

**COST-BASED FORMULA RATE
AGREEMENT FOR
FULL REQUIREMENTS ELECTRIC SERVICE**

DATED AS OF DECEMBER 14, 2005

BY AND BETWEEN

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT FOR

KENTUCKY POWER COMPANY,

THE CITY OF VANCEBURG, KENTUCKY, AND

THE ELECTRIC PLANT BOARD OF

THE CITY OF VANCEBURG, KENTUCKY

Issued by: Timothy C. Mosher, President
Kentucky Power Company
Issued on: December 15, 2005

Effective: January 1, 2006



COST-BASED FORMULA RATE
AGREEMENT FOR FULL REQUIREMENTS ELECTRIC SERVICE

This AGREEMENT is dated as of December ¹⁴ 2005 ("Effective Date") and is by and between the American Electric Power Service Corporation ("AEPSC"), as agent for Kentucky Power Company (Kentucky Power Company hereinafter referred to as "Company"), the City of Vanceburg, Kentucky, and the Electric Plant Board of the City of Vanceburg, Kentucky, (the City and Electric Plant Board are hereinafter collectively referred to as "Customer") (Company and Customer each individually referred to herein as a "Party," or collectively, the "Parties").

RECITALS

WHEREAS, Company is a corporation organized and existing under the laws of the State of Kentucky, with its principal place of business at 101 A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602, and owns and operates facilities for the generation, transmission and distribution of electric power and energy in the State of Kentucky; and

WHEREAS, the City of Vanceburg, Kentucky, is a municipal corporation chartered and existing under and by virtue of the laws of the State of Kentucky, with its principal place of business at 615 Second Street, Vanceburg, Kentucky 41179; and

WHEREAS, the Electric Plant Board of the City of Vanceburg, Kentucky, is a public utility organized and existing under and by virtue of the laws of the State of Kentucky, with its principal place of business at 611 Front Street, Vanceburg, KY 41179; and

WHEREAS, Customer requires Full Requirements Electric Service to meet Customer's Retail Load; and

WHEREAS, Company has proposed to supply Full Requirements Electric Service to Customer, subject to the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Parties hereby agree that this Agreement, together with the Appendices attached hereto and Related Documents, sets forth the terms under which Company will supply Full Requirements Electric Service to Customer, during the Delivery Period; constitutes the entire agreement among the Parties relating to Full Requirements Electric Service at cost-based rates; and supersedes any other agreements, written or oral (including without limitation any preliminary term sheet), among the Parties concerning this subject matter.

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ARTICLE 1: DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement or in any associated documents entered into in conjunction with this Agreement. This Agreement includes certain capitalized terms that are not explicitly defined herein. Such capitalized terms shall have the meanings specified in the "Related Documents," as the same are in effect from time to time, which meanings are incorporated herein by reference and made a part hereof. In the event of any inconsistency between a definition contained herein and a definition contained in "Related Documents," the definition in this Agreement shall control for purposes of this Agreement. Certain other definitions as required appear in subsequent parts of this Agreement.

- 1.1 **AEP Operating Companies** means the electric utility subsidiaries of American Electric Power Company, Inc., consisting of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, Southwest Electric Power Company and Public Service Company of Oklahoma. "AEP Operating Companies" may include fewer than all of the listed companies, or may include AEPSC, where the context requires such interpretation.
- 1.2 **Affiliate** means, with respect to any person, any other person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.
- 1.3 **Agreement** means this Cost-Based Formula Rate Agreement for Full Requirements Electric Service, including the Appendices and Related Documents, as amended, modified or supplemented from time to time.
- 1.4 **Ancillary Services** means the following services related to the Full Requirements Electric Service to be supplied under the terms of this Agreement to the Delivery Points: those services set forth in the OATT schedules and any supplemental or revised tariffs or schedules adopted by the Transmission Provider, including, without limitation, Scheduling, System Control and Dispatch Service; Transmission Owners Scheduling, System Control and Dispatch Service; Reactive Supply and Voltage Control from Generation Sources Service; Regulation and Frequency Response Service; Energy Imbalance Service; Operating Reserve-Spinning Reserve Service; Operating Reserve-Supplemental Reserve Service; and Black Start Service (as each of those services is defined in the OATT).

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- 1.5 **Billing Period** means the calendar month which shall be the standard period for all payments and metering measurements under this Agreement, unless otherwise specifically required by the Transmission Provider or the entity providing meter reading services.
- 1.6 **Business Day** means a day ending at 5:00 p.m. Eastern Prevailing Time, other than Saturday, Sunday and any day which is a legal holiday or a day designated as a holiday by the North American Electric Reliability Council; provided, that, with respect to any payment due hereunder, a "Business Day" means a day ending at 5:00 p.m. Eastern Prevailing Time, other than Saturday, Sunday and any day which is a legal holiday or a day on which banking institutions in Columbus, Ohio are authorized by law to close; and, provided, further, that with respect to any notices for scheduling to be delivered pursuant to any Section hereof, a "Business Day" shall be a day other than Saturday, Sunday and any day which is a legal holiday or a day designated as a holiday by the Transmission Provider.
- 1.7 **Calendar Year** means a twelve-consecutive-month period commencing at midnight on January 1 and ending at midnight on December 31.
- 1.8 **Claims** means all third party claims or actions, threatened or filed and, whether groundless, false, fraudulent or otherwise, that directly or indirectly relate to the subject matter of this Agreement, and the resulting losses, damages, expenses, attorneys' fees and court costs, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.
- 1.9 **Confidential Information** means such information as the Parties agree shall remain confidential. Notwithstanding the foregoing, the following shall not constitute Confidential Information:
- a. Information which was already in a Party's possession prior to its receipt from another Party and not subject to a requirement of confidentiality;
 - b. Information which is obtained from a third person who, insofar as is known to the Party, is not prohibited from transmitting the information to the Party by a contractual, legal or fiduciary obligation to the Party; and
 - c. Information which is or becomes publicly available through no fault of the Party.

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- 1.10 **Contract Year** means a twelve-consecutive-month period beginning at midnight on June 1 and ending at midnight on May 31 of the subsequent Calendar Year.
- 1.11 **Credit Rating** means, with respect to any entity, the rating then assigned to such entity's unsecured, senior long-term debt obligations or its long-term revenue bonds (not supported by third party credit enhancements) or if such entity does not have a rating for its senior unsecured long-term debt or its long-term revenue bonds, then the rating then assigned to such entity as an issuer rating by S&P and/or Moody's.
- 1.12 **Defaulting Party** means the Party who has caused an Event of Default.
- 1.13 **Delivery Period** means the period defined in Section 2.2 of this Agreement.
- 1.14 **Delivery Points** mean the point or points designated on Appendix A, to which Company will deliver and at which Customer will accept Firm Energy.
- 1.15 **Early Termination Date** is the date selected by the Non-Defaulting Party to terminate this Agreement.
- 1.16 **Eastern Prevailing Time** means the prevailing time in Columbus, Ohio.
- 1.17 **Energy** means three-phase, 60-cycle alternating current electric energy, expressed in KWhs.
- 1.18 **Event of Default** means those events by the Defaulting Party, as set forth in Article 7 of this Agreement, which give the Non-Defaulting Party the right to terminate this Agreement or exercise other remedies available under this Agreement or at law or in equity.
- 1.19 **FERC** means the Federal Energy Regulatory Commission.
- 1.20 **Firm Energy** means Energy that Company is required by this Agreement to sell and deliver and that Customer is required by this Agreement to purchase and receive, in each case without interruption except as provided in Section 8.2 hereof, unless relieved of their respective obligations without liability by Force Majeure, but in the case of Force Majeure only to the extent that, and for the period during which, either Party's performance is prevented by Force Majeure.
- 1.21 **Force Majeure** means an event or circumstance, subject to the limitations set forth in Section 8.4 hereof, that prevents one Party from performing its obligations under this Agreement, which event or circumstance was not anticipated as of the date the Agreement was agreed to, which is not within the

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reasonable control of, or the result of the negligence of, the Claiming Party, and which, by the exercise of due diligence, the Claiming Party is unable to overcome or avoid or cause to be avoided.

- 1.22 **Full Requirements Electric Service** means the supply of Firm Energy to be provided by Company to the Customer at the Delivery Points, as the same may fluctuate in real time to serve Customer's Retail Load, together with all associated generation-related services as more fully described in Article 3 and Appendix C of this Agreement.
- 1.23 **Generation Resource** means the generation assets owned by Company, the Company's share of any jointly-owned units, long-term capacity purchases by the Company, and all co-generators, qualifying facilities, and independent power producers generating plants not owned by the Company, but that produce electric power and sell it to the Company.
- 1.24 **Good Utility Practice** means any of the practices, methods, techniques and standards (including the practices, methods, techniques and standards approved by a significant portion of the electric power generation industry, the Transmission Provider and/or NERC) that, in the exercise of reasonable judgment in light of the facts known or that should reasonably have been known at the time a decision was made and having due regard for, among other things, contractual obligations, applicable laws and equipment manufacturer's recommendations, could have been expected to accomplish the desired result in a manner consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, technique or standard to the exclusion of all others, but rather to be a range of possible practices, methods, techniques or standards.
- 1.25 **KW** means kilowatt.
- 1.26 **KWh** means kilowatt-hour.
- 1.27 **Letter(s) of Credit** means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a credit rating of at least A- from S&P or A3 from Moody's, in a form and from a bank acceptable to the Party in whose favor the letter of credit is issued. Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit.
- 1.28 **Load Serving Entity** means any entity (or the duly designated agent of such an entity) (i) serving end-users within the Transmission Provider's transmission service area, and (ii) that has been granted the authority or has an obligation

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pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the Transmission Provider's transmission service area.

- 1.29 **Losses** means any transmission loss, transformation loss, sub-transmission and/or distribution losses incurred in providing Full Requirements Electric Service hereunder; provided, however, that Losses shall only include losses incurred between the sources of Energy and the Delivery Points. In no case shall Losses include losses that may be incurred from the Delivery Points to the ultimate retail customers.
- 1.30 **Market Rules and Procedures** means the market rules, manuals and procedures adopted by the Transmission Provider, as may be amended from time to time, and as administered by the Transmission Provider to govern operations within the Transmission Provider's transmission service area.
- 1.31 **Monthly Charges** means the monthly charges set out in Article 4 of this Agreement.
- 1.32 **Moody's** means Moody's Investors Service, Inc. and its successors.
- 1.33 **MW** means Megawatt.
- 1.34 **MWh** means Megawatt-hour.
- 1.35 **NERC** means the North American Electric Reliability Council.
- 1.36 **Network Integration Transmission Service** or **NITS** means firm transmission service as set forth in the Transmission Provider's OATT that provides for delivery of Firm Energy to the Delivery Points.
- 1.37 **Non-Defaulting Party** means the Party that has not caused an Event of Default.
- 1.38 **Normal Load Growth** means the future load growth predicted by fitting a curve to the most recent ten years of historical annual peak demands. Such curve shall be selected to minimize the sum of the squared error terms and maximize the R^2 statistics from the following possible curve types: (1) linear; (2) quadratic; or (3) logarithmic.
- 1.39 **OATT** means the Transmission Provider's Open Access Transmission Tariff on file at FERC.
- 1.40 **Performance Assurance** means collateral in the form of either cash, Letter(s) of Credit, or other security acceptable to the Requesting Party.
- 1.41 **PJM** means PJM Interconnection, LLC.

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- 1.42 **Prime Rate** means the lesser of (i) the rate published from time to time in The Wall Street Journal, as the prime lending rate, or (ii) the maximum rate permitted by applicable law.
- 1.43 **Receiving Party** is defined in Article 6.
- 1.44 **Related Documents** means, either collectively or individually, the Interconnection and Local Delivery Services Agreement, the PJM Open Access Transmission Tariff, the PJM Operating Agreement, the PJM Reliability Agreement, the PJM West Reliability Assurance Agreement, and any other applicable PJM Market Rules And Procedures.
- 1.45 **Retail Load** means Energy metered at the Delivery Points to meet the requirements of Customer's end use customers located within the service area that Customer has a statutory or other right to serve.
- 1.46 **Requesting Party** is defined in Article 6.
- 1.47 **S&P** means Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.).
- 1.48 **Term** is defined in Section 2.1 of this Agreement.
- 1.49 **Transmission Provider** means the entity or entities transmitting or transporting the Firm Energy, and responsible for providing Ancillary Services associated with the delivery of Full Requirements Electric Service, from the Generation Resources to the Delivery Points. The Transmission Provider as of the Effective Date of this Agreement is PJM.

