LARGE FILING SEPARATOR SHEET

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APPLICATION & SCHEDULES

slate" on public meetings, then E.ON requests that the Commission provide additional relevant guidance.[343]

2. Commission Determination

315. Ameren's request to extend the employee functional approach, NGSA's concerns regarding the dissemination of information to non-affiliated third parties, and the PUC of Ohio's concern regarding the recovery of civil forfeitures, are all beyond the scope of this Final Rule, and the Commission declines to adopt their proposals or modify the Standards accordingly.

316. The Commission also declines to impose the filing of compliance plans with the Commission, as requested by NARUC. Under section 358.8(b)(2), transmission providers are required to post on their Internet website written procedures implementing the Standards. It is thus unnecessary to require additional filings with the Commission. The Commission, however, is committed to ensuring compliance with its rules and regulations, and will thus seriously consider auditing on a regular basis transmission providers' compliance with the Standards. Also, of course, the Commission will investigate any credible allegation of violation of the Standards. To that end, the Commission reminds market participants of the Enforcement Hotline,[344] which was established twenty years ago to enforce the promulgation of the original Standards in Order No. 497.

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[343] E.ON at 25.

[344] See 18 CFR § 1b.21 (2008).

317. On the issue of guidance, the Commission will not impose a blanket provision stating that guidance issued by the Commission with respect to previous Standards has no precedential effect. Many of the Standards have been carried forward into the new regulations, and others are similar. The determination of whether previous statements and rulings made by the Commission may be useful in providing guidance as to the new Standards must be made on a case-by-case basis, and is very dependent on which provision of the Standards is in question.

318. E.ON's related concern about public meetings, to the extent it does not entail matters relating to the Independent Functioning Rule and the No Conduit Rule, is beyond the scope of this Final Rule. To the extent E.ON's concern does involve those provisions, it may look for guidance to the discussions in this Final Rule regarding them, as well as to the regulatory text.

IV. <u>Information Collection Statement</u>

319. The Office of Management and Budget (OMB) regulations require approval of certain information collection requirements imposed by agency rules.[345]

320. Previously, the Commission submitted to OMB the information collection requirements arising from the Standards of Compliance adopted in Order No. 2004. OMB approved those requirements.[346] The revisions to the Standards proposed in this

[345] 5 CFR 1320.11.

[346] Letter from OMB to the Commission (Jan. 20, 2004) (OMB Control Number 1902-0157); "Notice of Action" letter from OMB to the Commission (Jan. 20, 2004) (OMB Control Number 1902-0173).

issuance are modifications of already approved information collection procedures, and do not impose any significant additional information collection burden on industry participants. Many of the changes consist merely of the rewording of definitions and the reordering of the various information collection requirements. Some information collection requirements have been deleted, such as the posting of organizational charts. A requirement has been added concerning the maintenance of records regarding certain informational exchanges between transmission function employees and marketing function employees, as well as a requirement regarding the posting of contact information regarding the identification of the Chief Compliance Officer. Neither of these should impose a significant burden on the transmission providers. In fact, by proposing that the Standards will no longer govern the relationship between transmission providers and their Energy Affiliates, the overall information collection burden will likely decrease.

321. The Commission is submitting notification of the information collection requirements imposed in this Final Rule to OMB for its review and approval under section 3507(d) of the Paperwork Reduction Act of 1995.[347] Comments are solicited on the Commission's need for this information, whether the information will have practical utility, the accuracy of provided burden estimates, ways to enhance the quality, utility, and clarity of the information to be collected, and any suggested methods of minimizing respondent's burden, including the use of automated information techniques.

[347] 44 U.S.C. § 3507(d) (2000 and Supp. V 2005).

322. OMB regulations require OMB to approve certain information collection requirements imposed by agency rule. The Commission is submitting notification of this proposed rule to OMB.

Title: FERC-592 and 717.

Action: Proposed Collection

OMB Control No.: 1902-0157-1902-173

Respondents: Business or other for profit.

Frequency of Responses: On occasion.

Necessity of the Information: The information is necessary to ensure that all regulated transmission providers treat all transmission customers on a non-discriminatory basis.

Internal review: The Commission has reviewed the requirements pertaining to natural gas pipelines and transmitting electric utilities and determined the proposed revisions are necessary to clarify the Standards, enhance compliance, increase efficiencies, and conform with a recent court decision.

323. These requirements conform to the Commission's plan for efficient information collection, communication, and management with the natural gas and electric utility industries. The Commission has assured itself, by means of internal review, that there is specific, objective support for the burden estimates associated with the information requirements.

324. Interested persons may obtain information on the reporting requirements by contacting: Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426 [Attention: Michael Miller, Office of the Chief Information Officer], phone:

(202) 502-8415, fax: (202) 208-2425, e-mail: Michael.Miller@FERC.gov. Comments on the requirements of the Final Rule also may be sent to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, D.C. 20503 (Attention Desk Officer for the Federal Energy Regulatory Commission).

V. Environmental Analysis

325. The Commission is required to prepare an Environmental Assessment or an Environmental Impact Statement for any action that may have a significant adverse effect on the human environment.[348] The Commission concludes that neither an Environmental Assessment nor an Environmental Impact Statement is required for this Final Rule under § 380.4 of the Commission's regulations for certain actions. The actions proposed here fall within the categorical exclusions because this rule is clarifying and corrective, does not substantially change the effect of the regulations being amended and calls for information gathering and dissemination.[349] Therefore, an environmental assessment is unnecessary and has not been prepared for this rulemaking.

VI. Regulatory Flexibility Act

326. The Regulatory Flexibility Act of 1980 (RFA)[350] generally requires a description and analysis of Final Rules that will have significant economic impact on a substantial

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[348] Order No. 486, Regulations Implementing the National Environmental Policy Act of 1969, FERC Stats. & Regs. ¶ 30,783 (1987).

[349] 18 CFR 380.4(a)(2)(ii) and 380.4(a)(5) (2008).

[350] 5 U.S.C. 601-612 (2000 and Supp. V 2005).

number of small entities. Because most transmission providers do not fall within the definition of "small entity,"[351] the Commission certifies that this rule will not have a significant economic impact on a substantial number of small entities. Furthermore, small entities may seek a waiver of these requirements, and those small entities that have already received a waiver of the Standards would be unaffected by the requirements of this proposed rulemaking.

VII. Document Availability

327. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through FERC's Home Page (http://www.ferc.gov) and in FERC's Public Reference Room during normal business hours (8:30 a.m. to 5:00 p.m. Eastern time) at 888 First Street, N.E., Room 2A, Washington D.C. 20426.

328. From FERC's Home Page on the Internet, this information is available on eLibrary. The full text of this document is available on eLibrary in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in eLibrary, type the docket number excluding the last three digits of this document in the docket number field.

329. User assistance is available for eLibrary and the FERC's website during normal business hours from FERC Online Support at 202-502-6652 (toll free at 1-866-208-3676)

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[351] See 5 U.S.C. 601(3) and (6) (2000 and Supp. V 2005).

or email at ferconlinesupport@ferc.gov, or the Public Reference Room at (202) 502-8371, TTY (202)502-8659. E-mail the Public Reference Room at public.referenceroom@ferc.gov.

VIII. Effective Date and Congressional Notification

330.These regulations are effective 30 days from the date of publication in the Federal Register. Transmission providers must be in full compliance with them by that date, with the exception of the posting and training requirements, with which transmission providers must be in full compliance no later than 60 days from the date of publication in the Federal Register

331.The Commission has determined, with the concurrence of the Administrator of the Office of Information and Regulatory Affairs of OMB, that this rule is not a "major rule" as defined in section 351 of the Small Business Regulatory Enforcement Fairness Act of 1996.

List of subjects in 18 CFR Part 358:

Electric power plants, Electric utilities, Natural gas, Reporting and recordkeeping requirements.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

In consideration of the foregoing, the Commission revises part 358, Chapter I, Title 18, Code of Federal Regulations, to read as follows:

1. Part 358 is revised to read as follows:

PART 358—STANDARDS OF CONDUCT

Sec.

Authority: 15 U.S.C. 717–717w, 3301–3432; 16 U.S.C. 791–825r, 2601–2645; 31 U.S.C. 9701; 42 U.S.C. 7101–7352.

§ 358.1 Applicability.

(a) This part applies to any interstate natural gas pipeline that transports gas for others pursuant to subparts B or G of part 284 of this chapter and conducts transmission transactions with an affiliate that engages in marketing functions.

(b) This part applies to any public utility that owns, operates, or controls facilities used for the transmission of electric energy in interstate commerce and conducts transmission transactions with an affiliate that engages in marketing functions.

(c) This part does not apply to a public utility transmission provider that is a Commission-approved Independent System Operator (ISO) or Regional Transmission Organization (RTO). If a public utility transmission owner participates in a Commission-approved ISO or RTO and does not operate or control its transmission system and has no access to transmission function information, it may request a waiver from this part.

(d) A transmission provider may file a request for a waiver from all or some of the requirements of this part for good cause.

§ 358.2 General principles.

(a) A transmission provider must treat all transmission customers, affiliated and non-affiliated, on a not unduly discriminatory basis, and must not make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage with respect to any transportation of natural gas or transmission of electric energy in interstate commerce, or with respect to the wholesale sale of natural gas or of electric energy in interstate commerce.

(b) A transmission provider's transmission function employees must function independently from its marketing function employees, except as permitted in this part or otherwise permitted by Commission order.

(c) A transmission provider and its employees, contractors, consultants and agents are prohibited from disclosing, or using a conduit to disclose, non-public transmission function information to the transmission provider's marketing function employees.

(d) A transmission provider must provide equal access to non-public transmission function information to all its transmission function customers, affiliated and non-affiliated, except in the case of confidential customer information or Critical Energy Infrastructure Information.

§ 358.3 Definitions.

(a) Affiliate of a specified entity means:

(1) Another person that controls, is controlled by or is under common control with, the specified entity. An affiliate includes a division of the specified entity that operates as a functional unit.

(2) For any exempt wholesale generator (as defined under § 366.1 of this chapter), affiliate shall have the meaning set forth in § 366.1 of this chapter, or any successor provision.

(3) "Control" as used in this definition means the direct or indirect authority, whether acting alone or in conjunction with others, to direct or cause to direct the management policies of an entity. A voting interest of 10 percent or more creates a rebuttable presumption of control.

(b) Internet website refers to the Internet location where an interstate natural gas pipeline or a public utility posts the information, by electronic means, required under this part 358.

(c) Marketing functions means:

(1) in the case of public utilities and their affiliates, the sale for resale in interstate commerce, or the submission of offers to sell in interstate commerce, of electric energy or capacity, demand response, virtual transactions, or financial or physical transmission rights, all as subject to an exclusion for bundled retail sales, including sales of electric energy made by providers of last resort (POLRs) acting in their POLR capacity; and

(2) in the case of interstate pipelines and their affiliates, the sale for resale in interstate commerce, or the submission of offers to sell in interstate commerce, natural gas, subject to the following exclusions:

(i) Bundled retail sales,

(ii) Incidental purchases or sales of natural gas to operate interstate natural gas pipeline transmission facilities,

(iii) Sales of natural gas solely from a seller's own production,

(iv) Sales of natural gas solely from a seller's own gathering or processing facilities, and

v) Sales by an intrastate natural gas pipeline, by a Hinshaw interstate pipeline exempt from the Natural Gas Act, or by a local distribution company making an on-system sale.

(d) Marketing function employee means an employee, contractor, consultant or agent of a transmission provider or of an affiliate of a transmission provider who actively and personally engages on a day-to-day basis in marketing functions.

(e) Open Access Same Time Information System or OASIS refers to the Internet location where a public utility posts the information required by part 37 of this chapter, and where it may also post the information required to be posted on its Internet website by this part 358.

(f) Transmission means electric transmission, network or point-to-point service, ancillary services or other methods of electric transmission, or the interconnection with jurisdictional transmission facilities, under part 35 of this chapter; and natural gas transportation, storage, exchange, backhaul, or displacement service provided pursuant to subparts B or G of part 284 of this chapter.

(g) Transmission customer means any eligible customer, shipper or designated agent that can or does execute a transmission service agreement or can or does receive transmission service, including all persons who have pending requests for transmission service or for information regarding transmission.

(h) Transmission functions means the planning, directing, organizing or carrying out of day-to-day transmission operations, including the granting and denying of transmission service requests.

(i) Transmission function employee means an employee, contractor, consultant or agent of a transmission provider who actively and personally engages on a day-to-day basis in transmission functions.

(j) Transmission function information means information relating to transmission functions.

(k) Transmission provider means:

(1) Any public utility that owns, operates or controls facilities used for the transmission of electric energy in interstate commerce; or

(2) Any interstate natural gas pipeline that transports gas for others pursuant to subparts B or G of part 284 of this chapter.

(3) A transmission provider does not include a natural gas storage provider authorized to charge market-based rates.

(l) Transmission service means the provision of any transmission as defined in § 358.3(f).

(m) Waiver means the determination by a transmission provider, if authorized by its tariff, to waive any provisions of its tariff for a given entity.

§ 358.4 Non-discrimination requirements.

(a) A transmission provider must strictly enforce all tariff provisions relating to the sale or purchase of open access transmission service, if the tariff provisions do not permit the use of discretion.

(b) A transmission provider must apply all tariff provisions relating to the sale or purchase of open access transmission service in a fair and impartial manner that treats all transmission customers in a not unduly discriminatory manner, if the tariff provisions permit the use of discretion.

(c) A transmission provider may not, through its tariffs or otherwise, give undue preference to any person in matters relating to the sale or purchase of transmission service (including, but not limited to, issues of price, curtailments, scheduling, priority, ancillary services, or balancing).

(d) A transmission provider must process all similar requests for transmission in the same manner and within the same period of time.

§ 358.5 Independent functioning rule.

(a) General rule. Except as permitted in this part or otherwise permitted by Commission order, a transmission provider's transmission function employees must function independently of its marketing function employees.

(b) Separation of functions.

(1) A transmission provider is prohibited from permitting its marketing function employees to:

(i) Conduct transmission functions; or

(ii) Have access to the system control center or similar facilities used for transmission operations that differs in any way from the access available to other transmission customers.

(2) A transmission provider is prohibited from permitting its transmission function employees to conduct marketing functions.

§ 358.6 No conduit rule.

(a) A transmission provider is prohibited from using anyone as a conduit for the disclosure of non-public transmission function information to its marketing function employees.

(b) An employee, contractor, consultant or agent of a transmission provider, and an employee, contractor, consultant or agent of an affiliate of a transmission provider that is engaged in marketing functions, is prohibited from disclosing non-public transmission function information to any of the transmission provider's marketing function employees.

§ 358.7 Transparency rule.

