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Case Number : 08-1286-EL-AIS

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FILE

The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

Re: **Ohio Valley Electric Corporation**
Case No. 08-1286-EL-AIS

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October 21, 2009

Gentlemen:

Enclosed are one executed and five conformed copies of a Report in the captioned matter.

Please time-stamp the enclosed, extra copy of this Report and return it to me in the enclosed, self-addressed, stamped envelope.

Very truly yours,

David C. House

DCH/jlh

Enclosures

cc: Shahid Mahmud

Before
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the application of OHIO VALLEY ELECTRIC CORPORATION for authority to issue and sell secured or unsecured promissory notes, debentures or other debt securities, to borrow from, or enter into other financing arrangements with, the Ohio Air Quality Development Authority, Indiana Finance Authority or other authority, to enter into one or more secured or unsecured term loan or revolving credit arrangements and to enter into interest rate management agreements	Case No. 08-1286-EL-AIS

R E P O R T

Pursuant to your Honorable Commission's Finding and Order in this proceeding, entered in the Journal on January 14, 2009, authorizing your Applicant, Ohio Valley Electric Corporation ("OVEC"), among other things, to borrow from, or enter into other financing arrangements with, the Ohio Air Quality Development Authority in the aggregate principal amount of up to $900,000,000, the following information is herewith respectfully submitted:

1. On August 12, 2009, OVEC caused the Ohio Air Quality Development Authority (the "Authority") to issue its of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009A, in the aggregate principal amount of $25,000,000. A copy of the Official Statement dated August 5, 2009 is attached hereto as Exhibit A to this Report.

2. On August 12, 2009, OVEC caused the Ohio Authority to issue its of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009B, in the aggregate principal amount of $25,000,000. A copy of the Official Statement dated August 5, 2009 is attached hereto as Exhibit B to this Report.

3. On August 21, 2009, OVEC caused the Authority to issue its of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009C, in the aggregate principal amount of $25,000,000. A copy of the Official Statement dated August 18, 2009 is attached hereto as Exhibit C to this Report.

4. On August 21, 2009, OVEC caused the Authority to issue its of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009D, in the aggregate principal amount of $25,000,000. A copy of the Official Statement dated August 18, 2009 is attached hereto as Exhibit D to this Report.

5. On October 6, 2009, OVEC caused the Authority to issue its of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009E, in the aggregate principal amount of $100,000,000. A copy of the Official Statement dated October 6, 2009 is attached hereto as Exhibit E to this Report.

The transactions described herein were consummated in accordance with the terms and conditions of and for the purposes set forth in said Order.

Respectfully submitted this 21st day of October, 2009.

OHIO VALLEY ELECTRIC CORPORATION

By David L. Hart
Vice President

Dated: October 21, 2009

NEW ISSUE—BOOK-ENTRY ONLY

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. See TAX EXEMPTION.

$25,000,000
Ohio Air Quality Development Authority
State of Ohio
Air Quality Revenue Bonds
(Ohio Valley Electric Corporation Project),
Series 2009A

Interest to accrue from date of issuance **Due: February 1, 2026**

The Series 2009A Bonds (the "Bonds") are special obligations of the State of Ohio and issued by the Ohio Air Quality Development Authority (the "Issuer"). The Bonds will not constitute a debt, or a pledge of the faith and credit, of the Issuer, the State of Ohio or any political subdivision thereof, and the holders or owners of the Bonds will have no right to have taxes levied by the General Assembly of Ohio or any political subdivision of Ohio for the payment of the principal of, interest on or purchase price of the Bonds. The Bonds are payable solely from, and secured by a pledge of, the loan repayments under a note issued under the terms of a Loan Agreement (the "Loan Agreement") between the Issuer and

OHIO VALLEY ELECTRIC CORPORATION

(the "Company") and to the extent provided herein from funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

THE BANK OF NOVA SCOTIA

acting through its New York Agency.

The Letter of Credit will permit the Trustee, The Huntington National Bank, to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity or upon redemption or acceleration and (ii) the portion of the purchase price of the Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of the Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds. The Letter of Credit will expire on August 12, 2010 or on the earliest occurrence of one or more of the events described herein, unless extended by The Bank of Nova Scotia acting through its New York Agency (the "Letter of Credit Bank") (see THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Letter of Credit herein). Unless the Letter of Credit is replaced or extended as described herein, the Bonds will be subject to mandatory tender for purchase prior to its expiration.

The Bonds will initially bear interest at a Weekly Rate determined by the Remarketing Agent as described under THE BONDS—Form and Denomination of Bonds; Payments on the Bonds—Interest herein, payable on the first Business Day of each month commencing September 1, 2009 and the date on which the Bonds are subject to mandatory tender for purchase. Upon satisfaction of the conditions specified in the Indenture, the Company may from time to time change the interest rate determination method for the Bonds to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Auction Mode Rate.

The Bonds are subject to mandatory tender and redemption as described under THE BONDS—Mandatory Tender for Purchase and THE BONDS—Redemption of Bonds herein. When a Daily Rate or Weekly Rate is in effect for the Bonds, holders of the Bonds will have the option to tender their Bonds for purchase as described under THE BONDS—Optional Tender.

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued as fully registered bonds in denominations of $100,000 and any larger denominations constituting an integral multiple of $5,000. The Bonds will be issued pursuant to an Indenture of Trust (the "Indenture"), between the Issuer and The Huntington National Bank, as trustee (the "Trustee"). The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their ownership interests. Payments of principal or purchase price of, and premium, if any, and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants. See THE BONDS—Book-Entry Only System herein. KeyBanc Capital Markets Inc. and Morgan Stanley & Co. Incorporated (the "Underwriters") will act as underwriters for the Bonds. KeyBanc Capital Markets Inc. will act as remarketing agent (the "Remarketing Agent") for the Bonds.

PRICE: *100%*

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, as described herein, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their counsel, Chapman and Cutler LLP, Chicago, Illinois, for the Letter of Credit Bank by its U.S. counsel, King & Spalding LLP, and by its internal Canadian counsel, and for the Company by its internal counsel and Fulbright & Jaworski L.L.P., New York, New York. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Delivery of the Bonds in book-entry-only form is expected on or about August 12, 2009, through the facilities of DTC in New York, New York, against payment therefor.

KeyBanc Capital Markets **Morgan Stanley**

Dated: August 5, 2009

CONTENTS OF OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company, the Letter of Credit Bank or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, the Letter of Credit Bank or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intent," "believe," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting Ohio Valley Electric Corporation's business and financial results and those of its contractual counterparties could cause actual results to differ from those stated in the forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.

$25,000,000
Ohio Air Quality Development Authority
State of Ohio
Air Quality Revenue Bonds
(Ohio Valley Electric Corporation Project),
Series 2009A

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance by the Ohio Air Quality Development Authority, a body politic and corporate of the State of Ohio ("Issuer") of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009A, in the aggregate principal amount of $25,000,000 (the "Bonds"). The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on October 14, 2008 ("Resolution") and an Indenture of Trust, dated as of August 1, 2009 ("Indenture"), between the Issuer and The Huntington National Bank, as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to a Loan Agreement, dated as of August 1, 2009 ("Loan Agreement"), between the Issuer and the Company, the Issuer will loan to the Company the proceeds of the Bonds to assist the Company in financing a portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising "air quality facilities", as defined in Chapter 3706, Ohio Revised Code, as amended (the "Act"), for Units 1-5 of the Kyger Creek Generating Station owned by the Company located in the County of Gallia, Ohio (the "Project"). The term "Plant" as used herein means the Kyger Creek Generating Station.

In order to evidence the loan from the Issuer (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Loan Agreement. Payments required under the Note will be sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds and to make or provide for payments to the Trustee, equal to 100% of the principal amount of the Bonds plus accrued interest, if any, upon tender thereof ("Purchase Price"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Project or any other property of the Company.

The Bonds will initially bear interest at a Weekly Rate until converted to another permitted interest rate mode as described herein. While accruing interest at the Daily Rate or Weekly Rate, the Bonds are subject to optional tender and mandatory tender for purchase, as described herein. Bonds converted to a different interest rate mode will be subject to mandatory tender upon conversion. When a Daily Rate or Weekly Rate is in effect for the Bonds, holders of the Bonds will have the option to tender their Bonds for purchase as described herein. Each Interest Rate for an Interest Rate Period for the Bonds will be determined by the Remarketing Agent as set forth in the Indenture.

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued in denominations of $100,000 and any larger denominations constituting an integral multiple of $5,000. The Bonds will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS – Book-Entry Only System*.

Concurrently with the issuance of the Bonds, the Company will cause to be delivered to the Trustee an irrevocable direct pay letter of credit (the "Letter of Credit") issued by The Bank of Nova Scotia, acting through its New York Agency ("Letter of Credit Bank"), in the initial aggregate stated amount of $25,287,671.23. Under the Letter of Credit, the Trustee will be permitted to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds. The expiration date of the Letter of Credit is August 12, 2010 unless earlier terminated or extended as described under *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Letter of Credit*. The Letter of Credit may be replaced by an Alternate Letter of Credit (as defined herein) prior to its expiration date as described under *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—Replacement of Letter of Credit* herein. If the Letter of Credit expires, is replaced by an Alternate Letter of Credit or is surrendered, the Bonds will be subject to mandatory tender for purchase, as described under *THE BONDS — Mandatory Tender for Purchase* herein. The Letter of Credit will be issued pursuant to the Reimbursement Agreement, dated as of the date of issuance of the Bonds (the "Reimbursement Agreement"), among the Letter of Credit Bank, the lenders named therein, the Company and The Bank of Nova Scotia, as administrative agent (the "Administrative Agent").

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Loan Agreement and the Note and funds drawn under the Letter of Credit. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company. See *THE BONDS – Security for the Bonds*.

Brief descriptions of the Issuer, the Project, the Company, the Letter of Credit Bank and certain provisions of the Bonds, the Loan Agreement, the Note, the Indenture, the Letter of Credit and the Reimbursement Agreement are included in this Official Statement. The descriptions and summaries contained herein do not purport to be comprehensive or definitive. Certain information with respect to the Company is set forth in Appendix A hereto. Certain information with respect to the Letter of Credit Bank is set forth in Appendix B hereto. Appendix C to this Official Statement sets forth the form of opinion Bond Counsel proposes to deliver relating to the Bonds. The descriptions herein of provisions of the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are qualified in their entirety by reference to such documents, and the description herein of provisions of the Bonds is qualified in its entirety by reference to the form thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditor's rights. Copies of such documents may be obtained from the office of the Company and are available for inspection at the office of the Trustee. Words and terms not defined herein shall have the meanings set forth in the respective documents.

The Bonds may not be suitable for all investors. Prospective purchasers of the Bonds should read this entire Official Statement for details of the Bonds, the financial condition of the Company and certain other factors that could adversely affect the utility industry, including specifically the information under the caption *RISK FACTORS* in Appendix A

THE ISSUER

The Issuer was organized pursuant to the Act. Under the Act, the Issuer is a body corporate and politic, with full power and authority to issue the Bonds and to enter into and perform its obligations under the Loan Agreement and the Indenture. The Issuer has no taxing power.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE STATE OF OHIO AND SHALL NOT REPRESENT OR CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE STATE OF OHIO OR ANY POLITICAL SUBDIVISION OF OHIO, AND THE HOLDERS AND OWNERS THEREOF SHALL HAVE NO RIGHT TO HAVE TAXES LEVIED BY THE GENERAL ASSEMBLY OF OHIO OR THE TAXING AUTHORITY OF ANY POLITICAL SUBDIVISION OF OHIO FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PURCHASE PRICE OF THE BONDS, BUT THE BONDS SHALL BE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT AS AUTHORIZED BY THE ACT.

THE PROJECT

The Project consists of various systems which are designed for the disposal of solid wastes resulting from the operation of Units 1-5 at the Plant. The solid waste disposal facilities, which comprise "air quality facilities" as defined in Section 3706.01 of the Act, are comprised of the portion of each flue gas desulfurization system ("FGD System") to be constructed with respect to Units 1-5 at the Plant, rated at 217 megawatts each, that relates to the disposal of solid waste generated as part of the FGD System.

The Issuer also expects to issue $25,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009B (the "Series 2009B Bonds"), $25,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009C (the "Series 2009C Bonds") and $25,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009D (the "Series 2009D Bonds") either at the same time as the Bonds or shortly thereafter for the purpose of financing a portion of the cost of the Project. The Series 2009B Bonds, Series 2009C Bonds and Series 2009D Bonds will be payable from payments to be made by the Company pursuant to separate loan agreements with the Issuer and also will be secured by separate letters of credit.

In addition, the Company anticipates requesting the Issuer to issue an additional $100,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009E (the "Series 2009E Bonds") for the purpose of financing a portion of the cost of the Project. The Series 2009E Bonds will be payable from payments made by the Company pursuant to a separate loan agreement with the Issuer.

USE OF PROCEEDS

The proceeds received by the Issuer from the sale of the Bonds will be deposited in the Construction Fund created under the Indenture to be used to reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the Bonds.

THE BONDS

This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than a Daily Rate or Weekly Rate. The Bonds are subject to mandatory tender in the event of any conversion to a different rate, including any conversion between a Weekly Rate and a Daily Rate. See – *Mandatory Tender for Purchase* below. The Bonds may be tendered for purchase at the option of the owners while bearing interest at a Daily Rate or Weekly Rate. See *THE BONDS – Optional Tender* below.

The Bonds are special obligations of the Issuer and will be payable solely from the revenues and receipts arising out of or in connection with the Loan Agreement, the Note and, as long as the Letter of Credit is in effect, funds drawn under the Letter of Credit.

General

The Bonds will be dated as of the date of the initial authentication and delivery thereof and will mature on February 1, 2026. The Bonds initially will bear interest at a Weekly Rate commencing on the date of the issuance of the Bonds, subject to conversion to other interest rate modes as described herein.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by DTC, as described below under the caption *Book-Entry Only System.* Under the Indenture, the Trustee and the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

Upon surrender of the Bonds, principal of and premium, if any, on the Bonds are payable at maturity or upon redemption at the principal office of the Trustee, or at the option of the owner at the principal office of any paying agent designated as provided in the Indenture. As long as the Bonds are held by DTC, interest will be paid to DTC on each payment date. If the book-entry system is discontinued, interest on the Bonds will be payable by check or draft mailed by the Trustee to the registered owners.

Form and Denomination of Bonds; Payments on the Bonds

<u>General</u>

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued only as fully registered bonds, without coupons, in denominations of $100,000 and any larger denomination constituting an integral multiple of $5,000 (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of such Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Huntington National Bank has been appointed as Trustee and Paying Agent under the Indenture. The designated corporate trust office of the Trustee and Paying Agent is located, initially, in Columbus, Ohio.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to make any transfer or exchange of any Bond during the ten days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

<u>Interest</u>

Interest on the Bonds will be payable as described below. Interest on the Bonds will initially be payable at a Weekly Rate on the first Business Day of each month, commencing September 1, 2009. The interest rate determination method for the Bonds may be changed by the Company as described under *Change in Interest Rate Determination Method* below. See *Summary* below for a table summarizing certain provisions of the Bonds while bearing interest at a Weekly Rate or Daily Rate.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York or the city in which the payment office of the Letter of Credit Bank is located (currently, New York, New York) are required or authorized by law to close, (iii) a day which the Trustee shall advise the Letter of Credit Bank in writing from time to time is a day on which the designated corporate trust office of the Trustee is required or authorized by law to close, (iv) a day which the Trustee shall advise the Letter of Credit Bank in writing from time to time is a day on which the principal office of the Remarketing Agent that is administering the Bonds is required or authorized by law to close, or (v) a day on which the New York Stock Exchange is closed.

Interest will accrue on the unpaid portion of the principal of the Bonds from the last date to which interest was paid, or if no interest has been paid, from the date of the original issuance of the Bonds until the entire principal amount of the Bonds is paid. When interest is payable at a

Daily Rate or Weekly Rate, interest will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years).

Daily Rate. When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 10:00 A.M., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the Daily Rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

Weekly Rate. When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 P.M., New York City time, on the last Business Day before the commencement of a period during which the Bonds are to bear interest at a Weekly Rate and on each Wednesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Wednesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the Weekly Rate is set at their principal amount (without regard to accrued interest). The first Weekly Rate after the delivery of the Letter of Credit by the Letter of Credit Bank will apply to the period beginning on the date of issuance of the Bonds and ending on the next Wednesday. Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Thursday after the Weekly Rate is set and ending on the following Wednesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Wednesday.

Fallback Interest Period and Rate. If the appropriate Daily Rate or Weekly Rate is not or cannot be determined for any reason, the method of determining interest on the Bonds will be payable at the Alternate Rate.

"Alternate Rate" means, as of any date, the rate per annum equal to the Securities Industry and Financial Markets Association Municipal Swap Index of Municipal Market Data most recently available as of the date of determination or, if such index is no longer available, or if the rate is no longer published, a comparable index as described in the Indenture.

Calculation and Notice of Interest. The Remarketing Agent will provide the Trustee and the Company with notice in writing or by other written electronic means or by telephone promptly confirmed by facsimile transmission by 1:00 P.M., New York City time, (i) on the last Business Day of a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month, (ii) on each day on which a Weekly Rate becomes effective, of the Weekly Rate and (iii) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date. Using the rates supplied by such notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent will inform the Trustee and the Company orally at the oral request of either of them of any interest rate so set. The Trustee will confirm the effective interest rate in writing to any Bondholder who requests it.

The setting of the rates by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in the Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

Change in Interest Rate Determination Method. The Company may change the method of determining the interest rate on all but not part of the Bonds, from time to time by notifying the Issuer, the Trustee, the Letter of Credit Bank and the Remarketing Agent. The Company's notice will specify (i) the effective date of the proposed change in interest rate determination method and (ii) a statement as to whether the Letter of Credit shall be terminated in connection with such change. The interest rate on the Bonds will be determined on the basis of the new interest rate determination method on the effective date specified in the Company's notice, provided that: (i) the Company's notice complies with the provisions of the Indenture and the change to the proposed interest rate determination method complies with certain limitations set forth in the Indenture; and (ii) except when the change is to a Daily Rate from a Weekly Rate or to a Weekly Rate from a Daily Rate, a Favorable Opinion of Tax Counsel required under the Indenture has been delivered with the notice and also confirmed on that effective date (see *Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed* below). It is currently anticipated that, should any of the Bonds be converted to bear interest at any rate other than a Daily Rate or a Weekly Rate, a new reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest at any such interest rate.

Notice of Change in Interest Rate Determination Method. The Trustee, upon receiving notice from the Company pursuant to the Indenture, is required to give at least 15 days written notice by first-class mail to the Bondholders before the effective date of a change in the interest rate determination method. Each notice will be effective when sent and will state: (i) that the interest rate determination method will change; (ii) the proposed effective date of the new interest rate determination method; and (iii) that the Bonds will be subject to mandatory tender on the effective date of the change and the information required to be included in a notice of tender pursuant to the Indenture. See *Mandatory Tender for Purchase-Notice of Tender* below.

Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed. No change will be made in the interest rate determination method at the direction of the Company as described under *Change in Interest Rate Determination Method* above if the Company shall fail to deliver any required Favorable Opinion of Tax Counsel and confirmation thereof described under *Change in Interest Rate Determination Method* above. If notice of a change in the interest rate determination method has been mailed and, subsequently, a Favorable Opinion of Tax Counsel is not confirmed, then the Trustee shall so notify the bondholders and the Bonds shall still be subject to a mandatory tender on the proposed date of change in the interest rate determination method and the Remarketing Agent shall remarket the Bonds pursuant to the terms of the Indenture.

Special Considerations Relating to the Bonds

The Remarketing Agent is Paid by the Company

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement (as defined herein)), all as further described in this Official Statement. The Remarketing Agent is appointed by the Company and is paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds may be Offered at Different Prices on Any Date

Pursuant to the Indenture, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds are set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May be Limited

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named

Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Optional Tender

While the Bonds bear interest at a Daily Rate or a Weekly Rate, the holder of any Bond may elect to have its Bond (or any portion of its Bond equal to the lowest Authorized Denomination or whole multiples thereof) purchased by the Trustee at the Purchase Price.

Daily Rate Tender. When interest on a Bond is payable at a Daily Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant (as defined in *Book-Entry Only System* below) in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice by telecopy, facsimile transmission or e-mail transmission to the Trustee and an irrevocable notice to the Remarketing Agent by telephone, telegraph or facsimile transmission, in each case prior to 11:00 A.M., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the Purchase Price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner will effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository. Any notice received by the Trustee after 11:00 A.M., New York City time, will be deemed to have been given on the next Business Day.

When interest on a Bond is payable at a Daily Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices described above (which must include the certificate number of the Bond) and (ii) the Bond, to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Weekly Rate Tender. When interest on a Bond is payable at a Weekly Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice by telecopy, facsimile transmission or e-mail transmission to the Trustee and an irrevocable notice to the Remarketing Agent by telephone, telegraph or facsimile transmission, in each case prior to 5:00 P.M., New York City time, on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the Purchase Price and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on a Bond is payable at a Weekly Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices as described above (which must include the certificate number of the Bond) and (ii) the Bond, to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Payment of Purchase Price. Payment of the Purchase Price of Bonds to be purchased upon optional tender as described above will be made by the Trustee in immediately available funds by 3:00 P.M., New York City time, on the date of purchase. No purchase of Bonds by the Trustee will be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds. So long as the Letter of Credit is in effect, all payments of Purchase Price for the Bonds shall be made in accordance with the Indenture. See *Summary* below.

Provisions Applicable to All Tenders. Bonds for which the owners have given notice of tender for purchase but which are not delivered on the tender date shall be deemed tendered. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender.

Notice in respect of tenders and Bonds tendered must be delivered as follows:

Trustee	Remarketing Agent
The Huntington National Bank The Huntington National Bank 7 Easton Oval - EA4E63 Columbus, OH 43219 Attn: James Schultz Telephone: 614-331-8698 Fax: 614-331-5862	KeyBanc Capital Markets Inc. 127 Public Square Mail Code: OH-01-27-0416 Cleveland, Ohio 44114-1306 Attention: Tax-Exempt Remarketing Desk Telephone: 216-689-0382 Fax: 216-689-0965

Irrevocability

Each notice of tender constitutes an irrevocable tender for purchase of the Bond (or portion thereof) to which the notice relates on the purchase date at a price equal to 100% of the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the purchase date. The determination of the Trustee as to whether a notice of tender has been properly sent will be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver its Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver its Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, its Bond shall constitute an undelivered Bond and interest shall cease to accrue on its Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the Purchase Price thereof.

Remarketing and Purchase

Except to the extent the Company directs the Remarketing Agent not to remarket Bonds and except as otherwise provided in the Indenture, the Remarketing Agent for the Bonds will offer for sale and use reasonable efforts to sell all Bonds tendered for purchase (as described below) at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Trustee will pay the Purchase Price of the Bonds tendered for purchase first from the proceeds of the remarketing of such Bonds to persons other than the Company, the affiliates of the Company and the Issuer and, if such proceeds are insufficient, second from the proceeds of a draw upon the Letter of Credit and, third, from money provided by the Company or otherwise available. See *THE BONDS – Special Considerations* above and *THE REMARKETING AGREEMENT* below.

Redemption of Bonds

The Bonds are subject to redemption as described below:

Optional Redemption. When interest on the Bonds is payable at a Daily Rate or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on any Business Day.

Extraordinary Optional Redemption. The Bonds are subject to redemption by the Issuer in whole or in part on any date if the Company, upon the occurrence of any of the following events, exercises its option to direct that redemption from moneys available therefor at a redemption price of 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date:

(a) The Project or the Plant shall have been damaged or destroyed to such an extent that the Company deems it not practical or desirable to rebuild, repair or restore the Project or the Plant, as the case may be.

(b) Title to, or the temporary use of, all or a significant part of the Project or the Plant shall have been taken under the exercise of the power of eminent domain so as to render the Project unsatisfactory to the Company for its intended purpose.

(c) As a result of any changes in the Constitution of the State of Ohio, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as described therein.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreement.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or the Plant occur or technological or other changes occur which in the Company's reasonable judgment render the Project or the Plant uneconomic or obsolete.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project or the Plant to such extent that the Company is or will be prevented from carrying on its normal operations at the Project or the Plant for a period of six consecutive months.

(g) The termination by the Company of operations at the Plant.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption at any time in whole, or in part if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service, in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on Bonds to a person, other than, as provided in Section 147(a) of the Code, a "substantial user" of the Project or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation by the Company under the Loan Agreement or receipt by the Company of an Opinion of Tax Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the registered owner or Beneficial Owner involved in such proceeding or action (i) gives the Company and the Trustee prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such registered owner or Beneficial Owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Trustee not more than 180 days after the date of such final decree, judgment or action. The Trustee shall give the Issuer and the Company not less than 45 days written notice of such date.

Notice of Redemption. Whenever Bonds are to be redeemed, the Trustee shall give notice of redemption by mailing such notice to the registered owner of each Bond to be redeemed, at least 30 days prior to the redemption date, as provided in the Indenture.

With respect to an optional redemption of Bonds as described under *Optional Redemption* or *Extraordinary Optional Redemption* above, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

During the period that DTC or the DTC nominee is the registered holder of the Bonds, the Trustee will not be responsible for mailing notices of redemption, or other notices described herein, to the Beneficial Owners of the Bonds. See *Book-Entry Only System* below.

Mandatory Tender for Purchase

The Bonds are subject to mandatory tender for purchase under certain circumstances. By acceptance of each Bond, the holder agrees to sell and surrender its Bond, properly endorsed, under the conditions described below. All purchases will be made in funds immediately available on the purchase date and will be at the Purchase Price. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

For so long as the Bonds are held in book-entry form, the requirement for physical delivery of the Bonds in connection with any purchase pursuant to the provisions described below are deemed satisfied when the ownership rights in the Bonds are transferred by DTC on the records of DTC. See -- *Book-Entry Only System* below.

Mandatory Tender Upon a Change in the Method of Determining the Interest Rate on the Bonds. On the effective date of the change in the method of determining the interest rate on the Bonds, the Bonds will be purchased on the effective date of such change at the Purchase Price.

At least 15 days before each mandatory tender occasioned by such change, the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Each notice of tender will identify the Bonds to be purchased and will state, among other things, (i) the purchase date; (ii) the Purchase Price; (iii) that the Bonds to be tendered must be surrendered to collect the Purchase Price; (iv) the address at which the Bonds must be surrendered; and (v) that interest on the Bonds to be tendered ceases to accrue to such holder on the purchase date and such holder will be entitled to the Purchase Price on the purchase date.

Mandatory Tender Upon Substitution of Alternate Letter of Credit. The Bonds shall be subject to mandatory tender at the Purchase Price on the date five Business Days prior to the date on which an Alternate Letter of Credit is to be substituted for the Letter of Credit (the "Substitution Tender Date"). Bonds purchased pursuant to this provision shall be delivered by the holders at or before 12:00 noon, New York City time, on such Substitution Tender Date, and, subject to the Indenture, payment of the Purchase Price of such Bonds shall be made by wire transfer in immediately available funds by the Trustee on such Substitution Tender Date. The Trustee shall give notice of such mandatory tender by mail to the holders of the Bonds no less than twenty (20) days prior to the Substitution Tender Date. The notice shall state (i) that the Bonds are subject to mandatory tender; (ii) the Substitution Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; and (vi) that interest on Bonds subject to mandatory tender will cease to accrue to such holder from and after the Substitution Tender Date and such holder will be entitled only to the Purchase Price on the Substitution Tender Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

"Alternate Letter of Credit" means, with respect to the Bonds, a letter of credit or other security or liquidity device issued in accordance with the requirements of the Indenture which will have a term of not less than one year and will have substantially the same material terms as the Letter of Credit; provided that such letter of credit or other security or liquidity device may (and shall if the Bonds shall provide for redemption premium while it is in effect) provide for coverage of premium payable upon redemption of the Bonds.

Mandatory Tender Due to an Event of Default Under Reimbursement Agreement. Whenever the Letter of Credit is in effect, the Bonds will be subject to mandatory tender if the Trustee receives a written notice from the Administrative Agent that an event of default, as defined in the Reimbursement Agreement, has occurred and is continuing, and the Administrative Agent directs the Trustee to effect such mandatory tender. See *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Reimbursement Agreement* herein. Such Bonds subject to mandatory tender will be purchased at the Purchase Price on the default tender date specified by the Letter of Credit Bank in such written notice (the "Default Tender Date"). Such Default Tender Date shall be a Business Day not more than nine (9) nor less than five (5) days after the day such notice is received. The Trustee shall immediately notify the paying agent of receipt of such notice and of the Default Tender Date. Bonds purchased pursuant to this provision will be delivered by the holders (with all necessary endorsements) to the designated corporate trust office of the Trustee, at or before 12:00 noon, New York City time, on the Default Tender Date, and, subject to the Indenture, payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Trustee on the Default Tender Date; provided, however, that payment of the Purchase Price shall be made pursuant to this provision only if the Bond is so delivered to the Trustee.

The Trustee will give notice to the Issuer, the Remarketing Agent, the Company and the Administrative Agent (the "Notice Parties") and all holders prior to the close of business on the Business Day after receipt of the notice described in the preceding paragraph stating (i) that the Bonds are subject to mandatory tender; (ii) the Default Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; (vi) that interest on such Bonds will cease to accrue to such holder from and after the Default Tender Date and such holder will be entitled only to the Purchase Price on the Default Tender Date; and (vii) if the Bonds are then rated by Moody's Investor Service, Inc. ("Moody's"), Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") or Fitch, Inc. ("Fitch"), that such rating or ratings will terminate on the Default Tender Date. The failure to mail such notice with respect to any Bond will not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by a holder.

Mandatory Tender Upon Expiration or Termination of Letter of Credit. If (i) the Letter of Credit is scheduled to expire on the Expiration Date (as defined below) and by the Renewal Date (as defined below) no extension of such Letter of Credit or Alternate Letter of Credit has been delivered to the Trustee or (ii) on or before the Renewal Date, the Company has delivered notice stating that the Letter of Credit will be terminated with respect to all the Bonds on the Expiration Date, then the Bonds shall be subject to mandatory tender on the date five Business Days prior to the Expiration Date (the "Expiration Tender Date") at the Purchase Price. Bonds purchased pursuant to this provision will be delivered by the holders at or before 12:00 noon, New York City time, on the Expiration Tender Date, and subject to the Indenture, payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Trustee on such Expiration Tender Date; provided, however, that payment of the Purchase Price will be made pursuant to this provision only if the Bond is so delivered to the Trustee.

The Trustee will give notice to all holders and the Notice Parties no less than twenty (20) days prior to the Expiration Tender Date. The notice will state (i) that the Bonds are subject to mandatory tender; (ii) the Expiration Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; (vi) that the Letter of Credit will terminate on the date specified in such notice; (vii) that interest on such Bonds will cease to accrue to such holder from and after the Expiration Tender Date and such holder will be entitled only to the Purchase Price on the Expiration Tender Date; and (viii) if the Bonds are then rated by Moody's, Standard & Poor's or Fitch, that such rating or ratings will terminate on the Expiration Tender Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by a holder.

"Expiration Date" means the stated expiration date of the Letter of Credit, or such stated expiration date as it may be extended from time to time as provided in the Letter of Credit, or any earlier date on which the Letter of Credit shall expire or be terminated or cancelled.

"Renewal Date" means the thirty-fifth (35th) day prior to the Expiration Date.

Notice of Tender. Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect occurs. Any notice mailed as described above shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice of Tender. When notice is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

Summary

Certain provisions of the Bonds and the Indenture (other than when the Bonds bear interest at a rate other than a Daily Rate or Weekly Rate) are summarized in the following table (all times are New York City time):

	DAILY RATE	WEEKLY RATE
OPTIONAL TENDER; NOTICE	On any Business Day; notice no later than 11:00 A.M. same Business Day	On any Business Day; notice no later than 5:00 P.M., seven days in advance
INTEREST PERIODS FOR EACH INTEREST RATE	Each day	Thursday through Wednesday (with limited exceptions)
INTEREST RATE DETERMINED	Each Business Day by 10:00 A.M.	Each Wednesday (or next preceding Business Day) by 5:00 P.M.
INTEREST ACCRUAL PERIOD	Interest Payment Date to Interest Payment Date	Interest Payment Date to Interest Payment Date
INTEREST PAYMENT DATE	First Business Day of the next month and on the date on which the Bonds are subject to mandatory tender for purchase	First Business Day of the next month and on the date on which the Bonds are subject to mandatory tender for purchase
RECORD DATE	Last Business Day before Interest Payment Date	Last Business Day before Interest Payment Date
OPTIONAL REDEMPTION BY COMPANY	On any Business Day	On any Business Day
MANDATORY TENDER	(i) On effective date of change in interest rate determination method, (ii) substitution of Alternate Letter of Credit, (iii) event of default under Reimbursement Agreement, and (iv) expiration or termination of Letter of Credit	(i) On effective date of change in interest rate determination method, (ii) substitution of Alternate Letter of Credit, (iii) event of default under Reimbursement Agreement, and (iv) expiration or termination of Letter of Credit

Book-Entry Only System

DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for the Bonds, representing in the aggregate the total principal amount of the Bonds, and will be deposited with the Trustee on behalf of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's, a division of The McGraw Hill Companies, Inc., highest rating: AAA. The DTC rules applicable to Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, certificated Bonds are required to be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository) with respect to the Bonds. In that event, certificates for the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer, the Company, the Underwriters, the Remarketing Agent and the Trustee believe to be reliable, but none of the Issuer, the Company, the Underwriters, the Remarketing Agent or the Trustee takes any responsibility for the accuracy of such statements. None of the Issuer, the Company, the Underwriters, the Remarketing Agent or the Trustee has any responsibility for the performance by DTC or its Direct or Indirect Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

In the event that the book-entry system is discontinued, a bondholder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

None of the Issuer, the Underwriters, the Company, the Letter of Credit Bank, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

Security for the Bonds

The Bonds will be special obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from (i) the payments to be made by the Company under the Loan Agreement and the Note, which are pledged to the Trustee, and (ii) so long as the Letter of Credit is in effect, the funds drawn under the Letter of Credit. The pledge does not extend to funds to which the Trustee is entitled in its own right such as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the

Project or any other property of the Company. The Loan Agreement provides that Loan Payments will be paid to the Trustee by the Company for the account of the Issuer.

THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Letter of Credit and the Reimbursement Agreement. Any future reimbursement agreement pursuant to which an Alternate Letter of Credit is issued may have terms substantially different from those described below. This summary is not a complete recital of the terms thereof and reference should be made to such documents.

The Letter of Credit

Concurrently with the issuance of the Bonds, the Company will cause to be delivered to the Trustee the Letter of Credit issued by the Letter of Credit Bank, in the initial aggregate stated amount of $25,287,671.23. Under the Letter of Credit, the Trustee will be permitted to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum calculated on the basis of a 365-day year to pay (i) interest on the Bonds when due and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds. The Letter of Credit will expire on August 12, 2010 or on the earliest occurrence of one or more events described below. The Letter of Credit may be extended from year to year by the Letter of Credit Bank in its discretion, unless terminated earlier pursuant to its terms.

The Letter of Credit is subject to termination at the Letter of Credit Bank's close of business on the earliest to occur of (i) August 12, 2010 (unless extended from time to time), or if such date is not a Business Day, the next succeeding Business Day (as defined in the Letter of Credit), (ii) ten days following the Trustee's receipt of written notice from the Letter of Credit Bank of the occurrence and continuance of an Event of Default (as defined in the Reimbursement Agreement) and directing a mandatory purchase or acceleration of the Bonds, (iii) the date on which the Letter of Credit Bank receives notice from the Trustee stating that the conditions to termination of the Letter of Credit set forth in the Indenture have been satisfied, (iv) the date that is 15 days following the date of conversion of all the Bonds outstanding to a rate other than a Daily Rate or a Weekly Rate and (v) the date on which the Letter of Credit Bank honors a drawing under the Letter of Credit accompanied by a certificate of the Trustee that states that such drawing is the final drawing under the Letter of Credit (such earliest date being the "LC Cancellation Date").

The stated amount of the Letter of Credit is subject to adjustment for payments made by the Letter of Credit Bank to the Trustee pursuant to drawings under the Letter of Credit. A drawing honored under the Letter of Credit to pay regularly scheduled interest or principal of and interest on the Bonds upon scheduled or accelerated maturity will reduce immediately the respective principal and interest components of the Letter of Credit by an amount equal to the respective component of the amount honored; *provided, however,* that, unless a LC Cancellation Date has occurred, the interest component of the Letter Credit corresponding to such drawing will be automatically reinstated.

A drawing honored under the Letter of Credit to pay principal of and interest upon the redemption of the Bonds in whole or in part will reduce immediately (i) the principal component of the Letter of Credit in an amount equal to the principal amount of the Bonds to be redeemed by such drawing and (ii) the interest component of the Letter of Credit by an amount equal to 35 days' interest on such principal amount of the Bonds to be redeemed computed at a maximum rate of 12% *per annum* calculated on the basis of a 365-day year.

A drawing honored under the Letter of Credit to pay the Purchase Price corresponding to principal of and interest on the Bonds will reduce immediately the respective principal and interest components of the Letter of Credit by an amount equal to the respective component of the amount so drawn. Unless a LC Cancellation Date has occurred, the principal and interest components, respectively, of the Letter of Credit will be reinstated when and to the extent the Letter of Credit Bank is reimbursed for such drawing and for interest, if any, owing thereon pursuant to the Reimbursement Agreement.

Replacement of Letter of Credit

The Company may surrender the Letter of Credit or replace the Letter of Credit with an Alternate Letter of Credit or other facility meeting the requirements of the Indenture. The Bonds will be subject to mandatory tender for purchase on the date five Business Days prior to the date of such surrender or replacement.

The Reimbursement Agreement

The Letter of Credit will be issued pursuant to the Reimbursement Agreement. The Reimbursement Agreement contains, among other matters, representations, warranties and covenants on the part of the Company, the breach of which or material inaccuracy of which could entitle the Administrative Agent to notify the Trustee of an "event of default" (as defined in the Reimbursement Agreement) under the Reimbursement Agreement and directing the Trustee either to accelerate the Bonds or to effect a mandatory tender of the Bonds. The following events constitute "events of default" under the Reimbursement Agreement:

(a) The Company shall default in (i) the repayment when due and payable of any principal of any reimbursement obligation under the Reimbursement Agreement; or (ii) the payment of the interest, fees or any other obligation payable by the Company under the Reimbursement Agreement when the same becomes due and payable and such default shall continue unremedied for five or more business days; or

(b) Any representation or warranty made or deemed made by the Company in respect of the Company or any subsidiary of the Company in the Reimbursement Agreement, any related document, the Bonds, the Indenture, the Loan Agreement, the Remarketing Agreement, the custodian agreement relating to Bonds purchased with the proceeds of the Letter of Credit to be held for the account of the Administrative Agent (the "Custodian Agreement"), or any certificate, document or financial or other written statement furnished at any time in compliance with the Reimbursement Agreement shall prove to have been false or incorrect in any material respect when made or deemed made; or

(c) Failure by the Company (in respect of the Company or any subsidiary of the Company) to perform, keep or observe any other term, provision, condition or covenant contained in the Reimbursement Agreement (other than those provisions, terms or conditions referenced in subparagraph (a) and (b) above and subparagraph (d) below) or any other related document that is required to be kept or observed by the Company (in respect of the Company or any subsidiary of the Company) and such failure shall continue without remedy for a period of 30 business days after written notice thereof shall have been given to the Company by the Administrative Agent; or

(d) Failure by the Company (in respect of the Company or any subsidiary of the Company) to perform, keep, or observe any other term, provision, condition or covenant contained in the Reimbursement Agreement with respect to the Company's existence or with respect to any negative covenant under the Reimbursement Agreement that is required to be performed, kept, or observed by the Company (in respect of the Company or any subsidiary of the Company); or

(e) Default by the Company or any subsidiary of the Company in respect of the payment when due of any principal or interest on debt (other than under the Reimbursement Agreement) of the Company or its subsidiaries having an aggregate outstanding principal amount of at least $10,000,000, or any other event or condition shall occur with respect such debt, which default or other event or condition results in the acceleration of the maturity of such amount of debt or enables the holder of such debt to accelerate the maturity thereof, or

(f) The termination of the Inter-Company Power Agreement or the IKEC Power Agreement (as defined in the Reimbursement Agreement) (other than, in the case of the IKEC Power Agreement, in connection with the merger or consolidation by Indiana-Kentucky Power Electric Company ("IKEC") with, or disposal by IKEC of all or substantially all of its assets to, the Company as otherwise permitted under the Reimbursement Agreement); or

(g) Certain change in control events or discontinuation by the Company of its business; or

(h) Invalidity or assertion of invalidity of the Reimbursement Agreement, any other related document, the Bonds, the Indenture, the Loan Agreement, the Remarketing Agreement, the Custodian Agreement; or

(i) Certain events related to employee benefit matters shall have occurred and the liability of the Company and certain of its affiliates related to such employee benefit related event exceeds $10,000,000; or

(j) Any money judgment in excess of $10,000,000, to the extent not paid or insured by an insurance carrier is entered against the Company or any of its subsidiaries or their respective assets and is not released, discharged, vacated, fully bonded or stayed within 30 days; or

(k) At any time prior to ten days after the Administrative Agent receives satisfactory evidence that FirstEnergy Generation Corp.'s has obtained investment grade ratings from Moody's and S&P, (i) the guaranty by FirstEnergy Corp. of certain obligations of FirstEnergy

Generation Corp. shall cease to be in full force and effect or (ii) FirstEnergy Corp. shall deny or disaffirm its obligations under such guaranty; or

(l) Certain bankruptcy and insolvency event shall occur with respect to the Company or IKEC or any entity to which either the Company or IKEC have been merged or consolidated with or into as permitted by the Reimbursement Agreement or any entity to which all or any substantial part of the assets of either of Company or IKEC have been disposed of as permitted by the Reimbursement Agreement; or

(m) An "Event of Default" under and as defined in the Indenture shall have occurred and be continuing.

THE LOAN AGREEMENT

In addition to the description of certain provisions of the Loan Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Loan Agreement and the Note and does not purport to be comprehensive or definitive. All references herein to the Loan Agreement and the Note are qualified in their entirety by reference to the Loan Agreement and the Note (the form of which is attached to the Loan Agreement) for the detailed provisions thereof.

Use of Bond Proceeds; Construction of the Project

The Issuer will issue the Bonds and loan proceeds of the sale thereof to the Company, which proceeds will be applied as described under *USE OF PROCEEDS* herein. The Company agrees to cause the Project to be acquired, constructed, installed and improved substantially in accordance with the plans and specifications as provided in the Loan Agreement.

In the Indenture, the Issuer directs the Trustee to make payments from the Construction Fund to pay the cost of the Project and issuance expenses, and to reimburse the Company for any cost of the Project and issuance expenses paid or incurred by the Company.

Term of Loan Agreement

The term of the Loan Agreement will continue until such time as all of the outstanding Bonds are fully paid (or provision has been made for such payment) pursuant to the Indenture and all other money payable by the Company under the Loan Agreement shall have been paid.

Payments

The Company will make payments on the Loan Agreement which will be sufficient to pay, when due, the principal of, and premium, if any, and interest on, the Bonds. To evidence the obligations of the Company to make the Loan Payments and repay the Loan, the Company will, concurrently with the issuance of the Bonds, execute and deliver the Note, which the Issuer will assign to the Trustee, under the Indenture, in an aggregate principal amount equal to the aggregate principal amount of the Bonds. The Company will receive as a credit against its obligations to make payments under the Loan Agreement with respect to the Bonds all payments made by the Letter of Credit Bank under the Letter of Credit.

The Agreement contains no restrictions on the ability of the Company to incur debt or, except as described under -- *Corporate Existence*, to transfer its assets.

Obligations Unconditional

The obligations of the Company to make Loan Payments and other payments required to be made pursuant to the Loan Agreement and the Note are absolute and unconditional, and the Company will make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee, the Remarketing Agent, the Letter of Credit Bank or any other Person.

Maintenance and Modification

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain, or cause to be kept and maintained, the Project, including all appurtenances thereto and any personal property therein or thereon, in satisfactory operating order, repair, condition and appearance, subject to reasonable wear and tear, so that the Project will continue to constitute a facility that can be financed by the Issuer under the Act. Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

Corporate Existence

During the term of the Loan Agreement the Company will maintain its legal existence and will not sell its properties as an entirety or substantially as an entirety or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, unless the successor corporation or transferee resulting from any such consolidation, merger, sale or transfer shall assume all obligations of the Company arising under or contemplated by the Agreement, the Note and the Indenture. No further consolidation, merger or sale or other transfer shall be made except in compliance with these provisions.

Environmental Compliance

In the Loan Agreement, the Company will represent that the Project will be constructed in compliance with all permits, variances and orders issued or granted by the Ohio Environmental Protection Agency with respect to the Project, including any permits to install for the Project, and any such permits, variances and orders have not been withdrawn or otherwise suspended. The Company will represent that it is in material compliance with all terms and provisions of all permits, variances and orders heretofore issued or granted by the Ohio Environmental Protection Agency with respect to the Plant and its other facilities within the State of Ohio, including any permits-to-install and permits-to-operate issued with respect thereto.

Tax Exemption

The Company will covenant and represent in the Loan Agreement that it has taken and caused or required to be taken and will take and cause or require to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Assignment of the Loan Agreement

The Loan Agreement may be assigned in whole or in part by the Company only with the consent of the Issuer, subject to the following conditions: (a) no assignment will relieve the Company from primary liability for any of its obligations under the Loan Agreement or the Note; (b) any assignment by the Company must retain for the Company such rights and interests to permit it to perform its remaining obligations under the Loan Agreement, and any assignee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned; (c) the Company will, within 30 days after the execution thereof, furnish or cause to be furnished to the Issuer, the Letter of Credit Bank and the Trustee a true and complete copy of each assignment together with any instrument of assumption; and (d) any assignment from the Company will not materially impair fulfillment of the purposes of the Project to be accomplished by operation of the Project as provided in the Loan Agreement.

Events of Default and Remedies

The Loan Agreement provides that the occurrence of one or more of the following events will constitute an "Event of Default:"

(a) The failure to pay any Loan Payment, or pay any payment required to be made to pay the Purchase Price, when due;

(b) The occurrence of an event of default described in paragraphs (a), (b) or (c) under *THE INDENTURE—Events of Defaults and Remedies*;

(c) Failure by the Company to observe and perform any other agreement, term or condition under the Loan Agreement, other than such failure which will result in an event of default described in (a) or (b) above, which continues for a period of 90 days after notice to the Company by the Issuer or the Trustee or such longer period as the Issuer and the Trustee may agree to in writing; provided that the failure shall not constitute an Event of Default if the Company institutes curative action within the applicable period and diligently pursues that action to completion;

(d) Any representation or warranty under the Loan Agreement shall not have been true in all material respects when made; and

(e) Certain events relating to bankruptcy, insolvency or reorganization of the Company.

A failure by the Company described in subparagraph (c) above is not a default under that subparagraph if it occurs by reason of certain causes, circumstances and events of force majeure specified in the Loan Agreement that are not reasonably within the control of the Company.

Whenever any Event of Default under the Loan Agreement has happened and is subsisting, the Issuer or the Trustee may take either or both of the following remedial steps:

(a) Inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; and

(b) Pursue all remedies to recover all amounts then due and thereafter to become due under the Loan Agreement and the Note, or to enforce the performance and observance of any other obligation or agreement of the Company under those instruments.

(c) So long as the Letter of Credit is in full force and effect and the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, the exercise of remedies under the Loan Agreement with respect to Events of Default (other than with respect to defaults resulting from failures of the Company relating to certain rights of the Issuer not assigned under the Indenture), and any waivers of Events of Default shall be at the direction or with the written consent of the Letter of Credit Bank.

(d) Any amounts collected pursuant to action taken upon the happening of an Event of Default will be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the outstanding Bonds have been paid and discharged in accordance with the provisions of the Indenture, will be paid as provided in the Indenture for transfers of remaining amounts in the Bond Fund.

Certain Covenants Regarding Arbitrage and Tax Exemption

The Issuer and the Company have agreed not to take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

The Issuer and the Company have agreed that they will not take any action, cause any action to be taken, omit to take any action or cause any omission to occur which would cause the interest on the Bonds to become includable in gross income of the recipients thereof for purposes of federal income taxation.

Amendments to the Loan Agreement

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the owners of the Bonds only as may be required or permitted (i) by the provisions of the Loan Agreement or the Indenture or for the purposes for which the Indenture may be amended or supplemented without the consent of the owners, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Bonds. Any other amendments to the Loan Agreement may be made only with the written approval or consent of (i) the owners of not less than a majority in aggregate principal amount of the Bonds outstanding and (ii) the Letter of Credit Bank, so long as the Letter of Credit is in effect and the Letter of Credit Bank has not wrongfully dishonored a drawing thereunder or wrongfully repudiated the Letter of Credit. An opinion of Bond Counsel to the effect that such action is permitted under the Act and the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes (a "Favorable Opinion of Tax Counsel") is required for any amendment to the Loan Agreement.

THE INDENTURE

Additional information summarizing certain provisions of the Indenture is contained under the heading *THE BONDS*. So long as DTC or its nominee is the registered owner of the Bonds, all references to owners or holders shall mean DTC. See *THE BONDS - Book-Entry Only System* herein.