ARTICLE 2: TERM, SERVICE AND DELIVERY PROVISIONS

- 2.1 **Term.** The Term of this Agreement shall begin as of the Effective Date and extend through and include the end of the Delivery Period. The applicable provisions of this Agreement shall continue in effect in accordance with Article 16.11, Survival, or by their own terms, and to the extent necessary to provide for final accounting, billing (including all true-ups hereunder), billing adjustments, resolution of any billing disputes, realization of any collateral or other security, set-off, final payments, or payments pertaining to liability and indemnification obligations arising from acts or events that occurred in connection with this Agreement during the Delivery Period.
- 2.2 **Delivery Period.** The Delivery Period shall commence on **January 1, 2006**, and extend through **May 31, 2025**, from hours ending 0100 through 2400 Eastern Prevailing Time, unless an Early Termination Date becomes effective in accordance with the provisions hereof in which

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event the Delivery Period shall end as of 2400 Eastern Prevailing Time on the Early Termination Date.

2.3 Planning. The Parties understand and agree that, as a result of this Agreement, the Company will plan to provide Full Requirements Electric Service to Customer during the Delivery Period of this Agreement. In recognition of this fact, the Parties have entered into a long-term agreement, with a fixed termination date. Unless the Parties negotiate and enter into a new agreement for a delivery period beyond the end of the Term of this Agreement, the Company's obligation to serve Customer at cost-based rates under this Agreement, and the Customer's obligation to take service from the Company under this Agreement, shall terminate at the end of the Term provided for herein. In order for the Company to continue to plan to serve the Customer beyond that date, the Parties understand and agree that, absent a written mutual agreement to the contrary, the Parties will need to negotiate and execute a new agreement for a new delivery period extending beyond the last day of the Term of this Agreement, at least eight (8) years before the end of the Delivery Period.

2.4 Delivery Points. The Delivery Points for the Full Requirements Electric Service to be provided hereunder are set forth on Appendix A. In coordination with the Transmission Provider, if necessary, and subject to the execution of any necessary agreements, the Parties may mutually agree to add or delete Delivery Points and to make other changes regarding Delivery Points. Whenever there is any change in Delivery Points, Appendix A hereto automatically shall be amended to reflect such change.

ARTICLE 3: SALE AND PURCHASE

3.1 Full Requirements Service.

(a) During the Delivery Period, Company shall sell and deliver and Customer shall exclusively receive and purchase Full Requirements Electric Service at the Delivery Points sufficient to serve Customer's Retail Load, except as otherwise provided herein. As a provider of Full Requirements Electric Service, Company is solely responsible for satisfying all requirements and paying all costs incurred or to be incurred to provide Full Requirements Electric Service, and Customer shall pay for such Full Requirements Electric Service as provided in Article 4 of this Agreement. Full Requirements Electric Service includes all generation-related services and schedules associated with Full Requirements Electric Service, as more fully identified in Appendix C of this Agreement.

(b) Appendix C, delineating the respective cost responsibilities of Company and Customer for generation-related and transmission-related services and schedules, respectively, is based upon the current PJM Operating Agreement

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and PJM OATT, and reflects the Company's current accounting for generation-related services and schedules, which are collected through the cost-of-service formulas set forth in Appendix B hereto. As either (i) schedules and services are added, deleted or changed in those agreements and tariffs of the Transmission Provider or in other documents governing the provision of and charges for services required in connection with Full Requirements Electric Service, or (ii) the accounting for such charges is changed, the Parties shall negotiate in good faith to determine, consistent with the principles underlying Appendix C, which new or changed schedules and services are predominantly generation-related and therefore shall be included in Full Requirements Electric Service and which are predominantly transmission-related and therefore shall be the responsibility of Customer. Appendices B and C shall automatically be amended, in a prompt manner, to incorporate such changes as are mutually agreed to by the Parties. The Parties shall cooperate in good faith to ensure that, irrespective of changes in the mechanisms for recovery of costs by the Transmission Provider, and changes in accounting, the respective cost responsibilities of Company and Customer shall remain governed by this Agreement. In no event shall the costs of a particular service or schedule associated with Full Requirements Electric Service be recovered twice from Customer through its inclusion both in the costs used to derive the Full Requirements Electric Service unit rates pursuant to Appendix B and also in the costs in Appendix C for which Customer is responsible.

The cost-of-service formulas attached hereto as Appendix B make reference to certain page and line numbers found in the FERC Form 1 for Calendar Year 2004. From time to time, the FERC makes changes in the format of the FERC Form 1. Such changes may result in certain page and line references included in Appendix B being rendered inaccurate. Therefore, the Parties agree that Appendix B shall be interpreted as if the page and line references contained therein are references to the pages and lines contained in the current FERC Form 1 on which can be found the data described on the pages and lines of the 2004 FERC Form 1. In the event that the FERC revises its Form 1 to combine two or more lines contained in the 2004 FERC Form 1, or makes other changes that affect the computation of the cost-of-service formulas in Appendix B, the Appendix B formulas shall be revised to produce the same level of rates that would have resulted had the FERC Form 1 remained unchanged.

(c) Company understands that the Customer's Retail Load may change from time to time. At no time during the Delivery Period shall Customer use either a) newly constructed or purchased generation resources, or b) new power purchase agreements, to reduce Customer's Retail Load. Company is responsible for Full Requirements Electric Service regardless of changes in Retail Load arising from daily fluctuations, increased or decreased usage, extreme weather and similar



events; provided, however, that the Parties agree that this Agreement does not obligate the Company to sell to Customer, or the Customer to purchase from Company, at the rates set forth herein, Full Requirements Electric Service for any additions to Retail Load that exceed Normal Load Growth.

- (d) To the extent that Customer's Retail Load grows at a rate in excess of Normal Load Growth, Company and Customer agree to meet to discuss whether changes could be made to this Agreement to address how Customer's Retail Load that exceeds Normal Load Growth can be met under this Agreement; provided however, neither Party shall be required to accept a change with which it, in its sole judgment, disagrees. If the Parties do not agree how Customer's Retail Load that exceeds Normal Load Growth can be met under this Agreement, then Customer shall have the right to find alternate supplies to serve such excess Retail Load.



3.2 Transmission Service, Ancillary Services and Local Facilities Service.

- (a) Company shall arrange for Network Integration Transmission Service (NITS) and Ancillary Services for Customer's Retail Load and shall be responsible during the Delivery Period for the provision of all such services. Customer shall be responsible for paying all NITS and any other related Transmission Provider charges (including but not limited to, administrative fees that the Company incurs but does not record on its books in generation-related accounts) as identified on Appendix C. During the Term of this Agreement, Customer agrees to reimburse the Company for all NITS and any other related Transmission Provider charges that the Company incurs on the Customer's behalf, as well as for all charges for Ancillary Services the Company incurs but does not record on its books in generation-related accounts.
- (b) Prior to the beginning of the Delivery Period, Customer agrees to execute an Interconnection and Local Delivery Service Agreement with the Company. During the Term of this Agreement, Customer further agrees to pay all charges related to the Interconnection and Local Delivery Service Agreement to Company, or to the Transmission Provider acting as a billing and collections agent for the AEP Operating Companies, if the Customer, Company and Transmission Provider so agree. The services provided under the Interconnection and Local Delivery Service Agreement are sometimes referred to in this Agreement as "Local Facilities Service."

3.3 Qualifying Facility Purchases.

- (a) So long as Customer is receiving Full Requirements Electric Service from Company, Company shall be obligated to purchase the electrical output from any duly licensed and properly operating Qualifying Facility connected to Customer, but only so long as Company has such obligation pursuant to the Public Utility Regulatory Policies Act of 1978, as amended.
- (b) Company shall apply the Monthly Billing amounts set forth in Article 4 to the combined Full Requirements Electric Service supplied by Company and the amounts delivered by the Qualifying Facility to the Customer. If Customer pays the Qualifying Facility directly for such energy, Company shall provide a credit equal to Company's avoided cost rate at the rate that Company would have paid to the Qualifying Facility if Company had directly purchased the Qualifying Facility output.
- (c) Customer agrees that Customer will not, directly or indirectly, engage in any activity to encourage or promote the construction or installation of a Qualifying Facility, except as otherwise required by applicable law, and shall not itself

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install, purchase or operate a Qualifying Facility during the Term of this Agreement.

- (d) Customer shall notify Company of the proposed connection of any Qualifying Facility to any part of Customer's system served by Company. Notification shall be in writing as soon as practical, but at least ninety (90) days prior to the connection of the Qualifying Facility.

3.4 Retail Choice.

- (a) The Parties expressly recognize that retail choice may occur in Customer's service area during the Term of this Agreement. In order to enable Customer to compete to retain existing customers, in the event retail choice is mandated in Customer's service area, by state or federal statutes, regulations, or regulatory agencies, or in the event other power suppliers plan to make a direct connection to one or more retail customers of Customer, the Parties agree as follows: If retail choice is available to a customer or an aggregated group of customers or a potential customer of Customer, Customer may negotiate a price with Company for the retention of such customer or group of customers, or to obtain new customers; provided, however, that if Customer and Company are unable to agree upon a price that retains or acquires such customer(s), then Customer may seek to obtain an alternate source of power supply, which Company shall have the right of last refusal to match within three (3) Business Days of being officially notified by Customer. Such alternate source of power can only be made available to that specific customer or aggregated groups of customers for the defined period of the contract for alternate power supply and shall not be made available to other Retail Load of Customer or to displace other purchases.
- (b) "Mandated by state or federal statutes or regulations or regulatory agencies" includes the following scenarios: (i) state or federal statutes or regulations or regulatory agencies provide for retail choice by Customer's Retail Load as part of a larger retail choice program (in either a pilot program or permanent program), or (ii) Customer is exempt from such state or federal statutes or regulations, but retail customers of Customer, by vote or other legally enforceable right, require that Customer offer them the same provisions and rights contained in a statewide retail choice program.

3.5 Renewable Portfolio Standards. During the Term of this Agreement, if the Company is required, as a result of federal or state laws, rules or regulations, to meet the requirements of any renewable portfolio standards, the Company agrees to meet those requirements with regard to Customer's Retail Load. In no event shall the Company be obligated to meet any renewable portfolio standards imposed upon or enacted by Customer that are more stringent than those standards that the Company is required to meet.

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ARTICLE 4: MONTHLY RATES AND BILLING

4.1 General Principles Regarding Monthly Charges for Full Requirements Electric Service. The Monthly Charges for Full Requirements Electric Service supplied to Customer by Company hereunder during the Delivery Period of this Agreement shall include a Generation Demand Charge, a Generation Energy Charge (collectively, the "Generation Demand and Generation Energy Charges"), and a Generation Fuel Charge, all calculated in accordance with the terms of this Article and subject to all other terms and conditions contained in this Agreement. For each Calendar Year, the Generation Demand and Generation Energy Charges for which Customer is ultimately responsible shall be determined using data from Company's FERC Form 1 for that Calendar Year and the Return on Common Equity from December of the preceding Calendar Year as specified in Section 4.5(b). Because of the time lag in availability of the FERC Form 1 data, Generation Demand and Generation Energy Charges will initially be assessed based on estimated monthly rates, and a "true-up" will subsequently be conducted for each Calendar Year, as provided in Section 4.3 hereof. The Generation Energy Charge shall exclude fuel-related costs. All fuel-related costs shall be recovered through the Generation Fuel Charge, which shall be "trued up" to more current actual fuel-related costs by means of the Fuel Adjustment Charge set forth in Section 4.4 hereof. The monthly rates used to calculate the Generation Demand Charge, Generation Energy Charge and Generation Fuel Charge for Full Requirements Electric Service shall be determined pursuant to the cost-of-service formulas set forth in Appendix B hereto. These formulas will be used for both estimated and actual ("trued-up") rates and charges.

4.2 Estimated Generation Demand and Generation Energy Charges.

- (a) Estimated monthly rates shall be developed for each Contract Year. The estimated monthly rates used to calculate the Generation Demand Charge, Generation Energy Charge and Generation Fuel Charge shall be determined annually by the Company, pursuant to Appendix B, prior to the 31st day of May; be provided to the Customer, for its review by June 1; and be made effective as of June 1 (*i.e.*, at the commencement of each Contract Year). The estimated monthly rates in effect during each Contract Year shall be based upon the cost incurred in providing Full Requirements Electric Service for the most recent Calendar Year for which FERC Form 1 data is available.

For example, in Calendar Year 2007, for the first five months the estimated monthly rates used to bill Customer will be based upon Calendar Year 2005 FERC Form 1 data (and will be the same as the estimated monthly rates used in the latter portion of Calendar Year 2006); beginning on June 1, 2007, the estimated monthly rates will be based upon Calendar Year 2006 FERC Form 1 data (and will remain in effect for the remainder of the 2007-2008 Contract Year);

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and all charges based on these estimated rates for Calendar Year 2007 will be subject to "true-up" of the Generation Demand Rate and Generation Energy Rate in 2008, pursuant to Section 4.3.