(a) Contemporaneous disclosure.

(1) If a transmission provider discloses non-public transmission function information, other than information identified in paragraph (a)(2) of this section, in a manner contrary to the requirements of § 358.6, the transmission provider must immediately post the information that was disclosed on its Internet website.

(2) If a transmission provider discloses, in a manner contrary to the requirements of § 358.6, non-public transmission customer information, critical energy infrastructure information (CEII) as defined in § 388.113(c)(1) of this chapter or any successor provision, or any other information that the Commission by law has determined is to be

subject to limited dissemination, the transmission provider must immediately post notice on its website that the information was disclosed.

(b) Exclusion for specific transaction information. A transmission provider's transmission function employee may discuss with its marketing function employee a specific request for transmission service submitted by the marketing function employee. The transmission provider is not required to contemporaneously disclose information otherwise covered by § 358.6 if the information relates solely to a marketing function employee's specific request for transmission service.

(c) Voluntary consent provision. A transmission customer may voluntarily consent, in writing, to allow the transmission provider to disclose the transmission customer's non-public information to the transmission provider's marketing function employees. If the transmission customer authorizes the transmission provider to disclose its information to marketing function employees, the transmission provider must post notice on its Internet website of that consent along with a statement that it did not provide any preferences, either operational or rate-related, in exchange for that voluntary consent.

(d) Posting written procedures on the public Internet. A transmission provider must post on its Internet website current written procedures implementing the standards of conduct.

(e) Identification of affiliate information on the public Internet.

(1) A transmission provider must post on its Internet website the names and addresses of all its affiliates that employ or retain marketing function employees.

(2) A transmission provider must post on its Internet website a complete list of the employee-staffed facilities shared by any of the transmission provider's transmission function employees and marketing function employees. The list must include the types of facilities shared and the addresses of the facilities.

(3) The transmission provider must post information concerning potential merger partners as affiliates that may employ or retain marketing function employees, within seven days after the potential merger is announced.

(f) Identification of employee information on the public Internet.

(1) A transmission provider must post on its Internet website the job titles and job descriptions of its transmission function employees.

(2) A transmission provider must post a notice on its Internet website of any transfer of a transmission function employee to a position as a marketing function employee, or any transfer of a marketing function employee to a position as a transmission function employee. The information posted under this section must remain on its Internet website for 90 days. No such job transfer may be used as a means to circumvent any provision of this part. The information to be posted must include:

(i) The name of the transferring employee,

(ii) The respective titles held while performing each function (i.e., as a transmission function employee and as a marketing function employee), and

(iii) The effective date of the transfer.

(g) Timing and general requirements of postings on the public Internet.

(1) A transmission provider must update on its Internet website the information required by this part 358 within seven business days of any change, and post the date on which the information was updated. A public utility may also post the information required to be posted under part 358 on its OASIS, but is not required to do so.

(2) In the event an emergency, such as an earthquake, flood, fire or hurricane, severely disrupts a transmission provider's normal business operations, the posting requirements in this part may be suspended by the transmission provider. If the disruption lasts longer than one month, the transmission provider must so notify the Commission and may seek a further exemption from the posting requirements.

(3) All Internet website postings required by this part must be sufficiently prominent as to be readily accessible.

(h) Exclusion for and recordation of certain information exchanges.

(1) Notwithstanding the requirements of §§ 358.5(a) and 358.6, a transmission provider's transmission function employees and marketing function employees may

exchange certain non-public transmission function information, as delineated in § 358.7(h)(2), in which case the transmission provider must make and retain a contemporaneous record of all such exchanges except in emergency circumstances, in which case a record must be made of the exchange as soon as practicable after the fact. The transmission provider shall make the record available to the Commission upon request. The record may consist of hand-written or typed notes, electronic records such as e-mails and text messages, recorded telephone exchanges, and the like, and must be retained for a period of five years.

(2) The non-public information subject to the exclusion in § 358.7(h)(1) is as follows:

(i) Information pertaining to compliance with Reliability Standards approved by the Commission, and

(ii) Information necessary to maintain or restore operation of the transmission system or generating units, or that may affect the dispatch of generating units.

(i) Posting of waivers. A transmission provider must post on its Internet website notice of each waiver of a tariff provision that it grants in favor of an affiliate, unless such waiver has been approved by the Commission. The posting must be made within one business day of the act of a waiver. The transmission provider must also maintain a log of the acts of waiver, and must make it available to the Commission upon request. The records must be kept for a period of five years from the date of each act of waiver.

§ 358.8 Implementation requirements.

(a) Effective date.

A transmission provider must be in full compliance with the standards of conduct on the date it commences transmission transactions with an affiliate that engages in marketing functions.

(b) Compliance measures and written procedures.

(1) A transmission provider must implement measures to ensure that the requirements of §§ 358.5 and 358.6 are observed by its employees and by the employees of its affiliates.

(2) A transmission provider must distribute the written procedures referred to in § 358.7(d) to all its transmission function employees, marketing function employees, officers, directors, supervisory employees, and any other employees likely to become privy to transmission function information.

(c) Training and compliance personnel.

(1) A transmission provider must provide annual training on the standards of conduct to all the employees listed in paragraph (b)(2) of this section. The transmission provider must provide training on the standards of conduct to new employees in the categories listed in paragraph (b)(2) of this section, within the first 30 days of their

employment. The transmission provider must require each employee who has taken the training to certify electronically or in writing that s/he has completed the training.

(2) A transmission provider must designate a chief compliance officer who will be responsible for standards of conduct compliance. The transmission provider must post the name of the chief compliance officer and provide his or her contact information on its Internet website.

(d) Books and records. A transmission provider must maintain its books of account and records (as prescribed under parts 101, 125, 201 and 225 of this chapter) separately from those of its affiliates that employ or retain marketing function employees, and these must be available for Commission inspections.

Note: The following appendix will not be published in the Code of Federal Regulations.

Appendix A: Table of Commenters and Abbreviations for Commenters.

COMMENTER	ABBREVIATION
Alcoa Inc.	ALCOA
Ameren Services Company	Ameren
American Gas Association	AGA
American Public Gas Association	APGA
American Public Power Association	APPA
American Transmission Company LLC	ATC
Arizona Public Service Company	Arizona PSC
Bonneville Power Administration	Bonneville
California Public Utilities Commission	California PUC
Calypso U.S. Pipeline, LLC and Calypso LNG, LLC	Calypso
CenterPoint Energy Gas Transmission Company	CenterPoint

Chandeleur Pipeline Company and Sabine Pipeline Lince LLC	Chandeleur
DCP Midstream, LLC	DCP Midstream
Destin Pipeline Company, L.L.C.	Destin
Dominion Resources, Inc.	Dominion Resources
Duke Energy Corporation	Duke
E.ON U.S. LLC	E.ON
Edison Electric Institute	EEI
El Paso Corporation	El Paso
Electric Power Supply Association	EPSA
Entergy Services Inc.	Entergy
Federal Trade Commission	FTC
FirstEnergy Service Company	FirstEnergy
Hampshire Gas Company and Washington Gas Light Company	Hampshire
Idaho Power Company	Idaho Power

International Transmission Company	ITC
Interstate Natural Gas Association of America	INGAA
Iroquois Gas Transmission System, L.P.	Iroquois
Kinder Morgan Interstate Pipelines	Kinder Morgan
Large Public Power Council	LPPC
MidAmerican Energy Electric Utilities	MidAmerican
National Association of Regulatory Utility Commissioners	NARUC
National Grid USA	National Grid
Natural Gas Supply Association	NGSA
New York Public Service Commission	New York PSC
NiSource, Inc.	NiSource
Northern California Power Agency	NCPA
Northwest Natural Gas Company and KB Pipeline Company	Northwest Natural
Pacific Gas and Electric Company	PG&E

PSEG Companies	PSEG
Public Utilities Commission of Ohio	PUC of Ohio
Puget Sound Energy, Inc. and Avista Corporation	Puget Sound
Questar Gas Company	Questar
Sacramento Municipal Utility District	SMUD
Salt River Project Agricultural Improvement and Power District	Salt River
SCANA Corporation	SCANA
Southern California Edison Company	SCE
Southern Company Services, Inc.	Southern Co. Services
Southwest Gas Corporation	Southwest Gas
Spectra Energy Transmission, LLC and Spectra Energy Partners, LP	Spectra
Transmission Access Policy Study Group	TAPS
Transmission Agency of Northern California	TANC

Transmission Dependent Utility Systems	TDU Systems
U.S. Department of the Interior	US DOI
Unitil Corporation	Unitil
USG Pipeline Company, et. al.	USG
Vectren Corporation	Vectren
Washington Utilities and Transportation Commission	WA UTC
Western Utilities	Western Utilities
Williston Basin Interstate Pipeline Company	Williston
Wisconsin Electric Power Company	Wisconsin Electric
Xcel Energy Services Inc.	Xcel

American Electric Power
Subsidiaries Columbus Southern Power Company and Ohio Power Company, DBA as AEP Ohio
Summary of Compliance with Ohio Administrative Code
Chapter II Section (B) (9) (a) (x)
Executive Summary Applicant Utilities'
Management Policies, Practices and Organization Schedule S-4.2
Plant Operations and Construction

AEPSC Environmental Services
Transmission, Distribution and Generation

SFR Reference
(B)(9)(a)(x) Environmental Management

I. Policy and Goal Setting

The role of AEPSC Environmental Services is to support AEP's corporate strategies and values concerning the environment, safety and health by providing guidance, procedures, recommendations and training to support compliance with environmental laws, regulations and policies. Goals of Environmental Services include:

- to provide technical, scientific, regulatory, and economic analysis and compliance planning assistance on existing and emerging environmental issues;
- to manage key compliance information and assist in management of critical compliance assets; and
- to provide outreach to key government, civic, industrial, and educational organizations relating to AEP's efforts to protect the environment.

The vice president - Environmental Services is responsible for recommending and implementing policies related to environmental permitting and compliance with input from AEPSC senior management. Individuals participating in the review and formulation of corporate environmental goals and objectives include: the chairman of the board and chief executive officer; the chief operating officer; the senior vice president and general counsel; the executive vice president - Environmental, Safety, Health and Facilities (ESH&F); and the senior vice President - Engineering Projects and Field Services.

AEPSC Environmental Services is responsible for permitting and compliance support, guidance, procedures, recommendations and training for AEP's operating companies in order to maintain and improve their environmental programs and enhance compliance with environmental laws, regulations and policies. As part of this effort, Environmental Services also is involved in the development process for environmental regulations, coordinating with other groups within ESH&F, as well as operating company staffs.

The goals and objectives for Environmental Services, including key initiatives for each section, are described under Section III and are shown in Exhibit 1, Environmental Services' 2010 business plan.

II. Strategic and Long-Range Planning

Environmental Services supports AEP's corporate strategies and values concerning environmental, safety and health. The group maintains knowledge of current and emerging environmental issues affecting AEP operations and develops guidance/information to reduce or mitigate the effects of these issues. Environmental Services maintains strong relationships with key government, civic, industrial and educational organizations to assure leading-edge knowledge of current environmental, regulatory and legislative initiatives. Environmental Services also supports and/or leads the development of corporatewide Environmental-related initiatives for environmental performance improvement.

The process of performing strategic and long-range environmental compliance planning primarily involves the vice president - Environmental Services in collaboration with other AEPSC organizations. Environmental Services' involvement includes:

- providing input with respect to assessing the environmental implications of continued operation of existing AEP System facilities;
- providing input for specific projects that are under consideration and through periodic reports and presentations to other corporate divisions, departments and senior management. These projects include siting studies for new generating plants, evaluating new generation and emission control technology options, and evaluating emerging governmental regulations;
- providing input to management through reports and presentations regarding the evaluation of existing and developing technologies that have relevance to the electric power generation business; and
- providing input to the process of identifying and selecting sites for future power generation facilities.

Strategic planning includes the on-going succession identification process designed to timely determine candidates for key company positions and to assure their development to meet position requirements so as to maintain the high level of management expertise necessary to manage the enterprise effectively. This succession planning is an AEP System requirement.

III. <u>Organization Structure</u>

The Environmental Services organization is managed by a vice president, who reports to the executive vice president - Environmental, Safety, Health and Facilities (ESH&F).

Environmental Services is organized with four primary sections: air quality services, water and ecological resource services, land environment and remediation services, and analytical chemistry services. Department employees include engineers, biologists, chemists and scientists.

Neither CSP nor OP, doing business as AEP Ohio, have a complementary environmental services organization.

An organizational chart for Environmental Services is provided as Exhibit 2.

IV. <u>Decision-Making</u>

The vice president - Environmental Services is responsible for recommending to AEP senior management the establishment of AEP Systemwide environmental policies and procedures. Air quality services, water and ecological resource services, and land environment and remediation services secure environmental licenses and permits for new and existing facilities. These sections also monitor environmental regulatory developments and participate in legislative and regulatory rule developments. Through these processes, these sections become aware of areas wherein it may be appropriate to establish AEP Systemwide environmental policies. When specific environmental issues merit establishing possible AEP System environmental policy, proposals are prepared and forwarded to AEPSC senior management for their consideration.

V. <u>Ring Fencing</u>

The principles of ring fencing in utility regulation were codified in various provisions of the Public Utility Holding Company Act of 1935, (PUHCA). American Electric Power Company, Inc., (AEP), was a registered public utility holding company under the PUHCA until that act was repealed in 2005. The separation of regulated utility functions from non-regulated businesses required by PUHCA and prevailing throughout the AEP system has not been altered or diluted as it relates to AEP Ohio since the repeal of

PUHCA. As a result, AEP Ohio, as constituent public utilities within the AEP system, continues to benefit from the ring fencing protections set forth in the PUHCA. In practical terms, this means that AEP Ohio:

1. has not made any investment in any entity engaged in a non-regulated business;
2. has not made loans or extended credit to AEP or to any affiliate engaged in a non-regulated business; and
3. has not guaranteed the indebtedness or the obligations of AEP or any affiliate engaged in a non-regulated business.

AEP Ohio consists of two separate legal entities, Ohio Power Company and Columbus Southern Power Company. Each AEP Ohio utility is a registered issuer under federal securities acts; each has independent access to public capital markets through which each continually raises capital. Each AEP Ohio utility is independently rated by the nationally recognized statistical credit rating agencies. Each AEP Ohio utility is managed by a board of directors that is responsible for authorizing action, including the acquisition or disposition of material assets, issuances of securities, and declaration of dividends, in such a way as to preserve the credit ratings and creditworthiness of each entity.