Pledge and Security

Pursuant to the Indenture, the payments to be made by the Company under the Loan Agreement and the Note will be assigned by the Issuer to the Trustee to secure the payment, when due, of the principal of, and premium, if any, and interest on, the Bonds. The Issuer will also absolutely and irrevocably assign to the Trustee all right, title and interest in and to the Letter of Credit Account in the Bond Fund and all moneys therein, and will mortgage, pledge and grant a security interest to the Trustee all right, title and interest of the Issuer in and to (i) the Revenues (other than the Letter of Credit Account in the Bond Fund, and the moneys therein, assigned above), including without limitation, all Loan Payments and all other amounts receivable by the Issuer under the Loan Agreement in respect of repayment of the loan and (ii) the Note and the Loan Agreement (except certain rights to the payment of its costs and expenses, to indemnification and to enforce certain covenants of the Company); provided, that the Trustee, in case of an acceleration of the Bonds, will have a prior claim on the Bond Fund, other than money in the Letter of Credit Account, for the payment of its compensation and expenses.

Construction Fund

The Indenture creates and establishes with the Trustee a separate fund designated the "State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project) Series 2009A Construction Fund" (the "Construction Fund"). The proceeds from the sale of the Bonds will be deposited in the Construction Fund. Such proceeds and any other moneys deposited in the Construction Fund shall be applied to the payment of the cost of financing the acquisition, construction, installation and equipping of the Project, including issuance expenses. See *THE LOAN AGREEMENT-Use of Bond Proceeds; Construction of the Project* above.

When the Project shall have been completed and the Trustee shall have received a certificate of a Company Representative, any moneys remaining in the Construction Fund in excess of the amount to be reserved for payment of unpaid items of the cost of the Project, shall be used by the Trustee at the direction of the Company (i) if the Bonds are then subject to redemption or will be subject to redemption within 90 days of the date the Project was placed in service, to redeem outstanding Bonds at the earliest possible redemption date within such 90-day period in accordance with Treasury Regulation Section 1.142-2(c), (ii) if such Bonds are not subject to redemption within such 90-day period, to establish a defeasance escrow in accordance with Treasury Regulation Section 1.142-2(c) or (iii) for any other purposes which, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee, is permissible under then applicable Ohio law and will not under the Code cause the interest on the Bonds to be included in gross income for federal income tax purposes; provided that amounts approved by the Company shall be retained by the Trustee in the Construction Fund for payment of any cost of the Project not then due and payable or which is in dispute, and any balance remaining of such retained funds after full payment of the cost of the Project shall be held and applied, or used as directed by the Company, in the manner specified in this paragraph.

Purchase Fund

The Trustee will apply money contained in the accounts described below maintained within the Purchase Fund as follows:

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a purchase date, the Trustee will directly deposit such proceeds, and will deposit only such proceeds, in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds; provided that, at any time when the Letter of Credit is in effect, proceeds of any remarketing of Bonds to the Issuer, the Company or any affiliate of either of them and proceeds of the remarketing of any other Company-Held Bonds and any Bank-Owned Bonds which have been remarketed will be held and maintained in a subaccount for the benefit of the Letter of Credit Bank, separated and segregated from all other money in the Remarketing Proceeds Account. Upon instruction from the Letter of Credit Bank, any amount held by the Trustee in the subaccount described in the preceding sentence will be paid to the Letter of Credit Bank. Neither the Issuer nor the Company will have any interest in the Remarketing Proceeds Account.

Letter of Credit Purchase Account. Upon receipt of the immediately available funds provided to the Trustee pursuant to the Indenture, the Trustee will directly deposit such money, and will deposit only such money, in the Letter of Credit Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Letter of Credit Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds will be promptly returned following such determination to the Letter of Credit Bank with written notice to the Company. Neither the Issuer nor the Company will have any interest in the Letter of Credit Purchase Account.

Company Purchase Account. Upon receipt of immediately available funds provided to the Trustee by the Company pursuant to the Indenture, the Trustee shall directly deposit such money, and shall deposit only such money, in the Company Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Company Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds shall be promptly returned following such determination to the Company.

Bond Fund

Payments made by the Company under the Loan Agreement and the Note with respect to the Bonds and certain other amounts specified in the Indenture will be deposited in the Bond Fund. The Trustee will apply money contained in the accounts described below maintained within the Bond Fund as follows:

(a) Interest Account. The Trustee, on each Interest Payment Date, will withdraw and apply from moneys on deposit in the Interest Account an amount sufficient to pay interest on the outstanding Bonds on such Interest Payment Date; provided, however, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall withdraw and apply moneys in the Interest Account, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(b) Principal Account. The Trustee, on each Principal Payment Date, will withdraw and apply from moneys on deposit in the Principal Account, an amount equal to the principal becoming due on the Bonds on such Principal Payment Date (other than a redemption date). Money in such Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of outstanding Bonds; provided, however, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee will apply such amounts, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(c) Redemption Account. The Trustee, on or before each redemption date, will withdraw and apply from moneys on deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on Bonds to be redeemed prior to their stated maturity. Money in such Redemption Account will be used and withdrawn by the Trustee on each redemption date solely for the payment of the principal of and premium, if any, and accrued interest on outstanding Bonds upon the redemption thereof prior to their stated maturity; provided, however, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee shall apply such amounts, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(d) Letter of Credit Account. The Trustee will directly deposit, or cause to be directly deposited, the proceeds of draws on the Letter of Credit or an Alternate Letter of Credit to pay interest on and principal of the Bonds in such Letter of Credit Account, and shall deposit only those proceeds therein. Money in such Letter of Credit Account will be used and withdrawn by the Trustee on each Interest Payment Date and each Principal Payment Date first, before any other source of funds, to pay the principal of and interest on the Bonds; provided, however, that in no event shall moneys in such Letter of Credit Account be used to pay interest and premium on or principal of Bonds that are Bank-Owned Bonds or Company-Held Bonds if the Letter of Credit or Alternate Letter of Credit does not permit drawings thereunder with respect to Bank-Owned Bonds or Company-Held Bonds. Amounts in the Letter of Credit Account shall be held uninvested. Neither the Issuer nor the Company shall have any interest in the Letter of Credit Account.

(e) Payments by Company. If during any period that a Letter of Credit is in effect there is not sufficient money in the Letter of Credit Account to make the payments on an Interest Payment Date or Principal Payment Date, the Trustee will make such payments from money provided by the Company and deposited into the other accounts of the Bond Fund.

Investment of Moneys Held by the Trustee

Moneys deposited in the Construction Fund and in the accounts maintained within the Bond Fund (except the Letter of Credit Account) will be invested at the direction of the Company in Permitted Investments (as defined in the Indenture). Moneys held in the Purchase Fund will be held uninvested.

In the Loan Agreement the Company and the Issuer have covenanted not to cause or direct any moneys on deposit in any fund to be used in a manner which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

Events of Default and Remedies

The following events are Events of Default under the Indenture:

(a) Default in the due and punctual payment of interest on any Bond;

(b) Default in the due and punctual payment of the principal of, or premium, if any, on any Bond, whether at the stated maturity thereof, or upon unconditional proceedings for redemption thereof;

(c) Default in the due and punctual payment of the Purchase Price of any Bond required to be purchased in accordance with its terms;

(d) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds, continuing 30 days after delivery of notice thereof;

(e) The occurrence and continuance of an event of default under the Loan Agreement as described under *THE LOAN AGREEMENT – Events of Default and Remedies*; or

(f) Receipt by the Trustee of a written notice from the Letter of Credit Bank stating that an event of default has occurred under the Reimbursement Agreement and directing the Trustee to declare the principal of the outstanding Bonds immediately due and payable.

Upon the occurrence and continuance of an Event of Default under (a), (b) or (c) above the Trustee may, and upon the written request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately. If an Event of Default under paragraph (d) or (e) above occurs and is continuing, the Trustee may, and upon the request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding, shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately, provided, however, when the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit (or otherwise repudiated the Letter of Credit), the Trustee will make such a declaration only with the written consent of the Letter of Credit Bank. If an Event of Default under paragraph (f) above occurs and is continuing, the Trustee shall declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately.

Upon any such declaration, the principal of and accrued interest on the outstanding Bonds shall be due and payable immediately. Notwithstanding anything else herein to the contrary, interest on the outstanding Bonds will cease to accrue immediately upon a declaration of acceleration for an Event of Default under (f) above. When the Letter of Credit is in effect, the Trustee shall, immediately upon a declaration of acceleration, draw upon the Letter of Credit to pay the principal of and interest on the outstanding Bonds; provided, that in no event shall a drawing be made with respect to Bank-Owned Bonds or Company-Held Bonds, if the Letter of Credit by its terms does not permit such a drawing. In the event the Letter of Credit Bank fails to honor a draw on the Letter of Credit (or otherwise repudiates the Letter of Credit) in accordance with the immediately preceding sentence, the Trustee shall immediately notify the Company of such failure and shall request that the Company transfer sufficient amounts to pay the principal of and interest on the Bonds.

The Trustee may rescind an acceleration of the Bonds and its consequences if (1) all payment defaults with respect to the Bonds have been cured and all reasonable fees and charges of the Trustee, including reasonable attorneys' fees, have been paid, and (2) the Bondholders have not been notified of the acceleration, and (3) while the Letter of Credit is in effect, the Letter of Credit Bank has notified the Trustee in writing (i) that the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in any amount equal to the principal amount of the Bonds outstanding less the principal amount of any Bank-Owned Bonds, plus the applicable Letter of Credit Interest Amount and any required premium coverage and (ii) that the Letter of Credit Bank has rescinded in writing any event of default under the Reimbursement Agreement. Except as provided in this section, the Trustee will not declare the Bonds to be due and payable.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of and premium, if any, or interest on the Bonds or to enforce the performance of any provision of the Bonds or the Indenture. So long as the Letter of Credit is in effect and the Letter of Credit Bank has not wrongfully dishonored a drawing thereunder or wrongfully repudiated the Letter of Credit, the Trustee will pursue any remedy only at the direction of or with the consent of the Letter of Credit Bank.

A majority in aggregate principal amount of the outstanding Bonds by notice to the Trustee may waive an existing Event of Default and its consequences; provided, however, that, when the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under such Letter of Credit or otherwise repudiated the Letter of Credit, no such waiver shall be effective with respect to the Bonds unless and until the Letter of Credit Bank has notified the Trustee in writing (i) that the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in an amount equal to the principal amount of the Bonds outstanding less the principal amount of any Bank-Owned Bonds, plus the applicable Letter of Credit Interest Amount and any required premium coverage, (ii) that the Letter of Credit Bank has rescinded in writing the notice of default, and (iii) the Letter of Credit Bank has waived in writing any event of default under the Reimbursement Agreement. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

When there is a Letter of Credit in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under such Letter of Credit or otherwise repudiated the Letter of Credit, the Letter of Credit Bank may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it with respect to the Bonds. When there is no Letter of Credit in effect or when the Letter of Credit Bank has wrongfully dishonored a drawing under the Letter of Credit or otherwise repudiated the Letter of Credit, the holders of a majority in aggregate principal amount of Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it.

An owner of a Bond may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the owner gives the Trustee notice stating that an Event of Default is continuing, (b) the owners of at least 25% in aggregate principal amount of the outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such owner or owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity, and (e) with respect to the Bonds, the Letter of Credit is either not in effect or the Letter of Credit Bank has wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit.

Except as described below, funds drawn under the Letter of Credit will be used only for the payment of principal of and interest on, premium, if any (to the extent that the Letter of Credit covers premium) and the Purchase Price of, the Bonds, as provided in the Letter of Credit. If the Trustee collects any money pursuant to the Indenture or if any moneys shall be on deposit in the Bond Fund at the time of acceleration of the Bonds or shall be deposited into the Bond Fund as a result of such an acceleration, it will pay out such monies in the following order: <u>first</u> to the Trustee for amounts to which it is entitled under such Indenture (*provided*, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall only use such proceeds to pay the owners of the Bonds); <u>second</u> to owners for amounts due and unpaid on the Bonds for principal, premium and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal, premium and interest, respectively, <u>third</u> to the Letter of Credit Bank to the extent it certifies that the Company is indebted to it on account of draws Letter of Credit or otherwise under the Reimbursement Agreement; and <u>fourth</u> to the Company (*provided*, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall pay the Letter of Credit Bank rather than the Company). Any lien of the Trustee provided for in the Indenture will in no event apply to any funds drawn under the Letter of Credit or to other funds held for the benefit of the Bondholders. The Trustee may fix a payment date for any payment to the Bondholders.

Supplemental Indentures

The Issuer and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof:

(a) to cure any ambiguity, defect or omission in the Indenture, or otherwise amend the Indenture, in such manner as shall not in the opinion of the Trustee impair the security under the Indenture;

(b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) to evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Loan Agreement and the Bonds, to add additional covenants of the Issuer or to surrender any right or power therein conferred upon the Issuer;

(d) to subject to the pledge of the Indenture additional revenues, properties, or collateral, which may be accomplished by, among other things, entering into instruments with the Company and/or other persons providing for further security, covenants, limitations or restrictions for the benefit of the Bonds;

(e) to modify, amend or supplement the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar statute at the time in effect;

(f) to amend any provision pertaining to matters under federal income tax laws, including Section 148(f) of the Code;

(g) to authorize different Authorized Denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(h) to increase or decrease the number of days specified for the giving of notices of tender and to make corresponding changes to the period for notice of redemption of the Bonds; provided, that no decreases in any such number of days will become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(i) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(j) to evidence the succession of a new trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder;

(l) prior to, or concurrently with, the conversion of the Bonds to an Auction Rate Period, to make any change appropriate or necessary with respect to the procedures, definitions or provisions in the Indenture or in Exhibit B attached to the Indenture related to the Auction Mode Rate in order to provide for or facilitate the marketability of Bonds in the Auction Mode Rate; and

(m) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

The Indenture also provides that the owners of not less than a majority in aggregate principal amount of the Bonds outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or supplemental indentures as shall be deemed necessary and desirable by the Issuer and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing shall permit (a) without the consent of the holder of the affected Bond, an extension of the maturity date of the principal of or the interest on any Bond; (b) without the consent of the holder of the affected Bond, a reduction in the principal amount of any Bond, the rate of interest thereon or any redemption premium; or (c) without the consent of the holders of all Bonds outstanding, a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or for actions related to amendments to the Loan Agreement. A Favorable Opinion of Tax Counsel is required for any supplement to the Indenture.

When the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, no waiver of or amendment or supplement to the Indenture other than certain of those enumerated in the Indenture shall be made without the prior written consent of the Letter of Credit Bank to such amendment or supplement.

Discharge of the Indenture

If the whole amount of principal, redemption price and interest due and payable on the Bonds has been paid, or provision has been made for the payment of the same in accordance with the Indenture, and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer thereunder shall cease, terminate, become void and be completely discharged as to such Bonds.

No Personal Liability of Issuer's Officials

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No member of the Issuer or official executing the Bonds, the Indenture, the Loan Agreement or any amendment or supplement to the Indenture or the Loan Agreement will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

Removal of Trustee

The Trustee may be removed by the owners of not less than a majority in principal amount of Bonds at the time outstanding or by the Issuer and the Company so long as no Event of Default has occurred and is continuing. The Trustee shall continue to serve as such until a successor Trustee shall be appointed under the Indenture and has accepted such appointment.

THE REMARKETING AGREEMENT

KeyBanc Capital Markets Inc. has been appointed as the Remarketing Agent for the Bonds. If and to the extent the Company directs the Remarketing Agents to remarket the Bonds delivered for purchase pursuant to the Indenture, the Remarketing Agent, pursuant to and subject to the provisions of a remarketing agreement with the Company (the "Remarketing Agreement"), will offer for sale and use reasonable efforts to sell such Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Remarketing Agent may resign by giving notice to the Issuer, the Company and the Trustee (such resignation will be effective upon the earlier of the day a successor remarketing agent appointed pursuant to the Indenture has accepted that appointment or 30 days after such notice has been sent) and may suspend remarketing upon the occurrence of certain events. The Company may remove the Remarketing Agent at any time upon 30 days' notice. In either case, the Company has agreed to use its best efforts to appoint a successor remarketing agent. See *THE BONDS -- Special Considerations*.

THE TRUSTEE

The Company and certain of its affiliates maintain banking relationships with affiliates of The Huntington National Bank, and borrow from such affiliates from time to time. The Huntington National Bank, and its affiliates, serve as trustee under other indentures with, or for the benefit of, affiliates of the Company.

UNDERWRITING

Subject to the terms and conditions set forth in a Bond Purchase Agreement to be entered into between the Issuer and the Underwriters, the Underwriters have agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Bond Purchase Agreement, the Underwriters are committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriters $87,500 as compensation and to reimburse the Underwriters for their reasonable expenses.

The Issuer has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriters make any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

The Underwriters and/or certain of their affiliates may engage in transactions with, and from time to time have performed services for, the Company and/or certain of its affiliates in the ordinary course of business.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Bonds are exempt from the continuing disclosure requirements of paragraph (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Act of 1934 while they bear interest at a Daily Rate or Weekly Rate. The Company will covenant in the Loan Agreement that in the event the Bonds are converted to an interest rate that would make the Bonds subject to the requirements of the Rule, the Company will comply with the requirements of the Rule and execute a continuing disclosure undertaking for the benefit of the beneficial owners of the Bonds, and to provide continuing information as required by the Rule.

TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer and the Company contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Issuer's and the Company's certifications and representations or the continuing compliance with the Issuer's and the Company's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Issuer or the Company with respect to the Bonds (or with similar requirements with respect to certain other bonds issued by the Issuer substantially at the same time as the issuance of the Bonds) may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Company and the Issuer have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market value of the Bonds.

Although a portion of the interest on certain tax-exempt obligations earned by certain corporations may be included in the calculation of adjusted current earnings for purposes of the federal corporate alternative minimum tax, interest on certain tax-exempt obligations issued in 2009 and 2010, including the Bonds, is excluded from that calculation. Interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bondowner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the excludability of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the Ohio legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest or other income on the Bonds or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and Ohio tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Company or the beneficial owners regarding the tax status of interest on the Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value for the Bonds.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, which will be furnished at the expense of the Company upon delivery of the Bonds, in substantially the form set forth as Appendix C (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section *TAX EXEMPTION.* Bond Counsel has not been engaged to investigate the financial resources of the Company or the Letter of Credit Bank or the ability of either the Company or the Letter of Credit Bank to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

Certain legal matters will be passed upon by Jeffrey D. Cross or Thomas G. Berkemeyer and Fulbright & Jaworski L.L.P., counsel for the Company. Jeffrey D. Cross and Thomas G. Berkemeyer are Deputy General Counsel and Associate General Counsel, respectively, of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters will be passed upon for the Underwriters by Chapman and Cutler LLP, Chicago, Illinois, counsel for the Underwriters. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Certain legal matters will be passed upon for the Letter of Credit Bank by its U.S. counsel, King & Spalding LLP, and by its internal Canadian counsel. Squire, Sanders & Dempsey L.L.P. acts as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

MISCELLANEOUS

The attached Appendices (including documents contained therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement other than information under *THE ISSUER.* All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under Ohio law.

Ohio Valley Electric Corporation

As more fully detailed below, Ohio Valley Electric Corporation ("OVEC"), together with its wholly owned subsidiary, Indiana-Kentucky Electric Corporation ("IKEC" and together with OVEC, the "Company") is engaged in the business of generating, transmitting and selling electricity from its facilities located in Ohio, Indiana and Kentucky. The Company's principal office is located at 3932 U.S. Route 23, Piketon, Ohio 45661 and the telephone number is (740) 289-7200.

This summary may not contain all of the information that may be important to purchasers of the Bonds and should be read together with the more detailed information appearing elsewhere in this Official Statement. Capitalized terms used in this Appendix and not otherwise defined shall have the meanings ascribed thereto in the body of this Official Statement.

Company Overview

The Company owns and operates two coal-fired electric power generating plants with a combined nameplate capacity of approximately 2,390 megawatts ("MW"). OVEC's Kyger Creek Plant (the "Kyger Creek Plant" or "Kyger"), located in Gallia County, Ohio, has a total nameplate capacity of 1,086 MW. IKEC's Clifty Creek Plant (the "Clifty Creek Plant" or "Clifty") has a total nameplate capacity of 1,304 MW and is located in Jefferson County, Indiana. Both of these facilities commenced operations in 1955. A 776 circuit-mile network of 345 kilovolt ("kV") transmission lines owned by the Company connect these two generation stations. These lines also interconnect with the major power transmission networks of several of the utilities serving the area. OVEC has senior unsecured debt ratings of Baa3 (negative outlook) by Moody's and BBB- by S&P. Additional information regarding the Company can be found at www.ovec.com, but the information at such website is not incorporated into this Official Statement by reference.

The Inter-Company Power Agreement

OVEC sells power to thirteen purchasers under the Inter-Company Power Agreement ("ICPA"), which stipulates the terms by which all of the electric capacity and energy of the Kyger Creek Plant and the Clifty Creek Plant is sold. The thirteen power purchasers under the ICPA (collectively, the "Sponsoring Companies") are currently investor-owned utilities and one affiliate of a generation and transmission rural electric cooperative each of which own or are affiliated with entities that own equity in OVEC. OVEC is owned by eleven entities (collectively, the "Shareholders"), consisting of ten investor-owned utilities or utility holding companies and one affiliate of the generation and transmission rural electric cooperative.

In 2004, an Amended and Restated ICPA was unanimously approved by the Sponsoring Companies and OVEC, extending the term of the then-current ICPA, effective March 13, 2006, for an additional 20 years until March 13, 2026. Under the ICPA, the Sponsoring Companies have the right to receive 100% of OVEC's available capacity and energy. Each Sponsoring Company can reserve a percentage, called the power participation ratio ("PPR"), of available power and energy, and each Sponsoring Company that reserves available power is entitled to a commensurate amount of available energy. The PPR of each Sponsoring Company is based on the ownership interest of such Sponsoring Company and its affiliates in OVEC. The payments required to be made by the Sponsoring Companies under the ICPA include monthly demand and energy charges and transmission charges. The demand and transmission charges are designed to cover all of OVEC's non-fuel related costs of owning, operating and maintaining OVEC's generation and transmission facilities – including debt repayment – and to provide a return on equity to its Shareholders. The Sponsoring Companies' obligations under the ICPA are several, but not joint and several. This means that each Sponsoring Company is only liable for its obligations, and not the obligations of the other Sponsoring Companies under the ICPA.

The energy charge permits OVEC to recover all of its fuel-related costs, with each Sponsoring Company paying its share of those costs based on the amount of energy taken by that Sponsoring Company. The Sponsoring Companies are obligated under the ICPA to pay the demand and transmission charges even if OVEC fails to deliver power and regardless of the amount of the available capacity of OVEC's generation facilities. In addition, the Sponsoring Companies must reimburse OVEC for all costs of replacements and additional facilities (defined in the ICPA).

The ICPA allows OVEC to incur debt for capital improvements to maintain compliance with applicable laws. In the event that OVEC finances the cost of any additional facility or replacement, the Sponsoring Companies are required to pay, as part of the demand charge for available power, 100% of all interest costs and debt amortization relating to such financing. The cost is allocated among the Sponsoring Companies based on their respective PPRs (representing their and their affiliates' approximate ownership of the Company). Consequently, the Sponsoring Companies are obligated to reimburse OVEC for 100% of its financing costs for any environmental spending.

The current Shareholders and their respective percentages of equity in OVEC are:

Shareholder	Equity Percentage
Allegheny Energy, Inc.	3.50%
American Electric Power Company, Inc.*	39.17%
Buckeye Power Generating, LLC [1]	18.00%
Columbus Southern Power Company**[2]	4.30%
The Dayton Power and Light Company [3]	4.90%
Duke Energy Ohio, Inc.*** [4]	9.00%
Kentucky Utilities Company [5]	2.50%
Louisville Gas and Electric Company [5]	5.63%
Ohio Edison Company [6]	7.50%
Southern Indiana Gas and Electric Company [7]	1.50%
The Toledo Edison Company [6]	4.00%
Total	**100.00%**

These entities comprise the Sponsoring Companies and currently share the OVEC power participation benefits and requirements in the following percentages:

Sponsoring Company	Power Participation Ratios
Allegheny Energy Supply Company [8]	3.01%
Appalachian Power Company [2]	15.69%
Buckeye Power Generating, LLC [1]	18.00%
Columbus Southern Power Company [2]	4.44%
The Dayton Power and Light Company [3]	4.90%
Duke Energy Ohio, Inc. [4]	9.00%
FirstEnergy Generation Corp. [6]	11.50%
Indiana Michigan Power Company [2]	7.85%
Kentucky Utilities Company [5]	2.50%
Louisville Gas and Electric Company [5]	5.63%
Monongahela Power Company [8]	0.49%
Ohio Power Company [2]	15.49%
Southern Indiana Gas and Electric Company [7]	1.50%
Total	**100.00%**

Some of the Common Stock issued in the name of:

* American Gas & Electric Company
** Columbus and Southern Ohio Electric Company
*** The Cincinnati Gas & Electric Company

Subsidiary or affiliate of:

[1] Buckeye Power, Inc.
[2] American Electric Power Company, Inc.
[3] DPL Inc.
[4] Duke Energy Corporation
[5] E.ON U.S. LLC
[6] FirstEnergy Corp.
[7] Vectren Corporation
[8] Allegheny Energy, Inc.

OVEC-IKEC Power Agreement

The principal contractual arrangements between OVEC and IKEC are contained in the OVEC-IKEC Power Agreement. OVEC is obligated under the OVEC-IKEC Power Agreement to purchase all power, and the energy associated therewith, generated at IKEC's Clifty Creek Plant. OVEC's payments for such power are determined such that, when added to revenues received by IKEC from any other source, they are sufficient to enable IKEC to pay all of its operating and other expenses, including all income and other taxes, and any interest and regular amortization requirements applicable to any indebtedness for borrowed funds incurred by IKEC. IKEC currently has no long-term indebtedness. IKEC is obligated to transmit to OVEC any and all power, and the energy associated therewith, generated at the Clifty Creek Plant. IKEC is further obligated to transmit and deliver to OVEC all power, and the energy associated therewith, supplied to IKEC by the Sponsoring Companies and to deliver to the Sponsoring Companies designated by OVEC, all power, and the energy associated therewith, supplied to IKEC by OVEC. The term of the OVEC-IKEC Power Agreement is coterminous with the term of the ICPA.

Available Information

OVEC is not subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act") and does not file reports and other information with the Securities and Exchange Commission (the "SEC"). Other than Buckeye Power Generating, LLC, all of the Shareholders of OVEC (or their parent corporation) are subject to the information requirements of the 1934 Act, and in accordance therewith file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at its principal offices at 100 F Street, N.E., Washington, D.C. or at the SEC's website at www.sec.gov. Additional information regarding Buckeye Power Generating, LLC, an affiliate of Buckeye Power, Inc., can be found at www. http://www.buckeyepower.com.

None of the above-mentioned additional information regarding the Shareholders and their operating subsidiaries is part of this Official Statement, nor is any such information incorporated into this Official Statement, and neither the Company nor the Underwriters take any responsibility for the accuracy or completeness thereof.

Financial Statements

Annex 1 to this Appendix A contains the Company's Annual Report for 2008 which includes the consolidated financial statements of the Company as of December 31, 2008 and 2007, and for each of the two years in the period ended December 31, 2008, audited by Deloitte & Touche LLP, independent auditors. Annex 2 to this Appendix A contains the unaudited consolidating financial statements of the Company as of March 31, 2009. Annex 3 to this Appendix A contains the unaudited consolidating financial statements of the Company as of June 30, 2009.

Risk Factors

Investing in the Bonds involves risk. Please see the risk factors described below. Before making an investment decision, prospective Bondholders should carefully consider these risks as well as other information contained in this Official Statement and the Appendices. The risks and uncertainties described are those presently known to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations, financial results and the value of the Bonds.

Risks Associated with OVEC

OVEC relies exclusively on the payments made to it by the Sponsoring Companies pursuant to the ICPA for revenue to pay OVEC's operating expenses, and OVEC may be unable to pay those expenses (including payments of principal, interest, and premium, if any, on, the Bonds) if any of the Sponsoring Companies fails to fulfill its payment obligations to OVEC.

The Sponsoring Companies are obligated under the ICPA to pay demand, transmission and energy charges that, collectively, are contractually designed to cover all of OVEC's fixed charges of owning, operating and maintaining OVEC's generation and transmission facilities, provide a return on equity to OVEC's shareholders, and compensate

OVEC for costs of all fuel used to supply power under the ICPA. This obligation is several and not joint and several. As a consequence, because OVEC's only material source of revenue is under the ICPA, a failure by a Sponsoring Company to fulfill a payment obligation to OVEC for any reason could cause OVEC to be unable to pay its operating expenses (including payments with respect to principal, interest, and premium, if any, on, the Bonds). Moreover, the ability of the Sponsoring Companies to generate cash flow and make their obligated payments under the ICPA depends on their financial performance, which will be affected by a range of economic, competitive, legislative, regulatory and business factors, many of which are outside of the control of the Company and the Sponsoring Companies.

The Sponsoring Companies' utility operations involve many risks, including the breakdown or failure of power generation equipment, pipelines, transmission lines, distribution lines or other equipment or processes, fuel interruption, and performance below expected levels of output or efficiency. Sales and revenues of a utility may also be adversely affected by general economic and business conditions and weather conditions in its service territory.

In addition, the Sponsoring Companies are subject to a number of environmental and other laws and regulations affecting many aspects of their present and future operations, including the disposal of various forms of waste, the construction or permitting of new facilities and air and water quality. Those laws and regulations generally require the Sponsoring Companies to obtain and comply with a wide variety of licenses, permits and other approvals. Existing regulations may be revised or new regulations may be adopted or become applicable to the Sponsoring Companies that could have an adverse impact on their respective operations, including potential regulatory developments related to emissions of greenhouse gases, sulfur dioxide and nitrous oxides. The implementation of regulatory changes imposing more comprehensive or stringent requirements on the Sponsoring Companies, to the extent such changes would result in increased compliance costs or additional operating restrictions, could have a material adverse effect on the results of operations of the Sponsoring Companies. See *Environmental Matters* herein.

This Official Statement does not contain historical financial information regarding any of the Sponsoring Companies. In making an investment decision regarding the Bonds, there is no assurance, based upon the information contained herein, that any of the Sponsoring Companies will be capable of meeting its financial or other responsibilities under the ICPA.

The operation of the Company's electric generation plants and transmission facilities involves risks that could adversely affect the Company's cost of operations.

The Company is subject to various risks associated with operating its electric generation plants and transmission facilities, any of which could adversely affect its cost of operations. These risks include:

- failure of equipment or processes, operator or maintenance errors or other events resulting in power outages or reduced output;
- availability of fuel and fuel transportation;
- disruptions in the transmission or distribution of power;
- changes in applicable laws and regulations, including environmental laws and regulations; and
- catastrophic events such as fires, hurricanes, explosions, floods, terrorist attacks or other similar occurrences to its facilities or to facilities upon which the Company depends.

Unplanned outages of generating units and transmission facilities due to mechanical failures or other problems occur from time to time and are an inherent risk of the Company's business. Unplanned outages typically increase the Company's operation and maintenance expenses. All of the units of the Company's generation plants, and a significant portion of the Company's transmission facilities, were originally constructed many years ago. Older generation and transmission equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep it operating at high efficiency and to meet regulatory and environmental requirements. This equipment is also likely to require periodic upgrading and improvement.

The cost of repairing damage to the Company's generation plants and transmission facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events may adversely affect the Company's costs of operations or cash flows. These actions could also result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, the Company's generation plants and transmission facilities are directly or indirectly connected to electric transmission infrastructure which the Company does not own and over which it does not exercise control of operations or maintenance. The Company's operations could be directly or indirectly harmed by failures associated with either its own or third parties' generation and transmission facilities, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, equipment interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other environmental risks. Severe damage to or destruction of property and equipment and environmental damage may result in suspension of operations and the imposition of civil or criminal penalties. Moreover, the occurrence or risk of occurrence of future terrorist attacks, related acts of war or failures in generation and transmission infrastructure could also adversely affect the U.S. economy or otherwise impact the Company's results of operations and financial condition in unpredictable ways.

Should one or more of the events described above occur, the Company's cost of operations may significantly increase. The Company has insurance covering certain of its plants, including property damage insurance, commercial general liability insurance, and boiler and machinery coverage, each in amounts that the Company considers appropriate. However, the Company's insurance policies are subject to certain limits and deductibles as well as policy exclusions. the Company cannot assure purchasers of the Bonds that insurance coverage will be available in the future at current costs or on commercially reasonable terms or that the insurance proceeds received for any loss or damage, including any loss or damage to the Company's generation plants and transmission facilities or losses caused by outages, will be sufficient to restore the loss or damage without negative impact on the Company's costs of operations.

The interests of the Sponsoring Companies may conflict with the interests of the bondholders or OVEC.

All of OVEC's capital stock is owned either by the Sponsoring Companies or by subsidiaries or other affiliates of the Sponsoring Companies. Therefore, the Sponsoring Companies direct OVEC's activities and have the ability to control the Company's management, policies, and financing decisions. In addition, the Sponsoring Companies may have interests that conflict with those of the bondholders or the Company's interests and, except as required by law or contractual obligations, the Sponsoring Companies have no duties to other parties with respect to the conduct of the Company's business.

Risks Associated with the Bonds

An investment in the Bonds involves certain risks, including the risk of nonpayment of interest, principal or premium, if any, due to the owners. The principal risk that may affect payment of the Bonds is the inability or refusal of the Letter of Credit Bank to perform its duties under the Letter of Credit. In such an event, the Trustee would exercise its available remedies against the Letter of Credit Bank. The risk of nonpayment also depends upon the financial condition of the Company and is affected by a number of factors that should be considered by prospective purchasers, along with the other information presented in this Official Statement and the Appendices hereto, in judging the suitability of an investment in the Bonds.

Risks Associated with the Letter of Credit and the Reimbursement Agreement

Concurrently with, and as a condition to the offering of the Bonds in the Weekly Rate, the Company will cause to be delivered to the Trustee the Letter of Credit issued by the Letter of Credit Bank for the timely payment of principal of and interest (calculated for 35 days at the maximum rate of 12% per annum) on, and purchase price of, the Bonds. OVEC will be required to reimburse the Letter of Credit Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of the Reimbursement Agreement. The Letter of Credit will expire on August 12, 2010, subject to extension or earlier termination. The Letter of Credit may be extended or replaced by a letter of credit issued by a national banking association, a bank, a trust company or other financial institution satisfying the requirements of the Indenture. Certain information with respect to the Letter of Credit Bank is included in Appendix B to this Official Statement.

If the Letter of Credit expires or is terminated, and even if an Alternate Letter of Credit is obtained by OVEC, the Bonds will be subject to mandatory tender for purchase at the principal amount, without premium, plus accrued interest to the purchase date. See *THE BONDS—Mandatory Tender for Purchase—Mandatory Tender Upon Substitution of Alternate Letter of Credit* in this Official Statement. There can be no assurance that OVEC will be able to obtain an extension of the Letter of Credit or any future Alternate Letter of Credit. The Letter of Credit Bank is under no obligation to extend the Letter of Credit beyond the scheduled expiration thereof. See *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT* in this Official Statement. From and after the receipt of an Alternate Letter of Credit in substitution for the Letter of Credit, if ever, the Bonds will be secured by the Alternate Letter of Credit.

The ratings on the Bonds are dependent on the joint ratings of the Letter of Credit Bank and OVEC. The Letter of Credit Bank's current ratings are predicated upon among other things, a level of reserves required by banking institutions. The level of reserves maintained by the Letter of Credit Bank could change over time and this could result in a downgrading of the rating on the Bonds. The Letter of Credit Bank is not contractually bound to maintain its present level of reserves in the future nor is it contractually bound to maintain its current credit rating. No provision has been made for replacement of or substitution for the Letter of Credit in the event of any deterioration in the financial condition of the Letter of Credit Bank. The ratings assigned to OVEC's senior unsecured debt by the rating agencies reflect such agencies' assessment of the likelihood that the holders of the Bonds will receive the payments of principal, purchase price and interest on each applicable payment date if the Letter of Credit were not in effect. The ratings are not a recommendation to purchase, hold or sell the Bonds, and such ratings do not comment as to the marketability of the Bonds, any market price, or suitability for a particular investor. There is no assurance that any rating will remain for any given period of time or that any rating will not be lowered or withdrawn entirely by a rating agency if, in such rating agency's judgment, circumstances so warrant. None of the Issuer, OVEC, the Underwriters or the Remarketing Agent has undertaken any responsibility to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

The obligations of the Letter of Credit Bank under the Letter of Credit are general, unsecured obligations of the Letter of Credit Bank and will not rank higher in priority of payment or in any other respect with other unsecured obligations of the Letter of Credit Bank. In the event of a bankruptcy or insolvency or if for any other reason the Letter of Credit Bank fails or is unable to fulfill its obligations under the Letter of Credit, each owner of the Bonds would have to depend entirely on the ability of OVEC to pay the principal of, interest on and purchase price of Bonds tendered for purchase unless an Alternate Letter of Credit is obtained by OVEC.

The Letter of Credit Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System, the State of New York Banking Department and other regulatory bodies. New regulations could impose restrictions upon the Letter of Credit Bank that would restrict its ability to respond to competitive pressures. In the recent past increased regulatory efforts have imposed new capital requirements upon the Letter of Credit Bank. Various other legislative or regulatory changes could dramatically impact the banking industry as a whole and the Letter of Credit Bank specifically. The banking industry is highly competitive in many of the markets in which the Letter of Credit Bank operates. Such competition directly impacts the financial performance of the Letter of Credit Bank. Any significant increase in such competition could adversely impact the Letter of Credit Bank.

Limited Obligations

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made by OVEC to the Issuer under the terms of the Loan Agreement and the Note. The Loan Agreement and the Note are unsecured obligations of OVEC. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company. The Bonds do not now and will never constitute a charge against the general credit of the Issuer, the State of Ohio, or any political subdivision thereof.

Risk of Taxability

The failure of the Issuer or OVEC to comply with their covenants to meet certain requirements of the Code (see *TAX EXEMPTION* in this Official Statement) could cause the interest on the Bonds to become includable in gross income of the owners thereof for federal income tax purposes retroactively to the date of issuance of the Bonds. Under the circumstances described in this Official Statement under the caption *THE BONDS—Redemption of Bonds -- Extraordinary Mandatory Redemption of Bonds,* the Bonds may be redeemed on any date in whole (or in part in certain circumstances) without premium following the occurrence of certain events as described therein. The Indenture does not provide for the payment of any additional interest or penalty in the event that the interest on the Bonds becomes includable in gross income for federal income tax purposes.

Matters Relating to Enforcement

Enforcement of the remedies under the Indenture, the Loan Agreement and the Reimbursement Agreement may be limited or restricted by federal and state laws relating to bankruptcy, fraudulent conveyances, and rights of creditors, by application of general principles of equity affecting the enforcement of creditors' rights and liens securing such rights, by zoning, subdivision or other municipal codes and ordinances and by the exercise of judicial authority by state or federal courts, and may be subject to discretion in the event of litigation or statutory remedy procedures, and may be substantially delayed in the event of litigation or statutory remedy procedures. The various legal opinions to be delivered concurrently with the issuance and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by local, state and federal laws, rulings and decisions affecting remedies, and by general principles of equity and by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors.

Suitability of Investment

An investment in the Bonds involves a certain degree of risk. The interest rate borne by the Bonds is intended to compensate the investor for assuming this element of risk. Prospective investors should carefully examine this Official Statement, including the Appendices hereto, and their ability to bear the economic risk of such an investment, and then determine whether or not the Bonds are an appropriate investment for them.

Early Redemption or Mandatory Tender

Pursuant to the terms of the Indenture, the Bonds are subject to redemption and mandatory tender for purchase prior to maturity (see *THE BONDS—Redemption of Bonds* and *—Mandatory Tender for Purchase* in this Official Statement). Under those circumstances, a Bondholder may not have the opportunity to hold those Bonds for a time period consistent with such Bondholder's original investment intentions.

Secondary Markets and Prices

No assurance can be given that any secondary market will develop following the completion of the offering of the Bonds. Except with respect to the mandatory or optional tender of the Bonds (see *THE BONDS—Optional Tender* and *—Mandatory Tender for Purchase*), OVEC will not be obligated to repurchase any of the Bonds, and no assurance can be given that a secondary market for the Bonds will develop following the completion of the offering of the Bonds. Other than with respect to a tender of the Bonds, the Bonds are not readily liquid, and no person should invest in the Bonds with funds such person may need to convert readily into cash. Bondholders should be prepared to hold their Bonds to the stated maturity date.

Financial Summary

Capitalization

The table below outlines OVEC's capitalization at year-end 2007 and at funding of the Bonds, the Series 2009B Bonds, the Series 2009C Bonds and the Series 2009D Bonds assuming a June 30, 2009 issue date:

(in thousands)	12/31/2007		12/31/2008		Pro Forma 6/30/2009	
Debt						
Senior Notes	$722,961		$1,045,318		$1,127,857	
2009A-D Bonds	-		-		100,000	
Line of Credit Borrowings – Long Term	-		50,000		-	
Total Debt	$722,961	98%	$1,095,318	99%	$1,227,857	99%
Equity						
Common Stock $100 par value—Authorized, 300,000 shares; Outstanding, 100,000 shares	$10,000		$10,000		$10,000	
Retained Earnings	2,916		2,507		5,086	
Total Equity	$12,916	2%	$12,507	1%	$15,086	1%
Total Capitalization	**$735,877**	**100%**	**$1,107,825**	100%	$1,242,943	100%

Summary of Financials

The table below summarizes certain historical financial information of OVEC through 2008.

(in thousands unless otherwise noted)	2004	2005	2006	2007	2008
Net Generation (MWh)	15,810	16,638	16,468	15,110	15,260
Operating Revenues	$406,283	$468,546	$523,927	$531,362	$621,813
Operating Expenses	$380,972	$442,420	$494,893	$494,808	$566,798
Average Price $/MWh to Sponsors	$24	$28	$31	$35	$41

Power Sales Agreements

OVEC, on formation, entered into two principal power sales agreements:

- the DOE Power Agreement between OVEC and the United States of America, currently acting by and through the Atomic Energy Commission's successor, the Secretary of Energy, the statutory head of the U.S. Department of Energy; and

- the ICPA.

The term of the ICPA (as amended and restated, effective March 13, 2006) continues until the first to occur of the following: (i) the sale or other disposition of OVEC's and IKEC's electric generation facilities, (ii) the permanent cessation of the operation of those generation facilities, or (iii) March 13, 2026.

OVEC also entered into a power sales agreement with OVEC's wholly owned subsidiary, IKEC, which OVEC refers to as the "OVEC-IKEC Power Agreement."

The DOE Power Agreement

Under the DOE Power Agreement, OVEC was obligated to sell to the DOE essentially all of its electric generating capacity for use at the DOE's Pike County, Ohio uranium enrichment facilities in return for an agreement by the DOE to pay the costs of the ownership, operation and maintenance of OVEC's generation and transmission facilities, as well as to provide a return on equity to OVEC's shareholders.

In September 2000, the DOE notified OVEC of its election to terminate the DOE Power Agreement in connection with the cessation of uranium enriching operations at its Pike County plant, which became effective on April 30, 2003.

Upon the termination of the DOE Power Agreement, OVEC entered into an arranged power agreement with the DOE under which OVEC purchases power from third parties for delivery to the DOE. The DOE reimburses OVEC for the costs of all power purchases under this agreement and pays OVEC an administrative charge. The current arranged power agreement may be terminated by either party on 30 days' prior notice.

The ICPA

OVEC and the Sponsoring Companies signed the original ICPA on July 10, 1953, to support the DOE Power Agreement and provide for excess energy sales to the Sponsoring Companies of power not utilized by the DOE or its predecessors. Since the termination of the DOE Power Agreement on April 30, 2003, the Sponsoring Companies have, under the terms of the ICPA, the right to OVEC's entire generating capacity and the right to purchase all of the energy it generates. OVEC and the Sponsoring Companies entered into an amended and restated ICPA, effective March 13, 2006, extending the ICPA's term for an additional 20 years.

Each Sponsoring Company can reserve a percentage, called a power participation ratio ("PPR") of available power and energy, and a Sponsoring Company that reserves power is entitled to a commensurate amount of available energy. The PPR of each Sponsoring Company is based on the ownership interest of such Sponsoring Company and its affiliates in OVEC.

The payments required to be made by the Sponsoring Companies include monthly demand and energy charges and transmission charges. The demand and transmission charges are designed to cover all of OVEC's non-fuel related costs of owning, operating and maintaining its generation and transmission facilities – including debt service costs – and to provide a return on equity to its Shareholders. The energy charges paid by the Sponsoring Companies reimburse OVEC for all of its fuel-related costs, with each Sponsoring Company paying its share of those costs based on the amount of energy taken by such Sponsoring Company. The Sponsoring Companies are obligated under the ICPA to pay the demand and transmission charges even if OVEC fails to deliver power and regardless of the amount of the available capacity of OVEC's generation facilities. In addition, the Sponsoring Companies must reimburse OVEC for all costs of replacements and additional facilities.

The share of the total demand and transmission charges payable for any month by each Sponsoring Company is based on the Sponsoring Company's entitlement to power for such month. The share of the total energy charge payable for any month by each Sponsoring Company is based on the amount of energy taken by the Sponsoring Company for such month.

Under the ICPA, OVEC is entitled to bill the Sponsoring Companies on a semi-monthly basis for payment of its estimated demand and energy costs in the applicable semi-monthly period. OVEC generally bills the Sponsoring Companies on a monthly basis to adjust for its actual demand and energy costs for the entire month. Under the terms of the ICPA, payments are required to be made promptly and are generally paid within 15 days. Throughout OVEC's 56-year history, no Sponsoring Company has ever defaulted on a payment.

Each of the Sponsoring Companies either owns, or is a subsidiary or affiliate of a company that own, OVEC's capital stock. The Sponsoring Companies are not liable for OVEC's indebtedness, including OVEC's obligations under the Loan Agreement.

OVEC-IKEC Power Agreement

The principal contractual arrangements between OVEC and IKEC are contained in the OVEC-IKEC Power Agreement. OVEC is obligated under the OVEC-IKEC Power Agreement to purchase all power, and the energy associated therewith, generated at IKEC's Clifty Creek Plant. OVEC's payments for such power are determined such that, when added to revenues received by IKEC from any other source, they are sufficient to enable IKEC to pay all of its operating and other expenses, including all income and other taxes, and any interest and regular amortization requirements applicable to any indebtedness for borrowed funds incurred by IKEC. IKEC currently has no long-term indebtedness. IKEC is obligated to transmit to OVEC any and all power, and the energy associated therewith, generated at the Clifty Creek Plant. IKEC is further obligated to transmit and deliver to OVEC all power, and the energy associated therewith, supplied to IKEC by the Sponsoring Companies and to deliver to the Sponsoring Companies designated by OVEC, all power, and the energy associated therewith, supplied to IKEC by OVEC. The term of the OVEC-IKEC Power Agreement is coterminous with the term of the ICPA.

OVEC/IKEC Plant Description

OVEC and IKEC, own and operate two coal-fired electric power generating plants. OVEC's Kyger Creek Plant and IKEC's Clifty Creek Plant.

Operating Statistics

	Kyger Creek	Clifty Creek	Combined
Nameplate Capacity (MW)	1,086	1,304	2,390
Number of generating units	5	6	11
Commissioning year	1955	1955	1955
Net heat rate (BTU/kWh) – 2008	10,171	10,289	10,236
Availability factor (%) – 2004-2008 avg.	88.89%	85.4%	86.9%
Fuel cost ($/MWh) - 2008	$21.69	$21.77	$21.25
Total production costs ($/MWh) - 2008	$28.03	$29.66	$28.93

Each of Clifty's six units and Kyger's five units has a capacity of 217.26 MW. The Clifty units and Kyger Unit 1 are equipped with General Electric steam turbines and hydrogen-cooled generators, while Kyger Units 2 through 5 are equipped with Westinghouse steam turbines and hydrogen-cooled generators. Each unit is also equipped with a once-through turbine condenser utilizing water from the Ohio River. The generators produce electricity at 15.5 kV which is then stepped up to 345 kV by three main transformers (one for each of three phases).

The steam powering each of the eleven units is generated by Babcock & Wilcox ("B&W") open-pass reheat boilers (one for each unit). The primary fuel for these front-wall fired, wet bottom, subcritical drum units is pulverized coal. Each unit has seven B&W type EL-70 pulverizers and 14 fishtail shaped burner nozzles (2 per pulverizer). The boilers are also equipped with oil lighters which are used primarily for start-ups and flame stabilization at low loads. The primary furnaces are operated at balance draft or slightly negative furnace pressure. Each unit is equipped with two forced-draft fans and one induced-draft fan. During the period of 1995 through 1999, overfire air modifications were completed on all eleven units, at a cost of $8.2MM ($4.2MM Kyger and $4MM Clifty), to meet Federal Clean Air Act nitrogen oxides (NOx) emissions requirements. Another modification to Kyger's boilers was the addition of iron ore injection directly into the primary furnace to aid furnace slag tapping. The iron ore injection system which includes storage silos, blowers, piping and nozzles was completed in 2000 at a cost of $2.6MM.

