is essentially fully subscribed by affiliate utilities, through AEP Generating Company.

We consider AEP's utility rate base and power-generation assets as extremely important and critical for the local infrastructure, representing a broad swath of the United States extending from the upper mid-west region to south Texas. These assets face some uncertainty due to increasingly stringent environmental mandates now being developed at both state and Federal levels, which increases the risk of a major dispute regarding the intention or legal interpretation with these new policies.

This Credit Analysis provides an in-depth discussion of credit rating(s) for American Electric Power Company, Inc. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website.](#)

1 Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

2 For more information about regulatory changes under way in Ohio, read our Special Comment, "Investor-Owned Electric Utilities in Ohio," February 2009.

AEP is considered a good proxy credit for the U.S. vertically integrated electric utility sector and is viewed as being well-positioned in the Baa2 ratings category at this time, primarily due to our expectation that AEP will continue to generate cash flow that represents over 15% of its total debt. Sector wide challenges are applicable to AEP over the longer-term horizon and we incorporate a view that AEP has some time to implement corporate finance policies that support an investment grade rating.

Rating Drivers

» Recent deterioration in financial credit metrics appears to have been reversed – more quickly than we originally viewed as possible.

» Incorporated into our Baa2 rating and stable rating outlook is an expectation that AEP will maintain key cash flow to debt metrics comfortably within the mid-teen's range over the near to intermediate term horizon.

» Electric utility revenues and cash flow is diversified geographically and by state regulatory authorities—a credit positive—but a majority of operations focus on traditional, vertically integrated electric utility activities. As a result, AEP does not enjoy the same diversity of operations as some of its peers, such as MidAmerican or Dominion Resources.

» Regulatory support in all jurisdictions viewed positively. In our opinion, AEP's numerous regulatory jurisdictions allow timely recovery of prudently incurred costs and investments—a critical element to both earnings growth and credit-rating stability.

» Capital investment plans are primarily centered upon rate-base additions—generally viewed as a long-term credit positive—and recent cutbacks in investment plans are viewed more as a short-term delay or deferral.

» Significant coal-fired generating fleet raises risk profile because of the prospect for more stringent environmental mandates—especially regarding CO_2 emissions.

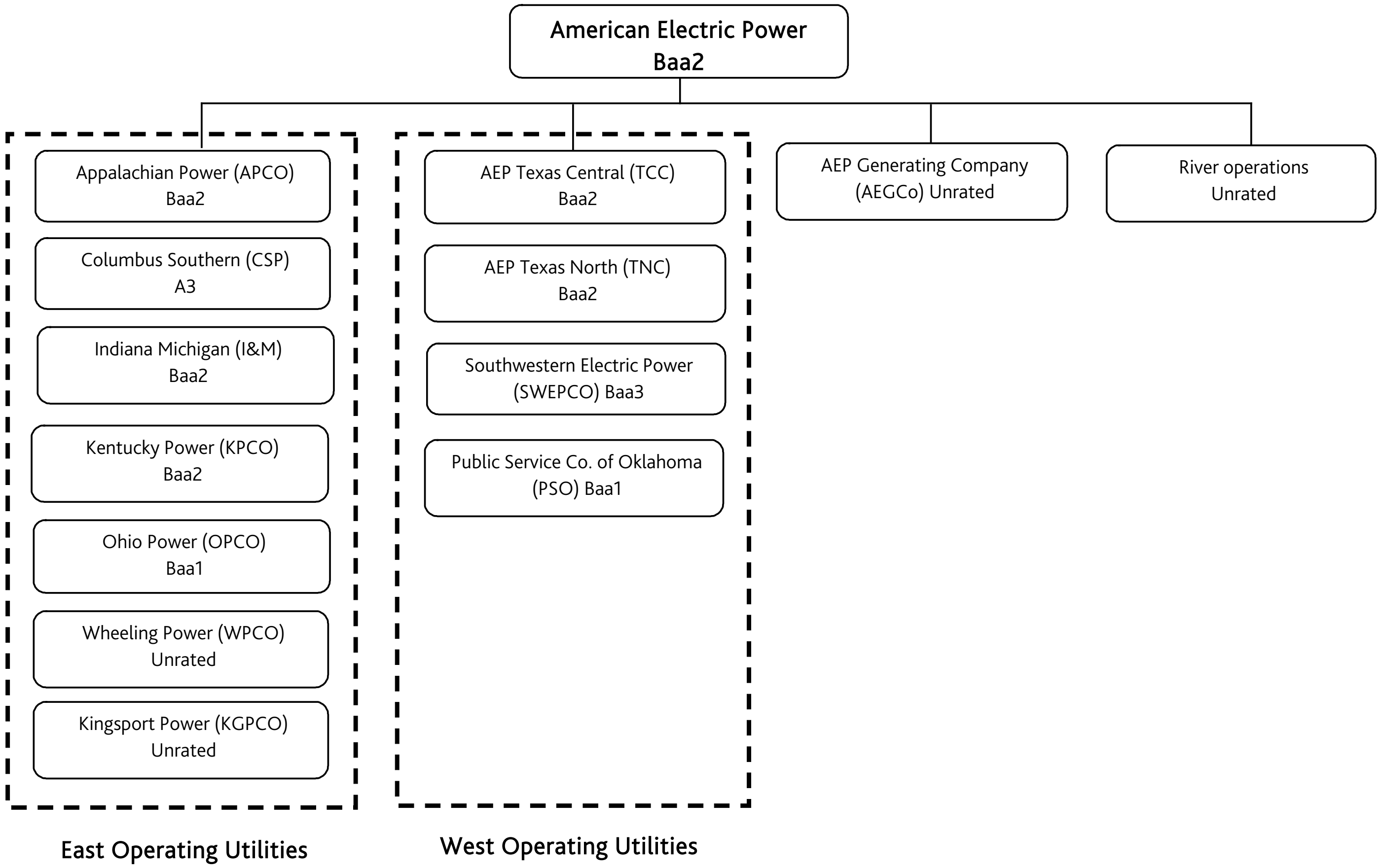
» Liquidity profile appears adequate at this time, but sizable maturities in 2010 and 2011 including a near-term expiration of crucial credit facilities, requires maintaining good access to capital markets.

» Corporate governance issues are modestly elevated with pending retirement of long-time CEO; internal and external search underway.

Regulated Electric and Gas Utilities Rating Factors-AEP and Peers:

				FACTOR 1: REGULATORY FRAMEWORK	FACTOR 2: RETURNS /COST RECOVERY	FACTOR 3: DIVERSIFICATION		FACTOR 4: FINANCIAL STRENGTH				
	CURRENT RATING	INDICATED RATING	NOTCH DIFF.	REG. SUPPORT	RATE ADJ & COST RECOVERY MECHANISMS	MARKET POSITION	FUEL / GENERATI ON DIVERSE	LIQUIDITY	3 YEAR AVERAGE CFO PRE-WC + INTEREST/ INTEREST	3 YEAR AVERAGE CFO PRE-WC/ADJ DEBT	3 YEAR AVERAGE CFO PRE-WC - DIVIDENDS /ADJ DEBT	3 YEAR AVERAGE ADJ. DEBT/CAP OR DEBT/RAV
AEP	Baa2	Baa2	-	Baa	Baa	A	B	Baa	Baa	Baa	Baa	Ba
Southern	A3	A3	-	A	A	A	Ba	A	Baa	Baa	Baa	Baa
MidAmerican	Baa1	Baa1	-	A	Baa	A	A	A	Baa	Baa	Baa	Ba
Xcel	Baa1	Baa1	-	Baa	A	A	A	Baa	Baa	Baa	Baa	Baa
Dominion	Baa2	Baa1	-1	Baa	A	A	A	Baa	Baa	Ba	Ba	Baa
Duke	Baa2	A3	-2	Baa	A	A	Ba	Baa	A	A	A	A
Progress	Baa2	Baa1	-1	Baa	A	A	Baa	Baa	Baa	Baa	Baa	Ba
Entergy	Baa3	Baa1	-2	Baa	Baa	A	A	Baa	A	Baa	Baa	Baa
FirstEnergy	Baa3	Baa2	-1	Baa	Baa	A	Baa	Baa	Baa	Baa	Baa	Ba

FIGURE 1
Simplified Organization Chart



Rating Rationale

Diversity in Regulatory Jurisdictions and Service Territory

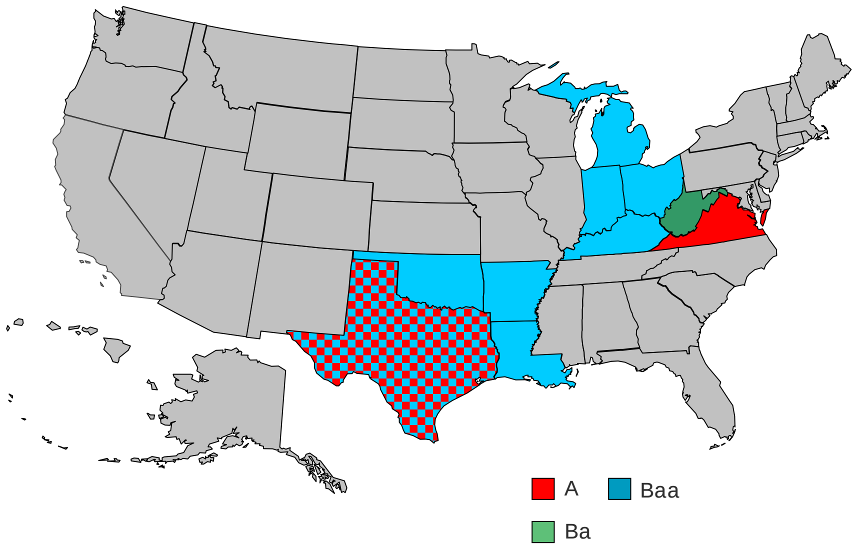
AEP is a large portfolio of individual electric utility companies that serve approximately 5 million retail customers across 11 states. In addition, AEP owns a sizeable barge and coal-handling business, which is not-regulated, along with an energy trading operation and a small wholesale generation company.

About 90% of AEP's consolidated financials are associated with rate-regulated electric utility operations. These operations are primarily conducted through nine separate utility companies, of which seven are vertically integrated.

Two vertically integrated utilities (Columbus Southern and Ohio Power) are located in Ohio, where legislative intervention associated with the traditional electric framework continues to evolve. We incorporate a view that Ohio's intervention efforts will continue, with the next round of restructuring in the 2011 – 2012 timeframe. These restructuring efforts began over a decade ago, and have been viewed as being reasonably constructive to the long-term credit quality for the utilities in that state. We incorporate a view that additional restructuring activity will also be reasonably constructive and that an adverse, contentious environment will not materialize in Ohio over the next few years.

Reference is made to our Regulated Electric and Gas rating methodology, published in August 2009. In the map below, we highlight the states where AEP maintains utility operations and how we score the Regulatory and Political Environments (Factor 1 of the ratings methodology). We note that Texas is cross-hatched between the A and Baa rating categories. This range reflects the differences we see between the pure T&D and the vertically integrated utilities in that State.

FIGURE 2



AEP's largest utility (ranked by rate base) is Appalachian Power (APCO, Baa2 senior unsecured / stable outlook). APCO's service territory is split roughly evenly between Virginia and West Virginia. Today, we consider the Virginia regulatory and political environment as being more supportive to long-term credit quality than the West Virginia jurisdiction. Nevertheless, these assessments are subject to change, and we observe that Virginia recently experienced some legislative intervention that negatively impacts APCO and that West Virginia appears to be relatively supportive of its local coal-sector industry exposure.

Two of AEP's utilities enjoy monopolistic electric transmission and distribution (T&D) only service territories in Texas (AEP Texas Central and AEP Texas North, both rated Baa2 senior unsecured / stable outlooks). The over-all business and operating risk profile of Texas-based T&D utilities are viewed as being significantly lower than the business and operating risk profiles of vertically integrated electric utilities.

We note that Texas T&D utilities do not enjoy Federal Energy Regulatory Commission (FERC) incentive rate-making structures. However, we also note that the Texas-regulatory environment provides numerous flexible rate-making provisions which serve to reduce regulatory lag.

AEP Subsidiary Contribution

	RATING	RATE BASE*($MM)	ROE (WEIGHTED AVERAGE)	# OF CUSTOMERS	GENERATION CAPACITY MW**	PRODUCTION*** (TWH) 3-YEAR AVG
American Electric Power	Baa2	16,400	10.9%	5,125,000	38,988	184.6
Columbus Southern Power Company***	A3	1,560	12.4%	749,000	3,611	14.8
Ohio Power Company***	Baa1	2,180	12.8%	712,000	8,498	52.8
Public Service Company of Oklahoma	Baa1	1,467	10.5%	527,000	4,465	14.8
AEP Texas Central	Baa2	1,566	10.0%	761,000	-	0.1
AEP Texas North	Baa2	530	10.0%	185,000	647	2.26
Appalachian Power Company	Baa2	4,080	10.3%	962,000	6,238	31.9
Indiana Michigan Power Company	Baa2	2,268	10.8%	582,000	4,453	31.1
Kentucky Power Company	Baa2	858	10.5%	176,000	1,060	6.9
Southwestern Electric Power Company	Baa3	1,891	10.4%	471,000	4,799	19.8

Source: AEP

*Rate base reflects amounts in the last filed rate cases.

**Nominal capacity; AEP total generation capacity also includes AEP Generating Co., 43.5% interest in OVEC and Wind PPA

** *Production includes generation from only AEP-owned assets

High Concentration in Carbon Fuel Remains a Major Credit Restraint

AEP owns or leases roughly 39 GW of electric generation capacity, much of it fuelled by coal. These generating assets are diversified by geographic region and regulatory jurisdiction and approximately 87% of this generation capacity (about 34 GW) is associated with vertically-integrated electric utilities.

Roughly one-third (12 GW) is associated with the Ohio-based regulated utilities, currently under on-going legislative intervention and market restructuring noted previously, and roughly 13% (5 GW) is considered non-regulated, although the capacity is essentially fully subscribed by affiliate utilities, through AEP Generating Company.

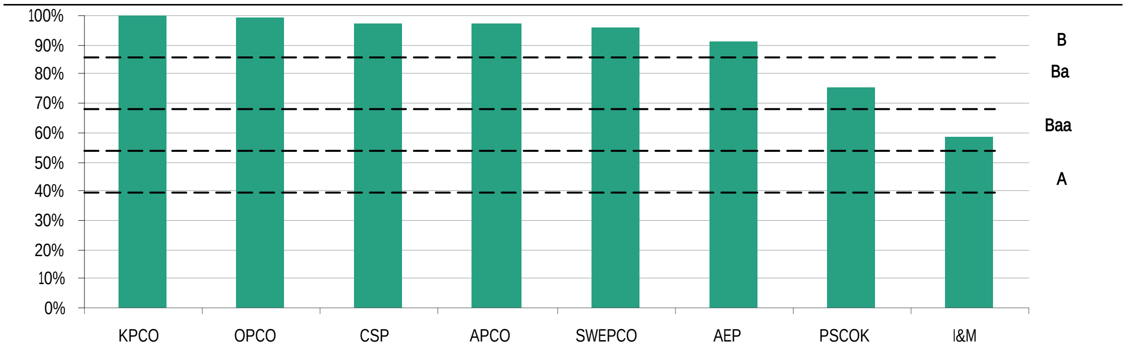
With respect to increasingly stringent environmental regulations, including carbon dioxide emissions, we incorporate a view that some form of legislation or regulation is forthcoming, but we have very little clarity on the timing. Today, we incorporate a view that legislation will be more flexible and potentially credit friendly than pure regulations, largely due to the ability of special interests to influence the drafting of the legislation. We also believe the actual financial statement impacts associated with such legislation will take several years to fully develop after being enacted. Finally, we incorporate a view that the vast majority of costs associated with such legislation/regulations are likely to be recovered through the regulatory rate-setting process.

Our views regarding increasingly stringent environmental regulations are subject to change, as additional facts or developments emerge.

FIGURE 3

Carbon Fuel as % of Output

YE 2009



Financial metric deterioration has been reversed

In 2009, AEP's consolidated financial credit metrics showed a marked improvement over the prior 2-years. This improvement, which occurred much faster than we originally thought possible, is primarily related to an aggressive cost reduction program and near-term capital investment reductions. In addition, AEP issued roughly $1.6 billion of new common equity in 2009, the proceeds of which were largely invested into its various utility subsidiaries.

The ability to maintain key cash flow to debt related credit metrics in the mid-teen's range was a primary driver behind our recent rating action - when we changed AEP's rating outlook to stable from negative.