On June 2, 2010, the Commission approved AEP Ohio's corporate separation plans, filed June 1, 2009, and specifically found that the corporate separation plans were adequately implemented by AEP Ohio in accordance with Section 4928.17, Revised Code, Chapter 4901:1-37, O.A.C., and the orders of the Commission. (Opinion and Order in Case No. 09-464-EL-UNC). With its corporate separation plans, AEP Ohio has in place structural safeguards to ensure the independent functioning of the companies and their affiliates in a manner which is consistent with the Commission's Code of Conduct and which rejects cross-subsidization. The companies' accounting protocols, approach to financial arrangements, adherence to the Cost Allocation Manual requirements, employee education and training and internal compliance monitoring each support the goals and policies set out in Section 4928.02, Revised Code.

VI. Controlling Process

The execution of various functions and objectives are monitored and evaluated continuously by Environmental Services. This activity includes the following control and performance indicators:

- licensing and permitting – the percentage of projects successfully permitted and licensed while keeping within the time schedule and budget, to the degree that can be controlled;
- regulations – the fairness and lack of burden presented by new federal and state environmental regulations, to the extent that can be controlled;
- compliance – the degree of environmental compliance with federal environmental regulations, as a result of specific guidance or programs recommended to the operating company environmental affairs departments and to AEPSC management;
- future compliance – the ability to foresee where environmental regulation is going; to develop data-gathering programs in time to be of value in shaping new regulations;
- cost of analytical lab services – the cost of work performed by the environmental laboratory as compared to the cost of the same services provided by non-affiliated laboratories;
- accuracy, reliability and timeliness of analytical lab services – the accuracy, reliability and timeliness of services provided by the environmental laboratory as compared to the services provided by others;
- technical information requests – percentage of informational requests answered;
- customer satisfaction – the level of satisfaction of groups to which a service is provided;
- personnel development – continual on-going evaluation of engineers, environmental specialists, chemists, and technicians using corporate performance evaluation processes;
- professional registration – the number of engineers obtaining professional registration; and
- achievement of objectives – the percentage of objectives achieved and the relevance of priorities.

The principal administrative performance indicators Environmental Services uses to evaluate its effectiveness toward meeting the group's goals include the following:

- budgetary guidelines are established annually by AEPSC senior management. Each group prepares personnel, salary, and expense budgets in accordance with guidelines. The vice president - Environmental Services is responsible for controlling expenditures within the group's approved budget. Monthly reviews are completed and quarterly explanations of deviations from the approved budget are prepared for senior management. Necessary action is taken to control and reduce costs when actual costs are excessive in relation to budget; and

- when professional performance measures indicate a negative deviation from desired goals and objectives, action is taken to correct procedures, re-examine goals for reasonableness and/or determine if the result is due to personnel. If the problem is personnel-related, steps are taken, in consultation with the AEPSC System Human Resources Department, to resolve the situation.

VII. Internal and External Communications

Internal and external communications are accomplished through personal and telephone discussions, formal and informal meetings, memoranda, and formal and informal correspondence including electronic mail.

In the performance of the practices employed by Environmental Services to achieve its objectives, members of each section, as required, consult internally prepared procedures and/or reference manuals, standard industry reference works and other documents related to a particular practice or function. A representative listing of such manuals and reference works is provided as Exhibit 3.

Internal

Environmental Services has various avenues available to provide optimal internal communications to facilitate achievement of departmental objectives.

The vice president - Environmental Services is in frequent communication with the executive officers of AEPSC and the AEP System companies. Such officers include members of the office of the chairman. The vice president - Environmental Services attends periodic staff meetings with members of AEPSC senior management and other department heads, including a monthly meeting with operating company presidents, AEPSC Generation leadership, and the vice-president of Environmental Services to review current environmental issues. Internal communication between Environmental Services' staff and other AEPSC departments' personnel are conducted as required.

Internal communications within Environmental Services consist of staff meetings among all groups of the division as necessary, involving either supervisory staff or all employees to discuss company policies and business developments. Safety meetings are at a minimum held quarterly with all Environmental Services employees. In addition, informal meetings are held, sometimes on a daily basis, with Environmental Services employees to discuss work assignments and work schedules, and to provide employees an opportunity to also discuss issues, concerns and suggestions for improving service. Formal job performance reviews are conducted by supervisory staff with every employee annually, and more frequently if warranted.

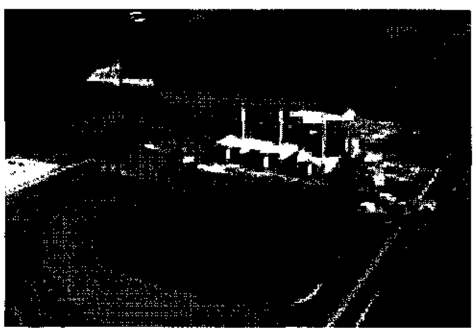
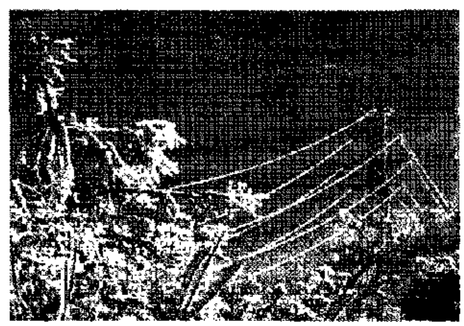
Environmental Services communicates frequently with other AEPSC departments and with AEP System operating companies. These communications usually are focused on a specific project or task.

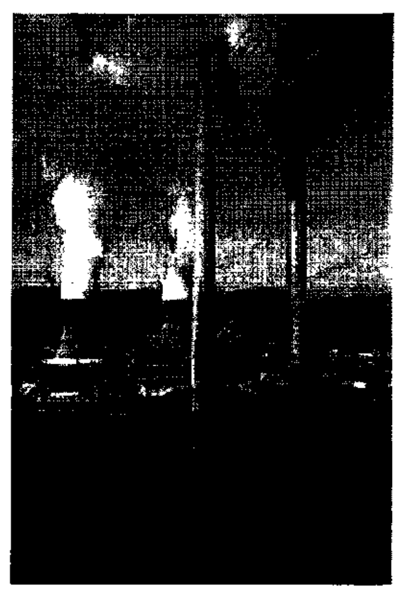
External

Personnel within Environmental Services are heavily involved in external communications in written form through the preparation and mailing of license and permit submittals, environmental assessments and comments on proposed and existing environmental regulations. Contacts are maintained with similar disciplines in other utilities, environmental consulting firms, regulatory agencies, legal counsel, legislative personnel and utility focus groups (e.g., Edison Electric Institute groups).

Environmental Services Division

2010 Business Plan



Welcome to Environmental Services 2010 Business Plan.

2010 will be an extremely challenging year for AEP given continued weakness in the economy and the financial challenges we face. Many of the financial challenges over the longer term stem from anticipated environmental requirements affecting our generating fleet and our utility operations. We also have aggressive environmental performance metrics to meet in the short term. Given that, I see that we continue to have an unprecedented level of awareness of our environmental obligations and commitment to improvement in environmental performance across all aspects of the business. This support from senior management on down will continue to help us in carrying out our responsibility to help lead environmental programs and support day to day compliance needs.

Looking at 2009, we once again had an excellent safety record. That can only result from each of us taking responsibility for our own safety, as well as looking out for the safety of those we work with. Let's continue this effort in 2010. While it is hard to improve on the record we have, let's look for ways to perform our jobs in an even safer manner and with greater awareness of potential risks. And let's not forget the health side of our safety and health programs. The Company is making available to us many resources in the area of health and wellness, including significant financial incentives, and I encourage everyone to take advantage of these programs.

I also want to recognize the efforts we made in 2009 to address some extremely challenging and unanticipated issues that the Company faced. Two of the AEP Corporate Culture attributes come to mind – agility and collaboration. When I look at issues like the scrutiny we faced after the TVA coal ash incident, changing reporting requirements for certain programs, continued increases in the demand for Lab services, a large number of severe storms that impacted our utility operations business units, and more, our ability to respond quickly and work closely with others across the Company is a real tribute to the people we have in our Department. And when I look at the challenges we face in 2010, we will need to call on those qualities even more.

While there were many positives in 2009, it is important to note that the Company did receive more formal enforcement actions than our goal. And three of those actions involved significant fines. So while we continue to move forward on our environmental performance and reduce our environmental footprint with the addition of more environmental control equipment, there is still room for improvement.

Looking ahead, we now have a better sense of the regulatory direction that the EPA is taking in Washington and what that will mean for our state agencies' programs and for our own operations. The environmental regulatory agenda we face is almost unprecedented in its breadth, with new requirements under development across all media. We also know that enforcement activity is picking up, requiring extra vigilance in managing compliance obligations across AEP. This in turn will require us to step up our efforts to provide support and to work with external groups to help direct regulatory outcomes. Success in our environmental programs continues to be a critical component to the success of AEP as a whole.

As you read the rest of this plan, you will see that it is fairly similar to last year's plan. It does try to provide a more direct link to the goals of the business units that we support. And it should be read as a piece of the overall plan of our broader Environmental, Safety, Health and Facilities organization and the leadership that Dennis Welch and others on his team provide.

Our roles in compliance and operational support, permitting, analytical services and legislative/regulatory development are as critical as ever to AEP's near term success and longer term sustainability. I look forward to working with you to address these and all other challenges we may face in 2010.

John

1.0 INTRODUCTION

The Environmental Services business plan is designed to focus our role in helping AEP to meet and exceed its environmental goals. Key to this effort is the day to day support of existing compliance programs, as well as leadership in the development of regulations and compliance implementation strategies to help AEP meet future requirements. The business plan also highlights the diverse and complex scope of issues that Environmental Services is responsible for managing in collaboration with the applicable business units.

2.0 2010 GOALS & OBJECTIVES

Environmental responsibility is an intrinsic part of the AEP organization as demonstrated by the inclusion of environmental goals and performance metrics in the goals and objectives of multiple business units and the Corporate Sustainability Report. The 2010 Environmental Services goals and objectives are designed, in part, to align with those established for other parts of the organization. While these goals provide direction for day-to-day activities, they are not inclusive of all the challenges that Environmental Services will face in 2010. However, a key asset of Environmental Services is its ability to successfully meet new and unexpected challenges as they arise. 2010 will be no different in this regard. In addition to the goals described below for the Environmental Services Division, key initiatives were developed for each Section, which are presented in Appendix A.

Goal #1: Proactively increase safety & health awareness among Environmental Services.	
Related Goals for Other Business Units	Generation Organization ▪ Develop and implement safety improvement plans for all generation facilities and operations to drive to zero incidents. Fossil & Hydro ▪ Strategic initiative to improve environmental, safety and health by working with AEP internal stakeholders to develop, implement, and communicate a continuous improvement plan. Transmission, Utility Operations, Shared Services and Facilities Organizations ▪ Improve employee awareness of applicable industrial hygiene programs.
Key Section Objectives	▪ At a minimum, conduct quarterly meetings to increase safety awareness. ▪ Ensure that staff have and utilize appropriate safety clothing and equipment. ▪ Work with Safety & Health organization to assess employee awareness of industrial hygiene programs within the Transmission, Utility Operations, Shared Services, and Facilities organizations. ▪ Encourage greater participation and leadership in AEP wellness programs.
Key Measure	▪ Completion of safety and health meetings. ▪ Work with Safety & Health to complete industrial hygiene survey of employees in the Transmission, Utility Operations, Shared Services, and Facility organizations. ▪ Develop and institute a trial formal housekeeping inspection process at the Dolan Chemical Laboratory.

Goal #2: Set the industry standard for environmental performance.	
Related Goals for Other Business Units	Generation Organization ▪ Continue to improve performance in meeting day-to-day compliance requirements. ▪ Achieve corporate sustainability commitments. Fossil & Hydro ▪ Metrics established by the Environmental Performance Index and enforcement actions. ▪ Develop and optimize strategies to meet current and emerging environmental requirements. Engineering, Projects, and Field Services ▪ Environmental: continuous improvement to zero incidents, proactive management, and workforce education. ▪ Strategic initiative to proactively develop strategic direction regarding existing and potential new environmental compliance. ▪ Strategic initiative to work with other resources to optimize performance with respect to emission performance and regulatory compliance. Corporate Sustainability Report ▪ Zero significant enforcement actions. ▪ Assess compliance and improve performance through the Environmental Performance Index. Transmission, Utility Operations, Shared Services and Facilities Organizations ▪ Minimize the number of preventable spills and NPDES permit exceedances.
Key Section Objectives	▪ Achieve 100% on-time submittal of all required permit applications and compliance reports for operating facilities and major retrofit and new generation projects. ▪ Achieve greater than 92% on-time delivery of analytical results. ▪ Improve environmental compliance, event response, and regulatory awareness to prevent issuance of enforcement actions.

Goal #2: Set the industry standard for environmental performance.	
Key Measures	▪ Percentage of required permit applications and compliance reports submitted on time. ▪ Percentage of lab analyses completed on time. ▪ Number of formal environmental enforcement actions: 2010 target is zero with a performance metric scale from 0 to 4. ▪ Fossil & Hydro Organization's Environmental Performance Index: 2010 target is 10. Index equals the sum of the following: ➢ Number of stacks exceeding opacity limits greater than 2% of the time ➢ Preventable NPDES permit deviations ➢ Preventable spills

Goal #3: Provide guidance, technical expertise, and tools to AEP business units for developing and implementing compliance strategies for existing and future environmental requirements.	
Related Goals for Other Business Units	<u>Generation Organization</u> ▪ Continually work to analyze, evaluate, monitor and adjust the operations and investment in our assets to ensure short and long term added value. ▪ Analyze and formulate strategies to address sustainability considerations and requirements for transforming the generation portfolio. ▪ Integrate environmental scenario risk analysis into the PMRG process. ▪ Support, champion, and improve ongoing advance technology programs. <u>Fossil & Hydro</u> ▪ Develop and optimize strategies to meet current and emerging environmental requirements. <u>Engineering, Projects, and Field Services</u> ▪ Strategic initiative to proactively develop strategic direction regarding existing and potential new environmental compliance. ▪ Strategic initiative to work with other resources to optimize performance with respect to emission performance and regulatory compliance. <u>Corporate Sustainability Report</u> ▪ *Complete environmental retrofit program to meet NO_x and SO_2 reduction requirements.* <u>Transmission, Utility Operations, Shared Services and Facilities Organizations</u> ▪ Eliminate preventable spills. ▪ Provide all required training for maintaining environmental excellence and compliance.
Key Section Objectives	▪ Provide leadership to all AEP business units in meeting environmental requirements ▪ Support the Generation Organization in the development, implementation, and optimization of compliance strategies for existing and potential new environmental requirements. ▪ Support Regulatory Services as requested in rate-case proceedings. ▪ Achieve greater than 92% on-time delivery of analytical results. ▪ Lead the implementation of iMESH tools for environmental issues. ▪ Track the occurrence of spills and NPDES exceedances for all AEP business units. ▪ Assist AEP business units in working to eliminate preventable spill incidents

Goal #3: Provide guidance, technical expertise, and tools to AEP business units for developing and implementing compliance strategies for existing and future environmental requirements.	
	and to provide leadership in responding to incidents in a timely manner. ▪ Develop environmental training modules, and deliver training to the AEP Generation, Transmission, Utility Operations, Shared Services and Facilities organizations.
Key Measures	▪ Provide F&H a quarterly look-ahead of key environmental permitting work underway. ▪ Provide F&H with updates on the development of new ash regulations. ▪ Percentage of lab analyses completed on time. ▪ Timely implementation of iMESH tools. ▪ Track and report spill events for applicable AEP business units.