New flue gas stacks were built and electrostatic precipitators ("ESP") installed during the period of 1977-1980. Clifty has two 983-foot stacks each serving three units, and Kyger has a single 1000-foot stack. Cold-side ESPs were installed on all Kyger units and Clifty Units 1 through 5. Clifty Unit 6 has a hot-side ESP manufactured by Western Precipitation Division of Joy Manufacturing Company. Kyger's ESPs were manufactured by Flakt, Inc. Clifty's cold-side ESPs were manufactured by Lodge-Cottrell Division of Dresser Industries, Inc. The ESP's and stacks cost was approximately $184MM ($79MM Kyger and $105MM Clifty).
In recent years, the use of lower sulfur coals at both plants has necessitated the installation of SO_3 flue gas conditioning systems to improve fly ash collection by decreasing the resistivity of the ash. The systems,

manufactured by WALHCO, were installed on Clifty Units 1 through 5 in 1998 and on all Kyger units in 2001 at a total cost of $9.5MM ($4.0MM Kyger and $5.5MM Clifty).

Once collected, the fly ash at Clifty is conveyed dry to silos where the ash is loaded to trucks either to be sold as a concrete ingredient or hauled to the plant's landfill. The Clifty dry fly ash conversion project was completed in 1993 at a cost of approximately $17.8MM.

The fly ash at Kyger is sluiced to the plant's fly ash pond for disposal. In 2001, Kyger closed the north fly ash pond with a clay cap and dredging material from the South fly ash and bottom ash pond. The project cost was approximately $4.3MM.

Other ash storage facilities include one bottom ash pond at Kyger and one bottom ash pond at Clifty. Both plants also sell bottom ash for use as blasting grit, roofing granules, and snow and ice control.

Coal is delivered by barge to both plants. Each plant has two barge unloading tower cranes from which the coal may be directed to the unit coal bunkers for consumption or to storage. Revisions made during Clifty's coal switch project (completed in 1994 at a cost of $79.5MM) accommodate the storage and blending of bituminous and low-sulfur subbituminous coal supplies. Clifty presently burns a blend of 75% subbituminous coal from the Powder River Basin ("PRB") in Wyoming and 25% eastern bituminous coal. In 2006, Kyger Creek completed modifications to the boilers and coal handling systems to allow the plant to store and burn a coal blend of up to 80% PRB coal. The Kyger Creek PRB project cost was approximately $53MM. Presently, Kyger burns a blend of roughly 70% PRB coal and 30% eastern bituminous coal. Prior to these modifications, the PRB portion of Kyger's fuel blend was limited to approximately 35%.

In 2002 and 2003, selective catalytic reduction ("SCR") systems were retrofitted to ten of the eleven Kyger and Clifty units at an approximate cost of $355MM ($191MM Kyger and $164MM Clifty). SCR systems convert NOx in the flue gas exiting the boilers into elemental nitrogen and water by mixing ammonia into the flue gas stream and passing the mixture through layers of catalyst. The required amounts of ammonia are supplied by each plant's Ammonia On Demand ("AOD") system which use a feedstock of pelletized urea. This equipment has been operated during the five-month ozone season (May through September) each year beginning May 31, 2004 and is expected to be operated year-round beginning January 1, 2009 to comply with state and federal NOx emission reduction requirements.

OVEC/IKEC Transmission System

The OVEC/IKEC transmission system was constructed in the early 1950's. The system is operated at 345 kV with interconnections to other utilities at 345 kV and 138 kV. It is comprised of 776 circuit miles of 345 kV lines and four substations.

The transmission lines include 1,561 steel lattice towers, approximately four towers per mile with an average span of 1,310 feet. The phase conductors are 1,414 KCM aluminum, steel core, paper expanded and the neutral conductor is 159KCM Aluminum Conductor Steel Reinforced. OVEC has approximately 7,036 acres of right-of-way in Ohio, Indiana and Kentucky.

Of the four substations, one each is located adjacent to the Clifty Creek Plant and the Kyger Creek Plant. These substations allow for the connection of the generating units to the transmission system along with interconnections to other utilities, and are arranged in a breaker and a half scheme. The other large substation, Pierce, is located near Cincinnati, Ohio and is also a breaker and a half layout. The Dearborn substation located near Lawrenceburg, Indiana is a bus extension from the Tanners Creek Plant owned by American Electric Power Company, Inc. ("AEP") and has a single breaker per line. In addition to the four aforementioned substations, OVEC also ties at 345 kV to a Duke Energy owned station near Florence, Kentucky. There are 345/138 kV transformers located at the Clifty, Pierce and Sargents substations to allow for 138 kV interconnections. Other interconnections at 345 kV exist at Clifty, Pierce, Dearborn, and Kyger along with indirect ties through the DOE substation.

Although OVEC is currently not a member of any regional transmission organization, OVEC has contracted with the PJM Interconnection LLC ("PJM") to provide reliability coordination services. As OVEC's reliability coordinator, PJM has operational authority to perform activities as governed by the North American Reliability Corporation ("NERC") Interconnection Reliability Operations and Coordination Standards dealing with the reliability of the interconnected electrical system. The OVEC/IKEC transmission system is interconnected with members of PJM, and the Midwest Independent System Operator, Inc. ("MISO") and the transmission system of the electric utility subsidiaries of E.ON U.S. LLC, as well as transmission facilities owned by the DOE (OVEC's sole retail customer).

Coal Supply

The Company procures coal at an annual rate of approximately 8.0MM tons for use at the Clifty Creek and Kyger Creek plants. The Company has coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2009 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Company currently has approximately 100% of its coal requirements under long-term (12 months or more) agreements. Through 2009, it is expected that both plants will continue to burn a high percentage (up to 75%) of low-sulfur subbituminous coal.

OVEC/IKEC Coal Supply

	Subbituminous	Bituminous	Combined
Average remaining term of supply agreements	0.7 years	1.7 years	1.3 years
% hedged in 2009	100%	100%	100%
% hedged in 2010	12%	94%	49%
% hedged in 2011	26%	99%	61%

Transportation contracts	Rail - Union Pacific - Expires 12/31/2009
	Barge (OVEC) - Ingram Barge – Expires 9/30/2009 (New Contract to 12/31/2013)
	Barge (IKEC) - MEMCO - Expires 12/31/2013
	Rail cars – 993 leased – Leases expire 12/31/2010 to 12/31/2025

Environmental Compliance Project

Flue gas desulfurization ("FGD") systems are being constructed for both Kyger Creek and Clifty Creek with initial operation projected for 2010 and 2012, respectively. The FGD systems are designed to remove 98% of the sulfur dioxide ("SO_2") from gases exhausted from the plants' boilers. Kyger Creek's FGD system is designed for coal with SO_2 content of up to 7.5 lbs/MMBtu. The coal SO_2 specification for Clifty Creek's FGD design is 5.0 lbs/MMBtu. The FGD designs and the capability to blend subbituminous and bituminous coals at both plants provide significant fuel flexibility and improve the Company's fuel procurement position.

FGD Project Equipment

- Chiyoda CT-121 jet bubbling reactor absorbers (2 per plant)
- New flue gas discharge stack with two flue liners (1 per plant)
- Flue booster fans (2 per absorber)
- Reagent (limestone) handling systems and preparation systems
- By-product (gypsum) dewatering systems
- FGD wastewater treatment
- By-product handling systems and disposal landfill
- Auxiliary electrical system
- Various auxiliary systems including oxidation air, service water, reclaim water, flue gas quenching, and controls.

Properties

In addition to two generation facilities and transmission facilities, OVEC also owns 21,896 square feet of office space in Piketon, Ohio, which it uses as its corporate headquarters. It also owns garage space and land, which it uses for the operation of a transmission maintenance crew. In addition, OVEC has constructed a command center, data center, training area, and office space in a single 8,500 square feet structure located at the Piketon, Ohio office.

Employees

As of July 1, 2009, OVEC and IKEC employed 818 full-time employees. As of that date, the Kyger Creek Plant employed 351 employees, of which 251 are represented by the Utility Workers Union of America (AFL-CIO). The Clifty Creek Plant employs 373 employees, all non-union. In addition, as of this date, OVEC has 94 system employees reporting to the corporate headquarters located in Piketon, Ohio. Management believes that its relations with employees and their representatives are excellent.

Legal Matters

OVEC is involved in a number of legal and administrative proceedings incident to the normal course of OVEC's business. In the opinion of OVEC's management, based on the advice of counsel, any liability to OVEC relative to these ordinary course proceedings will not have a material adverse effect on OVEC's operations and financial condition.

Regulation

OVEC is also affected by various federal and state laws and regulations pertaining to utilities, including the laws and regulations described below.

Federal Energy Regulatory Commission

Under the Federal Power Act ("FPA"), the Federal Energy Regulatory Commission ("FERC") has exclusive jurisdiction over the rates, terms and conditions of wholesale sales and the transmission of electricity in interstate commerce by public utilities. The FPA requires all public utilities to file rate schedules with the FERC prior to commencement of wholesale sales or transmission of electricity. In addition, a public utility is subject to financial and organizational regulation by FERC under the FPA, including approval requirements relating to dispositions of jurisdictional facilities, as well as a number of accounting, recordkeeping and reporting requirements. Each of OVEC and IKEC is a public utility and therefore subject to regulation by FERC under the FPA. The ICPA and the OVEC-IKEC Power Agreement have all been filed with, and accepted by, FERC under the FPA as rate schedules (including all modifications to the ICPA that have been entered into by OVEC and the Sponsoring Companies) and therefore the demand, energy and other charges payable under those agreements constitute FERC-authorized rates.

As part of the repeal of Public Utility Holding Company Act of 1935, Congress has granted additional authority to the FERC over electric utilities and their affiliates. This authority relates primarily to increased access to books and records and affiliate cost allocation.

State Utility Regulation

Both OVEC and IKEC are subject to state utility regulation. OVEC, whose operations are principally in Ohio, is subject to regulation by the Public Utilities Commission of Ohio, while IKEC, whose operations are principally in Indiana, is subject to regulation by the Indiana Utility Regulatory Commission. OVEC also owns electric power transmission facilities in Kentucky and therefore is subject to regulation by the Kentucky Public Service Commission. This state regulation covers financial and organizational matters (including the abandonment of facilities), as well as, in the case of the Public Utilities Commission of Ohio, OVEC's provision of electric service to the DOE under retail power sales agreements. Because of FERC's exclusive jurisdiction over wholesale sales of electricity in interstate commerce, however, none of these state utility commissions have jurisdiction over OVEC's sales of electricity to the Sponsoring Companies, including the rates payable under the ICPA.

Environmental Matters

OVEC and IKEC are subject to a number of federal, state and local requirements relating to the protection of the environment, and the safety and health of OVEC and IKEC's personnel and the public. These requirements relate to a broad range of OVEC and IKEC's activities, including: the discharge of pollutants into the air and water; the identification, generation, storage, handling, transportation, disposal, record keeping, labeling, reporting of and emergency response in connection with hazardous and toxic materials and wastes associated with OVEC and IKEC's operations; and safety and health standards, practices and procedures that apply to the workplace and to operation of OVEC and IKEC's facilities. In order to comply with these requirements, OVEC and IKEC may need to spend substantial sums of money and devote other resources from time to time to: construct or acquire new equipment; acquire permits and/or marketable allowances or other emission credits for facility operations; modify or replace existing and proposed equipment; and clean up or decommission waste disposal areas, fuel storage and management facilities and other locations and facilities. If OVEC and IKEC do not comply with environmental requirements that apply to OVEC and IKEC's operations, regulatory agencies could seek to impose on it civil, administrative and/or criminal penalties as well as seek to curtail OVEC and IKEC's operations. Under some statutes and common law principles, private parties could also seek to impose civil fines or liabilities for property damage, personal injury and possibly other costs.

Air Emissions

OVEC and IKEC's facilities are subject to the Federal Clean Air Act and many state and local laws and regulations relating to air pollution. These laws and regulations currently cover, among other pollutants, NOx, ground-level ozone, carbon monoxide, SO_2 and particulate matter.

Title IV of the 1990 Clean Air Act Amendments required the Company to reduce SO_2 emissions in two phases: Phase I in 1995 and Phase II in 2000. The Company selected a fuel switching strategy to comply with the emission reduction requirements. The Company also purchased additional SO_2 allowances. The cost of these purchased allowances was inventoried and included on an average cost basis in the cost of fuel consumed when used. The cost of unused allowances at December 31, 2008 and 2007 was $2.2MM and $11.8MM, respectively.

Selective Catalytic Reduction Program

Title IV of the 1990 Clean Air Act Amendments also required the Company to comply with a NO_x emission rate limit of 0.84 lb/mmBtu in 2000. NO_x is formed in exhaust gases from the generators as a byproduct of coal combustion. The Company installed overfire air systems on all eleven units at the plants to comply with this limit. The total capital cost of the eleven overfire air systems was approximately $8.2MM.

During 2002 and 2003, Ohio and Indiana finalized respective NO_x State Implementation Plan Call regulations that required further significant NO_x emission reductions for coal burning power plants, to a maximum rate of 0.15 pounds/MMBtu during the ozone control period (May through September). To accomplish this new level of emission reductions, the Company installed SCR systems on ten of its eleven units. The total capital cost of these SCR systems was approximately $355MM ($191MM at Kyger Creek and $164MM at Clifty Creek). Due to a different physical configuration of one of the generating units at Clifty Creek, OVEC did not retrofit an SCR system on the eleventh generating unit. However, by retrofitting the other ten generating units with SCR systems, OVEC's combined emission rate was reduced below the required level.

The table below describes projects that OVEC and IKEC have completed to comply with environmental regulations:

Completed Projects

Project	Purpose	Date	Cost ($ MM)
Clifty Creek Coal Yard Modifications	To allow use of low-sulfur coal blend to meet Clean Air Act requirements for SO_2 emissions	1994	79.5
Clifty Creek and Kyger Creek Plants (all units) – boiler overfire air modifications	To meet Clean Air Act requirement for NOx emissions	1995 - 1999	8.2
Clifty Creek and Kyger Creek Plants (10 of 11 units) – installed SO_3 flue gas conditioning systems	To improve particulate collection of lower sulfur coal fly ash in electrostatic precipitators	1998 (Clifty Creek Plant), 2001 (Kyger Creek Plant)	9.5
Clifty Creek and Kyger Creek Plants (10 of 11 units) – installed selective catalytic reduction equipment	To comply with ozone season NOx requirements	2002-2003	355.0
Kyger Creek Coal Yard modifications	To allow use of low-sulfur coal blend to meet Clean Air Act requirements for SO_2 emissions	2006-2007	53.0

Flue Gas Desulfurization Project

On March 10, 2005, the United States Environmental Protection Agency (the "EPA") signed the Clean Air Interstate Rule ("CAIR") that will require significant further reductions of SO_2 and NO_x emissions from coal-burning power plants. On March 15, 2005, the EPA also signed the Clean Air Mercury Rule ("CAMR") that will require significant mercury emission reductions for coal-burning power plants. These emission reductions will be required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO_2; and 2010 and 2018 for mercury. Ohio and Indiana also subsequently finalized their respective versions of CAIR and CAMR. In response, the Company determined that it would be necessary to install FGD systems at both plants to comply with these new rules and have since been conducting the necessary engineering, permitting, and construction to install these new FGD systems. The cost of the new FGD systems and the associated landfills is estimated not to exceed $1.3 billion.

In February 2008, the D.C. Circuit Court of Appeals issued a decision which vacated the federal CAMR and remanded the rule to the EPA with a determination that the rule be rewritten under the maximum achievable control technologies ("MACT") provision of Section 112(d) of the Clean Air Act. A group of electric utilities and the EPA requested a rehearing of the decision, which was denied by the court. Following those denials, both the group of electric utilities and the EPA requested that the U.S. Supreme Court hear the case. However, in February 2009, the EPA withdrew its request and the group of utilities' request was denied. These actions left the original court decision in place, which vacated the federal CAMR and remanded the rule to the EPA with a determination that the rule be rewritten under the MACT provision of Section 112(d) of the Clean Air Act.

In July 2008, the D.C. Circuit Court of Appeals issued a decision that vacated the federal CAIR and remanded the rule to the EPA. In September 2008, the EPA, a group of electric utilities and other parties filed petitions for rehearing. In December 2008, the D.C. Circuit Court of Appeals granted the EPA's petition and remanded the rule to the EPA without vacatur, allowing the federal CAIR to remain in effect while a new rule is developed and promulgated.

The Kyger Creek and Clifty Creek improvements include:

- FGD with a landfill at Kyger Creek Plant for SO_2 reductions and mercury control (currently projected at not to exceed amounts of $515MM for the FGD and $52MM for Phase I of the landfill).

- FGD with a landfill at Clifty Creek Plant for SO_2 reductions and mercury control (currently projected at not to exceed amounts of $619MM for the FGD and $42MM for Phase I of the landfill).

The components of the FGD system include two Chiyoda CT-121 jet bubbling reactor absorbers, a new stack at each plant, new FGD equipment buildings, booster fans and motors, tanks, electrical and mechanical equipment, river cells, limestone handling, gypsum handling and transportation, landfills, pond closure and wastewater treatment.

In December 2008, the Company's Boards of Directors authorized a delay in construction of the FGD at the Clifty Creek Plant of at least 18 months due to economic uncertainty in the capital markets.

In March 2009, the Board of Directors of OVEC authorized a delay in the anticipated tie-in of the first three generating units to the Kyger Creek Plant's FGD system pending an investigation into the structural integrity of the two newly constructed jet bubbling reactors, which are major components of the FGD system. Additional SO_2 allowances have been and will be purchased to operate the Clifty Creek and Kyger Creek generating units in compliance with the current environmental emission rules during the delays.

The Kyger Creek and Clifty Creek FGD systems are projected to be operational in 2010 and 2012, respectively.

CERCLA

The Comprehensive Environmental Response, Compensation and Liability Act (''CERCLA''), also known as the ''Superfund'' law, requires payments for cleanup of certain sites, including abandoned waste disposal sites, even though such waste disposal activities were undertaken in compliance with regulations applicable at the time of disposal. Under the Superfund legislation, one party may, under certain circumstances, be required to bear more than its proportional share of cleanup costs at a site where it has responsibility pursuant to the legislation if payments cannot be obtained from other responsible parties. Other legislation, including the Resource Conservation and Recovery Act, which largely addresses facilities that are currently being operated, can also require environmental remediation. States also have regulatory programs that can mandate cleanups. CERCLA authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. The scope of financial liability under these laws involves inherent uncertainties.

Environmental laws and regulations have changed substantially and rapidly in past years, and OVEC anticipates that there will be continuing changes. The clear trend in environmental regulation is to place more restrictions and limitations on activities that may impact the environment, such as emissions of pollutants, generation and disposal of wastes and use and handling of chemical substances. Increasingly strict environmental restrictions and limitations have resulted in increased operating costs for the Company and other businesses throughout the United States, and it is likely that the costs of compliance with environmental laws and regulations will continue to increase. OVEC will attempt to anticipate future regulatory requirements that might be imposed and to plan accordingly in order to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance.

Regulation of Greenhouse Gases

On June 26, 2009, the United States House of Representatives passed H.R. 2454, the "American Clean Energy and Security Act of 2009," which contains several energy provisions, one of which would create an economy-wide "cap and trade program" for greenhouse gases ("GHG") that would begin in 2012. The bill is currently before the U.S. Senate. The Company is unable to predict whether federal legislation that regulates GHGs will become law or what its final form or effect would be. At this time, there does not appear to be a consensus as to what the level of future regulation of GHGs will be, or the costs associated with that regulation. However, any such costs would likely impact all coal fired generation and the energy market in general.

On April 24, 2009, EPA proposed to find that GHGs from new motor vehicles and motor vehicle engines endanger public health and welfare under Section 202 of the Clean Air Act. The proposed endangerment finding is limited to mobile sources and the Company is unable to predict whether the EPA will impose regulations of GHGs on coal fired generation facilities, and if so, what their form or effect would be.

Insurance

OVEC maintains customary levels of insurance for a company of its size in its industry and believes that its insurance arrangements are adequate and satisfactory.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with the financial information and consolidated financial statements and notes thereto included elsewhere in this Official Statement. The following information contains forward-looking statements. Actual results could differ from the results anticipated in these forward-looking statements as a result of factors including, but not limited to, those under "Risk Factors" and elsewhere in this Official Statement.

Generation Availability

In 2008, the combined availability of the five generating units at Kyger Creek and the six units at Clifty Creek was 85.2%, compared to 85% in 2007. Availability is determined by totaling all hours each of the eleven units were available for operation as a ratio to total hours in the same time period.

Heat Rate

The combined heat rate of the Kyger Creek and Clifty Creek generating units was 10,236 Btu/kWh for 2008 as compared to 10,180 Btu/kWh for 2007.

Energy Sales

OVEC's on-peak use factor — the percentage of power scheduled by the Sponsoring Companies versus the power available — averaged 99.87% in 2008 compared with 99.70% in 2007. The off-peak use factor averaged 91.92% in 2008 and 93.31% in 2007. The average use factor for the combined on-peak and off-peak periods were 96.39% in 2008, compared with 96.92% in 2007.

In 2008, OVEC delivered 15.0MM MWh to the Sponsoring Companies, compared to 14.9MM MWh in 2007. Generation sales were impacted in 2008 by lower generation availability and lower off-peak sales to the Sponsoring Companies.

Power Costs

In 2008, the Sponsoring Companies' average cost of power from OVEC was $40.29/MWh, compared to $35.36/MWh in 2007. The increase was primarily due to additional debt service and fuel costs in 2008.

Units of Power Sales Information

The average cost per MWh unit of sale was $40.29 in 2008 as compared to $35.36 in 2007. The increased debt service costs related to the $300MM Senior Notes issued in 2007 and the $350MM Senior Notes issued in 2008 account for the majority of the increase in cost per unit sold. The Company did not add or remove major facilities from its transmission system during the past two years. The Company maintains its eleven generating units, which average 217.26 MW, in a manner to be most efficiently available during the peak period of need associated with its Sponsoring Company customers.

Operating Revenue Compared for 2008 and 2007

Total revenue for 2008 was $622MM, compared to $531MM in 2007. The primary increase in revenue is due to the billing of increased debt service charges and fuel cost. In 2008, 7.9MM tons of coal was burned, compared to 7.6MM in 2007. The average cost of coal burned for 2008 was $40/ton compared to $34/ton in 2007. The debt service payments increased due to the refinancing of the $305MM Senior Notes due in 2006 with the $445MM amortizing Senior Notes due in 2026, the 2007 issuance of $300MM of Senior Notes due in 2026 and the 2008 issuance of $350MM Senior Notes also due in 2026.

Operating Expense and Other Items Compared for 2008 and 2007

Total operating expenses for 2008 were $567MM, compared to $495MM in 2007. In 2008, OVEC sold 15MM MWh of power to its Sponsoring Companies, compared to 14.9MM MWh in 2007. The tons of coal burned to generate this power were 7.9MM in 2008, compared to 7.6MM in 2007. In addition, the cost per ton of coal consumed and fuel related charges during these two periods was $43.11/ton in 2008 and $39.32/ton in 2007.

OVEC purchases power from other utilities to resell to the DOE Portsmouth facility. During 2008, the DOE purchased 270,369 MWhs for $18.5MM, compared to 256,613 MWhs purchased in 2007 at a cost of $14.6MM. Since OVEC purchases this power for the DOE, the cost is recorded on OVEC's financials as an additional operating expense.

Balance Sheet Comparisons for 2008 versus 2007

At December 31, 2007 and 2008, the Plant-In-Service assets were $1.2bn. after depreciation, net property assets were $330MM at year end 2008, compared to $346MM at year end 2007. Current assets decreased from $234MM to $171MM at year end 2008, primarily as a result of decreased cash reserved for construction and decreased fuel inventories and emission allowances.

The total capitalization was $1.07bn at year end 2008, compared to $713MM at year end 2007. This increase can primarily be attributed to the $350MM Senior Notes issued in 2008.

Cash Flow Analysis for 2008

Cash from net income for both 2007 and 2008 was $5.1MM. This source of funds is a relatively steady number from year to year due to the cost-plus nature of the power agreement OVEC has with the Sponsoring Companies. Depreciation and amortization provided a source of funds of $57MM. The depreciation is closely related to the assets closed to Plant-In-Service during the year. The fuel (coal) inventory decreased during 2008, resulting in a $12MM source of funds. On December 31, 2008, OVEC had 1.5MM tons of coal in inventory as compared to 1.8MM tons on December 31, 2007. Additionally, the price per ton decreased from $36.10/ton to $34.37/ton during the same period. Since 2005, OVEC had been purchasing SO_2 allowances in an effort to build inventory. During 2008, OVEC continued using the allowances purchased in previous years, resulting in a $9.5MM source of funds. Electric plant additions increased during 2008, which resulted in a $436MM use of funds. These funds were used to fund the construction of the FGD projects.

Liquidity and Capital Resources

OVEC had a $100MM, 364-day bank revolving credit facility agreement as of December 31, 2004. In 2005, this facility was replaced with a $200MM, 5-year senior unsecured revolving credit facility that expires August 4, 2010. The facility contains an accordion feature permitting a $100MM increase to the facility under certain conditions, and is used primarily for general corporate purposes including capital expenditures. At December 31, 2008, OVEC had $50MM in outstanding debt under this facility. Interest expense related to line of credit borrowings was $256,000 in 2008, while commitment fees totaled $343,729. The lending banks for the facility are KeyBank National Association, LaSalle Bank National Association, WestLB AG - New York Branch, The Huntington National Bank, Sumitomo Mitsui Banking Corporation - New York Branch, National City Bank of Indiana, and The Bank of Tokyo-Mitsubishi UFJ, Ltd.

In 2006, OVEC issued $445MM in Senior Notes ("2006 Notes") in a private placement. The 2006 Notes bear an annual fixed interest rate of 5.80% payable semi-annually on February 15 and August 15 of each year beginning August 15, 2006 until maturity on February 15, 2026. Proceeds from this issuance were used to repay $305MM of senior secured notes issued in 2001, repay a $60MM term loan, and fund $80MM in capital expenditures.

In 2007, OVEC issued $300MM in Senior Notes ("2007 Notes") in a private placement in three tranches. The $200MM Tranche A notes were issued in June 2007, the $50MM Tranche B notes were issued in September 2007, and the $50MM Tranche C notes were issued in December 2007. The 2007 Notes bear an annual fixed interest rate of 5.90% payable semi-annually on June 15 and December 15 of each year, until maturity on February 15, 2026. Proceeds from this issuance were used to fund capital expenditures.

In 2008, OVEC issued $50MM in Senior Notes ("2008-A Notes") in a private placement. The 2008-A Notes were issued in March 2008 and bear an annual fixed interest rate of 5.92% payable semi-annually on June 15 and December 15 of each year, until maturity or February 15, 2026. Proceeds from this issuance were used to fund capital expenditures. Also in 2008, OVEC issued $300MM in Senior Notes ("2008-B & 2008-C Notes") in a private placement. The Notes were issued in two tranches of $150MM each in June and August of 2008. The 2008-B & 2008-C Notes bear an annual fixed interest rate of 6.71% payable semi-annually on April 15 and October 15 of each year until maturity on February 15, 2026.

In 2009, OVEC issued $100MM in Senior Notes ("2009-A Notes") in a private placement. The 2009-A Notes bear a floating rate. Interest payments are due in one month, three month, or six month periods as selected by OVEC. Principal payment is due on February 15, 2014. Proceeds from this issuance were used to fund capital expenditures.

Debt maturities on OVEC's long-term senior notes are as follows:

December 31,	Senior Notes
2009	$ 35,453,528
2010	37,642,055
2011	39,966,243
2012	42,404,535
2013	45,055,902
2014-2026	944,796,046
Total	$1,145,318,309

Total capitalization at December 31, 2008 was $1.072bn, compared to $713.1MM at December 31, 2007. The capitalization was composed of the aforementioned Senior Notes, as well as $10MM in common stock and retained earnings of $2.5MM. The Sponsoring Companies invested $10MM to form OVEC in 1952 and 1953. The remaining capitalization needs have been secured through debt. The cost reimbursement structure of the ICPA and the dividend distribution policy does not permit excess surplus earnings to accumulate in OVEC's retained earnings.

Independent Auditors

The consolidated financial statements of Ohio Valley Electric Corporation and Subsidiary as of December 31, 2008 and 2007, and for each of the two years in the period ended December 31, 2008, included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2007).

Annex 1

Ohio Valley Electric Corporation

And Subsidiary

Indiana-Kentucky Electric Corporation

Annual Report -- 2008

ANNUAL REPORT — 2008

OHIO VALLEY ELECTRIC CORPORATION

and subsidiary

INDIANA-KENTUCKY ELECTRIC CORPORATION

Ohio Valley Electric Corporation

GENERAL OFFICES, 3932 U.S. Route 23, Piketon, Ohio 45661

Ohio Valley Electric Corporation (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (IKEC), collectively, the Companies, were organized on October 1, 1952. The Companies were formed by investor-owned utilities furnishing electric service in the Ohio River Valley area and their parent holding companies for the purpose of providing the large electric power requirements projected for the uranium enrichment facilities then under construction by the Atomic Energy Commission (AEC) near Portsmouth, Ohio.

OVEC, AEC and OVEC's owners or their utility-company affiliates (called Sponsoring Companies) entered into power agreements to ensure the availability of the AEC's substantial power requirements. On October 15, 1952, OVEC and AEC executed a 25-year agreement, which was later extended through December 31, 2005 (DOE Power Agreement). On September 29, 2000, the DOE gave OVEC notice of cancellation of the DOE Power Agreement. On April 30, 2003, the DOE Power Agreement terminated in accordance with the notice of cancellation.

OVEC and the Sponsoring Companies signed an Inter-Company Power Agreement (ICPA) on July 10, 1953, to support the DOE Power Agreement and provide for excess energy sales to the Sponsoring Companies of power not utilized by the DOE or its predecessors. Since the termination of the DOE Power Agreement on April 30, 2003, OVEC's entire generating capacity has been available to the Sponsoring Companies under the terms of the ICPA. In 2004, the Sponsoring Companies and OVEC entered into an Amended and Restated ICPA, which extends its term from March 13, 2006 to March 13, 2026.

OVEC's Kyger Creek Plant at Cheshire, Ohio, and IKEC's Clifty Creek Plant at Madison, Indiana, have nameplate generating capacities of 1,086,300 and 1,303,560 kilowatts, respectively. These two generating stations, both of which began operation in 1955, are connected by a network of 776 circuit miles of 345,000-volt transmission lines. These lines also interconnect with the major power transmission networks of several of the utilities serving the area.

The current Shareholders and their respective percentages of equity in OVEC are:

Allegheny Energy, Inc.	3.50
American Electric Power Company, Inc.*	39.17
Buckeye Power Generating, LLC[1]	18.00
Columbus Southern Power Company**[2]	4.30
The Dayton Power and Light Company[3]	4.90
Duke Energy Ohio, Inc.***[4]	9.00
Kentucky Utilities Company[5]	2.50
Louisville Gas and Electric Company[5]	5.63
Ohio Edison Company[6]	7.50
Southern Indiana Gas and Electric Company[7]	1.50
The Toledo Edison Company[6]	4.00
	100.00

These investor-owned utilities comprise the Sponsoring Companies and currently share the OVEC power participation benefits and requirements in the following percentages:

Allegheny Energy Supply Company[8]	3.01
Appalachian Power Company[2]	15.69
Buckeye Power Generating, LLC[1]	18.00
Columbus Southern Power Company[2]	4.44
The Dayton Power and Light Company[3]	4.90
Duke Energy Ohio, Inc.[4]	9.00
FirstEnergy Generation Corp.[6]	11.50
Indiana Michigan Power Company[2]	7.85
Kentucky Utilities Company[5]	2.50
Louisville Gas and Electric Company[5]	5.63
Monongahela Power Company[8]	0.49
Ohio Power Company[2]	15.49
Southern Indiana Gas and Electric Company[7]	1.50
	100.00

Some of the Common Stock issued in the name of:

*American Gas & Electric Company
**Columbus and Southern Ohio Electric Company
***The Cincinnati Gas & Electric Company

Subsidiary of:

[1]Buckeye Power, Inc.
[2]American Electric Power Company, Inc.
[3]DPL Inc.
[4]Duke Energy Corporation
[5]E.ON U.S. LLC
[6]FirstEnergy Corp.
[7]Vectren Corporation
[8]Allegheny Energy, Inc.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

A Message from the President

In 2008, Ohio Valley Electric Corporation (OVEC) and its subsidiary, Indiana-Kentucky Electric Corporation (IKEC), continued to provide economical power to our customers, the Sponsoring Companies, from the baseload, coal-fired Kyger Creek and Clifty Creek generating plants in a safe and environmentally responsible manner.

During 2008, we made significant progress on construction of the major components of the flue gas desulfurization (FGD) retrofit projects at the Kyger Creek and Clifty Creek plants. However, as a result of economic conditions and uncertainty in the financial markets during the last quarter of 2008, the OVEC and IKEC Boards of Directors decided in December 2008 to delay construction of the FGD at the Clifty Creek plant. In addition, in March 2009, OVEC's Board of Directors decided to postpone the tie-in of the Kyger Creek FGD. Although these events have extended the FGD completion schedules, the Company has purchased additional sulfur dioxide (SO_2) emission allowances to comply with the current environmental regulations.

POWER COSTS

In 2008, OVEC's average power cost to the Sponsoring Companies was $40.29 per MWh compared with $35.36 per MWh in 2007. The increase was primarily due to additional debt service costs to fund the FGD construction projects and the increased cost of coal purchased in 2008. OVEC's average power cost is projected to increase to $43.68 per MWh in 2009 as debt is added for the FGD construction projects.

ENERGY SALES

OVEC's use factor — the ratio of power scheduled by the Sponsoring Companies to the power available — for the combined on- and off-peak periods averaged 96.4 percent in 2008 compared with 96.9 percent in 2007. The on-peak use factor averaged 99.9 percent in 2008 compared with 99.7 percent in 2007. The off-peak use factor averaged 91.9 percent in 2008 and 93.3 percent in 2007.

In 2008, OVEC delivered 15.03 million MWh to the Sponsoring Companies compared with 14.92 million MWh in 2007. In 2009, OVEC expects to generate and deliver 15.3 million MWh to the Sponsoring Companies.

BUCKEYE POWER ACQUIRES ADDITIONAL OVEC CAPACITY

On May 1, 2009, Buckeye Power Generating, LLC, a subsidiary of Buckeye Power, Inc., purchased a 9 percent equity interest in OVEC and associated power entitlements from FirstEnergy Generation Corp., a subsidiary of FirstEnergy Corp. This purchase increased Buckeye Power's total equity interest in OVEC to 18 percent.

MONONGAHELA POWER ASSIGNMENT TO ALLEGHENY ENERGY SUPPLY

As of February 1, 2009, Monongahela Power Company assigned to Allegheny Energy Supply Company a 3.01 percent share of its 3.50 percent power participation ratio and all other rights, title, obligations and interests under the Inter-Company Power Agreement. Monongahela Power will retain 0.49 percent of its shares of the power participation ratio.

AVAILABILITY

In 2008, the combined availability of the five generating units at Kyger Creek and the six units at Clifty Creek was 85.2 percent compared with 85.0 percent in 2007 and 88.8 percent in 2006. The availability decrease since 2006 has been primarily due to an increase in the scheduled outage factor from 5.5 percent in 2006 to 10.2 percent in 2007 and 9.2 percent in 2008, reflecting an increase in both planned outages to maintain certain generators, boilers and turbines, and short-term maintenance outages for boiler tube repairs and cleanings associated with burning Powder River Basin coal.

The combined equivalent availability of Kyger Creek and Clifty Creek was 80.5 percent in 2008 compared with 79.7 percent in 2007. The improvement in equivalent availability was due to decreases in scheduled outage and unit derating factors of both plants in 2008.

DOE Arrangements with OVEC

In 2008, OVEC purchased 270,369 MWh of power and energy from other electricity suppliers for delivery and use by the Department of Energy (DOE) for its Portsmouth facility. At the request of the DOE, OVEC makes these limited purchases of power and energy under the terms and conditions of an Arranged Power Agreement with DOE.

Transmission System Changes

The DOE load was previously served from two 345-kV substations owned, operated and maintained by the DOE. Each DOE substation was integrated with OVEC's transmission system by two double-circuit tower 345-kV lines and with neighboring systems by one single-circuit 345-kV line. The DOE X533 substation and all connected transmission lines were removed from service in November 2008 at the DOE's request. The DOE X533 substation shutdown is permanent. Removal of the associated 345-kV transmission lines from the substation has been completed as of May 2009. Reconfiguration of the interconnections between these circuits outside of the substation site is scheduled to be completed in late 2009.

Environmental Compliance

OVEC and IKEC place great emphasis on complying with federal, state and local requirements relating to the protection of the environment. During 2008, the Kyger Creek and Clifty Creek plants operated in compliance with their respective emission limits and environmental regulations, and the Companies received no notices of violation from any of the environmental agencies.

OVEC-IKEC Commitment to Safety

Safety is a top priority for OVEC and IKEC. The Companies continue to engage their employees in taking an active role in assuring a safe work environment. OVEC and IKEC employees were successful in reducing the number of OSHA recordable accidents by over 40 percent in 2008. Only two accidents involved missed workdays. Even though this is a marked improvement over the past year, not all employees went home without harm. Therefore, we will work harder to further reduce injuries to improve the safety and health of all employees. We must continue to make progress in minimizing accidents and maximizing safety and health.

Board of Directors and Officer Changes

In January 2009, Curtis H. Davis, chief operating officer – generation of Allegheny Energy, Inc., was elected a director of OVEC and IKEC and appointed to the Executive Committees of both companies. He succeeded Leo C. Rajter, who had served in those capacities since 2006. In May 2009, Steven K. Nelson, chairman of Buckeye Power, Inc., was elected to serve as an OVEC director following the resignation of Charles D. Lasky. Mr. Lasky had served on the OVEC board since 2004. In June 2009, Anthony J. Ahern, president and chief executive officer of Buckeye Power Generating, LLC, was appointed to the Executive Committee of OVEC, replacing Curtis Davis.

In June 2009, Holly K. Koeppel, executive vice president and chief financial officer for American Electric Power Service Corporation, was elected assistant secretary and assistant treasurer of OVEC and IKEC.

On behalf of my fellow directors and officers, I congratulate the employees of both Companies for substantially improving safety performance during 2008. The 2009 year-to-date safety performance shows further improvement and, no doubt, reflects the employees' concentrated efforts to ensure that each and every employee approaches all aspects of the job with safety in mind.

The year 2008 brought many other challenges, not the least of which was the rapid deterioration in the general state of the economy. Although we found it necessary to either defer or reduce certain capital and operating expenditures, I commend the employees for adapting to the changes and for their renewed focus on improving our overall operations, including the effective availability of the generating units. We have much further to go, but I am confident that with our employees' dedicated efforts, we will continue to make OVEC and IKEC competitive suppliers of electricity for many years to come.

Mike

Michael G. Morris
President

July 13, 2009

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
ELECTRIC PLANT:		
At original cost	$1,237,629,673	$1,212,196,875
Less — accumulated provisions for depreciation	907,307,285	865,927,293
	330,322,388	346,269,582
Construction in progress	767,848,855	316,560,056
Total electric plant	1,098,171,243	662,829,638
CURRENT ASSETS:		
Cash and cash equivalents	45,176,266	107,694,495
Accounts receivable	35,586,985	28,979,038
Fuel in storage — at average cost	52,220,614	63,913,331
Materials and supplies — at average cost	19,223,210	16,863,327
Property taxes applicable to future years	2,348,400	2,227,920
Emission allowances	2,244,126	11,787,964
Refundable state income taxes	-	849,123
Deferred tax assets	10,982,423	-
Regulatory assets	1,034,148	-
Prepaid expenses and other	1,937,142	1,705,135
Total current assets	170,753,314	234,020,333
REGULATORY ASSETS:		
Asset retirement costs	14,642,782	16,102,473
Unrecognized postemployment benefits	2,236,997	2,222,600
Deferred depreciation	27,047,875	38,643,429
Pension benefits	27,261,510	-
Total regulatory assets	71,189,164	56,968,502
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	9,549,916	6,831,081
Deferred tax assets	37,524,839	50,635,428
Pension asset	-	16,050,249
Long-term investments	53,609,545	-
Other	141,090	9,601
Total deferred charges and other	100,825,390	73,526,359
TOTAL	$1,440,939,111	$1,027,344,832

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

CAPITALIZATION AND LIABILITIES	2008	2007
CAPITALIZATION:		
Common stock, $100 par value — authorized, 300,000 shares; outstanding, 100,000 shares in 2008 and 2007	$ 10,000,000	$ 10,000,000
Long-term debt	1,009,864,781	700,151,995
Line of credit borrowings	50,000,000	-
Retained earnings	2,506,811	2,915,642
Total capitalization	1,072,371,592	713,067,637
CURRENT LIABILITIES:		
Current portion of long-term debt	35,453,528	22,809,408
Accounts payable	99,405,252	77,031,015
Deferred revenue — advances for construction	26,670,003	24,589,022
Accrued other taxes	9,822,786	7,679,638
Regulatory liabilities	4,230,400	5,114,333
Accrued interest and other	20,837,485	16,783,248
Total current liabilities	196,419,454	154,006,664
COMMITMENTS AND CONTINGENCIES (Note 13)		
REGULATORY LIABILITIES:		
Postretirement benefits	13,670,062	18,947,629
Pension benefits	-	16,050,249
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	47,070,877	48,834,534
Total regulatory liabilities	65,958,014	89,049,487
OTHER LIABILITIES:		
Pension liability	27,261,510	-
Asset retirement obligations	34,162,393	32,223,528
Postretirement benefits obligation	42,529,151	36,774,916
Postemployment benefits obligation	2,236,997	2,222,600
Total other liabilities	106,190,051	71,221,044
TOTAL	$1,440,939,111	$1,027,344,832

See notes to consolidated financial statements.

(Concluded)

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES — Sales of electric energy to:		
Department of energy	$ 18,539,153	$ 14,605,075
Sponsoring companies	603,273,999	516,757,146
Total operating revenues	621,813,152	531,362,221
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	340,212,739	300,666,274
Purchased power	17,903,608	14,106,371
Other operation	69,414,118	68,471,855
Maintenance	71,513,450	69,945,403
Depreciation	56,946,744	31,720,198
Taxes — other than income taxes	9,784,455	8,990,186
Income taxes	1,023,381	907,416
Total operating expenses	566,798,495	494,807,703
OPERATING INCOME	55,014,657	36,554,518
OTHER INCOME	4,714,761	5,252,583
INCOME BEFORE INTEREST CHARGES	59,729,418	41,807,101
INTEREST CHARGES:		
Amortization of debt expense	532,119	404,083
Interest expense	54,106,130	36,261,637
Total interest charges	54,638,249	36,665,720
NET INCOME	5,091,169	5,141,381
RETAINED EARNINGS — Beginning of year	2,915,642	2,274,261
CASH DIVIDENDS ON COMMON STOCK	(5,500,000)	(4,500,000)
RETAINED EARNINGS — End of year	$ 2,506,811	$ 2,915,642

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES:		
Net income	$ 5,091,169	$ 5,141,381
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	56,946,744	31,720,198
Amortization of debt expense	532,119	404,083
Deferred taxes	364,509	783,148
Gain on disposal of assets	(300,000)	(300,000)
Gain on marketable securities	(638,007)	-
Changes in assets and liabilities:		
Accounts receivable	(6,607,947)	(7,470,340)
Fuel in storage	11,692,717	(29,248,030)
Materials and supplies	(2,359,883)	(1,167,437)
Property taxes applicable to subsequent years	(120,480)	(255,120)
Emission allowances	9,543,838	22,275,022
Refundable federal income taxes	-	681
Refundable state income taxes	849,123	107,851
Prepaid expenses and other	(232,007)	(52,036)
Other assets	15,532,270	(15,647,863)
Regulatory assets	(27,835,827)	2,574,798
Accounts payable	(22,535,520)	10,700,986
Deferred revenue	2,080,981	11,044,690
Accrued taxes	2,143,148	652,983
Accrued interest and other	4,054,237	443,272
Regulatory liabilities	(21,226,286)	23,772,209
Other liabilities	34,969,007	(1,433,900)
Net cash provided by operating activities	61,943,905	54,046,576
INVESTING ACTIVITIES:		
Electric plant additions	(435,783,038)	(232,025,190)
Proceeds from sale of marketable securities	24,286,124	-
Purchases of marketable securities	(76,871,172)	-
Proceeds from sale of transformers	300,000	300,000
Net cash used in investing activities	(488,068,086)	(231,725,190)
FINANCING ACTIVITIES:		
Issuance of Senior 2007 Notes	-	300,000,000
Issuance of Senior 2008 Notes	350,000,000	-
Loan origination costs	(3,250,954)	(2,763,237)
Repayment of Senior 2006 Notes	(13,345,479)	-
Repayment of Senior 2007 Notes	(9,463,928)	(12,603,856)
Repayment of Senior 2008 Notes	(4,833,687)	(3,397,953)
Proceeds from line of credit	100,000,000	160,000,000
Payments on line of credit	(50,000,000)	(210,000,000)
Dividends on common stock	(5,500,000)	(4,500,000)
Net cash provided by financing activities	363,605,952	226,734,954
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(62,518,229)	49,056,340
CASH AND CASH EQUIVALENTS — Beginning of year	107,694,495	58,638,155
CASH AND CASH EQUIVALENTS — End of year	$ 45,176,266	$ 107,694,495
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 49,379,338	$ 35,392,737
Income taxes paid (received) — net	$ (710,829)	$ 79,671
Non-cash electric plant additions included in accounts payable at December 31	$ 63,225,054	$ 20,261,593

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements — The consolidated financial statements include the accounts of Ohio Valley Electric Corporation (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (IKEC), collectively, the "Companies." All intercompany transactions have been eliminated in consolidation.

Organization — The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and an affiliate of a generation and transmission rural electric cooperative. These entities and their affiliates comprise the Sponsoring Companies. The Sponsoring Companies purchase power from OVEC according to the terms of the Inter-Company Power Agreement (ICPA), which in 2004 was extended for an additional 20 years from March 13, 2006 to March 13, 2026. Approximately 30% of the Companies' employees are covered by a collective bargaining agreement that expires August 31, 2011.

Rate Regulation — The proceeds from the sale of power to the Sponsoring Companies are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, as well as earn a return on equity before federal income taxes. In addition, the proceeds from power sales are designed to cover debt amortization and interest expense associated with financings. The Companies have continued and expect to continue to operate pursuant to the cost plus rate of return recovery provisions at least to March 13, 2026, the date of termination of the ICPA.

Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides that rate-regulated utilities account for and report assets and liabilities consistent with the economic effect of the way in which rates are established, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. The Companies follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the accompanying consolidated balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2008 and 2007, were as follows:

	2008	2007
Regulatory assets:		
Current assets — income taxes billable to customers	$ 1,034,148	$ -
Other assets:		
Asset retirement costs	14,642,782	16,102,473
Unrecognized postemployment benefits	2,236,997	2,222,600
Deferred depreciation	27,047,875	38,643,429
Pension benefits	27,261,510	-
Total	71,189,164	56,968,502
Total regulatory assets	$72,223,312	$56,968,502
Regulatory liabilities:		
Current liabilities:		
Deferred credit — EPA emission allowance proceeds	$ 1,577,431	$ 893,770
Advance collection of interest	2,652,969	1,884,902
Fuel related settlement	-	2,335,661
Total	4,230,400	5,114,333
Other liabilities:		
Postretirement benefits	13,670,062	18,947,629
Pension benefits	-	16,050,249
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	47,070,877	48,834,534
Total	65,958,014	89,049,487
Total regulatory liabilities	$70,188,414	$94,163,820

Regulatory Assets — Regulatory assets consist primarily of deferred depreciation, asset retirement cost, and pension benefits. Deferred depreciation is recovered over the life of the debt that was used to fund the related plant additions. The Companies follow the sinking fund depreciation method for ratemaking purposes, and the difference between straight-line depreciation and the debt principal payments billed to customers is recorded as deferred depreciation. With the exception of income taxes billable to customers, which will be recovered during 2009, other regulatory assets are being recovered on a long-term basis.

Regulatory Liabilities — The regulatory liabilities classified as current in the accompanying consolidated balance sheets represent emission allowance auction proceeds, a gain on a fuel related settlement, and interest expense collected from customers in advance of expense recognition. These amounts outstanding will be credited to customer bills during 2009. Other regulatory liabilities consist primarily of income taxes refundable to customers, postretirement benefits, and pension benefits. Income taxes refundable to customers are credited to customer bills in the period when the related deferred tax assets are realized. The Companies' current ratemaking policy recovers pension expense in an amount equal to plan contributions and postretirement benefits in an amount equal to service cost. As a result, related regulatory liabilities are being credited to customer bills on a long-term basis. The remaining regulatory liabilities are awaiting credit to customer bills in a future period that is yet to be determined.

Cash and Cash Equivalents — For purposes of these statements, the Companies consider temporary cash investments to be cash equivalents since they are readily convertible into cash and have original maturities of less than three months.

Electric Plant — Property additions and replacements are charged to utility plant accounts. Depreciation expense is recorded at the time property additions and replacements are billed to customers or at the date the property is placed in service if the in-service date occurs subsequent to the customer billing. Customer billings for construction in progress are recorded as deferred revenue-advances for construction. These amounts are closed to revenue at the time the related property is placed in service. Deferred depreciation, depreciation expense, and accumulated depreciation are recorded when financed property additions and replacements are recovered over a period of years through customer debt retirement billing. All depreciable property will be fully billed and depreciated prior to the expiration of the ICPA. Repairs of property are charged to maintenance expense.

Fuel in Storage, Emission Allowances, and Materials and Supplies — The Companies maintain coal, reagent, and oil inventories for use in the generation of electricity and emission allowance inventories for regulatory compliance purposes due to the generation of electricity. These inventories are valued at average cost. Materials and supplies consist primarily of replacement parts necessary to maintain the generating facilities and are valued at average cost.