CFO pre W/C / Debt

		2007	2008	2009
Baa2	American Electric Power Company	14%	13%	18%
A3	Columbus Southern Power Company	22%	22%	24%
Baa1	Ohio Power Company	17%	13%	20%
Baa1	Public Service Company of Oklahoma	6%	21%	21%
Baa2	AEP Texas Central Company	2%	10%	10%
Baa2	AEP Texas North Company	20%	21%	12%
Baa2	Appalachian Power Company	10%	10%	15%
Baa2	Indiana Michigan Power Company	20%	18%	25%
Baa2	Kentucky Power Company	16%	9%	18%
Baa3	Southwestern Electric Power	15%	19%	13%

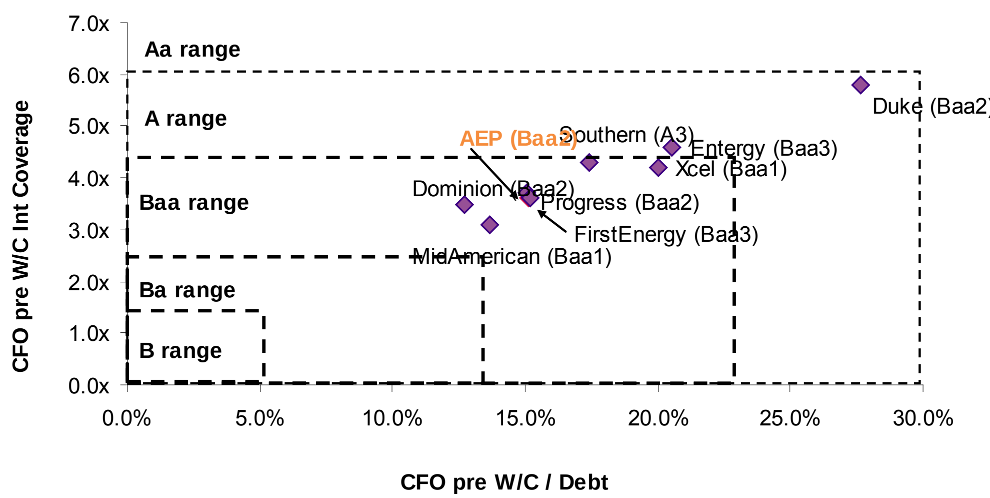
Parent Company Peer Group CFO pre W/C / Debt

	UNSEC. RATING	OUTLOOK	CFO PRE W/C / DEBT 5YR AVG	3YR AVG	2009
Southern Company	A3	Negative	19%	17%	15%
MidAmerican.	Baa1	Stable	19%	17%	17%
Xcel Energy Inc.	Baa1	Stable	19%	17%	20%
American Electric Power	Baa2	Stable	13%	14%	18%
Dominion	Baa2	Stable	20%	20%	18%
Duke	Baa2	Stable	16%	17%	23%
Progress	Baa2	Stable	16%	17%	17%
Entergy	Baa3	Stable	15%	15%	22%
FirstEnergy	Baa3	Stable	15%	13%	16%

SOURCE: Moody's FM

FIGURE 4

"Parent Company Peer Group (3 Year Average)



Liquidity Profile

As of December 31, 2009, AEP had three separate credit facilities totaling $3.6 billion; two of which are $1.5 billion five year credit facilities expiring in March 2011 and April 2012. These facilities contain a debt to capitalization limit of 67.5%. AEP asserts that it remains in compliance. There is a $750 million letter of credit capacity (prior to final Bank of America litigation judgment, $600 million after) on each facility ($1.5 billion in total, $1.2 billion after Bank of America resolution), a $500 million accordion feature for each facility (for a total accordion of $1.0 billion) and a one-year extension option.

There are no material adverse change restrictions on drawings, no litigation representation provision at the time of borrowing and a definition adjustment to exclude one of AEP's subsidiaries, AEP Texas Central, as a "significant subsidiary" to prevent cross-acceleration in the event of a default. AEP also has a $627 million credit facility, expiring April 2011, that can be utilized for letter of credit or draws and has covenant restrictions similar to the primary 5-year facilities.

AEP has approximately $1.7 billion of long term debt due in 2010 (of which $700 million will mature for remainder of 2010) and $600 million due in 2011. In the next two years, We estimate that AEP will spend approximately $2.5 billion in capital expenditures and approximately $800 million in dividends annually. As of year end 2009, AEP's credit facilities had approximately $119 million utilized in support of commercial paper outstanding and roughly $568 million of LC's posted, leaving approximately $2.9 billion of capacity available. Combined with $490 million of cash, total liquidity amounted to $3.4billion.

For year 2009, AEP generated approximately $2.7 billion in cash from operations, made approximately $3.3 billion capital investments and paid roughly $761 million in dividends, resulting in roughly $1.4 billion of negative free cash flow.

Liquidity Profile 2009 ($Million)

	CASH	AVAILABLE CREDIT FACILITIES / MONEY POOL
American Electric Power Company	$ 490.0	$2,894.0
AEP Texas Central Company	$180.2	$200.0
AEP Texas North Company	$0.2	$250.0
Appalachian Power Company	$ 2.0	$370.5
Columbus Southern Power Company	$1.1	$326.0
Indiana Michigan Power Company	$ 0.8	$500.0
Kentucky Power Company	$ 0.5	$250.0
Ohio Power Company	$2.0	$600.0
Public Service Company of Oklahoma	$0.8	$ 300.0
Southwestern Electric Power	$1.7	$350.0

Subsidiary Rating Summary

Appalachian Power (Baa2 Sr. Unsecured / Stable Outlook)

APCo's Baa2 senior unsecured rating reflects a relatively low-risk vertically integrated electric utility company operating in states with regulatory authorities that are generally viewed as being reasonably supportive to long term credit quality. APCo is diversified between its Virginia and West Virginia jurisdictions and benefits from some consolidated financial advantages of being part of the AEP system. Furthermore, as its major spending program winds down over the next few years, we expect APCO's financial profile and balance sheet to strengthen.

Moody's note that State of Virginia lawmakers recently suspended APCO's interim rate increase due to concerns of economic difficulties. The intervention represents an industry-wide phenomenon that, if materialized, could result in an overall shift of regulatory supportiveness within the entire rate-regulated utilities sector. Moody's will continue to follow and evaluate the situation across the country. Nevertheless, on the positive side, Moody's observe that the measure in Virginia also requires the Virginia State Corporation Commission (SCC) to issue a decision on the company's base rate case by July 15. For base cases filed after January 1, 2010, SCC is required to issue a decision within nine months.

Selected Financial Data – Appalachian Power

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	2,039	2,250	2,548	2,866	3,342	3,665	4,165
CFO / Debt	23%	18%	9%	15%	11%	6%	-1%
CFO pre W/C / Debt	24%	19%	11%	13%	10%	10%	15%
FFO / Debt	20%	18%	14%	13%	11%	13%	18%
RCF / Debt	17%	16%	10%	12%	9%	10%	15%

Columbus Southern Power (A3 Sr. Unsecured / Stable Outlook)

CSPCo's A3 senior unsecured rating primarily reflects the relatively stable regulatory environment and reasonable recovery mechanisms provided by the Ohio Electric Security Plan (ESP) through 2011 and its strong cash flow generation. CSPCo is expected to continue producing financial credit metrics in a range that positions the credit well within the A3 rating category. The rating also considers the prospects for increasingly stringent environmental mandates, including the prospect for new regulations associated with carbon dioxide emissions.

We incorporate a view that CSPCo will maintain key cash flow to debt related financial metrics comfortably above the 20% range. Cash flow to debt metrics of roughly 25% will keep CSPCo well positioned in the A3 ratings category. Should CSPCo's metrics fall closer to the 20%, negative rating actions are more likely.

Selected Financial Data – Columbus Southern Power

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	1,005	1,202	1,409	1,397	1,722	1,996	2,101
CFO / Debt	29%	28%	13%	28%	28%	22%	19%
CFO pre W/C / Debt	32%	25%	18%	25%	22%	22%	23%
FFO / Debt	31%	26%	24%	26%	26%	22%	27%
RCF / Debt	15%	15%	10%	18%	14%	16%	16%

Ohio Power (Baa1 Sr. Unsecured / Stable Outlook)

OPCo's Baa1 senior unsecured rating and stable outlook reflect the relatively stable regulatory environment and reasonable recovery mechanisms provided by the approved Electric Security Plan (ESP) through 2011. The rating also takes into consideration the company's historical and projected financial profile in comparison to its peers, the severely impacted economic conditions in the service territory that OPCo operates within and its ownership by American Electric Power.

OPCo's cash flow to debt metrics are expected to remain in the high-teen's range for the near to intermediate term horizon. OPCo is much larger than its affiliate, CSPCo, and is more exposed to reduced industrial volumes due to economic pressures.

Selected Financial Data – Ohio Power

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	2,443	2,327	2,496	2,755	3,192	3,522	3,783
CFO / Debt	17%	24%	16%	21%	18%	13%	8%
CFO pre W/C / Debt	23%	23%	19%	18%	17%	13%	20%
FFO / Debt	23%	23%	22%	17%	19%	15%	20%
RCF / Debt	16%	15%	18%	18%	17%	13%	18%

Indiana Michigan Power (Baa2 Sr. Unsecured / Stable Outlook)

I&M's Baa2 senior unsecured rating reflects the generally supportive regulatory jurisdictions in both Indiana and Michigan, a material credit positive. In addition, the rating considers the strong historical financial metrics for I&M's rating category.

The rating had been modestly constrained by I&M's sizeable capital investment program and managing the outage at its DC Cook nuclear facility. Over time, as I&M demonstrates its ability to successfully manage and operate its large nuclear plant, and assuming the key cash flow to debt metrics remain in the high-teen's range for a sustainable period of time, this utility is the most likely AEP subsidiary to justify a ratings upgrade.

Selected Financial Data – Indiana Michigan Power

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	2,408	2,210	2,608	2,653	2,603	3,111	3,167
CFO / Debt	13%	28%	18%	19%	20%	19%	16%
CFO pre W/C / Debt	17%	24%	22%	18%	20%	18%	25%
FFO / Debt	17%	22%	20%	16%	19%	17%	24%
RCF / Debt	15%	20%	19%	16%	18%	15%	22%

Kentucky Power (Baa1 Sr. Unsecured / Stable Outlook)

KYPCo's Baa2 issuer rating primarily reflects the reasonably constructive relationship with the KPSC while constrained by its relatively large capital investment program and its single carbon fuel source. Although the company has temporarily delayed some of the investment programs in 2009 and 2010, we expect the program to resume to its full force in the next few years.

However, we expect increasing up-stream dividends over the next few years and free cash flow could return to a negative position over the intermediate and long term horizon. While we generally view investments in rate base positively, we would be concerned if KYPCo's spending plans result in a persistent negative free cash flow position that is primarily funded with internal or external debt. Should this situation materialize, KYPCo's financial profile could become stressed given its Baa2-rating category.

Additionally, we consider the potential for significant environmental legislation, especially related to carbon dioxide emissions, as a material risk affecting KYPCo's 100% coal-fired generating assets. Moody's incorporates a view that the timing of compliance requirements within any potential new legislation may be many years in the future and that the costs associated with any new legislation regarding emissions will generally be recovered through rates (either through existing fuel clause pass-through mechanisms or other incremental rate riders).

Selected Financial Data – Kentucky Power

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	523	575	558	542	534	665	634
CFO / Debt	12%	17%	14%	19%	18%	7%	11%
CFO pre W/C / Debt	19%	16%	14%	16%	16%	9%	18%
FFO / Debt	18%	15%	14%	16%	16%	11%	18%
RCF / Debt	16%	12%	14%	13%	14%	7%	15%

Southwestern Electric Power (Baa3 Sr. Unsecured / Stable Outlook)

SWEPCO's Baa3 senior unsecured rating reflects the longer-term prospects of being a relatively diversified, vertically integrated electric utility company with generally supportive political / regulatory environments. In addition, SWEPCO is benefited by its relationship with its parent, AEP, with respect to its liquidity needs. Over the longer-term, we view SWEPCO as an investment grade utility company.

Nevertheless, SWEPCO's current risk profile is extremely high, largely due to its pursuit of building a new, 600-MW coal-fired generating facility in Hempstead, Arkansas. The project is facing numerous legal challenges, which is not that unusual for projects of this type. It is unusual, in our opinion, for a utility to be as far along with construction given the amount of legal uncertainty that remain unresolved.

While a non-investment grade rating is not out of the question, at this time we incorporate a view that SWEPCO has the ability to revise its corporate and finance strategies and pursue other mitigation alternatives that are designed to protect against unexpectedly adverse events, especially with respect to its liquidity needs.

Selected Financial Data – Southwestern Electric Power

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	946	1,026	945	958	1,434	1,862	1,974
CFO / Debt	27%	23%	22%	23%	12%	11%	20%
CFO pre W/C / Debt	29%	22%	24%	22%	15%	19%	13%
FFO / Debt	22%	23%	22%	22%	14%	18%	12%
RCF / Debt	22%	16%	18%	17%	15%	19%	13%

Public Service Company of Oklahoma (Baa1 Sr. Unsecured / Stable Outlook)

The Baa1 senior unsecured rating primarily considers the relatively strong financial profile of PSO. Prospectively, the rating incorporates a view that PSO will maintain a financial profile that positions the company well within its existing rating category. The rating also considers the supportive regulatory environment in Oklahoma, and we continue to view the OCC as being a long-term credit positive for PSO. The rating considers the material recessionary pressures currently being experienced in Oklahoma and the prospects for increasingly stringent environmental mandates, including the prospect for new regulations associated with carbon dioxide emissions.

Selected Financial Data – Public Service Company of Oklahoma

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	601	750	763	844	1,093	1,086	1,158
CFO / Debt	28%	17%	11%	21%	11%	14%	26%
CFO pre W/C / Debt	29%	16%	23%	13%	6%	20%	21%
FFO / Debt	28%	20%	26%	12%	9%	21%	21%
RCF / Debt	24%	11%	18%	13%	6%	20%	19%

AEP Texas Central (Baa2 Sr. Unsecured / Stable Outlook)

AEP TCC's Baa2 senior unsecured rating is weakly positioned within its rating category, primarily due to the very weak cash flows in relation to its total adjusted debt (both on an absolute basis and in relation to its peer comparables). Nevertheless, a lower rating is not justified at this time, in part due to the expectation that AEP TCC's financial profile will show a steady, albeit modest, improvement over time and in part due to the relatively low business and operating environment provided by the PUCT. AEP TCC (and its affiliate, AEP TNC) are not viewed as core strategic holdings for the parent, AEP, in our opinion. As a result, we believe these Texas T&D properties could be considered potential divestiture candidates.

Selected Financial Data – AEP Texas Central

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	2,362	1,995	1,982	3,061	2,990	2,973	2,883
CFO / Debt	15%	15%	-3%	7%	2%	5%	12%
CFO pre W/C / Debt	11%	8%	5%	3%	2%	10%	10%
FFO / Debt	13%	7%	5%	5%	4%	13%	10%
RCF / Debt	6%	0%	-3%	-16%	2%	9%	9%

AEP Texas North (Baa2 Sr. Unsecured / Stable Outlook)

Moody's views AEP TNC as being relatively well positioned within the Baa2 senior unsecured ratings category. The company, a small, relatively lower-risk transmission and distribution utility company, benefits from the Texas deregulation initiative primarily due to the absence of fuel commodity and other provider of last resort (POLR) obligations. In addition, AEP TNC benefits from the regulatory oversight provided by the PUCT, which is viewed as being relatively supportive to long term credit quality for the Texas T&D sector. AEP TNC's historical key financial credit metrics would otherwise indicate a higher ratings category than Baa2, but we incorporate a view that the metrics, primarily the cash flow to debt related metrics, will decline over the next few years towards the mid-teen's range from the previous 20% level. The mid-teen cash flow metrics are expected to remain in that range for the foreseeable future, which positions AEP TNC in the Baa2 ratings category. The residual ownership interest in the Oklaunion generating facility, which is unique among the rest of the Texas T&D sector, is not viewed as a material ratings constraint.