- (b) The Parties agree that, based upon Company's FERC Form 1 data for 2004, the cost-of-service formulas set forth in Appendix B produce the following monthly Generation Demand Rate, Generation Energy Rate, and Generation Fuel Rate, which shall be charged to Customer by Company for the first partial Contract Year (*i.e.*, from January 1, 2006 through May 31, 2006), pursuant to this Agreement:

Generation Demand Rate	\$7.73/kilowatt
Generation Energy Rate	\$0.0035501/kilowatt-hour
Generation Fuel Rate	\$0.0142378/kilowatt-hour

The foregoing estimated monthly Generation Demand Rate and Generation Energy Rate and the Generation Demand and Generation Energy Charges they produce shall be adjusted as part of the "true-up" of Calendar Year 2006 Generation Demand and Generation Energy Charges pursuant to Section 4.3. The foregoing monthly Generation Fuel Rate shall not be adjusted as part of the "true-up" process, because the Fuel Adjustment Charge will recover actual fuel-related costs on a more current basis as provided in Section 4.4.

4.3 True-Up of Generation Demand and Generation Energy Charges. Because the Generation Demand and Generation Energy Charges initially collected during a Calendar Year will be the product of estimated rates based on data from previous Calendar Years, the Generation Demand and Generation Energy Charges shall be adjusted (or "true-up") based upon (i) FERC Form 1 cost data from that Calendar Year and (ii) the Return on Common Equity calculated using data from December of the previous Calendar Year as specified in Section 4.5(b). The true-up for Generation Demand and Generation Energy Charges shall be conducted by Company prior to May 31st of each Calendar Year once the FERC Form 1 data for the prior Calendar Year is available, and shall be accomplished by recalculating the sums due to Company from Customer for service provided during the prior Calendar Year. The difference between the sum of the Monthly Charges originally billed to Customer for service provided during the Calendar Year, based on the estimated monthly rates, and the sum of the Monthly Charges for which Customer is ultimately responsible shall be billed to Customer or credited to Customer, as appropriate, in three (3) equal amounts during the months of July, August and September of the year immediately following the Calendar Year for which the "true-up" is calculated, unless otherwise agreed by the Parties. The amount to be billed or credited for any such over-collections or under-collections will include interest at the Prime Rate, charged or applied

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from the date of original payment to the date when the over-collections or under-collections are paid or credited, but excluding the date paid or credited.

For example, the “true-up” of Generation Demand and Generation Energy Charges initially collected for service provided during Calendar Year 2007 shall be conducted by Company by May 31, 2008. The “trued-up” charges shall be calculated using (i) 2007 FERC Form 1 cost data and (ii) the Return on Common Equity calculated using data from December 2006. The difference between the sum of the Monthly Charges originally billed to Customer for service provided during 2007 (based on two different sets of estimated rates for portions of two Contract Years) and the sum of the “trued-up” Monthly Charges for Calendar Year 2007 will be billed to Customer or credited to Customer, as appropriate and with interest, in the invoices rendered in July, August and September 2008, unless otherwise agreed by the Parties. A timeline showing the timing for the calculation of estimated bills, true-ups and billings, using the first few years of the Delivery Period for illustrative purposes, is set forth on Appendix D.

4.4 Fuel Adjustment Charge. Customer shall pay Company a monthly Fuel Adjustment Charge determined pursuant to the cost-of-service formulas set forth in Appendix B hereto. The base cost of fuel, expressed in dollars per KWh, to be used in the Fuel Adjustment Charge shall equal the then-applicable Generation Fuel Rate. Customer shall be billed a Fuel Adjustment Charge each month for the energy delivered in the preceding month based upon estimated fuel charges in excess of the Generation Fuel Rate or, if applicable, shall be credited for the amount by which the estimated fuel charges are lower than the Generation Fuel Rate. Any differences between the estimated fuel charges and the fuel charges based on actual fuel costs shall be billed or credited to Customer on the first bill rendered after such actual fuel costs have been determined. Company shall use reasonable diligence when estimating monthly fuel charges so as to avoid any significant difference between estimated and actual monthly fuel charges to Customer.

4.5 Cost-of-Service Formulas. The cost-of-service formulas set forth in Appendix B were designed, by mutual agreement, primarily to use the Company’s FERC Form 1 costs. The Parties also agreed to the Appendix B treatment of costs that either are not reflected in the Company’s FERC Form 1 costs, or that the Parties agreed were not representative of the Company’s costs. The Parties agree that the specific elements of the cost-of-service formulas set forth below are an integrated and integral part of this Agreement:

- (a) For purposes of calculating the Company’s rate base used in Appendix B, the Parties agree that the Company will include one hundred percent (100%) of its expenditures for Pollution Control Facilities and Fuel Conversion Facilities (as defined in Section 35.25 of the FERC’s Regulations) recorded on the Company’s books and records as construction work in progress (“CWIP”), and fifty percent (50%) of its expenditures for all other CWIP.

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- (b) The Return on Common Equity, which will be used to compute the composite cost of capital used in Appendix B, shall be determined annually by taking the average of the daily Moody's Long-Term Baa Corporate Bond Index for the month of December and adding 585 basis points (5.85 percentage points). For estimated Monthly Charges, the composite cost of capital and estimated Monthly Charges shall be developed using the Appendix B formulas and data from the FERC Form 1 for the Calendar Year that ends with the same month of December as was used to determine the Return on Common Equity. (For example, by June 1, 2008, the composite cost of capital shall be determined using the Return on Common Equity from December, 2007 and other capital cost data from the FERC Form 1 for Calendar Year 2007. The resulting composite cost of capital shall be used in the Appendix B formulas together with other FERC Form 1 data for Calendar Year 2007 to determine the estimated Generation Demand and Generation Energy Charges and the Generation Fuel Rate for the Contract Year beginning June 1, 2008). For true-ups of the Generation Demand and Generation Energy Charges, the FERC Form 1 data for the Calendar Year being trued up shall be used in conjunction with the Return on Common Equity from December of the prior Calendar Year. (For example, once 2008 FERC Form 1 data are available in 2009, such data shall be used to compute the 2008 composite cost of capital using the Return on Common Equity from December, 2007. That composite cost of capital will be used with other 2008 FERC Form 1 data to determine the trued-up Generation Demand and Generation Energy Charges for Calendar Year 2008.) So long as the Return on Common Equity computed pursuant to this Section 4.5(b) is neither lower than 9.0% nor higher than 18.0%, the Parties agree that the Return on Common Equity used to compute the composite cost of capital in Appendix B shall not be subject to change under Sections 205 or 206 of the Federal Power Act ("FPA"), absent the mutual written consent of the Parties. In the event that the Return on Common Equity produced as a result of the calculation provided for herein is either below 9.0% or above 18.0%, either Party may seek FERC review of the Return on Common Equity value under the "just and reasonable" standard of Sections 205 and 206 of the FPA.
- (c) The Company's share of net revenue from deliveries to non-associated companies by the AEP Operating Companies ("System Sales") shall be shared twenty-five percent (25%) by Customer and seventy-five percent (75%) by Company, as shown on Appendix B. For purposes of this Section 4.5(c), "net revenue" refers to the revenue in excess of the full cost of making such System Sales.

4.6 Billing Demand and Billing Energy.

- (a) The monthly Billing Demand shall be the single highest 60-minute kW demand measured during the Billing Period.

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- (b) The monthly Billing Energy shall be the total kWhs of Firm Energy measured during the Billing Period.

4.7 Determination of Monthly Bill. The Monthly Bill shall set forth charges for Full Requirements Electric Service, charges for Local Facilities Service, charges to reimburse costs incurred by the Company on behalf of the Customer in connection with Full Requirements Electric Service, and other charges associated with Full Requirements Electric Service. The Monthly Bill shall be the total of the following:

1. The product of the Generation Demand Rate and the Billing Demand; plus
2. The product of the Generation Energy Rate and the Billing Energy; plus
3. The product of the Generation Fuel Rate and the Billing Energy; plus
4. The product of the Fuel Adjustment Charge and the Billing Energy; plus
5. All applicable charges in accordance with the Interconnection and Local Delivery Service Agreement, to the extent not billed directly to the Customer by the Transmission Provider or otherwise; plus
6. All amounts due to Company for reimbursement of charges incurred by Company as the NITS customer for delivery of Full Requirements Electric Service in accordance with the OAIT or related agreements for transmission-related schedules or services for which Customer is responsible pursuant to Section 3.2(a) and Appendix C hereto, to the extent that such charges are not included in Items 1 through 5 above; plus
7. Any applicable taxes, fees and assessments attributable to Full Requirements Electric Service not included in any of the other elements of the Monthly Bill.

4.8 Payment Date. Customer shall pay Company any amounts due and payable hereunder on or before the later of the fifteenth (15th) day of each month, or the tenth (10th) day after receipt of invoice or, if such due date is not a Business Day, then on the next Business Day. If an invoice is received on a day that is not a Business Day, it shall be deemed to have been received on the next following Business Day. All invoices shall be paid by electronic funds transfer, or by other mutually agreeable method(s), to the account designated by the Company. If all or any part of any amount due and payable pursuant to this Agreement shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Company on such unpaid amount at a rate per annum equal to the Prime Rate plus 2% per annum.

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- 4.9 Payment Netting.** Parties hereby agree that they shall discharge mutual debts and payment obligations due and owing to each other on the same date pursuant to this Agreement through netting, in which case all amounts owed by each Party to the other Party under this Agreement, interest, and payments or credits, shall be netted so that only the excess amount remaining due shall be paid by the Party who owes it. All amounts netted pursuant to Article Four shall not take into account or include any Performance Assurance or guaranty, which may be in effect to secure a Party's performance under this Agreement. If no mutual debts or payment obligations exist and only one Party owes a debt or obligation to the other during the monthly Billing Period, that Party shall pay such sum in full when due.
- 4.10 Billing Disputes.** If a Party, in good faith, disputes an invoice, the disputing Party shall immediately notify the other Party of the basis for the dispute and pay the undisputed portion of such invoice no later than the due date; provided, however, with respect to any amounts the Company passes to the Customer from the Transmission Provider pursuant to Item 6 of Section 4.7 above, the full amount of the disputed bill shall be paid when due and any billing dispute shall be handled in accordance with the procedures set forth in the OATT. Upon resolution of the dispute, any required payment shall be made within two (2) Business Days of such resolution along with any accrued interest from and including the due date to but excluding the date paid. Inadvertent overpayments shall be returned by the receiving Party or deducted from subsequent payments at the option of the overpaying Party, in either case with interest accrued at the Prime Rate until the date paid or deducted, from and including the date of such overpayment to but excluding the date repaid or deducted by the Party receiving such overpayment.

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ARTICLE 5: Transmission Provider Implementation

5.1 Implementation.

- (a) Company and Customer shall enter into, and file with the Transmission Provider and other applicable entities, all documents necessary for the Company to fulfill its obligation to provide Full Requirements Service.
- (b) The Parties recognize and agree that Company is the Customer's Load Serving Entity. The Parties further recognize and agree that the Full Requirements Electric Service to be provided hereunder is a load obligation of the Company and that the Company assumes such load obligation as its own firm power commitment and shall retain all advantages accruing from meeting the load.
- (c) Each Party shall provide the other Party access to information the other Party reasonably requests to facilitate the administration of this Agreement.

ARTICLE 6: CREDITWORTHINESS

6.1 Financial Information. If requested by a Party ("Party X"), the other Party ("Party Y") shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year with respect to Party Y, and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the quarterly report containing unaudited consolidated financial statements for such fiscal quarter with respect to Party Y. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as Party Y diligently pursues the preparation, certification and delivery of the statements.

6.2 Performance Assurance.

- (a) If at any time either Party has reasonable grounds to believe that the other Party's creditworthiness or performance under this Agreement has become unsatisfactory, the Party (the "Requesting Party") may provide the other Party (the "Receiving Party") with written notice requesting Performance Assurance in an amount determined by Receiving Party in a commercially reasonable manner.

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- (b) Upon receipt of such notice the Receiving Party shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to the Requesting Party.
- (c) In the event that the Receiving Party fails to provide such Performance Assurance or other credit assurance acceptable to the Requesting Party within three (3) Business Days of receipt of notice, then an Event of Default under Article 7 shall be deemed to have occurred.