Goal #4: Maintain strong internal and external leadership in environmental regulatory development activities.	
Related Goals for Other Business Units	Generation Organization ▪ Work with all levels of government to lead and influence new laws and regulations that affect our success. Fossil & Hydro ▪ Nurture relationships and credibility with external stakeholders, public officials, and regulators through strong compliance programs and excellent environmental performance. Corporate Sustainability Report ▪ Foster positive regulatory relationships by proactively working with agencies to enhance our environmental performance.
Key Section Objectives	▪ Provide leadership in AEP interactions with environmental agencies on permitting, compliance, and regulatory development issues. ▪ Nurture and expand relationships with state and federal agencies and legislators through proactive, professional, and technically sound leadership on environmental issues. ▪ Support AEP operating companies to advocate AEP positions at a state level. ▪ Support AEP Federal Environmental Affairs to advocate AEP positions at a federal level. ▪ Provide leadership and analyses for state and national groups to advocate AEP positions. ▪ Provide leadership and analyses for the development of comments on proposed environmental regulations.
Key Measures	▪ Timely submittal of comments on proposed environmental regulations. ▪ Timely support for the development of AEP environmental policies. ▪ Demonstrated leadership in state and federal environmental regulatory development.

Goal #5: Expand and strengthen relationships and credibility with external stakeholders, public officials, and regulators on AEP's commitment to environmental excellence.	
Related Goals for Other Business Units	<u>Generation Organization</u> ▪ Continue to improve our performance in meeting day-to-day compliance requirements. <u>Fossil & Hydro</u> ▪ Continue to nurture relationships and credibility with external stakeholders, public officials, and regulators through strong compliance programs and excellent environmental performance. <u>Corporate Sustainability Report</u> ▪ Assess AEP's impact or potential impacts on biodiversity to develop a system-wide biodiversity strategy. ▪ Review consumption patterns and identify opportunities to set goals to reduce water consumption at AEP facilities and power plants. ▪ Continue to lead sustainable supply chain development in the utility industry.
Key Section Objectives	▪ Provide leadership for utility organizations (UARG, UWAG, USWAG, EEI, EPRI, & others). ▪ Provide leadership for state-level utility organizations (OEUI, AECT, & others). ▪ Provide leadership for state and federal agencies and multi-stakeholder workgroups. ▪ Support AEP Operating Companies to advance AEP's position on regulatory issues. ▪ Provide leadership on environmental research and development projects. ▪ Support biodiversity, water consumption, and sustainable supply chain activities. ▪ Provide leadership through volunteering time to support community and charitable organizations and activities.
Key Measures	▪ Demonstrated leadership in state-level and national utility organizations. ▪ Demonstrated leadership on the EPA Clean Air Act Advisory Committee. ▪ Demonstrated leadership and involvement in community and charitable activities.

Goal #6: Maintain active role in support of the implementation and utilization of MESH (Managing Environmental, Safety, and Health).	
Related Goals for Other Business Units	Generation Organization ▪ Develop and implement safety improvement plans for all generation facilities and operations to drive to zero incidents. Fossil & Hydro Generation ▪ Strategic initiative to improve environmental, safety and health by working with AEP internal stakeholders to develop, implement, and communicate a continuous improvement plan. Engineering, Projects, and Field Services ▪ Continue to expand and optimize the use of MESH and Enviance as key strategic elements for improving environmental compliance and performance. ▪ Annual MESH management reviews at plant sites. Corporate Sustainability Report ▪ Conform all fossil and hydro power plants to the ISO 14001 standard by the end of 2012.
Key Section Objectives	▪ Continue to support the implementation and expanded use of MESH system. ▪ Integrate Environmental Services tools into the MESH document management strategy. ▪ Confirm the environmental training frequencies and target groups at the plants, update Environmental Services' training courses to ensure competencies, and verify, for documentation proposes, that all the environmental courses are included in KEY. ▪ Continue to help lead the implementation of iMESH tools.
Key Measures	▪ Reorganize and roll out new version of My Environmental Assistant Database. ▪ Review and comment on MESH Handbook. ▪ Roll out "Quick Shipment" waste manifesting iMESH tool. ▪ Participate in Plant specific MESH implementations and management programs. ▪ Meet applicable environmental training objectives for various business units. ▪ Complete and roll out Corrective Action/Prevention Action iMESH module in 2010.

3.0 ENVIRONMENTAL SERVICES - RESOURCES

With the financial issues the Company is facing, resources will be a challenge in 2010. We are constrained in our ability to fill open positions, with one position having been eliminated from the budget for this year. We also have reductions in our O&M budget that will need to be met. This includes additional constraints on our travel budget. This requires all of us to be careful in how we use our available resources.

In order for us to maintain and improve upon the Environmental Services hallmarks of leadership, technical expertise and teamwork, we will need to continue to focus on activities related to knowledge growth, retention, and transfer, including an emphasis on strong mentorship from more experienced employees and training activities. We will continue to look for ways to provide broader development opportunities to allow our staff to make the most of their own capabilities and to help develop the leaders AEP will need in the future. And to document our compliance requirements and work processes, we will continue the implementation of iMESH and work toward the development of a document management strategy.

4.0 ENVIRONMENTAL SERVICES – CULTURAL STRENGTHS

High involvement, collaboration, mutual care, shared commitment, agility -- attributes identified by AEP as being key for the success of our company. These attributes also represent one of Environmental Services' strongest assets. Year after year, Environmental Services applies these traits not only to meet diverse and complex challenges facing AEP, but also to demonstrate leadership within the utility industry and within our communities. Employees of Environmental Services are encouraged to strengthen these cultural assets even further in 2010 by developing broader and deeper technical knowledge, strengthening communication skills, as well as continuing to proactively pursue leadership development opportunities in the workplace as well as through involvement in volunteer and charitable activities.

Appendix A: Key Section Initiatives for 2010

Air Quality Services	
Key Responsibilities	▪ Prepare air related permit applications and associated submittals. ▪ Negotiate cost-effective permits for the internal generation fleet and others. ▪ Provide day-to-day regulatory compliance support to the internal fleet and others. ▪ Develop air quality related policies, procedures and program guidance, consistent with applicable regulations and corporate environmental policy. ▪ Proactively monitor and participate in the development of new air quality regulations. ▪ Coordinate and support the development of air-related compliance strategies.
Key Initiatives for 2010	▪ Participate in quarterly meetings to increase safety & health awareness. ▪ Achieve 100% on-time submittal of applicable permit applications and compliance reports. ▪ Lead AEP efforts to respond to the EPA HAP Information Collection Request. ▪ Support the implementation of strategies to meet the NSR Consent Order. ▪ Lead air permitting activities in support of the Mountaineer CCS project. ▪ Provide leadership in the development and implementation of greenhouse gas regulations. ▪ Provide leadership in the development and implementation of new air regulations.

Environmental and Industrial Lab Services	
Key Responsibilities	▪ Provide chemical analyses of ash, coal, oil, water, deposits, industrial hygiene air samples and other miscellaneous materials in support of generation and energy delivery facilities. ▪ Provide consultation to individuals and groups of the AEP System to assist in the choice, continued use, or replacement of fluids and materials. ▪ Provide advice on regulatory policies and procedures affected by contaminants or chemical components of water, flue gas and workspace atmospheres. ▪ Provide research efforts to improve methods of chemical analysis and chemical treatment and to modernize or maintain applications of materials and equipment.

Environmental and Industrial Lab Services	
Key Initiatives for 2010	▪ Participate in quarterly meetings to increase safety & health awareness. ▪ Achieve greater than 92% on-time delivery of analytical results. ▪ Continue to strengthen the quality, efficiency and scope of analytical services provided. ▪ Strive to measure and improve customer satisfaction and meet customer requirements for delivery of analytical results. ▪ Strive to improve and enhance quality assurance and quality control processes in System laboratories by moving towards compliance with ISO 17025. ▪ Develop and institute a trial formal housekeeping inspection process for the Dolan Chemical Laboratory.

Land Environment & Remediation Services	
Key Responsibilities	▪ Provide AEP environmental compliance support in managing spill remediation activities for Generation, Utility Operations, and Shared Services. ▪ Perform environmental site assessments on lands to be purchased, leased or sold. ▪ Interact with environmental agencies on issues involving wastes and spills to the land. ▪ Achieve compliance with state solid waste regulations, licensing and permitting for the AEP ash and FGD byproduct landfills. ▪ Perform statistical analyses on groundwater monitoring data from AEP properties. ▪ Remediate land contaminated by past operations, including legacy gas operations. ▪ Support AEP River Transportation in their environmental activities. ▪ Strive for fair environmental regulations by working with federal and state agencies. ▪ Develop environmental training modules to meet AEP and regulatory requirements, and deliver training to AEP employees and contractors as needed. ▪ Support corporate efforts to acquire new generation and T&D assets through environmental due diligence activities. ▪ Support AEP's generating plants, AEP Utility Operations and Shared Services facilities in successful, compliant waste management and recycling programs. ▪ Contribute to environmental research efforts of EPRI in programs addressing groundwater, coal combustion byproduct management, MGP remediation, and T&D.
Key Initiatives for 2010	▪ Participate in quarterly meetings to increase safety & health awareness. ▪ Achieve 100% on-time submittal of applicable permit applications and compliance reports. ▪ Provide leadership in the development and implementation of new coal combustion product (e.g. ash) regulations. ▪ Lead the Utilities Solid Waste Activities Group (USWAG) commenting effort to USEPA regarding the announced Notice of Proposed Rule for changes to the federal PCB regulations. ▪ Develop training course to meet federal and state UST operator certification requirements. ▪ Work with W&ERS to develop the Avian Protection Part II training course. ▪ Assist the Safety and Health Groups to ensure that asbestos awareness training has been provided to the Transmission, Utility Operations, Shared

Land Environment & Remediation Services	
	Services, & Facilities organizations. ▪ Reorganize, update and roll out an improved electronic database for environmental compliance guidance and to act as an environmental training module repository. ▪ Support abandoned mine land and highwall reclamation projects aimed at improving safety and beneficially using coal combustion products.

New Generation Licensing	
Key Responsibilities	▪ Obtain necessary environmental permits and approvals for new generation and transmission projects. ▪ Provide timely and professional support to project managers on the environmental aspects of new projects. ▪ Maintain good working relationships with state and federal environmental agencies responsible for issuing permits for new generation and transmission projects. ▪ Effectively communicate with AEP senior management updates on the status and key issues related to new generation permitting activities. ▪ Provide timely and professional support on potential asset acquisitions.
Key Initiatives for 2010	▪ Participate in quarterly meetings to increase safety & health awareness. ▪ Support the defense of Turk Plant permits in all associated appeals. ▪ Obtain necessary approvals for construction of transmission lines for the Turk Plant. ▪ Obtain landfill and wastewater permits for the Turk Plant. ▪ Lead the environmental permit efforts for PATH and support other Transmission projects. ▪ Coordinate NEPA and permitting activities for the Mountaineer CCS project. ▪ Support activities related to regulatory and compliance strategy development.

Strategy & Planning	
Key Responsibilities	▪ Provide technical, scientific, regulatory and economic analysis and compliance planning assistance on existing and emerging environmental issues. ▪ Manage key compliance information and assist in management of critical compliance assets. ▪ Provide outreach to key government, civic, industrial and educational organizations relating to AEP's efforts to protect the environment.

Strategy & Planning	
Key Initiatives for 2010	▪ Participate in quarterly meetings to increase safety & health awareness. ▪ Achieve 100% on-time submittal of applicable permit applications and compliance reports. ▪ Lead the implementation of iMESH tool for managing environmental information. ▪ Lead the development of greenhouse gas emission reports. ▪ Provide timely support for regulatory development related to greenhouse gas emissions, multi-pollutant emission programs, water intake and effluent guidelines, and ash management.

Water and Ecological Resource Services	
Key Responsibilities	▪ Provide cost-effective service through innovative solutions in the areas of wastewater permitting, ecological impacts, and regulatory compliance. ▪ Actively influence the development of federal and state regulations controlling water pollution and the ecosystem, such that impacts to company facilities are minimized, yet the environment is protected. ▪ Conduct research on the environmental effects of power generation and energy delivery on water and ecological resources.
Key Initiatives for 2010	▪ Participate in quarterly or more frequent meetings to increase safety & health awareness. ▪ Achieve 100% on-time submittal of applicable permit applications and compliance reports. ▪ Lead roll-out and implementation of system-wide Avian Protection Plan. ▪ Provide leadership in the development and implementation of effluent guideline regulations. ▪ Provide leadership in the development and implementation of 316(b) regulations. ▪ Lead applicable permit activities for the Mountaineer CCS project (underground injection control, Corps of Engineers, U.S. Fish & Wildlife, and stormwater construction permits). ▪ Provide leadership on environmental R&D projects through EPRI. ▪ Update existing content for water & ecological programs in the My Environmental Assistant Database.