Selected Financial Data – AEP Texas North

COMPANY	2003	2004	2005	2006	2007	2008	2009
Total Debt	386	355	297	299	328	433	492
CFO / Debt	20%	28%	42%	21%	13%	16%	16%
CFO pre W/C / Debt	27%	24%	34%	17%	20%	21%	12%
FFO / Debt	23%	29%	28%	21%	22%	21%	11%
RCF / Debt	25%	24%	25%	12%	16%	13%	5%

Appendix– Key Financials

American Electric Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$4,461	$4,124	$3,533	$4,425	$5,387
Current Liabilities	$6,185	$6,213	$5,893	$7,171	$6,181
CA – CL	($1,724)	($2,089)	($2,360)	($2,746)	($794)
CFO	$2,585	$2,911	$2,639	$2,684	$2,727
Change in w/c	$361	$41	($95)	($350)	($1,193)
CFO-w/c	$2,224	$2,870	$2,734	$3,034	$3,920
Change in other A&L	$46	($6)	$29	$376	($48)
FFO	$2,270	$2,864	$2,763	$3,410	$3,872
Dividends	$553	$591	$633	$669	$761
CFO-w/c-dividends	$1,671	$2,279	$2,101	$2,365	$3,159
CapEx	$2,649	$3,727	$3,852	$4,238	$3,194
FCF	($617)	($1,407)	($1,846)	($2,223)	($1,228)
As Rpt STD	$526	$554	$1,167	$2,626	$757
As Rpt Gross Debt	$12,226	$13,698	$14,994	$15,983	$17,498
As Rpt Total Debt	$12,752	$14,252	$16,161	$18,609	$18,255
Change in Debt		$1,500	$1,909	$2,448	($354)
Pension Adjustment	$204	$82	$87	$1,140	$1,298
Lease Adjustment	$2,307	$2,526	$2,712	$2,886	$2,700
Other Adjustment	$-	$-	$-	$-	$-
Total Adjustments	$2,511	$2,608	$2,799	$4,026	$3,998
Total Adj Debt	$15,263	$16,860	$18,960	$22,635	$22,253
(CFO-w/c) / Debt	14.6%	17.0%	14.4%	13.4%	17.6%
(CFO-w/c + Int)/Int	3.6x	3.9x	3.5x	3.3x	4.0x
(CFO-w/c-div) / Debt	11.0%	13.5%	11.1%	10.4%	14.2%
FFO / Debt	14.9%	17.0%	14.6%	15.1%	17.4%

Appalachian Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$784	$720	$642	$970	$1,298
Current Liabilities	$1,101	$1,242	$1,295	$1,366	$1,509
CA - CL	($317)	($522)	($653)	($397)	($211)
CFO	$226	$438	$357	$212	($26)
Change in w/c	($44)	$75	$25	($159)	($666)
CFO-w/c	$270	$364	$332	$371	$640
Change in other A&L	$80	($2)	$24	$114	$99
FFO	$350	$362	$356	$484	$739
Dividends	$6	$11	$26	$1	$21
CFO-w/c-dividends	$264	$353	$306	$370	$619
CapEx	$599	$888	$759	$713	$560
FCF	($379)	($460)	($428)	($502)	($606)
As Rpt STD	$194	$35	$275	$195	$230
As Rpt Gross Debt	$2,151	$2,599	$2,847	$3,175	$3,477
As Rpt Total Debt	$2,346	$2,634	$3,123	$3,369	$3,707
Change in Debt		$288	$489	$247	$337
Pension Adjustment	$34	$14	$15	$19	$166
Lease Adjustment	$92	$116	$121	$145	$148
Other Adjustment	$77	$102	$84	$131	$144
Total Adjustments	$203	$232	$219	$295	$458
Total Adj Debt	$2,548	$2,866	$3,342	$3,665	$4,165
(CFO-w/c) / Debt	10.6%	12.7%	9.9%	10.1%	15.4%
(CFO-w/c + Int)/Int	3.2x	3.4x	2.9x	2.6x	3.8x
(CFO-w/c-div) / Debt	10.4%	12.3%	9.2%	10.1%	14.9%
FFO / Debt	13.7%	12.6%	10.6%	13.2%	17.7%

Columbus Southern Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$460	$431	$433	$479	$490
Current Liabilities	$587	$628	$871	$816	$980
CA - CL	($127)	($196)	($437)	($337)	($491)
CFO	$190	$398	$474	$432	$400
Change in w/c	($60)	$53	$89	($3)	($94)
CFO-w/c	$250	$345	$385	$435	$494
Change in other A&L	$85	$17	$56	$9	$69
FFO	$335	$362	$441	$444	$562
Dividends	$114	$90	$150	$123	$150
CFO-w/c-dividends	$136	$255	$235	$312	$344
CapEx	$172	$306	$352	$464	$329
FCF	($96)	$2	($28)	($154)	($79)
As Rpt STD	$18	$1	$95	$75	$24
As Rpt Gross Debt	$1,197	$1,197	$1,298	$1,444	$1,536
As Rpt Total Debt	$1,215	$1,198	$1,393	$1,518	$1,561
Change in Debt		($17)	$195	$125	$42
Pension Adjustment	$10	$4	$4	$56	$83
Lease Adjustment	$60	$52	$191	$277	$288
Other Adjustment	$124	$143	$133	$145	$169
Total Adjustments	$195	$199	$328	$477	$540
Total Adj Debt	$1,409	$1,397	$1,722	$1,996	$2,101
(CFO-w/c) / Debt	17.7%	24.7%	22.4%	21.8%	23.5%
(CFO-w/c + Int)/Int	4.7x	5.6x	5.1x	4.7x	5.1x
(CFO-w/c-div) / Debt	9.6%	18.2%	13.7%	15.7%	16.4%
FFO / Debt	23.8%	25.9%	25.6%	22.3%	26.8%

Indiana Michigan Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$600	$597	$531	$645	$1,001
Current Liabilities	$1,117	$789	$892	$1,259	$770
CA - CL	($517)	($192)	($361)	($614)	$232
CFO	$462	$505	$512	$576	$500
Change in w/c	($104)	$34	($2)	$23	($282)
CFO-w/c	$565	$471	$514	$553	$782
Change in other A&L	($54)	($38)	($31)	($25)	($18)
FFO	$511	$433	$483	$528	$764
Dividends	$62	$40	$40	$75	$98
CFO-w/c-dividends	$503	$431	$474	$478	$684
CapEx	$416	$478	$434	$640	$585
FCF	($16)	($13)	$38	($139)	($183)
As Rpt STD	$94	$91	$45	$476	$-
As Rpt Gross Debt	$1,445	$1,571	$1,611	$1,421	$2,103
As Rpt Total Debt	$1,539	$1,662	$1,656	$1,897	$2,103
Change in Debt		$124	($6)	$242	$206
Pension Adjustment	$44	$-	$19	$245	$144
Lease Adjustment	$915	$888	$819	$850	$782
Other Adjustment	$111	$103	$109	$118	$138
Total Adjustments	$1,070	$990	$947	$1,213	$1,064
Total Adj Debt	$2,608	$2,653	$2,603	$3,111	$3,167
(CFO-w/c) / Debt	21.7%	17.8%	19.7%	17.8%	24.7%
(CFO-w/c + Int)/Int	6.1x	4.9x	5.1x	4.4x	5.6x
(CFO-w/c-div) / Debt	19.3%	16.2%	18.2%	15.4%	21.6%
FFO / Debt	19.6%	16.3%	18.6%	17.0%	24.1%

Kentucky Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$165	$146	$121	$161	$179
Current Liabilities	$228	$534	$228	$333	$183
CA - CL	($63)	($389)	($107)	($172)	($4)
CFO	$75	$104	$99	$49	$72
Change in w/c	($3)	$19	$14	($9)	($40)
CFO-w/c	$78	$85	$85	$58	$112
Change in other A&L	$0	$1	$3	$14	$4
FFO	$79	$86	$88	$72	$115
Dividends	$3	$15	$12	$14	$20
CFO-w/c-dividends	$76	$70	$73	$44	$92
CapEx	$59	$80	$71	$132	$66
FCF	$14	$8	$16	($97)	($14)
As Rpt STD	$6	$31	$19	$131	$0
As Rpt Gross Debt	$487	$447	$448	$419	$549
As Rpt Total Debt	$493	$478	$468	$550	$549
Change in Debt		($15)	($10)	$82	($1)
Pension Adjustment	$7	$-	$3	$39	$27
Lease Adjustment	$20	$20	$22	$20	$16
Other Adjustment	$39	$44	$41	$56	$41
Total Adjustments	$65	$64	$66	$115	$85
Total Adj Debt	$558	$542	$534	$665	$634
(CFO-w/c) / Debt	14.0%	15.6%	15.8%	8.8%	17.6%
(CFO-w/c + Int)/Int	3.4x	3.8x	3.6x	2.4x	3.9x
(CFO-w/c-div) / Debt	13.6%	12.9%	13.6%	6.7%	14.5%
FFO / Debt	14.1%	15.9%	16.4%	10.9%	18.2%

Ohio Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$825	$681	$638	$803	$1,550
Current Liabilities	$1,252	$1,179	$1,019	$1,217	$1,537
CA - CL	($426)	($498)	($381)	($414)	$13
CFO	$409	$585	$579	$463	$310
Change in w/c	($67)	$99	$33	$15	($462)
CFO-w/c	$476	$486	$547	$448	$772
Change in other A&L	$85	($18)	$46	$78	($27)
FFO	$561	$467	$592	$526	$744
Dividends	$30	$0	$-	$1	$97
CFO-w/c-dividends	$446	$486	$547	$446	$675
CapEx	$708	$978	$918	$704	$430
FCF	($329)	($392)	($339)	($242)	($217)
As Rpt STD	$10	$1	$1	$-	$-
As Rpt Gross Debt	$2,200	$2,402	$2,850	$3,039	$3,243
As Rpt Total Debt	$2,210	$2,403	$2,850	$3,039	$3,243
Change in Debt		$193	$447	$189	$203
Pension Adjustment	$22	$9	$10	$125	$157
Lease Adjustment	$124	$187	$197	$203	$206
Other Adjustment	$139	$157	$135	$155	$178
Total Adjustments	$286	$352	$341	$483	$540
Total Adj Debt	$2,496	$2,755	$3,192	$3,522	$3,783
(CFO-w/c) / Debt	19.1%	17.6%	17.1%	12.7%	20.4%
(CFO-w/c + Int)/Int	4.6x	4.1x	4.0x	3.x	5.0x
(CFO-w/c-div) / Debt	17.9%	17.6%	17.1%	12.7%	17.8%
FFO / Debt	22.5%	17.0%	18.6%	14.9%	19.7%

Public Service Power Company of Oklahoma ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$500	$497	$466	$417	$360
Current Liabilities	$663	$649	$539	$666	$401
CA - CL	($163)	($152)	($74)	($249)	($41)
CFO	$86	$175	$124	$147	$307
Change in w/c	($91)	$67	$57	($75)	$58
CFO-w/c	$177	$108	$67	$222	$248
Change in other A&L	$18	($2)	$31	$1	($8)
FFO	$195	$105	$98	$223	$240
Dividends	$37	$-	$-	$-	$32
CFO-w/c-dividends	$140	$108	$67	$222	$216
CapEx	$139	$246	$316	$292	$180
FCF	($90)	($71)	($192)	($145)	$95
As Rpt STD	$-	$-	$-	$-	$-
As Rpt Gross Debt	$571	$670	$918	$885	$968
As Rpt Total Debt	$571	$670	$918	$885	$968
Change in Debt		$99	$248	($33)	$83
Pension Adjustment	$1	$-	$1	$8	$67
Lease Adjustment	$39	$50	$60	$52	$44
Other Adjustment	$152	$125	$115	$141	$79
Total Adjustments	$192	$174	$175	$201	$190
Total Adj Debt	$763	$844	$1,093	$1,086	$1,158
(CFO-w/c) / Debt	23.2%	12.7%	6.1%	20.5%	21.4%
(CFO-w/c + Int)/Int	5.3x	3.2x	2.1x	3.5x	4.6x
(CFO-w/c-div) / Debt	18.4%	12.7%	6.1%	20.5%	18.7%
FFO / Debt	25.6%	12.5%	9.0%	20.5%	20.7%

Southwestern Electric Power ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$415	$557	$440	$548	$461
Current Liabilities	$496	$926	$507	$579	$623
CA - CL	($80)	($369)	($68)	($31)	($162)
CFO	$206	$219	$178	$206	$386
Change in w/c	($18)	$12	($32)	($154)	$122
CFO-w/c	$224	$207	$210	$360	$264
Change in other A&L	($13)	($1)	($2)	($19)	($27)
FFO	$211	$206	$208	$341	$237
Dividends	$55	$40	$-	$5	$3
CFO-w/c-dividends	$169	$167	$210	$355	$260
CapEx	$166	$335	$510	$685	$584
FCF	($15)	($156)	($332)	($484)	($201)
As Rpt STD	$100	$120	$95	$112	$124
As Rpt Gross Debt	$745	$729	$1,197	$1,591	$1,623
As Rpt Total Debt	$845	$849	$1,292	$1,703	$1,747
Change in Debt		$4	$443	$412	$44
Pension Adjustment	$7	$3	$3	$38	$72
Lease Adjustment	$89	$102	$135	$116	$151
Other Adjustment	$5	$5	$5	$5	$5
Total Adjustments	$100	$109	$142	$158	$227
Total Adj Debt	$945	$958	$1,434	$1,862	$1,974
(CFO-w/c) / Debt	23.7%	21.6%	14.6%	19.4%	13.4%
(CFO-w/c + Int)/Int	4.7x	4.2x	3.5x	3.8x	3.2x
(CFO-w/c-div) / Debt	17.9%	17.4%	14.6%	19.1%	13.2%
FFO / Debt	22.4%	21.5%	14.5%	18.3%	12.0%

AEP Texas Central ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$378	$583	$500	$385	$447
Current Liabilities	$533	$303	$397	$500	$373
CA - CL	($155)	$280	$102	($116)	$75
CFO	($58)	$229	$48	$138	$354
Change in w/c	($155)	$145	($1)	($146)	$64
CFO-w/c	$97	$84	$49	$284	$290
Change in other A&L	$2	$73	$63	$67	($7)
FFO	$99	$157	$112	$351	$283
Dividends	$150	$585	$3	$30	$36
CFO-w/c-dividends	($53)	($502)	$45	$253	$254
CapEx	$183	$275	$228	$273	$180
FCF	($390)	($631)	($183)	($165)	$137
As Rpt STD	$82	$-	$-	$107	$-
As Rpt Gross Debt	$1,853	$3,016	$2,938	$2,794	$2,758
As Rpt Total Debt	$1,936	$3,016	$2,938	$2,902	$2,758
Change in Debt		$1,080	($78)	($36)	($144)
Pension Adjustment	$4	$2	$2	$23	$82
Lease Adjustment	$37	$44	$51	$48	$43
Other Adjustment	$6	$0	$0	$0	$0
Total Adjustments	$47	$46	$53	$71	$125
Total Adj Debt	$1,982	$3,061	$2,990	$2,973	$2,883
(CFO-w/c) / Debt	4.9%	2.7%	1.6%	9.5%	10.1%
(CFO-w/c + Int)/Int	1.9x	1.6x	1.3x	2.6x	2.8x
(CFO-w/c-div) / Debt	-2.7%	-16.4%	1.5%	8.5%	8.8%
FFO / Debt	5.0%	5.1%	3.7%	11.8%	9.8%

AEP Texas North ($ Millions, as adjusted or otherwise stated)

	2005	2006	2007	2008	2009
Current Assets	$165	$72	$79	$101	$93
Current Liabilities	$155	$95	$127	$139	$175
CA - CL	$10	($23)	($47)	($37)	($83)
CFO	$126	$63	$42	$71	$78
Change in w/c	$24	$13	($23)	($18)	$20
CFO-w/c	$102	$50	$65	$90	$58
Change in other A&L	($20)	$14	$8	$3	($4)
FFO	$82	$64	$73	$93	$54
Dividends	$29	$13	$14	$35	$32
CFO-w/c-dividends	$73	$37	$51	$55	$26
CapEx	$64	$72	$89	$133	$96
FCF	$33	($22)	($61)	($97)	($50)
As Rpt STD	$-	$-	$34	$29	$76
As Rpt Gross Debt	$277	$277	$269	$369	$370
As Rpt Total Debt	$277	$277	$302	$398	$446
Change in Debt		$0	$25	$95	$49
Pension Adjustment	$2	$-	$1	$11	$25
Lease Adjustment	$15	$20	$23	$22	$19
Other Adjustment	$2	$2	$2	$2	$2
Total Adjustments	$20	$22	$26	$35	$46
Total Adj Debt	$297	$299	$328	$433	$492
(CFO-w/c) / Debt	34.4%	16.7%	19.9%	20.7%	11.8%
(CFO-w/c + Int)/Int	5.8x	3.6x	4.5x	4.5x	3.3x
(CFO-w/c-div) / Debt	24.6%	12.4%	15.6%	12.60%	5.3%
FFO / Debt	27.7%	21.4%	22.2%	21.4%	11.1%

Moody's Related Research

Rating Methodology

» Regulated Electric and Gas Utilities, August 2009 (118481)

Analysis

» American Electric Power, February 2009 (114420)

Industry Outlooks

» U.S. Electric Utilities Face Challenges Beyond Near Term, January 2010 (121717)

» US Coal Industry Outlook 2010, October 2009 (120836)

Covenant Quality Assessments

» CQA: Appalachian Power, December 2007 (104432)

» CQA: Kentucky Power, September 2007 (104655)

» CQA: PS Oklahoma, November 2007 (105741)

» CQA: Southwestern Electric Power, February 2007 (102306)

Issuer Comment

» Moody's Comments on prospects for Ohio's re-regulation, August 2007

Special Comments

» U.S. Electric Utilities See Some Clarity in Evolving Federal Energy Policies, February 2010 (123062)

» Investor-Owned Electric Utilities in Ohio, February 2009 (114137)

» Carbon Dioxide: Regulating Emissions Following a Long and Winding Road, November 2008 (112822)

» U.S. Investor Owned Electric Utilities Somewhat Insulated (but not immune) from market stress, September 2008 (111891)

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Credit Opinion: American Electric Power Company, Inc.

Global Credit Research - 29 Jun 2011

Columbus, Ohio, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2
AEP Capital Trust I	
Outlook	Stable
Pref. Shelf	(P)Baa3
AEP Capital Trust II	
Outlook	Stable
Pref. Shelf	(P)Baa3
AEP Capital Trust III	
Outlook	Stable
Pref. Shelf	(P)Baa3
Appalachian Power Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Pref. Stock	Ba1

Contacts

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Key Indicators

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

	LTM 3/31/2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	**4.1x**	**3.9x**	**4.0x**	**3.4x**
(CFO Pre-W/C) / Debt	**18%**	**17%**	**18%**	**13%**
(CFO Pre-W/C - Dividends) / Debt	**14%**	**13%**	**14%**	**10%**
Debt / Book Capitalization	**50%**	**50%**	**53%**	**58%**

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

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

Opinion

Rating Drivers

Holding company for primarily rate-regulated utilities operating in diversified regulatory environments that provide a strong foundation to investment grade credit rating

Near-term liquidity profile appears adequate

Recent improvement to financials appear to be stabilized with mid-to high teens range cash flow metrics

Material exposure to coal-fired generation requires some repositioning of generation fleet

Ohio still a net credit positive with market restructuring in its second decade

Corporate Profile

American Electric Power Company, Inc. (AEP, Baa2 senior unsecured / stable outlook) is a large electric utility holding company with rate-regulated utilities operating in 11 states. AEP owns approximately 37,000 MW of generating assets, primarily coal fired. AEP is headquartered in Columbus, Ohio.