Long-Term Investments — Long-term investments consist of marketable securities that are held for the purpose of funding postretirement benefits. These securities have been classified as trading securities. Due to tax limitations, the amounts held in this portfolio have not yet been transferred to the Voluntary Employee Beneficiary Association trusts (see Note 9). Long-term investments primarily consist of municipal bonds and money market mutual fund investments. Net unrealized gains recognized during 2008 on securities still held at the balance sheet date were $638,007.

Unamortized Debt Expense — Unamortized debt expense relates to loan origination costs incurred to secure financing. These costs are being amortized over the life of the related loans.

Asset Retirement Obligations and Asset Retirement Costs — The Companies recognize the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. The initial recognition of this liability is accompanied by a corresponding increase in depreciable electric plant. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to electric plant) and for accretion of the liability due to the passage of time.

These asset retirement obligations are primarily related to obligations associated with future asbestos abatement at certain generating stations and certain plant closure costs. As of December 31, 2008 and 2007, the Companies had a regulatory asset of $14.6 million and $16.1 million, respectively, related to asset retirement obligations.

Balance — December 31, 2006	$30,399,555
Accretion	1,823,973
Balance — December 31, 2007	32,223,528
Accretion	1,938,865
Balance — December 31, 2008	$34,162,393

The Companies do not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. The Companies have asset retirement obligations associated with transmission assets and river structures at certain generating stations. However, the retirement date for these assets cannot be determined; therefore, the fair value of the associated liability currently cannot be estimated and no amounts are recognized in the consolidated financial statements herein.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2008 and 2007 included the sale of all generated power to them, the purchase of Arranged Power from them and other utility systems in order to meet the Department of Energy's power requirements, contract barging services, railcar services, and minor transactions for services and materials. The Companies have Power Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, Kentucky Utilities Company, Ohio Edison Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies; and Transmission Service Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, The Toledo Edison Company, Ohio Edison Company, Kentucky Utilities Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies.

In September 2006, the Companies sold two transformers and associated equipment to Duke Energy Ohio, Inc. for a total maximum purchase price of $3 million, which subject to the terms of the asset purchase agreement, is payable in equal annual installments over ten years. The purchase price is contingent on the performance of the transformers, and as such, no receivable has been recognized in the accompanying consolidated balance sheets. In 2008, the Companies were informed that one of the transformers failed, and as such, no further payments from Duke Energy Ohio, Inc. are anticipated.

At December 31, 2008 and 2007, balances due from or to the Sponsoring Companies are as follows:

	2008	2007
Accounts receivable	$31,668,608	$23,136,138
Accounts payable	-	1,352,250

American Electric Power Company, Inc. and a subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2008. The following is a summary of the principal services received from the American Electric Power Service Corporation as authorized by the Companies' Boards of Directors:

	2008	2007
General services	$ 2,198,238	$ 2,473,834
Specific projects	21,274,966	10,623,656
Total	$23,473,204	$13,097,490

General services consist of regular recurring operation and maintenance services. Specific projects primarily represent nonrecurring plant construction projects and engineering studies, which are approved by the Companies' Boards of Directors. The services are provided in accordance with the service agreement dated December 15, 1956, between the Companies and the American Electric Power Service Corporation.

3. COAL SUPPLY

The Companies have coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2009 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have approximately 100% of their 2009 coal requirements under long-term agreements of one year or greater.

4. INVENTORIES

Inventories, net of reserves, at December 31, 2008 and 2007, consist of the following:

	2008	2007
Fuel in storage — at average cost	$52,220,614	$63,913,331
Materials and supplies — at average cost	19,223,210	16,863,327
Emission allowances	2,244,126	11,787,964
Total inventories	$73,687,950	$92,564,622

5. ELECTRIC PLANT

Electric plant at December 31, 2008 and 2007, consists of the following:

	2008	2007
Intangible	$ 26,564	$ 26,564
Steam production plant	1,152,457,582	1,130,722,161
Transmission plant	60,191,487	72,211,888
General plant	24,954,040	9,236,262
	1,237,629,673	1,212,196,875
Less accumulated depreciation	907,307,285	865,927,293
	330,322,388	346,269,582
Construction in progress	767,848,855	316,560,056
Total electric plant	$1,098,171,243	$ 662,829,638

6. BORROWING ARRANGEMENTS AND NOTES

OVEC has an unsecured bank revolving line of credit agreement with a borrowing limit of $200 million as of December 31, 2008. The $200 million line of credit has an expiration date of August 4, 2010. At December 31, 2008 and 2007, OVEC had borrowed $50 and $0 million, respectively, under this line of credit. Interest expense related to line of credit borrowings was $255,699 in 2008 and $3,051,247 in 2007. During 2008 and 2007, OVEC incurred annual commitment fees of $343,729 and $288,736, respectively, based on the borrowing limits of the line of credit.

7. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2008 and 2007:

	Interest Rate	2008	2007
Senior 2006 Notes due February 15, 2026	5.80 %	$ 413,013,876	$ 426,359,355
Senior 2007 Notes:			
Tranche A due February 15, 2026	5.90	190,703,342	196,990,760
Tranche B due February 15, 2026	5.90	48,027,572	49,611,288
Tranche C due February 15, 2026	5.90	48,407,206	50,000,000
Senior 2008 Notes:			
Tranche A due February 15, 2026	5.92	48,780,045	-
Tranche B due February 15, 2026	6.71	147,157,899	-
Tranche C due February 15, 2026	6.71	149,228,369	-
Total debt		1,045,318,309	722,961,403
Current portion of long-term debt		35,453,528	22,809,408
Total long-term debt		$1,009,864,781	$ 700,151,995

During 2007, OVEC issued $300 million unsecured senior notes (Senior 2007 Notes) in private placements in three tranches. The $200 million Tranche A notes were issued in June 2007, the $50 million Tranche B notes were issued in September 2007, and the $50 million Tranche C notes were issued in December 2007.

During 2008, OVEC issued $350 million unsecured senior notes (Senior 2008 Notes) in private placements in three tranches. The $50 million Tranche A notes were issued in March 2008, the $150 million Tranche B notes were issued in June 2008, and the $150 million Tranche C notes were issued in August 2008.

The annual maturities of long-term debt as of December 31, 2008, are as follows:

2009	$ 35,453,528
2010	37,642,055
2011	39,966,243
2012	42,404,535
2013	45,055,902
2014–2026	844,796,046
Total	$1,045,318,309

8. INCOME TAXES

OVEC and IKEC file a consolidated federal income tax return. The effective tax rate varied from the statutory federal income tax rate due to differences between the book and tax treatment of various transactions as follows:

	2008	2007
Income tax expense at 35% statutory rate	$ 2,140,093	$ 2,117,079
State income taxes net of federal benefit	66,042	53,707
Temporary differences flowed through to customer bills	(1,218,762)	(1,274,392)
Permanent differences	36,008	11,022
Income tax provision	$ 1,023,381	$ 907,416
Effective tax rate	16.7 %	15.0 %

Components of the income tax provision were as follows:

	2008	2007
Current income tax expense	$ 977,761	$ 125,036
Deferred income tax expense	45,620	782,380
Total income tax provision	$ 1,023,381	$ 907,416

OVEC and IKEC record deferred tax assets and liabilities based on differences between book and tax basis of assets and liabilities measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are adjusted for changes in tax rates. The deferred tax assets recorded in the accompanying consolidated balance sheets consist primarily of the net deferred taxes on depreciation, postretirement benefits obligation, net operating loss carryforwards, asset retirement obligations, regulatory assets and regulatory liabilities.

To the extent that the Companies have not reflected credits in customer billings for deferred tax assets, they have recorded a regulatory liability representing income taxes refundable to customers under the applicable agreements among the parties. The liability was $47,070,877 at December 31, 2008, and $48,834,534 at December 31, 2007.

Deferred income tax assets (liabilities) consisted of the following at December 31, 2008 and 2007:

	2008	2007
Deferred tax assets:		
Deferred revenue — advances for construction	$ 9,619,159	$ 8,942,781
Federal net operating loss carryforwards	4,456,189	22,341,256
State net operating loss carryforwards	39,212	273,971
AMT credit carryforwards	2,532,919	1,505,920
Postretirement benefit obligation	20,445,933	13,374,669
Pension liability	9,832,499	10,113,109
Postemployment benefit obligation	806,825	808,337
Asset retirement obligations	12,321,464	11,719,375
Miscellaneous accruals	2,649,351	2,834,718
Regulatory liability — postretirement benefits	4,930,427	6,891,063
Regulatory liability — investment tax credits	1,223,817	1,234,053
Regulatory liability — net antitrust settlement	657,843	663,345
Regulatory liability — income taxes refundable to customers	16,977,211	17,621,791
Total deferred tax assets	86,492,849	98,324,388
Deferred tax liabilities:		
Regulatory asset — income taxes billable to customers	(361,952)	-
Prepaid expenses	(582,702)	(576,140)
Electric plant	(21,120,348)	(34,610,360)
Regulatory asset — pension benefits	(9,832,499)	(5,837,815)
Regulatory asset — unrecognized postemployment benefits	(806,825)	(808,337)
Regulatory asset — asset retirement costs	(5,281,261)	(5,856,308)
Total deferred tax liabilities	(37,985,587)	(47,688,960)
Deferred income tax assets (liabilities)	$ 48,507,262	$ 50,635,428

The Companies had federal income tax net operating loss carryforwards (NOLs) of $12.7 million as of December 31, 2008. These federal income tax NOLs result in part from accelerated depreciation methods for property, plant and equipment for income tax reporting purposes. The Companies also have alternative minimum tax (AMT) credit carryforwards of approximately $2.5 million, which are not limited by expiration dates. Management periodically assesses the need for a valuation allowance on deferred tax assets. As of December 31, 2008 and 2007, management believes that realization of the Companies' deferred tax assets is more likely than not.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48 to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109. Interpretation No. 48 addresses the determination of whether the tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under Interpretation No. 48, the Companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Upon adoption of FIN 48, the Companies have not identified any uncertain tax positions.

The Companies file income tax returns with the Internal Revenue Service and the states of Ohio, Indiana and the Commonwealth of Kentucky. The Companies are no longer subject to federal tax examinations for tax years 2004 and earlier. The Companies are no longer subject to states of Ohio and Indiana tax examinations for tax years 2004 and earlier. The Companies are no longer subject to the Commonwealth of Kentucky examinations for tax years 2003 and earlier.

9. PENSION PLAN, OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Companies have a noncontributory qualified defined benefit pension plan (the Pension Plan) covering substantially all of their employees. The benefits are based on years of service and each employee's highest consecutive 36-month compensation period. Employees are vested in the Pension Plan after five years of service with the Companies.

Funding for the Pension Plan is based on actuarially determined contributions, the maximum of which is generally the amount deductible for income tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The full cost of the pension benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 54% and 46% split for OVEC and IKEC, respectively, as of December 31, 2008 and 2007. The Pension Plan's assets consist of an insurance contract and investments in equity and debt securities. In the following disclosures, the insurance contract is treated as a debt security because its long-term yield is tied to the debt markets.

In addition to the Pension Plan, the Companies provide certain health care and life insurance benefits (Other Postretirement Benefits) for retired employees. Substantially all of the Companies' employees become eligible for these benefits if they reach retirement age while working for the Companies. These and similar benefits for active employees are provided through employer funding and insurance policies. In December 2004, the Companies established Voluntary Employee Beneficiary Association (VEBA) trusts. The main objectives of the VEBA trusts are to maintain the purchasing power of the current assets and all future contributions, to have the ability to pay all benefits and expense obligations when due and to achieve a "funding cushion" to maximize return within prudent levels of risk. The investment horizon for the Pension Plan and VEBA trusts is greater than five years and the strategic asset allocation is based on a long-term perspective.

Projected Pension Plan and Other Postretirement Benefits obligations and funded status as of December 31, 2008 and 2007:

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	$ 153,972,014	$ 161,065,647	$ 97,431,448	$ 102,541,624
Service cost	3,899,052	4,221,650	2,781,098	3,219,492
Interest cost	9,799,772	9,243,320	6,173,680	5,855,237
Plan participants' contributions	-	-	613,383	585,570
Benefits paid	(7,755,609)	(7,499,086)	(3,286,320)	(3,279,279)
Net actuarial (gain) loss	9,056,558	(13,018,717)	1,242,881	(11,761,744)
Medicare subsidy	-	-	-	270,548
Expenses paid from assets	(45,200)	(40,800)	-	-
Projected benefit obligation — end of year	168,926,587	153,972,014	104,956,170	97,431,448
Change in fair value of plan assets:				
Fair value of plan assets — beginning of year	170,022,263	169,811,906	60,656,532	55,395,876
Actual return on plan assets	(26,056,377)	1,750,243	(728,513)	2,760,656
Expenses paid from assets	(45,200)	(40,800)	-	-
Employer contributions	5,500,000	6,000,000	5,171,937	4,923,161
Plan participants' contributions	-	-	613,383	585,570
Medicare subsidy	-	-	-	270,548
Benefits paid	(7,755,609)	(7,499,086)	(3,286,320)	(3,279,279)
Fair value of plan assets — end of year	141,665,077	170,022,263	62,427,019	60,656,532
Funded (underfunded) status — end of year	$ (27,261,510)	$ 16,050,249	$ (42,529,151)	$ (36,774,916)

On December 8, 2003, the President of the United States of America signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit to retirees as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is actuarially equivalent to the benefit provided by Medicare. The Companies believe that the coverage for prescription drugs is at least actuarially equivalent to the benefits provided by Medicare for most current retirees because the benefits for that group substantially exceed the benefits provided by Medicare, thereby allowing the Companies to qualify for the subsidy. The Companies' employer contributions for Other Postretirement Benefits in the above table are net of subsidies received of $0 and $270,548 for 2008 and 2007, respectively. The Companies have accounted for the subsidy as a reduction of the benefit obligation detailed in the above table. The benefit obligation was reduced by approximately $14.2 and $11.3 million as of December 31, 2008 and 2007.

The accumulated benefit obligation for the Pension Plan was $144,698,788 and $131,992,635 at December 31, 2008 and 2007, respectively.

Components of Net Periodic Benefit Cost — The Companies record the expected cost of Other Postretirement Benefits over the service period during which such benefits are earned.

Pension expense is recognized as amounts are contributed to the Pension Plan and billed to customers. The accumulated difference between recorded pension expense and the yearly net periodic pension expense as calculated under SFAS No. 87, *Employers' Accounting for Pensions*, is billable as a cost of operations under the ICPA when contributed to the pension fund. This accumulated difference has been recorded as a regulatory asset in the accompanying consolidated balance sheets.

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Service cost	$ 3,899,052	$ 4,221,650	$ 2,781,098	$ 3,219,492
Interest cost	9,799,772	9,243,320	6,173,680	5,855,237
Expected return on plan assets	(11,049,029)	(11,668,332)	(2,880,712)	(2,631,976)
Amortization of prior service cost	531,437	531,437	(379,000)	(379,000)
Recognized actuarial loss	-	-	(263,945)	126,175
Net periodic benefit cost	$ 3,181,232	$ 2,328,075	$ 5,431,121	$ 6,189,928
Pension and other postretirement benefits expense recognized in the consolidated statement of income and retained earnings and billed to sponsoring companies under the ICPA	$ 5,500,000	$ 6,000,000	$ 3,260,000	$ 3,219,492

Pension Plan and Other Postretirement Benefit Assumptions — Actuarial assumptions used to determine benefit obligations at December 31, 2008 and 2007, were as follows:

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	6.10 %	6.50 %	5.90 %	6.50 %
Rate of compensation increase	4.00	4.00	4.00	4.00

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2008 and 2007, were as follows:

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	6.50 %	5.90 %	6.50 %	5.90 %
Expected long-term return on plan assets	6.50	7.00	4.70	4.70
Rate of compensation increase	4.00	4.00	4.00	4.00

In selecting the expected long-term rate of return on assets, the Companies considered the average rate of earnings expected on the funds invested or to be invested to provide for plan benefits. This included considering the Pension Plan and VEBA trusts' asset allocation, as well as the target asset allocations for the future, and the expected returns likely to be earned over the life of the Pension Plan and the VEBAs.

Assumed health care cost trend rates at December 31, 2008 and 2007, were as follows:

	2008	2007
Health care trend rate assumed for next year — participants under 65	8.00 %	9.00 %
Health care trend rate assumed for next year — participants over 65	9.50	11.29
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) — participants under 65	5.00	5.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) — participants over 65	5.00	5.00
Year that the rate reaches the ultimate trend rate	2015	2012

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost	$ 1,553,985	$ (1,222,418)
Effect on postretirement benefit obligation	16,334,303	(13,014,742)

Pension Plan and Other Postretirement Benefit Assets — The asset allocation for the Pension Plan and VEBA trusts at December 31, 2008 and 2007, by asset category was as follows:

	Pension Plan		VEBA Trusts	
	2008	2007	2008	2007
Asset category:				
Equity securities	24 %	31 %	24 %	- %
Debt securities	76	69	76	100

The target asset allocation for the Pension Plan is 30% equity securities and 70% debt securities and for the VEBA trust is 40% equity securities and 60% debt securities.

Pension Plan and Other Postretirement Benefit Contributions — The Companies expect to contribute $5,700,000 to their Pension Plan and $6,227,701 to their Other Postretirement Benefits plan in 2009.

Estimated Future Benefit Payments — The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

		Other Postretirement Benefits	
Years Ending December 31	**Pension Plan**	**With Medicare Subsidy**	**Without Medicare Subsidy**
2009	$ 8,190,118	$ 4,042,701	$ 4,388,179
2010	8,563,310	4,454,986	4,833,964
2011	8,860,448	4,797,783	5,211,111
2012	9,258,537	5,136,259	5,587,667
2013	9,646,383	5,403,058	5,892,674
Five years thereafter	57,038,752	32,929,845	35,939,277

Postemployment Benefits — The Companies follow SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, and accrue the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Such benefits include, but are not limited to, salary continuations, supplemental unemployment, severance, disability (including workers' compensation), job training, counseling, and continuation of benefits, such as health care and life insurance coverage. The cost of such benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 42% and 58% split between OVEC and IKEC, respectively, as of December 31, 2008, and approximately a 40% and 60% split between OVEC and IKEC, respectively, as of December 31, 2007. The liability is offset with a corresponding regulatory asset and represents unrecognized postemployment benefits billable in the future to customers. The accrued cost of such benefits was $2,236,997 and $2,222,600 at December 31, 2008 and 2007, respectively.

Defined Contribution Plan — The Companies have a trustee-defined contribution supplemental pension and savings plan that includes 401(k) features and is available to employees who have met eligibility requirements. In 2007, the Companies' contributions to the savings plan were made in amounts equal to 50% of the employee-participants' contributions up to 6% of total compensation. In January 2008, the Companies' contributions to the savings plan were changed to amounts equal to 100% of the first 1% and 50% of the next 5% of employee-participants' contributions based upon total compensation. Benefits to participating employees are based solely upon amounts contributed to the participants' accounts and investment earnings. By its nature, the plan is fully funded at all times. The employer contributions for 2008 and 2007 were $1,634,334 and $1,278,249, respectively.

Adoption of SFAS No. 158 — Pension and Other Postretirement Benefits — The Companies adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2007. SFAS No. 158 requires employers to fully recognize the obligations associated with defined benefit pension plans and other postretirement plans, which include retiree healthcare, in their balance sheets. Previous standards required an employer to disclose the complete funded status of its plan only in the notes to the financial statements and provided that an employer delay recognition of certain changes in plan assets and obligations that affected the costs of providing benefits resulting in an asset or liability that often differed from the plan's funded status. SFAS No. 158 requires a defined benefit pension or postretirement plan sponsor to recognize in its statement of financial position an asset for a plan's overfunded status or a liability for the plan's underfunded status. The effects of the Companies' adoption of SFAS No. 158 were as follows:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Pension asset	$ 3,671,925	$12,378,324	$ 16,050,249
Postretirement benefits obligation	(40,299,341)	3,524,425	(36,774,916)

The adjustments detailed in the above table represent the unrecognized actuarial gains and unrecognized prior service cost for the plans as of December 31, 2007. These amounts were recorded as additions to regulatory liabilities (see Note 1).

10. ENVIRONMENTAL MATTERS

Title IV of the 1990 Clean Air Act Amendments required the Companies to reduce sulfur dioxide (SO_2) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO_2 allowances. The cost of these purchased allowances was inventoried and included on an average cost basis in the cost of fuel consumed when used. The cost of unused allowances at December 31, 2008 and 2007, was $2,244,126 and $11,787,964, respectively.

Title IV of the 1990 Clean Air Act Amendments also required the Companies to comply with a nitrogen oxides (NO_x) emission rate limit of 0.84 lb/mmBtu in 2000. The Companies installed overfire air systems on all eleven units at the plants to comply with this limit. The total capital cost of the eleven overfire air systems was approximately $8.2 million.

During 2002 and 2003, Ohio and Indiana finalized respective NO_x State Implementation Plan (SIP) Call regulations that required further significant NO_x emission reductions for coal-burning power plants during the ozone control period (May through September). The Companies installed selective catalytic reduction (SCR) systems on ten of its eleven units to comply with these rules. The total capital cost of the ten SCR systems was approximately $355 million.

On March 10, 2005, the U.S. EPA signed the Clean Air Interstate Rule (CAIR) that will require significant further reductions of SO_2 and NO_x emissions from coal-burning power plants. On March 15, 2005, the U.S. EPA also signed the Clean Air Mercury Rule (CAMR) that will require significant mercury emission reductions for coal-burning power plants. These emission reductions will be required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO_2; and 2010 and 2018 for mercury. Ohio and Indiana also subsequently finalized their respective versions of CAIR and CAMR. In response, the Companies determined that it would be necessary to install flue gas desulfurization (FGD) systems at both plants to comply with these new rules and have since been conducting the necessary engineering, permitting, and construction to install these new FGD systems.

In February 2008, the D.C. Circuit Court of Appeals issued a decision which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the maximum achievable control technologies (MACT) provision of Section 112(d) of the Clean Air Act. A group of electric utilities and the U.S. EPA requested a rehearing of the decision, which was denied by the court. Following those denials, both the group of electric utilities and the U.S. EPA requested that the U.S. Supreme Court hear the case. However, in February 2009, the U.S. EPA withdrew its request and the group of utilities' request was denied. These actions left the original court decision in place, which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the MACT provision of Section 112(d) of the Clean Air Act.

In July 2008, the D.C. Circuit Court of Appeals issued a decision that vacated the federal CAIR and remanded the rule to the U.S. EPA. In September 2008, the U.S. EPA, a group of electric utilities and other parties filed petitions for rehearing. In December 2008, the D.C. Circuit Court of Appeals granted the U.S. EPA's petition and remanded the rule to the U.S. EPA without vacatur, allowing the federal CAIR to remain in effect while a new rule is developed and promulgated.

In December 2008, the Companies Boards of Directors authorized a delay in construction of the FGD at the Clifty Creek Plant of at least 18 months due to economic uncertainty in the capital markets.

In March 2009, the Board of Directors of OVEC authorized a delay in the anticipated tie-in of the first three generating units to the Kyger Creek Plant's FGD system pending an investigation into the structural integrity of the two newly constructed jet bubbling reactors, which are major components of the FGD system. Additional SO2 allowances will be purchased to operate the Clifty Creek and Kyger Creek generating units to comply with the current environmental emission rules during the delays. The current cost to complete the new Kyger Creek and Clifty Creek FGD systems and the associated landfills is estimated not to exceed $1.33 billion.

11. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of the fair value of certain financial instruments. The estimates of fair value under SFAS No. 107 require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed. As cash and cash equivalents, current receivables, current payables, and line of credit borrowings are all short term in nature, their carrying amounts approximate fair value. The fair values of the Senior Notes were estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

The fair values and recorded values of the Senior Notes as of December 31, 2008 and 2007, are as follows:

	2008		2007	
	Fair Value	**Recorded Value**	**Fair Value**	**Recorded Value**
Senior 2006 Notes	$365,930,295	$ 413,013,876	$420,070,000	$426,359,355
Senior 2007 Notes	256,988,617	287,138,120	288,450,000	296,602,048
Senior 2008 Notes	324,385,533	345,166,313	-	-
Total	$947,304,445	$1,045,318,309	$708,520,000	$722,961,403

12. OPERATING LEASES

OVEC has entered into operating leases to secure railcars for the transportation of coal in connection with the fuel switching modifications at the OVEC and the IKEC generating stations. OVEC has railcar lease agreements that extend to as long as December 31, 2025, with options to exit the leases under certain conditions.

Future minimum lease payments for operating leases at December 31, 2008, are as follows:

Years Ending December 31	
2009	$ 4,726,988
2010	4,758,188
2011	3,356,810
2012	3,266,568
2013	3,254,088
Thereafter	25,886,781
Total future minimum lease payments	$45,249,423

The annual lease cost incurred was $4,761,224 and $4,767,379 for 2008 and 2007, respectively.

13. COMMITMENTS AND CONTINGENCIES

The Companies are party in or may be affected by various matters under litigation. Management believes that the ultimate outcome of these matters will not have a significant adverse effect on either the Companies' future results of operation or financial position.

14. FAIR VALUE MEASUREMENTS

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. The Companies have adopted SFAS 157 and FASB Staff Position FAS No. 157-2, *Effective Date of FASB Statement No. 157*, effective January 1, 2008. The adoption of

SFAS 157 for financial instruments as required at January 1, 2008 did not have a material effect on the Companies' consolidated financial statements; however, the Companies are required to provide additional disclosure as part of the Companies' consolidated financial statements. As of December 31, 2008, the Companies have not adopted SFAS 157 for non-financial assets and non-financial liabilities. However, the provisions associated with non-financial assets and non-financial liabilities will be included in the disclosures in the Companies' 2009 consolidated financial statements, as required, and will not have a material effect on the Companies' consolidated financial statements.

On October 10, 2008, the FASB issued Staff Position FAS No. 157-3, *Fair Value Measurements* (FSP FAS 157-3), which clarifies the application of SFAS 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of this standard as of December 31, 2008 did not have a material impact on the Companies' consolidated financial statements.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of December 31, 2008, the Companies held certain assets that are required to be measured at fair value on a recurring basis. These consist of investments recorded within cash and cash equivalents. The investments consist of money market mutual funds and debt securities. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and losses are recorded in earnings if fair value falls below recorded cost.

Assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at December 31, 2008, were as follows:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active for Market Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ -	$45,118,305	$ -
Marketable securities	$ -	$53,609,545	$ -

15. NEW ACCOUNTING STANDARDS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The objective of the pronouncement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, and was adopted by the Companies on January 1, 2008. There was no impact on the Companies' financial position and results of operations, because the Companies made no fair value elections upon adoption.

On December 30, 2008, the FASB issued FSP FAS 132(R)-1, which amends Statement of Financial Accounting Standards No. 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits — an amendment of FASB Statements No. 87, 88, and 106*, to require more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The disclosure requirements of FSP FAS 132(R)-1 will be effective for the Companies for the year ended December 31, 2009.

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OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ohio Valley Electric Corporation:

We have audited the accompanying consolidated balance sheets of Ohio Valley Electric Corporation and subsidiary company (the Companies), as of December 31, 2008 and 2007, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Companies as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, the Companies changed their method of accounting for defined benefit pension and other postretirement plans in 2007.

Deloitte & Touche LLP

Deloitte + Touche LLP

Cincinnati, Ohio
March 27, 2009

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

OVEC PERFORMANCE—A 5-YEAR COMPARISON

	2008	2007	2006	2005	2004
Net Generation (MWh)	**15,260,029**	15,109,836	16,468,342	16,638,497	15,810,465
Energy Sales (MWh) to:					
DOE	**270,369**	256,613	246,371	251,375	262,944
Sponsors	**15,026,497**	14,918,727	16,226,777	16,254,716	15,455,340
Maximum Demand (MW) by:					
DOE	**42**	41	37	45	46
Sponsors	**2,216**	2,233	2,300	2,291	2,257
Weighted Average Demand (MW):					
DOE Operating Level	**31**	29	28	29	30
Power Costs to:					
DOE	**$18,539,154**	$14,605,000	$15,445,000	$14,520,000	$9,696,000
Sponsors	**$605,354,979**	$527,516,000	$509,024,000	$458,345,000	$377,392,000
Average Price (MWh):					
DOE	**$68.570**	$56.915	$62.689	$57.764	$36.876
Sponsors	**$40.286**	$35.359	$31.369	$28.198	$24.418
Operating Revenues	**$621,813,000**	$531,362,000	$523,927,000	$468,546,000	$406,283,000
Operating Expenses	**$566,798,000**	$494,808,000	$494,893,000	$442,420,000	$380,972,000
Cost of Fuel Consumed	**$340,213,000**	$300,666,000	$318,762,000	$287,093,000	$218,917,000
Taxes (federal, state, and local)	**$10,808,000**	$9,898,000	$9,457,000	$7,735,000	$9,699,000
Payroll	**$53,694,000**	$49,977,000	$47,561,000	$46,447,000	$45,396,000
Fuel Burned (tons)	**7,891,440**	7,647,397	7,820,516	7,632,857	7,510,373
Heat Rate (Btu per kWh, net generation)	**10,236**	10,180	10,053	9,978	10,076
Unit Cost of Fuel Burned (per mmBtu)	**$2.18**	$1.95	$1.95	$1.73	$1.37
Unit Availability (percent)	**85.2**	85.0	88.8	88.0	87.6
Power Use Factor (percent)	**96.39**	96.92	98.06	99.54	97.19
Employees (year-end)	**817**	747	748	749	742

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

DIRECTORS

Ohio Valley Electric Corporation

*__ANTHONY J. AHERN__, Columbus, Ohio
President and Chief Executive Officer
Buckeye Power Generating, LLC

CURTIS H. DAVIS, Greensburg, Pennsylvania
Chief Operating Officer – Generation
Allegheny Energy, Inc.

WILLIAM S. DOTY, Evansville, Indiana
Executive Vice President – Utility Operations
Vectren Corporation

CARL L. ENGLISH, Columbus, Ohio
Chief Operating Officer
American Electric Power Service Corporation

HOLLY K. KOEPPEL, Columbus, Ohio
Executive Vice President and Chief Financial Officer
American Electric Power Service Corporation

GARY R. LEIDICH, Akron, Ohio
Executive Vice President
FirstEnergy Corp.

*__MICHAEL G. MORRIS__, Columbus, Ohio
Chairman, President and Chief Executive Officer
American Electric Power Company, Inc.

STEVEN K. NELSON, Columbus, Ohio
Chairman
Buckeye Power, Inc.

PATRICK W. O'LOUGHLIN, Columbus, Ohio
Vice President and Chief Operating Officer
Buckeye Power Generating, LLC

GARY G. STEPHENSON, Dayton, Ohio
Senior Vice President, Generation and Marketing
DPL Inc.

*__STANLEY F. SZWED__, Akron, Ohio
Vice President – FERC Policy and Chief FERC Compliance Officer
FirstEnergy Service Company

PAUL W. THOMPSON, Louisville, Kentucky
Senior Vice President, Energy Services
E.ON U.S. LLC

*__JOHN N. VOYLES__, Louisville, Kentucky
Vice President, Transmission and Generation Services
E.ON U.S. LLC

*__CHARLES WHITLOCK__, Cincinnati, Ohio
President, Commercial Asset Management
Duke Energy Corporation

Indiana-Kentucky Electric Corporation

*__CURTIS H. DAVIS__, Greensburg, Pennsylvania
Chief Operating Officer – Generation
Allegheny Energy, Inc.

WILLIAM S. DOTY, Evansville, Indiana
Executive Vice President – Utility Operations
Vectren Corporation

JOANN M. GREVENOW, Fort Wayne, Indiana
Director, Customer Services and Marketing
Indiana Michigan Power Company

RONALD G. JOCHUM, Evansville, Indiana
Vice President – Power Supply
Vectren Corporation

MARC E. LEWIS, Fort Wayne, Indiana
Vice President – External Relations
Indiana Michigan Power Company

*__MICHAEL G. MORRIS__, Columbus, Ohio
Chairman, President and Chief Executive Officer
American Electric Power Company, Inc.

*__STANLEY F. SZWED__, Akron, Ohio
Vice President – FERC Policy and Chief FERC Compliance Officer
FirstEnergy Service Company

OFFICERS—OVEC AND IKEC

MICHAEL G. MORRIS
President

DAVID L. HART
Vice President and Assistant to the President

DAVID E. JONES
Vice President-Operations

JOHN D. BRODT
Secretary and Treasurer

RONALD D. COOK
Assistant Secretary and Assistant Treasurer

HOLLY K. KOEPPEL
Assistant Secretary and Assistant Treasurer

*Member of Executive Committee.

Annex 2

Ohio Valley Electric Corporation

And Subsidiary

Indiana-Kentucky Electric Corporation

Consolidating Balance Sheets–March 31, 2009–Unaudited–and December 31, 2008
Consolidating Statements of Income and Retained Earnings Year
to Date–March 31, 2009 and 2008–Unaudited
Consolidating Statements of Cash Flows Year to Date–March 31, 2009 and 2008–Unaudited

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - MARCH 31, 2009-UNAUDITED AND DECEMBER 31, 2008

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE - MARCH 31, 2009 AND 2008-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - MARCH 31, 2009 AND 2008-UNAUDITED

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - MARCH 31, 2009-UNAUDITED AND DECEMBER 31, 2008

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE - MARCH 31, 2009 AND 2008-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - MARCH 31, 2009 AND 2008-UNAUDITED

OFFICER'S CERTIFICATION

A review of the affairs and activities of Ohio Valley Electric Corporation and its wholly-owned subsidiary, Indiana-Kentucky Electric Corporation (the Companies), during the quarters ended March 31, 2009 and 2008, and December 31, 2008 has been made under my supervision, and in my opinion, the unaudited financial statements for these periods present fairly the financial conditions of the Companies as of March 31, 2009 and 2008, and December 31, 2008, and the results of the operations, thereof, in accordance with generally accepted accounting principles consistently applied throughout the period. To the best of my knowledge and belief, there has been no Potential Default, Default, or Event of Default by the Companies and the Companies are in compliance with the covenents of the current debt agreements.

Secretary and Treasurer
OHIO VALLEY ELECTRIC CORPORATION and
INDIANA-KENTUCKY ELECTRIC CORPORATION

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS

CONSOLIDATING BALANCE SHEETS
AS OF MARCH 31, 2009-UNAUDITED AND DECEMBER 31, 2008

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
ASSETS								
ELECTRIC PLANT:								
At original cost	$ 1,237,629,673.28	$ -	$ 593,482,569.13	$ 644,147,104.15	$ 1,237,629,673.28	$ -	$ 593,482,569.13	$ 644,147,104.15
Less - Accumulated provisions for depreciation	(911,824,254.63)	-	(396,131,314.81)	(515,692,939.82)	(907,307,285.86)	-	(393,319,793.39)	(513,987,492.47)
	325,805,418.65	-	197,351,254.32	128,454,164.33	330,322,387.42	-	200,162,775.74	130,159,611.68
Construction in progress	829,560,140.94	-	470,399,312.14	359,160,828.80	767,848,855.19	-	444,061,731.13	323,787,124.06
Total electric plant	1,155,365,559.59	-	667,750,566.46	487,614,993.13	1,098,171,242.61	-	644,224,506.87	453,946,735.74
INVESTMENTS AND OTHER:								
Investment in subsidiary company	-	(3,400,000.00)	3,400,000.00	-	-	(3,400,000.00)	3,400,000.00	-
Advances to subsidiary-construction	-	(137,927,983.62)	137,927,983.62	-	-	(139,956,336.33)	139,956,336.33	-
Total investments and other	-	(141,327,983.62)	141,327,983.62	-	-	(143,356,336.33)	143,356,336.33	-
CURRENT ASSETS:								
Cash and cash equivalents	37,654,465.22	-	37,628,560.71	25,904.51	45,176,265.11	-	45,140,412.41	35,852.70
Accounts receivable	32,821,806.81	(318,815,377.81)	350,856,593.84	780,590.78	35,586,984.19	(251,267,276.85)	283,116,405.26	3,737,855.78
Fuel in storage-at average cost	51,163,915.33	-	20,070,258.17	31,093,657.16	52,220,614.32	-	21,233,373.04	30,987,241.28
Materials and supplies-at average cost	20,598,424.41	-	10,847,761.96	9,750,662.45	19,223,209.57	-	9,598,079.74	9,625,129.83
Property taxes applicable to future years	1,761,300.00	-	1,761,300.00	-	2,348,400.00	-	2,348,400.00	-
Emission allowances	7,494,411.80	-	7,494,411.80	-	2,244,126.23	-	2,244,126.23	-
Regulatory assets	1,034,148.00		-	1,034,148.00	1,034,148.00	-	-	1,034,148.00
Deferred tax assets	10,982,423.00	-	4,931,530.00	6,050,893.00	10,982,423.00	-	4,931,530.00	6,050,893.00
Prepaid expenses and other	1,056,133.87	-	593,435.59	462,698.28	1,937,142.04	-	1,059,355.81	877,786.23
Total current assets	164,567,028.44	(318,815,377.81)	434,183,852.07	49,198,554.18	170,753,312.46	(251,267,276.85)	369,671,682.49	52,348,906.82
REGULATORY ASSETS:								
Unrecognized postemployment benefits	2,236,997.00	-	936,047.00	1,300,950.00	2,236,997.00	-	936,047.00	1,300,950.00
Asset retirement costs	13,793,142.84	-	1,876,545.90	11,916,596.94	14,642,781.84	-	2,163,612.90	12,479,168.94
Pension benefits	27,261,510.00	-	14,593,086.00	12,668,424.00	27,261,510.00	-	14,593,086.00	12,668,424.00
Postretirement benefits	-	(985,463.00)	-	985,463.00	-	(985,463.00)	-	985,463.00
Deferred depreciation	22,913,622.62	-	9,560,300.57	13,353,322.05	27,047,875.83	-	13,525,524.39	13,522,351.44
Total regulatory assets	66,205,272.46	(985,463.00)	26,965,979.47	40,224,755.99	71,189,164.67	(985,463.00)	31,218,270.29	40,956,357.38
DEFERRED CHARGES AND OTHER:								
Unamortized debt expense	9,454,557.87	-	9,454,557.87	-	9,549,915.49	-	9,549,915.49	-
Deferred tax assets	37,524,839.00	-	25,468,128.00	12,056,711.00	37,524,839.00	-	25,468,128.00	12,056,711.00
Long-term investments	54,905,672.66	-	54,905,672.66	-	53,609,545.41	-	53,609,545.41	-
Other	234,987.00	-	220,354.85	14,632.15	141,089.99	-	137,015.31	4,074.68
Total deferred charges and other	102,120,056.53	-	90,048,713.38	12,071,343.15	100,825,389.89	-	88,764,604.21	12,060,785.68
TOTAL	$ 1,488,257,917.02	$ (461,128,824.43)	$ 1,360,277,095.00	$ 589,109,646.45	$ 1,440,939,109.63	$ (395,609,076.18)	$ 1,277,235,400.19	$ 559,312,785.62

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF MARCH 31, 2009-UNAUDITED AND DECEMBER 31, 2008

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
CAPITALIZATION AND LIABILITIES								
CAPITALIZATION:								
Common stock, $100 par value-Authorized, 300,000 shares; outstanding, 100,000 shares	$ 10,000,000.00	$ -	$ 10,000,000.00	$ -	$ 10,000,000.00	$ -	$ 10,000,000.00	$ -
Common stock, without par value, stated at $200 per share-Authorized, 100,000 shares; outstanding, 17,000 shares	-	(3,400,000.00)	-	3,400,000.00	-	(3,400,000.00)	-	3,400,000.00
Senior unsecured debt-long term								
2006 A 5.80%	391,508,957.00	-	391,508,957.00	-	398,883,135.00	-	398,883,135.00	-
2007 A, B, & C 5.90%	277,104,907.00	-	277,104,907.00	-	277,104,907.00	-	277,104,907.00	-
2008 A 5.92%	47,078,351.00	-	47,078,351.00	-	47,078,351.00	-	47,078,351.00	-
2008 B 6.71%	142,330,117.00	-	142,330,117.00	-	142,330,117.00	-	142,330,117.00	-
2008 C 6.71%	144,468,271.00	-	144,468,271.00	-	144,468,271.00	-	144,468,271.00	-
2009 A floating rate	100,000,000.00	-	100,000,000.00	-	-	-	-	-
Line of credit borrowings-long term	50,000,000.00	-	50,000,000.00	-	50,000,000.00	-	50,000,000.00	-
Retained earnings	3,981,044.82	-	3,981,044.82	-	2,506,811.08	-	2,506,811.08	-
Total capitalization	1,166,471,647.82	(3,400,000.00)	1,166,471,647.82	3,400,000.00	1,072,371,592.08	(3,400,000.00)	1,072,371,592.08	3,400,000.00
CURRENT LIABILITIES:								
Senior unsecured debt-short term								
2006 A 5.80%	14,540,532.00	-	14,540,532.00	-	14,130,741.00	-	14,130,741.00	-
2007 A, B, & C 5.90%	10,033,213.00	-	10,033,213.00	-	10,033,213.00	-	10,033,213.00	-
2008 A 5.92%	1,701,694.00	-	1,701,694.00	-	1,701,694.00	-	1,701,694.00	-
2008 B 6.71%	4,827,782.00	-	4,827,782.00	-	4,827,782.00	-	4,827,782.00	-
2008 C 6.71%	4,760,098.00	-	4,760,098.00	-	4,760,098.00	-	4,760,098.00	-
Accounts payable	48,159,260.86	(318,815,377.81)	19,537,189.01	339,437,449.66	99,405,251.26	(251,267,276.85)	36,778,769.55	313,893,758.56
Deferred revenue-advances for construction	32,643,958.10	-	12,728,938.95	19,915,019.15	26,670,003.36		10,296,658.21	16,373,345.15
Accrued taxes	17,116,738.01	-	11,850,259.59	5,266,478.42	9,822,785.66	-	6,168,454.61	3,654,331.05
Regulatory liabilities	4,213,568.90	-	3,361,660.17	851,908.73	4,230,399.47		3,378,490.74	851,908.73
Accrued interest and other	27,163,978.08	-	22,779,639.98	4,384,338.10	20,837,483.83	-	17,363,122.59	3,474,361.24
Total current liabilities	157,160,822.95	(318,815,377.81)	106,121,006.70	369,855,194.06	196,419,451.58	(251,267,276.85)	109,439,023.70	338,247,704.73
COMMITMENTS AND CONTINGENCIES								
REGULATORY LIABILITIES:								
Postretirement benefits	15,075,560.00	-	14,857,835.79	217,724.21	14,655,525.36	-	14,655,525.36	-
Investment tax credits	3,393,145.95	-	3,393,145.95	-	3,393,145.95	-	3,393,145.95	-
Net antitrust settlement	1,823,929.41	-	673,069.85	1,150,859.56	1,823,929.41	-	673,069.85	1,150,859.56
Income taxes refundable to customers	39,128,222.89	-	20,658,666.89	18,469,556.00	47,070,877.25	-	28,601,321.25	18,469,556.00
Total regulatory liabilities	59,420,858.25	-	39,582,718.48	19,838,139.77	66,943,477.97	-	47,323,062.41	19,620,415.56
OTHER LIABILITIES:								
Pension liability	26,276,047.00	(985,463.00)	14,593,086.00	12,668,424.00	26,276,047.00	(985,463.00)	14,593,086.00	12,668,424.00
Asset retirement obligations	34,162,393.00	-	10,379,998.00	23,782,395.00	34,162,393.00	-	10,379,998.00	23,782,395.00
Postretirement benefits obligation	42,529,151.00	-	22,192,591.00	20,336,560.00	42,529,151.00		22,192,591.00	20,336,560.00
Postemployment benefits obligation	2,236,997.00	-	936,047.00	1,300,950.00	2,236,997.00	-	936,047.00	1,300,950.00
Parent advances for construction	-	(137,927,983.62)	-	137,927,983.62	-	(139,956,336.33)	-	139,956,336.33
Total other liabilities	105,204,588.00	(138,913,446.62)	48,101,722.00	196,016,312.62	105,204,588.00	(140,941,799.33)	48,101,722.00	198,044,665.33
TOTAL	$ 1,488,257,917.02	$ (461,128,824.43)	$ 1,360,277,095.00	$ 589,109,646.45	$ 1,440,939,109.63	$ (395,609,076.18)	$ 1,277,235,400.19	$ 559,312,785.62

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE AS OF MARCH 31, 2009 AND 2008-UNAUDITED

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
OPERATING REVENUES:								
Sales of electric energy to:								
Department of Energy	$ 3,714,971.65	$ -	$ 3,714,971.65	$ -	$ 5,193,509.34	$ -	$ 5,193,509.34	$ -
Ohio Valley Electric Corp.	-	(73,461,748.30)	-	73,461,748.30	-	(64,013,260.76)	-	64,013,260.76
Sponsoring Companies	151,645,636.00	-	151,645,636.00	-	133,952,172.44	-	133,952,172.44	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	155,360,607.65	(73,461,748.30)	155,360,607.65	73,461,748.30	139,145,681.78	(64,013,260.76)	139,145,681.78	64,013,260.76
OPERATING EXPENSES:								
Fuel and emission allowances consumed in operation	83,472,286.06	-	35,031,890.23	48,440,395.83	76,410,631.56	-	35,446,960.68	40,963,670.88
Purchased power	3,499,452.24	(73,461,748.30)	76,961,200.54	-	5,035,353.26	(64,013,260.76)	69,048,614.02	-
Other operation	19,112,512.88	-	9,744,675.18	9,367,837.70	16,206,181.82	-	8,778,308.63	7,427,873.19
Maintenance	19,405,242.37	-	7,876,900.96	11,528,341.41	21,369,958.06	-	8,922,446.55	12,447,511.51
Depreciation	8,798,002.30	-	6,769,649.59	2,028,352.71	5,886,026.00	-	3,857,673.29	2,028,352.71
Taxes-other than federal income taxes	3,660,665.74	-	1,564,758.74	2,095,907.00	2,441,306.08	-	1,296,627.61	1,144,678.47
Federal income taxes	219,345.00	-	219,345.00	-	219,345.00	-	219,345.00	-
Total operating expenses	138,167,506.59	(73,461,748.30)	138,168,420.24	73,460,834.65	127,568,801.78	(64,013,260.76)	127,569,975.78	64,012,086.76
OPERATING INCOME	17,193,101.06	-	17,192,187.41	913.65	11,576,880.00	-	11,575,706.00	1,174.00
OTHER INCOME (EXPENSE)	1,448,645.57	-	1,449,557.39	(911.82)	957,268.11	-	958,442.11	(1,174.00)
INCOME BEFORE INTEREST CHARGES	18,641,746.63	-	18,641,744.80	1.83	12,534,148.11	-	12,534,148.11	-
INTEREST CHARGES:								
Amortization of debt expense	153,144.95	-	153,144.95	-	114,824.31	-	114,824.31	-
Interest expense	16,414,367.94	-	16,414,366.11	1.83	10,896,375.53	-	10,896,375.53	-
Total interest charges	16,567,512.89	-	16,567,511.06	1.83	11,011,199.84	-	11,011,199.84	-
NET INCOME	$ 2,074,233.74	$ -	$ 2,074,233.74	$ -	$ 1,522,948.27	$ -	$ 1,522,948.27	$ -
RETAINED EARNINGS, JAN. 1	2,506,811.08	-	2,506,811.08	-	2,915,641.78	-	2,915,641.78	-
CASH DIVIDENDS ON COMMON STOCK	(600,000.00)	-	(600,000.00)	-	(700,000.00)	-	(700,000.00)	-
RETAINED EARNINGS, MAR. 31	$ 3,981,044.82	$ -	$ 3,981,044.82	$ -	$ 3,738,590.05	$ -	$ 3,738,590.05	$ -

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE AS OF MARCH 31, 2009 AND 2008-UNAUDITED

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
CASH FROM OPERATIONS								
Net income	$ 2,074,233.74	$ -	$ 2,074,233.74	$ -	$ 1,522,948.27	$ -	$ 1,522,948.27	$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	8,798,002.30	-	6,769,649.59	2,028,352.71	5,886,026.00	-	3,857,673.29	2,028,352.71
Amortization of debt expense and discount	153,144.95	-	153,144.95	-	114,824.31	-	114,824.31	-
Deferred taxes	(7,942,654.36)	-	(7,942,654.36)	-	(4,315,772.44)	-	(4,315,772.44)	-
Gain on marketable securities	(1,296,127.25)	-	(1,296,127.25)	-	-	-	-	-
Changes in assets and liabilities:								
Accounts receivable	2,765,177.38	67,548,100.96	(67,740,188.58)	2,957,265.00	(4,380,311.29)	27,304,290.42	(34,554,759.97)	2,870,158.26
Fuel in storage	1,056,698.99	-	1,163,114.87	(106,415.88)	8,730,715.32	-	9,614,996.08	(884,280.76)
Material and supplies	(1,375,214.84)	-	(1,249,682.22)	(125,532.62)	(407,165.07)	-	(252,417.78)	(154,747.29)
Property taxes applicable to subsequent years	587,100.00	-	587,100.00	-	556,980.00	-	556,980.00	-
Emission allowances	(5,250,285.57)	-	(5,250,285.57)	-	2,577,025.54	-	2,577,025.54	-
Prepaid expenses and other	881,008.17	-	465,920.22	415,087.95	1,208,355.48	-	794,928.87	413,426.61
Other regulatory assets	4,983,892.21	-	4,252,290.82	731,601.39	2,071,915.91	-	1,340,314.52	731,601.39
Other noncurrent assets	(93,897.01)	-	(83,339.54)	(10,557.47)	(843,214.19)	-	(64,142.69)	(779,071.50)
Accounts payable	(59,245,990.40)	(67,548,100.96)	(17,241,580.54)	25,543,691.10	(42,043,756.53)	(27,304,290.42)	(26,769,458.28)	12,029,992.17
Deferred revenue	5,973,954.74	-	2,432,280.74	3,541,674.00	8,018,891.33	-	5,552,686.15	2,466,205.18
Accrued taxes	7,293,952.35	-	5,681,804.98	1,612,147.37	5,153,987.00	-	4,411,694.70	742,292.30
Accrued interest and other	6,326,494.25	-	5,416,517.39	909,976.86	(174,104.73)	-	(1,124,568.11)	950,463.38
Postretirement benefit liabilities	420,034.64	-	202,310.43	217,724.21	195,817.25	-	93,524.82	102,292.43
Other regulatory liabilities	(16,830.57)	-	(16,830.57)	-	(2,413,907.91)	-	(78,247.41)	(2,335,660.50)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(33,907,306.28)	-	(71,622,320.90)	37,715,014.62	(18,540,745.75)	-	(36,721,770.13)	18,181,024.38
INVESTING ACTIVITIES								
Net electric plant additions	(65,992,319.28)	-	(30,295,709.18)	(35,696,610.10)	(58,295,378.55)	-	(42,144,027.13)	(16,151,351.42)
Advances to subsidiary company	-	(2,028,352.71)	2,028,352.71	-	-	(2,028,352.71)	2,028,352.71	-
Advances from parent company	-	2,028,352.71	-	(2,028,352.71)	-	2,028,352.71	-	(2,028,352.71)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(65,992,319.28)	-	(28,267,356.47)	(37,724,962.81)	(58,295,378.55)	-	(40,115,674.42)	(18,179,704.13)
FINANCING ACTIVITIES								
Issuance of Senior 2008 notes	-	-	-	-	50,000,000.00	-	50,000,000.00	-
Issuance of Senior 2009 notes	100,000,000.00	-	100,000,000.00	-	-	-	-	-
Repayment of Senior 2006 Notes	(6,964,387.00)	-	(6,964,387.00)	-	(6,577,368.00)	-	(6,577,368.00)	-
Repayment of Senior 2007 Notes	-	-	-	-	-	-	-	-
Repayment of Senior 2008 Notes	-	-	-	-	-	-	-	-
Proceeds from line of credit	50,000,000.00	-	50,000,000.00	-	10,000,000.00	-	10,000,000.00	-
Payments on line of credit	(50,000,000.00)	-	(50,000,000.00)	-	(10,000,000.00)	-	(10,000,000.00)	-
Loan origination costs	(57,787.33)	-	(57,787.33)	-	(23,642.26)	-	(23,642.26)	-
Dividends-common stock	(600,000.00)	-	(600,000.00)	-	(700,000.00)	-	(700,000.00)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	92,377,825.67	-	92,377,825.67	-	42,698,989.74	-	42,698,989.74	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (7,521,799.89)	$ -	$ (7,511,851.70)	$ (9,948.19)	$ (34,137,134.56)	$ -	$ (34,138,454.81)	$ 1,320.25
CASH AND CASH EQUIVALENTS, JAN. 1	45,176,265.11	-	45,140,412.41	35,852.70	107,694,495.60	-	107,684,288.45	10,207.15
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,521,799.89)	-	(7,511,851.70)	(9,948.19)	(34,137,134.56)	-	(34,138,454.81)	1,320.25
CASH AND CASH EQUIVALENTS, MAR. 31	$ 37,654,465.22	$ -	$ 37,628,560.71	$ 25,904.51	$ 73,557,361.04	$ -	$ 73,545,833.64	$ 11,527.40

Annex 3

Ohio Valley Electric Corporation

And Subsidiary

Indiana-Kentucky Electric Corporation

Consolidating Balance Sheets–June 30, 2009–Unaudited–and December 31, 2008
Consolidating Statements of Income and Retained Earnings Year
to Date–June 30, 2009 and 2008–Unaudited
Consolidating Statements of Cash Flows Year to Date–June 30, 2009 and 2008–Unaudited

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - JUNE 30, 2009-UNAUDITED AND DECEMBER 31, 2008

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE - JUNE 30, 2009 AND 2008-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - JUNE 30, 2009 AND 2008-UNAUDITED

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - JUNE 30, 2009-UNAUDITED AND DECEMBER 31, 2008

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE - JUNE 30, 2009 AND 2008-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - JUNE 30, 2009 AND 2008-UNAUDITED

OFFICER'S CERTIFICATION

A review of the affairs and activities of Ohio Valley Electric Corporation and its wholly-owned subsidiary, Indiana-Kentucky Electric Corporation (the Companies), during the quarters ended June 30, 2009 and 2008, and December 31, 2008 has been made under my supervision, and in my opinion, the unaudited financial statements for these periods present fairly the financial conditions of the Companies as of June 30, 2009 and 2008, and December 31, 2008, and the results of the operations, thereof, in accordance with generally accepted accounting principles consistently applied throughout the period. To the best of my knowledge and belief, there has been no Potential Default, Default, or Event of Default by the Companies and the Companies are in compliance with the covenents of the current debt agreements.