Exhibit 2 -- Environmental Services Organization Chart

Environmental Services Division

March 1, 2010

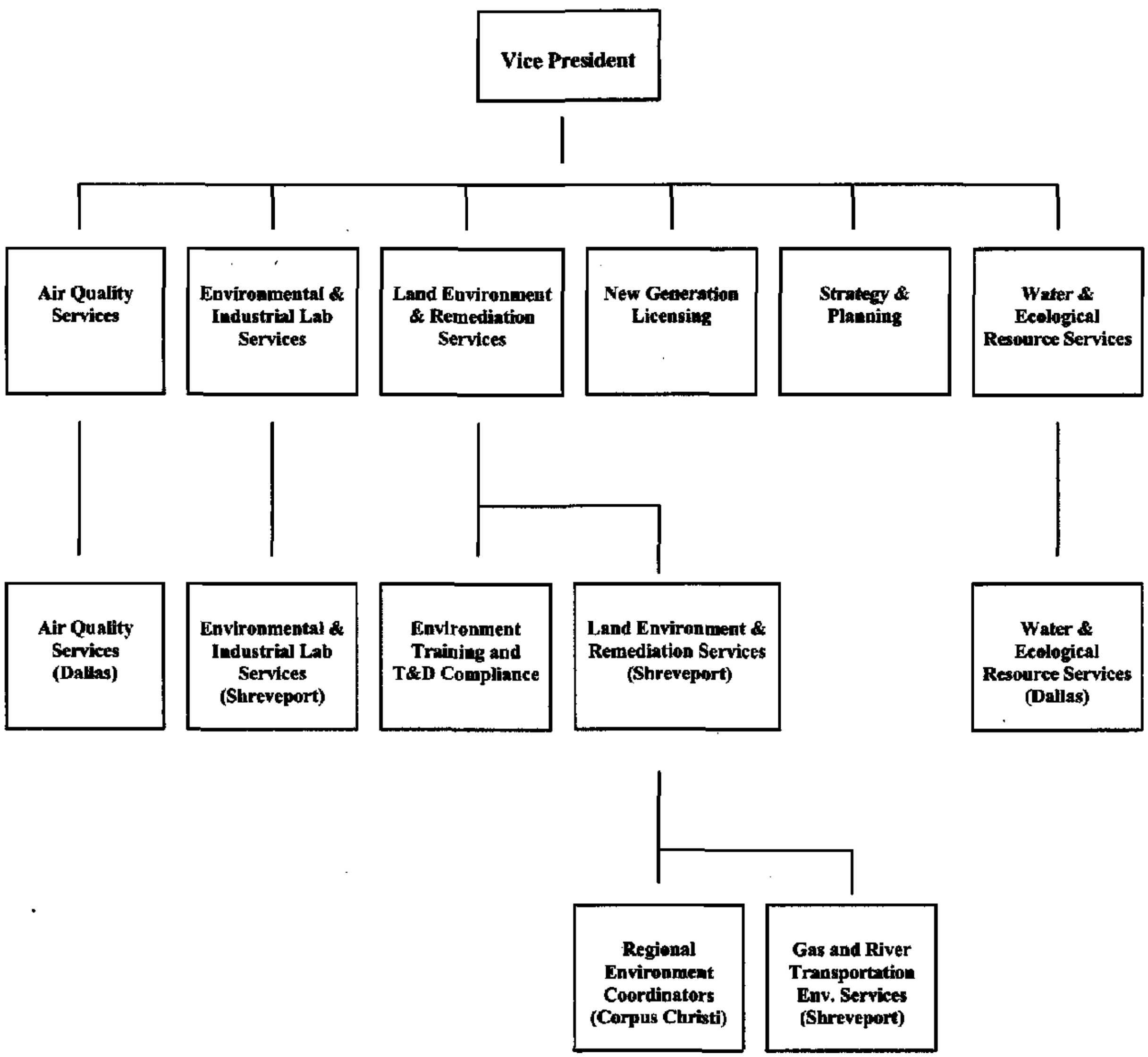


Exhibit 3 – List of Procedures Manuals

Environmental Services
Reference Procedures and Manuals

- Air Quality Programs
- Air Quality Programs - Refrigerant (CFC) Program
- Air Quality Programs - Risk Management Plan
- Air Quality Programs - SF6
- Air Quality Programs - State Specific Information
- Asbestos Management
- Asbestos State Implementation Manuals
- Avian Protection
- Coal Combustion By-Products Guidance
- Construction Services Specific Guidance
- DOT Transportation of Hazardous Materials & Registration Guidance
- Environmental Checklists
- Environmental Forms
- Environmental Forms - CFCs
- Environmental Forms - Chain of Custody
- Environmental Forms - Labels
- Environmental Forms - Oil Pollution Act (OPA-90)
- Environmental Forms - PCBs
- Environmental Forms - Shipping Papers
- Environmental Forms - SPCC
- Environmental Forms - Spill Reports
- Environmental Forms - Storm Water Pollution Prevention Plans
- Environmental Forms - Underground Storage Tanks
- Environmental Forms - Waste
- Environmental Site Assessments (ESAs)
- Environmental Vendor Audits
- Emergency Planning & Community Right-To-Know Guidance
- Comprehensive Environmental Response, Compensation & Liability Act Guidance
- Superfund Amendment & Reauthorization Act Guidance
- FAA Regulation of Tall Structures
- NORM - Naturally Occurring Radioactive Materials Guidance
- PCB Management
- PCB Cleanup Guidance
- SPCC (Oil Spill Prevention)
- Spill Response and Cleanup
- Storage Tanks Guidance
- Used Oil Guidance
- Used Oil - FR3 Guidance
- Waste Management - Batteries
- Waste Management - Boiler Chemical Metal Cleaning Waste (CMCW)
- Waste Management - Electronic Waste
- Waste Management - Infectious Waste
- Waste Management - Lead
- Waste Management - Lighting Waste
- Waste Management - Mercury
- Waste Management - Resource Conservation and Recovery Act Guidance
- Waste Management - Sampling & Analysis Protocol
- Waste Management - Treated Wood
- Waste Management - Universal Waste
- Water Discharge Programs (NPDES)
- Water Quality - Drinking Water
- Water Quality Programs
- Waterway Operations

American Electric Power
Subsidiaries Columbus Southern Power Company and Ohio Power Company, DBA as AEP Ohio
Summary of Compliance with Ohio Administrative Code
Chapter II Section (B) (9) (b) (i)
Executive Summary Applicant Utilities'
Management Policies, Practices and Organization Schedule S-4.2
Finance and Accounting

Treasury Department

SFR Reference
(B)(9)(b)(i) Treasury

I. Policy and Goal Setting

The scope of this policy covers financing (including interest rate risk management) and cash management. It does not cover financial risk management or financial planning and analysis. Those are covered in separate sections.

The goals of the Treasury Department are:

- to maintain adequate access to the capital markets to meet the requirements of the business at the best possible terms under prevailing market conditions; and

- to achieve a low financing cost while considering appropriate risk levels and other issues such as duration, diversification, fixed/floating mix, etc., while maintaining appropriate credit ratings and financial ratios.

AEP Treasury Department personnel coordinate general and long-term financing activity with the company's tax, legal, cash management, investor relations, regulatory and accounting groups.

The Treasury Department is responsible for ensuring all financing activity complies with regulatory authorizations and requirements, including codes of conduct.

The objective of the cash management process is to optimize the use of AEP's, CSP's and OP's, doing business as AEP Ohio, cash through the coordinated control of revenue collection and expense disbursements and related investment programs.

The Treasury Department complies with the Ohio Code of Conduct Rule: Section 4928.17 and Section 4928.18 of the Ohio Revised Code, as part of amended subsection Senate Bill 3.

Examples of specific treasury policies (included as Exhibits 2 through 7) are:

- Corporate Financing Policy;

- Liquidity Policy;

- Short-term Investment Policy;

- Interest Rate Risk Policy;

- Foreign Currency Policy; and

- Code of Conduct .

II. Strategic and Long-Range Planning

The long-term plan covers a period beyond the short-term plan (one-two years). Generally, these plans cover periods between five and 10 years but could go beyond depending on the need and the issue being focused on in the plan. The development of the plan starts with a base financial forecast that is used to develop regulatory, financial and tax plans for the forecast period.

The regulatory plan is developed in conjunction with the corporate and local regulatory groups. The financing plan is developed with the AEPSC Finance Department. The tax planning effort is coordinated with the AEPSC Tax Department. The result of all these planning efforts is included in the final plan and is reviewed by the chief financial officer, members of the AEP Executive Council and the AEP Board of Directors, as necessary. The capital forecast requirements for major projects are a significant driver to these plans and serve as the basis for depreciation, financing and regulatory requirements. The results of this effort also are used to establish other items such as operation and maintenance expense levels and dividend policy.

Special financial studies also are prepared and involve the development and implementation of standard economic methodologies used to calculate minimum revenue requirements on a present value basis. These studies generally center on new plant construction, environmental compliance options and general improvements to existing plants.

These long-term forecasts may be used to support various issues under consideration and are included in strategic discussions with senior management and the AEP Board of Directors, as necessary.

III. Organization Structure

The executive vice president and chief financial officer is the executive responsible for ultimate oversight of all finance-related departments including Treasury. The senior vice president of investor relations and treasurer is responsible for the Treasury Department.

The Treasury Department is a centralized corporate center servicing and operating on behalf of AEP and its consolidated or controlled subsidiaries and affiliates. The Treasury Department is divided into three principal sections: corporate finance, cash management and investor relations. The Treasury Department structure is shown in Exhibit 1.

IV. Decision-Making

The chief financial officer or treasurer must submit AEP board resolutions to the applicable CSP and OP boards for approval anticipated issuance of securities, lease financings and guarantees to ensure all required authorizations have been obtained.

All financing activity covered under this policy is managed centrally by AEP's Treasury/Corporate Finance group and are not to be undertaken by subsidiary companies' personnel.

The treasurer is responsible for developing, implementing and ensuring compliance of this policy. Unless otherwise noted, the treasurer and his delegate(s) are responsible for administering and reporting all key deliverables required under this policy.

Per the Short-Term Investment Policy only individuals authorized by the treasurer by delegated authority may initiate short-term borrowings or cash transactions.

Managers review employee activities regularly to monitor compliance with company policies and standards of conduct.

The Internal Audit Department is responsible for performing periodic reviews to determine compliance with this policy.

V. Ring Fencing

The principles of ring fencing in utility regulation were codified in various provisions of the Public Utility Holding Company Act of 1935, (PUHCA). American Electric Power Company, Inc., (AEP), was a registered public utility holding company under the PUHCA until that act was repealed in 2005. The separation of regulated utility functions from non-regulated businesses required by PUHCA and prevailing throughout the AEP system has not been altered or diluted as it relates to AEP Ohio since the repeal of PUHCA. As a result, AEP Ohio, as constituent public utilities within the AEP system, continues to benefit from the ring fencing protections set forth in the PUHCA. In practical terms, this means that AEP Ohio:

1. has not made any investment in any entity engaged in a non-regulated business;
2. has not made loans or extended credit to AEP or to any affiliate engaged in a non-regulated business; and
3. has not guaranteed the indebtedness or the obligations of AEP or any affiliate engaged in a non-regulated business.

AEP Ohio consists of two separate legal entities, Ohio Power Company and Columbus Southern Power Company. Each AEP Ohio utility is a registered issuer under federal securities acts; each has independent access to public capital markets through which each continually raises capital. Each AEP Ohio utility is independently rated by the nationally recognized statistical credit rating agencies. Each AEP Ohio utility is managed by a board of directors that is responsible for authorizing action, including the acquisition or disposition of material assets, issuances of securities, and declaration of dividends, in such a way as to preserve the credit ratings and creditworthiness of each entity.

On June 2, 2010, the Commission approved AEP Ohio's corporate separation plans, filed June 1, 2009, and specifically found that the corporate separation plans were adequately implemented by AEP Ohio in accordance with Section 4928.17, Revised Code, Chapter 4901:1-37, O.A.C., and the orders of the Commission. (Opinion and Order in Case No. 09-464-EL-UNC). With its corporate separation plans, AEP Ohio has in place structural safeguards to ensure the independent functioning of the companies and their affiliates in a manner which is consistent with the Commission's Code of Conduct and which rejects cross-subsidization. The companies' accounting protocols, approach to financial arrangements, adherence to the Cost Allocation Manual requirements, employee education and training and internal compliance monitoring each support the goals and policies set out in Section 4928.02, Revised Code.

VI. Controlling Process

The Treasury Department is audited internally and externally on a regular basis to ensure compliance with financial controls.

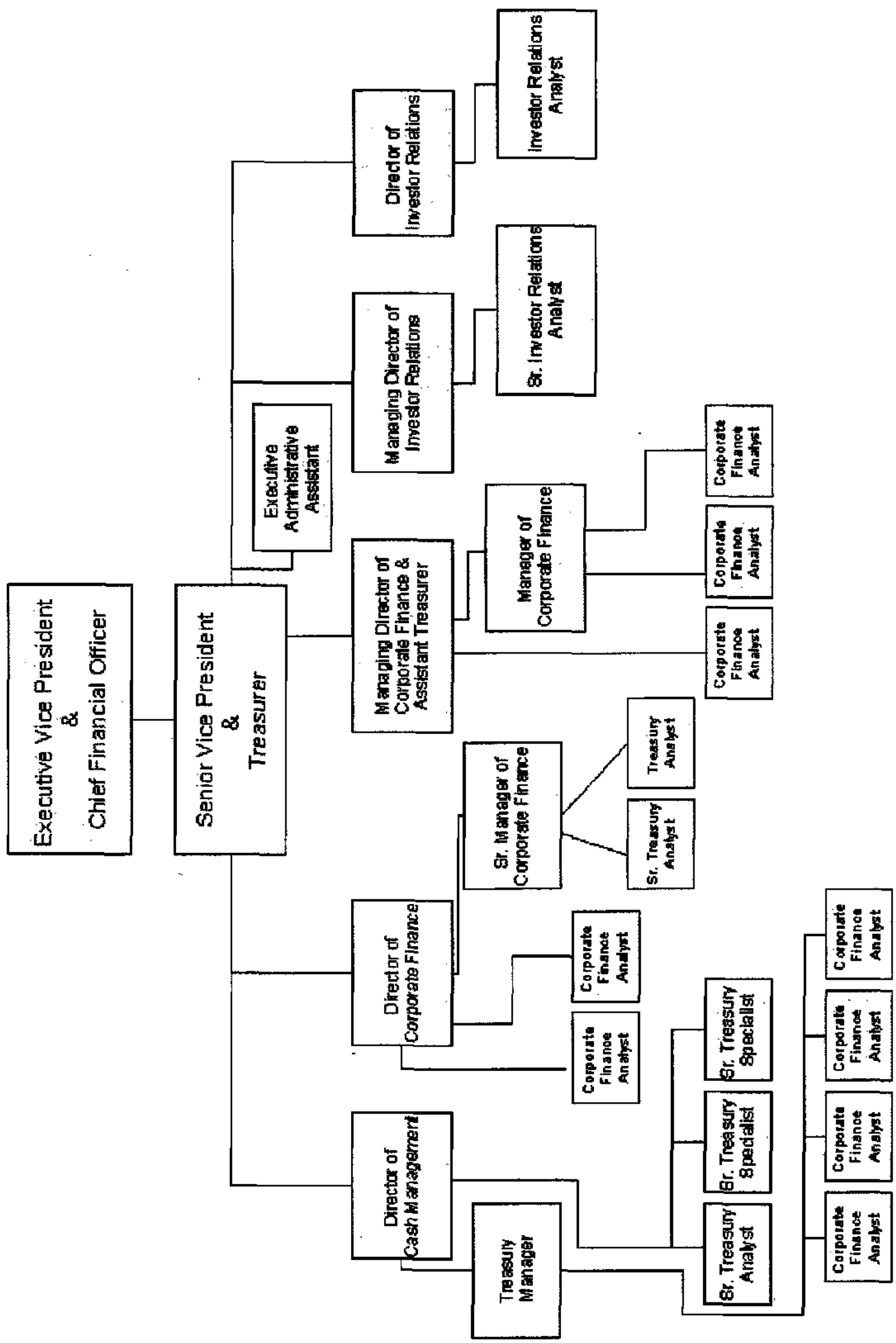
VII. Internal and External Communications

The Treasury Department conducts formal meetings with each of the operating company subsidiaries senior management teams on a regular basis. Additionally, each department within treasury conducts regular staff meetings. The purpose of these meetings is to communicate policies and decisions of management, discuss work assignments and schedules, and to provide an informal forum to discuss problems, concerns and employee suggestions.