Recent Developments

On March 3, 2011, Moody's changed the rating outlook for CSPCo to negative from stable due to the proposed merger with its affiliate, Ohio Power, as combined metrics are more consistent with Ohio Power's ratings category of Baa1. In terms of timing of any ratings action, Moody's would expect to move CSPCo to a review for possible downgrade once the proposed transaction's procedural schedule is established and testimony is filed, and for any downgrade to occur once the necessary merger approvals are attained. We currently expect the merger to be completed by year-end 2011. On June 9, 2011, AEP announced an initial plan to comply with proposed clean air regulations by (i) reducing coal-fired capacity by 7,000 MW, with 6,000 MW of retirements and 1,000 MW of refueling to natural gas, (ii) building 1,200 MW of new natural gas capacity and (iii) installing emissions reduction equipment on 10,000 MW of coal-fired plants (all numbers are approximate). The cost would be $6-8 billion over the remainder of the decade, and AEP is advocating a delayed implementation of regulation, citing the impact on jobs. Moody's expects the plan will be subject to continued negotiation with rate-makers and politicians, but in our opinion, the costs of environmental compliance will largely be recoverable in rates in regulated jurisdictions.

SUMMARY RATING RATIONALE

AEP's Baa2 senior unsecured rating considers the diversity associated with owning and operating nine rate-regulated electric utilities across 11 states. The rating also considers the consolidated financial profile of AEP, which does not maintain a material amount of parent holding company debt, a credit positive. Over the past two years, AEP's consolidated financial metrics support the Baa2 rating, with the ratio of cash flow from operations adjusted for changes in working capital (CFO pre-w/c) to debt averaging roughly 17% and debt to capitalization near 51%. The Baa2 rating also considers the increasing challenges associated with managing a large fleet of coal-fired generation assets (whose operating costs are expected to rise) and service territories experiencing sluggish recoveries from the 2008/2009 recession.

DEATAILED RATING CONSIDERATIONS

- DIVERSITY OF RATE REGULATED CASH FLOWS

AEP's businesses and assets are well diversified, although they are concentrated within the electric utility sector. AEP's utility subsidiaries are located in 11 different states, and are therefore regulated by 11 different regulatory authorities (the largest ranked by rate base being Texas, West Virginia, Virginia, Indiana and Ohio). These jurisdictions translate into good diversity in revenues (by state and operating utility), cash flows, assets, debt outstanding, customers and generation capacity. From a credit perspective, Moody's views AEP's size and diversity as a meaningful credit strengths, providing a the parent company a degree of insulation from any unexpected adverse event or other negative development occurring at one of its companies or with one of its state service territories.

- GENERALLY SUPPORTIVE REGULATORY JURISDICTIONS

AEP is exposed to 11 different state regulatory commissions that Moody's generally views favorably due to reasonably transparent rulemaking procedures and good suite of recovery mechanisms. We observe that most of these commissions are appointed (Louisiana and Oklahoma are elected); that a majority of the states did not pursue a legislatively mandated form of deregulation (with the exception of Ohio, Texas, Virginia and Michigan - although the two latter states have more recently pursued re-regulation), that fuel / purchased power costs trackers are allowed in some fashion in all states (except for Ohio, which is subject to a rate cap with a deferral mechanism) and that most have approval authorities over securities issuances and M&A change of control (except Michigan). As a portfolio, these regulatory commissions are viewed as maintaining a relatively constructive relationship with the utilities they regulate and are considered a benefit to AEP's over-all business and risk profile.

- MAINTAINING FINANCIAL PROFILE KEY TO MAINTAINING RATINGS

The vast majority of AEP's revenues, earnings, cash flows and assets are related to its numerous rate-regulated electric utility subsidiaries, which we view, in general, as having a relatively low over-all business and operating risk profile. We would be concerned if AEP finds it increasingly difficult to maintain its consolidated CFO pre-w/c to debt credit metrics at a level that remains comfortably within the mid-teens range. For years ended 2010 and 2009, AEP reported a ratio of CFO pre-w/c to debt of roughly 17%, up from the approximate 14% range produced in 2008 and 2007.

Prospectively, we expect AEP to continue to exhibit stability in its financial profile, despite still lingering recessionary pressures being experienced in many of its service territories and rising costs associated with its generation fleet. We incorporate a view that AEP will continue to produce a ratio of CFO pre-w/c to debt near 17% (15% excluding the impact of bonus depreciation) over the near to intermediate term horizon.

- LARGE CAPITAL EXPENDITURE PROGRAM

Over the next few years, AEP is expecting to invest approximately $10 billion into its infrastructure, including sizeable investments in transmission and environmental compliance. We view investments in regulated rate-base positively for the credit profile, and we incorporate a view that most regulators will provide meaningful and timely recovery for prudently incurred investments. Nevertheless, we remain cautious as to the scale and scope of capital expenditure plans of this size, due to the negative free cash flow that will be incurred over the next few years and the potential regulatory overhang associated with the ultimate impact on end-use customer rates. In our opinion, utilities that are embarking on a capital investment program of this size should also be redoubling their efforts to bolster their balance sheet and cash flow credit metrics, in an effort to create enough financial strength to weather potentially distressful environments related to uncertain economic conditions, volatility in commodity markets, regulatory changes or any other unanticipated developments.

- COAL GENERATING ASSETS REPRESENT SIGNIFICANTLY LONGER-TERM VULNERABILITY

We believe the likelihood for incremental environmental legislation and increasingly stringent mandates as representing a material risk affecting AEP's coal-fired generating assets and overall corporate strategy. However, Moody's incorporates a view that the timing of compliance requirements with any new laws or proposals will be incurred over many years and that the costs associated with any new legislation regarding emissions will generally be recovered through rates (either through existing fuel clause pass-through mechanisms or other incremental rate riders). As a result, recent EPA rules and proposals are not viewed as a material credit negative over the near-term horizon. Nonetheless, eventual plant closures will require replacement capacity and/or additional transmission capacity for imported power.

- OHIO REGULATORY ENVIRONMENT A NET CREDIT POSITIVE

Ohio is both a unique state from a regulatory perspective and very important to AEP. The state pursued deregulation to a point and permitted some stranded cost recovery, but also allowed utilities to remain vertically integrated and pursued a form of quasi regulation via an ongoing requirement for Electric Security Plan (ESPs, which can vary considerably from utility to utility). Although AEP's (distribution-only) rate base in Ohio is its fifth largest at approximately $1.9 billion, the combined assets of its Ohio operating companies, at over $13 billion, are the largest within the AEP system.

Despite the continuing uncertainty associated with a decade old restructuring initiative, we continue to view the Ohio regulatory environment as a relatively supportive and transparent jurisdiction. The PUCO provides a good suite of recovery mechanisms and flexible, company-specific restructuring frameworks for the utilities in the state, a credit positive. We consider Ohio to be a quasi-regulated environment, similar to Texas, but we note that the Ohio model is untested with respect to plant abandonments. We do not view the current round of market restructuring as a credit negative due to our view that the matter will be resolved, at a minimum, in a credit neutral basis.

Our positive views of the Ohio regulatory environment are based in part on the existing regulatory framework. For example, AEP's current ESP (expiring 12/31/2011) provides near term clarity for cost and investment recovery and allows companies to maintain reasonably good cash flows and financial profiles, in our opinion. Ohio provides fuel pass-through mechanisms, which specifically permit the recoverability of potential future carbon costs, a credit positive. In addition, special riders allow for recovery of other costs and investments such as transmission costs, future carrying cost of environmental investments incurred from 2001 through 2008, gridSmart programs and provider-of-last-resort (POLR) expenses, although some of these costs are being re-evaluated by the PUCO due to an Ohio Supreme Court remand.

Liquidity

AEP's liquidity is good. As of March 31, 2011, AEP had syndicated credit facilities totaling $2.954 billion, expiring in April 2012 and June 2013. These facilities contain an adjusted debt to capitalization limit of 67.5%, and AEP reports that it remains in compliance, with an adjusted ratio of 53% at March 31, 2011. There is a combined $1.35 billion of letter of credit sub-limits under the facilities, a $500 million accordion feature for each facility (for a total accordion of $1.0 billion). There are no material adverse change or material litigation restrictions on drawings. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (AEP Texas Central is also effectively excluded as a significant subsidiary due to a definitional adjustment).

For year 2010, AEP generated approximately $3.2 billion in Moody's-adjusted cash from operations, made approximately $2.5 billion in capital investments and paid roughly $824 million in dividends, resulting in roughly $220 million of negative free cash flow.

Including securitization bonds, AEP has approximately $600 million of long-term debt due in 2011, $630 million due in 2012 and $1.9 billion due in 2013. Over the next two years, we estimate that AEP will spend approximately $2.9 billion annually in capital expenditures and approximately $850 million in dividends annually. At March 31, 2011, AEP's credit facilities had approximately $813 million utilized in support of commercial paper outstanding and $125 million of LCs posted, leaving approximately $2.1 billion of capacity available. Combined with $625 million of cash, total liquidity amounted to roughly $2.7 billion.

Structural Considerations

After considering the ratings for a number of AEP's utility operating subsidiaries, several of which are also rated in the Baa2 ratings category, there could be some structural subordination pressure for AEP to defend its Baa2 senior unsecured rating, at least over the longer-term horizon. However, we see good diversity and a low-risk business profile among its numerous operating utility subsidiaries, which should continue to mitigate this potential issue. A downgrade of Columbus Southern Power would not be considered as material enough to change our views regarding AEP's Baa2 rating at this time. Nevertheless, rating upgrades at certain other subsidiaries, including Appalachian Power and Indiana-Michigan Power (both rated Baa2 senior unsecured) would materially benefit the credit positioning of AEP.

Rating Outlook

The stable rating outlook reflects the good credit profiles of AEP's diverse portfolio of electric utility operating subsidiaries. We believe AEP will continue to demonstrate a reasonably conservative approach towards its financial policies, leading to continued improvements in its cash flow generation in relation to debt. A stronger balance sheet is viewed as a material credit positive for AEP, as it helps mitigate numerous challenges over the longer-term horizon. These challenges include managing a diverse group of service territories which are all still experiencing some severe post economic recessionary pressures, along with a sizeable coal-fired generating fleet (including one plant in advanced stages of construction) and a single nuclear generating plant.

What Could Change the Rating - Up

Ratings upgrades appear unlikely over the near term, primarily due to the rating positions of AEP's numerous subsidiary operating utilities. While the diversification of these numerous subsidiaries benefits the over-all credit profile, we observe that a majority of the utility subsidiaries appear to be well positioned within the Baa1 and Baa2 rating categories. Nevertheless, if AEP were successful in producing a stronger set of key financial credit metrics, including a ratio of CFO pre-w/c to debt near 20% on a sustainable basis, ratings could be upgraded. The recent performance of achieving almost 18 % in 2009 and 17% in 2010 (15% after adjusting for bonus depreciation) has been noted.

What Could Change the Rating - Down

AEP's ratings could be downgraded based on the structural subordination risks associated with the ratings of its subsidiaries, particularly its larger subsidiaries in Virginia and Ohio. In addition, the ratings could be downgraded if AEP were to produce financial metrics that appear too weak for its existing rating category, including a ratio of CFO pre-w/c to debt in the low teens range. The ratings could also be downgraded if AEP were to experience material set-backs with its various regulatory proceedings, or if a more contentious regulatory / political relationship materialized or if its capital investment program were financed aggressively with debt, which in turn would likely impact its consolidated cash flow generation financial metrics.

Rating Factors

American Electric Power Company, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2010**		**Moody's 12-18 month Forward View* As of June 2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	3.8x	Baa	3.0 - 4.0x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	16.1%	Baa	14 - 18%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	12.6%	Baa	10 - 13%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	53.6%	Baa	45 - 50%	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

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

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010(L); Source: Moody's Financial Metrics

FitchRatings

Corporates

Global Power
U.S. and Canada
Update

Kentucky Power Co.

A Subsidiary of American Electric Power Co.

Ratings

Security Class	Current Rating
Issuer Default Rating (IDR)	BBB–
Senior Unsecured Debt	BBB
Commercial Paper/Short-Term IDR	F2

Rating Outlook

Stable

Financial Data

Kentucky Power Co.
($ Mil.)

	LTM 6/30/10	12/31/09
Revenues	610	633
Gross Margin	212	221
Cash Flow from Operations	65	54
Operating EBITDA	104	120
Total Debt	553	549
Total Capitalization	977	981
Capex/Depreciation (%)	94.2	123.1

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Related Research

Applicable Criteria
- *Corporate Rating Methodology Aug. 16, 2010*
- *Parent and Subsidiary Rating Linkage (Fitch's Approach to Rating Entities within the Corporate Group Structure), July 14, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*

Other Research
- *American Electric Power Co., Feb. 12, 2010*

Rating Rationale

- Fitch affirmed the ratings of Kentucky Power Co. (KPC) on Sept. 9, 2010. The Rating Outlook for the company remains Stable. KPC's ratings are supported by the company's stable utility operations and relatively constructive regulatory environment and affiliation with parent American Electric Power Co. (AEP; Fitch issuer default rating of 'BBB', with a Stable Outlook). While the utility is able to participate in the AEP power pool and AEP money pool, given AEP's highly centralized treasury and electric operations, any deterioration in the credit quality of the parent company could impair the ratings of KPC. Recent financial performance was negatively affected by lower retail and wholesale revenues, resulting in credit metrics that are currently below average for the 'BBB–' category. Fitch Ratings expects financial performance to improve following KPC's recent $64 million rate increase, resulting in projected ratios of EBITDA to interest of more than 4.0x and FFO to interest to remain approximately 3.5x over the next several years.
- The primary rating concerns facing KPC relate to its exposure to a struggling local economy, particularly the industrial sector, which comprises 28% of revenues as well as stricter environmental legislation. Fitch expects adequate recovery of additional environmental costs through the company's environmental cost compliance (ECC) surcharge. Recovery delays or disallowances of environmental costs could place downward pressure on ratings.

Key Ratings Drivers

- Stable utility operations.
- Generally balanced regulatory environment in Kentucky.
- Affiliation with parent, AEP.
- Impact of recession on local economy, in particular the industrial customers.
- Exposure to stricter environmental legislation.

Liquidity and Debt Structure

KPC's liquidity position is solid with more than $245 million of available capacity under the AEP money pool. Total AEP available liquidity of approximately $2.9 billion as of June 30, 2010, including $838 million of cash on hand. AEP's credit facilities are comprised of a $1.454 billion facility that matures in April 2012, a $1.5 billion facility that matures in June 2013, and a $478 million facility that matures in April 2011. The credit agreements contain a covenant that requires AEP to maintain debt to total capitalization at or below 67.5%. KPC's next scheduled maturity of $20 million is due in 2015.

KPC's capital spending budget through 2011 is projected to average approximately $60 million per year. However, in 2007, the U.S. District Court approved the AEP System's consent decree with the EPA, the U.S. Department of Justice, the states, and the special interest groups that KPC's Big Sandy coal plant will be scrubbed by 2015. As such, KPC's capital spending is expected to increase starting in 2013 for this project. Funding will be met through a combination of internal cash and external debt.

Financial Summary — Kentucky Power Co.

($ Mil., Fiscal Years-End Dec. 31)

	6/30/10 LTM	2009	2008	2007	2006
Fundamental Ratios					
FFO/Interest Expense (x)	3.4	4.2	2.7	3.8	3.8
CFO/Interest Expense (x)	2.7	2.6	2.7	4.1	4.6
FFO/Debt (%)	16.6	19.9	11.3	18.0	17.4
Operating EBIT/Interest Expense (x)	1.4	2.0	1.8	2.5	2.7
Operating EBITDA/Interest Expense (x)	2.7	3.5	3.1	4.1	4.2
Debt/Operating EBITDA (x)	5.3	4.6	4.9	3.8	3.8
Common Dividend Payout (%)	145.5	79.2	56.0	37.5	42.9
Internal Cash/Capex (%)	100.0	54.7	36.9	119.1	117.9
Capex/Depreciation (%)	94.2	123.1	270.8	144.7	169.6
Profitability					
Adjusted Revenues	610	633	666	588	585
Net Revenues	212	221	234	237	232
Operating and Maintenance Expense	96	89	111	103	96
Operating EBITDA	104	120	113	122	127
Operating EBIT	52	68	65	75	81
Gross Interest Expense	38	34	37	30	30
Net Income for Common	11	24	25	32	35
Operating and Maintenance Expense % of Net Revenues	45.3	40.3	47.4	43.5	41.4
Operating EBIT % of Net Revenues	24.5	30.8	27.8	31.6	34.9
Cash Flow					
Cash Flow from Operations	65	54	62	93	107
Change in Working Capital	(27)	(55)	—	9	24
Funds from Operations	92	109	62	84	83
Dividends	(16)	(19)	(14)	(12)	(15)
Capital Expenditures	(49)	(64)	(130)	(68)	(78)
Free Cash Flow	—	(29)	(82)	13	14
Net Other Investment Cash Flow	—	—	—	—	—
Net Change in Debt	(2)	(2)	81	(14)	(17)
Net Equity Proceeds	—	30	—	—	—
Capital Structure					
Short-Term Debt	4	—	131	19	31
Long-Term Debt	549	549	419	448	447
Total Debt	**553**	**549**	**550**	**467**	**478**
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	424	432	398	387	370
Total Capital	**977**	**981**	**948**	**854**	**848**
Total Debt/Total Capital (%)	56.6	56.0	58.0	54.7	56.4
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	43.4	44.0	42.0	45.3	43.6

Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

FitchRatings

Corporates

Utilities, Power, and Gas
U.S. and Canada
Full Rating Report

Kentucky Power Co.