Secretary and Treasurer
OHIO VALLEY ELECTRIC CORPORATION and
INDIANA-KENTUCKY ELECTRIC CORPORATION

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS

CONSOLIDATING BALANCE SHEETS
AS OF JUNE 30, 2009-UNAUDITED AND DECEMBER 31, 2008

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
ASSETS								
ELECTRIC PLANT:								
At original cost	$ 1,245,724,386.24	$ -	$ 594,994,393.11	$ 650,729,993.13	$ 1,237,629,673.28	$ -	$ 593,482,569.13	$ 644,147,104.15
Less - Accumulated provisions for depreciation	(924,338,462.04)	-	(400,512,646.69)	(523,825,815.35)	(907,307,285.86)	-	(393,319,793.39)	(513,987,492.47)
	321,385,924.20	-	194,481,746.42	126,904,177.78	330,322,387.42	-	200,162,775.74	130,159,611.68
Construction in progress	894,534,605.23	-	504,460,902.53	390,073,702.70	767,848,855.19	-	444,061,731.13	323,787,124.06
Total electric plant	1,215,920,529.43	-	698,942,648.95	516,977,880.48	1,098,171,242.61	-	644,224,506.87	453,946,735.74
INVESTMENTS AND OTHER:								
Investment in subsidiary company	-	(3,400,000.00)	3,400,000.00	-	-	(3,400,000.00)	3,400,000.00	-
Advances to subsidiary-construction	-	(137,251,866.05)	137,251,866.05	-	-	(139,956,336.33)	139,956,336.33	-
Total investments and other	-	(140,651,866.05)	140,651,866.05	-	-	(143,356,336.33)	143,356,336.33	-
CURRENT ASSETS:								
Cash and cash equivalents	48,331,624.19	-	48,313,966.56	17,657.63	45,176,265.11	-	45,140,412.41	35,852.70
Accounts receivable	26,317,388.83	(362,319,650.41)	387,119,158.47	1,517,880.77	35,586,984.19	(251,267,276.85)	283,116,405.26	3,737,855.78
Fuel in storage-at average cost	65,437,765.17	-	28,169,630.52	37,268,134.65	52,220,614.37	-	21,233,373.04	30,987,241.28
Materials and supplies-at average cost	21,925,822.22	-	12,096,309.67	9,829,512.55	19,223,209.57	-	9,598,079.74	9,625,129.83
Property taxes applicable to future years	1,174,200.00	-	1,174,200.00	-	2,348,400.00	-	2,348,400.00	-
Emission allowances	7,247,711.04	-	7,247,711.04	-	2,244,126.23	-	2,244,126.23	-
Regulatory assets	1,034,148.00		-	1,034,148.00	1,034,148.00	-	-	1,034,148.00
Deferred tax assets	10,982,423.00	-	4,931,530.00	6,050,893.00	10,982,423.00	-	4,931,530.00	6,050,893.00
Prepaid expenses and other	1,395,028.45	-	693,112.23	701,916.22	1,937,142.04	-	1,059,355.81	877,786.23
Total current assets	183,846,110.90	(362,319,650.41)	489,745,618.49	56,420,142.82	170,753,312.46	(251,267,276.85)	369,671,682.49	52,348,906.82
REGULATORY ASSETS:								
Unrecognized postemployment benefits	2,236,997.00	-	936,047.00	1,300,950.00	2,236,997.00	-	936,047.00	1,300,950.00
Asset retirement costs	12,943,503.84	-	1,589,478.90	11,354,024.94	14,642,781.84	-	2,163,612.90	12,479,168.94
Pension benefits	27,261,510.00	-	14,593,086.00	12,668,424.00	27,261,510.00	-	14,593,086.00	12,668,424.00
Postretirement benefits	-	(985,463.00)	-	985,463.00	-	(985,463.00)	-	985,463.00
Deferred depreciation	18,772,565.83	-	5,526,088.51	13,246,477.32	27,047,875.83	-	13,525,524.39	13,522,351.44
Total regulatory assets	61,214,576.67	(985,463.00)	22,644,700.41	39,555,339.26	71,189,164.67	(985,463.00)	31,218,270.29	40,956,357.38
DEFERRED CHARGES AND OTHER:								
Unamortized debt expense	9,333,186.82	-	9,333,186.82	-	9,549,915.49	-	9,549,915.49	-
Deferred tax assets	37,524,839.08	-	25,468,128.00	12,056,711.00	37,524,839.00	-	25,468,128.00	12,056,711.00
Long-term investments	55,918,308.40	-	55,918,308.40	-	53,609,545.41	-	53,609,545.41	-
Other	209,022.80	-	197,769.97	11,252.83	141,089.99	-	137,015.31	4,074.68
Total deferred charges and other	102,985,357.02	-	90,917,393.19	12,067,963.83	100,825,389.89	-	88,764,604.21	12,060,785.68
TOTAL	$ 1,563,966,574.02	$ (503,956,979.46)	$ 1,442,902,227.09	$ 625,021,326.39	$ 1,440,939,109.63	$ (395,609,076.18)	$ 1,277,235,400.19	$ 559,312,785.62

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF JUNE 30, 2009-UNAUDITED AND DECEMBER 31, 2008

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
CAPITALIZATION AND LIABILITIES								
CAPITALIZATION:								
Common stock, $100 par value- Authorized, 300,000 shares; outstanding, 100,000 shares	$ 10,000,000.00	$ -	$ 10,000,000.00	$ -	$ 10,000,000.00	$ -	$ 10,000,000.00	$ -
Common stock, without par value, stated at $200 per share- Authorized, 100,000 shares; outstanding, 17,000 shares	-	(3,400,000.00)	-	3,400,000.00	-	(3,400,000.00)	-	3,400,000.00
Senior unsecured debt-long term								
2006 A 5.80%	391,508,957.00	-	391,508,957.00	-	398,883,135.00	-	398,883,135.00	-
2007 A, B, & C 5.90%	271,865,241.00	-	271,865,241.00	-	277,104,907.00	-	277,104,907.00	-
2008 A 5.92%	46,189,542.00	-	46,189,542.00	-	47,078,351.00	-	47,078,351.00	-
2008 B 6.71%	139,794,079.00	-	139,794,079.00	-	142,330,117.00	-	142,330,117.00	-
2008 C 6.71%	141,967,787.00	-	141,967,787.00	-	144,468,271.00	-	144,468,271.00	-
2009 A floating rate	100,000,000.00	-	100,000,000.00	-	-	-	-	-
Line of credit borrowings-long term	150,000,000.00	-	150,000,000.00	-	50,000,000.00	-	50,000,000.00	-
Retained earnings	5,085,629.26	-	5,085,629.26	-	2,506,811.08	-	2,506,811.08	-
Total capitalization	1,256,411,235.26	(3,400,000.00)	1,256,411,235.26	3,400,000.00	1,072,371,592.08	(3,400,000.00)	1,072,371,592.08	3,400,000.00
CURRENT LIABILITIES:								
Senior unsecured debt-short term								
2006 A 5.80%	14,540,532.00	-	14,540,532.00	-	14,130,741.00	-	14,130,741.00	-
2007 A, B, & C 5.90%	10,329,193.00	-	10,329,193.00	-	10,033,213.00	-	10,033,213.00	-
2008 A 5.92%	1,752,065.00	-	1,752,065.00	-	1,701,694.00	-	1,701,694.00	-
2008 B 6.71%	4,989,754.00	-	4,989,754.00	-	4,827,782.00	-	4,827,782.00	-
2008 C 6.71%	4,919,800.00	-	4,919,800.00	-	4,760,098.00	-	4,760,098.00	-
Accounts payable	36,623,125.14	(362,319,650.41)	18,247,332.14	380,695,443.41	99,405,251.26	(251,267,276.85)	36,778,769.55	313,893,758.56
Deferred revenue-advances for construction	31,581,617.30	-	15,120,140.44	16,461,476.86	26,670,003.36	-	10,296,658.21	16,373,345.15
Accrued taxes	19,762,129.72	-	15,262,338.98	4,499,790.74	9,822,785.66	-	6,168,454.61	3,654,331.05
Regulatory liabilities	4,285,468.52	-	3,377,612.19	907,856.33	4,230,399.47		3,378,490.74	851,908.73
Accrued interest and other	23,239,431.87	-	19,477,709.97	3,761,721.90	20,837,483.83	-	17,363,122.59	3,474,361.24
Total current liabilities	152,023,116.55	(362,319,650.41)	108,016,477.72	406,326,289.24	196,419,451.58	(251,267,276.85)	109,439,023.70	338,247,704.73
COMMITMENTS AND CONTINGENCIES								
REGULATORY LIABILITIES:								
Postretirement benefits	15,295,449.91	-	14,961,023.37	334,426.54	14,655,525.36	-	14,655,525.36	-
Investment tax credits	3,393,145.95	-	3,393,145.95	-	3,393,145.95	-	3,393,145.95	-
Net antitrust settlement	1,823,929.41	-	673,069.85	1,150,859.56	1,823,929.41	-	673,069.85	1,150,859.56
Income taxes refundable to customers	29,815,108.94	-	11,345,552.94	18,469,556.00	47,070,877.25	-	28,601,321.25	18,469,556.00
Total regulatory liabilities	50,327,634.21	-	30,372,792.11	19,954,842.10	66,943,477.97	-	47,323,062.41	19,620,415.56
OTHER LIABILITIES:								
Pension liability	26,276,047.00	(985,463.00)	14,593,086.00	12,668,424.00	26,276,047.00	(985,463.00)	14,593,086.00	12,668,424.00
Asset retirement obligations	34,162,393.00	-	10,379,998.00	23,782,395.00	34,162,393.00	-	10,379,998.00	23,782,395.00
Postretirement benefits obligation	42,529,151.00	-	22,192,591.00	20,336,560.00	42,529,151.00		22,192,591.00	20,336,560.00
Postemployment benefits obligation	2,236,997.00	-	936,047.00	1,300,950.00	2,236,997.00	-	936,047.00	1,300,950.00
Parent advances for construction	-	(137,251,866.05)	-	137,251,866.05	-	(139,956,336.33)	-	139,956,336.33
Total other liabilities	105,204,588.00	(138,237,329.05)	48,101,722.00	195,340,195.05	105,204,588.00	(140,941,799.33)	48,101,722.00	198,044,665.33
TOTAL	$ 1,563,966,574.02	$ (503,956,979.46)	$ 1,442,902,227.09	$ 625,021,326.39	$ 1,440,939,109.63	$ (395,609,076.18)	$ 1,277,235,400.19	$ 559,312,785.62

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE AS OF JUNE 30, 2009 AND 2008-UNAUDITED

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
OPERATING REVENUES:								
Sales of electric energy to:								
Department of Energy	$ 6,256,069.60	$ -	$ 6,256,069.60	$ -	$ 9,786,422.86	$ -	$ 9,786,422.86	$ -
Ohio Valley Electric Corp.	-	(145,459,871.85)	-	145,459,871.85	-	(129,348,214.04)	-	129,348,214.04
Sponsoring Companies	310,440,574.96	-	310,440,574.96	-	270,234,145.86	-	270,234,145.86	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	316,696,644.56	(145,459,871.85)	316,696,644.56	145,459,871.85	280,020,568.72	(129,348,214.04)	280,020,568.72	129,348,214.04
OPERATING EXPENSES:								
Fuel and emission allowances consumed in operation	161,661,400.07	-	69,320,302.56	92,341,097.51	156,499,606.62	-	72,008,716.81	84,490,889.81
Purchased power	5,866,243.92	(145,459,871.85)	151,326,115.77	-	9,501,107.46	(129,348,214.04)	138,849,321.50	-
Other operation	37,581,381.52	-	21,174,031.63	16,407,349.89	31,788,296.36	-	17,318,187.47	14,470,108.89
Maintenance	42,685,792.45	-	21,439,299.16	21,246,493.29	40,281,772.73	-	16,094,110.30	24,187,662.43
Depreciation	27,199,353.04	-	15,474,892.47	11,724,460.57	12,605,840.76	-	8,549,135.34	4,056,705.42
Taxes-other than federal income taxes	6,679,850.04	-	2,953,013.10	3,726,836.94	4,690,006.35	-	2,490,442.55	2,199,563.80
Federal income taxes	438,690.00	-	438,690.00	-	438,690.00	-	438,690.00	-
Total operating expenses	282,112,711.04	(145,459,871.85)	282,126,344.69	145,446,238.20	255,805,320.28	(129,348,214.04)	255,748,603.97	129,404,930.35
OPERATING INCOME	34,583,933.52	-	34,570,299.87	13,633.65	24,215,248.44	-	24,271,964.75	(56,716.31)
OTHER INCOME (EXPENSE)	2,571,568.74	-	2,585,200.56	(13,631.82)	1,747,418.29	-	1,690,701.98	56,716.31
INCOME BEFORE INTEREST CHARGES	37,155,502.26	-	37,155,500.43	1.83	25,962,666.73	-	25,962,666.73	-
INTEREST CHARGES:								
Amortization of debt expense	306,349.94	-	306,349.94	-	229,648.62	-	229,648.62	-
Interest expense	33,070,334.14	-	33,070,332.31	1.83	22,885,405.34	-	22,885,405.34	-
Total interest charges	33,376,684.08	-	33,376,682.25	1.83	23,115,053.96	-	23,115,053.96	-
NET INCOME	$ 3,778,818.18	$ -	$ 3,778,818.18	$ -	$ 2,847,612.77	$ -	$ 2,847,612.77	$ -
RETAINED EARNINGS, JAN. 1	2,506,811.08	-	2,506,811.08	-	2,915,641.78	-	2,915,641.78	-
CASH DIVIDENDS ON COMMON STOCK	(1,200,000.00)	-	(1,200,000.00)	-	(1,400,000.00)	-	(1,400,000.00)	-
RETAINED EARNINGS, JUN. 30	$ 5,085,629.26	$ -	$ 5,085,629.26	$ -	$ 4,363,254.55	$ -	$ 4,363,254.55	$ -

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE AS OF JUNE 30, 2009 AND 2008-UNAUDITED

	2009				2008			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
CASH FROM OPERATIONS								
Net income	$ 3,778,818.18	$ -	$ 3,778,818.18	$ -	$ 2,847,612.77	$ -	$ 2,847,612.77	$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	27,199,353.04	-	15,474,892.47	11,724,460.57	12,605,840.76	-	8,549,135.34	4,056,705.42
Amortization of debt expense and discount	306,349.94	-	306,349.94	-	229,648.62	-	229,648.62	-
Deferred taxes	(17,255,768.31)	-	(17,255,768.31)	-	(8,595,596.04)	-	(8,595,596.04)	-
Gain on marketable securities	(2,308,762.99)	-	(2,308,762.99)	-	-	-	-	-
Changes in assets and liabilities:								
Accounts receivable	9,269,595.36	111,052,373.56	(104,002,753.21)	2,219,975.01	618,957.65	58,836,532.81	(61,877,963.36)	3,660,388.20
Fuel in storage	(13,217,150.85)	-	(6,936,257.48)	(6,280,893.37)	18,530,069.17	-	11,866,976.62	6,663,092.55
Material and supplies	(2,702,612.65)	-	(2,498,229.93)	(204,382.72)	(452,807.18)	-	(83,895.54)	(368,911.64)
Property taxes applicable to subsequent years	1,174,200.00	-	1,174,200.00	-	1,113,960.00	-	1,113,960.00	-
Emission allowances	(5,003,584.81)	-	(5,003,584.81)	-	4,864,258.39	-	4,864,258.39	-
Prepaid expenses and other	542,113.59	-	366,243.58	175,870.01	397,901.57	-	272,092.61	125,808.96
Other regulatory assets	9,974,588.00	-	8,573,569.88	1,401,018.12	4,977,620.58	-	3,514,417.80	1,463,202.78
Other noncurrent assets	(67,932.81)	-	(60,754.66)	(7,178.15)	(137,443.22)	-	(136,925.22)	(518.00)
Accounts payable	(62,782,126.12)	(111,052,373.56)	(18,531,437.41)	66,801,684.85	(45,675,947.91)	(58,836,532.81)	(29,913,605.16)	43,074,190.06
Deferred revenue	4,911,613.94	-	4,823,482.23	88,131.71	14,361,751.76	-	7,027,131.54	7,334,620.22
Accrued taxes	9,939,344.06	-	9,093,884.37	845,459.69	10,003,218.87	-	7,891,221.85	2,111,997.02
Accrued interest and other	2,401,948.04	-	2,114,587.38	287,360.66	1,190,390.49	-	1,145,819.06	44,571.43
Postretirement benefit liabilities	639,924.55	-	305,498.01	334,426.54		-	-	-
Other regulatory liabilities	55,069.05	-	(878.55)	55,947.60	(794,575.73)	-	907,776.44	(1,702,352.17)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(33,145,020.79)	-	(110,586,901.31)	77,441,880.52	16,084,860.55	-	(50,377,934.28)	66,462,794.83
INVESTING ACTIVITIES								
Net electric plant additions	(144,948,639.86)	-	(70,193,034.55)	(74,755,605.31)	(162,333,728.60)	-	(99,930,232.04)	(62,403,496.56)
Advances to subsidiary company	-	(2,704,470.28)	2,704,470.28	-	-	(4,056,705.42)	4,056,705.42	-
Advances from parent company	-	2,704,470.28	-	(2,704,470.28)	-	4,056,705.42	-	(4,056,705.42)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(144,948,639.86)	-	(67,488,564.27)	(77,460,075.59)	(162,333,728.60)	-	(95,873,526.62)	(66,460,201.98)
FINANCING ACTIVITIES								
Issuance of Senior 2008 notes	-	-	-	-	200,000,000.00	-	200,000,000.00	-
Issuance of Senior 2009 notes	100,000,000.00	-	100,000,000.00	-	-	-	-	-
Repayment of Senior 2006 Notes	(6,964,387.00)	-	(6,964,387.00)	-	(6,577,368.00)	-	(6,577,368.00)	-
Repayment of Senior 2007 Notes	(4,943,686.00)	-	(4,943,686.00)	-	(4,661,900.00)	-	(4,661,900.00)	-
Repayment of Senior 2008 Notes	(5,553,286.00)	-	(5,553,286.00)	-	(405,621.00)	-	(405,621.00)	-
Proceeds from line of credit	150,000,000.00	-	150,000,000.00	-	50,000,000.00	-	50,000,000.00	-
Payments on line of credit	(50,000,000.00)	-	(50,000,000.00)	-	(50,000,000.00)	-	(50,000,000.00)	-
Loan origination costs	(89,621.27)	-	(89,621.27)	-	(2,553,758.02)	-	(2,553,758.02)	-
Dividends-common stock	(1,200,000.00)	-	(1,200,000.00)	-	(1,400,000.00)	-	(1,400,000.00)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	181,249,019.73	-	181,249,019.73	-	184,401,352.98	-	184,401,352.98	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 3,155,359.08	$ -	$ 3,173,554.15	$ (18,195.07)	$ 38,152,484.93	$ -	$ 38,149,892.08	$ 2,592.85
CASH AND CASH EQUIVALENTS, JAN. 1	45,176,265.11	-	45,140,412.41	35,852.70	107,694,495.60	-	107,684,288.45	10,207.15
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,155,359.08	-	3,173,554.15	(18,195.07)	38,152,484.93	-	38,149,892.08	2,592.85
CASH AND CASH EQUIVALENTS, JUN. 30	$ 48,331,624.19	$ -	$ 48,313,966.56	$ 17,657.63	$ 145,846,980.53	$ -	$ 145,834,180.53	$ 12,800.00

APPENDIX B

DESCRIPTION OF THE BANK OF NOVA SCOTIA

The Bank of Nova Scotia ("Scotiabank" or the "Bank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and Canada's most international bank. With over 67,000 employees, Scotiabank and its affiliates serve over 12 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment-banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2008, Scotiabank recorded total assets of CDN$507.6 billion (US$417.3 billion) and total deposits of CDN$346.6 billion (US$284.9 billion). Net income for the fiscal year ended October 31, 2008 equaled CDN$3.14 billion (US$2.58 billion), compared to CDN$4.05 billion (US$3.3 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2008 (1.0000 United States dollar equals 1.2164 Canadian dollars).

For the quarter ended April 30, 2009, Scotiabank recorded total assets of CDN$513.6 billion (US$430.1 billion) and total deposits of CDN$346.9 billion (US$290.5 billion). Net income for the six months ended April 30, 2009 equaled CDN$821 million (US$688 million), compared to CDN$958 million (US$802 million) for the same period the prior year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of April 30, 2009 (1.0000 United States dollar equals 1.1940 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26th Floor, New York, NY, 10006. Attention: Isabel Abella, U.S. Power & Utilities.

The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of this disclosure information by the Bank shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this disclosure information is correct as of any time subsequent to its date.

PROPOSED FORM OF OPINION OF BOND COUNSEL

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Air Quality Development Authority (the "Issuer") of $25,000,000 aggregate principal amount of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009A (the "Bonds"). The Bonds are being issued for the purpose of making a loan to assist Ohio Valley Electric Corporation (the "Company") in the financing of a portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising "air quality facilities" as defined in Section 3706.01 of the Ohio Revised Code, as more particularly described in the Trust Indenture dated as of August 1, 2009 (the "Indenture") between the Issuer and The Huntington National Bank, as trustee (the "Trustee"), and in the Loan Agreement dated as of August 1, 2009 (the "Agreement") between the Issuer and the Company. We have also examined executed counterparts of the Indenture and the Loan Agreement and a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium on the Bonds and the purchase price thereof (collectively, "debt charges") are payable solely from the revenues and other moneys assigned by the Indenture to secure those payments. Those revenues and other moneys include the payments required to be made by the Company under its promissory note (the "Note") delivered to the Issuer, and irrevocably assigned by the Issuer to the Trustee, all pursuant to the Agreement. The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio or any political subdivision of the State of Ohio for the payment of debt charges.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds, and any profit made on their sale, exchange or other disposition, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, interest on the Bonds is excluded from the calculation of a corporation's adjusted current earnings for purposes of the corporate alternative minimum tax, but interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds (or with similar requirements with respect to certain other bonds issued by the Issuer substantially at the same time as the issuance of the Bonds) subsequent to the issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance. We have also assumed for purposes of this opinion (i) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture and (ii) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement and the Note.

We express no opinion concerning the letter of credit issued by The Bank of Nova Scotia, acting through its New York Agency, and delivered in connection with the issuance of the Bonds.

Respectfully submitted,

NEW ISSUE—BOOK-ENTRY ONLY

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. See TAX EXEMPTION.

$25,000,000
Ohio Air Quality Development Authority
State of Ohio
Air Quality Revenue Bonds
(Ohio Valley Electric Corporation Project),
Series 2009B

Interest to accrue from date of issuance **Due: February 1, 2026**

The Series 2009B Bonds (the "Bonds") are special obligations of the State of Ohio and issued by the Ohio Air Quality Development Authority (the "Issuer"). The Bonds will not constitute a debt, or a pledge of the faith and credit, of the Issuer, the State of Ohio or any political subdivision thereof, and the holders or owners of the Bonds will have no right to have taxes levied by the General Assembly of Ohio or any political subdivision of Ohio for the payment of the principal of, interest on or purchase price of the Bonds. The Bonds are payable solely from, and secured by a pledge of, the loan repayments under a note issued under the terms of a Loan Agreement (the "Loan Agreement") between the Issuer and

OHIO VALLEY ELECTRIC CORPORATION

(the "Company") and to the extent provided herein from funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

THE BANK OF NOVA SCOTIA

acting through its New York Agency.

The Letter of Credit will permit the Trustee, The Huntington National Bank, to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity or upon redemption or acceleration and (ii) the portion of the purchase price of the Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of the Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds. The Letter of Credit will expire on August 12, 2010 or on the earliest occurrence of one or more of the events described herein, unless extended by The Bank of Nova Scotia acting through its New York Agency (the "Letter of Credit Bank") (see THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Letter of Credit herein). Unless the Letter of Credit is replaced or extended as described herein, the Bonds will be subject to mandatory tender for purchase prior to its expiration.

The Bonds will initially bear interest at a Weekly Rate determined by the Remarketing Agent as described under THE BONDS—Form and Denomination of Bonds; Payments on the Bonds—Interest herein, payable on the first Business Day of each month commencing September 1, 2009 and the date on which the Bonds are subject to mandatory tender for purchase. Upon satisfaction of the conditions specified in the Indenture, the Company may from time to time change the interest rate determination method for the Bonds to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Auction Mode Rate.

The Bonds are subject to mandatory tender and redemption as described under THE BONDS – Mandatory Tender for Purchase and THE BONDS—Redemption of Bonds herein. When a Daily Rate or Weekly Rate is in effect for the Bonds, holders of the Bonds will have the option to tender their Bonds for purchase as described under THE BONDS—Optional Tender.

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued as fully registered bonds in denominations of $100,000 and any larger denominations constituting an integral multiple of $5,000. The Bonds will be issued pursuant to an Indenture of Trust (the "Indenture"), between the Issuer and The Huntington National Bank, as trustee (the "Trustee"). The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their ownership interests. Payments of principal or purchase price of, and premium, if any, and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants. See THE BONDS—Book-Entry Only System herein. KeyBanc Capital Markets Inc. and Morgan Stanley & Co. Incorporated (the "Underwriters") will act as underwriters for the Bonds. Morgan Stanley & Co. Incorporated will act as remarketing agent (the "Remarketing Agent") for the Bonds.

PRICE: 100%

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, as described herein, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their counsel, Chapman and Cutler LLP, Chicago, Illinois, for the Letter of Credit Bank by its U.S. counsel, King & Spalding LLP, and by its internal Canadian counsel, and for the Company by its internal counsel and Fulbright & Jaworski L.L.P., New York, New York. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Delivery of the Bonds in book-entry-only form is expected on or about August 12, 2009, through the facilities of DTC in New York, New York, against payment therefor.

Morgan Stanley **KeyBanc Capital Markets**

Dated: August 5, 2009

CONTENTS OF OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company, the Letter of Credit Bank or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, the Letter of Credit Bank or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intent," "believe," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting Ohio Valley Electric Corporation's business and financial results and those of its contractual counterparties could cause actual results to differ from those stated in the forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.

$25,000,000
Ohio Air Quality Development Authority
State of Ohio
Air Quality Revenue Bonds
(Ohio Valley Electric Corporation Project),
Series 2009B

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance by the Ohio Air Quality Development Authority, a body politic and corporate of the State of Ohio ("Issuer") of State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009B, in the aggregate principal amount of $25,000,000 (the "Bonds"). The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on October 14, 2008 ("Resolution") and an Indenture of Trust, dated as of August 1, 2009 ("Indenture"), between the Issuer and The Huntington National Bank, as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to a Loan Agreement, dated as of August 1, 2009 ("Loan Agreement"), between the Issuer and the Company, the Issuer will loan to the Company the proceeds of the Bonds to assist the Company in financing a portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising "air quality facilities", as defined in Chapter 3706, Ohio Revised Code, as amended (the "Act"), for Units 1-5 of the Kyger Creek Generating Station owned by the Company located in the County of Gallia, Ohio (the "Project"). The term "Plant" as used herein means the Kyger Creek Generating Station.

In order to evidence the loan from the Issuer (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Loan Agreement. Payments required under the Note will be sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds and to make or provide for payments to the Trustee, equal to 100% of the principal amount of the Bonds plus accrued interest, if any, upon tender thereof ("Purchase Price"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Project or any other property of the Company.

The Bonds will initially bear interest at a Weekly Rate until converted to another permitted interest rate mode as described herein. While accruing interest at the Daily Rate or Weekly Rate, the Bonds are subject to optional tender and mandatory tender for purchase, as described herein. Bonds converted to a different interest rate mode will be subject to mandatory tender upon conversion. When a Daily Rate or Weekly Rate is in effect for the Bonds, holders of the Bonds will have the option to tender their Bonds for purchase as described herein. Each Interest Rate for an Interest Rate Period for the Bonds will be determined by the Remarketing Agent as set forth in the Indenture.

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued in denominations of $100,000 and any larger denominations constituting an integral multiple of $5,000. The Bonds will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS – Book-Entry Only System.*

Concurrently with the issuance of the Bonds, the Company will cause to be delivered to the Trustee an irrevocable direct pay letter of credit (the "Letter of Credit") issued by The Bank of Nova Scotia, acting through its New York Agency ("Letter of Credit Bank"), in the initial aggregate stated amount of $25,287,671.23. Under the Letter of Credit, the Trustee will be permitted to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds. The expiration date of the Letter of Credit is August 12, 2010 unless earlier terminated or extended as described under *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Letter of Credit.* The Letter of Credit may be replaced by an Alternate Letter of Credit (as defined herein) prior to its expiration date as described under *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—Replacement of Letter of Credit* herein. If the Letter of Credit expires, is replaced by an Alternate Letter of Credit or is surrendered, the Bonds will be subject to mandatory tender for purchase, as described under *THE BONDS — Mandatory Tender for Purchase* herein. The Letter of Credit will be issued pursuant to the Reimbursement Agreement, dated as of the date of issuance of the Bonds (the "Reimbursement Agreement"), among the Letter of Credit Bank, the lenders named therein, the Company and The Bank of Nova Scotia, as administrative agent (the "Administrative Agent").

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Loan Agreement and the Note and funds drawn under the Letter of Credit. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company. See *THE BONDS – Security for the Bonds.*

Brief descriptions of the Issuer, the Project, the Company, the Letter of Credit Bank and certain provisions of the Bonds, the Loan Agreement, the Note, the Indenture, the Letter of Credit and the Reimbursement Agreement are included in this Official Statement. The descriptions and summaries contained herein do not purport to be comprehensive or definitive. Certain information with respect to the Company is set forth in Appendix A hereto. Certain information with respect to the Letter of Credit Bank is set forth in Appendix B hereto. Appendix C to this Official Statement sets forth the form of opinion Bond Counsel proposes to deliver relating to the Bonds. The descriptions herein of provisions of the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are qualified in their entirety by reference to such documents, and the description herein of provisions of the Bonds is qualified in its entirety by reference to the form thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditor's rights. Copies of such documents may be obtained from the office of the Company and are available for inspection at the office of the Trustee. Words and terms not defined herein shall have the meanings set forth in the respective documents.

The Bonds may not be suitable for all investors. Prospective purchasers of the Bonds should read this entire Official Statement for details of the Bonds, the financial condition of the Company and certain other factors that could adversely affect the utility industry, including specifically the information under the caption *RISK FACTORS* in Appendix A

THE ISSUER

The Issuer was organized pursuant to the Act. Under the Act, the Issuer is a body corporate and politic, with full power and authority to issue the Bonds and to enter into and perform its obligations under the Loan Agreement and the Indenture. The Issuer has no taxing power.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE STATE OF OHIO AND SHALL NOT REPRESENT OR CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE STATE OF OHIO OR ANY POLITICAL SUBDIVISION OF OHIO, AND THE HOLDERS AND OWNERS THEREOF SHALL HAVE NO RIGHT TO HAVE TAXES LEVIED BY THE GENERAL ASSEMBLY OF OHIO OR THE TAXING AUTHORITY OF ANY POLITICAL SUBDIVISION OF OHIO FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PURCHASE PRICE OF THE BONDS, BUT THE BONDS SHALL BE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT AS AUTHORIZED BY THE ACT.

THE PROJECT

The Project consists of various systems which are designed for the disposal of solid wastes resulting from the operation of Units 1-5 at the Plant. The solid waste disposal facilities, which comprise "air quality facilities" as defined in Section 3706.01 of the Act, are comprised of the portion of each flue gas desulfurization system ("FGD System") to be constructed with respect to Units 1-5 at the Plant, rated at 217 megawatts each, that relates to the disposal of solid waste generated as part of the FGD System.

The Issuer also expects to issue $25,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009A (the "Series 2009A Bonds"), $25,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009C (the "Series 2009C Bonds") and $25,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009D (the "Series 2009D Bonds") either at the same time as the Bonds or shortly thereafter for the purpose of financing a portion of the cost of the Project. The Series 2009A Bonds, Series 2009C Bonds and Series 2009D Bonds will be payable from payments to be made by the Company pursuant to separate loan agreements with the Issuer and also will be secured by separate letters of credit.

In addition, the Company anticipates requesting the Issuer to issue an additional $100,000,000 aggregate principal amount of its State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project), Series 2009E (the "Series 2009E Bonds") for the purpose of financing a portion of the cost of the Project. The Series 2009E Bonds will be payable from payments made by the Company pursuant to a separate loan agreement with the Issuer.

USE OF PROCEEDS

The proceeds received by the Issuer from the sale of the Bonds will be deposited in the Construction Fund created under the Indenture to be used to reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the Bonds.

THE BONDS

This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than a Daily Rate or Weekly Rate. The Bonds are subject to mandatory tender in the event of any conversion to a different rate, including any conversion between a Weekly Rate and a Daily Rate. See – *Mandatory Tender for Purchase* below. The Bonds may be tendered for purchase at the option of the owners while bearing interest at a Daily Rate or Weekly Rate. See *THE BONDS – Optional Tender* below.

The Bonds are special obligations of the Issuer and will be payable solely from the revenues and receipts arising out of or in connection with the Loan Agreement, the Note and, as long as the Letter of Credit is in effect, funds drawn under the Letter of Credit.

General

The Bonds will be dated as of the date of the initial authentication and delivery thereof and will mature on February 1, 2026. The Bonds initially will bear interest at a Weekly Rate commencing on the date of the issuance of the Bonds, subject to conversion to other interest rate modes as described herein.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by DTC, as described below under the caption *Book-Entry Only System*. Under the Indenture, the Trustee and the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

Upon surrender of the Bonds, principal of and premium, if any, on the Bonds are payable at maturity or upon redemption at the principal office of the Trustee, or at the option of the owner at the principal office of any paying agent designated as provided in the Indenture. As long as the Bonds are held by DTC, interest will be paid to DTC on each payment date. If the book-entry system is discontinued, interest on the Bonds will be payable by check or draft mailed by the Trustee to the registered owners.

Form and Denomination of Bonds; Payments on the Bonds

<u>General</u>

While the Bonds bear interest at a Daily Rate or a Weekly Rate they will be issued only as fully registered bonds, without coupons, in denominations of $100,000 and any larger denomination constituting an integral multiple of $5,000 (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of such Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Huntington National Bank has been appointed as Trustee and Paying Agent under the Indenture. The designated corporate trust office of the Trustee and Paying Agent is located, initially, in Columbus, Ohio.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to make any transfer or exchange of any Bond during the ten days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

Interest

Interest on the Bonds will be payable as described below. Interest on the Bonds will initially be payable at a Weekly Rate on the first Business Day of each month, commencing September 1, 2009. The interest rate determination method for the Bonds may be changed by the Company as described under *Change in Interest Rate Determination Method* below. See *Summary* below for a table summarizing certain provisions of the Bonds while bearing interest at a Weekly Rate or Daily Rate.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York or the city in which the payment office of the Letter of Credit Bank is located (currently, New York, New York) are required or authorized by law to close, (iii) a day which the Trustee shall advise the Letter of Credit Bank in writing from time to time is a day on which the designated corporate trust office of the Trustee is required or authorized by law to close, (iv) a day which the Trustee shall advise the Letter of Credit Bank in writing from time to time is a day on which the principal office of the Remarketing Agent that is administering the Bonds is required or authorized by law to close, or (v) a day on which the New York Stock Exchange is closed.

Interest will accrue on the unpaid portion of the principal of the Bonds from the last date to which interest was paid, or if no interest has been paid, from the date of the original issuance of the Bonds until the entire principal amount of the Bonds is paid. When interest is payable at a

Daily Rate or Weekly Rate, interest will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years).

Daily Rate. When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 10:00 A.M., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the Daily Rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

Weekly Rate. When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 P.M., New York City time, on the last Business Day before the commencement of a period during which the Bonds are to bear interest at a Weekly Rate and on each Wednesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Wednesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the Weekly Rate is set at their principal amount (without regard to accrued interest). The first Weekly Rate after the delivery of the Letter of Credit by the Letter of Credit Bank will apply to the period beginning on the date of issuance of the Bonds and ending on the next Wednesday. Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Thursday after the Weekly Rate is set and ending on the following Wednesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Wednesday.

Fallback Interest Period and Rate. If the appropriate Daily Rate or Weekly Rate is not or cannot be determined for any reason, the method of determining interest on the Bonds will be payable at the Alternate Rate.

"Alternate Rate" means, as of any date, the rate per annum equal to the Securities Industry and Financial Markets Association Municipal Swap Index of Municipal Market Data most recently available as of the date of determination or, if such index is no longer available, or if the rate is no longer published, a comparable index as described in the Indenture.

Calculation and Notice of Interest. The Remarketing Agent will provide the Trustee and the Company with notice in writing or by other written electronic means or by telephone promptly confirmed by facsimile transmission by 1:00 P.M., New York City time, (i) on the last Business Day of a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month, (ii) on each day on which a Weekly Rate becomes effective, of the Weekly Rate and (iii) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date. Using the rates supplied by such notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent will inform the Trustee and the Company orally at the oral request of either of them of any interest rate so set. The Trustee will confirm the effective interest rate in writing to any Bondholder who requests it.

The setting of the rates by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in the Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

Change in Interest Rate Determination Method. The Company may change the method of determining the interest rate on all but not part of the Bonds, from time to time by notifying the Issuer, the Trustee, the Letter of Credit Bank and the Remarketing Agent. The Company's notice will specify (i) the effective date of the proposed change in interest rate determination method and (ii) a statement as to whether the Letter of Credit shall be terminated in connection with such change. The interest rate on the Bonds will be determined on the basis of the new interest rate determination method on the effective date specified in the Company's notice, provided that: (i) the Company's notice complies with the provisions of the Indenture and the change to the proposed interest rate determination method complies with certain limitations set forth in the Indenture; and (ii) except when the change is to a Daily Rate from a Weekly Rate or to a Weekly Rate from a Daily Rate, a Favorable Opinion of Tax Counsel required under the Indenture has been delivered with the notice and also confirmed on that effective date (see *Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed* below). It is currently anticipated that, should any of the Bonds be converted to bear interest at any rate other than a Daily Rate or a Weekly Rate, a new reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest at any such interest rate.

Notice of Change in Interest Rate Determination Method. The Trustee, upon receiving notice from the Company pursuant to the Indenture, is required to give at least 15 days written notice by first-class mail to the Bondholders before the effective date of a change in the interest rate determination method. Each notice will be effective when sent and will state: (i) that the interest rate determination method will change; (ii) the proposed effective date of the new interest rate determination method; and (iii) that the Bonds will be subject to mandatory tender on the effective date of the change and the information required to be included in a notice of tender pursuant to the Indenture. See *Mandatory Tender for Purchase-Notice of Tender* below.

Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed. No change will be made in the interest rate determination method at the direction of the Company as described under *Change in Interest Rate Determination Method* above if the Company shall fail to deliver any required Favorable Opinion of Tax Counsel and confirmation thereof described under *Change in Interest Rate Determination Method* above. If notice of a change in the interest rate determination method has been mailed and, subsequently, a Favorable Opinion of Tax Counsel is not confirmed, then the Trustee shall so notify the bondholders and the Bonds shall still be subject to a mandatory tender on the proposed date of change in the interest rate determination method and the Remarketing Agent shall remarket the Bonds pursuant to the terms of the Indenture.

Special Considerations Relating to the Bonds

The Remarketing Agent is Paid by the Company

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement (as defined herein)), all as further described in this Official Statement. The Remarketing Agent is appointed by the Company and is paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds may be Offered at Different Prices on Any Date

Pursuant to the Indenture, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds are set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May be Limited

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named

Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Optional Tender

While the Bonds bear interest at a Daily Rate or a Weekly Rate, the holder of any Bond may elect to have its Bond (or any portion of its Bond equal to the lowest Authorized Denomination or whole multiples thereof) purchased by the Trustee at the Purchase Price.

Daily Rate Tender. When interest on a Bond is payable at a Daily Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant (as defined in *Book-Entry Only System* below) in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice by telecopy, facsimile transmission or e-mail transmission to the Trustee and an irrevocable notice to the Remarketing Agent by telephone, telegraph or facsimile transmission, in each case prior to 11:00 A.M., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the Purchase Price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner will effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository. Any notice received by the Trustee after 11:00 A.M., New York City time, will be deemed to have been given on the next Business Day.

When interest on a Bond is payable at a Daily Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices described above (which must include the certificate number of the Bond) and (ii) the Bond, to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Weekly Rate Tender. When interest on a Bond is payable at a Weekly Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice by telecopy, facsimile transmission or e-mail transmission to the Trustee and an irrevocable notice to the Remarketing Agent by telephone, telegraph or facsimile transmission, in each case prior to 5:00 P.M., New York City time, on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the Purchase Price and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on a Bond is payable at a Weekly Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices as described above (which must include the certificate number of the Bond) and (ii) the Bond, to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Payment of Purchase Price. Payment of the Purchase Price of Bonds to be purchased upon optional tender as described above will be made by the Trustee in immediately available funds by 3:00 P.M., New York City time, on the date of purchase. No purchase of Bonds by the Trustee will be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds. So long as the Letter of Credit is in effect, all payments of Purchase Price for the Bonds shall be made in accordance with the Indenture. See *Summary* below.

Provisions Applicable to All Tenders. Bonds for which the owners have given notice of tender for purchase but which are not delivered on the tender date shall be deemed tendered. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender.

Notice in respect of tenders and Bonds tendered must be delivered as follows:

Trustee	Remarketing Agent
The Huntington National Bank The Huntington National Bank 7 Easton Oval - EA4E63 Columbus, OH 43219 Attn: James Schultz Telephone: 614-331-8698 Fax: 614-331-5862	Morgan Stanley 1221 Avenue of the Americas, 30th Floor New York, NY 10020 Attn: Municipal Short Term Products Tel: 212-762-8263 Fax: 212-507-1937 E-mail: muni-short-term@morganstanley.com

Irrevocability

Each notice of tender constitutes an irrevocable tender for purchase of the Bond (or portion thereof) to which the notice relates on the purchase date at a price equal to 100% of the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the purchase date. The determination of the Trustee as to whether a notice of tender has been properly sent will be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver its Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver its Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, its Bond shall constitute an undelivered Bond and interest shall cease to accrue on its Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the Purchase Price thereof.

Remarketing and Purchase

Except to the extent the Company directs the Remarketing Agent not to remarket Bonds and except as otherwise provided in the Indenture, the Remarketing Agent for the Bonds will offer for sale and use reasonable efforts to sell all Bonds tendered for purchase (as described below) at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Trustee will pay the Purchase Price of the Bonds tendered for purchase first from the proceeds of the remarketing of such Bonds to persons other than the Company, the affiliates of the Company and the Issuer and, if such proceeds are insufficient, second from the proceeds of a draw upon the Letter of Credit and, third, from money provided by the Company or otherwise available. See *THE BONDS – Special Considerations* above and *THE REMARKETING AGREEMENT* below.

Redemption of Bonds

The Bonds are subject to redemption as described below:

Optional Redemption. When interest on the Bonds is payable at a Daily Rate or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on any Business Day.

Extraordinary Optional Redemption. The Bonds are subject to redemption by the Issuer in whole or in part on any date if the Company, upon the occurrence of any of the following events, exercises its option to direct that redemption from moneys available therefor at a redemption price of 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date:

(a) The Project or the Plant shall have been damaged or destroyed to such an extent that the Company deems it not practical or desirable to rebuild, repair or restore the Project or the Plant, as the case may be.

(b) Title to, or the temporary use of, all or a significant part of the Project or the Plant shall have been taken under the exercise of the power of eminent domain so as to render the Project unsatisfactory to the Company for its intended purpose.

(c) As a result of any changes in the Constitution of the State of Ohio, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as described therein.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreement.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or the Plant occur or technological or other changes occur which in the Company's reasonable judgment render the Project or the Plant uneconomic or obsolete.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project or the Plant to such extent that the Company is or will be prevented from carrying on its normal operations at the Project or the Plant for a period of six consecutive months.

(g) The termination by the Company of operations at the Plant.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption at any time in whole, or in part if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service, in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on Bonds to a person, other than, as provided in Section 147(a) of the Code, a "substantial user" of the Project or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation by the Company under the Loan Agreement or receipt by the Company of an Opinion of Tax Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the registered owner or Beneficial Owner involved in such proceeding or action (i) gives the Company and the Trustee prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such registered owner or Beneficial Owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Trustee not more than 180 days after the date of such final decree, judgment or action. The Trustee shall give the Issuer and the Company not less than 45 days written notice of such date.