Frequent informal communication also occurs between the senior vice president and treasurer, and directors and other employees and departments, including operating company personnel.

External communications are maintained with commercial and investment banks, credit rating agencies, trust custodians, consultants and pension fund managers as needed to facilitate the financing needs of the company.

Exhibit 1 – Treasury Department Organization Chart



AMERICAN ELECTRIC POWER

AEP Corporate Financing Policy

Approved
July 2010

AEP Corporate Financing Policy

Scope

The purpose of this policy is to provide required company-wide authorizations, standards and controls for long–term and short-term financings, letters of credit, corporate guarantees, and other treasury department functions and activities. See the respective policies for authorizations and standards pertaining to the following topics: liquidity management, foreign currency transactions, leases, interest rate risk management, or short term financings and investments.

Objective(s)

The objective of the AEP Corporate Financing Policy is to establish standards and controls for general, long-term and short-term financings. These objectives are accomplished by:

- Maintaining adequate access to the capital markets to meet the requirements of the business at the best possible terms under prevailing market conditions.
- Achieving the lowest available financing cost while considering appropriate risk levels and other issues such as duration, diversification, fixed/floating mix etc.
- Maintaining appropriate target credit ratings and financial ratios.

Authorization And Responsibilities

The AEP Finance Committee of the Board of Directors must approve the AEP Corporate Financing Policy of AEP and its subsidiaries.

The CFO or Treasurer must submit for approval appropriate board resolutions to the applicable parent or subsidiary boards, for anticipated issuance of securities, lease financings and guarantees to ensure all required authorizations have been obtained.

All financing activity covered under this policy will be managed centrally by AEP Treasury/Corporate Finance, and are not to be undertaken by subsidiary companies' personnel.

AEP Treasury/Corporate Finance personnel will coordinate all general and long-term financing activity with AEP's Tax, Legal, Cash Management, Investor Relations, Regulatory and Accounting groups in order to identify any legal issues and/or tax implications and to make sure they are properly recorded on the Company's financial statements. AEP Treasury is responsible for ensuring all financing activity is in compliance with regulatory authorizations and requirements, including codes of conduct.

The Treasurer is responsible for developing, implementing and ensuring compliance of this policy. Unless otherwise noted, the Treasurer and his/her delegate(s) are responsible for administering and reporting all key deliverables required under this policy.

The Internal Audit Department is responsible for performing periodic reviews to determine compliance with this policy.

The CFO or Treasurer must approve, in writing, any exceptions or deviations from this policy. (*See Appendix 2 for Approval/Exception Forms)*

Long-term Debt Issuance

AEP may issue or repurchase long-term debt based on many factors including the capital structure, liquidity needs, cash availability, investment opportunities, cost of capital and market prices for debt.

Company Boards and applicable external Regulatory Organizations must approve any long-term external issuances. These board resolutions identify the terms, conditions, and authorities needed to enter into and approve specific transactions. Official copies of the board resolutions will reside with the Associate General Counsel(s).

The Legal department shall sign-off on legal and regulatory issues prior to the issuance of any debt.

(See Appendix 1 for a list of regulatory authority by company)

Approved Instruments

<u>Long-term Debt Instruments</u>
The following provides a list of approved long-term debt financing instruments. Use of long-term debt financing instruments not explicitly listed below may be approved, in writing, by either the CFO or Treasurer.

<u>Credit Facilities:</u>
- *Revolving Credit Facilities/Term Loans*

<u>Debt Securities:</u>
- Unsecured Bonds or Notes
- Term Loans
- First Mortgage Bonds
- Pollution Control Revenue Bonds
- Securitization Bonds
- *Solid Waste Disposal Facilities Revenue Bonds*

<u>Hybrids and Other:</u>
- Trust Preferred Securities
- Preferred Securities
- Convertible Securities
- Tax-Deductible Preferred Securities
- Intercompany Loans
- Corporate Guarantees

Unless otherwise stated, the official documents will reside with the AEP Associate General Counsel(s), with copies held by the Treasurer or his/her delegate(s).

<u>Short-Term Debt Instruments</u>
The short-term funding mechanism utilizing money pool agreements for AEP and its subsidiaries is the *Corporate Borrowing Program which is used to meet* the short-term cash requirements of the AEP system. AEP Company, Inc. funds the Corporate Borrowing Program using the following vehicles:

- Commercial Paper
- Intercompany Loans
- Credit Facilities/Bank Loans

Preferred Stock Repurchases	The Treasurer or his/her delegate(s) have the authority to periodically repurchase preferred stock (buybacks) from investors or banks in the market, so long as those purchases do not result in a tender offering of the issuance. Purchases delegated by the Treasurer will be pre-approved for a specific length of time with a stated maximum purchase amount. Any tender offers or calls for securities require authorization by the relevant Board of Directors. Transaction confirmations will be used as notification for Cash Management and Accounting groups. Any and all transactions will be submitted via the AEP Treasury Financing Approval/Exception Form *(see Appendix 2)* completed in advance, with copies held by the Treasurer or his/her delegate(s).
Optional Debt Redemptions	Optional debt redemption requirements are identified in the applicable indenture. Any redemption that does not require separate board action will have a transaction approval form completed prior to redemption, with copies held by the Treasurer or his/her delegate(s).
Equity Issuances	AEP may issue common or preferred equity based on many factors including, but not limited to the following: capital structure, liquidity needs, cash availability, investment opportunities, cost of capital and market prices for equity. The Board Pricing Committee of the AEP Board of Directors must also approve any equity issuances, with the authority to execute a specific transaction delegated to the applicable company officers. The AEP Board of Directors will authorize any new share issuance for dividend reinvestment or benefit plan(s).
Equity Purchases	The Treasurer or his/her authorized delegate(s) may repurchase common equity as authorized by the AEP Board of Directors. The AEP Legal department shall sign-off prior to the purchase of any shares. All such transactions require a transaction approval form to be completed for each equity purchase plan, with copies held by the Treasurer or his/her delegate(s). *(See Appendix 2 for the AEP Treasury Financing Approval/Exception Form)*
Leases	The CFO, Treasurer or Assistant Treasurer must approve, in writing, all financial lease agreements. Other non-financial lease agreements must be approved by an appropriate management level in accordance with AEP's authorization policies. Land Management approves non-financial real estate leases, AEP MEMCO approves non-financial barge and boat lease agreements and AEPSC – Fuel, Emissions & Logistics Department approves non-financial railcar lease agreements. AEP Corporate Finance is responsible for negotiating and approving all financial leases.

Intercompany Loans

The Treasurer or his/her delegate(s) are responsible for reporting and maintaining inter-company loans and will determine the terms of such loans. The CFO, Treasurer or Assistant Treasurer must provide written approval of inter-company loans. The Legal department shall sign-off prior to the issuance of any inter-company notes.

The official inter-company note will reside with AEP's Associate General Counsel(s), with copies held by the Treasurer or his/her delegate(s).

Letters of Credit

The CFO, Treasurer or Assistant Treasurer or their authorized delegate(s) must approve, in writing, all new, amended, or restated Letters of Credit.

AEP Corporate Finance is responsible for negotiating and approving all Letters of Credit.

Guarantees

The CFO or Treasurer must approve, in writing, all guarantees.

The Chief Risk Officer or his/her designee will submit all requests for guarantees for Commercial Operations to the CFO or Treasurer. The Chief Risk Officer is responsible for tracking and reporting all guarantees issued for Commercial Operations' transacting activities.

All requests outside of Commercial Operations must be submitted to the Treasurer for review. The Treasurer or his/her delegate(s) are responsible for tracking and reporting all guarantees and ensuring that the amount of all guarantees outstanding remain below authorization levels.

All requests for Guarantees must be submitted using the AEP Guarantee Request Form. *(See Appendix 3 - AEP Guarantee Request Form).*

Dividend Policy

The Annual Financing Plan will include a quarterly dividend payment schedule for each subsidiary to the parent company. The actual dividends paid will be revisited on a quarterly basis and approved by the respective Subsidiary Board of Directors.

The AEP Board of Directors is responsible for establishing the parent dividend policy and approving quarterly dividend payments to the shareholders.

Annual Financing Plan

AEP Corporate Finance is responsible for developing the Annual Financing Plan which includes, but is not limited to, the following: capital structure, credit ratios, cash flow, securities issuances and redemptions, dividends and interest rate risk management strategies.

The Finance Committee of the AEP Board of Directors will review the Annual Financing Plan. Updates and significant changes in the plan will be provided to the Finance Committee on a quarterly basis.

Rating Agency Communications

All requests for non-public information by Rating Agencies (i.e. S&P, Moody's, Fitch) must be reviewed and approved by the Treasurer or Assistant Treasurer.

The Corporate Finance department is responsible for ensuring the accuracy of all information shared with the Rating Agencies.

Information Request Procedure: Prior to submitting any non-public information to any Rating Agency, the originator must obtain approval from the Treasurer or the Assistant Treasurer.

Retention of Rating Agency Records: All presentations, analysis and written communications are to be retained on a Treasury shared drive ("Rating Agency Information" folder) for 3 years

Reporting

The following is a schedule of reports that will be produced on an ongoing basis:

Report	Recipient(s)	Frequency	Provider
Annual Financing Plan	CP&B, Accounting, Finance Committee	Annually w/Quarterly Updates	Corp. Finance
Short-Term Cash Forecast	Corp. Finance and CP&B	Monthly	Short-Term Funding
Debt and Credit Ratios	Investor Relations, Senior Management	Quarterly	Corp. Finance
Interest Expense Variance Analysis	CP&B	Monthly	Corp. Finance
Debt Covenants	Financial Reporting, Banks	Quarterly	Compliance
Total Company Guarantees Outstanding	CP&B, Financial Reporting, Credit Risk Management, Legal, Treasury	Quarterly	Compliance
Guarantees for Commercial Operations activities	Treasury, Financial Reporting, Credit Risk Management, Legal	Monthly	Credit Risk Management

Appendix 1

Authorizations Required by Company

AEP, Inc.	AEP Board Authority
AEG	Subsidiary Board Authority Financing Order, State of Indiana Financing Order, FERC
AEP Texas Central	Subsidiary Board Authority Financing Order, FERC
AEP Texas North	Subsidiary Board Authority Financing Order, FERC
Appalachian	Subsidiary Board Authority Financing Order, State of Virginia Financing Order, State of Tennessee Financing Order, FERC
Columbus Southern	Subsidiary Board Authority Financing Order, State of Ohio
Indiana Michigan	Subsidiary Board Authority Financing Order, State of Indiana Financing Order, FERC
Kentucky	Subsidiary Board Authority Financing Order, State of Kentucky Financing Order, FERC
Kingsport	Subsidiary Board Authority Financing Order, State of Tennessee Financing Order, FERC
Ohio	Subsidiary Board Authority Financing Order, State of Ohio
Public Service of Oklahoma	Subsidiary Board Authority Financing Order, State of Oklahoma Financing Order, FERC
Southwestern	Subsidiary Board Authority Financing Order, FERC
Wheeling	Subsidiary Board Authority Financing Order, West Virginia Financing Order, FERC

Note: The FERC governs the utilities' short term debt authority with the exception of CSP and OPCo

Appendix 2

REV 04-2008

American Electric Power-Treasury Financing Approval/Exception Form

Purpose: This form should be completed and approved prior to any optional redemption of debt or equity security. **The AEP Treasurer or Assistant Treasurer must approve all transactions prior to any execution.** Copies should be forwarded to Treasurer and his/her delegate(s).

☐ Attach all supporting information applicable to the Financing Transaction

TO BE COMPLETED BY ORIGINATOR AEP Company Name:

Financing Transaction: (Check the applicable box to indicate type of transaction.)

☐ Equity Buyback ☐ Debt or Preferred Buyback Optional Redemption ☐ Inter-Company Loan

Full Description:

Notional Amount: Currency:

Transaction Date: Counterparty:

Checklist:

	Reviewed By	Date:
Corporate Finance Review:		
Legal Review:		

Complies with Treasury Financing Policy: ☐ Yes ☐ No

If no, exception approved by AEP Treasurer or CFO: ☐ Yes ☐ No

All transactions must be approved by the AEP Treasurer or Assistant Treasurer or their written delegate, consistent with the Treaury Finance Policy.

AEP Treasurer or Assistant Treasurer Approval: Date:

Available electronically at : Treasury Intranet website under Treasury Policy

Appendix 3

REV 04/2009

American Electric Power
Guarantee Request Form

Purpose: This form should be completed and approved prior to any guarantee issuance. **The AEP CFO or Treasurer must approve all transactions prior to any execution.**

Check One

☐ **Commercial Operations Request:** *Forward request and support to the Managing Director, Credit Risk Management.*

☐ **Treasury Request:** Forward request and support to the Treasurer.

Attach all supporting information applicable to the Transaction.

To Be Completed By The Originator

AEP Company which is Guarantor

AEP Company(ies) Benefiting from Guarantee

Counterparty Name Receiving Guarantee

AEP Originator | Phone #

Reason for Issuance

Maximum Amount Guaranteed | Currency | New or Renewal

Request Date | Expiration Date

Checklist (as appropriate)

Complies with Board Resolutions?	☐ Yes	☐ No
Complies with Regulatory Authority?	☐ Yes	☐ No
Complies with Corporate Financing Policy?	☐ Yes	☐ No
If no, exception approved by AEP CFO or Treasurer?	☐ Yes	☐ No

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Review (as appropriate)

	Printed Name	Signature	Date
Originating Department Review			
Chief Risk Officer or Assistant Treasurer Review			

All guarantees must be approved by the AEP CFO or Treasurer.

Available electronically at the Treasury Intranet website under Treasury Policy (http://treasury/)

AMERICAN ELECTRIC POWER

AEP Liquidity Policy

Approved
July 2010

AEP Liquidity Policy

Scope

The AEP Liquidity Policy applies to all AEP System companies.