Subsidiary of American Electric Power Co., Inc.

Ratings

Security Class	Current Rating
IDR	BBB–
Senior Unsecured Debt	BBB
Short-Term IDR	F2

IDR — Issuer default rating.

Rating Outlook

Stable

Financial Data

Kentucky Power Company
($ Mil.)

	12/31/10	12/31/09
Revenues	684	633
Gross Margin	268	221
Funds from Operations	89	109
Operating EBITDA	141	120
Total Debt	549	549
Total Capitalization	995	981
Capex/Depreciation (%)	101.9	123.1

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Related Research

Applicable Criteria
- *Corporate Rating Methodology, Aug. 16, 2010*
- *Parent and Subsidiary Rating Linkage, July 14, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*

Rating Rationale

- **Rating Affirmation:** Fitch affirmed the ratings of Kentucky Power Co. (KPC) on Feb. 28, 2011. The Rating Outlook for the company remains Stable.
- **Consistent but Pressured Credit Metrics:** KPC's credit metrics are currently consistent with Fitch's 'BBB–' issuer default rating (IDR) guidelines. However, they will be pressured by debt-funded capital spending. The company posted ratios of EBITDA to interest and funds from operations interest coverage at 3.8x and 3.4x, respectively, for the year ended Dec. 31, 2010. Fitch expects future earnings to benefit from the $64 million rate increase received in June 2010, resulting in projected EBITDA to interest coverage of approximately 4.0x.
- **Environmental Compliance:** KPC plans to add a scrubber to the Big Sandy unit 2 coal plant by 2015 per parent American Electric Power Co., Inc.'s (AEP, IDR 'BBB'/Stable) agreement with the Environmental Protection Agency (EPA). Currently, the estimated cost of the project is approximately $650 million, the financing of which will be met through a combination of internal cash and external debt. Fitch's ratings assume adequate recovery of this and additional environmental compliance costs through the environmental cost compliance (ECC) surcharge. The ECC is not an automatic passthrough. However, it allows the company to request annual recovery of environmental costs outside of a full rate case. Recovery delays or disallowances of environmental costs could place downward pressure on ratings.
- **Higher Capital Expenditures:** Fitch projects KPC's capital-spending plan to approximate $90 million for 2011, a level higher than previous years. The higher than typical capital expenditures will result in higher debt levels. Consequently, Fitch anticipates the utility to post funds from operations (FFO) to interest coverage and debt to EBITDA of less than 3.0x and approximately 4.0x, respectively, over the next several years.
- **Credit Concerns:** Fitch is also concerned about KPC's exposure to a still struggling local economy, wherein the unemployment rate remains above the national average. Additionally, the industrial sector composes 36% of the utility's revenues. There is also potential the company may use capital expenditures to comply with stricter environmental regulations or change the generation mix to reduce emissions, particularly since KPC's generation is exclusively coal-fired.
- **AEP East Power Pool:** The recent decision to terminate the AEP East power pool within the next three years is a source of uncertainty for KPC, particularly since the company is currently short capacity and dependent on the power pool. At this time, Fitch believes it is unlikely the new arrangements to replace the current pool will have a material credit impact. Fitch will continue to monitor developments.

Key Ratings Drivers

- Stable utility operations.
- Generally balanced regulatory environment in Kentucky.
- Affiliation with parent AEP.

- Exposure to struggling local economy.
- High capital spending will increase leverage.
- Exposure to emissions regulation.

Recent Developments

Proposed AEP East Power Pool Termination

On Jan. 4, 2011, KPC affiliate, Appalachian Power Co. (APCo, IDR 'BBB–'/Stable) made a filing with the Virginia State Commerce Commission (VSCC) that detailed AEP East pool members' (Indiana Michigan Power Co., KPC, Columbus Southern Power Co., and Ohio Power Co.) intent to terminate the interconnection agreement. The pool members now have a three-year time frame in which to work out a settlement. The decision to evaluate the pool was initially raised by regulatory concerns, particularly from Virginia, that the current pool arrangement resulted in a lack of transparency.

Base Rate Case

In June 2010, the Kentucky Public Service Commission (KPUC) authorized a $63.66 million base rate increase for KPC. The increase was premised upon a 10.5% ROE and the recovery of $23 million of deferred storm restoration expenses over five years. KPC initially filed for a $124 million base rate increase, based on an 11.75% ROE.

Liquidity and Debt Structure

KPC has access to short-term liquidity through credit facilities at AEP. As of Dec. 31, 2011, AEP had approximately $2.5 billion of net available liquidity, including $294 million of cash on hand. AEP has credit facilities totaling $3.4 billion, of which two $1.5 billion credit facilities support the company's commercial paper program. The revolving credit agreements contain a covenant that requires AEP to maintain a debt-to-total capitalization ratio at or below 67.5%. The facility matures in April 2012 and June 2013. In March 2011, AEP extinguished its $478 million credit facility supporting its variable-rate demand notes.

KPC Debt Structure

($ Mil., as of Dec. 31, 2010)

	Amount	% of Total
Short-Term Debt	0	0.0
Long-Term Debt	549	55.2
Total Debt	**549**	**55.2**
Preferred Stock	0	0.0
Common Equity	446	44.8
Total Capitalization	**995**	**100.0**

Source: Company reports.

AEP's commercial paper program is used to meet to the short-term borrowings of its subsidiaries. The utility subsidiaries participate in a cash pool managed by AEP, whereby entities with excess short-term liquidity lend to affiliates with cash needs. External financing needs of this pool are sourced directly by the parent. As of April 1, 2011, KPC had no outstanding loans from the utility money pool. The company has a short-term borrowing limit of $250 million. KPC's next scheduled debt maturity is in 2015 when $20 million comes due. Fitch expects the company to pay down the 2015 maturity with internal cash.

Financial Summary — Kentucky Power Co.

($ Mil., Fiscal Years Ended Dec. 31)

	2010	2009	2008	2007	2006
Fundamental Ratios (x)					
FFO/Interest Expense	3.4	4.2	2.7	3.8	3.8
CFO/Interest Expense	4.9	2.6	2.7	4.1	4.6
FFO/Debt (%)	16.2	19.9	11.3	18.0	17.4
Operating EBIT/Interest Expense	2.4	2.0	1.8	2.5	2.7
Operating EBITDA/Interest Expense	3.8	3.5	3.1	4.1	4.2
Operating EBITDAR/ (Interest Expense + Rent)	3.8	3.5	3.1	4.1	4.2
Debt/Operating EBITDA	3.9	4.6	4.9	3.8	3.8
Common Dividend Payout (%)	60.0	79.2	56.0	37.5	42.9
Internal Cash/Capital Expenditures (%)	225.9	54.7	36.9	119.1	117.9
Capital Expenditures/Depreciation (%)	101.9	123.1	270.8	144.7	169.6
Profitability					
Adjusted Revenues	684	633	666	588	585
Net Revenues	268	221	234	237	232
Operating and Maintenance Expense	116	89	111	103	96
Operating EBITDA	141	120	113	122	127
Depreciation and Amortization Expense	53	52	48	47	46
Operating EBIT	88	68	65	75	81
Gross Interest Expense	37	34	37	30	30
Net Income for Common	35	24	25	32	35
Operating and Maintenance Expense % of Net Revenues	43.3	40.3	47.4	43.5	41.4
Operating EBIT % of Net Revenues	32.8	30.8	27.8	31.6	34.9
Cash Flow					
Cash Flow from Operations	143	54	62	93	107
Change in Working Capital	54	(55)	—	9	24
Funds from Operations	89	109	62	84	83
Dividends	(21)	(19)	(14)	(12)	(15)
Capital Expenditures	(54)	(64)	(130)	(68)	(78)
Free Cash Flow	68	(29)	(82)	13	14
Net Other Investment Cash Flow	(67)	—	—	—	—
Net Change in Debt	(2)	(2)	81	(14)	(17)
Net Equity Proceeds	—	30	—	—	—
Capital Structure					
Short-Term Debt	—	—	131	19	31
Long-Term Debt	549	549	419	448	447
Total Debt	**549**	**549**	**550**	**467**	**478**
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	446	432	398	387	370
Total Capital	**995**	**981**	**948**	**854**	**848**
Total Debt/Total Capital (%)	55.2	56.0	58.0	54.7	56.4
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	44.8	44.0	42.0	45.3	43.6

Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports and Fitch Ratings.

Moody's Investors Service

Credit Opinion: Kentucky Power Company

Global Credit Research - 28 Jan 2010

Ashland, Kentucky, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Negative
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Contacts

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Key Indicators

[1]**Kentucky Power Company**

	LTM 3Q 09	**2008**	**2007**	**2006**
(CFO Pre-W/C + Interest) / Interest Expense	**2.6x**	**2.5x**	**3.6x**	**3.8x**
(CFO Pre-W/C) / Debt	**12.4%**	**9.6%**	**15.8%**	**15.6%**
(CFO Pre-W/C - Dividends) / Debt	**9.1%**	**7.5%**	**13.6%**	**12.9%**
Debt / Book Capitalization	**46.1%**	**50.3%**	**46.0%**	**47.0%**

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

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

Opinion

Rating Drivers

Constructive regulatory environment viewed positively

Key financial metrics are weak

Sizeable capital expenditures could pressure rating

100% coal generation modestly constrains rating and requires prudent management of increasingly stringent environmental mandates

Acute economic recessionary pressures only somewhat mitigated with business plan

Corporate Profile

Kentucky Power Company (KYPCo, Baa2 senior unsecured) is a vertically integrated electric utility company and is a wholly owned subsidiary of American Electric Power Company (AEP, Baa2 senior unsecured). KYPCo's approximately $1 billion rate base is under the jurisdiction of the Kentucky Public Service Commission (KY PSC). KYPCo owns approximately 1GW of 100% coal fired generating capacity.

Recent Developments

On Dec. 29, 2009, KYPCo filed with the KYPSC for a $123.6 million (24.3%) electric rate increase premised upon an 11.75% ROE on a year-end rate base valued at $1.012 billion for a test year ended Sept. 30, 2009. A final PSC decision is expected in October 2010.

In August 2009, KYPCo filed with KYPSC seeking authorization to defer approximately $10 million of incremental storm restoration expenses for review and recovery in the next base rate proceeding. The requested deferral of the $10 million is in additional to the annual $2 million of storm-related operation and maintenance expense included in current base rates.

SUMMARY RATING RATIONALE

KYPCo's Baa2 issuer rating primarily reflects the reasonably constructive relationship with the KPSC, and the potential rating constraints as a result of its current capital spending plan, single fuel source and the economic stress within the region it operates.

DETAILED RATING CONSIDERATIONS

CONSTRUCTIVE REGULATORY ENVIRONMENT A CREDIT POSITIVE

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit stability, a material credit positive. KYPCo is primarily regulated by the Kentucky Public Service Commission (KYPSC) which we consider a constructive jurisdiction. KYPCo has a rate base of approximately $1 billion and an authorized return on equity of 10.5%, which was established in March 2006. KYPCo currently has a monthly fuel clause tracker (a credit positive), and environmental surcharge rider, among other recovery mechanisms (i.e., demand side management and system sales riders). Prospectively, we expect the on-going rate case will likely to be resolved in a way that is positive to its credit quality.

MAINTAINING STABLE FINANCIAL CREDIT METRICS KEY TO RATING

KYPCo's key financial credit metrics are weak for its Baa2 senior unsecured rating category. For the last 5 year, 3 year and twelve month period ended September 2009, KYPCo's ratio of cash from operations pre working capital adjustments (CFO pre-w/c) to debt averaged about 14.2%, 13.7% and 12.4%, respectively. The ratio of CFO pre-w/c interest coverage averaged 3.4x, 3.3x and 2.6x, respectively for the same periods. We observe that several winter storms occurred in 2009 increasing operation and maintenance expenses.

CAPITAL EXPENDITURE PROGRAM COULD PRESSURE RATINGS OVER THE LONG TERM

KYPCo's cumulative long-term capital investment program is large given its size. Although the company has temporarily delayed some of the investment programs in 2009 and likely in 2010, we expect the program to resume to its full force in the next few years. KYPCo received approximately $30 million in equity contributions from its parent AEP in April 2009. However, we expect increasing up-stream dividends in the next few years and free cash flow will return to negative over the intermediate and long term horizon. While we generally view investments in rate base positively, we would be concerned if KYPCo's spending plans result in a persistent negative free cash flow position that will be primarily funded with internal or external debt. Should this situation materialize, KYPCo's financial profile could become stressed given its Baa2-rating category.

ACUTE ECONOMIC RECESSIONARY PRESSURES REPRESENT A RISK GIVEN LARGE INDUSTRIAL LOADS

The State of Kentucky is considered to be in a deep protracted recession, in part due to its heavy exposure to the automotive manufacturing industry. Approximately 50% of KYPCo's volume sales in 2008 were industrial. Among the top 10 industrial customers, KYPCo's second largest customer has a primary presence in automotive industry. The other 9 are mostly involved in coal refining and mining which is less cyclical, but also facing pressures.

100% COAL GENERATING ASSETS VULENERABLE TO SIGNIOFICANT ENVIRONMENTAL LEGISLATION

We observe the potential for significant environmental legislation, especially related to carbon dioxide emissions, as a material risk affecting KYPCo's 100% coal-fired generating assets. Moody's incorporates a view that the timing of compliance requirements within any potential new legislation may be many years in the future and that the costs associated with any new legislation regarding emissions will generally be recovered through rates (either through existing fuel clause pass-through mechanisms or other incremental rate riders).

Liquidity

KYPCo participates in the AEP Utility Money Pool, which provides access to the parent company's liquidity up to $250 million. As of September 30, 2009, there were no borrowings under the money pool by KYPCo.

As of September 30, 2009, AEP had three separate credit facilities totaling $3.6 billion; two of which are $1.5 billion five year credit facilities - expiring in March 2011 and April 2012. These facilities contain a debt to capitalization limit of 67.5%. AEP asserts that it remains in compliance. There is a $750 million letter of credit capacity (prior to final Bank of America litigation judgment, $600 million after) on each facility ($1.5 billion in total, $1.2 billion after Bank of America resolution), a $500 million accordion feature for each facility (for a total accordion of $1.0 billion) and a one-year extension option.

There are no material adverse change restrictions on drawings, no litigation representation provision at the time of borrowing and a definition adjustment to exclude one of AEP's subsidiaries, AEP Texas Central, as a "significant subsidiary" to prevent cross-acceleration in the event of a default. AEP also has a $627 million credit facility, expiring April 2011, that can be utilized for letter of credit or draws and has covenant restrictions similar to the primary 5-year facilities.

AEP has approximately $1.7 billion of long term debt that will mature in 2010. We estimate that AEP will spend approximately $2.5 billion in capital expenditures and approximately $800 million in dividends over the next twelve months. As of September 30, 2009, AEP's credit facilities had approximately $347 million utilized in support of commercial paper outstanding and roughly $470million of LC's posted, leaving approximately $2.8 billion of capacity available. Combined with $877 million of cash, total liquidity amounted to $3.6 billion.

Over the twelve months ended September 2009, KYPCo generated approximately $36 million of cash from operations, invested approximately $90 million in capital expenditures, made a $20 million upstream dividend payment and received $30 equity contribution from its parent, AEP, resulting in approximately $44 million of negative free cash flow. KYPCo has no significant debt maturities until September 2017.

Rating Outlook

The stable rating outlook for KYPCo is primarily based on our expectation that the company will continue to maintain a reasonably constructive relationship with the KYPSC, be prudent in meeting its infrastructure spending plans, attain reasonably good recovery on a timely basis and improve its key financial credit metrics that justify the rating.

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term horizon, primarily due to our expectation that KYCo's financial profile will not be in a position to exhibit the improvements necessary to justify a Baa1-rating category. This is partly due to our understanding of KYCo's longer term capital investment and financing plans. However, KYCo could be considered for a ratings upgrade if it were to achieve key financial credit metrics, including a ratio of CFO pre w/c plus interest divided by interest of approximately 5x and CFO pre w/c to debt of approximately 20% on a sustainable basis.