Notice of Redemption. Whenever Bonds are to be redeemed, the Trustee shall give notice of redemption by mailing such notice to the registered owner of each Bond to be redeemed, at least 30 days prior to the redemption date, as provided in the Indenture.

With respect to an optional redemption of Bonds as described under *Optional Redemption* or *Extraordinary Optional Redemption* above, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

During the period that DTC or the DTC nominee is the registered holder of the Bonds, the Trustee will not be responsible for mailing notices of redemption, or other notices described herein, to the Beneficial Owners of the Bonds. See *Book-Entry Only System* below.

Mandatory Tender for Purchase

The Bonds are subject to mandatory tender for purchase under certain circumstances. By acceptance of each Bond, the holder agrees to sell and surrender its Bond, properly endorsed, under the conditions described below. All purchases will be made in funds immediately available on the purchase date and will be at the Purchase Price. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

For so long as the Bonds are held in book-entry form, the requirement for physical delivery of the Bonds in connection with any purchase pursuant to the provisions described below are deemed satisfied when the ownership rights in the Bonds are transferred by DTC on the records of DTC. See -- *Book-Entry Only System* below.

Mandatory Tender Upon a Change in the Method of Determining the Interest Rate on the Bonds. On the effective date of the change in the method of determining the interest rate on the Bonds, the Bonds will be purchased on the effective date of such change at the Purchase Price.

At least 15 days before each mandatory tender occasioned by such change, the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Each notice of tender will identify the Bonds to be purchased and will state, among other things, (i) the purchase date; (ii) the Purchase Price; (iii) that the Bonds to be tendered must be surrendered to collect the Purchase Price; (iv) the address at which the Bonds must be surrendered; and (v) that interest on the Bonds to be tendered ceases to accrue to such holder on the purchase date and such holder will be entitled to the Purchase Price on the purchase date.

Mandatory Tender Upon Substitution of Alternate Letter of Credit. The Bonds shall be subject to mandatory tender at the Purchase Price on the date five Business Days prior to the date on which an Alternate Letter of Credit is to be substituted for the Letter of Credit (the "Substitution Tender Date"). Bonds purchased pursuant to this provision shall be delivered by the holders at or before 12:00 noon, New York City time, on such Substitution Tender Date, and, subject to the Indenture, payment of the Purchase Price of such Bonds shall be made by wire transfer in immediately available funds by the Trustee on such Substitution Tender Date. The Trustee shall give notice of such mandatory tender by mail to the holders of the Bonds no less than twenty (20) days prior to the Substitution Tender Date. The notice shall state (i) that the Bonds are subject to mandatory tender; (ii) the Substitution Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; and (vi) that interest on Bonds subject to mandatory tender will cease to accrue to such holder from and after the Substitution Tender Date and such holder will be entitled only to the Purchase Price on the Substitution Tender Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

"Alternate Letter of Credit" means, with respect to the Bonds, a letter of credit or other security or liquidity device issued in accordance with the requirements of the Indenture which will have a term of not less than one year and will have substantially the same material terms as the Letter of Credit; provided that such letter of credit or other security or liquidity device may (and shall if the Bonds shall provide for redemption premium while it is in effect) provide for coverage of premium payable upon redemption of the Bonds.

Mandatory Tender Due to an Event of Default Under Reimbursement Agreement. Whenever the Letter of Credit is in effect, the Bonds will be subject to mandatory tender if the Trustee receives a written notice from the Administrative Agent that an event of default, as defined in the Reimbursement Agreement, has occurred and is continuing, and the Administrative Agent directs the Trustee to effect such mandatory tender. See *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Reimbursement Agreement* herein. Such Bonds subject to mandatory tender will be purchased at the Purchase Price on the default tender date specified by the Letter of Credit Bank in such written notice (the "Default Tender Date"). Such Default Tender Date shall be a Business Day not more than nine (9) nor less than five (5) days after the day such notice is received. The Trustee shall immediately notify the paying agent of receipt of such notice and of the Default Tender Date. Bonds purchased pursuant to this provision will be delivered by the holders (with all necessary endorsements) to the designated corporate trust office of the Trustee, at or before 12:00 noon, New York City time, on the Default Tender Date, and, subject to the Indenture, payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Trustee on the Default Tender Date; provided, however, that payment of the Purchase Price shall be made pursuant to this provision only if the Bond is so delivered to the Trustee.

The Trustee will give notice to the Issuer, the Remarketing Agent, the Company and the Administrative Agent (the "Notice Parties") and all holders prior to the close of business on the Business Day after receipt of the notice described in the preceding paragraph stating (i) that the Bonds are subject to mandatory tender; (ii) the Default Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; (vi) that interest on such Bonds will cease to accrue to such holder from and after the Default Tender Date and such holder will be entitled only to the Purchase Price on the Default Tender Date; and (vii) if the Bonds are then rated by Moody's Investor Service, Inc. ("Moody's"), Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") or Fitch, Inc. ("Fitch"), that such rating or ratings will terminate on the Default Tender Date. The failure to mail such notice with respect to any Bond will not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by a holder.

Mandatory Tender Upon Expiration or Termination of Letter of Credit. If (i) the Letter of Credit is scheduled to expire on the Expiration Date (as defined below) and by the Renewal Date (as defined below) no extension of such Letter of Credit or Alternate Letter of Credit has been delivered to the Trustee or (ii) on or before the Renewal Date, the Company has delivered notice stating that the Letter of Credit will be terminated with respect to all the Bonds on the Expiration Date, then the Bonds shall be subject to mandatory tender on the date five Business Days prior to the Expiration Date (the "Expiration Tender Date") at the Purchase Price. Bonds purchased pursuant to this provision will be delivered by the holders at or before 12:00 noon, New York City time, on the Expiration Tender Date, and subject to the Indenture, payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Trustee on such Expiration Tender Date; provided, however, that payment of the Purchase Price will be made pursuant to this provision only if the Bond is so delivered to the Trustee.

The Trustee will give notice to all holders and the Notice Parties no less than twenty (20) days prior to the Expiration Tender Date. The notice will state (i) that the Bonds are subject to mandatory tender; (ii) the Expiration Tender Date; (iii) the Purchase Price; (iv) that Bonds must be surrendered to collect the Purchase Price; (v) the address at which the Bonds must be surrendered; (vi) that the Letter of Credit will terminate on the date specified in such notice; (vii) that interest on such Bonds will cease to accrue to such holder from and after the Expiration Tender Date and such holder will be entitled only to the Purchase Price on the Expiration Tender Date; and (viii) if the Bonds are then rated by Moody's, Standard & Poor's or Fitch, that such rating or ratings will terminate on the Expiration Tender Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by a holder.

"Expiration Date" means the stated expiration date of the Letter of Credit, or such stated expiration date as it may be extended from time to time as provided in the Letter of Credit, or any earlier date on which the Letter of Credit shall expire or be terminated or cancelled.

"Renewal Date" means the thirty-fifth (35th) day prior to the Expiration Date.

Notice of Tender. Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect occurs. Any notice mailed as described above shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice of Tender. When notice is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

Summary

Certain provisions of the Bonds and the Indenture (other than when the Bonds bear interest at a rate other than a Daily Rate or Weekly Rate) are summarized in the following table (all times are New York City time):

	DAILY RATE	WEEKLY RATE
OPTIONAL TENDER; NOTICE	On any Business Day; notice no later than 11:00 A.M. same Business Day	On any Business Day; notice no later than 5:00 P.M., seven days in advance
INTEREST PERIODS FOR EACH INTEREST RATE	Each day	Thursday through Wednesday (with limited exceptions)
INTEREST RATE DETERMINED	Each Business Day by 10:00 A.M.	Each Wednesday (or next preceding Business Day) by 5:00 P.M.
INTEREST ACCRUAL PERIOD	Interest Payment Date to Interest Payment Date	Interest Payment Date to Interest Payment Date
INTEREST PAYMENT DATE	First Business Day of the next month and on the date on which the Bonds are subject to mandatory tender for purchase	First Business Day of the next month and on the date on which the Bonds are subject to mandatory tender for purchase
RECORD DATE	Last Business Day before Interest Payment Date	Last Business Day before Interest Payment Date
OPTIONAL REDEMPTION BY COMPANY	On any Business Day	On any Business Day
MANDATORY TENDER	(i) On effective date of change in interest rate determination method, (ii) substitution of Alternate Letter of Credit, (iii) event of default under Reimbursement Agreement, and (iv) expiration or termination of Letter of Credit	(i) On effective date of change in interest rate determination method, (ii) substitution of Alternate Letter of Credit, (iii) event of default under Reimbursement Agreement, and (iv) expiration or termination of Letter of Credit

Book-Entry Only System

DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for the Bonds, representing in the aggregate the total principal amount of the Bonds, and will be deposited with the Trustee on behalf of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's, a division of The McGraw Hill Companies, Inc., highest rating: AAA. The DTC rules applicable to Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, certificated Bonds are required to be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository) with respect to the Bonds. In that event, certificates for the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer, the Company, the Underwriters, the Remarketing Agent and the Trustee believe to be reliable, but none of the Issuer, the Company, the Underwriters, the Remarketing Agent or the Trustee takes any responsibility for the accuracy of such statements. None of the Issuer, the Company, the Underwriters, the Remarketing Agent or the Trustee has any responsibility for the performance by DTC or its Direct or Indirect Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

In the event that the book-entry system is discontinued, a bondholder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

None of the Issuer, the Underwriters, the Company, the Letter of Credit Bank, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

Security for the Bonds

The Bonds will be special obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from (i) the payments to be made by the Company under the Loan Agreement and the Note, which are pledged to the Trustee, and (ii) so long as the Letter of Credit is in effect, the funds drawn under the Letter of Credit. The pledge does not extend to funds to which the Trustee is entitled in its own right such as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the

Project or any other property of the Company. The Loan Agreement provides that Loan Payments will be paid to the Trustee by the Company for the account of the Issuer.

THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Letter of Credit and the Reimbursement Agreement. Any future reimbursement agreement pursuant to which an Alternate Letter of Credit is issued may have terms substantially different from those described below. This summary is not a complete recital of the terms thereof and reference should be made to such documents.

The Letter of Credit

Concurrently with the issuance of the Bonds, the Company will cause to be delivered to the Trustee the Letter of Credit issued by the Letter of Credit Bank, in the initial aggregate stated amount of $25,287,671.23. Under the Letter of Credit, the Trustee will be permitted to draw up to (a) an amount sufficient to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 35 days' interest on the Bonds at a maximum rate of 12% per annum calculated on the basis of a 365-day year to pay (i) interest on the Bonds when due and (ii) the portion of the Purchase Price of the Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds. The Letter of Credit will expire on August 12, 2010 or on the earliest occurrence of one or more events described below. The Letter of Credit may be extended from year to year by the Letter of Credit Bank in its discretion, unless terminated earlier pursuant to its terms.

The Letter of Credit is subject to termination at the Letter of Credit Bank's close of business on the earliest to occur of (i) August 12, 2010 (unless extended from time to time), or if such date is not a Business Day, the next succeeding Business Day (as defined in the Letter of Credit), (ii) ten days following the Trustee's receipt of written notice from the Letter of Credit Bank of the occurrence and continuance of an Event of Default (as defined in the Reimbursement Agreement) and directing a mandatory purchase or acceleration of the Bonds, (iii) the date on which the Letter of Credit Bank receives notice from the Trustee stating that the conditions to termination of the Letter of Credit set forth in the Indenture have been satisfied, (iv) the date that is 15 days following the date of conversion of all the Bonds outstanding to a rate other than a Daily Rate or a Weekly Rate and (v) the date on which the Letter of Credit Bank honors a drawing under the Letter of Credit accompanied by a certificate of the Trustee that states that such drawing is the final drawing under the Letter of Credit (such earliest date being the "LC Cancellation Date").

The stated amount of the Letter of Credit is subject to adjustment for payments made by the Letter of Credit Bank to the Trustee pursuant to drawings under the Letter of Credit. A drawing honored under the Letter of Credit to pay regularly scheduled interest or principal of and interest on the Bonds upon scheduled or accelerated maturity will reduce immediately the respective principal and interest components of the Letter of Credit by an amount equal to the respective component of the amount honored; *provided, however,* that, unless a LC Cancellation Date has occurred, the interest component of the Letter Credit corresponding to such drawing will be automatically reinstated.

A drawing honored under the Letter of Credit to pay principal of and interest upon the redemption of the Bonds in whole or in part will reduce immediately (i) the principal component of the Letter of Credit in an amount equal to the principal amount of the Bonds to be redeemed by such drawing and (ii) the interest component of the Letter of Credit by an amount equal to 35 days' interest on such principal amount of the Bonds to be redeemed computed at a maximum rate of 12% *per annum* calculated on the basis of a 365-day year.

A drawing honored under the Letter of Credit to pay the Purchase Price corresponding to principal of and interest on the Bonds will reduce immediately the respective principal and interest components of the Letter of Credit by an amount equal to the respective component of the amount so drawn. Unless a LC Cancellation Date has occurred, the principal and interest components, respectively, of the Letter of Credit will be reinstated when and to the extent the Letter of Credit Bank is reimbursed for such drawing and for interest, if any, owing thereon pursuant to the Reimbursement Agreement.

Replacement of Letter of Credit

The Company may surrender the Letter of Credit or replace the Letter of Credit with an Alternate Letter of Credit or other facility meeting the requirements of the Indenture. The Bonds will be subject to mandatory tender for purchase on the date five Business Days prior to the date of such surrender or replacement.

The Reimbursement Agreement

The Letter of Credit will be issued pursuant to the Reimbursement Agreement. The Reimbursement Agreement contains, among other matters, representations, warranties and covenants on the part of the Company, the breach of which or material inaccuracy of which could entitle the Administrative Agent to notify the Trustee of an "event of default" (as defined in the Reimbursement Agreement) under the Reimbursement Agreement and directing the Trustee either to accelerate the Bonds or to effect a mandatory tender of the Bonds. The following events constitute "events of default" under the Reimbursement Agreement:

(a) The Company shall default in (i) the repayment when due and payable of any principal of any reimbursement obligation under the Reimbursement Agreement; or (ii) the payment of the interest, fees or any other obligation payable by the Company under the Reimbursement Agreement when the same becomes due and payable and such default shall continue unremedied for five or more business days; or

(b) Any representation or warranty made or deemed made by the Company in respect of the Company or any subsidiary of the Company in the Reimbursement Agreement, any related document, the Bonds, the Indenture, the Loan Agreement, the Remarketing Agreement, the custodian agreement relating to Bonds purchased with the proceeds of the Letter of Credit to be held for the account of the Administrative Agent (the "Custodian Agreement"), or any certificate, document or financial or other written statement furnished at any time in compliance with the Reimbursement Agreement shall prove to have been false or incorrect in any material respect when made or deemed made; or

(c) Failure by the Company (in respect of the Company or any subsidiary of the Company) to perform, keep or observe any other term, provision, condition or covenant contained in the Reimbursement Agreement (other than those provisions, terms or conditions referenced in subparagraph (a) and (b) above and subparagraph (d) below) or any other related document that is required to be kept or observed by the Company (in respect of the Company or any subsidiary of the Company) and such failure shall continue without remedy for a period of 30 business days after written notice thereof shall have been given to the Company by the Administrative Agent; or

(d) Failure by the Company (in respect of the Company or any subsidiary of the Company) to perform, keep, or observe any other term, provision, condition or covenant contained in the Reimbursement Agreement with respect to the Company's existence or with respect to any negative covenant under the Reimbursement Agreement that is required to be performed, kept, or observed by the Company (in respect of the Company or any subsidiary of the Company); or

(e) Default by the Company or any subsidiary of the Company in respect of the payment when due of any principal or interest on debt (other than under the Reimbursement Agreement) of the Company or its subsidiaries having an aggregate outstanding principal amount of at least $10,000,000, or any other event or condition shall occur with respect such debt, which default or other event or condition results in the acceleration of the maturity of such amount of debt or enables the holder of such debt to accelerate the maturity thereof, or

(f) The termination of the Inter-Company Power Agreement or the IKEC Power Agreement (as defined in the Reimbursement Agreement) (other than, in the case of the IKEC Power Agreement, in connection with the merger or consolidation by Indiana-Kentucky Power Electric Company ("IKEC") with, or disposal by IKEC of all or substantially all of its assets to, the Company as otherwise permitted under the Reimbursement Agreement); or

(g) Certain change in control events or discontinuation by the Company of its business; or

(h) Invalidity or assertion of invalidity of the Reimbursement Agreement, any other related document, the Bonds, the Indenture, the Loan Agreement, the Remarketing Agreement, the Custodian Agreement; or

(i) Certain events related to employee benefit matters shall have occurred and the liability of the Company and certain of its affiliates related to such employee benefit related event exceeds $10,000,000; or

(j) Any money judgment in excess of $10,000,000, to the extent not paid or insured by an insurance carrier is entered against the Company or any of its subsidiaries or their respective assets and is not released, discharged, vacated, fully bonded or stayed within 30 days; or

(k) At any time prior to ten days after the Administrative Agent receives satisfactory evidence that FirstEnergy Generation Corp.'s has obtained investment grade ratings from Moody's and S&P, (i) the guaranty by FirstEnergy Corp. of certain obligations of FirstEnergy

Generation Corp. shall cease to be in full force and effect or (ii) FirstEnergy Corp. shall deny or disaffirm its obligations under such guaranty; or

(l) Certain bankruptcy and insolvency event shall occur with respect to the Company or IKEC or any entity to which either the Company or IKEC have been merged or consolidated with or into as permitted by the Reimbursement Agreement or any entity to which all or any substantial part of the assets of either of Company or IKEC have been disposed of as permitted by the Reimbursement Agreement; or

(m) An "Event of Default" under and as defined in the Indenture shall have occurred and be continuing.

THE LOAN AGREEMENT

In addition to the description of certain provisions of the Loan Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Loan Agreement and the Note and does not purport to be comprehensive or definitive. All references herein to the Loan Agreement and the Note are qualified in their entirety by reference to the Loan Agreement and the Note (the form of which is attached to the Loan Agreement) for the detailed provisions thereof.

Use of Bond Proceeds; Construction of the Project

The Issuer will issue the Bonds and loan proceeds of the sale thereof to the Company, which proceeds will be applied as described under *USE OF PROCEEDS* herein. The Company agrees to cause the Project to be acquired, constructed, installed and improved substantially in accordance with the plans and specifications as provided in the Loan Agreement.

In the Indenture, the Issuer directs the Trustee to make payments from the Construction Fund to pay the cost of the Project and issuance expenses, and to reimburse the Company for any cost of the Project and issuance expenses paid or incurred by the Company.

Term of Loan Agreement

The term of the Loan Agreement will continue until such time as all of the outstanding Bonds are fully paid (or provision has been made for such payment) pursuant to the Indenture and all other money payable by the Company under the Loan Agreement shall have been paid.

Payments

The Company will make payments on the Loan Agreement which will be sufficient to pay, when due, the principal of, and premium, if any, and interest on, the Bonds. To evidence the obligations of the Company to make the Loan Payments and repay the Loan, the Company will, concurrently with the issuance of the Bonds, execute and deliver the Note, which the Issuer will assign to the Trustee, under the Indenture, in an aggregate principal amount equal to the aggregate principal amount of the Bonds. The Company will receive as a credit against its obligations to make payments under the Loan Agreement with respect to the Bonds all payments made by the Letter of Credit Bank under the Letter of Credit.

The Agreement contains no restrictions on the ability of the Company to incur debt or, except as described under -- *Corporate Existence*, to transfer its assets.

Obligations Unconditional

The obligations of the Company to make Loan Payments and other payments required to be made pursuant to the Loan Agreement and the Note are absolute and unconditional, and the Company will make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee, the Remarketing Agent, the Letter of Credit Bank or any other Person.

Maintenance and Modification

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain, or cause to be kept and maintained, the Project, including all appurtenances thereto and any personal property therein or thereon, in satisfactory operating order, repair, condition and appearance, subject to reasonable wear and tear, so that the Project will continue to constitute a facility that can be financed by the Issuer under the Act. Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

Corporate Existence

During the term of the Loan Agreement the Company will maintain its legal existence and will not sell its properties as an entirety or substantially as an entirety or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, unless the successor corporation or transferee resulting from any such consolidation, merger, sale or transfer shall assume all obligations of the Company arising under or contemplated by the Agreement, the Note and the Indenture. No further consolidation, merger or sale or other transfer shall be made except in compliance with these provisions.

Environmental Compliance

In the Loan Agreement, the Company will represent that the Project will be constructed in compliance with all permits, variances and orders issued or granted by the Ohio Environmental Protection Agency with respect to the Project, including any permits to install for the Project, and any such permits, variances and orders have not been withdrawn or otherwise suspended. The Company will represent that it is in material compliance with all terms and provisions of all permits, variances and orders heretofore issued or granted by the Ohio Environmental Protection Agency with respect to the Plant and its other facilities within the State of Ohio, including any permits-to-install and permits-to-operate issued with respect thereto.

Tax Exemption

The Company will covenant and represent in the Loan Agreement that it has taken and caused or required to be taken and will take and cause or require to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Assignment of the Loan Agreement

The Loan Agreement may be assigned in whole or in part by the Company only with the consent of the Issuer, subject to the following conditions: (a) no assignment will relieve the Company from primary liability for any of its obligations under the Loan Agreement or the Note; (b) any assignment by the Company must retain for the Company such rights and interests to permit it to perform its remaining obligations under the Loan Agreement, and any assignee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned; (c) the Company will, within 30 days after the execution thereof, furnish or cause to be furnished to the Issuer, the Letter of Credit Bank and the Trustee a true and complete copy of each assignment together with any instrument of assumption; and (d) any assignment from the Company will not materially impair fulfillment of the purposes of the Project to be accomplished by operation of the Project as provided in the Loan Agreement.

Events of Default and Remedies

The Loan Agreement provides that the occurrence of one or more of the following events will constitute an "Event of Default:"

(a) The failure to pay any Loan Payment, or pay any payment required to be made to pay the Purchase Price, when due;

(b) The occurrence of an event of default described in paragraphs (a), (b) or (c) under *THE INDENTURE—Events of Defaults and Remedies*;

(c) Failure by the Company to observe and perform any other agreement, term or condition under the Loan Agreement, other than such failure which will result in an event of default described in (a) or (b) above, which continues for a period of 90 days after notice to the Company by the Issuer or the Trustee or such longer period as the Issuer and the Trustee may agree to in writing; provided that the failure shall not constitute an Event of Default if the Company institutes curative action within the applicable period and diligently pursues that action to completion;

(d) Any representation or warranty under the Loan Agreement shall not have been true in all material respects when made; and

(e) Certain events relating to bankruptcy, insolvency or reorganization of the Company.

A failure by the Company described in subparagraph (c) above is not a default under that subparagraph if it occurs by reason of certain causes, circumstances and events of force majeure specified in the Loan Agreement that are not reasonably within the control of the Company.

Whenever any Event of Default under the Loan Agreement has happened and is subsisting, the Issuer or the Trustee may take either or both of the following remedial steps:

(a) Inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; and

(b) Pursue all remedies to recover all amounts then due and thereafter to become due under the Loan Agreement and the Note, or to enforce the performance and observance of any other obligation or agreement of the Company under those instruments.

(c) So long as the Letter of Credit is in full force and effect and the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, the exercise of remedies under the Loan Agreement with respect to Events of Default (other than with respect to defaults resulting from failures of the Company relating to certain rights of the Issuer not assigned under the Indenture), and any waivers of Events of Default shall be at the direction or with the written consent of the Letter of Credit Bank.

(d) Any amounts collected pursuant to action taken upon the happening of an Event of Default will be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the outstanding Bonds have been paid and discharged in accordance with the provisions of the Indenture, will be paid as provided in the Indenture for transfers of remaining amounts in the Bond Fund.

Certain Covenants Regarding Arbitrage and Tax Exemption

The Issuer and the Company have agreed not to take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

The Issuer and the Company have agreed that they will not take any action, cause any action to be taken, omit to take any action or cause any omission to occur which would cause the interest on the Bonds to become includable in gross income of the recipients thereof for purposes of federal income taxation.

Amendments to the Loan Agreement

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the owners of the Bonds only as may be required or permitted (i) by the provisions of the Loan Agreement or the Indenture or for the purposes for which the Indenture may be amended or supplemented without the consent of the owners, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Bonds. Any other amendments to the Loan Agreement may be made only with the written approval or consent of (i) the owners of not less than a majority in aggregate principal amount of the Bonds outstanding and (ii) the Letter of Credit Bank, so long as the Letter of Credit is in effect and the Letter of Credit Bank has not wrongfully dishonored a drawing thereunder or wrongfully repudiated the Letter of Credit. An opinion of Bond Counsel to the effect that such action is permitted under the Act and the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes (a "Favorable Opinion of Tax Counsel") is required for any amendment to the Loan Agreement.

THE INDENTURE

Additional information summarizing certain provisions of the Indenture is contained under the heading *THE BONDS.* So long as DTC or its nominee is the registered owner of the Bonds, all references to owners or holders shall mean DTC. See *THE BONDS - Book-Entry Only System* herein.

Pledge and Security

Pursuant to the Indenture, the payments to be made by the Company under the Loan Agreement and the Note will be assigned by the Issuer to the Trustee to secure the payment, when due, of the principal of, and premium, if any, and interest on, the Bonds. The Issuer will also absolutely and irrevocably assign to the Trustee all right, title and interest in and to the Letter of Credit Account in the Bond Fund and all moneys therein, and will mortgage, pledge and grant a security interest to the Trustee all right, title and interest of the Issuer in and to (i) the Revenues (other than the Letter of Credit Account in the Bond Fund, and the moneys therein, assigned above), including without limitation, all Loan Payments and all other amounts receivable by the Issuer under the Loan Agreement in respect of repayment of the loan and (ii) the Note and the Loan Agreement (except certain rights to the payment of its costs and expenses, to indemnification and to enforce certain covenants of the Company); provided, that the Trustee, in case of an acceleration of the Bonds, will have a prior claim on the Bond Fund, other than money in the Letter of Credit Account, for the payment of its compensation and expenses.

Construction Fund

The Indenture creates and establishes with the Trustee a separate fund designated the "State of Ohio Air Quality Revenue Bonds (Ohio Valley Electric Corporation Project) Series 2009B Construction Fund" (the "Construction Fund"). The proceeds from the sale of the Bonds will be deposited in the Construction Fund. Such proceeds and any other moneys deposited in the Construction Fund shall be applied to the payment of the cost of financing the acquisition, construction, installation and equipping of the Project, including issuance expenses. See *THE LOAN AGREEMENT-Use of Bond Proceeds; Construction of the Project* above.

When the Project shall have been completed and the Trustee shall have received a certificate of a Company Representative, any moneys remaining in the Construction Fund in excess of the amount to be reserved for payment of unpaid items of the cost of the Project, shall be used by the Trustee at the direction of the Company (i) if the Bonds are then subject to redemption or will be subject to redemption within 90 days of the date the Project was placed in service, to redeem outstanding Bonds at the earliest possible redemption date within such 90-day period in accordance with Treasury Regulation Section 1.142-2(c), (ii) if such Bonds are not subject to redemption within such 90-day period, to establish a defeasance escrow in accordance with Treasury Regulation Section 1.142-2(c) or (iii) for any other purposes which, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee, is permissible under then applicable Ohio law and will not under the Code cause the interest on the Bonds to be included in gross income for federal income tax purposes; provided that amounts approved by the Company shall be retained by the Trustee in the Construction Fund for payment of any cost of the Project not then due and payable or which is in dispute, and any balance remaining of such retained funds after full payment of the cost of the Project shall be held and applied, or used as directed by the Company, in the manner specified in this paragraph.

Purchase Fund

The Trustee will apply money contained in the accounts described below maintained within the Purchase Fund as follows:

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a purchase date, the Trustee will directly deposit such proceeds, and will deposit only such proceeds, in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds; provided that, at any time when the Letter of Credit is in effect, proceeds of any remarketing of Bonds to the Issuer, the Company or any affiliate of either of them and proceeds of the remarketing of any other Company-Held Bonds and any Bank-Owned Bonds which have been remarketed will be held and maintained in a subaccount for the benefit of the Letter of Credit Bank, separated and segregated from all other money in the Remarketing Proceeds Account. Upon instruction from the Letter of Credit Bank, any amount held by the Trustee in the subaccount described in the preceding sentence will be paid to the Letter of Credit Bank. Neither the Issuer nor the Company will have any interest in the Remarketing Proceeds Account.

Letter of Credit Purchase Account. Upon receipt of the immediately available funds provided to the Trustee pursuant to the Indenture, the Trustee will directly deposit such money, and will deposit only such money, in the Letter of Credit Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Letter of Credit Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds will be promptly returned following such determination to the Letter of Credit Bank with written notice to the Company. Neither the Issuer nor the Company will have any interest in the Letter of Credit Purchase Account.

Company Purchase Account. Upon receipt of immediately available funds provided to the Trustee by the Company pursuant to the Indenture, the Trustee shall directly deposit such money, and shall deposit only such money, in the Company Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Company Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds shall be promptly returned following such determination to the Company.

Bond Fund

Payments made by the Company under the Loan Agreement and the Note with respect to the Bonds and certain other amounts specified in the Indenture will be deposited in the Bond Fund. The Trustee will apply money contained in the accounts described below maintained within the Bond Fund as follows:

(a) Interest Account. The Trustee, on each Interest Payment Date, will withdraw and apply from moneys on deposit in the Interest Account an amount sufficient to pay interest on the outstanding Bonds on such Interest Payment Date; provided, however, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall withdraw and apply moneys in the Interest Account, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(b) Principal Account. The Trustee, on each Principal Payment Date, will withdraw and apply from moneys on deposit in the Principal Account, an amount equal to the principal becoming due on the Bonds on such Principal Payment Date (other than a redemption date). Money in such Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of outstanding Bonds; provided, however, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee will apply such amounts, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(c) Redemption Account. The Trustee, on or before each redemption date, will withdraw and apply from moneys on deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on Bonds to be redeemed prior to their stated maturity. Money in such Redemption Account will be used and withdrawn by the Trustee on each redemption date solely for the payment of the principal of and premium, if any, and accrued interest on outstanding Bonds upon the redemption thereof prior to their stated maturity; provided, however, when the Letter of Credit or an Alternate Letter of Credit is in effect, the Trustee shall apply such amounts, if any, to reimburse the Letter of Credit Bank for draws on the Letter of Credit or the Alternate Letter of Credit pursuant to the Indenture.

(d) Letter of Credit Account. The Trustee will directly deposit, or cause to be directly deposited, the proceeds of draws on the Letter of Credit or an Alternate Letter of Credit to pay interest on and principal of the Bonds in such Letter of Credit Account, and shall deposit only those proceeds therein. Money in such Letter of Credit Account will be used and withdrawn by the Trustee on each Interest Payment Date and each Principal Payment Date first, before any other source of funds, to pay the principal of and interest on the Bonds; provided, however, that in no event shall moneys in such Letter of Credit Account be used to pay interest and premium on or principal of Bonds that are Bank-Owned Bonds or Company-Held Bonds if the Letter of Credit or Alternate Letter of Credit does not permit drawings thereunder with respect to Bank-Owned Bonds or Company-Held Bonds. Amounts in the Letter of Credit Account shall be held uninvested. Neither the Issuer nor the Company shall have any interest in the Letter of Credit Account.

(e) Payments by Company. If during any period that a Letter of Credit is in effect there is not sufficient money in the Letter of Credit Account to make the payments on an Interest Payment Date or Principal Payment Date, the Trustee will make such payments from money provided by the Company and deposited into the other accounts of the Bond Fund.

Investment of Moneys Held by the Trustee

Moneys deposited in the Construction Fund and in the accounts maintained within the Bond Fund (except the Letter of Credit Account) will be invested at the direction of the Company in Permitted Investments (as defined in the Indenture). Moneys held in the Purchase Fund will be held uninvested.

In the Loan Agreement the Company and the Issuer have covenanted not to cause or direct any moneys on deposit in any fund to be used in a manner which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

Events of Default and Remedies

The following events are Events of Default under the Indenture:

(a) Default in the due and punctual payment of interest on any Bond;

(b) Default in the due and punctual payment of the principal of, or premium, if any, on any Bond, whether at the stated maturity thereof, or upon unconditional proceedings for redemption thereof;

(c) Default in the due and punctual payment of the Purchase Price of any Bond required to be purchased in accordance with its terms;

(d) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds, continuing 30 days after delivery of notice thereof;

(e) The occurrence and continuance of an event of default under the Loan Agreement as described under *THE LOAN AGREEMENT – Events of Default and Remedies*; or

(f) Receipt by the Trustee of a written notice from the Letter of Credit Bank stating that an event of default has occurred under the Reimbursement Agreement and directing the Trustee to declare the principal of the outstanding Bonds immediately due and payable.

Upon the occurrence and continuance of an Event of Default under (a), (b) or (c) above the Trustee may, and upon the written request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately. If an Event of Default under paragraph (d) or (e) above occurs and is continuing, the Trustee may, and upon the request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding, shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately, provided, however, when the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit (or otherwise repudiated the Letter of Credit), the Trustee will make such a declaration only with the written consent of the Letter of Credit Bank. If an Event of Default under paragraph (f) above occurs and is continuing, the Trustee shall declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately.

Upon any such declaration, the principal of and accrued interest on the outstanding Bonds shall be due and payable immediately. Notwithstanding anything else herein to the contrary, interest on the outstanding Bonds will cease to accrue immediately upon a declaration of acceleration for an Event of Default under (f) above. When the Letter of Credit is in effect, the Trustee shall, immediately upon a declaration of acceleration, draw upon the Letter of Credit to pay the principal of and interest on the outstanding Bonds; provided, that in no event shall a drawing be made with respect to Bank-Owned Bonds or Company-Held Bonds, if the Letter of Credit by its terms does not permit such a drawing. In the event the Letter of Credit Bank fails to honor a draw on the Letter of Credit (or otherwise repudiates the Letter of Credit) in accordance with the immediately preceding sentence, the Trustee shall immediately notify the Company of such failure and shall request that the Company transfer sufficient amounts to pay the principal of and interest on the Bonds.

The Trustee may rescind an acceleration of the Bonds and its consequences if (1) all payment defaults with respect to the Bonds have been cured and all reasonable fees and charges of the Trustee, including reasonable attorneys' fees, have been paid, and (2) the Bondholders have not been notified of the acceleration, and (3) while the Letter of Credit is in effect, the Letter of Credit Bank has notified the Trustee in writing (i) that the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in any amount equal to the principal amount of the Bonds outstanding less the principal amount of any Bank-Owned Bonds, plus the applicable Letter of Credit Interest Amount and any required premium coverage and (ii) that the Letter of Credit Bank has rescinded in writing any event of default under the Reimbursement Agreement. Except as provided in this section, the Trustee will not declare the Bonds to be due and payable.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of and premium, if any, or interest on the Bonds or to enforce the performance of any provision of the Bonds or the Indenture. So long as the Letter of Credit is in effect and the Letter of Credit Bank has not wrongfully dishonored a drawing thereunder or wrongfully repudiated the Letter of Credit, the Trustee will pursue any remedy only at the direction of or with the consent of the Letter of Credit Bank.

A majority in aggregate principal amount of the outstanding Bonds by notice to the Trustee may waive an existing Event of Default and its consequences; provided, however, that, when the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under such Letter of Credit or otherwise repudiated the Letter of Credit, no such waiver shall be effective with respect to the Bonds unless and until the Letter of Credit Bank has notified the Trustee in writing (i) that the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in an amount equal to the principal amount of the Bonds outstanding less the principal amount of any Bank-Owned Bonds, plus the applicable Letter of Credit Interest Amount and any required premium coverage, (ii) that the Letter of Credit Bank has rescinded in writing the notice of default, and (iii) the Letter of Credit Bank has waived in writing any event of default under the Reimbursement Agreement. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

When there is a Letter of Credit in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under such Letter of Credit or otherwise repudiated the Letter of Credit, the Letter of Credit Bank may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it with respect to the Bonds. When there is no Letter of Credit in effect or when the Letter of Credit Bank has wrongfully dishonored a drawing under the Letter of Credit or otherwise repudiated the Letter of Credit, the holders of a majority in aggregate principal amount of Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it.

An owner of a Bond may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the owner gives the Trustee notice stating that an Event of Default is continuing, (b) the owners of at least 25% in aggregate principal amount of the outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such owner or owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity, and (e) with respect to the Bonds, the Letter of Credit is either not in effect or the Letter of Credit Bank has wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit.

Except as described below, funds drawn under the Letter of Credit will be used only for the payment of principal of and interest on, premium, if any (to the extent that the Letter of Credit covers premium) and the Purchase Price of, the Bonds, as provided in the Letter of Credit. If the Trustee collects any money pursuant to the Indenture or if any moneys shall be on deposit in the Bond Fund at the time of acceleration of the Bonds or shall be deposited into the Bond Fund as a result of such an acceleration, it will pay out such monies in the following order: first to the Trustee for amounts to which it is entitled under such Indenture (*provided*, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall only use such proceeds to pay the owners of the Bonds); second to owners for amounts due and unpaid on the Bonds for principal, premium and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal, premium and interest, respectively, third to the Letter of Credit Bank to the extent it certifies that the Company is indebted to it on account of draws Letter of Credit or otherwise under the Reimbursement Agreement; and fourth to the Company (*provided*, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall pay the Letter of Credit Bank rather than the Company). Any lien of the Trustee provided for in the Indenture will in no event apply to any funds drawn under the Letter of Credit or to other funds held for the benefit of the Bondholders. The Trustee may fix a payment date for any payment to the Bondholders.

Supplemental Indentures

The Issuer and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof:

(a) to cure any ambiguity, defect or omission in the Indenture, or otherwise amend the Indenture, in such manner as shall not in the opinion of the Trustee impair the security under the Indenture;

(b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) to evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Loan Agreement and the Bonds, to add additional covenants of the Issuer or to surrender any right or power therein conferred upon the Issuer;

(d) to subject to the pledge of the Indenture additional revenues, properties, or collateral, which may be accomplished by, among other things, entering into instruments with the Company and/or other persons providing for further security, covenants, limitations or restrictions for the benefit of the Bonds;

(e) to modify, amend or supplement the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar statute at the time in effect;

(f) to amend any provision pertaining to matters under federal income tax laws, including Section 148(f) of the Code;

(g) to authorize different Authorized Denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(h) to increase or decrease the number of days specified for the giving of notices of tender and to make corresponding changes to the period for notice of redemption of the Bonds; provided, that no decreases in any such number of days will become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(i) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(j) to evidence the succession of a new trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder;

(l) prior to, or concurrently with, the conversion of the Bonds to an Auction Rate Period, to make any change appropriate or necessary with respect to the procedures, definitions or provisions in the Indenture or in Exhibit B attached to the Indenture related to the Auction Mode Rate in order to provide for or facilitate the marketability of Bonds in the Auction Mode Rate; and

(m) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

The Indenture also provides that the owners of not less than a majority in aggregate principal amount of the Bonds outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or supplemental indentures as shall be deemed necessary and desirable by the Issuer and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing shall permit (a) without the consent of the holder of the affected Bond, an extension of the maturity date of the principal of or the interest on any Bond; (b) without the consent of the holder of the affected Bond, a reduction in the principal amount of any Bond, the rate of interest thereon or any redemption premium; or (c) without the consent of the holders of all Bonds outstanding, a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or for actions related to amendments to the Loan Agreement. A Favorable Opinion of Tax Counsel is required for any supplement to the Indenture.

When the Letter of Credit is in effect and so long as the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit or wrongfully repudiated the Letter of Credit, no waiver of or amendment or supplement to the Indenture other than certain of those enumerated in the Indenture shall be made without the prior written consent of the Letter of Credit Bank to such amendment or supplement.

Discharge of the Indenture

If the whole amount of principal, redemption price and interest due and payable on the Bonds has been paid, or provision has been made for the payment of the same in accordance with the Indenture, and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer thereunder shall cease, terminate, become void and be completely discharged as to such Bonds.

No Personal Liability of Issuer's Officials

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No member of the Issuer or official executing the Bonds, the Indenture, the Loan Agreement or any amendment or supplement to the Indenture or the Loan Agreement will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

Removal of Trustee

The Trustee may be removed by the owners of not less than a majority in principal amount of Bonds at the time outstanding or by the Issuer and the Company so long as no Event of Default has occurred and is continuing. The Trustee shall continue to serve as such until a successor Trustee shall be appointed under the Indenture and has accepted such appointment.

THE REMARKETING AGREEMENT

Morgan Stanley & Co. Incorporated has been appointed as the Remarketing Agent for the Bonds. If and to the extent the Company directs the Remarketing Agents to remarket the Bonds delivered for purchase pursuant to the Indenture, the Remarketing Agent, pursuant to and subject to the provisions of a remarketing agreement with the Company (the "Remarketing Agreement"), will offer for sale and use reasonable efforts to sell such Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Remarketing Agent may resign by giving notice to the Issuer, the Company and the Trustee (such resignation will be effective upon the earlier of the day a successor remarketing agent appointed pursuant to the Indenture has accepted that appointment or 30 days after such notice has been sent) and may suspend remarketing upon the occurrence of certain events. The Company may remove the Remarketing Agent at any time upon 30 days' notice. In either case, the Company has agreed to use its best efforts to appoint a successor remarketing agent. See *THE BONDS -- Special Considerations*.

THE TRUSTEE

The Company and certain of its affiliates maintain banking relationships with affiliates of The Huntington National Bank, and borrow from such affiliates from time to time. The Huntington National Bank, and its affiliates, serve as trustee under other indentures with, or for the benefit of, affiliates of the Company.

UNDERWRITING

Subject to the terms and conditions set forth in a Bond Purchase Agreement to be entered into between the Issuer and the Underwriters, the Underwriters have agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Bond Purchase Agreement, the Underwriters are committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriters $87,500 as compensation and to reimburse the Underwriters for their reasonable expenses.

The Issuer has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriters make any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

The Underwriters and/or certain of their affiliates may engage in transactions with, and from time to time have performed services for, the Company and/or certain of its affiliates in the ordinary course of business.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Bonds are exempt from the continuing disclosure requirements of paragraph (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Act of 1934 while they bear interest at a Daily Rate or Weekly Rate. The Company will covenant in the Loan Agreement that in the event the Bonds are converted to an interest rate that would make the Bonds subject to the requirements of the Rule, the Company will comply with the requirements of the Rule and execute a continuing disclosure undertaking for the benefit of the beneficial owners of the Bonds, and to provide continuing information as required by the Rule.

TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer and the Company contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Issuer's and the Company's certifications and representations or the continuing compliance with the Issuer's and the Company's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Issuer or the Company with respect to the Bonds (or with similar requirements with respect to certain other bonds issued by the Issuer substantially at the same time as the issuance of the Bonds) may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Company and the Issuer have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market value of the Bonds.

Although a portion of the interest on certain tax-exempt obligations earned by certain corporations may be included in the calculation of adjusted current earnings for purposes of the federal corporate alternative minimum tax, interest on certain tax-exempt obligations issued in 2009 and 2010, including the Bonds, is excluded from that calculation. Interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bondowner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the excludability of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the Ohio legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest or other income on the Bonds or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and Ohio tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Company or the beneficial owners regarding the tax status of interest on the Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value for the Bonds.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, which will be furnished at the expense of the Company upon delivery of the Bonds, in substantially the form set forth as Appendix C (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section *TAX EXEMPTION*. Bond Counsel has not been engaged to investigate the financial resources of the Company or the Letter of Credit Bank or the ability of either the Company or the Letter of Credit Bank to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

Certain legal matters will be passed upon by Jeffrey D. Cross or Thomas G. Berkemeyer and Fulbright & Jaworski L.L.P., counsel for the Company. Jeffrey D. Cross and Thomas G. Berkemeyer are Deputy General Counsel and Associate General Counsel, respectively, of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters will be passed upon for the Underwriters by Chapman and Cutler LLP, Chicago, Illinois, counsel for the Underwriters. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Certain legal matters will be passed upon for the Letter of Credit Bank by its U.S. counsel, King & Spalding LLP, and by its internal Canadian counsel. Squire, Sanders & Dempsey L.L.P. acts as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

MISCELLANEOUS

The attached Appendices (including documents contained therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement other than information under *THE ISSUER.* All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under Ohio law.

APPENDIX A

Ohio Valley Electric Corporation

As more fully detailed below, Ohio Valley Electric Corporation ("OVEC"), together with its wholly owned subsidiary, Indiana-Kentucky Electric Corporation ("IKEC" and together with OVEC, the "Company") is engaged in the business of generating, transmitting and selling electricity from its facilities located in Ohio, Indiana and Kentucky. The Company's principal office is located at 3932 U.S. Route 23, Piketon, Ohio 45661 and the telephone number is (740) 289-7200.

This summary may not contain all of the information that may be important to purchasers of the Bonds and should be read together with the more detailed information appearing elsewhere in this Official Statement. Capitalized terms used in this Appendix and not otherwise defined shall have the meanings ascribed thereto in the body of this Official Statement.

Company Overview

The Company owns and operates two coal-fired electric power generating plants with a combined nameplate capacity of approximately 2,390 megawatts ("MW"). OVEC's Kyger Creek Plant (the "Kyger Creek Plant" or "Kyger"), located in Gallia County, Ohio, has a total nameplate capacity of 1,086 MW. IKEC's Clifty Creek Plant (the "Clifty Creek Plant" or "Clifty") has a total nameplate capacity of 1,304 MW and is located in Jefferson County, Indiana. Both of these facilities commenced operations in 1955. A 776 circuit-mile network of 345 kilovolt ("kV") transmission lines owned by the Company connect these two generation stations. These lines also interconnect with the major power transmission networks of several of the utilities serving the area. OVEC has senior unsecured debt ratings of Baa3 (negative outlook) by Moody's and BBB- by S&P. Additional information regarding the Company can be found at www.ovec.com, but the information at such website is not incorporated into this Official Statement by reference.

The Inter-Company Power Agreement

OVEC sells power to thirteen purchasers under the Inter-Company Power Agreement ("ICPA"), which stipulates the terms by which all of the electric capacity and energy of the Kyger Creek Plant and the Clifty Creek Plant is sold. The thirteen power purchasers under the ICPA (collectively, the "Sponsoring Companies") are currently investor-owned utilities and one affiliate of a generation and transmission rural electric cooperative each of which own or are affiliated with entities that own equity in OVEC. OVEC is owned by eleven entities (collectively, the "Shareholders"), consisting of ten investor-owned utilities or utility holding companies and one affiliate of the generation and transmission rural electric cooperative.

In 2004, an Amended and Restated ICPA was unanimously approved by the Sponsoring Companies and OVEC, extending the term of the then-current ICPA, effective March 13, 2006, for an additional 20 years until March 13, 2026. Under the ICPA, the Sponsoring Companies have the right to receive 100% of OVEC's available capacity and energy. Each Sponsoring Company can reserve a percentage, called the power participation ratio ("PPR"), of available power and energy, and each Sponsoring Company that reserves available power is entitled to a commensurate amount of available energy. The PPR of each Sponsoring Company is based on the ownership interest of such Sponsoring Company and its affiliates in OVEC. The payments required to be made by the Sponsoring Companies under the ICPA include monthly demand and energy charges and transmission charges. The demand and transmission charges are designed to cover all of OVEC's non-fuel related costs of owning, operating and maintaining OVEC's generation and transmission facilities – including debt repayment – and to provide a return on equity to its Shareholders. The Sponsoring Companies' obligations under the ICPA are several, but not joint and several. This means that each Sponsoring Company is only liable for its obligations, and not the obligations of the other Sponsoring Companies under the ICPA.

The energy charge permits OVEC to recover all of its fuel-related costs, with each Sponsoring Company paying its share of those costs based on the amount of energy taken by that Sponsoring Company. The Sponsoring Companies are obligated under the ICPA to pay the demand and transmission charges even if OVEC fails to deliver power and regardless of the amount of the available capacity of OVEC's generation facilities. In addition, the Sponsoring Companies must reimburse OVEC for all costs of replacements and additional facilities (defined in the ICPA).

The ICPA allows OVEC to incur debt for capital improvements to maintain compliance with applicable laws. In the event that OVEC finances the cost of any additional facility or replacement, the Sponsoring Companies are required to pay, as part of the demand charge for available power, 100% of all interest costs and debt amortization relating to such financing. The cost is allocated among the Sponsoring Companies based on their respective PPRs (representing their and their affiliates' approximate ownership of the Company). Consequently, the Sponsoring Companies are obligated to reimburse OVEC for 100% of its financing costs for any environmental spending.