6.3 Grant of Security Interest/Remedies

- (a) To secure its obligations under this Agreement, and to the extent either or both Parties deliver Performance Assurance hereunder, each Party (a "Pledgor") hereby grants to the other Party (the "Secured Party") a present and continuing security interest in, and lien on (and right of setoff against), and assignment of, all cash collateral and cash equivalent collateral and any and all proceeds resulting from said Performance Assurance or the liquidation thereof, whether now or hereafter held by, on behalf of, or for the benefit of, such Secured Party, and each Party agrees to take such action as the other Party reasonably requires in order to perfect the Secured Party's first-priority security interest in, and lien on (and right of setoff against), such collateral and any and all proceeds resulting there from or from the liquidation thereof.
- (b) Upon or any time after the occurrence or deemed occurrence and during the continuation of an Event of Default or an Early Termination Date, the Non-Affected Party may do any one or more of the following:
 - 1. exercise any of the rights and remedies of a Secured Party with respect to all Performance Assurance, including any such rights and remedies under law then in effect;
 - 2. exercise its rights of setoff against any and all property of the Affected Party in the possession of the Non-Affected Party or its agent;
 - 3. draw on any outstanding Letter of Credit issued for its benefit; and
 - 4. liquidate all Performance Assurance then held by or for the benefit of the Secured Party free from any claim or right of any nature whatsoever of the Affected Party, including any equity or right of purchase or redemption by the Affected Party.
- (c) The Secured Party shall apply the proceeds of the collateral realized upon the exercise of any such rights or remedies to reduce the Pledgor's obligations under the Agreement (the Pledgor remaining liable for any amounts owing to the

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Secured Party after such application), subject to the Secured Party's obligation to return any surplus proceeds remaining after such obligations are satisfied in full.

- 6.4 Interest Rate on Cash Amounts Held as Collateral.** For Performance Assurance in the form of cash that is held by a Party pursuant to this Article Six, the interest rate will be the Federal Funds Rate minus 0.25% as from time to time in effect. "Federal Funds Rate" means the rate, for the relevant determination date opposite the caption "Federal Funds (Effective)", as set forth in the weekly statistical release designated as H.15 (519), published by the Board of Governors of the Federal Reserve System. Such interest shall be calculated commencing on the date Performance Assurance in the form of cash is received by a Party but excluding the earlier of: (i) the date Performance Assurance in the form of cash is returned to a Party; or (ii) the date Performance Assurance in the form of cash is applied to a Pledgor's obligations pursuant to Section 6.3.
- 6.5 Transfer of Interest Amount.** The Pledgor shall invoice the Secured Party monthly setting forth the calculation of the interest amount due, and the Secured Party shall make payment thereof by the later of (i) the third Business Day of the first month after the last month to which such invoice relates; or (ii) the third Business Day after the day on which such invoice is received.

ARTICLE 7: DEFAULT AND REMEDIES

- 7.1 Events of Default.** Any one or more of the following shall constitute an "Event of Default" hereunder with respect to either Party (the "Defaulting Party"):
- (a) The failure to make, when due, any payment required pursuant to this Agreement (other than payments disputed under Article 4) if such failure is not remedied within three (3) Business Days after written notice;
 - (b) Any representation or warranty made by a Party herein is false or misleading in any material respect when made or when deemed made or repeated, if such failure is not remedied within thirty (30) Business Days after written notice;
 - (c) The failure by either Party to provide Performance Assurance as required under Article 6;
 - (d) The failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default as specified above, and except to the extent such Party's obligations to deliver or receive Firm Energy are modified by the provisions of Article 8), if such failure is not remedied within fifteen (15) Business Days after written notice;

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- (e) Such Party: (i) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it; (ii) makes an assignment or any general arrangement for the benefit of creditors; (iii) otherwise becomes bankrupt or insolvent (however evidenced); (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (v) is generally unable to pay its debts as they fall due;
- (f) Such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such Party under this Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other Party; or
- (g) Such Party experiences the occurrence and continuation of a default, event of default or other similar condition or event in respect of such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money in an aggregate amount of not less than U.S. Dollars \$100,000,000 for Company, and in the case of Customer, not less than U.S. Dollars \$15,000 for the City of Vanceburg, Kentucky, and not less than U.S. Dollars \$300,000 for the Electric Plant Board of the City of Vanceburg, Kentucky, which results in such indebtedness becoming immediately due and payable.

7.2 Declaration of an Early Termination. If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the "Non-Defaulting Party") shall have the right (i) to designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date ("Early Termination Date"); (ii) withhold any payments due to the Defaulting Party under this Agreement; and (iii) suspend performance.

7.3 Suspension of Performance. Notwithstanding any other provision of this Agreement, if an Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right

- (a) to suspend performance under this Agreement; provided, however, in no event shall any such suspension continue for longer than ten (10) Business Days unless an Early Termination Date shall have been declared and notice thereof pursuant to Article 9 been given;
- (b) to exercise any remedy available at law, subject to the limitations set forth in Section 10.1 hereof, including the right to seek to recover direct damages before a

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court of competent jurisdiction, and, if the Defaulting Party is the Customer, Company's right to seek to recover its Stranded Costs in accordance with Section 35.26 of the FERC's Regulations; and

(c) to exercise any remedy available in equity.

7.4 Obligations At Expiration or Termination. Upon the termination or expiration of this Agreement, in addition to such rights and obligations enumerated elsewhere in this Agreement, the grant of any and all right and interest to Company to supply the Full Requirements Electric Service shall cease. Customer and Company shall cooperate, in advance to the extent possible, to make all necessary filings with the Transmission Provider and to perform all other acts necessary to transfer all such rights and interests back to Customer.

ARTICLE 8: CURTAILMENT, TEMPORARY INTERRUPTIONS, FORCE MAJEURE AND TRANSMISSION CURTAILMENT

8.1 Curtailment. If there is a shortage of Energy requiring the curtailment of the Company's Firm Energy deliveries, then upon being notified by the Transmission Provider or the Company, Customer will institute procedures which will cause a corresponding curtailment of the use of Energy by the load served under this Agreement. It is the express intention of this provision that any curtailment of Energy shall fall equitably upon all loads served by the Company. If upon notification of a requirement to curtail, Customer fails to institute such procedures, Company shall be entitled to limit deliveries of Firm Energy to Customer in order to effectuate reductions in Energy deliveries, in the smallest amount that is operationally practical, equivalent to or greater than the reduction which would have been effected had Customer fulfilled its curtailment obligation hereunder during the period any shortage exists, and, in such event, Company shall not incur any liability to Customer in connection with any such action so taken by Company.

8.2 Temporary Interruptions. Company will use reasonable diligence in furnishing Firm Energy to Customer, but Company does not guarantee that the supply of Firm Energy furnished to Customer will be uninterrupted, or that voltage and frequency will be at all times constant. Temporary interruption of Firm Energy deliveries hereunder shall not constitute a breach of the obligations of Company under this Agreement, and Company shall not, in any cases where it has used reasonable diligence, be liable to Customer for damages resulting from any such temporary interruptions of service.

8.3 Force Majeure. To the extent either Party is prevented by Force Majeure from carrying out, in whole or part, its obligations under this Agreement and such Party (the "Claiming Party") gives notice and details of the Force Majeure to the other Party as soon as practicable, then the Claiming Party shall be excused from the performance of its

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obligations with respect to this Agreement (other than the obligation to make payments then due or becoming due with respect to performance prior to the Force Majeure). The Claiming Party shall remedy the Force Majeure with all reasonable dispatch. The non-Claiming Party shall not be required to perform or resume performance of its obligations to the Claiming Party corresponding to the obligations of the Claiming Party excused by Force Majeure.

8.4 Force Majeure Exceptions. Force Majeure shall not be based on (i) the loss of any load by Customer; (ii) Customer's inability economically to use or resell the Full Requirements Electric Service contracted for hereunder; (iii) the loss or failure of Company's Generation Resources; or (iv) Company's ability to resell the Full Requirements Electric Service at a price greater than the pricing set forth herein.

8.5 Transmission Curtailment. The Parties understand and agree that Company may raise a claim of Force Majeure, on its and/or Customer's behalf, based in whole or in part on curtailment by the Transmission Provider, but only to the extent that such curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the Transmission Provider's tariff, because the Company will arrange for firm transmission with the Transmission Provider for the Full Requirements Electric Service to be provided hereunder.

ARTICLE 9: NOTICES, REPRESENTATIVES OF THE PARTIES

9.1 Notices. Any notice, demand, or request required or authorized by this Agreement to be given by one Party to another Party shall be in writing. Such notice shall be sent by facsimile, courier, personally delivered or mailed, postage prepaid, to the representative of the other Party designated in this Article 9. Any such notice, demand, or request shall be deemed to be given (i) when received by facsimile; (ii) when actually received if delivered by courier, overnight mail or personal delivery; or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

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- (a) Notices and other communications by Company to Customer shall be addressed to:

Superintendent
Electric Plant Board
City of Vanceburg, Kentucky
611 Front Street
Vanceburg, KY 41179
Phone: 606-796-2641
Facsimile: 606-796-6311

With a copy to:

Mayor
City of Vanceburg
615 Second Street
Vanceburg, KY 41179
Phone: 606-796-3044
Facsimile: 606-796-6311

- (b) Notices and other communications by Customer to Company shall be addressed to:

President
Kentucky Power Company
101 Enterprise Drive
Frankfort, Kentucky 40601
Phone: 502-696-7007
Facsimile: 502-696-7006

With copies to:

Credit Risk Management
American Electric Power Service Corporation
155 W. Nationwide Blvd., Suite 400
Columbus, OH 43215
Phone: (614) 583-6728
Facsimile: (614) 583-1604

and

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Vice President – Energy Marketing
American Electric Power Service Corporation
155 W. Nationwide Blvd., Suite 500
Columbus, OH 43215
Phone: (614) 583-6408
Facsimile: (614) 583-1626

(c) Any Party may change its representative by written notice to the other Parties.

9.2. Authority of Representative. The Parties' representatives designated in Section 9.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. The Parties' representatives shall not, however, have the authority to amend, modify or waive any provision of this Agreement unless they are authorized officers of their respective entities and such amendment, modification or waiver is made pursuant to Section 16.6.

ARTICLE 10: LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

10.1 Limitation on Consequential, Incidental and Indirect Damages.

(a) TO THE FULLEST EXTENT PERMITTED BY LAW, NEITHER CUSTOMER NOR COMPANY, NOR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, MEMBERS, PARENTS OR AFFILIATES, SUCCESSORS OR ASSIGNS, OR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, NOR EMPLOYEES, SUCCESSORS OR ASSIGNS, SHALL BE LIABLE TO THE OTHER PARTY OR THEIR RESPECTIVE MEMBERS, PARENTS, SUBSIDIARIES, AFFILIATES, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS OR ASSIGNS, FOR CLAIMS, SUITS, ACTIONS OR CAUSES OF ACTION FOR INCIDENTAL, INDIRECT, SPECIAL, PUNITIVE, MULTIPLE OR CONSEQUENTIAL DAMAGES CONNECTED WITH OR RESULTING FROM PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, OR ANY ACTIONS UNDERTAKEN IN CONNECTION WITH OR RELATED TO THIS AGREEMENT, INCLUDING WITHOUT LIMITATION, ANY SUCH DAMAGES WHICH ARE BASED UPON CAUSES OF ACTION FOR BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE AND MISREPRESENTATION), BREACH OF WARRANTY, STRICT LIABILITY, STATUTE, OPERATION OF LAW, UNDER ANY INDEMNITY PROVISION OR ANY OTHER THEORY OF RECOVERY. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT DAMAGES ONLY, AND SUCH DIRECT DAMAGES SHALL BE THE

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SOLE AND EXCLUSIVE MEASURE OF DAMAGES AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. THE PROVISIONS OF THIS SECTION 10.1 SHALL APPLY REGARDLESS OF FAULT AND SHALL SURVIVE TERMINATION, CANCELLATION, SUSPENSION, COMPLETION OR EXPIRATION OF THIS AGREEMENT.

10.2 Indemnification.

- (a) Each Party shall indemnify, defend and hold harmless each other Party from and against any Claims arising from or out of any event, circumstance, act or incident occurring or existing during the period when control and title to Full Requirements Electric Service is vested in such Party as provided in Section 10.3 of this Agreement.
- (b) Each Party shall indemnify and hold harmless the other Party from and against any and all legal and other expenses, Claims, costs, losses, suits or judgments for damages to any person or destruction of any property arising in any manner directly or indirectly by reason of the acts of such Party's authorized representatives while on the premises of the other Party under any rights of access provided herein.
- (c) Customer shall indemnify and hold harmless the Company from and against any and all legal and other expenses, Claims, costs, losses, suits or judgments for damages to any individual, firm or corporation constituting any part of Customer's load arising in any manner directly or indirectly by reason of a failure, interruption or curtailment in Company's supply of Full Requirements Electric Service.
- (d) Company assumes no responsibility of any kind with respect to the construction, maintenance, or operation of the system or other property owned or used by Customer; and Customer agrees to protect indemnify and save harmless Company from any and all Claims, demands, or actions for injuries to person or property by any person, firm or corporation in any way resulting from, growing out of, or arising in or in connection with (a) the construction, maintenance or operation of Customer's system or other property; or (b) the use of, or contact with, Energy delivered hereunder after it is delivered to Customer and while it is flowing through the lines of Customer, or is being distributed by Customer, or is being used by Retail Load.
- (e) If a Party intends to seek indemnification under this Section 10.2 from the other Party with respect to any Claim, the Party seeking indemnification shall give such other Party notice of such Claim within fifteen (15) days of the commencement of, or actual knowledge of, such Claim. Such Party seeking indemnification shall have the right, at its sole cost and expense, to participate

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in the defense of any such Claim. The Party seeking indemnification shall not compromise or settle any such Claim without the prior consent of the other Party, which consent shall not be unreasonably withheld.