What Could Change the Rating - Down

Ratings could be downgraded if the regulatory environment took a more adversarial tone, its capital expenditure program requires substantial amount of debt financing or if the key financial credit metrics exhibit a prolonged deterioration. These metrics would include a ratio of CFO pre w/c plus interest divided by interest of below 3.0x or CFO pre w/c to debt closer to the low-teens.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)						X
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating				**Baa2**		
b) Actual Senior Unsecured Rating				**Baa2**		

Moody's Investors Service

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Power Company

Global Credit Research - 14 Jan 2011

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Contacts

Analyst	Phone
James Hempstead/New York	212.553.4318
William L. Hess/New York	212.553.3837

Key Indicators

[1]**Kentucky Power Company**

	LTM 3Q 10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	**3.0x**	**3.9x**	**2.4x**	**3.6x**
(CFO Pre-W/C) / Debt	**12.7%**	**17.6%**	**8.8%**	**15.8%**
(CFO Pre-W/C - Dividends) / Debt	**9.4%**	**14.5%**	**6.7%**	**13.6%**
Debt / Book Capitalization	**45.9%**	**46.3%**	**50.3%**	**46.0%**

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

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

Opinion

Rating Drivers

Constructive regulatory environment viewed positively

Key financial metrics are weak but expected to stabilize

100% coal generation constrains rating and requires prudent management of increasingly stringent environmental mandates

Recessionary pressures relieved by recovery in coal industry

Corporate Profile

Kentucky Power Company (KYPCo, Baa2 senior unsecured) is a vertically integrated electric utility company and is a wholly owned subsidiary of American Electric Power Company (AEP, Baa2 senior unsecured). KYPCo's approximately $1 billion rate base is under the jurisdiction of the Kentucky Public Service Commission (KY PSC). KYPCo owns approximately 1.1GW of 100% coal fired generating capacity.

Recent Developments

In June 2010, KYPSC issued an order approving KYPCo's $64 million rate case settlement agreement which also include $23 million of deferred storm restoration expenses over five years. The residential per-kilowatt-hour charge will increase from 7.19 cents to 8.59 cents. This order concluded a base rate case filed in December, 2009 when KYPCo requested a $123.6 million (24.3%) electric rate increase premised upon an 11.75% ROE on a year-end rate base valued at $1.012 billion for a test year ended Sept. 30, 2009. New rates became effective July 2010.

SUMMARY RATING RATIONALE

KYPCo's Baa2 issuer rating primarily reflects the reasonably constructive relationship with the KPSC, and the potential rating constraints as a result of its coal-dependent generation profile and relatively weak financial metrics. The ratings also considers the signs of recovery for KYPCo's primary industrial customer group amid the economic stress within the region it operates.

DETAILED RATING CONSIDERATIONS

CONSTRUCTIVE REGULATORY ENVIRONMENT A CREDIT POSITIVE

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit stability, a material credit positive. KYPCo is primarily regulated by the Kentucky Public Service Commission (KYPSC) which we consider a constructive jurisdiction. KYPCo has a rate base of approximately $1 billion and an authorized return on equity of 10.5%, which was established in June 2010. KYPCo currently has a monthly fuel clause tracker, and environmental surcharge rider, among other recovery mechanisms (i.e., demand side management and system sales riders).

MAINTAINING STABLE FINANCIAL CREDIT METRICS KEY TO RATING

KYPCo's key financial credit metrics are somewhat weak for its Baa2 senior unsecured rating category. For the last 5 year, 3 year and twelve month period ended September 2010, KYPCo's ratio of cash from operations pre working capital adjustments (CFO pre-w/c) to debt averaged about 14.4%, 14.1% and 12.7%, respectively. The ratio of CFO pre-w/c interest coverage averaged 3.4x, 3.3x and 3.0x, respectively for the same periods. In the near to intermediate term, we expect the financial metrics to stabilize or slightly improve as a result of the return of the industrial load (discussed below) and reduced capital spending.

CAPITAL EXPENDITURE PROGRAM COULD PRESSURE RATINGS OVER THE LONG TERM

KYPCo's cumulative long-term capital investment program is large given its size. Although the company has temporarily delayed some of the investment programs in 2009, 2010 and likely 2011, we expect the program to resume to its full force in the next few years. KYPCo received approximately $30 million in equity contributions from its parent AEP in April 2009. However, we expect increasing up-stream dividends in the next few years and free cash flow to return to negative over the intermediate and long term horizon. While we generally view investments in rate base positively, we would be concerned if KYPCo's spending plans result in a persistent negative free cash flow position that will be primarily funded with internal or external debt. Should this situation materialize, KYPCo's financial profile could become stressed given its Baa2-rating category.

INDUSTRIAL LOAD EXPECTED TO BENEFIT FROM COAL INDUSTRY RECOVERY

Among KYPCo's top ten industrial customers, 6 are involved in coal mining and production. According to Moody's coal industry outlook report, strong coal demand in Asia draw on U.S. supplies and maintain reasonable profit margin for U.S. coal producers, offsetting subdued U.S. demand. We expect the recovery in the coal industry to stablize in the next several years thereby likely improving KYPCo's financial results.

100% COAL GENERATING ASSETS VULENERABLE TO SIGNIFICANT ENVIRONMENTAL MANDATES

We observe the potential for significant environmental regulations or legislation, especially related to carbon dioxide emissions, as a material risk affecting KYPCo's 100% coal-fired generating assets. The timing of compliance requirements could be expedited by the EPA's rule making process. Nevertheless, in the near to intermediate term, we expect the costs associated with any new rule-making regarding emissions to generally be recovered through rates (either through existing fuel clause pass-through mechanisms or other incremental rate riders).

Liquidity

KYPCo participates in the AEP Utility Money Pool, which provides access to the parent company's liquidity .

AEP has two separate credit facilities that total approximately $3.0 billion. One is a $1.5 billion facility expiring June 2013 (entered in June 2010) replacing the original $1.5 billion expiring in March 2011. The other is an amended $1.454 billion facility expiring in April 2012. These facilities contain a debt to capitalization limit of 67.5%. AEP asserts that it remains in compliance. There is a $600 million and $750 million letter of credit capacity on the 2013 facility and the 2012 facility, respectively, and a $500 million accordion feature and a one-year extension option on each facility. There are no material adverse change restrictions on drawings, no litigation representation provision at the time of borrowing and a definition adjustment to exclude one of AEP's subsidiaries, AEP Texas Central, as a "significant subsidiary" to prevent cross-acceleration in the event of a default. On June 28, 2010, AEP reduced its separate three year $627 million LC facility to $478 million due in April 2011 which has similar terms as the two primary facilities mentioned above. In total, AEP has committed credit facilities of $3.432billion.

As of September 30, 2010, the credit facilities had $713 million utilized in supporting issued commercial paper and roughly $602 million of LC's posted, leaving approximately $2.2 billion of capacity available. Combined with $1billion of cash on hand, total liquidity amounted to $3.2billion

AEP has approximately $616 million and $565 million of long term debt that will mature in 2011 and 2012 respectively. AEP has announced that it will spend approximately $2.6 billion in capital expenditures in 2011 and $2.9 billion in 2012. We estimate that approximately $800 to $900 million in dividends per year will be distributed in the next two years.

KYPCo has access to up to $250 million in the AEP Utility Money Pool. As of September 30, 2010, there were no borrowings under the money pool by KYPCo.

Over the twelve months ended September 2010, KYPCo generated approximately $130 million of cash from operations, invested approximately $53 million in capital expenditures, made $21 million upstream dividend payment, resulting in approximately $56 million of positive free cash flow. KYPCo has no debt maturities until September 2017 when $325 million senior notes are due. We expect KYPCo to remain cash flow positive in 2011 as the capital expenditure continues to be modest.

Rating Outlook

The stable rating outlook for KYPCo is primarily based on our expectation that the company will continue to maintain a reasonably constructive relationship with the KYPSC, be prudent in meeting its infrastructure spending plans, attain reasonably good recovery on a timely basis and improve its key financial credit metrics that justify the rating.

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term horizon, primarily due to our expectation that KYCo's financial profile will not be in a position to exhibit the improvements necessary to justify a Baa1-rating category. This is partly due to our understanding of KYCo's longer term capital investment and financing plans. However, KYCo could be considered for a ratings upgrade if it were to achieve key financial credit metrics, including a ratio of CFO pre w/c plus interest divided by interest of approximately 5x and CFO pre w/c to debt of approximately 20% on a sustainable basis.

What Could Change the Rating - Down

Ratings could be downgraded if the regulatory environment took a more adversarial tone, its capital expenditure program requires substantial amount of debt financing or if the key financial credit metrics exhibit a prolonged deterioration. These metrics would include a ratio of CFO pre w/c plus interest divided by interest of below 3.0x or CFO pre w/c to debt closer to the low-teens over an extended period.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)						X
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Grid Implied Senior Unsecured Rating				**Baa2**		
b) Actual Senior Unsecured Rating				**Baa2**		

MOODY'S
INVESTORS SERVICE

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Standard & Poor's Research

December 16, 2010

Summary:
American Electric Power Co. Inc.

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Summary:
American Electric Power Co. Inc.

Credit Rating: BBB/Stable/A-2

Rationale

The ratings on American Electric Power Co. Inc. (AEP) reflect its consolidated credit profile that includes regulated and non-regulated operations. The company's business risk profile is considered excellent and its financial risk profile is considered aggressive. Columbus, Ohio-based AEP has $18.7 billion of outstanding debt including junior subordinated notes and securitized debt.

The excellent business profile primarily reflects AEP's status as a large public utility holding company that owns regulated electric utility subsidiaries operating in 11 states in the Midwest and Southwest. The company operates as low-risk transmission and distribution wires-only businesses in regions of Texas; fully integrated regulated utilities in places such as Indiana and West Virginia; and, higher-risk hybrid utilities in Ohio. Although a portion of generation assets reside outside rate base, most of the consolidated generating capacity is under stabilizing regulatory oversight. The company's generating and transmission facilities are interconnected, and their operations are coordinated as an integrated electric utility system.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from manufacturing and rural areas with lower growth economies, to higher-growth, service-oriented economies like Columbus, Ohio, that are more stable. The diversity in markets and in regulation somewhat elevates credit quality, but managing the complex variety of regulatory environments can be challenging and requires constant vigilance. This is evident in Arkansas where the company is building the Turk coal unit and continues to have multiple legal challenges around the construction of the unit. Over the longer term, with roughly 25,000 MW of coal-fired generation, material compliance costs related to multiple forthcoming and pending emissions rules could pressure credit quality. Although the majority of the generation portfolio is coal based, there are 9,000 MW of natural gas and 2,200 MW of nuclear generation too.

The company's unregulated operations consist mostly of a large portfolio of domestic unregulated electric generating plants, mainly in Ohio, that primarily serve AEP's retail utility customers and continue to remain quasi-regulated. AEP's long track record of solid operating performance is expected to continue and improve under the unregulated business operations. Stricter environmental laws and regulation will place financial stress and erode the fleet's competitiveness, but are not expected to completely eliminate the advantages of AEP's coal-fired plants. AEP has indicated that it may ultimately retire a significant amount of coal-fired assets and 1,925 MW of coal-fired units in the eastern system were placed in an extended startup mode. Although AEP's Ohio-based generation accounts for only a modest portion of the company's credit profile, any strategic move that quickly leads to a greater reliance on wholesale market prices to generate cash and earnings from that fleet would increase business risk that could ultimately weaken credit quality without stronger financial measures.

We consider AEP's financial risk profile as 'aggressive'. This reflects a large capital spending program and financial measures inline for the rating. The company's considerable capital expenditures are needed to fund its environmental-compliance programs for stricter air-quality standards and for new generation and transmission. The elevated spending levels could result in negative free cash flow for several years, and will likely require vigilant cost recovery to maintain operating cash flow. For 12 months ended Sept. 30, 2010, funds from operations (FFO) to total debt was about 15%, total debt to total capital was around 61%, and debt to EBITDA was 5x. The ratios are in line for the rating. FFO interest coverage was 3.5x, net cash flow (FFO post dividends) to capital expenditures exceeded 1x and the dividend payout ratio was 62%. Adjustments reflect capital and operating leases, and pension-related items, intermediate equity treatment of the junior subordinated notes, and securitized debt. Given AEP's business risks, sustainable financial expectations are for debt leverage to be under 60% and FFO to debt to approach 20% in order to comfortably maintain the current ratings.

Short-term credit factors

AEP's short-term rating is 'A-2'. Liquidity is 'adequate' under Standard & Poor's liquidity methodology, which categorizes liquidity in five standard descriptors, and this supports AEP's 'BBB' issuer credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses largely for necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. Furthermore, AEP has the ability to absorb high-impact, low-probability events with limited need for refinancing; flexibility to lower capital spending; sound bank relationships; solid standing in credit markets, and generally prudent risk management. As of Sept. 30, 2010, the company had cash of $1.4 billion and 62% availability under its $3.4 billion of credit facilities after excluding outstanding commercial paper and letters of credit. These facilities consist of a $1.45 billion expiring April 2012, $1.5 billion expiring June 2013, and $478 million expiring April 2011. The company currently maintains liquidity that more than adequately addresses potential collateral calls under a stressed scenario comprised of a negative credit event and an adverse movement in commodity prices. Long-term debt maturities are manageable in 2011 ($616 million) and 2012 ($565 million) but, in 2013, there may be refinancing risk with $1.64 billion maturing.

Outlook

The stable outlook for AEP and its subsidiaries assumes timely recovery of rate base investments for environmental compliance, system reliability, and continued strategic emphasis on regulated operations. Maintaining the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Our base forecast includes adjusted FFO to total debt of at least 15%, debt to EBITDA under 5x, and debt leverage to total capital of no more than 60%, all consistent with our expectations for the 'BBB' rating. We could revise the outlook to negative and subsequently lower ratings if financial measures do not remain at our expected levels on a sustained basis because construction projects are not completed on time and budget, a series of harmful regulatory decisions impede the company's recovery of capital expenditures and other costs, or the company funds itself in a less creditworthy manner. We could revise the outlook to positive and ratings could subsequently be raised with greater certainty regarding business risks and financial measures exceed our base line forecast, including FFO to total debt in excess of 20%, debt to EBITDA below 4x, and debt to total capital under 55%.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

- 2008 Corporate Criteria: Ratios And Adjustments

STANDARD
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Standard & Poor's Research

December 16, 2010

Kentucky Power Co.

Primary Credit Analyst:
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Kentucky Power Co.

Major Rating Factors

Corporate Credit Rating
BBB/Stable/--

Strengths:
- Steady utility operating cash flow;
- Part of a large, diverse regulated electric utility operation; and
- Parent's low-cost generation asset portfolio.

Weaknesses:
- Parent's marketing operations, though small, detract from credit profile;
- Parent exposure to pending environmental regulations could pressure financial measures; and
- Aggressive consolidated debt leverage.

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit profile of its parent American Electric Power Co. Inc. (AEP), which includes regulated and unregulated operations. Kentucky Power's business risk profile is considered as 'excellent' and its financial risk profile as 'aggressive'. Kentucky Power is a vertically-integrated fully-regulated electric utility that serves eastern Kentucky. It participates in the AEP Power Pool, sharing the revenues and costs of pool sales to utilities and power marketers, and also sells directly at wholesale to municipalities. Operations are integrated with the AEP East system. Columbus, Ohio-based AEP has $18.7 billion of outstanding debt of which Kentucky Power comprises $550 million.

AEP has an 'excellent' business risk profile that primarily reflects its status as a large public utility holding company that owns regulated electric utility subsidiaries operating in 11 states in the Midwest and Southwest. The company operates as low-risk transmission and distribution wires-only businesses in regions of Texas; fully integrated regulated utilities in places such as Indiana and West Virginia; and, higher-risk hybrid utilities in Ohio. Although a portion of generation assets reside outside rate base, most of the consolidated generating capacity is under stabilizing regulatory oversight. The company's generating and transmission facilities are interconnected, and their operations are coordinated as an integrated electric utility system.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from manufacturing and rural areas with lower growth economies, to higher-growth, service-oriented economies like Columbus, Ohio, that are more stable. The diversity in markets and in regulation somewhat elevates credit quality, but managing the complex variety of regulatory environments can be challenging and requires constant vigilance. This is evident in Arkansas where the company is building the Turk coal unit and continues to have multiple legal challenges around the construction of the unit. Over the longer term, with roughly 25,000 MW of coal-fired generation, material compliance costs related to multiple forthcoming and pending emissions rules could pressure credit quality. Although the majority of the generation portfolio is coal based, there are 9,000 MW of natural gas and 2,200 MW of nuclear generation too.

The company's unregulated operations consist mostly of a large portfolio of domestic unregulated electric generating plants, mainly in Ohio, that primarily serve AEP's retail utility customers and continue to remain quasi-regulated. AEP's long track record of solid operating performance is expected to continue and improve under the unregulated business operations. Stricter environmental laws and regulation will place financial stress and erode the fleet's competitiveness, but are not expected to completely eliminate the advantages of AEP's coal-fired plants. AEP has indicated that it may ultimately retire a significant amount of coal-fired assets and 1,925 MW of coal-fired units in the eastern system were placed in an extended startup mode. Although AEP's Ohio-based generation accounts for only a modest portion of the company's credit profile, any strategic move that quickly leads to a greater reliance on wholesale market prices to generate cash and earnings from that fleet would increase business risk that could ultimately weaken credit quality without stronger financial measures.

Kentucky Power's financial risk profile reflects AEP's consolidated financial risk profile, which is considered as 'aggressive'. This includes a large capital spending program and financial measures inline for the rating. The company's considerable capital expenditures are needed to fund its environmental-compliance programs for stricter air-quality standards and for new generation and transmission. The elevated spending levels could result in negative free cash flow for several years, and will likely require vigilant cost recovery to maintain operating cash flow. For 12 months ended Sept. 30, 2010, funds from operations (FFO) to total debt was about 15%, total debt to total capital was around 61%, and debt to EBITDA was 5x. The ratios are in line for the rating. FFO interest coverage was 3.5x, net cash flow (FFO post dividends) to capital expenditures exceeded 1x and the dividend payout ratio was 62%. Adjustments reflect capital and operating leases, and pension-related items, intermediate equity treatment of the junior subordinated notes, and securitized debt. Given AEP's business risks, sustainable financial expectations are for debt leverage to be under 60% and FFO to debt to approach 20% in order to comfortably maintain the current ratings.