The current Shareholders and their respective percentages of equity in OVEC are:

Shareholder	Equity Percentage
Allegheny Energy, Inc.	3.50%
American Electric Power Company, Inc.*	39.17%
Buckeye Power Generating, LLC [1]	18.00%
Columbus Southern Power Company**[2]	4.30%
The Dayton Power and Light Company [3]	4.90%
Duke Energy Ohio, Inc.*** [4]	9.00%
Kentucky Utilities Company [5]	2.50%
Louisville Gas and Electric Company [5]	5.63%
Ohio Edison Company [6]	7.50%
Southern Indiana Gas and Electric Company [7]	1.50%
The Toledo Edison Company [6]	4.00%
Total	**100.00%**

These entities comprise the Sponsoring Companies and currently share the OVEC power participation benefits and requirements in the following percentages:

Sponsoring Company	Power Participation Ratios
Allegheny Energy Supply Company [8]	3.01%
Appalachian Power Company [2]	15.69%
Buckeye Power Generating, LLC [1]	18.00%
Columbus Southern Power Company [2]	4.44%
The Dayton Power and Light Company [3]	4.90%
Duke Energy Ohio, Inc. [4]	9.00%
FirstEnergy Generation Corp. [6]	11.50%
Indiana Michigan Power Company [2]	7.85%
Kentucky Utilities Company [5]	2.50%
Louisville Gas and Electric Company [5]	5.63%
Monongahela Power Company [8]	0.49%
Ohio Power Company [2]	15.49%
Southern Indiana Gas and Electric Company [7]	1.50%
Total	**100.00%**

Some of the Common Stock issued in the name of:

* American Gas & Electric Company
** Columbus and Southern Ohio Electric Company
*** The Cincinnati Gas & Electric Company

Subsidiary or affiliate of:

[1] Buckeye Power, Inc.
[2] American Electric Power Company, Inc.
[3] DPL Inc.
[4] Duke Energy Corporation
[5] E.ON U.S. LLC
[6] FirstEnergy Corp.
[7] Vectren Corporation
[8] Allegheny Energy, Inc.

OVEC-IKEC Power Agreement

The principal contractual arrangements between OVEC and IKEC are contained in the OVEC-IKEC Power Agreement. OVEC is obligated under the OVEC-IKEC Power Agreement to purchase all power, and the energy associated therewith, generated at IKEC's Clifty Creek Plant. OVEC's payments for such power are determined such that, when added to revenues received by IKEC from any other source, they are sufficient to enable IKEC to pay all of its operating and other expenses, including all income and other taxes, and any interest and regular amortization requirements applicable to any indebtedness for borrowed funds incurred by IKEC. IKEC currently has no long-term indebtedness. IKEC is obligated to transmit to OVEC any and all power, and the energy associated therewith, generated at the Clifty Creek Plant. IKEC is further obligated to transmit and deliver to OVEC all power, and the energy associated therewith, supplied to IKEC by the Sponsoring Companies and to deliver to the Sponsoring Companies designated by OVEC, all power, and the energy associated therewith, supplied to IKEC by OVEC. The term of the OVEC-IKEC Power Agreement is coterminous with the term of the ICPA.

Available Information

OVEC is not subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act") and does not file reports and other information with the Securities and Exchange Commission (the "SEC"). Other than Buckeye Power Generating, LLC, all of the Shareholders of OVEC (or their parent corporation) are subject to the information requirements of the 1934 Act, and in accordance therewith file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at its principal offices at 100 F Street, N.E., Washington, D.C. or at the SEC's website at www.sec.gov. Additional information regarding Buckeye Power Generating, LLC, an affiliate of Buckeye Power, Inc., can be found at www. http://www.buckeyepower.com.

None of the above-mentioned additional information regarding the Shareholders and their operating subsidiaries is part of this Official Statement, nor is any such information incorporated into this Official Statement, and neither the Company nor the Underwriters take any responsibility for the accuracy or completeness thereof.

Financial Statements

Annex 1 to this Appendix A contains the Company's Annual Report for 2008 which includes the consolidated financial statements of the Company as of December 31, 2008 and 2007, and for each of the two years in the period ended December 31, 2008, audited by Deloitte & Touche LLP, independent auditors. Annex 2 to this Appendix A contains the unaudited consolidating financial statements of the Company as of March 31, 2009. Annex 3 to this Appendix A contains the unaudited consolidating financial statements of the Company as of June 30, 2009.

Risk Factors

Investing in the Bonds involves risk. Please see the risk factors described below. Before making an investment decision, prospective Bondholders should carefully consider these risks as well as other information contained in this Official Statement and the Appendices. The risks and uncertainties described are those presently known to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations, financial results and the value of the Bonds.

Risks Associated with OVEC

OVEC relies exclusively on the payments made to it by the Sponsoring Companies pursuant to the ICPA for revenue to pay OVEC's operating expenses, and OVEC may be unable to pay those expenses (including payments of principal, interest, and premium, if any, on, the Bonds) if any of the Sponsoring Companies fails to fulfill its payment obligations to OVEC.

The Sponsoring Companies are obligated under the ICPA to pay demand, transmission and energy charges that, collectively, are contractually designed to cover all of OVEC's fixed charges of owning, operating and maintaining OVEC's generation and transmission facilities, provide a return on equity to OVEC's shareholders, and compensate

OVEC for costs of all fuel used to supply power under the ICPA. This obligation is several and not joint and several. As a consequence, because OVEC's only material source of revenue is under the ICPA, a failure by a Sponsoring Company to fulfill a payment obligation to OVEC for any reason could cause OVEC to be unable to pay its operating expenses (including payments with respect to principal, interest, and premium, if any, on, the Bonds). Moreover, the ability of the Sponsoring Companies to generate cash flow and make their obligated payments under the ICPA depends on their financial performance, which will be affected by a range of economic, competitive, legislative, regulatory and business factors, many of which are outside of the control of the Company and the Sponsoring Companies.

The Sponsoring Companies' utility operations involve many risks, including the breakdown or failure of power generation equipment, pipelines, transmission lines, distribution lines or other equipment or processes, fuel interruption, and performance below expected levels of output or efficiency. Sales and revenues of a utility may also be adversely affected by general economic and business conditions and weather conditions in its service territory.

In addition, the Sponsoring Companies are subject to a number of environmental and other laws and regulations affecting many aspects of their present and future operations, including the disposal of various forms of waste, the construction or permitting of new facilities and air and water quality. Those laws and regulations generally require the Sponsoring Companies to obtain and comply with a wide variety of licenses, permits and other approvals. Existing regulations may be revised or new regulations may be adopted or become applicable to the Sponsoring Companies that could have an adverse impact on their respective operations, including potential regulatory developments related to emissions of greenhouse gases, sulfur dioxide and nitrous oxides. The implementation of regulatory changes imposing more comprehensive or stringent requirements on the Sponsoring Companies, to the extent such changes would result in increased compliance costs or additional operating restrictions, could have a material adverse effect on the results of operations of the Sponsoring Companies. See *Environmental Matters* herein.

This Official Statement does not contain historical financial information regarding any of the Sponsoring Companies. In making an investment decision regarding the Bonds, there is no assurance, based upon the information contained herein, that any of the Sponsoring Companies will be capable of meeting its financial or other responsibilities under the ICPA.

The operation of the Company's electric generation plants and transmission facilities involves risks that could adversely affect the Company's cost of operations.

The Company is subject to various risks associated with operating its electric generation plants and transmission facilities, any of which could adversely affect its cost of operations. These risks include:

- failure of equipment or processes, operator or maintenance errors or other events resulting in power outages or reduced output;

- availability of fuel and fuel transportation;

- disruptions in the transmission or distribution of power;

- changes in applicable laws and regulations, including environmental laws and regulations; and

- catastrophic events such as fires, hurricanes, explosions, floods, terrorist attacks or other similar occurrences to its facilities or to facilities upon which the Company depends.

Unplanned outages of generating units and transmission facilities due to mechanical failures or other problems occur from time to time and are an inherent risk of the Company's business. Unplanned outages typically increase the Company's operation and maintenance expenses. All of the units of the Company's generation plants, and a significant portion of the Company's transmission facilities, were originally constructed many years ago. Older generation and transmission equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep it operating at high efficiency and to meet regulatory and environmental requirements. This equipment is also likely to require periodic upgrading and improvement.

The cost of repairing damage to the Company's generation plants and transmission facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events may adversely affect the Company's costs of operations or cash flows. These actions could also result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, the Company's generation plants and transmission facilities are directly or indirectly connected to electric transmission infrastructure which the Company does not own and over which it does not exercise control of operations or maintenance. The Company's operations could be directly or indirectly harmed by failures associated with either its own or third parties' generation and transmission facilities, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, equipment interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other environmental risks. Severe damage to or destruction of property and equipment and environmental damage may result in suspension of operations and the imposition of civil or criminal penalties. Moreover, the occurrence or risk of occurrence of future terrorist attacks, related acts of war or failures in generation and transmission infrastructure could also adversely affect the U.S. economy or otherwise impact the Company's results of operations and financial condition in unpredictable ways.

Should one or more of the events described above occur, the Company's cost of operations may significantly increase. The Company has insurance covering certain of its plants, including property damage insurance, commercial general liability insurance, and boiler and machinery coverage, each in amounts that the Company considers appropriate. However, the Company's insurance policies are subject to certain limits and deductibles as well as policy exclusions. the Company cannot assure purchasers of the Bonds that insurance coverage will be available in the future at current costs or on commercially reasonable terms or that the insurance proceeds received for any loss or damage, including any loss or damage to the Company's generation plants and transmission facilities or losses caused by outages, will be sufficient to restore the loss or damage without negative impact on the Company's costs of operations.

The interests of the Sponsoring Companies may conflict with the interests of the bondholders or OVEC.

All of OVEC's capital stock is owned either by the Sponsoring Companies or by subsidiaries or other affiliates of the Sponsoring Companies. Therefore, the Sponsoring Companies direct OVEC's activities and have the ability to control the Company's management, policies, and financing decisions. In addition, the Sponsoring Companies may have interests that conflict with those of the bondholders or the Company's interests and, except as required by law or contractual obligations, the Sponsoring Companies have no duties to other parties with respect to the conduct of the Company's business.

Risks Associated with the Bonds

An investment in the Bonds involves certain risks, including the risk of nonpayment of interest, principal or premium, if any, due to the owners. The principal risk that may affect payment of the Bonds is the inability or refusal of the Letter of Credit Bank to perform its duties under the Letter of Credit. In such an event, the Trustee would exercise its available remedies against the Letter of Credit Bank. The risk of nonpayment also depends upon the financial condition of the Company and is affected by a number of factors that should be considered by prospective purchasers, along with the other information presented in this Official Statement and the Appendices hereto, in judging the suitability of an investment in the Bonds.

Risks Associated with the Letter of Credit and the Reimbursement Agreement

Concurrently with, and as a condition to the offering of the Bonds in the Weekly Rate, the Company will cause to be delivered to the Trustee the Letter of Credit issued by the Letter of Credit Bank for the timely payment of principal of and interest (calculated for 35 days at the maximum rate of 12% per annum) on, and purchase price of, the Bonds. OVEC will be required to reimburse the Letter of Credit Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of the Reimbursement Agreement. The Letter of Credit will expire on August 12, 2010, subject to extension or earlier termination. The Letter of Credit may be extended or replaced by a letter of credit issued by a national banking association, a bank, a trust company or other financial institution satisfying the requirements of the Indenture. Certain information with respect to the Letter of Credit Bank is included in Appendix B to this Official Statement.

If the Letter of Credit expires or is terminated, and even if an Alternate Letter of Credit is obtained by OVEC, the Bonds will be subject to mandatory tender for purchase at the principal amount, without premium, plus accrued interest to the purchase date. See *THE BONDS—Mandatory Tender for Purchase—Mandatory Tender Upon Substitution of Alternate Letter of Credit* in this Official Statement. There can be no assurance that OVEC will be able to obtain an extension of the Letter of Credit or any future Alternate Letter of Credit. The Letter of Credit Bank is under no obligation to extend the Letter of Credit beyond the scheduled expiration thereof. See *THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT* in this Official Statement. From and after the receipt of an Alternate Letter of Credit in substitution for the Letter of Credit, if ever, the Bonds will be secured by the Alternate Letter of Credit.

The ratings on the Bonds are dependent on the joint ratings of the Letter of Credit Bank and OVEC. The Letter of Credit Bank's current ratings are predicated upon among other things, a level of reserves required by banking institutions. The level of reserves maintained by the Letter of Credit Bank could change over time and this could result in a downgrading of the rating on the Bonds. The Letter of Credit Bank is not contractually bound to maintain its present level of reserves in the future nor is it contractually bound to maintain its current credit rating. No provision has been made for replacement of or substitution for the Letter of Credit in the event of any deterioration in the financial condition of the Letter of Credit Bank. The ratings assigned to OVEC's senior unsecured debt by the rating agencies reflect such agencies' assessment of the likelihood that the holders of the Bonds will receive the payments of principal, purchase price and interest on each applicable payment date if the Letter of Credit were not in effect. The ratings are not a recommendation to purchase, hold or sell the Bonds, and such ratings do not comment as to the marketability of the Bonds, any market price, or suitability for a particular investor. There is no assurance that any rating will remain for any given period of time or that any rating will not be lowered or withdrawn entirely by a rating agency if, in such rating agency's judgment, circumstances so warrant. None of the Issuer, OVEC, the Underwriters or the Remarketing Agent has undertaken any responsibility to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

The obligations of the Letter of Credit Bank under the Letter of Credit are general, unsecured obligations of the Letter of Credit Bank and will not rank higher in priority of payment or in any other respect with other unsecured obligations of the Letter of Credit Bank. In the event of a bankruptcy or insolvency or if for any other reason the Letter of Credit Bank fails or is unable to fulfill its obligations under the Letter of Credit, each owner of the Bonds would have to depend entirely on the ability of OVEC to pay the principal of, interest on and purchase price of Bonds tendered for purchase unless an Alternate Letter of Credit is obtained by OVEC.

The Letter of Credit Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System, the State of New York Banking Department and other regulatory bodies. New regulations could impose restrictions upon the Letter of Credit Bank that would restrict its ability to respond to competitive pressures. In the recent past increased regulatory efforts have imposed new capital requirements upon the Letter of Credit Bank. Various other legislative or regulatory changes could dramatically impact the banking industry as a whole and the Letter of Credit Bank specifically. The banking industry is highly competitive in many of the markets in which the Letter of Credit Bank operates. Such competition directly impacts the financial performance of the Letter of Credit Bank. Any significant increase in such competition could adversely impact the Letter of Credit Bank.

Limited Obligations

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made by OVEC to the Issuer under the terms of the Loan Agreement and the Note. The Loan Agreement and the Note are unsecured obligations of OVEC. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company. The Bonds do not now and will never constitute a charge against the general credit of the Issuer, the State of Ohio, or any political subdivision thereof.

Risk of Taxability

The failure of the Issuer or OVEC to comply with their covenants to meet certain requirements of the Code (see *TAX EXEMPTION* in this Official Statement) could cause the interest on the Bonds to become includable in gross income of the owners thereof for federal income tax purposes retroactively to the date of issuance of the Bonds. Under the circumstances described in this Official Statement under the caption *THE BONDS—Redemption of Bonds -- Extraordinary Mandatory Redemption of Bonds*, the Bonds may be redeemed on any date in whole (or in part in certain circumstances) without premium following the occurrence of certain events as described therein. The Indenture does not provide for the payment of any additional interest or penalty in the event that the interest on the Bonds becomes includable in gross income for federal income tax purposes.

Matters Relating to Enforcement

Enforcement of the remedies under the Indenture, the Loan Agreement and the Reimbursement Agreement may be limited or restricted by federal and state laws relating to bankruptcy, fraudulent conveyances, and rights of creditors, by application of general principles of equity affecting the enforcement of creditors' rights and liens securing such rights, by zoning, subdivision or other municipal codes and ordinances and by the exercise of judicial authority by state or federal courts, and may be subject to discretion in the event of litigation or statutory remedy procedures, and may be substantially delayed in the event of litigation or statutory remedy procedures. The various legal opinions to be delivered concurrently with the issuance and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by local, state and federal laws, rulings and decisions affecting remedies, and by general principles of equity and by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors.

Suitability of Investment

An investment in the Bonds involves a certain degree of risk. The interest rate borne by the Bonds is intended to compensate the investor for assuming this element of risk. Prospective investors should carefully examine this Official Statement, including the Appendices hereto, and their ability to bear the economic risk of such an investment, and then determine whether or not the Bonds are an appropriate investment for them.

Early Redemption or Mandatory Tender

Pursuant to the terms of the Indenture, the Bonds are subject to redemption and mandatory tender for purchase prior to maturity (see *THE BONDS—Redemption of Bonds* and *—Mandatory Tender for Purchase* in this Official Statement). Under those circumstances, a Bondholder may not have the opportunity to hold those Bonds for a time period consistent with such Bondholder's original investment intentions.

Secondary Markets and Prices

No assurance can be given that any secondary market will develop following the completion of the offering of the Bonds. Except with respect to the mandatory or optional tender of the Bonds (see *THE BONDS—Optional Tender* and *—Mandatory Tender for Purchase*), OVEC will not be obligated to repurchase any of the Bonds, and no assurance can be given that a secondary market for the Bonds will develop following the completion of the offering of the Bonds. Other than with respect to a tender of the Bonds, the Bonds are not readily liquid, and no person should invest in the Bonds with funds such person may need to convert readily into cash. Bondholders should be prepared to hold their Bonds to the stated maturity date.

Financial Summary

Capitalization

The table below outlines OVEC's capitalization at year-end 2007 and at funding of the Bonds, the Series 2009A Bonds, the Series 2009C Bonds and the Series 2009D Bonds assuming a June 30, 2009 issue date:

(in thousands)	12/31/2007		12/31/2008		Pro Forma 6/30/2009	
Debt						
Senior Notes	$722,961		$1,045,318		$1,127,857	
2009A-D Bonds	-		-		100,000	
Line of Credit Borrowings – Long Term	-		50,000		-	
Total Debt	$722,961	98%	$1,095,318	99%	$1,227,857	99%
Equity						
Common Stock $100 par value—Authorized, 300,000 shares; Outstanding, 100,000 shares	$10,000		$10,000		$10,000	
Retained Earnings	2,916		2,507		5,086	
Total Equity	$12,916	2%	$12,507	1%	$15,086	1%
Total Capitalization	**$735,877**	**100%**	**$1,107,825**	100%	$1,242,943	100%

Summary of Financials

The table below summarizes certain historical financial information of OVEC through 2008.

(in thousands unless otherwise noted)	2004	2005	2006	2007	2008
Net Generation (MWh)	15,810	16,638	16,468	15,110	15,260
Operating Revenues	$406,283	$468,546	$523,927	$531,362	$621,813
Operating Expenses	$380,972	$442,420	$494,893	$494,808	$566,798
Average Price $/MWh to Sponsors	$24	$28	$31	$35	$41

Power Sales Agreements

OVEC, on formation, entered into two principal power sales agreements:

- the DOE Power Agreement between OVEC and the United States of America, currently acting by and through the Atomic Energy Commission's successor, the Secretary of Energy, the statutory head of the U.S. Department of Energy; and

- the ICPA.

The term of the ICPA (as amended and restated, effective March 13, 2006) continues until the first to occur of the following: (i) the sale or other disposition of OVEC's and IKEC's electric generation facilities, (ii) the permanent cessation of the operation of those generation facilities, or (iii) March 13, 2026.

OVEC also entered into a power sales agreement with OVEC's wholly owned subsidiary, IKEC, which OVEC refers to as the "OVEC-IKEC Power Agreement."

The DOE Power Agreement

Under the DOE Power Agreement, OVEC was obligated to sell to the DOE essentially all of its electric generating capacity for use at the DOE's Pike County, Ohio uranium enrichment facilities in return for an agreement by the DOE to pay the costs of the ownership, operation and maintenance of OVEC's generation and transmission facilities, as well as to provide a return on equity to OVEC's shareholders.

In September 2000, the DOE notified OVEC of its election to terminate the DOE Power Agreement in connection with the cessation of uranium enriching operations at its Pike County plant, which became effective on April 30, 2003.

Upon the termination of the DOE Power Agreement, OVEC entered into an arranged power agreement with the DOE under which OVEC purchases power from third parties for delivery to the DOE. The DOE reimburses OVEC for the costs of all power purchases under this agreement and pays OVEC an administrative charge. The current arranged power agreement may be terminated by either party on 30 days' prior notice.

The ICPA

OVEC and the Sponsoring Companies signed the original ICPA on July 10, 1953, to support the DOE Power Agreement and provide for excess energy sales to the Sponsoring Companies of power not utilized by the DOE or its predecessors. Since the termination of the DOE Power Agreement on April 30, 2003, the Sponsoring Companies have, under the terms of the ICPA, the right to OVEC's entire generating capacity and the right to purchase all of the energy it generates. OVEC and the Sponsoring Companies entered into an amended and restated ICPA, effective March 13, 2006, extending the ICPA's term for an additional 20 years.

Each Sponsoring Company can reserve a percentage, called a power participation ratio ("PPR") of available power and energy, and a Sponsoring Company that reserves power is entitled to a commensurate amount of available energy. The PPR of each Sponsoring Company is based on the ownership interest of such Sponsoring Company and its affiliates in OVEC.

The payments required to be made by the Sponsoring Companies include monthly demand and energy charges and transmission charges. The demand and transmission charges are designed to cover all of OVEC's non-fuel related costs of owning, operating and maintaining its generation and transmission facilities – including debt service costs – and to provide a return on equity to its Shareholders. The energy charges paid by the Sponsoring Companies reimburse OVEC for all of its fuel-related costs, with each Sponsoring Company paying its share of those costs based on the amount of energy taken by such Sponsoring Company. The Sponsoring Companies are obligated under the ICPA to pay the demand and transmission charges even if OVEC fails to deliver power and regardless of the amount of the available capacity of OVEC's generation facilities. In addition, the Sponsoring Companies must reimburse OVEC for all costs of replacements and additional facilities.

The share of the total demand and transmission charges payable for any month by each Sponsoring Company is based on the Sponsoring Company's entitlement to power for such month. The share of the total energy charge payable for any month by each Sponsoring Company is based on the amount of energy taken by the Sponsoring Company for such month.

Under the ICPA, OVEC is entitled to bill the Sponsoring Companies on a semi-monthly basis for payment of its estimated demand and energy costs in the applicable semi-monthly period. OVEC generally bills the Sponsoring Companies on a monthly basis to adjust for its actual demand and energy costs for the entire month. Under the terms of the ICPA, payments are required to be made promptly and are generally paid within 15 days. Throughout OVEC's 56-year history, no Sponsoring Company has ever defaulted on a payment.

Each of the Sponsoring Companies either owns, or is a subsidiary or affiliate of a company that own, OVEC's capital stock. The Sponsoring Companies are not liable for OVEC's indebtedness, including OVEC's obligations under the Loan Agreement.

OVEC-IKEC Power Agreement

The principal contractual arrangements between OVEC and IKEC are contained in the OVEC-IKEC Power Agreement. OVEC is obligated under the OVEC-IKEC Power Agreement to purchase all power, and the energy associated therewith, generated at IKEC's Clifty Creek Plant. OVEC's payments for such power are determined such that, when added to revenues received by IKEC from any other source, they are sufficient to enable IKEC to pay all of its operating and other expenses, including all income and other taxes, and any interest and regular amortization requirements applicable to any indebtedness for borrowed funds incurred by IKEC. IKEC currently has no long-term indebtedness. IKEC is obligated to transmit to OVEC any and all power, and the energy associated therewith, generated at the Clifty Creek Plant. IKEC is further obligated to transmit and deliver to OVEC all power, and the energy associated therewith, supplied to IKEC by the Sponsoring Companies and to deliver to the Sponsoring Companies designated by OVEC, all power, and the energy associated therewith, supplied to IKEC by OVEC. The term of the OVEC-IKEC Power Agreement is coterminous with the term of the ICPA.

OVEC/IKEC Plant Description

OVEC and IKEC, own and operate two coal-fired electric power generating plants. OVEC's Kyger Creek Plant and IKEC's Clifty Creek Plant.

Operating Statistics

	Kyger Creek	**Clifty Creek**	**Combined**
Nameplate Capacity (MW)	1,086	1,304	2,390
Number of generating units	5	6	11
Commissioning year	1955	1955	1955
Net heat rate (BTU/kWh) – 2008	10,171	10,289	10,236
Availability factor (%) – 2004-2008 avg.	88.89%	85.4%	86.9%
Fuel cost ($/MWh) - 2008	$21.69	$21.77	$21.25
Total production costs ($/MWh) - 2008	$28.03	$29.66	$28.93

Each of Clifty's six units and Kyger's five units has a capacity of 217.26 MW. The Clifty units and Kyger Unit 1 are equipped with General Electric steam turbines and hydrogen-cooled generators, while Kyger Units 2 through 5 are equipped with Westinghouse steam turbines and hydrogen-cooled generators. Each unit is also equipped with a once-through turbine condenser utilizing water from the Ohio River. The generators produce electricity at 15.5 kV which is then stepped up to 345 kV by three main transformers (one for each of three phases).

The steam powering each of the eleven units is generated by Babcock & Wilcox ("B&W") open-pass reheat boilers (one for each unit). The primary fuel for these front-wall fired, wet bottom, subcritical drum units is pulverized coal. Each unit has seven B&W type EL-70 pulverizers and 14 fishtail shaped burner nozzles (2 per pulverizer). The boilers are also equipped with oil lighters which are used primarily for start-ups and flame stabilization at low loads. The primary furnaces are operated at balance draft or slightly negative furnace pressure. Each unit is equipped with two forced-draft fans and one induced-draft fan. During the period of 1995 through 1999, overfire air modifications were completed on all eleven units, at a cost of $8.2MM ($4.2MM Kyger and $4MM Clifty), to meet Federal Clean Air Act nitrogen oxides (NOx) emissions requirements. Another modification to Kyger's boilers was the addition of iron ore injection directly into the primary furnace to aid furnace slag tapping. The iron ore injection system which includes storage silos, blowers, piping and nozzles was completed in 2000 at a cost of $2.6MM.

New flue gas stacks were built and electrostatic precipitators ("ESP") installed during the period of 1977-1980. Clifty has two 983-foot stacks each serving three units, and Kyger has a single 1000-foot stack. Cold-side ESPs were installed on all Kyger units and Clifty Units 1 through 5. Clifty Unit 6 has a hot-side ESP manufactured by Western Precipitation Division of Joy Manufacturing Company. Kyger's ESPs were manufactured by Flakt, Inc. Clifty's cold-side ESPs were manufactured by Lodge-Cottrell Division of Dresser Industries, Inc. The ESP's and stacks cost was approximately $184MM ($79MM Kyger and $105MM Clifty).
In recent years, the use of lower sulfur coals at both plants has necessitated the installation of SO_3 flue gas conditioning systems to improve fly ash collection by decreasing the resistivity of the ash. The systems,

manufactured by WALHCO, were installed on Clifty Units 1 through 5 in 1998 and on all Kyger units in 2001 at a total cost of $9.5MM ($4.0MM Kyger and $5.5MM Clifty).

Once collected, the fly ash at Clifty is conveyed dry to silos where the ash is loaded to trucks either to be sold as a concrete ingredient or hauled to the plant's landfill. The Clifty dry fly ash conversion project was completed in 1993 at a cost of approximately $17.8MM.

The fly ash at Kyger is sluiced to the plant's fly ash pond for disposal. In 2001, Kyger closed the north fly ash pond with a clay cap and dredging material from the South fly ash and bottom ash pond. The project cost was approximately $4.3MM.

Other ash storage facilities include one bottom ash pond at Kyger and one bottom ash pond at Clifty. Both plants also sell bottom ash for use as blasting grit, roofing granules, and snow and ice control.

Coal is delivered by barge to both plants. Each plant has two barge unloading tower cranes from which the coal may be directed to the unit coal bunkers for consumption or to storage. Revisions made during Clifty's coal switch project (completed in 1994 at a cost of $79.5MM) accommodate the storage and blending of bituminous and low-sulfur subbituminous coal supplies. Clifty presently burns a blend of 75% subbituminous coal from the Powder River Basin ("PRB") in Wyoming and 25% eastern bituminous coal. In 2006, Kyger Creek completed modifications to the boilers and coal handling systems to allow the plant to store and burn a coal blend of up to 80% PRB coal. The Kyger Creek PRB project cost was approximately $53MM. Presently, Kyger burns a blend of roughly 70% PRB coal and 30% eastern bituminous coal. Prior to these modifications, the PRB portion of Kyger's fuel blend was limited to approximately 35%.

In 2002 and 2003, selective catalytic reduction ("SCR") systems were retrofitted to ten of the eleven Kyger and Clifty units at an approximate cost of $355MM ($191MM Kyger and $164MM Clifty). SCR systems convert NOx in the flue gas exiting the boilers into elemental nitrogen and water by mixing ammonia into the flue gas stream and passing the mixture through layers of catalyst. The required amounts of ammonia are supplied by each plant's Ammonia On Demand ("AOD") system which use a feedstock of pelletized urea. This equipment has been operated during the five-month ozone season (May through September) each year beginning May 31, 2004 and is expected to be operated year-round beginning January 1, 2009 to comply with state and federal NOx emission reduction requirements.

OVEC/IKEC Transmission System

The OVEC/IKEC transmission system was constructed in the early 1950's. The system is operated at 345 kV with interconnections to other utilities at 345 kV and 138 kV. It is comprised of 776 circuit miles of 345 kV lines and four substations.

The transmission lines include 1,561 steel lattice towers, approximately four towers per mile with an average span of 1,310 feet. The phase conductors are 1,414 KCM aluminum, steel core, paper expanded and the neutral conductor is 159KCM Aluminum Conductor Steel Reinforced. OVEC has approximately 7,036 acres of right-of-way in Ohio, Indiana and Kentucky.

Of the four substations, one each is located adjacent to the Clifty Creek Plant and the Kyger Creek Plant. These substations allow for the connection of the generating units to the transmission system along with interconnections to other utilities, and are arranged in a breaker and a half scheme. The other large substation, Pierce, is located near Cincinnati, Ohio and is also a breaker and a half layout. The Dearborn substation located near Lawrenceburg, Indiana is a bus extension from the Tanners Creek Plant owned by American Electric Power Company, Inc. ("AEP") and has a single breaker per line. In addition to the four aforementioned substations, OVEC also ties at 345 kV to a Duke Energy owned station near Florence, Kentucky. There are 345/138 kV transformers located at the Clifty, Pierce and Sargents substations to allow for 138 kV interconnections. Other interconnections at 345 kV exist at Clifty, Pierce, Dearborn, and Kyger along with indirect ties through the DOE substation.

Although OVEC is currently not a member of any regional transmission organization, OVEC has contracted with the PJM Interconnection LLC ("PJM") to provide reliability coordination services. As OVEC's reliability coordinator, PJM has operational authority to perform activities as governed by the North American Reliability Corporation ("NERC") Interconnection Reliability Operations and Coordination Standards dealing with the reliability of the interconnected electrical system. The OVEC/IKEC transmission system is interconnected with members of PJM, and the Midwest Independent System Operator, Inc. ("MISO") and the transmission system of the electric utility subsidiaries of E.ON U.S. LLC, as well as transmission facilities owned by the DOE (OVEC's sole retail customer).

Coal Supply

The Company procures coal at an annual rate of approximately 8.0MM tons for use at the Clifty Creek and Kyger Creek plants. The Company has coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2009 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Company currently has approximately 100% of its coal requirements under long-term (12 months or more) agreements. Through 2009, it is expected that both plants will continue to burn a high percentage (up to 75%) of low-sulfur subbituminous coal.

OVEC/IKEC Coal Supply

	Subbituminous	Bituminous	Combined
Average remaining term of supply agreements	0.7 years	1.7 years	1.3 years
% hedged in 2009	100%	100%	100%
% hedged in 2010	12%	94%	49%
% hedged in 2011	26%	99%	61%

Transportation contracts	Rail - Union Pacific - Expires 12/31/2009
	Barge (OVEC) - Ingram Barge – Expires 9/30/2009 (New Contract to 12/31/2013)
	Barge (IKEC) - MEMCO - Expires 12/31/2013
	Rail cars – 993 leased – Leases expire 12/31/2010 to 12/31/2025

Environmental Compliance Project

Flue gas desulfurization ("FGD") systems are being constructed for both Kyger Creek and Clifty Creek with initial operation projected for 2010 and 2012, respectively. The FGD systems are designed to remove 98% of the sulfur dioxide ("SO_2") from gases exhausted from the plants' boilers. Kyger Creek's FGD system is designed for coal with SO_2 content of up to 7.5 lbs/MMBtu. The coal SO_2 specification for Clifty Creek's FGD design is 5.0 lbs/MMBtu. The FGD designs and the capability to blend subbituminous and bituminous coals at both plants provide significant fuel flexibility and improve the Company's fuel procurement position.

FGD Project Equipment

- Chiyoda CT-121 jet bubbling reactor absorbers (2 per plant)
- New flue gas discharge stack with two flue liners (1 per plant)
- Flue booster fans (2 per absorber)
- Reagent (limestone) handling systems and preparation systems
- By-product (gypsum) dewatering systems
- FGD wastewater treatment
- By-product handling systems and disposal landfill
- Auxiliary electrical system
- Various auxiliary systems including oxidation air, service water, reclaim water, flue gas quenching, and controls.

Properties

In addition to two generation facilities and transmission facilities, OVEC also owns 21,896 square feet of office space in Piketon, Ohio, which it uses as its corporate headquarters. It also owns garage space and land, which it uses for the operation of a transmission maintenance crew. In addition, OVEC has constructed a command center, data center, training area, and office space in a single 8,500 square feet structure located at the Piketon, Ohio office.

Employees

As of July 1, 2009, OVEC and IKEC employed 818 full-time employees. As of that date, the Kyger Creek Plant employed 351 employees, of which 251 are represented by the Utility Workers Union of America (AFL-CIO). The Clifty Creek Plant employs 373 employees, all non-union. In addition, as of this date, OVEC has 94 system employees reporting to the corporate headquarters located in Piketon, Ohio. Management believes that its relations with employees and their representatives are excellent.

Legal Matters

OVEC is involved in a number of legal and administrative proceedings incident to the normal course of OVEC's business. In the opinion of OVEC's management, based on the advice of counsel, any liability to OVEC relative to these ordinary course proceedings will not have a material adverse effect on OVEC's operations and financial condition.

Regulation

OVEC is also affected by various federal and state laws and regulations pertaining to utilities, including the laws and regulations described below.

Federal Energy Regulatory Commission

Under the Federal Power Act ("FPA"), the Federal Energy Regulatory Commission ("FERC") has exclusive jurisdiction over the rates, terms and conditions of wholesale sales and the transmission of electricity in interstate commerce by public utilities. The FPA requires all public utilities to file rate schedules with the FERC prior to commencement of wholesale sales or transmission of electricity. In addition, a public utility is subject to financial and organizational regulation by FERC under the FPA, including approval requirements relating to dispositions of jurisdictional facilities, as well as a number of accounting, recordkeeping and reporting requirements. Each of OVEC and IKEC is a public utility and therefore subject to regulation by FERC under the FPA. The ICPA and the OVEC-IKEC Power Agreement have all been filed with, and accepted by, FERC under the FPA as rate schedules (including all modifications to the ICPA that have been entered into by OVEC and the Sponsoring Companies) and therefore the demand, energy and other charges payable under those agreements constitute FERC-authorized rates.

As part of the repeal of Public Utility Holding Company Act of 1935, Congress has granted additional authority to the FERC over electric utilities and their affiliates. This authority relates primarily to increased access to books and records and affiliate cost allocation.

State Utility Regulation

Both OVEC and IKEC are subject to state utility regulation. OVEC, whose operations are principally in Ohio, is subject to regulation by the Public Utilities Commission of Ohio, while IKEC, whose operations are principally in Indiana, is subject to regulation by the Indiana Utility Regulatory Commission. OVEC also owns electric power transmission facilities in Kentucky and therefore is subject to regulation by the Kentucky Public Service Commission. This state regulation covers financial and organizational matters (including the abandonment of facilities), as well as, in the case of the Public Utilities Commission of Ohio, OVEC's provision of electric service to the DOE under retail power sales agreements. Because of FERC's exclusive jurisdiction over wholesale sales of electricity in interstate commerce, however, none of these state utility commissions have jurisdiction over OVEC's sales of electricity to the Sponsoring Companies, including the rates payable under the ICPA.

Environmental Matters

OVEC and IKEC are subject to a number of federal, state and local requirements relating to the protection of the environment, and the safety and health of OVEC and IKEC's personnel and the public. These requirements relate to a broad range of OVEC and IKEC's activities, including: the discharge of pollutants into the air and water; the identification, generation, storage, handling, transportation, disposal, record keeping, labeling, reporting of and emergency response in connection with hazardous and toxic materials and wastes associated with OVEC and IKEC's operations; and safety and health standards, practices and procedures that apply to the workplace and to operation of OVEC and IKEC's facilities. In order to comply with these requirements, OVEC and IKEC may need to spend substantial sums of money and devote other resources from time to time to: construct or acquire new equipment; acquire permits and/or marketable allowances or other emission credits for facility operations; modify or replace existing and proposed equipment; and clean up or decommission waste disposal areas, fuel storage and management facilities and other locations and facilities. If OVEC and IKEC do not comply with environmental requirements that apply to OVEC and IKEC's operations, regulatory agencies could seek to impose on it civil, administrative and/or criminal penalties as well as seek to curtail OVEC and IKEC's operations. Under some statutes and common law principles, private parties could also seek to impose civil fines or liabilities for property damage, personal injury and possibly other costs.

Air Emissions

OVEC and IKEC's facilities are subject to the Federal Clean Air Act and many state and local laws and regulations relating to air pollution. These laws and regulations currently cover, among other pollutants, NOx, ground-level ozone, carbon monoxide, SO_2 and particulate matter.

Title IV of the 1990 Clean Air Act Amendments required the Company to reduce SO_2 emissions in two phases: Phase I in 1995 and Phase II in 2000. The Company selected a fuel switching strategy to comply with the emission reduction requirements. The Company also purchased additional SO_2 allowances. The cost of these purchased allowances was inventoried and included on an average cost basis in the cost of fuel consumed when used. The cost of unused allowances at December 31, 2008 and 2007 was \$2.2MM and \$11.8MM, respectively.

Selective Catalytic Reduction Program

Title IV of the 1990 Clean Air Act Amendments also required the Company to comply with a NO_x emission rate limit of 0.84 lb/mmBtu in 2000. NO_x is formed in exhaust gases from the generators as a byproduct of coal combustion. The Company installed overfire air systems on all eleven units at the plants to comply with this limit. The total capital cost of the eleven overfire air systems was approximately \$8.2MM.

During 2002 and 2003, Ohio and Indiana finalized respective NO_x State Implementation Plan Call regulations that required further significant NO_x emission reductions for coal burning power plants, to a maximum rate of 0.15 pounds/MMBtu during the ozone control period (May through September). To accomplish this new level of emission reductions, the Company installed SCR systems on ten of its eleven units. The total capital cost of these SCR systems was approximately \$355MM (\$191MM at Kyger Creek and \$164MM at Clifty Creek). Due to a different physical configuration of one of the generating units at Clifty Creek, OVEC did not retrofit an SCR system on the eleventh generating unit. However, by retrofitting the other ten generating units with SCR systems, OVEC's combined emission rate was reduced below the required level.

The table below describes projects that OVEC and IKEC have completed to comply with environmental regulations:

Completed Projects

Project	Purpose	Date	Cost ($ MM)
Clifty Creek Coal Yard Modifications	To allow use of low-sulfur coal blend to meet Clean Air Act requirements for SO_2 emissions	1994	79.5
Clifty Creek and Kyger Creek Plants (all units) – boiler overfire air modifications	To meet Clean Air Act requirement for NOx emissions	1995 - 1999	8.2
Clifty Creek and Kyger Creek Plants (10 of 11 units) – installed SO_3 flue gas conditioning systems	To improve particulate collection of lower sulfur coal fly ash in electrostatic precipitators	1998 (Clifty Creek Plant), 2001 (Kyger Creek Plant)	9.5
Clifty Creek and Kyger Creek Plants (10 of 11 units) – installed selective catalytic reduction equipment	To comply with ozone season NOx requirements	2002-2003	355.0
Kyger Creek Coal Yard modifications	To allow use of low-sulfur coal blend to meet Clean Air Act requirements for SO_2 emissions	2006-2007	53.0

Flue Gas Desulfurization Project

On March 10, 2005, the United States Environmental Protection Agency (the "EPA") signed the Clean Air Interstate Rule ("CAIR") that will require significant further reductions of SO_2 and NO_x emissions from coal-burning power plants. On March 15, 2005, the EPA also signed the Clean Air Mercury Rule ("CAMR") that will require significant mercury emission reductions for coal-burning power plants. These emission reductions will be required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO_2; and 2010 and 2018 for mercury. Ohio and Indiana also subsequently finalized their respective versions of CAIR and CAMR. In response, the Company determined that it would be necessary to install FGD systems at both plants to comply with these new rules and have since been conducting the necessary engineering, permitting, and construction to install these new FGD systems. The cost of the new FGD systems and the associated landfills is estimated not to exceed $1.3 billion.

In February 2008, the D.C. Circuit Court of Appeals issued a decision which vacated the federal CAMR and remanded the rule to the EPA with a determination that the rule be rewritten under the maximum achievable control technologies ("MACT") provision of Section 112(d) of the Clean Air Act. A group of electric utilities and the EPA requested a rehearing of the decision, which was denied by the court. Following those denials, both the group of electric utilities and the EPA requested that the U.S. Supreme Court hear the case. However, in February 2009, the EPA withdrew its request and the group of utilities' request was denied. These actions left the original court decision in place, which vacated the federal CAMR and remanded the rule to the EPA with a determination that the rule be rewritten under the MACT provision of Section 112(d) of the Clean Air Act.

In July 2008, the D.C. Circuit Court of Appeals issued a decision that vacated the federal CAIR and remanded the rule to the EPA. In September 2008, the EPA, a group of electric utilities and other parties filed petitions for rehearing. In December 2008, the D.C. Circuit Court of Appeals granted the EPA's petition and remanded the rule to the EPA without vacatur, allowing the federal CAIR to remain in effect while a new rule is developed and promulgated.

The Kyger Creek and Clifty Creek improvements include:

- FGD with a landfill at Kyger Creek Plant for SO_2 reductions and mercury control (currently projected at not to exceed amounts of $515MM for the FGD and $52MM for Phase I of the landfill).

- FGD with a landfill at Clifty Creek Plant for SO_2 reductions and mercury control (currently projected at not to exceed amounts of $619MM for the FGD and $42MM for Phase I of the landfill).

The components of the FGD system include two Chiyoda CT-121 jet bubbling reactor absorbers, a new stack at each plant, new FGD equipment buildings, booster fans and motors, tanks, electrical and mechanical equipment, river cells, limestone handling, gypsum handling and transportation, landfills, pond closure and wastewater treatment.

In December 2008, the Company's Boards of Directors authorized a delay in construction of the FGD at the Clifty Creek Plant of at least 18 months due to economic uncertainty in the capital markets.

In March 2009, the Board of Directors of OVEC authorized a delay in the anticipated tie-in of the first three generating units to the Kyger Creek Plant's FGD system pending an investigation into the structural integrity of the two newly constructed jet bubbling reactors, which are major components of the FGD system. Additional SO_2 allowances have been and will be purchased to operate the Clifty Creek and Kyger Creek generating units in compliance with the current environmental emission rules during the delays.

The Kyger Creek and Clifty Creek FGD systems are projected to be operational in 2010 and 2012, respectively.

CERCLA

The Comprehensive Environmental Response, Compensation and Liability Act (''CERCLA''), also known as the ''Superfund'' law, requires payments for cleanup of certain sites, including abandoned waste disposal sites, even though such waste disposal activities were undertaken in compliance with regulations applicable at the time of disposal. Under the Superfund legislation, one party may, under certain circumstances, be required to bear more than its proportional share of cleanup costs at a site where it has responsibility pursuant to the legislation if payments cannot be obtained from other responsible parties. Other legislation, including the Resource Conservation and Recovery Act, which largely addresses facilities that are currently being operated, can also require environmental remediation. States also have regulatory programs that can mandate cleanups. CERCLA authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. The scope of financial liability under these laws involves inherent uncertainties.

Environmental laws and regulations have changed substantially and rapidly in past years, and OVEC anticipates that there will be continuing changes. The clear trend in environmental regulation is to place more restrictions and limitations on activities that may impact the environment, such as emissions of pollutants, generation and disposal of wastes and use and handling of chemical substances. Increasingly strict environmental restrictions and limitations have resulted in increased operating costs for the Company and other businesses throughout the United States, and it is likely that the costs of compliance with environmental laws and regulations will continue to increase. OVEC will attempt to anticipate future regulatory requirements that might be imposed and to plan accordingly in order to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance.

Regulation of Greenhouse Gases

On June 26, 2009, the United States House of Representatives passed H.R. 2454, the "American Clean Energy and Security Act of 2009," which contains several energy provisions, one of which would create an economy-wide "cap and trade program" for greenhouse gases ("GHG") that would begin in 2012. The bill is currently before the U.S. Senate. The Company is unable to predict whether federal legislation that regulates GHGs will become law or what its final form or effect would be. At this time, there does not appear to be a consensus as to what the level of future regulation of GHGs will be, or the costs associated with that regulation. However, any such costs would likely impact all coal fired generation and the energy market in general.

On April 24, 2009, EPA proposed to find that GHGs from new motor vehicles and motor vehicle engines endanger public health and welfare under Section 202 of the Clean Air Act. The proposed endangerment finding is limited to mobile sources and the Company is unable to predict whether the EPA will impose regulations of GHGs on coal fired generation facilities, and if so, what their form or effect would be.

Insurance

OVEC maintains customary levels of insurance for a company of its size in its industry and believes that its insurance arrangements are adequate and satisfactory.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with the financial information and consolidated financial statements and notes thereto included elsewhere in this Official Statement. The following information contains forward-looking statements. Actual results could differ from the results anticipated in these forward-looking statements as a result of factors including, but not limited to, those under "Risk Factors" and elsewhere in this Official Statement.

Generation Availability

In 2008, the combined availability of the five generating units at Kyger Creek and the six units at Clifty Creek was 85.2%, compared to 85% in 2007. Availability is determined by totaling all hours each of the eleven units were available for operation as a ratio to total hours in the same time period.

Heat Rate

The combined heat rate of the Kyger Creek and Clifty Creek generating units was 10,236 Btu/kWh for 2008 as compared to 10,180 Btu/kWh for 2007.

Energy Sales

OVEC's on-peak use factor — the percentage of power scheduled by the Sponsoring Companies versus the power available — averaged 99.87% in 2008 compared with 99.70% in 2007. The off-peak use factor averaged 91.92% in 2008 and 93.31% in 2007. The average use factor for the combined on-peak and off-peak periods were 96.39% in 2008, compared with 96.92% in 2007.

In 2008, OVEC delivered 15.0MM MWh to the Sponsoring Companies, compared to 14.9MM MWh in 2007. Generation sales were impacted in 2008 by lower generation availability and lower off-peak sales to the Sponsoring Companies.

Power Costs

In 2008, the Sponsoring Companies' average cost of power from OVEC was $40.29/MWh, compared to $35.36/MWh in 2007. The increase was primarily due to additional debt service and fuel costs in 2008.

Units of Power Sales Information

The average cost per MWh unit of sale was $40.29 in 2008 as compared to $35.36 in 2007. The increased debt service costs related to the $300MM Senior Notes issued in 2007 and the $350MM Senior Notes issued in 2008 account for the majority of the increase in cost per unit sold. The Company did not add or remove major facilities from its transmission system during the past two years. The Company maintains its eleven generating units, which average 217.26 MW, in a manner to be most efficiently available during the peak period of need associated with its Sponsoring Company customers.

Operating Revenue Compared for 2008 and 2007

Total revenue for 2008 was $622MM, compared to $531MM in 2007. The primary increase in revenue is due to the billing of increased debt service charges and fuel cost. In 2008, 7.9MM tons of coal was burned, compared to 7.6MM in 2007. The average cost of coal burned for 2008 was $40/ton compared to $34/ton in 2007. The debt service payments increased due to the refinancing of the $305MM Senior Notes due in 2006 with the $445MM amortizing Senior Notes due in 2026, the 2007 issuance of $300MM of Senior Notes due in 2026 and the 2008 issuance of $350MM Senior Notes also due in 2026.

Operating Expense and Other Items Compared for 2008 and 2007

Total operating expenses for 2008 were $567MM, compared to $495MM in 2007. In 2008, OVEC sold 15MM MWh of power to its Sponsoring Companies, compared to 14.9MM MWh in 2007. The tons of coal burned to generate this power were 7.9MM in 2008, compared to 7.6MM in 2007. In addition, the cost per ton of coal consumed and fuel related charges during these two periods was $43.11/ton in 2008 and $39.32/ton in 2007.

OVEC purchases power from other utilities to resell to the DOE Portsmouth facility. During 2008, the DOE purchased 270,369 MWhs for $18.5MM, compared to 256,613 MWhs purchased in 2007 at a cost of $14.6MM. Since OVEC purchases this power for the DOE, the cost is recorded on OVEC's financials as an additional operating expense.

Balance Sheet Comparisons for 2008 versus 2007

At December 31, 2007 and 2008, the Plant-In-Service assets were $1.2bn. after depreciation, net property assets were $330MM at year end 2008, compared to $346MM at year end 2007. Current assets decreased from $234MM to $171MM at year end 2008, primarily as a result of decreased cash reserved for construction and decreased fuel inventories and emission allowances.

The total capitalization was $1.07bn at year end 2008, compared to $713MM at year end 2007. This increase can primarily be attributed to the $350MM Senior Notes issued in 2008.

Cash Flow Analysis for 2008

Cash from net income for both 2007 and 2008 was $5.1MM. This source of funds is a relatively steady number from year to year due to the cost-plus nature of the power agreement OVEC has with the Sponsoring Companies. Depreciation and amortization provided a source of funds of $57MM. The depreciation is closely related to the assets closed to Plant-In-Service during the year. The fuel (coal) inventory decreased during 2008, resulting in a $12MM source of funds. On December 31, 2008, OVEC had 1.5MM tons of coal in inventory as compared to 1.8MM tons on December 31, 2007. Additionally, the price per ton decreased from $36.10/ton to $34.37/ton during the same period. Since 2005, OVEC had been purchasing SO_2 allowances in an effort to build inventory. During 2008, OVEC continued using the allowances purchased in previous years, resulting in a $9.5MM source of funds. Electric plant additions increased during 2008, which resulted in a $436MM use of funds. These funds were used to fund the construction of the FGD projects.