- 10.3 Title: Risk of Loss.** Title to and risk of loss related to the Full Requirements Electric Service to be provided hereunder shall transfer from Company to Customer at the Delivery Points. Company warrants that it will deliver Full Requirements Electric Service to Customer free and clear of all Claims or any interest therein or thereto by any person arising prior to the Delivery Points.

ARTICLE 11: REPRESENTATIONS AND WARRANTIES

- 11.1 Company and Customer representations and warranties.** Company and Customer represent and warrant to the other that:

- (a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;
- (b) It has, or will upon execution of this Agreement promptly seek, all regulatory authorizations necessary for it to legally perform its obligations under this Agreement;
- (c) The execution, delivery and performance of this Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, including, but not limited to, any organizational documents, charters, by-laws, indentures, mortgages or any other contracts or documents to which it is a party, or any law, rule, regulation, order or the like applicable to it;
- (d) This Agreement, and each other document executed and delivered in accordance with this Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms, subject to any equitable defenses;
- (e) It is not bankrupt and there are no proceedings pending or being contemplated by it or, to its knowledge, threatened against it, which would result in it being or becoming bankrupt; and
- (f) There is not pending or, to its knowledge, threatened against it any legal proceedings that could materially and/or adversely affect its ability to perform its obligations under this Agreement

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11.2 Customer representations and warranties. Customer represents and warrants to Company that:

- (a) With respect to its contractual obligations hereunder and performance thereof, it will not claim immunity on the grounds of its status as a municipality and/or electric plant board under Federal or state law or similar grounds with respect to itself or its revenues or assets from (i) suit, (ii) jurisdiction of court (including a court located outside the jurisdiction of its organization), (iii) relief by way of injunction, order for specific performance or recovery of property, (iv) attachment of assets, or (v) execution or enforcement of any judgment; provided, however, that nothing in this Section 11.2(a) is intended to cause a waiver of individual or personal immunity (whether it be absolute or qualified immunity), granted by law, to the officers, administrators, board members, council members, employees or agents of the Customer; and
- (b) Customer shall provide and maintain suitable protective devices on its equipment to prevent any loss, injury or damage that reasonably might be foreseen to result from single phasing conditions or any other fluctuations or irregularity in the supply of Energy. Company shall not be liable for any loss, injury or damage resulting from a single phasing condition or any other fluctuation or irregularity in the supply of Energy which could have been prevented by Customer's use of such protective devices; and
- (c) To the extent that retail customers that are not part of the service area that Customer has a statutory or other right to serve, as it exists as of the Effective Date hereof, now have or obtain in the future, during the Term of this Agreement, the ability to choose generation electric suppliers, Customer agrees that it will not seek to provide any type of electric service to such retail customers under this Agreement without the express consent of Company; and
- (d) Customer shall not take any actions inconsistent with this Agreement to change Customer's Retail Load due to prevailing electric market prices.

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Kentucky Power Company
Issued on: December 15, 2005

Effective: January 1, 2006



ARTICLE 12: ASSIGNMENT

- 12.1 General Prohibition Against Assignments.** Except as provided in Section 12.2 below, no Party shall assign, pledge or otherwise transfer this Agreement or any right or obligation under this Agreement without first obtaining the other Party's written consent, which consent shall not be unreasonably withheld.
- 12.2 Exceptions to Prohibition Against Assignments.** A Party may, without the other Party's prior written consent, (and without relieving itself from liability hereunder) (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements; or (ii) transfer or assign this agreement to any person or entity succeeding by merger or by acquisition to all or substantially all of the assets of the assigning Party, where such person's or entity's creditworthiness is equal to or higher than that of the assigning Party; provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof.

ARTICLE 13: CONFIDENTIALITY

- 13.1 Treatment of Confidential Information.**
- (a) To the extent permitted by law, all Confidential Information shall be held and treated by the Parties and their agents in confidence, used solely in connection with this Agreement, and shall not, except as hereinafter provided, be disclosed without the other Party's prior written consent.
- (b) Notwithstanding the foregoing, Confidential Information may be disclosed (i) to a third party for the purpose of effectuating the supply, transmission and/or distribution of Full Requirements Electric Service to be delivered pursuant to this Agreement; (ii) to regulatory authorities of competent jurisdiction, or as otherwise required by applicable law, regulation or order; (iii) as part of any required, periodic filing or disclosure with or to any regulatory authority of competent jurisdiction; and (iv) to third parties in connection with merger, acquisition/disposition and financing transactions provided that any such third party shall have signed a confidentiality agreement with the Disclosing Party containing customary terms and conditions that protect against the disclosure of the Confidential Information and that strictly limit the recipient's use of such information only for the purpose of the subject transaction and that provide for remedies for non-compliance.

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Issued on: December 15, 2005

Effective: January 1, 2006



- (c) In the event that a Party ("Disclosing Party") is requested or required to disclose any Confidential Information pursuant to subsection (b) of this Article, the Disclosing Party shall provide the other Party with prompt written notice of any such request or requirement, so that the other Party may seek an appropriate protective order, other confidentiality arrangement or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order, other confidentiality arrangement or the receipt of a waiver hereunder, the Disclosing Party, in the opinion of counsel, is compelled to disclose Confidential Information, the Disclosing Party may disclose that portion of the Confidential Information which the Disclosing Party's counsel advises that the Disclosing Party is compelled to disclose.
- (d) The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation. In addition to the foregoing, the Disclosing Party shall indemnify, defend and hold harmless the other Party from and against any Claims, threatened or filed, and any losses, damages, expenses, attorneys' fees or court costs incurred by such Party in connection with or arising directly or indirectly from or out of the Disclosing Party's disclosure of the Confidential Information to third parties except as permitted above.
- (e) Notwithstanding the above provisions, Company shall be permitted to communicate to the Transmission Provider any necessary information, including Confidential Information, with regard to implementation of this Agreement, and will make all reasonable efforts to ensure that Confidential Information remains confidential.

ARTICLE 14: REGULATORY AUTHORITIES

14.1 Effect of Regulation.

- (a) Each Party shall perform its obligations hereunder in accordance with applicable law, rules and regulations. Nothing contained herein shall be construed to constitute consent or acquiescence by either Party to any action of the other Party which violates the laws of the United States as those provisions may be amended, supplemented or superseded, or which violates any other law or regulation, or any order, judgment or decree of any court or governmental authority of competent jurisdiction.
- (b) The Parties hereto recognize that this Agreement is subject to the jurisdiction of the FERC, and that the Company will file this Agreement with the FERC. Should the FERC not accept this Agreement for filing, without charge or

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Kentucky Power Company

Issued on: December 15, 2005

Effective: January 1, 2006



condition, this Agreement shall not become effective, unless the Parties agree otherwise in writing, it being the intent of the Parties that the FERC's acceptance of this Agreement, without change or condition, is a prerequisite to the validity of this Agreement. In the event that this Agreement is not accepted for filing, without change or condition, the Parties agree to negotiate in good faith to reach an agreement that provides for a similar balancing of interests as is reflected in this Agreement.

- (c) The Parties agree to use their best efforts to seek and obtain the prompt approval of this Agreement by the FERC.
- (d) The Parties recognize the Company's obligation, under FERC's Order 888, to unbundle the costs of providing service to Customer under this Agreement. It is the Parties intent that the unbundling of the costs of generation, NITS, Ancillary Services and Local Delivery Services, to be charged to Customer by Company under Article 4 of this Agreement, satisfies the FERC's requirements, even though the costs of certain Ancillary Services are included as generation-related costs under the formula rate mechanism in Appendix B. Company agrees to provide Customer with a breakdown of costs that would be charged to Customer under the OATT, assuming the Customer were paying a market-based generation price, as opposed to a cost-based formula rate, within thirty (30) days of Customer's request.

ARTICLE 15: DISPUTE RESOLUTION AND STANDARD OF REVIEW FOR PROPOSED CHANGES

15.1 Resolution by Officers of the Parties. In the event of any dispute among the Parties arising out of or relating to this Agreement, the Parties shall refer the matter to their duly authorized officers for resolution. Should such officers fail to resolve the dispute within ten (10) days after such referral, the Parties agree that any such dispute may be resolved pursuant to Section 15.2.

15.2 Procedures for Resolution of Disputes.

- (a) Any claim, counterclaim, demand, cause of action, dispute, or controversy arising out of or relating to this Agreement or the relationship established by this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement, involving the Parties and/or their respective representatives (for purposes of this Section only, collectively the "Disputes"), even though some or all of such Disputes allegedly are extra contractual in nature, whether such Claims sound in contract, tort, or otherwise at law or in equity, under state or federal law, whether provided by statute or the

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Kentucky Power Company

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common law, for damages or any other relief, may, upon mutual agreement of the parties, be resolved by binding arbitration. Such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Upon agreement to arbitrate, any award made hereunder shall be binding upon the Parties, their successors and assigns, and any trustee or receiver of either Party.

15.3 Standard of Review.

- (a) Notwithstanding the provisions of Sections 15.1 and 15.2 hereof, and subject to the exceptions set out in Section 15.3(b), the Parties agree that the provisions of this Agreement, including without limitation the rates and charges and conditions of service contained herein, are subject to change by the FERC, and that the Company and Customer shall be entitled, at any time and from time to time, to apply for or to take other action to request such a change under Sections 205 or 206 of the Federal Power Act (FPA), respectively, and pursuant to the rules and regulations promulgated thereunder (Sections 205 or 206).
- (b) The Parties expressly agree that the following provisions of this Agreement are not subject to change under Sections 205 or 206, absent the mutual written consent of the Parties:
1. the Term and expiration date of this Agreement;
 2. the Parties' agreement that Customer is not entitled to cost-based rates, after the expiration of this Agreement, solely because of this Agreement;
 3. the cessation of the Company's obligation to plan to meet Retail Load, after the end of the Term of this Agreement, absent an agreement of the Parties that extends beyond the end of the Delivery Period covered by this Agreement;
 4. the continuation of a formula rate, designed to permit the Company to recover the costs it incurs to provide Full Requirements Electric Service to the Customer, throughout the Term of this Agreement;
 5. the cost-of-service provisions contained in parts (a) through (c) of Section 4.5 of this Agreement;
 6. the credit provisions of Article 6;
 7. the Customer's agreement that, so long as Customer's Monthly Bill is calculated in accordance with this Agreement, the Customer shall not

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Kentucky Power Company
Issued on: December 15, 2005

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allege that any of the rates charged hereunder result in price discrimination or anticompetitive effects; and

8. the standard of review provisions in this Section 15.3(b).

It is the intent of this Section and the Parties that, to the maximum extent permitted by law, the provisions of this Agreement that are enumerated in this Section 15.3 (b) shall not be subject to change under Sections 205 and 206, and that absent the written agreement of the Parties to change any of the above enumerated provisions, the standard of review for changes to any of those enumerated provisions proposed by a Party, a non-party, or the FERC, acting *sua sponte*, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956) (the *Mobile-Sierra Doctrine*).

ARTICLE 16: GENERAL PROVISIONS

- 16.1 Third Party Beneficiaries.** This Agreement is intended solely for the benefit of the Parties hereto, and nothing herein will be construed to create any duty to, or standard of care with reference to, or any liability to, any person not a Party hereto.
- 16.2 No Dedication of Facilities.** Any undertakings or commitments by one Party to the other under this Agreement shall not constitute the dedication of generation facilities or the transmission system or any portion thereof of either Party to the other Party.
- 16.3 Waivers.** The failure of a Party to insist in any instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, except to the extent such waiver is in writing and signed by an authorized representative of such Party.
- 16.4 Interpretation.** The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of the Commonwealth of Kentucky, without giving effect to its conflict of laws provisions.
- 16.5 Severability.** If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby, and the Parties hereby agree to effect such modifications to this Agreement as shall

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Kentucky Power Company

Issued on: December 15, 2005

Effective: January 1, 2006



be reasonably necessary in order to give effect to the original intention of the Parties.