Objective

The objective of the policy is to establish standards for defining, measuring and reporting liquidity risk to ensure transparency.

Authorizations and Responsibilities

The AEP Finance Committee of the Board of Directors reviews and approves the AEP Liquidity Policy. The CFO or Treasurer must approve any exceptions or deviations from the AEP Liquidity Policy (see *Appendix 3*).

The Treasurer is responsible for monitoring AEP's liquidity and reviewing the Annual Liquidity Assumptions (including limits, ratios and stress test results) and the Liquidity Risk Report to ensure the Company is not exposed to undue risk.

The Treasurer is responsible for development, implementation, and adherence to the established AEP Liquidity Policy.

Periodically, Treasury, the CFO, and the Risk Executive Committee will review the company's short-term liquidity position and minimum liquidity reserve (see *Appendix* 2) in normal and stress situations.

Liquidity Summary

AEP's overall approach to liquidity is to ensure sources of liquidity are available in sufficient amount and diversity to meet AEP's needs in normal and stress environments without a material adverse impact on operations or net income.

The Company's principal sources of liquidity are:

- Cash flow from regulated and unregulated businesses
- Proceeds from debt and equity financing, including issuing commercial paper, draws on the revolving credit facility or letter of credit facilities and other special facilities
- Proceeds from asset sales

The Company's uses of liquidity are typically to fund:

- Capital, operating and other commitments
- Principal and interest repayments of long-term debt and commercial paper
- Dividends on common stock
- Working capital

Stress Scenarios

Stress Scenarios in the Liquidity Risk report are intended to quantify the potential impact of adverse events on the company over a future 12-month period of time. The objective is to ascertain the amount of incremental liquidity required under any stress scenario. If a stress scenario results in a liquidity gap (exceeding authorized limits) of more than 20% of the limit for more than four months, considering contingency actions, Treasury must establish an action plan to address the situation within 30 days.

The stress scenarios in the Liquidity Risk Report incorporate the following assumptions, which presume a severe liquidity stress environment:

- AEP is temporarily unable to replace maturing commercial paper and long-term debt through external financing.
- Collateral posting requirements increase as counterparties call for additional collateral.
- Contractual covenants and contingent commitments (i.e., surety bonds) are drawn as other liquidity-impacted institutions draw on their contractual facilities. (See *Appendix 1*)
- An operational event resulting in a large cash outlay.
- Unfavorable legal rulings based upon estimations from legal.

AEP's liquidity standard is to operate in such a manner that even if a severe liquidity event ensues, during the subsequent 12 months the Company retains an adequate level of liquidity.

Management and Reporting

Corporate Finance/Short-Term Funding Responsibilities:

- Ensure compliance with this policy, as well as any applicable regulatory requirements
- Prepare 12 month Cash Flow forecast monthly
- Prepare risk reports including:
  - Recommended limits, ratios, and targets
  - Current triggers, needs, and sources
  - Updated contingency funding plan including priority ranked-forced asset sale plan
  - Stress scenario assumptions and descriptions
- Review stress test results; establish action plan if stress scenario results require incremental funding
- Calculate the minimum Liquidity Reserve and determine if adjustments to the reserve are needed
- Report liquidity results/plans periodically to:
  - AEP Risk Executive Committee

The following is a schedule of reports that will be produced on an ongoing basis:

Report	Recipient(s)	Frequency	Provider
Liquidity Risk Report	Treasury and REC	Monthly	Short-Term Funding

Cash Reserve

The Treasurer will determine a targeted minimum cash reserve. The Managing Director or Director is responsible for the enforcement of the established targeted minimum cash reserve.

Appendix 1

Existing Contractual Covenants/Limits

Summary of key financial and other restructuring covenants in existing financing documents:

- Assets sales cannot exceed 20% of the Consolidated Net Tangible Assets of AEP and its subsidiaries, or otherwise it will be in default of a covenant in the existing AEP Credit Agreements (Credit Agreement section 5.02 (c))

- AEP must maintain a ratio of Consolidated Debt to Consolidated Capital of not greater than 0.675 to 1.0 (Credit Agreements).

- AEP Credit, Inc. Receivables Purchase Contract: In the event that one or more of the operating companies has a ratings downgrade, the receivables can still be sold, but with a reduced advance rate. If the ratings downgrade is lower than either BBB- as rated by S&P or Baa3 as rated by Moody's, the receivables can still be sold, but with both a reduced advance rate and increased fees.

- AEP uses Surety Bonds for operational needs (construction work, workmen's compensation, etc.) insurance carriers may require full collateralization in the event AEP is downgraded or for other credit concerns.

- Trading margin requirements: AEP is required to post daily margin for brokerage exchanges and with specific counterparties. Ratings downgrade provisions have been included in many U.S. contracts. The trading contracts allow the counter party the right to seek performance assurance if AEP's ratings fall below investment grade.

- Regulatory authority to issue securities

- AEP must post letters of credit or cash if it falls below BBB- by S&P and Baa3 by Moody's per the Desert Sky Wind Farm financing agreements.

- AEP must post letters of credit or cash if it is falls below BBB by S&P and Baa2 by Moody's per the Trent Wind Farm financing agreements.

Appendix 2

Minimum Liquidity Reserve

AEP's targeted Minimum Liquidity Reserve Limit for normal operations will be based on the most recent forecast of: 1) Three months average forecasted scheduled debt maturities, 2) One month average interest, 3) One month average Cash Operating and Maintenance expenses, and; 4) Two months average budgeted Capital expenditures

As of June 30, 2010

Items	Liquidity Reserve Limit	Millions
1	3-months average forecasted debt maturities	$231
2	1-month average LTD interest (excluding TCC Securitization)	$73
3	1-month average O&M	$400
4	2-months average capital expenditures	$431
	Minimum Liquidity Reserve	$1,135

Appendix 3

LIQUIDITY POLICY EXCEPTION

Description of proposed Liquidity exception:

Type description here

Reason proposed Liquidity exception is not allowed by current policy:

Type reason here

Justification for proposed Liquidity:

Type justification here

Requested By:

Signature

Date **July 31, 2010**

Approved By:

Signature

Date **July 31, 2010**

AMERICAN® ELECTRIC POWER

AEP Short-Term Investment Policy

Approved
July 2010

AEP Short-Term Investment Policy

Scope	The AEP Short-Term Investment Policy applies to all AEP and its subsidiaries.
Objectives	• Assure safety of principal • Retain adequate daily liquidity to meet projected and unexpected cash needs • Obtain the best available yield within acceptable risk parameters
Authorizations and Responsibilities	The AEP Finance Committee of the Board of Directors is responsible for the review and approval of the investment policy of AEP and its subsidiaries. The CFO or Treasurer must approve any exceptions, or deviations from the investment policy *(See Appendix 2)*. Non-substantive conforming changes to this policy can be made with approval of the CFO or Treasurer. The CFO or Treasurer may provide a written delegation authority letter for specific time frames for Managing Directors, Directors and Managers to act on their behalf for authorizing investment wires and policy exceptions. The Treasurer is responsible for the implementation and adherence to the established investment policy. The Managing Director or Director in charge of Short-Term Funding and staff are responsible for the day-to-day administration and investment activities.
Approved Securities Dealers	Securities dealers utilized by AEP must be selected from the current list of the primary government securities dealers reporting to Securities Reports Division of the Federal Reserve Bank of New York (FRBNY) as of the date of this policy *(see Appendix 1)*. This list is updated periodically by the FRBNY; these updates can be made to the AEP Short-Term Investment Policy without AEP Board of Directors approval. Primary dealers are banks and securities broker-dealers that trade in U.S. Government securities with the Federal Reserve Bank of New York (FRBNY). On behalf of the Federal Reserve System, the FRBNY Open Market Desk engages in the trades in order to implement monetary policy. (The purchase of Government securities in the secondary market by the Open Market Desk adds reserves to the banking system; the sale of securities drains reserves.) A list of primary dealers can be found at the FRBNY's website address: http://www.newyorkfed.org/markets/pridealers_current.html.
Approved Banks for Investments	Domestic and foreign banks will be those institutions with a Short-Term Tier 1 debt rating (A1/P1/F1) by two of the three rating agencies or a Long-Term Senior Secured rating of A or better.

Approved Instruments for Investments

All investment transactions must be from the "Approved Instruments" list for investments. *(see Appendix 3)*

Other instruments that meet credit quality and maturity guidelines will be considered on a case-by-case basis. An exception form *(Appendix 2)* is required prior to investment and must be approved by the Treasurer.

Safekeeping

Direct Purchase – Securities will be held in pre-established bank custody accounts designated for specific AEP business units.

Managed Accounts - Securities will be held by the dealer transacting the trade. If the AEP Managing Director or Director in charge of Short-Term Funding anticipates a significant increase in the size and frequency of investments, the appropriateness of using a separate custody account should be considered.

Reporting and Compliance

The following information for each investment should be made available daily to the AEP Director of Cash Management and/or Managing Director or Director in charge of Short-Term Funding:

- **Instrument type**
- **CUSIP**
- **Dealer**
- **Issuer**
- **Amount Invested** (proceeds amount)
- **Term** (The lifespan assigned to an asset or a liability, over which the value of the asset/liability is expected to either grow or shrink, depending on its nature.)
- **Yield** (effective rate)
- **Trade date** (settlement date)
- **Maturity or Put date** (The date on which the principal amount of a note, draft, acceptance bond or other debt instrument becomes due and is repaid to the investor and interest payments stop.)
- **Coupon Interest Rate**
- **Tax Status** (Tax-exempt, taxable, tax-advantaged)
- **Price % of Par**
- **Purchased Interest**
- **Rate Index** (resets daily, weekly, etc)
- **First Reset Date**

This information is compiled and placed on file in a current date folder each business day.

In addition the following information will be reported periodically:

- Effective rate on the investment portfolio (estimated portfolio rate provided daily; monthly calculation provided in Monthly Performance Report)
- Exceptions under the policy (filed in current date folder)

AEP Internal Audit will perform periodic reviews to determine compliance with the AEP Short-Term Investment Policy and Sarbanes Oxley.

Glossary of Terms

The following are definitions of certain terms for information purposes only. Eligible securities (and any restrictions applicable to a particular type of security) are set forth only in the policy guidelines. Certain securities defined below are not eligible investments.

(ABCP) Asset Backed Commercial Paper
Short-Term obligations with maturities ranging from 2 to 270 days issued by special purpose corporations which purchases assets of a specific purpose (i.e. securities, receivables, loans).

Auction Rate Preferred Stock (see Dutch Auction Preferred Stock)

Auction Rate Securities
Short-term money market instruments, offering taxable, tax-exempt and tax-advantaged dividend/interest to investors whose rates are reset periodically through a Dutch auction process. Holding periods are typically 7, 28, 35 and 49 days.

Bankers Acceptances
Time draft drawn on and accepted by a bank, the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. With the credit strength of a bank behind it, the banker's acceptance usually qualifies as a "money market" instrument.

(CDs) Certificates of Deposit
Debt instrument issued by U.S. Federal or state chartered banks that usually pays interest. Institutional CDs (or Jumbo CDs) are issued in denominations of $100,000 or more. Maturities range from a few weeks to a few years. Interest rates are set by competitive forces in the marketplace.

Commercial Paper
Short-Term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted although some are interest bearing.

Corporate Bond
Debt instrument issued by a private corporation. Issued in a variety of maturities and coupon structures, some of which may be callable at the option of the issuer.

Demand Deposit
An account from which deposited funds can be withdrawn at any time without any notice to the depository institution.

Dutch Auction Preferred Stock
Type of adjustable rate "preferred stock" whose dividend is determined every seven weeks in a dutch auction process by corporate bidders.

Eurobond
A bond issued in a currency other than the currency of the country or market in which it is issued.

Eurodollar CDs
Debt instrument issued by banks outside of the United States (primarily in Europe) with interest and principal paid in dollars.

Eurodollar Time Deposits
A U.S. dollar-denominated time deposit held at a bank domiciled outside of the United States.

Extended FDIC-Insured Deposits
Series of FDIC insured deposit accounts that are linked together. Deposit is allocated to the banks in the networks in increments below the FDIC ceiling ($250,000) to insure that each and every penny is fully insured and covered by the FDIC.

(ECNs) Extendible Commercial Notes
Unsecured debt obligations of a company.

Federal Agency Securities
Securities issued by the U.S. government-sponsored entities (GSEs) and federally related institutions (i.e. FNMA, FHLMC, SLMA, TVA, etc).

(FRN) Floating Rate Note
A note with a variable interest rate. The adjustments to the interest rate are usually made every six months and are tied to a certain money-market index, also known as a "floater".

Master Note Agreement
A variable rate demand note on which the issuer pays a specified rate of interest. An ongoing deposit program without a "hard" maturity date to which the investor may add or subtract from on short notice. Issuers are generally those who issue CP and medium term notes.

Medium Term Note
A corporate note continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.

Money Market Fund
Open-ended mutual fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid and safe securities and pay money market rates of interest. The funds net asset value remains a constant $1 a share. Not FDIC insured.

Municipal Bonds
Tax-exempt debt obligation of a state or local government entity (including states, cities, counties and their agencies).

Repurchase Agreement (REPO; RP)
Agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price, and, usually at a stated time. Where a repurchase agreement is used as a short-term investment, a government securities dealer, usually a bank, borrows from an investor, typically a corporation with excess, cash, to finance its inventory, using the securities as collateral.

Reverse Repurchase Agreements (see Repurchase Agreement)

Rule 2a-7
This rule was part of the Investment Company Act of 1940. This rule set forth the criteria for money market funds. The fund will maintain a dollar weighted average portfolio maturity of 90 days or less, purchasing only securities with remaining maturities of 13 months or less. The fund will invest in First Tier Securities defined as: Money Market securities that receive the top rating from any two of the six nationally recognized statistical rating agencies.

(SLNs) Secured Liquidity Notes
Short-Term obligations with maturities ranging from 2 to 270 days (which are extendible) issued by special purpose corporations which purchases assets of a specific purpose (i.e. securities, receivables, loans).

Securities Dealers
Banks and investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Fed Open Market Operations.

U.S. Treasury Obligations
United States Treasury bills, notes or any other negotiable debt obligation issued by the U.S. Treasury or any other obligation guaranteed as to principal and interest by the United States secured by its FULL FAITH AND CREDIT and issued at various schedules and maturities.

Variable Rate Demand Notes (VRDNs)
Municipal securities that have a nominal long-term maturity but have a coupon rate that resets on a daily or weekly basis. Holders have the right to tender (put) the notes back to the remarketing agent at specified intervals.

(X-Notes) Extendible Notes
Thirteen month floating rate notes that are extendible by investors on monthly or quarterly basis; or, 2-year FRNs that are extendible on a semi-annual basis.