Liquidity and Capital Resources

OVEC had a $100MM, 364-day bank revolving credit facility agreement as of December 31, 2004. In 2005, this facility was replaced with a $200MM, 5-year senior unsecured revolving credit facility that expires August 4, 2010. The facility contains an accordion feature permitting a $100MM increase to the facility under certain conditions, and is used primarily for general corporate purposes including capital expenditures. At December 31, 2008, OVEC had $50MM in outstanding debt under this facility. Interest expense related to line of credit borrowings was $256,000 in 2008, while commitment fees totaled $343,729. The lending banks for the facility are KeyBank National Association, LaSalle Bank National Association, WestLB AG - New York Branch, The Huntington National Bank, Sumitomo Mitsui Banking Corporation - New York Branch, National City Bank of Indiana, and The Bank of Tokyo-Mitsubishi UFJ, Ltd.

In 2006, OVEC issued $445MM in Senior Notes ("2006 Notes") in a private placement. The 2006 Notes bear an annual fixed interest rate of 5.80% payable semi-annually on February 15 and August 15 of each year beginning August 15, 2006 until maturity on February 15, 2026. Proceeds from this issuance were used to repay $305MM of senior secured notes issued in 2001, repay a $60MM term loan, and fund $80MM in capital expenditures.

In 2007, OVEC issued $300MM in Senior Notes ("2007 Notes") in a private placement in three tranches. The $200MM Tranche A notes were issued in June 2007, the $50MM Tranche B notes were issued in September 2007, and the $50MM Tranche C notes were issued in December 2007. The 2007 Notes bear an annual fixed interest rate of 5.90% payable semi-annually on June 15 and December 15 of each year, until maturity on February 15, 2026. Proceeds from this issuance were used to fund capital expenditures.

In 2008, OVEC issued $50MM in Senior Notes ("2008-A Notes") in a private placement. The 2008-A Notes were issued in March 2008 and bear an annual fixed interest rate of 5.92% payable semi-annually on June 15 and December 15 of each year, until maturity or February 15, 2026. Proceeds from this issuance were used to fund capital expenditures. Also in 2008, OVEC issued $300MM in Senior Notes ("2008-B & 2008-C Notes") in a private placement. The Notes were issued in two tranches of $150MM each in June and August of 2008. The 2008-B & 2008-C Notes bear an annual fixed interest rate of 6.71% payable semi-annually on April 15 and October 15 of each year until maturity on February 15, 2026.

In 2009, OVEC issued $100MM in Senior Notes ("2009-A Notes") in a private placement. The 2009-A Notes bear a floating rate. Interest payments are due in one month, three month, or six month periods as selected by OVEC. Principal payment is due on February 15, 2014. Proceeds from this issuance were used to fund capital expenditures.

Debt maturities on OVEC's long-term senior notes are as follows:

December 31,	Senior Notes
2009	$ 35,453,528
2010	37,642,055
2011	39,966,243
2012	42,404,535
2013	45,055,902
2014-2026	944,796,046
Total	$1,145,318,309

Total capitalization at December 31, 2008 was $1.072bn, compared to $713.1MM at December 31, 2007. The capitalization was composed of the aforementioned Senior Notes, as well as $10MM in common stock and retained earnings of $2.5MM. The Sponsoring Companies invested $10MM to form OVEC in 1952 and 1953. The remaining capitalization needs have been secured through debt. The cost reimbursement structure of the ICPA and the dividend distribution policy does not permit excess surplus earnings to accumulate in OVEC's retained earnings.

Independent Auditors

The consolidated financial statements of Ohio Valley Electric Corporation and Subsidiary as of December 31, 2008 and 2007, and for each of the two years in the period ended December 31, 2008, included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2007).

Annex 1

Ohio Valley Electric Corporation

And Subsidiary

Indiana-Kentucky Electric Corporation

Annual Report – 2008

ANNUAL REPORT — 2008

OHIO VALLEY ELECTRIC CORPORATION

and subsidiary

INDIANA-KENTUCKY ELECTRIC CORPORATION

Ohio Valley Electric Corporation

GENERAL OFFICES, 3932 U.S. Route 23, Piketon, Ohio 45661

Ohio Valley Electric Corporation (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (IKEC), collectively, the Companies, were organized on October 1, 1952. The Companies were formed by investor-owned utilities furnishing electric service in the Ohio River Valley area and their parent holding companies for the purpose of providing the large electric power requirements projected for the uranium enrichment facilities then under construction by the Atomic Energy Commission (AEC) near Portsmouth, Ohio.

OVEC, AEC and OVEC's owners or their utility-company affiliates (called Sponsoring Companies) entered into power agreements to ensure the availability of the AEC's substantial power requirements. On October 15, 1952, OVEC and AEC executed a 25-year agreement, which was later extended through December 31, 2005 (DOE Power Agreement). On September 29, 2000, the DOE gave OVEC notice of cancellation of the DOE Power Agreement. On April 30, 2003, the DOE Power Agreement terminated in accordance with the notice of cancellation.

OVEC and the Sponsoring Companies signed an Inter-Company Power Agreement (ICPA) on July 10, 1953, to support the DOE Power Agreement and provide for excess energy sales to the Sponsoring Companies of power not utilized by the DOE or its predecessors. Since the termination of the DOE Power Agreement on April 30, 2003, OVEC's entire generating capacity has been available to the Sponsoring Companies under the terms of the ICPA. In 2004, the Sponsoring Companies and OVEC entered into an Amended and Restated ICPA, which extends its term from March 13, 2006 to March 13, 2026.

OVEC's Kyger Creek Plant at Cheshire, Ohio, and IKEC's Clifty Creek Plant at Madison, Indiana, have nameplate generating capacities of 1,086,300 and 1,303,560 kilowatts, respectively. These two generating stations, both of which began operation in 1955, are connected by a network of 776 circuit miles of 345,000-volt transmission lines. These lines also interconnect with the major power transmission networks of several of the utilities serving the area.

The current Shareholders and their respective percentages of equity in OVEC are:

Allegheny Energy, Inc.	3.50
American Electric Power Company, Inc.*	39.17
Buckeye Power Generating, LLC[1]	18.00
Columbus Southern Power Company**[2]	4.30
The Dayton Power and Light Company[3]	4.90
Duke Energy Ohio, Inc.***[4]	9.00
Kentucky Utilities Company[5]	2.50
Louisville Gas and Electric Company[5]	5.63
Ohio Edison Company[6]	7.50
Southern Indiana Gas and Electric Company[7]	1.50
The Toledo Edison Company[6]	4.00
	100.00

These investor-owned utilities comprise the Sponsoring Companies and currently share the OVEC power participation benefits and requirements in the following percentages:

Allegheny Energy Supply Company[8]	3.01
Appalachian Power Company[2]	15.69
Buckeye Power Generating, LLC[1]	18.00
Columbus Southern Power Company[2]	4.44
The Dayton Power and Light Company[3]	4.90
Duke Energy Ohio, Inc.[4]	9.00
FirstEnergy Generation Corp.[6]	11.50
Indiana Michigan Power Company[2]	7.85
Kentucky Utilities Company[5]	2.50
Louisville Gas and Electric Company[5]	5.63
Monongahela Power Company[8]	0.49
Ohio Power Company[2]	15.49
Southern Indiana Gas and Electric Company[7]	1.50
	100.00

Some of the Common Stock issued in the name of:

*American Gas & Electric Company
**Columbus and Southern Ohio Electric Company
***The Cincinnati Gas & Electric Company

Subsidiary of:

[1]Buckeye Power, Inc.
[2]American Electric Power Company, Inc.
[3]DPL Inc.
[4]Duke Energy Corporation
[5]E.ON U.S. LLC
[6]FirstEnergy Corp.
[7]Vectren Corporation
[8]Allegheny Energy, Inc.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

A Message from the President

In 2008, Ohio Valley Electric Corporation (OVEC) and its subsidiary, Indiana-Kentucky Electric Corporation (IKEC), continued to provide economical power to our customers, the Sponsoring Companies, from the baseload, coal-fired Kyger Creek and Clifty Creek generating plants in a safe and environmentally responsible manner.

During 2008, we made significant progress on construction of the major components of the flue gas desulfurization (FGD) retrofit projects at the Kyger Creek and Clifty Creek plants. However, as a result of economic conditions and uncertainty in the financial markets during the last quarter of 2008, the OVEC and IKEC Boards of Directors decided in December 2008 to delay construction of the FGD at the Clifty Creek plant. In addition, in March 2009, OVEC's Board of Directors decided to postpone the tie-in of the Kyger Creek FGD. Although these events have extended the FGD completion schedules, the Company has purchased additional sulfur dioxide (SO_2) emission allowances to comply with the current environmental regulations.

POWER COSTS

In 2008, OVEC's average power cost to the Sponsoring Companies was \$40.29 per MWh compared with \$35.36 per MWh in 2007. The increase was primarily due to additional debt service costs to fund the FGD construction projects and the increased cost of coal purchased in 2008. OVEC's average power cost is projected to increase to \$43.68 per MWh in 2009 as debt is added for the FGD construction projects.

ENERGY SALES

OVEC's use factor — the ratio of power scheduled by the Sponsoring Companies to the power available — for the combined on- and off-peak periods averaged 96.4 percent in 2008 compared with 96.9 percent in 2007. The on-peak use factor averaged 99.9 percent in 2008 compared with 99.7 percent in 2007. The off-peak use factor averaged 91.9 percent in 2008 and 93.3 percent in 2007.

In 2008, OVEC delivered 15.03 million MWh to the Sponsoring Companies compared with 14.92 million MWh in 2007. In 2009, OVEC expects to generate and deliver 15.3 million MWh to the Sponsoring Companies.

BUCKEYE POWER ACQUIRES ADDITIONAL OVEC CAPACITY

On May 1, 2009, Buckeye Power Generating, LLC, a subsidiary of Buckeye Power, Inc., purchased a 9 percent equity interest in OVEC and associated power entitlements from FirstEnergy Generation Corp., a subsidiary of FirstEnergy Corp. This purchase increased Buckeye Power's total equity interest in OVEC to 18 percent.

MONONGAHELA POWER ASSIGNMENT TO ALLEGHENY ENERGY SUPPLY

As of February 1, 2009, Monongahela Power Company assigned to Allegheny Energy Supply Company a 3.01 percent share of its 3.50 percent power participation ratio and all other rights, title, obligations and interests under the Inter-Company Power Agreement. Monongahela Power will retain 0.49 percent of its shares of the power participation ratio.

AVAILABILITY

In 2008, the combined availability of the five generating units at Kyger Creek and the six units at Clifty Creek was 85.2 percent compared with 85.0 percent in 2007 and 88.8 percent in 2006. The availability decrease since 2006 has been primarily due to an increase in the scheduled outage factor from 5.5 percent in 2006 to 10.2 percent in 2007 and 9.2 percent in 2008, reflecting an increase in both planned outages to maintain certain generators, boilers and turbines, and short-term maintenance outages for boiler tube repairs and cleanings associated with burning Powder River Basin coal.

The combined equivalent availability of Kyger Creek and Clifty Creek was 80.5 percent in 2008 compared with 79.7 percent in 2007. The improvement in equivalent availability was due to decreases in scheduled outage and unit derating factors of both plants in 2008.

DOE ARRANGEMENTS WITH OVEC

In 2008, OVEC purchased 270,369 MWh of power and energy from other electricity suppliers for delivery and use by the Department of Energy (DOE) for its Portsmouth facility. At the request of the DOE, OVEC makes these limited purchases of power and energy under the terms and conditions of an Arranged Power Agreement with DOE.

TRANSMISSION SYSTEM CHANGES

The DOE load was previously served from two 345-kV substations owned, operated and maintained by the DOE. Each DOE substation was integrated with OVEC's transmission system by two double-circuit tower 345-kV lines and with neighboring systems by one single-circuit 345-kV line. The DOE X533 substation and all connected transmission lines were removed from service in November 2008 at the DOE's request. The DOE X533 substation shutdown is permanent. Removal of the associated 345-kV transmission lines from the substation has been completed as of May 2009. Reconfiguration of the interconnections between these circuits outside of the substation site is scheduled to be completed in late 2009.

ENVIRONMENTAL COMPLIANCE

OVEC and IKEC place great emphasis on complying with federal, state and local requirements relating to the protection of the environment. During 2008, the Kyger Creek and Clifty Creek plants operated in compliance with their respective emission limits and environmental regulations, and the Companies received no notices of violation from any of the environmental agencies.

OVEC-IKEC COMMITMENT TO SAFETY

Safety is a top priority for OVEC and IKEC. The Companies continue to engage their employees in taking an active role in assuring a safe work environment. OVEC and IKEC employees were successful in reducing the number of OSHA recordable accidents by over 40 percent in 2008. Only two accidents involved missed workdays. Even though this is a marked improvement over the past year, not all employees went home without harm. Therefore, we will work harder to further reduce injuries to improve the safety and health of all employees. We must continue to make progress in minimizing accidents and maximizing safety and health.

BOARD OF DIRECTORS AND OFFICER CHANGES

In January 2009, Curtis H. Davis, chief operating officer – generation of Allegheny Energy, Inc., was elected a director of OVEC and IKEC and appointed to the Executive Committees of both companies. He succeeded Leo C. Rajter, who had served in those capacities since 2006. In May 2009, Steven K. Nelson, chairman of Buckeye Power, Inc., was elected to serve as an OVEC director following the resignation of Charles D. Lasky. Mr. Lasky had served on the OVEC board since 2004. In June 2009, Anthony J. Ahern, president and chief executive officer of Buckeye Power Generating, LLC, was appointed to the Executive Committee of OVEC, replacing Curtis Davis.

In June 2009, Holly K. Koeppel, executive vice president and chief financial officer for American Electric Power Service Corporation, was elected assistant secretary and assistant treasurer of OVEC and IKEC.

On behalf of my fellow directors and officers, I congratulate the employees of both Companies for substantially improving safety performance during 2008. The 2009 year-to-date safety performance shows further improvement and, no doubt, reflects the employees' concentrated efforts to ensure that each and every employee approaches all aspects of the job with safety in mind.

The year 2008 brought many other challenges, not the least of which was the rapid deterioration in the general state of the economy. Although we found it necessary to either defer or reduce certain capital and operating expenditures, I commend the employees for adapting to the changes and for their renewed focus on improving our overall operations, including the effective availability of the generating units. We have much further to go, but I am confident that with our employees' dedicated efforts, we will continue to make OVEC and IKEC competitive suppliers of electricity for many years to come.

Mike

Michael G. Morris
President

July 13, 2009

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
ELECTRIC PLANT:		
At original cost	$1,237,629,673	$1,212,196,875
Less — accumulated provisions for depreciation	907,307,285	865,927,293
	330,322,388	346,269,582
Construction in progress	767,848,855	316,560,056
Total electric plant	1,098,171,243	662,829,638
CURRENT ASSETS:		
Cash and cash equivalents	45,176,266	107,694,495
Accounts receivable	35,586,985	28,979,038
Fuel in storage — at average cost	52,220,614	63,913,331
Materials and supplies — at average cost	19,223,210	16,863,327
Property taxes applicable to future years	2,348,400	2,227,920
Emission allowances	2,244,126	11,787,964
Refundable state income taxes	-	849,123
Deferred tax assets	10,982,423	-
Regulatory assets	1,034,148	-
Prepaid expenses and other	1,937,142	1,705,135
Total current assets	170,753,314	234,020,333
REGULATORY ASSETS:		
Asset retirement costs	14,642,782	16,102,473
Unrecognized postemployment benefits	2,236,997	2,222,600
Deferred depreciation	27,047,875	38,643,429
Pension benefits	27,261,510	-
Total regulatory assets	71,189,164	56,968,502
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	9,549,916	6,831,081
Deferred tax assets	37,524,839	50,635,428
Pension asset	-	16,050,249
Long-term investments	53,609,545	-
Other	141,090	9,601
Total deferred charges and other	100,825,390	73,526,359
TOTAL	$1,440,939,111	$1,027,344,832

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

CAPITALIZATION AND LIABILITIES	2008	2007
CAPITALIZATION:		
Common stock, $100 par value — authorized, 300,000 shares; outstanding, 100,000 shares in 2008 and 2007	$ 10,000,000	$ 10,000,000
Long-term debt	1,009,864,781	700,151,995
Line of credit borrowings	50,000,000	-
Retained earnings	2,506,811	2,915,642
Total capitalization	1,072,371,592	713,067,637
CURRENT LIABILITIES:		
Current portion of long-term debt	35,453,528	22,809,408
Accounts payable	99,405,252	77,031,015
Deferred revenue — advances for construction	26,670,003	24,589,022
Accrued other taxes	9,822,786	7,679,638
Regulatory liabilities	4,230,400	5,114,333
Accrued interest and other	20,837,485	16,783,248
Total current liabilities	196,419,454	154,006,664
COMMITMENTS AND CONTINGENCIES (Note 13)		
REGULATORY LIABILITIES:		
Postretirement benefits	13,670,062	18,947,629
Pension benefits	-	16,050,249
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	47,070,877	48,834,534
Total regulatory liabilities	65,958,014	89,049,487
OTHER LIABILITIES:		
Pension liability	27,261,510	-
Asset retirement obligations	34,162,393	32,223,528
Postretirement benefits obligation	42,529,151	36,774,916
Postemployment benefits obligation	2,236,997	2,222,600
Total other liabilities	106,190,051	71,221,044
TOTAL	$1,440,939,111	$1,027,344,832

See notes to consolidated financial statements.

(Concluded)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES — Sales of electric energy to:		
Department of energy	$ 18,539,153	$ 14,605,075
Sponsoring companies	603,273,999	516,757,146
Total operating revenues	621,813,152	531,362,221
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	340,212,739	300,666,274
Purchased power	17,903,608	14,106,371
Other operation	69,414,118	68,471,855
Maintenance	71,513,450	69,945,403
Depreciation	56,946,744	31,720,198
Taxes — other than income taxes	9,784,455	8,990,186
Income taxes	1,023,381	907,416
Total operating expenses	566,798,495	494,807,703
OPERATING INCOME	55,014,657	36,554,518
OTHER INCOME	4,714,761	5,252,583
INCOME BEFORE INTEREST CHARGES	59,729,418	41,807,101
INTEREST CHARGES:		
Amortization of debt expense	532,119	404,083
Interest expense	54,106,130	36,261,637
Total interest charges	54,638,249	36,665,720
NET INCOME	5,091,169	5,141,381
RETAINED EARNINGS — Beginning of year	2,915,642	2,274,261
CASH DIVIDENDS ON COMMON STOCK	(5,500,000)	(4,500,000)
RETAINED EARNINGS — End of year	$ 2,506,811	$ 2,915,642

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES:		
Net income	$ 5,091,169	$ 5,141,381
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	56,946,744	31,720,198
Amortization of debt expense	532,119	404,083
Deferred taxes	364,509	783,148
Gain on disposal of assets	(300,000)	(300,000)
Gain on marketable securities	(638,007)	-
Changes in assets and liabilities:		
Accounts receivable	(6,607,947)	(7,470,340)
Fuel in storage	11,692,717	(29,248,030)
Materials and supplies	(2,359,883)	(1,167,437)
Property taxes applicable to subsequent years	(120,480)	(255,120)
Emission allowances	9,543,838	22,275,022
Refundable federal income taxes	-	681
Refundable state income taxes	849,123	107,851
Prepaid expenses and other	(232,007)	(52,036)
Other assets	15,532,270	(15,647,863)
Regulatory assets	(27,835,827)	2,574,798
Accounts payable	(22,535,520)	10,700,986
Deferred revenue	2,080,981	11,044,690
Accrued taxes	2,143,148	652,983
Accrued interest and other	4,054,237	443,272
Regulatory liabilities	(21,226,286)	23,772,209
Other liabilities	34,969,007	(1,433,900)
Net cash provided by operating activities	61,943,905	54,046,576
INVESTING ACTIVITIES:		
Electric plant additions	(435,783,038)	(232,025,190)
Proceeds from sale of marketable securities	24,286,124	-
Purchases of marketable securities	(76,871,172)	-
Proceeds from sale of transformers	300,000	300,000
Net cash used in investing activities	(488,068,086)	(231,725,190)
FINANCING ACTIVITIES:		
Issuance of Senior 2007 Notes	-	300,000,000
Issuance of Senior 2008 Notes	350,000,000	-
Loan origination costs	(3,250,954)	(2,763,237)
Repayment of Senior 2006 Notes	(13,345,479)	-
Repayment of Senior 2007 Notes	(9,463,928)	(12,603,856)
Repayment of Senior 2008 Notes	(4,833,687)	(3,397,953)
Proceeds from line of credit	100,000,000	160,000,000
Payments on line of credit	(50,000,000)	(210,000,000)
Dividends on common stock	(5,500,000)	(4,500,000)
Net cash provided by financing activities	363,605,952	226,734,954
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(62,518,229)	49,056,340
CASH AND CASH EQUIVALENTS — Beginning of year	107,694,495	58,638,155
CASH AND CASH EQUIVALENTS — End of year	$ 45,176,266	$ 107,694,495
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 49,379,338	$ 35,392,737
Income taxes paid (received) — net	$ (710,829)	$ 79,671
Non-cash electric plant additions included in accounts payable at December 31	$ 63,225,054	$ 20,261,593

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements — The consolidated financial statements include the accounts of Ohio Valley Electric Corporation (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (IKEC), collectively, the "Companies." All intercompany transactions have been eliminated in consolidation.

Organization — The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and an affiliate of a generation and transmission rural electric cooperative. These entities and their affiliates comprise the Sponsoring Companies. The Sponsoring Companies purchase power from OVEC according to the terms of the Inter-Company Power Agreement (ICPA), which in 2004 was extended for an additional 20 years from March 13, 2006 to March 13, 2026. Approximately 30% of the Companies' employees are covered by a collective bargaining agreement that expires August 31, 2011.

Rate Regulation — The proceeds from the sale of power to the Sponsoring Companies are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, as well as earn a return on equity before federal income taxes. In addition, the proceeds from power sales are designed to cover debt amortization and interest expense associated with financings. The Companies have continued and expect to continue to operate pursuant to the cost plus rate of return recovery provisions at least to March 13, 2026, the date of termination of the ICPA.

Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides that rate-regulated utilities account for and report assets and liabilities consistent with the economic effect of the way in which rates are established, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. The Companies follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the accompanying consolidated balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2008 and 2007, were as follows:

	2008	2007
Regulatory assets:		
Current assets — income taxes billable to customers	$ 1,034,148	$ -
Other assets:		
Asset retirement costs	14,642,782	16,102,473
Unrecognized postemployment benefits	2,236,997	2,222,600
Deferred depreciation	27,047,875	38,643,429
Pension benefits	27,261,510	-
Total	71,189,164	56,968,502
Total regulatory assets	$72,223,312	$56,968,502
Regulatory liabilities:		
Current liabilities:		
Deferred credit — EPA emission allowance proceeds	$ 1,577,431	$ 893,770
Advance collection of interest	2,652,969	1,884,902
Fuel related settlement	-	2,335,661
Total	4,230,400	5,114,333
Other liabilities:		
Postretirement benefits	13,670,062	18,947,629
Pension benefits	-	16,050,249
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	47,070,877	48,834,534
Total	65,958,014	89,049,487
Total regulatory liabilities	$70,188,414	$94,163,820

Regulatory Assets — Regulatory assets consist primarily of deferred depreciation, asset retirement cost, and pension benefits. Deferred depreciation is recovered over the life of the debt that was used to fund the related plant additions. The Companies follow the sinking fund depreciation method for ratemaking purposes, and the difference between straight-line depreciation and the debt principal payments billed to customers is recorded as deferred depreciation. With the exception of income taxes billable to customers, which will be recovered during 2009, other regulatory assets are being recovered on a long-term basis.

Regulatory Liabilities — The regulatory liabilities classified as current in the accompanying consolidated balance sheets represent emission allowance auction proceeds, a gain on a fuel related settlement, and interest expense collected from customers in advance of expense recognition. These amounts outstanding will be credited to customer bills during 2009. Other regulatory liabilities consist primarily of income taxes refundable to customers, postretirement benefits, and pension benefits. Income taxes refundable to customers are credited to customer bills in the period when the related deferred tax assets are realized. The Companies' current ratemaking policy recovers pension expense in an amount equal to plan contributions and postretirement benefits in an amount equal to service cost. As a result, related regulatory liabilities are being credited to customer bills on a long-term basis. The remaining regulatory liabilities are awaiting credit to customer bills in a future period that is yet to be determined.

Cash and Cash Equivalents — For purposes of these statements, the Companies consider temporary cash investments to be cash equivalents since they are readily convertible into cash and have original maturities of less than three months.

Electric Plant — Property additions and replacements are charged to utility plant accounts. Depreciation expense is recorded at the time property additions and replacements are billed to customers or at the date the property is placed in service if the in-service date occurs subsequent to the customer billing. Customer billings for construction in progress are recorded as deferred revenue-advances for construction. These amounts are closed to revenue at the time the related property is placed in service. Deferred depreciation, depreciation expense, and accumulated depreciation are recorded when financed property additions and replacements are recovered over a period of years through customer debt retirement billing. All depreciable property will be fully billed and depreciated prior to the expiration of the ICPA. Repairs of property are charged to maintenance expense.

Fuel in Storage, Emission Allowances, and Materials and Supplies — The Companies maintain coal, reagent, and oil inventories for use in the generation of electricity and emission allowance inventories for regulatory compliance purposes due to the generation of electricity. These inventories are valued at average cost. Materials and supplies consist primarily of replacement parts necessary to maintain the generating facilities and are valued at average cost.

Long-Term Investments — Long-term investments consist of marketable securities that are held for the purpose of funding postretirement benefits. These securities have been classified as trading securities. Due to tax limitations, the amounts held in this portfolio have not yet been transferred to the Voluntary Employee Beneficiary Association trusts (see Note 9). Long-term investments primarily consist of municipal bonds and money market mutual fund investments. Net unrealized gains recognized during 2008 on securities still held at the balance sheet date were $638,007.

Unamortized Debt Expense — Unamortized debt expense relates to loan origination costs incurred to secure financing. These costs are being amortized over the life of the related loans.

Asset Retirement Obligations and Asset Retirement Costs — The Companies recognize the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. The initial recognition of this liability is accompanied by a corresponding increase in depreciable electric plant. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to electric plant) and for accretion of the liability due to the passage of time.

These asset retirement obligations are primarily related to obligations associated with future asbestos abatement at certain generating stations and certain plant closure costs. As of December 31, 2008 and 2007, the Companies had a regulatory asset of $14.6 million and $16.1 million, respectively, related to asset retirement obligations.

Balance — December 31, 2006	$30,399,555
Accretion	1,823,973
Balance — December 31, 2007	32,223,528
Accretion	1,938,865
Balance — December 31, 2008	$34,162,393

The Companies do not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. The Companies have asset retirement obligations associated with transmission assets and river structures at certain generating stations. However, the retirement date for these assets cannot be determined; therefore, the fair value of the associated liability currently cannot be estimated and no amounts are recognized in the consolidated financial statements herein.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2008 and 2007 included the sale of all generated power to them, the purchase of Arranged Power from them and other utility systems in order to meet the Department of Energy's power requirements, contract barging services, railcar services, and minor transactions for services and materials. The Companies have Power Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, Kentucky Utilities Company, Ohio Edison Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies; and Transmission Service Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, The Toledo Edison Company, Ohio Edison Company, Kentucky Utilities Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies.

In September 2006, the Companies sold two transformers and associated equipment to Duke Energy Ohio, Inc. for a total maximum purchase price of $3 million, which subject to the terms of the asset purchase agreement, is payable in equal annual installments over ten years. The purchase price is contingent on the performance of the transformers, and as such, no receivable has been recognized in the accompanying consolidated balance sheets. In 2008, the Companies were informed that one of the transformers failed, and as such, no further payments from Duke Energy Ohio, Inc. are anticipated.

At December 31, 2008 and 2007, balances due from or to the Sponsoring Companies are as follows:

	2008	2007
Accounts receivable	$31,668,608	$23,136,138
Accounts payable	-	1,352,250

American Electric Power Company, Inc. and a subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2008. The following is a summary of the principal services received from the American Electric Power Service Corporation as authorized by the Companies' Boards of Directors:

	2008	2007
General services	$ 2,198,238	$ 2,473,834
Specific projects	21,274,966	10,623,656
Total	$23,473,204	$13,097,490

General services consist of regular recurring operation and maintenance services. Specific projects primarily represent nonrecurring plant construction projects and engineering studies, which are approved by the Companies' Boards of Directors. The services are provided in accordance with the service agreement dated December 15, 1956, between the Companies and the American Electric Power Service Corporation.

3. COAL SUPPLY

The Companies have coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2009 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have approximately 100% of their 2009 coal requirements under long-term agreements of one year or greater.

4. INVENTORIES

Inventories, net of reserves, at December 31, 2008 and 2007, consist of the following:

	2008	2007
Fuel in storage — at average cost	$52,220,614	$63,913,331
Materials and supplies — at average cost	19,223,210	16,863,327
Emission allowances	2,244,126	11,787,964
Total inventories	$73,687,950	$92,564,622

5. ELECTRIC PLANT

Electric plant at December 31, 2008 and 2007, consists of the following:

	2008	2007
Intangible	$ 26,564	$ 26,564
Steam production plant	1,152,457,582	1,130,722,161
Transmission plant	60,191,487	72,211,888
General plant	24,954,040	9,236,262
	1,237,629,673	1,212,196,875
Less accumulated depreciation	907,307,285	865,927,293
	330,322,388	346,269,582
Construction in progress	767,848,855	316,560,056
Total electric plant	$1,098,171,243	$ 662,829,638

6. BORROWING ARRANGEMENTS AND NOTES

OVEC has an unsecured bank revolving line of credit agreement with a borrowing limit of $200 million as of December 31, 2008. The $200 million line of credit has an expiration date of August 4, 2010. At December 31, 2008 and 2007, OVEC had borrowed $50 and $0 million, respectively, under this line of credit. Interest expense related to line of credit borrowings was $255,699 in 2008 and $3,051,247 in 2007. During 2008 and 2007, OVEC incurred annual commitment fees of $343,729 and $288,736, respectively, based on the borrowing limits of the line of credit.

7. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2008 and 2007:

	Interest Rate	2008	2007
Senior 2006 Notes due February 15, 2026	5.80 %	$ 413,013,876	$426,359,355
Senior 2007 Notes:			
Tranche A due February 15, 2026	5.90	190,703,342	196,990,760
Tranche B due February 15, 2026	5.90	48,027,572	49,611,288
Tranche C due February 15, 2026	5.90	48,407,206	50,000,000
Senior 2008 Notes:			
Tranche A due February 15, 2026	5.92	48,780,045	-
Tranche B due February 15, 2026	6.71	147,157,899	-
Tranche C due February 15, 2026	6.71	149,228,369	-
Total debt		1,045,318,309	722,961,403
Current portion of long-term debt		35,453,528	22,809,408
Total long-term debt		$1,009,864,781	$700,151,995

During 2007, OVEC issued $300 million unsecured senior notes (Senior 2007 Notes) in private placements in three tranches. The $200 million Tranche A notes were issued in June 2007, the $50 million Tranche B notes were issued in September 2007, and the $50 million Tranche C notes were issued in December 2007.

During 2008, OVEC issued $350 million unsecured senior notes (Senior 2008 Notes) in private placements in three tranches. The $50 million Tranche A notes were issued in March 2008, the $150 million Tranche B notes were issued in June 2008, and the $150 million Tranche C notes were issued in August 2008.

The annual maturities of long-term debt as of December 31, 2008, are as follows:

2009	$ 35,453,528
2010	37,642,055
2011	39,966,243
2012	42,404,535
2013	45,055,902
2014–2026	844,796,046
Total	$1,045,318,309

8. INCOME TAXES

OVEC and IKEC file a consolidated federal income tax return. The effective tax rate varied from the statutory federal income tax rate due to differences between the book and tax treatment of various transactions as follows:

	2008	2007
Income tax expense at 35% statutory rate	$ 2,140,093	$ 2,117,079
State income taxes net of federal benefit	66,042	53,707
Temporary differences flowed through to customer bills	(1,218,762)	(1,274,392)
Permanent differences	36,008	11,022
Income tax provision	$ 1,023,381	$ 907,416
Effective tax rate	16.7 %	15.0 %

Components of the income tax provision were as follows:

	2008	2007
Current income tax expense	$ 977,761	$ 125,036
Deferred income tax expense	45,620	782,380
Total income tax provision	$ 1,023,381	$ 907,416

OVEC and IKEC record deferred tax assets and liabilities based on differences between book and tax basis of assets and liabilities measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are adjusted for changes in tax rates. The deferred tax assets recorded in the accompanying consolidated balance sheets consist primarily of the net deferred taxes on depreciation, postretirement benefits obligation, net operating loss carryforwards, asset retirement obligations, regulatory assets and regulatory liabilities.

To the extent that the Companies have not reflected credits in customer billings for deferred tax assets, they have recorded a regulatory liability representing income taxes refundable to customers under the applicable agreements among the parties. The liability was $47,070,877 at December 31, 2008, and $48,834,534 at December 31, 2007.

Deferred income tax assets (liabilities) consisted of the following at December 31, 2008 and 2007:

	2008	2007
Deferred tax assets:		
Deferred revenue — advances for construction	$ 9,619,159	$ 8,942,781
Federal net operating loss carryforwards	4,456,189	22,341,256
State net operating loss carryforwards	39,212	273,971
AMT credit carryforwards	2,532,919	1,505,920
Postretirement benefit obligation	20,445,933	13,374,669
Pension liability	9,832,499	10,113,109
Postemployment benefit obligation	806,825	808,337
Asset retirement obligations	12,321,464	11,719,375
Miscellaneous accruals	2,649,351	2,834,718
Regulatory liability — postretirement benefits	4,930,427	6,891,063
Regulatory liability — investment tax credits	1,223,817	1,234,053
Regulatory liability — net antitrust settlement	657,843	663,345
Regulatory liability — income taxes refundable to customers	16,977,211	17,621,791
Total deferred tax assets	86,492,849	98,324,388
Deferred tax liabilities:		
Regulatory asset — income taxes billable to customers	(361,952)	-
Prepaid expenses	(582,702)	(576,140)
Electric plant	(21,120,348)	(34,610,360)
Regulatory asset — pension benefits	(9,832,499)	(5,837,815)
Regulatory asset — unrecognized postemployment benefits	(806,825)	(808,337)
Regulatory asset — asset retirement costs	(5,281,261)	(5,856,308)
Total deferred tax liabilities	(37,985,587)	(47,688,960)
Deferred income tax assets (liabilities)	$ 48,507,262	$ 50,635,428

The Companies had federal income tax net operating loss carryforwards (NOLs) of $12.7 million as of December 31, 2008. These federal income tax NOLs result in part from accelerated depreciation methods for property, plant and equipment for income tax reporting purposes. The Companies also have alternative minimum tax (AMT) credit carryforwards of approximately $2.5 million, which are not limited by expiration dates. Management periodically assesses the need for a valuation allowance on deferred tax assets. As of December 31, 2008 and 2007, management believes that realization of the Companies' deferred tax assets is more likely than not.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48 to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109. Interpretation No. 48 addresses the determination of whether the tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under Interpretation No. 48, the Companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Upon adoption of FIN 48, the Companies have not identified any uncertain tax positions.

The Companies file income tax returns with the Internal Revenue Service and the states of Ohio, Indiana and the Commonwealth of Kentucky. The Companies are no longer subject to federal tax examinations for tax years 2004 and earlier. The Companies are no longer subject to states of Ohio and Indiana tax examinations for tax years 2004 and earlier. The Companies are no longer subject to the Commonwealth of Kentucky examinations for tax years 2003 and earlier.

9. PENSION PLAN, OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Companies have a noncontributory qualified defined benefit pension plan (the Pension Plan) covering substantially all of their employees. The benefits are based on years of service and each employee's highest consecutive 36-month compensation period. Employees are vested in the Pension Plan after five years of service with the Companies.

Funding for the Pension Plan is based on actuarially determined contributions, the maximum of which is generally the amount deductible for income tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The full cost of the pension benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 54% and 46% split for OVEC and IKEC, respectively, as of December 31, 2008 and 2007. The Pension Plan's assets consist of an insurance contract and investments in equity and debt securities. In the following disclosures, the insurance contract is treated as a debt security because its long-term yield is tied to the debt markets.

In addition to the Pension Plan, the Companies provide certain health care and life insurance benefits (Other Postretirement Benefits) for retired employees. Substantially all of the Companies' employees become eligible for these benefits if they reach retirement age while working for the Companies. These and similar benefits for active employees are provided through employer funding and insurance policies. In December 2004, the Companies established Voluntary Employee Beneficiary Association (VEBA) trusts. The main objectives of the VEBA trusts are to maintain the purchasing power of the current assets and all future contributions, to have the ability to pay all benefits and expense obligations when due and to achieve a "funding cushion" to maximize return within prudent levels of risk. The investment horizon for the Pension Plan and VEBA trusts is greater than five years and the strategic asset allocation is based on a long-term perspective.

Projected Pension Plan and Other Postretirement Benefits obligations and funded status as of December 31, 2008 and 2007:

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	$ 153,972,014	$ 161,065,647	$ 97,431,448	$ 102,541,624
Service cost	3,899,052	4,221,650	2,781,098	3,219,492
Interest cost	9,799,772	9,243,320	6,173,680	5,855,237
Plan participants' contributions	-	-	613,383	585,570
Benefits paid	(7,755,609)	(7,499,086)	(3,286,320)	(3,279,279)
Net actuarial (gain) loss	9,056,558	(13,018,717)	1,242,881	(11,761,744)
Medicare subsidy	-	-	-	270,548
Expenses paid from assets	(45,200)	(40,800)	-	-
Projected benefit obligation — end of year	168,926,587	153,972,014	104,956,170	97,431,448
Change in fair value of plan assets:				
Fair value of plan assets — beginning of year	170,022,263	169,811,906	60,656,532	55,395,876
Actual return on plan assets	(26,056,377)	1,750,243	(728,513)	2,760,656
Expenses paid from assets	(45,200)	(40,800)	-	-
Employer contributions	5,500,000	6,000,000	5,171,937	4,923,161
Plan participants' contributions	-	-	613,383	585,570
Medicare subsidy	-	-	-	270,548
Benefits paid	(7,755,609)	(7,499,086)	(3,286,320)	(3,279,279)
Fair value of plan assets — end of year	141,665,077	170,022,263	62,427,019	60,656,532
Funded (underfunded) status — end of year	$ (27,261,510)	$ 16,050,249	$ (42,529,151)	$ (36,774,916)

On December 8, 2003, the President of the United States of America signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit to retirees as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is actuarially equivalent to the benefit provided by Medicare. The Companies believe that the coverage for prescription drugs is at least actuarially equivalent to the benefits provided by Medicare for most current retirees because the benefits for that group substantially exceed the benefits provided by Medicare, thereby allowing the Companies to qualify for the subsidy. The Companies' employer contributions for Other Postretirement Benefits in the above table are net of subsidies received of $0 and $270,548 for 2008 and 2007, respectively. The Companies have accounted for the subsidy as a reduction of the benefit obligation detailed in the above table. The benefit obligation was reduced by approximately $14.2 and $11.3 million as of December 31, 2008 and 2007.

The accumulated benefit obligation for the Pension Plan was $144,698,788 and $131,992,635 at December 31, 2008 and 2007, respectively.

Components of Net Periodic Benefit Cost — The Companies record the expected cost of Other Postretirement Benefits over the service period during which such benefits are earned.

Pension expense is recognized as amounts are contributed to the Pension Plan and billed to customers. The accumulated difference between recorded pension expense and the yearly net periodic pension expense as calculated under SFAS No. 87, *Employers' Accounting for Pensions*, is billable as a cost of operations under the ICPA when contributed to the pension fund. This accumulated difference has been recorded as a regulatory asset in the accompanying consolidated balance sheets.

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Service cost	$ 3,899,052	$ 4,221,650	$ 2,781,098	$ 3,219,492
Interest cost	9,799,772	9,243,320	6,173,680	5,855,237
Expected return on plan assets	(11,049,029)	(11,668,332)	(2,880,712)	(2,631,976)
Amortization of prior service cost	531,437	531,437	(379,000)	(379,000)
Recognized actuarial loss	-	-	(263,945)	126,175
Net periodic benefit cost	$ 3,181,232	$ 2,328,075	$ 5,431,121	$ 6,189,928
Pension and other postretirement benefits expense recognized in the consolidated statement of income and retained earnings and billed to sponsoring companies under the ICPA	$ 5,500,000	$ 6,000,000	$ 3,260,000	$ 3,219,492

Pension Plan and Other Postretirement Benefit Assumptions — Actuarial assumptions used to determine benefit obligations at December 31, 2008 and 2007, were as follows:

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	6.10 %	6.50 %	5.90 %	6.50 %
Rate of compensation increase	4.00	4.00	4.00	4.00

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2008 and 2007, were as follows:

	Pension Plan		Other Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	6.50 %	5.90 %	6.50 %	5.90 %
Expected long-term return on plan assets	6.50	7.00	4.70	4.70
Rate of compensation increase	4.00	4.00	4.00	4.00

In selecting the expected long-term rate of return on assets, the Companies considered the average rate of earnings expected on the funds invested or to be invested to provide for plan benefits. This included considering the Pension Plan and VEBA trusts' asset allocation, as well as the target asset allocations for the future, and the expected returns likely to be earned over the life of the Pension Plan and the VEBAs.

Assumed health care cost trend rates at December 31, 2008 and 2007, were as follows:

	2008	2007
Health care trend rate assumed for next year — participants under 65	8.00 %	9.00 %
Health care trend rate assumed for next year — participants over 65	9.50	11.29
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) — participants under 65	5.00	5.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) — participants over 65	5.00	5.00
Year that the rate reaches the ultimate trend rate	2015	2012

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost	$ 1,553,985	$ (1,222,418)
Effect on postretirement benefit obligation	16,334,303	(13,014,742)

Pension Plan and Other Postretirement Benefit Assets — The asset allocation for the Pension Plan and VEBA trusts at December 31, 2008 and 2007, by asset category was as follows:

	Pension Plan		VEBA Trusts	
	2008	2007	2008	2007
Asset category:				
Equity securities	24 %	31 %	24 %	- %
Debt securities	76	69	76	100

The target asset allocation for the Pension Plan is 30% equity securities and 70% debt securities and for the VEBA trust is 40% equity securities and 60% debt securities.

Pension Plan and Other Postretirement Benefit Contributions — The Companies expect to contribute $5,700,000 to their Pension Plan and $6,227,701 to their Other Postretirement Benefits plan in 2009.

Estimated Future Benefit Payments — The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending December 31	Pension Plan	Other Postretirement Benefits: With Medicare Subsidy	Other Postretirement Benefits: Without Medicare Subsidy
2009	$ 8,190,118	$ 4,042,701	$ 4,388,179
2010	8,563,310	4,454,986	4,833,964
2011	8,860,448	4,797,783	5,211,111
2012	9,258,537	5,136,259	5,587,667
2013	9,646,383	5,403,058	5,892,674
Five years thereafter	57,038,752	32,929,845	35,939,277

Postemployment Benefits — The Companies follow SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, and accrue the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Such benefits include, but are not limited to, salary continuations, supplemental unemployment, severance, disability (including workers' compensation), job training, counseling, and continuation of benefits, such as health care and life insurance coverage. The cost of such benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 42% and 58% split between OVEC and IKEC, respectively, as of December 31, 2008, and approximately a 40% and 60% split between OVEC and IKEC, respectively, as of December 31, 2007. The liability is offset with a corresponding regulatory asset and represents unrecognized postemployment benefits billable in the future to customers. The accrued cost of such benefits was $2,236,997 and $2,222,600 at December 31, 2008 and 2007, respectively.

Defined Contribution Plan — The Companies have a trustee-defined contribution supplemental pension and savings plan that includes 401(k) features and is available to employees who have met eligibility requirements. In 2007, the Companies' contributions to the savings plan were made in amounts equal to 50% of the employee-participants' contributions up to 6% of total compensation. In January 2008, the Companies' contributions to the savings plan were changed to amounts equal to 100% of the first 1% and 50% of the next 5% of employee-participants' contributions based upon total compensation. Benefits to participating employees are based solely upon amounts contributed to the participants' accounts and investment earnings. By its nature, the plan is fully funded at all times. The employer contributions for 2008 and 2007 were $1,634,334 and $1,278,249, respectively.

Adoption of SFAS No. 158 — Pension and Other Postretirement Benefits — The Companies adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2007. SFAS No. 158 requires employers to fully recognize the obligations associated with defined benefit pension plans and other postretirement plans, which include retiree healthcare, in their balance sheets. Previous standards required an employer to disclose the complete funded status of its plan only in the notes to the financial statements and provided that an employer delay recognition of certain changes in plan assets and obligations that affected the costs of providing benefits resulting in an asset or liability that often differed from the plan's funded status. SFAS No. 158 requires a defined benefit pension or postretirement plan sponsor to recognize in its statement of financial position an asset for a plan's overfunded status or a liability for the plan's underfunded status. The effects of the Companies' adoption of SFAS No. 158 were as follows:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Pension asset	$ 3,671,925	$12,378,324	$ 16,050,249
Postretirement benefits obligation	(40,299,341)	3,524,425	(36,774,916)

The adjustments detailed in the above table represent the unrecognized actuarial gains and unrecognized prior service cost for the plans as of December 31, 2007. These amounts were recorded as additions to regulatory liabilities (see Note 1).

10. ENVIRONMENTAL MATTERS

Title IV of the 1990 Clean Air Act Amendments required the Companies to reduce sulfur dioxide (SO2) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO2 allowances. The cost of these purchased allowances was inventoried and included on an average cost basis in the cost of fuel consumed when used. The cost of unused allowances at December 31, 2008 and 2007, was $2,244,126 and $11,787,964, respectively.

Title IV of the 1990 Clean Air Act Amendments also required the Companies to comply with a nitrogen oxides (NOx) emission rate limit of 0.84 lb/mmBtu in 2000. The Companies installed overfire air systems on all eleven units at the plants to comply with this limit. The total capital cost of the eleven overfire air systems was approximately $8.2 million.

During 2002 and 2003, Ohio and Indiana finalized respective NOx State Implementation Plan (SIP) Call regulations that required further significant NOx emission reductions for coal-burning power plants during the ozone control period (May through September). The Companies installed selective catalytic reduction (SCR) systems on ten of its eleven units to comply with these rules. The total capital cost of the ten SCR systems was approximately $355 million.

On March 10, 2005, the U.S. EPA signed the Clean Air Interstate Rule (CAIR) that will require significant further reductions of SO2 and NOx emissions from coal-burning power plants. On March 15, 2005, the U.S. EPA also signed the Clean Air Mercury Rule (CAMR) that will require significant mercury emission reductions for coal-burning power plants. These emission reductions will be required in two phases: 2009 and 2015 for NOx; 2010 and 2015 for SO2; and 2010 and 2018 for mercury. Ohio and Indiana also subsequently finalized their respective versions of CAIR and CAMR. In response, the Companies determined that it would be necessary to install flue gas desulfurization (FGD) systems at both plants to comply with these new rules and have since been conducting the necessary engineering, permitting, and construction to install these new FGD systems.

In February 2008, the D.C. Circuit Court of Appeals issued a decision which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the maximum achievable control technologies (MACT) provision of Section 112(d) of the Clean Air Act. A group of electric utilities and the U.S. EPA requested a rehearing of the decision, which was denied by the court. Following those denials, both the group of electric utilities and the U.S. EPA requested that the U.S. Supreme Court hear the case. However, in February 2009, the U.S. EPA withdrew its request and the group of utilities' request was denied. These actions left the original court decision in place, which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the MACT provision of Section 112(d) of the Clean Air Act.

In July 2008, the D.C. Circuit Court of Appeals issued a decision that vacated the federal CAIR and remanded the rule to the U.S. EPA. In September 2008, the U.S. EPA, a group of electric utilities and other parties filed petitions for rehearing. In December 2008, the D.C. Circuit Court of Appeals granted the U.S. EPA's petition and remanded the rule to the U.S. EPA without vacatur, allowing the federal CAIR to remain in effect while a new rule is developed and promulgated.

In December 2008, the Companies Boards of Directors authorized a delay in construction of the FGD at the Clifty Creek Plant of at least 18 months due to economic uncertainty in the capital markets.

In March 2009, the Board of Directors of OVEC authorized a delay in the anticipated tie-in of the first three generating units to the Kyger Creek Plant's FGD system pending an investigation into the structural integrity of the two newly constructed jet bubbling reactors, which are major components of the FGD system. Additional SO2 allowances will be purchased to operate the Clifty Creek and Kyger Creek generating units to comply with the current environmental emission rules during the delays. The current cost to complete the new Kyger Creek and Clifty Creek FGD systems and the associated landfills is estimated not to exceed $1.33 billion.

11. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of the fair value of certain financial instruments. The estimates of fair value under SFAS No. 107 require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed. As cash and cash equivalents, current receivables, current payables, and line of credit borrowings are all short term in nature, their carrying amounts approximate fair value. The fair values of the Senior Notes were estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.