Short-term credit factors

The company's liquidity is dependent on and managed by its parent AEP. We consider AEP's liquidity as 'adequate' under Standard & Poor's liquidity methodology, which categorizes liquidity in five standard descriptors, and this supports AEP's 'BBB' issuer credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses largely for necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. Furthermore, AEP has the ability to absorb high-impact, low-probability events with limited need for refinancing; flexibility to lower capital spending; sound bank relationships; solid standing in credit markets, and generally prudent risk management. As of Sept. 30, 2010, the company had cash of $1.4 billion and 62% availability under its $3.4 billion of credit facilities after excluding outstanding commercial paper and letters of credit. These facilities consist of a $1.45 billion expiring April 2012, $1.5 billion expiring June 2013, and $478 million expiring April 2011. The company currently maintains liquidity that more than adequately addresses potential collateral calls under a stressed scenario comprised of a negative credit event and an adverse movement in commodity prices. Long-term debt maturities are manageable in 2011 ($616 million) and 2012 ($565 million) but, in 2013, there may be refinancing risk with $1.64 billion maturing.

Outlook

The stable outlook for AEP and its subsidiaries assumes timely recovery of rate base investments for environmental compliance, system reliability, and continued strategic emphasis on regulated operations. Maintaining the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Our base forecast includes adjusted FFO to total debt of at least 15%, debt to EBITDA under 5x, and debt leverage to total capital of no more than 60%, all consistent with our expectations for the 'BBB' rating. We could revise the outlook to negative and subsequently lower ratings if financial measures do not remain at our expected levels on a sustained basis because construction projects are not completed on time and budget, a series of harmful regulatory decisions impede the company's recovery of capital expenditures and other costs, or the company funds itself in a less creditworthy manner. We could revise the outlook to positive and ratings could subsequently be raised with greater certainty regarding business risks and financial measures exceed our base line forecast, including FFO to total debt in excess of 20%, debt to EBITDA below 4x, and debt to total capital under 55%.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded
- 2008 Corporate Criteria: Ratios And Adjustments

Table 1.

American Electric Power Co. Inc. -- Peer Comparison*

Industry Sector: Energy

	American Electric Power Co. Inc.	Duke Energy Corp.	Southern Co.	Progress Energy Inc.	Xcel Energy Inc.
Rating as of Dec. 8, 2010	BBB/Stable/A-2	A-/Stable/A-2	A/Stable/A-1	BBB+/Negative/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	13,566.2	12,886.0	14,996.9	9,401.7	10,293.3
Net income from cont. oper.	1,291.3	1,288.0	1,562.4	767.3	635.7
Funds from operations (FFO)	3,051.8	4,105.3	3,552.5	2,014.5	1,893.7
Capital expenditures	3,609.5	4,024.6	3,902.7	2,402.3	1,932.2
Cash and short-term investments	711.3	1,231.3	421.0	387.0	136.0
Debt	19,403.3	16,429.5	19,610.3	13,590.0	10,265.3
Preferred stock	135.5	0.0	746.7	182.3	185.8
Equity	11,439.5	21,472.3	14,259.7	9,067.0	7,035.2
Debt and equity	30,842.8	37,901.8	33,870.0	22,657.0	17,300.4
Adjusted ratios					
EBIT interest coverage (x)	2.4	3.3	3.3	2.4	2.5
FFO int. cov. (X)	3.4	5.7	4.3	3.4	3.9
FFO/debt (%)	15.7	25.0	18.1	14.8	18.4
Discretionary cash flow/debt (%)	(9.2)	(9.8)	(9.8)	(10.0)	(4.8)
Net cash flow / capex (%)	65.4	73.1	58.0	55.0	77.3
Total debt/debt plus equity (%)	62.9	43.3	57.9	60.0	59.3
Return on common equity (%)	10.9	4.9	10.9	7.3	8.1
Common dividend payout ratio (un-adj.) (%)	52.8	89.4	85.5	85.9	65.6

*Fully adjusted (including postretirement obligations).

Table 2.

Kentucky Power Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2009	**2008**	**2007**	**2006**	**2005**
Rating history	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
(Mil. $)					
Revenues	632.5	665.6	588.0	585.9	531.3
Net income from continuing operations	23.9	24.5	32.5	35.0	20.8
Funds from operations (FFO)	110.6	62.0	85.6	83.0	57.9
Capital expenditures	63.6	129.5	71.3	79.0	59.0
Cash and short-term investments	0.5	0.6	0.7	0.7	0.5
Debt	607.2	617.8	519.4	530.2	542.9
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	431.8	398.0	387.0	369.7	347.8
Debt and equity	1,039.0	1,015.8	906.4	899.9	890.7
Adjusted ratios					
EBIT interest coverage (x)	1.8	1.7	2.4	2.6	2.0
FFO int. cov. (x)	4.0	2.4	3.6	3.5	2.7
FFO/debt (%)	18.2	10.0	16.5	15.7	10.7
Discretionary cash flow/debt (%)	(4.5)	(13.3)	2.2	2.5	(0.4)
Net Cash Flow / Capex (%)	143.3	37.1	103.2	86.1	93.9
Debt/debt and equity (%)	58.4	60.8	57.3	58.9	60.9
Return on common equity (%)	5.6	5.6	8.4	9.5	6.0
Common dividend payout ratio (un-adj.) (%)	81.5	57.1	37.0	42.8	12.0

*Fully adjusted.

Table 3.

Reconciliation Of Kentucky Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2009--							
Kentucky Power Co. reported amounts								
	Debt	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	549.2	118.8	118.8	66.8	33.8	54.8	54.8	64.0
Standard & Poor's adjustments								
Trade receivables sold or securitized	41.0	--	--	--	2.1	--	--	--
Operating leases	7.3	2.0	0.5	0.5	0.5	1.5	1.5	--
Accrued interest not included in reported debt	7.5	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	0.4	(0.4)	(0.4)	(0.4)
Asset retirement obligations	2.3	0.3	0.3	0.3	0.3	(0.2)	(0.2)	--

Table 3.

Reconciliation Of Kentucky Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)								
Reclassification of nonoperating income (expenses)	--	--	--	0.6	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	54.9	--
Total adjustments	58.0	2.3	0.8	1.4	3.3	0.9	55.8	(0.4)

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	607.2	121.1	119.6	68.2	37.1	55.7	110.6	63.6

*Kentucky Power Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of December 16, 2010)*	
Kentucky Power Co.	
Corporate Credit Rating	BBB/Stable/--
Senior Unsecured (4 Issues)	BBB
Corporate Credit Ratings History	
07-Mar-2003	BBB/Stable/--
24-Jan-2003	BBB+/Watch Neg/--
23-May-2002	BBB+/Stable/--
Business Risk Profile	Excellent
Financial Risk Profile	Aggressive
Related Entities	
AEP Texas North Co	
Issuer Credit Rating	BBB/Stable/--
Preferred Stock (2 Issues)	BB+
Senior Unsecured (1 Issue)	A/Developing
Senior Unsecured (1 Issue)	BBB
American Electric Power Co. Inc.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated (1 Issue)	BB+
Senior Unsecured (1 Issue)	BBB
Appalachian Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Secured (2 Issues)	BBB
Senior Secured (1 Issue)	BBB/Negative
Senior Unsecured (1 Issue)	A/Developing
Senior Unsecured (18 Issues)	BBB

Ratings Detail (As Of December 16, 2010)*(cont.)	
Columbus & Southern Ohio Electric Co.	
Issuer Credit Rating	BBB/Stable/--
Columbus Southern Power Co.	
Issuer Credit Rating	BBB/Stable/--
Preferred Stock (1 Issue)	BB+
Senior Unsecured (8 Issues)	BBB
Senior Unsecured (2 Issues)	BBB/Negative
Indiana Michigan Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (12 Issues)	BBB
Subordinated (1 Issue)	BBB-
Ohio Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (18 Issues)	BBB
Subordinated (1 Issue)	BBB-
Public Service Co. of Oklahoma	
Issuer Credit Rating	BBB/Stable/--
Preferred Stock (4 Issues)	BB+
Senior Unsecured (1 Issue)	A/Developing
Senior Unsecured (6 Issues)	BBB
RGS (AEGCO) Funding Corp.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (2 Issues)	BBB-
RGS (I&M) Funding Corp.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (2 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

Standard & Poor's Research

December 14, 2011

American Electric Power Co. Inc.

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American Electric Power Co. Inc.

Major Rating Factors

Corporate Credit Rating
BBB/Stable/A-2

Strengths:

- Mostly steady operating cash flow from regulated utilities;
- Large and diverse customer base;
- Geographic diversity; and
- Low-cost generation fleet.

Weaknesses:

- Exposure to environmental regulations could pressure financial measures;
- Marketing operations weaken creditworthiness; and
- Increased unregulated generation may pressure business profile.

Rationale

Standard & Poor's Ratings Services' ratings on American Electric Power Co. Inc. (AEP) reflect its consolidated credit profile, which includes regulated and unregulated operations. We consider the company's business risk profile excellent and its financial risk profile aggressive. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published on May 27, 2009, on RatingsDirect.)

The excellent business profile primarily reflects AEP's status as a large public utility holding company that owns regulated electric utility subsidiaries operating in 11 states in the Midwest and Southwest. The company operates low-risk transmission and distribution wires-only businesses in Texas; fully integrated regulated utilities in states such as Indiana and West Virginia; and higher-risk hybrid utilities in Ohio. Although a portion of generation assets are outside the rate base, most of the consolidated generating capacity is under stabilizing regulatory oversight. The company's generating and transmission facilities are interconnected, and its operations are coordinated as an integrated electric utility system.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from manufacturing and rural areas with lower-growth economies to higher-growth, service-oriented economies, like in the Columbus, Ohio, metropolitan area, that are more stable. The diversity in markets and in regulation somewhat elevates credit quality, but managing the complex variety of regulatory environments can be challenging and requires constant vigilance. This is evident in Arkansas, where the company is continuing to build the Turk coal unit while multiple legal challenges are pending, including litigation in connection with the unit's water intake. Over the longer term, with roughly 25,000 megawatts (MW) of coal-fired generation, including those in Ohio, material compliance costs related to numerous environmental rules could pressure credit quality. In addition to these coal assets, there are 9,000 MW of gas generation and 2,200 MW of nuclear.

The company's unregulated operations consist mostly of a large portfolio of quasi-regulated electric generating plants, mainly in Ohio, that have been primarily serving AEP's retail utility customers. We expect AEP's long track record of solid operating performance in its unregulated business operations to continue. Stricter environmental regulation will place financial stress on the company and erode the fleet's competitiveness, but we don't expect these pressures to completely eliminate the advantages of AEP's coal fleet. AEP has indicated that it will retire 5,109 MW of coal-fired assets and retrofit part of the fleet with pollution control equipment. Although AEP's Ohio-based generation accounts for only a portion of the company's credit profile, absent more robust financial measures, a strategic shift to a greater reliance on wholesale market prices to generate cash would increase business risk and could ultimately weaken credit quality.

We consider AEP's financial risk profile to be aggressive. This assessment reflects financial measures that are in line with the rating, along with large capital expenditures. The company's considerable capital spending is mostly for environmental compliance programs and for new generation and transmission. The elevated spending levels and dividend payments could result in negative discretionary cash flow for several years, and will require vigilant cost recovery to maintain cash flow measures. For the 12 months ended Sept. 30, 2011, funds from operations (FFO) to total debt was 21%, total debt to total capital was around 58%, and debt to EBITDA was 4.3x. The ratios are in line with the rating. Discretionary cash flow is positive and net cash flow (FFO after dividends) to capital expenditures exceeded 130%. FFO interest coverage was 4.5x and the dividend payout ratio was a manageable 58%. Adjustments include capital and operating leases, pension-related items, intermediate equity treatment of the junior subordinated notes, and securitized debt.

Liquidity

The short-term rating on AEP is 'A-2'. We consider AEP's liquidity adequate under Standard & Poor's liquidity methodology. (We categorize liquidity in five standard descriptors. See "Liquidity Descriptors For Global Corporate Issuers," published on Sept. 28, 2011.) We base our liquidity assessment on the following factors and assumptions:

- We expect AEP's liquidity sources over the next 12 months, including cash, FFO, and credit facility availability, to exceed uses by 1.2x. Uses include necessary capital spending, working capital, debt maturities, and shareholder distributions.
- Debt maturities are manageable over the next 12 months.
- We believe liquidity sources would exceed uses even if EBITDA declined 15%.
- In our assessment, AEP has good relationships with its banks, and has a good standing in the credit markets, having successfully issued debt during the recent credit crisis.

In our analysis of liquidity over the next 12 months, we assume $7.2 billion of liquidity sources, consisting of FFO and credit facility availability. We estimate liquidity uses of $4.9 billion for capital spending, maturing debt, working capital, and shareholder distributions.

AEP's credit agreements include a financial covenant requiring that debt to total capitalization be no greater than 67.5%. As of Sept. 30, 2011, the company was in compliance with the covenant at 50.3%.

Debt maturities are manageable through 2016. Excluding amortizing AEP Texas Central securitization bonds, $690 million is due in 2012, $1.4 billion in 2013, $1 billion in 2014, $1.3 billion in 2015, and $500 million in 2016. We expect that the company will refinance a majority of the maturing debt.

Outlook

The stable outlook for the ratings on AEP and its subsidiaries assumes timely recovery of rate base investments for environmental compliance, system reliability, and continued strategic emphasis on regulated operations. Our base forecast includes adjusted FFO to total debt of at least 15%, debt to EBITDA under 5x, and debt leverage to total capital of no more than 60%, all of which are consistent with our expectations for the 'BBB' rating. We could lower the ratings if financial measures fall short of our base forecast on a sustained basis to adjusted FFO to total debt below 12%, debt to EBITDA over 5.2x, and debt leverage over 62%. We could raise the ratings if there is greater certainty regarding business risks and if financial measures exceed our baseline forecast, including FFO to total debt in excess of 20%, debt to EBITDA below 4x, and debt to total capital under 55%.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Ratios And Adjustments, April 15, 2008
- Analytical Methodology, April 15, 2008

Table 1

American Electric Power Co. Inc. -- Peer Comparison

Industry Sector: Energy

	American Electric Power Co. Inc.	Duke Energy Corp.	Southern Co.	Progress Energy Inc.	Xcel Energy Inc.
Rating as of Dec. 14, 2011	BBB/Stable/A-2	A-/Stable/A-2	A/Stable/A-1	BBB+/Watch Pos/A-2	A-/Stable/A-2
		--Average of past three fiscal years--			
(Mil. $)					
Revenues	13,871.7	13,403.3	15,645.6	9,747.3	10,385.6
EBITDA	4,190.0	4,474.4	4,921.6	3,089.4	2,524.8
Net income from cont. oper.	1,314.7	1,219.7	1,664.9	823.0	694.4
Funds from operations (FFO)	3,256.9	3,985.8	3,955.5	2,218.9	2,004.8
Capital expenditures	3,182.0	4,530.2	4,191.1	2,547.3	2,052.6
Free operating cash flow	(568.1)	(549.7)	(596.1)	(459.7)	(67.7)
Dividends paid	762.6	1,232.7	1,402.8	724.3	422.9
Discretionary cash flow	(1,330.7)	(1,782.4)	(1,998.8)	(1,184.0)	(490.5)
Cash and short-term investments	767.0	1,416.3	498.9	505.3	155.1
Debt	20,743.2	18,503.2	21,358.2	14,718.8	10,963.4
Preferred stock	187.8	0.0	747.0	182.5	252.5
Equity	12,672.8	21,896.7	15,532.3	9,574.2	7,696.0
Debt and equity	33,416.0	40,399.9	36,890.6	24,293.0	18,659.4
Adjusted ratios					
EBITDA margin (%)	30.2	33.4	31.5	31.7	24.3
EBIT interest coverage (x)	2.5	3.2	3.3	2.5	2.7
Return on capital (%)	7.7	6.8	8.3	8.8	8.0

Table 1

American Electric Power Co. Inc. -- Peer Comparison (cont.)					
FFO int. cov. (X)	3.5	5.1	4.5	3.4	4.1
FFO/debt (%)	15.7	21.5	18.5	15.1	18.3
Free operating cash flow/debt (%)	(2.7)	(3.0)	(2.8)	(3.1)	(0.6)
Discretionary cash flow/debt (%)	(6.4)	(9.6)	(9.4)	(8.0)	(4.5)
Net cash flow/capex (%)	78.4	60.8	60.9	58.7	77.1
Debt/EBITDA (x)	5.0	4.1	4.3	4.8	4.3
Total debt/debt plus equity (%)	62.1	45.8	57.9	60.6	58.8
Return on capital (%)	7.7	6.8	8.3	8.8	8.0
Return on common equity (%)	9.9	4.3	10.4	7.4	8.2
Common dividend payout ratio (un-adj.) (%)	56.8	99.7	86.4	84.1	64.2