- 16.6. Modification.** No modification to this Agreement will be binding on any Party unless it is in writing and signed by the Parties.
- 16.7 Counterparts.** This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.
- 16.8 Headings.** Article and Section headings used throughout this Agreement are for the convenience of the Parties only and are not to be construed as part of this Agreement.
- 16.9 Audit.** Each Party has the right, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any invoice, charge or computation made pursuant to this Agreement. If requested, a Party shall provide to the other Party invoices evidencing the quantities of Full Requirements Electric Service. If any such examination reveals any inaccuracy in any invoice, the necessary adjustments to such invoice and the payments thereof will be made promptly and shall bear interest calculated at the Prime Rate plus two percent (2%) from the date the overpayment or underpayment was made until paid; provided, however, that no adjustment for any statement or payment will be made unless objection to the accuracy thereof was made prior to the lapse of twelve (12) months from the rendition thereof, and thereafter any objection shall be deemed waived.
- 16.10 Records.** The Parties shall keep (or as necessary cause to be kept by their respective agents) for a period of at least three (3) years such records as may be needed to afford a clear history of the Full Requirements Service supplied pursuant to this Agreement. For any matters in dispute, the Parties shall keep the records related to such matters until the dispute is ended.
- 16.11 Survival.** The provisions of Articles 10, 13 and 15, and Sections 16.9 and 16.10 hereof, and any other Section of this Agreement that specifies by its terms that it survives termination, shall survive the termination or expiration of this Agreement.

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Kentucky Power Company
Issued on: December 15, 2005

Effective: January 1, 2006



ARTICLE 17: RULES OF CONSTRUCTION

- 17.1 Terms used in this Agreement but not listed in this Article, or defined herein or in Article 1, shall have meanings as commonly used in the English language and, where applicable, in Good Utility Practice.
- 17.2 Words not otherwise defined herein that have well known and generally accepted technical or trade meanings are used herein in accordance with such recognized meanings.
- 17.3 The masculine shall include the feminine and neuter.
- 17.4 The words "include", "includes" and "including" are deemed to be followed by the words "without limitation."
- 17.5 References to contracts, agreements and other documents and instruments shall be references to the same as amended, supplemented or otherwise modified from time to time.
- 17.6 The Appendices attached hereto are incorporated in and are intended to be a part of this Agreement; provided, that in the event of a conflict between the terms of any Appendices and the terms of this Agreement, the terms of this Agreement shall take precedence.
- 17.7 References to laws and to terms defined in, and other provisions of, laws shall be references to the same (or a successor to the same) as amended, supplemented or otherwise modified from time to time.
- 17.8 References to a person, entity, or governmental authority shall include its successors and permitted assigns, and any entity succeeding to the functions and capacities of that person, entity or governmental authority.
- 17.9 References to "Articles," "Sections," or "Appendices" shall be to articles, sections, or appendices of this Agreement.
- 17.10 Unless the context plainly indicates otherwise, words importing the singular number shall be deemed to include the plural number (and vice versa); terms such as "hereof," "herein," "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Agreement rather than any particular part of the same.
- 17.11 This Agreement was negotiated and prepared by both Parties with the advice and participation of counsel. The Parties have agreed to the wording of this Agreement and none of the provisions hereof shall be construed against one Party on the ground that such Party is the author of this Agreement or any part hereof.

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Kentucky Power Company

Issued on: December 15, 2005

Effective: January 1, 2006



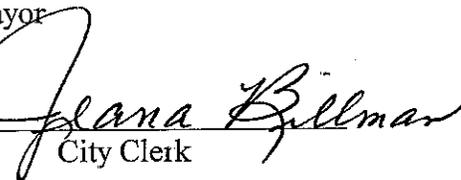
IN WITNESS WHEREOF, the Parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

The City of Vanceburg, Kentucky

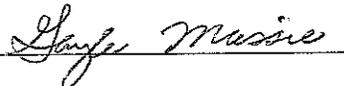
By: 

Name: William I. Cooper

Title: Mayor

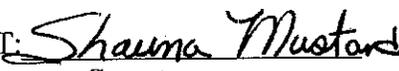
ATTEST: 
City Clerk

The Electric Plant Board, City of Vanceburg, Kentucky

By: 

Name: Gayle Massie

Title: Chairperson

ATTEST: 
Secretary

American Electric Power Service Corporation,

as agent for

Kentucky Power Company

By: 

Name: Michael G. Morris

Title: Chief Executive Officer and President



Issued by: Timothy C. Mosher, President
Kentucky Power Company

Issued on: December 15, 2005

Effective: January 1, 2006



**Kentucky Power Company
FERC Rate Schedule No. 51**

Original Sheet No. 38

APPENDIX A

CITY OF VANCEBURG, KENTUCKY
DELIVERY POINTS
AS OF DECEMBER 6, 2005

<u>DESCRIPTION</u>	<u>DELIVERY VOLTAGE</u>
South Portsmouth Station	Transmission

**Issued by: Timothy C. Mosher
Kentucky Power Company
Issued on: December 15, 2005**

Effective: January 1, 2006



**Kentucky Power Company
FERC Rate Schedule No. 51**

Original Sheet No. 39

Cost-of-Service Formulas

APPENDIX B

A-1
DETERMINATION OF DEMAND-RELATED COSTS AND
DEMAND CHARGE
TWELVE MONTHS ENDED DECEMBER 31, _____

	<u>Demand Related</u>	<u>Reference</u>
1. Return on Investment	\$	P A-5, L 18, Col (2)
2. Operation & Maintenance Expense	\$	P A-14, L 8, Col (2)
3. Depreciation Expense	\$	P A-15, L 14, Col (2)
4. Taxes Other Than Income Taxes	\$	P.A-16, L 7, Col (2)
5. Income Tax	\$	P.A-17, L 5, Col (2)
6. <u>Subtotal</u>	<u>\$</u>	Lines 1 through 5
7. Less: Off-System Sales for Resale Expenses	\$	P. A-4, L 3, Col (2)
8. Less: Customer Share of Off-System Sales Margin	\$	P. A-4, L 4, Col (2)
9. Adjustment of Other Income and Deductions	\$	Note A
10. <u>Annual Production Fixed Cost</u>	<u>\$</u>	L 6 - L 7 - L 8 + L 9
11. Monthly Peak Megawatts	#	FERC-1, p.401b
12. Demand Charge	\$ /kW	L.10 / L.11 / 1,000
13. Loss Adjusted Monthly Demand at Peak	# kW	Note B
14. <u>Annual Demand Revenue Requirement</u>	<u>\$</u>	L.10 / L.11 / 1,000
15. Loss Adjusted Monthly Demand	# kW	Note B
16. <u>Demand Charge @ Generation</u>	<u>\$ /kW</u>	L. 14 / L. 15
17. Transmission Loss Factor	#	Note C
18. Transmission Voltage Demand Charge	\$ /kW	L. 16 X L. 17

Note A: To be determined by accounting department

Note B: Total customer demands adjusted for losses to generation.

Note C: Losses pursuant to OATT.



**Kentucky Power Company
FERC Rate Schedule No. 51**

Original Sheet No. 40

APPENDIX B

Cost-of-Service Formulas

A-2

**DETERMINATION OF ENERGY RELATED COSTS AND
ENERGY CHARGE**

TWELVE MONTHS ENDED DECEMBER 31, _____

	<u>Energy Related</u>	<u>Reference</u>
1. Total Fuel	\$	P A-14, L.16, Col (4)
2. Purchased Power (555)	\$	P.A-14, L.1, Col (4)
3. Other Production Expense	\$	P.A-14, L.4, Col (3)
4. <u>Total Production Cost</u>	<u>\$</u>	Lines 1, 2 & 3
5. Less: Off-System Sales for Resale Expenses	\$	P A-4, L.3, Col (3)
6. Less: Customer Share of Off-System Sales Margin	\$	P. A-4, L.4, Col (3)
7. <u>Subtotal</u>	<u>\$</u>	L.4 - L.5 - L.6
8. Administrative & General Expense	\$	P.A-10, L.17, Col (5)
9. Return on Investment	\$	P.A-5, L.18, Col (3)
10. Depreciation Expense	\$	P.A-15, L.14, Col (3)
11. Income Tax	\$	P.A-17, L.5, Col (3)
12. <u>Annual Production Variable Costs</u>	<u>\$</u>	Lines 7 thru 11
13. Production Fuel Costs	\$	P.A-14, L.20, Col (4)
14. <u>Non-Fuel Costs</u>	<u>\$</u>	L.12 - L.13
15. Net mWh Generated and Purchased, less mWh Sold	#	FERC-1, p.401b
16. Energy Charge	\$ /kWh	L.14 / L.15 / 1,000
17. Fuel Charge	\$ /kWh	L.13 / L.15 / 1,000
18. Transmission Loss Factor	#	P.A-1, L.17
19. Transmission Voltage Energy Charge	\$ /kWh	L.16 X L.18
20. Transmission Voltage Fuel Charge	\$ /kWh	L.17 X L.18

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**Kentucky Power Company
FERC Rate Schedule No. 51**

Original Sheet No. 41

Cost-of-Service Formulas

A-3

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APPENDIX B



Cost-of-Service Formulas

APPENDIX B

A-4
 OFF-SYSTEM SALES REVENUES AND MARGIN
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1. Off-System Sales Revenues	Note A	\$	\$	\$
2. Less: Margins from Off-System Sales	Note B	\$	\$	\$
3. Off-System Sales Expenses	L 1 - L 2	\$	\$	\$
4. Customer Share of Margins	% of L 2	\$	\$	\$

Note A: Revenues associated with off-system sales as reported in Account 447
 (FERC-1, Page 311 column H, excluding RQ)

Note B: From Accounting.



Cost-of-Service Formulas

APPENDIX B

A-5
 RETURN ON PRODUCTION-RELATED INVESTMENT
 TWELVE MONTHS ENDED DECEMBER 31 _____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1.	<u>ELECTRIC PLANT</u>			
2.	Gross Plant in Service P A-6, L 7, Col (2)	\$	\$	\$
3.	Less: Accumulated Depreciation P A-6, L 17, Col (2)	\$	\$	\$
4.	Less: Accumulated Deferred Taxes P A-6, L 18, Col (2)	\$	\$	\$
5.	Net Plant in Service L 2 - (L 3 + L 4)	\$	\$	\$
6.	Plant Held for Future Use FERC-1 P.200, L 10	\$	\$	\$
7.	Construction Work In Progress Note A	\$	\$	\$
8.	Subtotal - Electric Plant L 5+L 6+L 7	\$	\$	\$
9.	<u>WORKING CAPITAL</u>			
10.	Materials & Supplies			
11.	Fuel P A-9 L 2	\$	\$	\$
12.	Nonfuel P A-9 L 6	\$	\$	\$
13.	Total M & S L 11 + L 12	\$	\$	\$
14.	Prepayments Note B	\$	\$	\$
15.	Cash Requirements P A-8 L 8	\$	\$	\$
16.	Total Investment L 8+L 13+L 14+L 15	\$	\$	\$
17.	Composite Cost of Capital P A-11, L 4, Col (4)	%	%	%
18.	Return on Investment L 16 x L 17	\$	\$	\$

Note A: Production amount only. To be determined by KPCO accounting department

Note B: Classified and functionalized using Gross Plant % from P A-6, L.8
 Total Company Account 165 \$ FERC-1, P.110 L.46



**Kentucky Power Company
FERC Rate Schedule No. 51**

**First Revised Sheet No. 44
Supersedes Original Sheet No. 44**

APPENDIX B

A-6
PRODUCTION-RELATED ELECTRIC PLANT IN SERVICE
COST DATA BASED ON 12 MONTHS ENDED _____

	Reference	System Amount (1)	PRODUCTION		
			Amount (2)	Demand (3)	Energy (4)
1	GROSS PLANT IN SERVICE				
2	Plant in Service	Note A	\$	\$	\$
3	Less: ARO-related Plant		\$	\$	\$
4	Restated Plant in Service	L 2 - L 3	\$	\$	\$
5	Generator Step-Ups Included in Accts 352 & 353 above		\$	\$	\$
6	General & Intangible Plant	P. A-7, L 19	\$	\$	\$
7	Total	L 4 + L 5 + L 6	\$	\$	\$
8	Percentage of Total		%	%	%
9	ACCUMULATED PROVISION FOR DEPRECIATION				
10	Plant in Service	Note C	\$	\$	\$
11	Less: ARO-related Depreciation		\$	\$	\$
12	Adjustment to Depreciation Rate	Note D	\$	\$	\$
13	Generator Step-Ups Included in Accts. 352 & 353 above		\$	\$	\$
14	Adjustment to Depreciation Rate	Note D	\$	\$	\$
15	General & Intangible Plant	Note B	\$	\$	\$
16	Adjustment to Depreciation Rate	Note B, D	\$	\$	\$
17	Total	L 10 - L 11 + L 12 + L 13 + L 14 + L 15 + L 16	\$	\$	\$
18	ACCUM DEFERRED TAXES	Note E	\$	\$	\$

Note A: Gross Plant in Service is the average of beginning and ending year balances (FERC-1, P. 206 & 207)

Note B: % from P A-7, L 17

Note C: Accumulated Depreciation is the average of beginning and ending year balances (FERC-1, P 219)

Note D: From Accounting.

Note E: FERC-1, P 234 Ln 8 (Account 190), FERC-1, P 273 Ln 8 (Account 281), FERC-1, P 275 Ln 5 (Account 282), and FERC-1 P 277 Ln 9 (Account 283) - Allocated on Gross Plant in Service.



**Issued by: Timothy C. Mosher
Kentucky Power Company
Issued On: November 9, 2007**

Effective : January 1, 2007

Cost-of-Service Formulas

APPENDIX B

A-6
 PRODUCTION-RELATED ELECTRIC PLANT IN SERVICE
 TWELVE MONTHS ENDED DECEMBER 31 _____

	Reference	System Amount (1)	PRODUCTION		
			Amount (2)	Demand (3)	Energy (4)
1. GROSS PLANT IN SERVICE					
2. Plant in Service	Note A	\$	\$	\$	\$
3. Less: ARO-related Plant		\$	\$	\$	\$
4. Restated Plant in Service	L.2 - L.3	\$	\$	\$	\$
5. Generator Step-Ups Included in Accts. 352 & 353 above		\$	\$	\$	\$
6. General & Intangible Plant	P A-7, L 19	\$	\$	\$	\$
7. Total	L.4 + L.5 + L.6	\$	\$	\$	\$
8. Percentage of Total		%	%	%	%
9. ACCUMULATED PROVISION FOR DEPRECIATION					
10. Plant in Service	Note C	\$	\$	\$	\$
11. Less: ARO-related Depreciation		\$	\$	\$	\$
12. Adjustment to Depreciation Rate	Note D	\$	\$	\$	\$
13. Generator Step-Ups Included in Accts 352 & 353 above		\$	\$	\$	\$
14. Adjustment to Depreciation Rate	Note D	\$	\$	\$	\$
15. General & Intangible Plant	Note B	\$	\$	\$	\$
16. Adjustment to Depreciation Rate	Note B, D	\$	\$	\$	\$
17. Total	L.10 - L.11 + L.12 + L.13 + L.14 + L.15 + L.16	\$	\$	\$	\$
18. ACCUM DEFERRED TAXES	Note E	\$	\$	\$	\$

Note A: Gross Plant in Service is the average of beginning and ending year balances (FERC-1 P 206 & 207)

Note B: % from P.A-7, L.17

Note C: Accumulated Depreciation is the average of beginning and ending year balances (FERC-1, P.219)

Note D: From Accounting.

Note E: FERC-1, P. 111 and 113 (Accounts 281-283 & 190)
 Excludes directly-assignable amount from accounting of: \$
 Allocated on Gross Plant % From L.8 above



Cost-of-Service Formulas

APPENDIX B

A-7
 PRODUCTION-RELATED GENERAL PLANT ALLOCATION
 TWELVE MONTHS ENDED DECEMBER 31, _____

General Plant Accounts 101 and 106

	Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1. GENERAL PLANT					
2 389 Land	\$				
3 390 Structures	\$				
4 391 Office Equipment	\$				
5 392 Transportation Equipment	\$				
6 393 Stores Equipment	\$				
7 394 Tools Shop & Garage Equipment	\$				
8 395 Lab Equipment	\$				
9 396 Power Operated Equipment	\$				
10 397 Communications Equipment	\$				
11 398 Miscellaneous Equipment	\$				
12 Subtotal	\$	Note A	\$	\$	\$
13 PERCENT of Subtotal	%		%	%	%
14 Other Tangible Property (Excluding 399 1)					
15 399 0 Other Tangible Property	\$		\$	\$	\$
16 TOTAL GENERAL PLANT (Excl. 399 1)	\$	FERC-1 P 206	\$	\$	\$
17 PERCENT of Total	%		%	%	%
18 Intangible Plant	\$	FERC-1 P 204	\$	\$	\$
19 General and Intangible Plant	\$		\$	\$	\$

Note A: Allocation factors based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses:

a. Total wages and salaries in electric O&M excluding A&G FERC-1, P. 354, Column (b), L 25-L 24.	KPCO	AEPSC	Total
		Note B	
b. Production wages and salaries in electric O&M FERC-1, P 354, Col (b), L 18	\$	\$	\$
c. Ratio (b/a)			%

Classification factors based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses:

a. Production wages and salaries in electric O&M		\$	\$
b. Production demand-related wages and salaries	\$	\$	\$
c. Ratio (b/a)			%

Note B: From Accounting.



Cost-of-Service Formulas

APPENDIX B

A-8
 PRODUCTION-RELATED CASH REQUIREMENT
 TWELVE MONTHS ENDED DECEMBER 31 _____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1. Fuel Expense	P. A-14 L.16	\$	\$	\$
2. Fuel Cash Requirements	45/360 x L.1	\$	\$	\$
3. Purchased Power	P. A-14, L.1	\$	\$	\$
4. Purchased Power Cash Requirements	45/360 x L.3	\$	\$	\$
5. Total O&M, Excluding Fuel	P. A-14 L.8	\$	\$	\$
6. Other O&M Expense	L. 5 - L.3	\$	\$	\$
7. Other O&M Cash Requirements	45/360 x L.6	\$	\$	\$
8. Total Cash Requirements	L.2 + L.4 + L.7	\$	\$	\$



Cost-of-Service Formulas

APPENDIX B

A-9
 PRODUCTION-RELATED MATERIALS & SUPPLIES
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1. Material & Supplies						
2. Fuel (Note A)	FERC-1 P.110	\$		\$	\$	\$
3. Non-Fuel						
4. Account 158 - Allowances	FERC-1, P.110	\$	%	\$	\$	\$
5. Other - Non-Fuel	Note B	\$	%	\$	\$	\$
6. Total Non-Fuel	L. 4 + L. 5	\$		\$	\$	\$
7. Total Material & Supplies	L. 2 + L. 6	\$		\$	\$	\$

Note A: Accounts 120, 151, 152

Note B: Accounts 154 through 157 and 163 (FERC Form 1, P. 110) Functionalized on Gross Plant from P. A-6 L.4



Cost-of-Service Formulas

APPENDIX B

A-10
 PRODUCTION-RELATED ADMINISTRATIVE & GENERAL EXPENSE ALLOCATION
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Account	Reference	System Amount (1)	Allocation Factor % (2)	PRODUCTION		
					Amount (3)	Demand (4)	Energy (5)
1	ADMINISTRATIVE & GENERAL EXPENSE						
2	RELATED TO WAGES AND SALARIES						
3	A&G Salaries	920 FERC-1, P 322	\$				
4	Office Supplies	921 FERC-1, P 322	\$				
5	Adm. Expense Transfer - Cr.	922 FERC-1, P 322	\$				
6	Outside Services	923 FERC-1, P 323	\$				
7	Injuries & Damages	925 FERC-1, P 323	\$				
8	Employee Pensions & Benefits	926 FERC-1, P 323	\$				
9	Franchise Requirements	927 FERC-1, P 323	\$				
10	Duplicate Charges - Cr.	929 FERC-1, P 323	\$				
11	Miscellaneous General Expenses	930 FERC-1, P 323	\$				
12	Rents	931 FERC-1, P 323	\$				
13	Subtotal	Ls. 3 thru 12	\$	Note A	\$	\$	\$
14	Property Insurance	924 FERC-1 P 323	\$	Note B	\$	\$	\$
15	Regulatory Comm Expenses	928 FERC-1, P 351	\$	Note C	\$	\$	\$
16	Maintenance of General Plant	935 FERC-1, P 323	\$	Note D	\$	\$	\$
17	Total	Ls. 13 thru 16	\$		\$	\$	\$

Note A: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7.

Note B: From Accounting.

Note C: FERC-1, P 351, Excluding FERC Annual Assessment

Note D: Allocated on Gross Plant % from P A-7, L 17



Cost-of-Service Formulas

APPENDIX B

A-11
 COMPOSITE COST OF CAPITAL
 TWELVE MONTHS ENDED DECEMBER 31 _____

	Reference	Total Company Average Capitalization		Cost of Capital	Composite Cost of Capital
		\$ (1)	% (2)	% (3)	(2 x 3) (4)
1.	Long Term Debt	Note A	\$	%	%
2.	Preferred Stock	Note B	\$	%	%
3.	Common Stock	Note C	\$	%	%
4.	Total		\$	%	%

Note A: Line 1 Columns (1) and (3) from Page A-12.

Note B: Line 2. Columns (1) and (3) from Page A-13.

Note C: Line 3, Column (1) from FERC-1, P.112 Total Proprietary Capital of: \$
 Less: Preferred Stock, P A-13, L 1(b) \$
 Less: Premium on Preferred Stock, P A-13, L.1(c) \$
 Common Stock \$



Cost-of-Service Formulas

APPENDIX B

A-12
 AVERAGE LONG TERM DEBT
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Average Debt Balance (1)	Interest Booked (2)
1 Total (FERC-1 P. 112 & P. 117 - Account 427)	\$	\$
2 Preferred Stock With Mandatory Redemption (FERC-1 P. 257 2)	\$	\$
3 Account 224 - Pre-83 SNF Disposal Costs (FERC-1, P. 257)	\$	
4 Amortization of Debt Discount and Expense (FERC-1, P. 117, Accounts 428 - 429 1)		\$
5 Total (L. 1 - L. 2 - L. 3 + L. 4)	\$	\$
6 Embedded Costs = L. 5, Col. (2)/Col. (1)		%



Cost-of-Service Formulas

APPENDIX B

A-13
AVERAGE PREFERRED STOCK
TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	Amount
1. (a) Preferred Stock Dividends	FERC-1, P 118 L 29 (Account 437) & FERC-1, P 257 2	\$
(b) Preferred Stock Issued	FERC-1 P.112, L 3	\$
(c) Premium on Preferred Stock	FERC-1, P.112, L.6 (Account 2070003)	\$
(d) Preferred Stock with Mandatory Redemption	FERC-1. P 257 2	\$
(e) Total Preferred Stock	L 1 (b) + L 1 (c) + L 1(d)	\$
2 Average Cost Rate	L 1 (a)/L 1 (e)	%



APPENDIX B

A-14
 PRODUCTION O & M EXPENSE
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Account No.	Total Company (1)	(Demand) Fixed (2)	Energy	
				Non-Fuel Variable (3)	Fuel -4
1. Purchased Power (FERC Form-1, P.327)	555	\$	\$	\$	\$
2. System Control of Load Dispatching (FERC Form-1, P.321)	556	\$	\$	\$	\$
3. Other Production Expenses (FERC Form-1, P.321)	557	\$	\$	\$	\$
4. Other Production Expenses	Note A	\$	\$	\$	\$
5. Total Production Expense Excluding Fuel Used In Electric Generation above		\$	\$	\$	\$
6. A & G Expense P.A-10, L.17		\$	\$	\$	\$
7. Generator Step Up related O&M	Note B	\$	\$	\$	\$
8. Total O & M Excluding Fuel		\$	\$	\$	\$
9. Fuel - Account 501 (FERC Form-1, P.320)	501	\$			\$
10. Less: Fuel Handling		\$			\$
11. Less: Sale of Fly Ash (Revenue & Expense)		\$			\$
12. Plus: Account 518	518	\$			\$
13. Plus: Account 547	547	\$			\$
14. Less: Pre 4/7/83 Spent Nuclear Fuel	Note C	\$			\$
15. Plus: Pre 4/7/83 Spent Nuclear Fuel - Study		\$			\$
16. Total Fuel		\$	\$	\$	\$
17. Total - Production O&M	L.5 + L.16	\$	\$	\$	\$
18. Less: Off-System Sales Revenues (P.A-4, L.1)					\$
19. Plus: Company Share of Margins (P.A-4, L.2 - L.4)					\$
20. Total Fuel Costs					\$
21. Plus: Gains/(Losses) on Disp. of Allowances	A-14(a)	\$			
22. Plus: Nuclear Decomm Expense - ARO	A-14(a)	\$			
23. Less: Nuclear Decommissioning Adjustment	A-14(a)	\$			
24. Less: Spent Nuclear Fuel Adjustment	L.15 - L.14	\$			
25. Check Total - Perbooks Production O&M	P.321	\$			

Note A: Classified into Fixed and Variable Components in accordance with P.A-14(a).

Note B: FERC-1, P.321, (Accounts 562, 569 & 570) allocated on Gross Plant ratio - GSU to total.