Table 2

American Electric Power Co. Inc. -- Financial Summary					
Industry Sector: Energy					
	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
(Mil. $)					
Revenues	14,176.4	13,241.8	14,197.0	13,259.7	12,502.9
EBITDA	4,293.6	4,373.0	3,903.3	3,895.0	3,689.0
Net income from continuing operations	1,214.0	1,362.0	1,368.0	1,144.0	992.0
Funds from operations (FFO)	3,322.9	3,668.7	2,779.0	2,707.7	2,820.1
Capital expenditures	2,383.0	2,989.3	4,173.6	3,665.5	3,545.3
Dividends paid	839.3	773.3	675.3	628.5	591.0
Debt	20,631.2	20,787.1	20,811.3	16,611.4	14,375.2
Preferred stock	187.5	188.0	188.0	30.5	61.0
Equity	13,809.5	13,328.0	10,881.0	10,109.5	9,473.0
Debt and equity	34,440.7	34,115.1	31,692.3	26,720.9	23,848.2
Adjusted ratios					
EBITDA margin (%)	30.3	33.0	27.5	29.4	29.5
EBIT interest coverage (x)	2.5	2.6	2.4	2.3	2.5
FFO int. cov. (x)	3.6	3.8	3.1	3.2	3.7
FFO/debt (%)	16.1	17.6	13.4	16.3	19.6
Discretionary cash flow/debt (%)	(1.3)	(6.3)	(11.6)	(10.5)	(8.9)
Net cash flow/capex (%)	104.2	96.9	50.4	56.7	62.9
Debt/debt and equity (%)	59.9	60.9	65.7	62.2	60.3
Return on capital (%)	7.2	7.8	8.0	8.0	8.2
Return on common equity (%)	8.1	10.2	12.0	10.6	9.5
Common dividend payout ratio (un-adj.) (%)	68.0	55.4	48.4	55.1	59.6

Table 3

Reconciliation Of American Electric Power Co. Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

--Fiscal year ended Dec. 31, 2010--

American Electric Power Co. Inc. reported amounts	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	18,157.0	13,682.0	14,427.0	4,304.0	2,663.0	999.0	2,662.0	2,662.0	827.0	2,436.0
Standard & Poor's adjustments										
Trade receivables sold or securitized	--	--	--	--	--	0.0	--	--	--	--
Operating leases	1,963.9	--	--	122.1	122.1	122.1	197.9	197.9	--	--
Intermediate hybrids reported as debt	(157.5)	157.5	--	--	--	(13.8)	13.8	13.8	13.8	--
Intermediate hybrids reported as equity	30.0	(30.0)	--	--	--	1.5	(1.5)	(1.5)	(1.5)	--
Postretirement benefit obligations	1,048.5	--	--	15.0	15.0	--	341.3	341.3	--	--
Capitalized interest	--	--	--	--	--	53.0	(53.0)	(53.0)	--	(53.0)
Share-based compensation expense	--	--	--	28.1	--	--	--	--	--	--
Securitized utility cost recovery	(1,847.0)	--	(250.6)	(250.6)	(102.6)	(102.6)	(148.0)	(148.0)	--	--
Asset retirement obligations	304.2	--	--	75.0	75.0	75.0	(56.6)	(56.6)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	197.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	367.0	--	--
Debt - Accrued interest not included in reported debt	281.0	--	--	--	--	--	--	--	--	--
Debt - Other	851.1	--	--	--	--	--	--	--	--	--
Interest expense - Other	--	--	--	--	--	31.7	--	--	--	--
Total adjustments	2,474.2	127.5	(250.6)	(10.4)	306.5	166.9	293.9	660.9	12.3	(53.0)

Table 3

Reconciliation Of American Electric Power Co. Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	20,631.2	13,809.5	14,176.4	4,293.6	2,969.5	1,165.9	2,955.9	3,322.9	839.3	2,383.0

Ratings Detail (As Of December 14, 2011)

American Electric Power Co. Inc.	
Corporate Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated (1 Issue)	BB+
Senior Unsecured (1 Issue)	BBB
Corporate Credit Ratings History	
07-Mar-2003	BBB/Stable/A-2
24-Jan-2003	BBB+/Watch Neg/A-2
23-May-2002	BBB+/Stable/A-2
Business Risk Profile	Excellent
Financial Risk Profile	Aggressive
Related Entities	
AEP Texas Central Co.	
Issuer Credit Rating	BBB/Stable/--
Preferred Stock (2 Issues)	BB+
Senior Secured (1 Issue)	BBB/Developing
Senior Unsecured (6 Issues)	BBB
Senior Unsecured (1 Issue)	BBB/Developing
AEP Texas North Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (1 Issue)	BBB
Senior Unsecured (1 Issue)	BBB/Developing
Appalachian Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (18 Issues)	BBB
Senior Unsecured (1 Issue)	BBB/Developing
Columbus Southern Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (8 Issues)	BBB
Senior Unsecured (2 Issues)	BBB/Negative
Indiana Michigan Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (11 Issues)	BBB

Ratings Detail (As Of December 14, 2011) (cont.)	
Kentucky Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (2 Issues)	BBB
Ohio Power Co.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (13 Issues)	BBB
Public Service Co. of Oklahoma	
Issuer Credit Rating	BBB/Stable/--
Preferred Stock (2 Issues)	BB+
Senior Unsecured (5 Issues)	BBB
Senior Unsecured (1 Issue)	BBB/Developing
RGS (AEGCO) Funding Corp.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (2 Issues)	BBB-
RGS (I&M) Funding Corp.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured (2 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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December 15, 2011

Kentucky Power Co.

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Kentucky Power Co.

Major Rating Factors

Corporate Credit Rating

BBB/Stable/--

Strengths:

- Steady utility operating cash flow;
- Part of a electric utility company that is geographically diverse and has a large customer base; and
- Low-cost generation fleet.

Weaknesses:

- Financial measures could be pressured from exposure to environmental regulations;
- Marketing operations weaken creditworthiness; and
- Increased unregulated generation may pressure business profile.

Rationale

Standard & Poor's Ratings Services' ratings on Kentucky Power Co. are based on the consolidated credit profile of parent American Electric Power Co. Inc. (AEP), which includes regulated and unregulated operations. We consider Kentucky Power's business risk profile excellent and financial risk profile aggressive. It is a vertically integrated, fully regulated electric utility that serves eastern Kentucky. The utility participates in the AEP Power Pool, sharing the revenues and costs of pool sales to utilities and power marketers, and also sells directly at wholesale to municipalities and electric cooperatives. Operations are integrated with the AEP East system. We consider AEP's business risk profile excellent and its financial risk profile aggressive. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published on May 27, 2009, on RatingsDirect.)

The excellent consolidated business profile primarily reflects AEP's status as a large public utility holding company that owns regulated electric utility subsidiaries operating in 11 states in the Midwest and Southwest. The company operates low-risk transmission and distribution wires-only businesses in Texas; fully integrated regulated utilities in states such as Indiana and West Virginia; and higher-risk hybrid utilities in Ohio. Although a portion of generation assets are outside the rate base, most of the consolidated generating capacity is under stabilizing regulatory oversight. The company's generating and transmission facilities are interconnected, and its operations are coordinated as an integrated electric utility system.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from manufacturing and rural areas with lower-growth economies to higher-growth, service-oriented economies, like the Columbus, Ohio, metropolitan area, that are more stable. The diversity in markets and in regulation somewhat elevates credit quality, but managing the complex variety of regulatory environments can be challenging and requires constant vigilance. This is evident in Arkansas, where the company is continuing to build the Turk coal unit while multiple legal challenges are pending, including litigation in connection with the unit's water intake. Over the longer term, with roughly 25,000 megawatts (MW) of coal-fired generation, including those in Ohio, material compliance costs related to numerous environmental rules could pressure credit quality. In addition to these coal assets, there are 9,000 MW of gas generation and 2,200 MW of nuclear.

The company's unregulated operations consist mostly of a large portfolio of quasi-regulated electric generating plants, mainly in Ohio, that have been primarily serving AEP's retail utility customers. We expect AEP's long track record of solid operating performance in its unregulated business operations to continue. Stricter environmental regulation will place financial stress on the company and erode the fleet's competitiveness, but we don't expect these pressures to completely eliminate the advantages of AEP's coal fleet. AEP has indicated that it will retire 5,109 MW of coal-fired assets and retrofit part of the fleet with pollution control equipment. Although AEP's Ohio-based generation accounts for only a portion of the company's credit profile, absent more robust financial measures, a strategic shift to a greater reliance on wholesale market prices to generate cash would increase business risk and could ultimately weaken credit quality.

Kentucky Power's financial risk profile reflects AEP's consolidated financial risk profile, which we consider aggressive. This assessment reflects financial measures that are in line with the rating, along with large capital expenditures. The company's considerable capital spending is mostly for environmental compliance programs and for new generation and transmission. The elevated spending levels and dividend payments could result in negative discretionary cash flow for several years, and will require vigilant cost recovery to maintain cash flow measures. For the 12 months ended Sept. 30, 2011, funds from operations (FFO) to total debt was 21%, total debt to total capital was around 58%, and debt to EBITDA was 4.3x. The ratios are in line with the rating. Discretionary cash flow is positive and net cash flow (FFO after dividends) to capital expenditures exceeded 130%. FFO interest coverage was 4.5x and the dividend payout ratio was a manageable 58%. Adjustments include capital and operating leases, pension-related items, intermediate equity treatment of the junior subordinated notes, and securitized debt.

Liquidity

The company's liquidity depends on and is managed by parent AEP. We consider AEP's liquidity adequate under Standard & Poor's liquidity methodology. (We categorize liquidity in five standard descriptors. See "Liquidity Descriptors For Global Corporate Issuers," published on Sept. 28, 2011.) We base our liquidity assessment on the following factors and assumptions:

- We expect AEP's liquidity sources over the next 12 months, including cash, FFO, and credit facility availability, to exceed uses by 1.2x. Uses include necessary capital spending, working capital, debt maturities, and shareholder distributions.
- Debt maturities are manageable over the next 12 months.
- We believe liquidity sources would exceed uses even if EBITDA declined 15%.
- In our assessment, AEP has good relationships with its banks, and has a good standing in the credit markets, having successfully issued debt during the recent credit crisis.

In our analysis of liquidity over the next 12 months, we assume $7.2 billion of liquidity sources, consisting of FFO and credit facility availability. We estimate liquidity uses of $4.9 billion for capital spending, maturing debt, working capital, and shareholder distributions.

AEP's credit agreements include a financial covenant requiring that debt to total capitalization be no greater than 67.5%. As of Sept. 30, 2011, the company was in compliance with the covenant at 50.3%.

Debt maturities are manageable through 2016. Excluding amortizing AEP Texas Central securitization bonds, $690 million is due in 2012, $1.4 billion in 2013, $1 billion in 2014, $1.3 billion in 2015, and $500 million in 2016. We expect that the company will refinance a majority of the maturing debt.

Outlook

The stable outlook for the ratings on AEP and its subsidiaries assumes timely recovery of rate base investments for environmental compliance, system reliability, and continued strategic emphasis on regulated operations. Our base forecast includes adjusted FFO to total debt of at least 15%, debt to EBITDA under 5x, and debt leverage to total capital of no more than 60%, all of which are consistent with our expectations for the 'BBB' rating. We could lower the ratings if financial measures fall short of our base forecast on a sustained basis to adjusted FFO to total debt below 12%, debt to EBITDA over 5.2x, and debt leverage over 62%. We could raise the ratings if there is greater certainty regarding business risks and if financial measures exceed our baseline forecast, including FFO to total debt in excess of 20%, debt to EBITDA below 4x, and debt to total capital under 55%.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Ratios And Adjustments, April 15, 2008
- Analytical Methodology, April 15, 2008

Table 1

American Electric Power Co. Inc. -- Peer Comparison

Industry Sector: Energy

	American Electric Power Co. Inc.	Duke Energy Corp.	Southern Co.	Progress Energy Inc.	Xcel Energy Inc.
Rating as of Dec. 14, 2011	BBB/Stable/A-2	A-/Stable/A-2	A/Stable/A-1	BBB+/Watch Pos/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	13,871.7	13,403.3	15,645.6	9,747.3	10,385.6
EBITDA	4,190.0	4,474.4	4,921.6	3,089.4	2,524.8
Net income from cont. oper.	1,314.7	1,219.7	1,664.9	823.0	694.4
Funds from operations (FFO)	3,256.9	3,985.8	3,955.5	2,218.9	2,004.8
Capital expenditures	3,182.0	4,530.2	4,191.1	2,547.3	2,052.6
Free operating cash flow	(568.1)	(549.7)	(596.1)	(459.7)	(67.7)
Dividends paid	762.6	1,232.7	1,402.8	724.3	422.9
Discretionary cash flow	(1,330.7)	(1,782.4)	(1,998.8)	(1,184.0)	(490.5)
Cash and short-term investments	767.0	1,416.3	498.9	505.3	155.1
Debt	20,743.2	18,503.2	21,358.2	14,718.8	10,963.4
Preferred stock	187.8	0.0	747.0	182.5	252.5
Equity	12,672.8	21,896.7	15,532.3	9,574.2	7,696.0
Debt and equity	33,416.0	40,399.9	36,890.6	24,293.0	18,659.4
Adjusted ratios					
EBITDA margin (%)	30.2	33.4	31.5	31.7	24.3

Table 1

American Electric Power Co. Inc. -- Peer Comparison (cont.)					
EBIT interest coverage (x)	2.5	3.2	3.3	2.5	2.7
Return on capital (%)	7.7	6.8	8.3	8.8	8.0
FFO int. cov. (X)	3.5	5.1	4.5	3.4	4.1
FFO/debt (%)	15.7	21.5	18.5	15.1	18.3
Free operating cash flow/debt (%)	(2.7)	(3.0)	(2.8)	(3.1)	(0.6)
Discretionary cash flow/debt (%)	(6.4)	(9.6)	(9.4)	(8.0)	(4.5)
Net cash flow/capex (%)	78.4	60.8	60.9	58.7	77.1
Debt/EBITDA (x)	5.0	4.1	4.3	4.8	4.3
Total debt/debt plus equity (%)	62.1	45.8	57.9	60.6	58.8
Return on capital (%)	7.7	6.8	8.3	8.8	8.0
Return on common equity (%)	9.9	4.3	10.4	7.4	8.2
Common dividend payout ratio (un-adj.) (%)	56.8	99.7	86.4	84.1	64.2

Table 2

Kentucky Power Co. -- Financial Summary					
Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
(Mil. $)					
Revenues	683.7	632.5	665.6	588.0	585.9
EBITDA	142.2	119.6	112.7	122.6	128.5
Net income from continuing operations	35.3	23.9	24.5	32.5	35.0
Funds from operations (FFO)	93.9	110.6	62.0	85.6	83.0
Capital expenditures	53.5	63.6	129.5	71.3	79.0
Dividends paid	21.0	19.5	14.0	12.0	15.0
Debt	590.9	607.2	617.8	519.4	530.2
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	446.2	431.8	398.0	387.0	369.7
Debt and equity	1,037.1	1,039.0	1,015.8	906.4	899.9
Adjusted ratios					
EBITDA margin (%)	20.8	18.9	16.9	20.8	21.9
EBIT interest coverage (x)	2.4	1.8	1.7	2.4	2.6
FFO int. cov. (x)	3.4	4.0	2.4	3.6	3.5
FFO/debt (%)	15.9	18.2	10.0	16.5	15.7
Discretionary cash flow/debt (%)	12.5	(4.5)	(15.6)	2.2	1.5
Net cash flow/capex (%)	136.4	143.3	37.1	103.2	86.1
Debt/debt and equity (%)	57.0	58.4	60.8	57.3	58.9
Return on capital (%)	6.7	5.2	5.6	6.8	7.3
Return on common equity (%)	7.7	5.6	5.6	8.4	9.5

Table 2

Kentucky Power Co. -- Financial Summary (cont.)					
Common dividend payout ratio (un-adj.) (%)	59.5	81.5	57.1	37.0	42.8

Table 3

Reconciliation Of Kentucky Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

--Fiscal year ended Dec. 31, 2010--

Kentucky Power Co. reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	550.7	446.2	683.7	141.7	88.9	36.4	143.6	143.6	21.0	54.1
Standard & Poor's adjustments										
Trade receivables sold or securitized	--	--	--	--	--	0.0	--	--	--	--
Operating leases	3.2	--	--	0.4	0.4	0.4	1.1	1.1	--	--
Postretirement benefit obligations	26.6	--	--	(0.1)	(0.1)	--	4.4	4.4	--	--
Capitalized interest	--	--	--	--	--	0.6	(0.6)	(0.6)	--	(0.6)
Asset retirement obligations	2.7	--	--	0.3	0.3	0.3	(0.4)	(0.4)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	1.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(54.1)	--	--
Debt - Accrued interest not included in reported debt	7.6	--	--	--	--	--	--	--	--	--
Total adjustments	40.2	0.0	0.0	0.5	1.5	1.2	4.4	(49.7)	0.0	(0.6)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	590.9	446.2	683.7	142.2	90.4	37.7	148.0	93.9	21.0	53.5

Ratings Detail (As Of December 15, 2011)

Kentucky Power Co.	
Corporate Credit Rating	BBB/Stable/--
Senior Unsecured (2 Issues)	BBB

Ratings Detail (As Of December 15, 2011) (cont.)	
Corporate Credit Ratings History	
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