Note C: Accounts 5180004 & 5180005

Note D: During 2006, PJM expenses were recorded in account 556 or in the following new accouts, which were created pursuant to FERC Order 668:

Scheduling, System Control and Dispatch Services (FERC Form-1, P. 321)	561.4
Reliability, Planning and Standards Development Services (FERC Form-1, P. 321)	561.8
Market Facilitation, Monitoring and Compliance Services (FERC Form-1, P. 322)	575.7

Issued by: Timothy C. Mosher
 Kentucky Power Company
 Issued on: November 9, 2007

Effective January 1, 2008



Cost-of-Service Formulas

APPENDIX B

A-14(a)
 CLASSIFICATION OF FIXED AND VARIABLE PRODUCTION EXPENSES
 TWELVE MONTHS ENDED DECEMBER 31 _____

Line No.	Description	FERC Account No.	Demand Related	Energy Related
1	Operation supervision and engineering	500	\$	-
2	Fuel	501	-	XX
3	Fuel Handling	5010003	-	\$
4	Sale of Fly Ash (Revenue & Expense)	5010012	-	\$
5	Steam expenses	502	\$	-
6	Steam from other sources	503	-	\$
7	Steam transferred-Cr.	504	-	\$
8	Electric expenses	505	\$	-
9	Miscellaneous steam power expenses	506	\$	-
10	Rents	507	\$	-
11	Allowances	509	-	\$
12	Less: Gains from Disposition of Allowances	411.8	-	\$
13	Plus: Losses from Disposition of Allowances	411.9	-	\$
14	Maintenance supervision and engineering	510	-	\$
15	Maintenance of structures	511	\$	-
16	Maintenance of boiler plant	512	-	\$
17	Maintenance of electric plant	513	-	\$
18	Maintenance of miscellaneous steam plant	514	\$	-
19	Total steam power generation expenses		\$	\$
20	Operation supervision and engineering	517	\$	-
21	Coolants and Water	519	\$	-
22	Steam expenses	520	\$	-
23	Steam from other sources	521	\$	-
24	Steam transferred-Cr.	522	\$	-
25	Electric expenses	523	\$	-
26	Miscellaneous nuclear power expenses	524	\$	-
27	Less: Nuclear Decomm Expense - ARO	524.0009	\$	-
28	Rents	525	\$	-
29	Total nuclear power generation operation expenses		\$	\$
30	Maintenance supervision and engineering	528	-	\$
31	Maintenance of structures	529	\$	-
32	Maintenance of reactor plant equipment	530	-	\$
33	Maintenance of electric plant	531	-	\$
34	Maintenance of miscellaneous nuclear plant	532	-	\$
35	Total nuclear power generation maintenance expenses		\$	\$
36	Less: Nuclear Decommissioning	524.0008	\$	-
37	Plus: Nuclear Decommissioning (Stipulated / IURC Approved Amount)		\$	-
38	Operation supervision and engineering	535	\$	-
39	Water for power	536	\$	-
40	Hydraulic expenses	537	\$	-
41	Electric expenses	538	\$	-
42	Misc hydraulic power generation expenses	539	\$	-
43	Rents	540	\$	-
44	Maintenance supervision and engineering	541	\$	-
45	Maintenance of structures	542	\$	-
46	Maintenance of reservoirs, dams and waterways	543	\$	-
47	Maintenance of electric plant	544	-	\$
48	Maintenance of miscellaneous hydraulic plant	545	-	\$
49	Total hydraulic power generation expenses		\$	\$
50	Operation supervision and engineering	546	\$	-
51	Fuel	547	-	XX
52	Generation expenses	548	\$	-
53	Miscellaneous other power generation expenses	549	\$	-
54	Rents	550	\$	-
55	Maintenance supervision and engineering	551	\$	-
56	Maintenance of structures	552	\$	-
57	Maintenance of generation and electric plant	553	\$	-
58	Maintenance of misc. other power generation plant	554	\$	-
59	Total other power generation expenses		\$	\$
60	Purchased power	555	XX	XX
61	System control and load dispatching	556	XX	-
62	Other expenses	557	XX	-
63	TOTAL OTHER PRODUCTION EXPENSES	\$	\$	\$

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 COMMISSION
 OF KENTUCKY

Cost-of-Service Formulas

APPENDIX B

A-15
 PRODUCTION-RELATED DEPRECIATION EXPENSE
 TWELVE MONTHS ENDED DECEMBER 31 _____

		Production Related (1)	Demand (2)	Energy (3)	
1.	Steam Production Plant	Note A	\$	\$	\$
2.	Nuclear Production Plant	Note A	\$	\$	\$
3.	Hydro Production Plant Conventional	Note A	\$	\$	\$
4.	Pump Storage	Note A	\$	\$	\$
5.	Other Production	Note A	\$	\$	\$
6.	Production Subtotal		\$	\$	\$
7.	Less: ARO-Related Depreciation (403.1)	Note A	\$	\$	\$
8.	Plus: Non-Nuclear Depr. & Accretion	Note B	\$	\$	\$
9.	Adjustment to Depreciation Rate	Note B	\$	\$	\$
10.	Production-Related Gen. & Int. Plant	Note C	\$	\$	\$
11.	Adjustment to Depreciation Rate	Note B, C	\$	\$	\$
12.	GSU-related Depreciation Expense	Note B	\$	\$	\$
13.	Adjustment to Depreciation Rate	Note B	\$	\$	\$
14.	Total Production		\$	\$	\$

Note A: Lines 1 through 5 are Depreciation Expense reported on page 336 of the FERC Form No. 1 for Accounts 403, 404 and 405 (excluding 403.1).

Note B: From Accounting

Note C:	General and Intangible Plant Depreciation Expense	\$	FERC-1, p. 336, Col. (f)
	Production-Related %	%	Page A-7, L 17, Col (3)
	Gen Plant Depr. Exp - Prod. Related	\$	
	Adjustment to General Plant Depreciation Expense	\$	
	Production-Related %	%	Page A-7, L 17, Col (3)
	Gen Plant Depr. Exp - Prod. Related	\$	



Cost-of-Service Formulas

APPENDIX B

A-16
 PRODUCTION-RELATED TAXES OTHER THAN INCOME TAXES
 TWELVE MONTHS ENDED DECEMBER 31 _____

	REFERENCE	SYSTEM AMOUNT (1)	%	PRODUCTION AMOUNT (2)
TAXES RELATED TO PRODUCTION WAGES AND SALARIES				
1.	State Unemployment	Note A	\$	
2.	Federal Social Security & Unemployment	Note A	\$	
3.	Total Taxes Related to Wages & Salaries		\$	Note B \$
4.	Real and Personal Property Tax	Note A	\$	
5.	Franchise Tax	Note A	\$	
6.	Total Taxes Related to Production Plant		\$	Note C \$
7.	Total Taxes Other Than Income Taxes	L. 3 + L. 6	\$	\$
8.	Misc & State Commission Assessments		\$	
9.	Check Total - Taxes Other	FERC-1 P 114	\$	

Note A: Taxes other than Income Taxes will be those reported in FERC-1, pages 262 & 263 as listed above.

Note B: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7. %

Note C: Allocation factor based on gross plant in service - See Page A-6. %



Cost-of-Service Formulas

APPENDIX B

A-17
 PRODUCTION-RELATED INCOME TAX
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	Amount (1)	Demand (2)	Energy (3)
1. Return on Investment	P. A-5, L 18	\$	\$	\$
2. Interest	P. A-5, L.16 x P A-11, L.1 Col(4)	\$	\$	\$
3. Balance for Equity Earnings	L.1 - L.2	\$	\$	\$
4. Combined Income Tax Factor	P A-18 L.17		#	#
5. Income Tax	L.4 x L.3	\$	\$	\$



Cost-of-Service Formulas
 A-18

APPENDIX B

COMPUTATION OF EFFECTIVE INCOME TAX RATE
 TWELVE MONTHS ENDED DECEMBER 31 _____

	REFERENCE	AMOUNT
1. Net Income before Extraordinary	FERC-1, P. 117 L. 67	\$
2. Less: Allowance for Funds Used During Construction (AFUDC)	FERC-1, P. 117 Acct 419.1	\$
3. Adjusted Net Income	Line 1 - Line 2	\$
Income Taxes:		
4. Federal	FERC-1 P. 114, Acct 409.1	\$
5. Other	FERC-1 P. 114, Acct 409.1	\$
6. Provision for Deferred Inc. Taxes	FERC-1 P. 114, Acct 410.1	\$
7. Provision for Def. Inc. Taxes-Cr.	FERC-1 P. 114, Acct 411.1	\$
8. Investment Tax Cr. Adjustment Net	FERC-1 P. 114 Acct 411.4	\$
Taxes Applicable to Other Income and Deductions:		
9. Income Taxes - Federal	FERC-1 P.117, Acct 409.2	\$
10. Income Taxes - Other	FERC-1 P.117, Acct 409.2	\$
11. Provision for Deferred Inc. Taxes	FERC-1 P.117, Acct 410.2	\$
12. Provision for Deferred Inc. Taxes - credit	FERC-1 P.117 Acct 411.2	\$
13. Investment Tax Credit Adj. - Net	FERC-1 P.117, Acct 411.5	\$
14. Total Income Taxes	Lines 4 thru 13	\$
15. Pretax Earnings Base	Line 3 + Line 14	\$
16. Effective Income Tax Rate	Line 14 / Line 15	%
17. Combined Tax Factor	Line 16 / (100 - Line 16)	#



Assignment of PJM Charges and Credits
 for Full Requirements Electric Service

Appendix C

PJM Operating Agreement

Schedules	Description	KPCO	Vanceburg
1-3.2.1 & 3.3.1	Spot Market Energy, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.4, 3.4.1 & 5.2	Transmission Congestion, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.5 & 3.4.2	Transmission Losses, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.2, 3.2.2A, 3.3.2 & 3.3.2A	Regulation charges, credits and reconciliations	x	
1-3.2.3A & 3.3.5	Spinning Reserves charges, credits and reconciliations	x	
1-3.2.3 & 3.3.3	Operating Reserves, including day-ahead, balancing and synchronous condensing charges, credits and reconciliations	x	
	Synchronous Condensing - included under Operating Reserves, above	x	
1-3.2.3B	Reactive Services charges, credits and reconciliations	x	
11-6.7	Capacity Credit Market charges, credits and reconciliations	x	
1-7.3.8	FTR Auction charges, credits and reconciliations	x	
1-7.4	Auction Revenue Rights credits	x	
1-3.2.6, 3.3.4, 3.5.1 & 4.3	Emergency Energy charges, credits and reconciliations	x	
1-3.6	Meter Correction	x	



Assignment of PJM Charges and Credits
for Full Requirements Electric Service

Appendix C

PJM OATT

Schedules	Description	KPCO	Vanceburg
1, 9 & 10	Scheduling, System Control & Dispatch Services <i>PJM charges and reconciliation for control area administration, FTR administration, market support, regulation and frequency response administration, capacity and resource obligation administration, FERC annual charge recovery, and NERC and RFC reliability charges</i>	x	
1A	Scheduling, System Control & Dispatch Services <i>Transmission Owner charges, credits and reconciliations</i>		x
2	Reactive Supply & Voltage Control from Generation Sources charges, credits and reconciliations	x	
3	Regulation and Frequency Response - billed under PJM Operating Agreement, above	x	
4	Energy Imbalance - billed under PJM Operating Agreement, above	x	
5	Operating Reserve - Spinning Reserve Service - billed under PJM Operating Agreement, above	x	
6	Operating Reserve - Supplemental Reserve Service - billed under PJM Operating Agreement, above	x	
6A	Black Start Service charges and credits	x	
7	NITS Service charges and credits, including Contract Demand Reservation Service		x
7 & 8	Firm and Non-Firm Point-to-Point Transmission Service		x
12	Transmission Enhancement Charges		x
13	Expansion Cost Recovery charges and credits	x	
Attachment R	PJM/MISO and Intra-PJM SECA charges		x
Attachment X	PJM/MISO and Intra-PJM SECA credits	x	
ILDSA	Other Supporting Facilities		x
	AEP Inadvertent	x	
	Energy Imbalance	x	

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KENTUCKY POWER COMPANY
 FORMULA RATE BILLING TIMELINE
 Bill For Month Of

Description	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-May 2007	June-Dec 2007
<u>Generation Demand & Energy Charges</u>														
<u>Initial Bill Basis</u>	2004 Form 1, Dec. '04 ROE	Same	Same	Same	Same	2005 Form 1, Dec. '05 ROE	Same	2006 Form 1 Dec. '06 ROE						
<u>True-Up Basis</u>	2006 Form 1, Dec. '05 ROE	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	2007 Form 1, Dec. '06 ROE	Same
<u>True-Up Calculated</u>	May-07	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	May-08	Same
<u>True-Up Charged / Credited on Invoices Mailed In</u>	Jul, Aug & Sep '07	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Jul, Aug & Sep '08	Same
<u>Generation Fuel Charge</u>														
<u>Initial Bill Basis</u>	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06		
<u>True-Up Basis</u>	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06		
<u>True-Up Calculated</u>	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07		
<u>True-Up Charged / Credited on Invoices Mailed In</u>	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07		

Appendix D