Yankee CD
Negotiable CDs issued in the U.S. by branches and agencies of foreign banks, but denominated in U.S. Dollars.

Appendix 1

Memorandum to all Primary Dealers and Recipients of the Weekly Press Release on Dealer Positions and Transactions

The latest list reflects the following changes:

- Effective April 1, 2010, Daiwa Securities America Inc. changed its name to Daiwa Capital Markets America Inc.

List of the Primary Government Securities Dealers Reporting to the Government Securities Dealers Statistics Unit of the Federal Reserve Bank of New York

BNP Paribas Securities Corp.
Banc of America Securities LLC
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Dresdner Kleinwort Securities LLC.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J. P. Morgan Securities Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities International, Inc.
RBC Capital Markets Corporation
RBS Securities Inc.
UBS Securities LLC.

NOTE: This list has been compiled and made available for statistical purposes only and has no significance with respect to other relationships between dealers and the Federal Reserve Bank of New York. Qualification for the reporting list is based on the achievement and maintenance of the standards outlined in the Federal Reserve Bank of New York's memorandum of January 11, 2010.

Government Securities Dealers Statistics Unit
Federal Reserve Bank of New York
April 1, 2010

For current list visit website at: http://www.newyorkfed.org/markets/pridealers_listing.html

Appendix 2

S-T INVESTMENT POLICY EXCEPTION

Description of proposed S-T Investment exception:

Type description here

Reason proposed S-T Investment is not allowed by current policy:

Type reason here

Justification for proposed S-T Investment:

Type justification here

Requested By: **Approved By:**

Signature Signature

Date **July 31, 2010** Date **July 31, 2010**

Appendix 3

(For Instrument definitions, see **Glossary of Terms**)

Instrument	Ratings Criteria	Concentration Limits (Interest rollover permitted; not included in limit.)	Maturity	Tax Status
Agency Securities	- None required	No limit	< 1 year	Tax Exempt
Asset Backed Commercial Paper (ABCP)	- Two top tier ratings (A1, P1, F1)	20% of liquidity backup **up to a maximum of** $100 Million per Issuer	< 90 days	Taxable
Certificates of Deposit (CD)	See section titled "Approved Banks for Investments"	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable
Bankers Acceptances	See section titled "Approved Banks for Investments"	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable
Commercial Paper	- Two top tier ratings, one of which should be S&P or Moody's (A1, P1, F1) - No split ratings - Issuer cannot be on "negative" credit watch	20% of liquidity backup **up to a maximum of** $100 Million per issuer	Fixed < 90 days	Taxable Tax Exempt
(bonds in cp mode)	- Minimum 2 AA ratings or better, one of which is S&P or Moody's (MIG1, VMIG1 or SP1+) **OR** one AAA rating from S&P or Moody's plus one same or lower rating - Issuer cannot be on "negative" credit watch	20% of liquidity backup **up to a maximum of** $100 Million per Issuer	Fixed < 90 days	Taxable Tax Exempt
Corporate Bonds	- Two top tier ratings, one of which should be S&P or Moody's (AA or equivalent) - No split ratings - Issuer cannot be on "negative" credit watch	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable
Demand Deposits	See section titled "Approved Banks for Investments"	Maximum of $100 Million per bank	< 1 year	Taxable
Dividend Received Deduction (DRD)	- Minimum 2 AA ratings	10% of issue size **up to a maximum of** $50 Million per issuer	Varies < 90 days for next reset	Tax Advantaged
Eurobonds	- Two top tier ratings, one of which should be S&P or Moody's (AA or equivalent) - No split ratings - Issuer cannot be on "negative" credit watch	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable
Eurodollar CDs	See section titled "Approved Banks for Investments"	10% of issue size **up to a maximum of** $50 Million	< 1 year	Taxable
Eurodollar Time Deposits	See section titled "Approved Banks for Investments"	10% of issue size **up to a maximum of** $50 Million	< 1 year	Taxable
Floating Rate Notes	- Two top tier ratings, one of which should be S&P or Moody's (AA or equivalent) - No split ratings - Issuer cannot be on "negative" credit watch	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable
Extended FDIC-Insured Deposits (Insured Cash Shelter Accounts (ICSAs))	See section titled "Approved Banks for Investments"	Maximum of $25 Million	< 1 year	Taxable
Medium Term Notes	- Two top tier ratings, one of which should be S&P or Moody's (AA or equivalent) - No split ratings - Issuer cannot be on "negative" credit watch	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable

(For Instrument definitions, see **Glossary of Terms**)

Instrument	Ratings Criteria	Concentration Limits (Interest rollover permitted; not included in limit.)	Maturity	Tax Status
Money Market Funds	- Rule 2a7 Compliant - Two top tier ratings OR a "feeder" fund of a "Master" fund with two top tier ratings. - Fund Size at least $1 Billion in total assets - Asset backed commercial paper cannot make up more than 25% of total *holdings* - Mortgage obligations cannot make up more than 2% of total holdings	Maximum of $100 Million per fund **and** no more than 5% of Total Assets	available daily	Taxable Tax Exempt
Municipal Bonds	- Minimum two AA ratings or better, one of which is S&P or Moody's (MIG1, VMIG1 or SP1+) **OR** one AAA rating from S&P or Moody's plus one same or lower rating	10% on Weeklies or longer per issuer **OR** Maximum of $50 Million per Issuer 20% on Dailies **up to a maximum of** $50 Million per Issuer	Varies < 90 days for next reset	Tax Exempt
Repurchase Agreements **	- Short-term ratings of at least A1 by S&P and P1 by Moody's **OR** Long-term debt ratings of A or better.	10% of issue size **up to a maximum of** $50 Million per issuer	Fixed < 1 year	Taxable
U.S. Treasury Securities	- None required	No limit	< 1 year	Taxable
Variable Rate Demand Notes (VRDN) (Master Note Agreements)	- Minimum two top tier ratings(A1, P1, F1, MIG1/VMIG1) one of which is S&P or Moody's - Issuer cannot be on "negative" credit watch	20% of backing **up to a maximum of** $50 Million per issuer *$100 Million per LC backing bank*	Varies < 90 days for next reset	Tax Exempt
Yankee CDs	See section titled "Approved Banks for Investments"	10% of issue size **up to a maximum of** $50 Million per issuer	< 1 year	Taxable

Other

- Open to other instruments that meet credit quality and maturity guidelines. Additional instruments will be considered on a case-by-case basis.
- An exception form (Exhibit B) is required prior to investment and must be approved by AEP Treasurer or Assistant Treasurer.
- ECNs (Extendible Commercial Notes)
- X-Notes Extendible Floating Rate Notes)
- SLNs (Secured Liquidity Notes)

Additional Information

**** Repurchase Agreements**

Collateral must be securities that are authorized for direct investment under the policy. A Public Securities Association Repurchase Agreement must be executed.
Market value of the collateral must be equal to 102% of the dollar value of the investment. Repurchase agreements may be secured by:

1) U.S. Treasury securities or its agencies or instrumentalities, marked to market.
2) Corporate securities, marked to market, with maturities less than 365 days and short-term ratings of at least A1 by S & P and P1 by Moody's or long-term debt ratings of A or better.

AMERICAN® ELECTRIC POWER

AEP Interest Rate Risk Management Policy

APPROVED
July 2009

AEP Interest Rate Risk Management Policy

Scope

The AEP Interest Rate Risk Management Policy establishes the framework for AEP to manage interest rate exposure risk on a company-wide basis. The goal is to manage interest rate exposure in order to protect the consolidated earnings and shareholder value of AEP from volatility in interest rates relating to AEP financial activities.

This policy acknowledges the trade-off between risk and expected return (earnings), which requires management to make decisions considering the level of risk to accept, and the cost and benefits of different risk mitigation strategies.

Objectives

The objective of the policy is to establish standards for defining, measuring, managing and reporting interest rate exposure while:

- Providing adequate cash flow to meet working capital requirements and other liquidity needs.
- Reducing the actual and perceived risk of AEP as a borrower in order to favorably influence the terms on which AEP obtains credit.
- Managing the cost of capital, fixed/floating targets, and Earnings at Risk.
- Protecting AEP earnings from the impact of material adverse movements in interest rates by actively managing the debt portfolio and interest rate structures for borrowings.
- Ensuring the opportunity to optimize any benefits from a low-interest-rate market environment.
- Providing flexibility for financing unanticipated events.

Authorizations and Responsibilities

The Finance Committee of the AEP Board of Directors is responsible for the Interest Rate Risk Management policy of AEP and its subsidiaries and the final approval of the policy. The CFO or Treasurer must approve, in writing, any exceptions or deviations from the Interest Rate Risk Management policy.

The Treasurer or his/her authorized delegate(s) are responsible for ensuring policy compliance. Interest rate risk management transactions will be managed centrally by the AEP Treasury Group, and will not be undertaken by subsidiary companies.

AEP Treasury will be responsible for continually assessing the level and form of interest rate exposures and market conditions in order to determine the most appropriate and effective methods for mitigating exposure.

The AEP Accounting Policy & Research Department is responsible for ensuring that all interest-rate hedging derivatives receive appropriate accounting and are appropriately documented and that effectiveness tests (if required) are performed.

The AEP Internal Audit Department is responsible for performing periodic reviews to determine compliance with the Interest Rate Risk Management Policy.

Guidelines and Strategies

AEP utilizes only authorized instruments to manage its interest rate risk in accordance with the current approved Earnings at risk (EaR) limit. For a detailed description of authorized interest rate hedging instruments, see *Appendix* 2.

The Maximum Floating Percentage and EaR will be managed within the current limits outlined in *Appendix 1*.

Interest rate risk management will be undertaken only in the context of hedging or protecting underlying exposures. AEP will not allow any speculation or trading with respect to interest rates.

To the extent that a U.S.-based AEP entity issues securities denominated in currencies other than US Dollars, Treasury will fully hedge the associated foreign currency risk on such borrowings through cross-currency swaps. Currency risk associated with securities issued by non U.S.-based AEP entities will be addressed on a case by case basis. For further information regarding foreign currency risk, see the *AEP Foreign Currency Policy*.

The Interest Rate Risk Management policy will be reviewed and approved annually by the Finance Committee of the AEP Board of Directors, which will recommend appropriate limits, targets and any policy changes for the following year.

AEP defines net **interest rate exposure** as the risk of realizing reduced operating cash flow and future earnings resulting from movements in interest rates. This variability is usually measured in dollar or basis point terms based on budgeted interest expense levels and average financing costs.

AEP has the following forms of interest rate exposure:

- Floating rate – exposure to interest rate resets in debt and derivative instruments and floating rate debt financings for incremental debt.
- Fixed rate – exposure to interest rates for fixed rate debt financings for incremental debt or refinancing of existing debt.
- Discount rate – the present value of future cash flows from mark-to-market trading portfolio changes when interest rates change, and this affects earnings.

AEP will use the EaR, Maximum Floating Debt Percentage and sensitivity/stress analysis to measure and manage the consolidated interest rate risk of AEP debt and mark-to-market trading portfolios.

Segregation of Duties

Risk management functions must contain appropriate checks and balances. For example, functions must be adequately segregated and assigned to provide good internal controls while subverting possible mistakes, unauthorized deals, concealment of trades, misappropriation of funds, and possible fraud.

Approved Counterparties & Documentation

Treasury will execute International Swap Dealers' Association (ISDA) agreements with approved counterparties negotiated and approved by the Legal Department and Treasurer or Assistant Treasurer. All ISDAs should be completed prior to any transactions being executed.

In the event an ISDA agreement is not in place with a counterparty (e.g. bank) a pre-negotiated long form confirmation may be used if approved in writing by the Treasurer or Assistant Treasurer, as well as authorized representatives of the Legal department.

All transactions will include the following control requirements:

- Copies of executed final confirmations and term sheets held by the Treasurer or his/her delegate(s) in a centralized location.
- Tax Identification Form *(see Appendix 4)* completed on the same day the hedge is transacted, and sent to the Director of Tax Compliance & Audits, or equivalent.

Transaction Approval and Authorization

The CFO or Treasurer must approve all hedging programs prior to any execution using the AEP Interest Rate Hedge Transaction Approval Form *(See Appendix 3)*. Transactions with long-term durations require higher levels of approval as listed below:

- Hedging programs for all interest rate transactions with tenor up to and including 5 years must be approved by the CFO or Treasurer.
- Hedging programs for all interest rate transactions with tenor greater than 5 years must be approved by the CFO.

Monitoring and Reporting

Floating Debt Percentage, Earnings at Risk (EaR), stress tests, and interest expense (actual vs. budget) will be included in a monthly "Stop Light" report summarizing Interest Rate Risk.

- Market Risk will calculate EaR and stress tests for the debt, MTM, and interest rate hedge portfolios on a monthly basis. EaR limits will be defined for one year with a 95% confidence level. (Earnings at Risk (EaR) is a measure of earnings volatility as a result of changes in the total interest expense of the debt portfolio and earnings impact due to changes in the interest rates affecting the MTM trading portfolios. Earnings in the EaR calculation are defined as before-tax net income over the next 12 months from current levels.)

Monitoring and Reporting (Cont.)

The following reports will be produced:

Report	Recipient(s)	Frequency	Provider
Interest Rate Risk Report	Treasury and REC	Monthly	Market Risk
Regulatory Reporting (Rule 24 SEC Market Risk Disclosure)	Treasury, REC, Accounting and Finance Committee	Quarterly	Accounting

FAS 133 Reporting

AEP Treasury will comply with AEP accounting policies on interest rate transactions and fully document all transactions. Official accounting documentation will be held by AEP Corporate Accounting Policy and Research, with copies held by the AEP Treasurer or his/her delegates.

Limits and Monitoring

AEP Treasury working with AEP Market Risk will review the limits outlined in *Appendix 1* annually. If the EaR limit is exceeded, AEP Market Risk will notify AEP Treasury and the Risk Executive Committee in writing. If either the EaR limit or the maximum floating rate debt percentage is exceeded, then an action plan will be developed by AEP Treasury, reviewed by AEP Market Risk and approved in writing by the Treasurer for implementation.

Appendix 1

Interest Rate Risk Management Limits

Risk Measures	Maximum Exposure
Maximum Floating Debt Percentage	30%
Earnings at Risk (EaR)	$50 million

Floating Debt Percentage
Floating Debt Percentage represents the percent of net debt where the variable interest rate adjusts periodically. Total floating net debt divided by the total net debt equals the floating debt ratio. Note: Floating net debt includes all short-term and long-term variable rate debt reduced by the amount of any variable rate cash reserves. This includes the impact of interest rate hedging transactions.

Hedging Targets
Treasury will regularly monitor the Financing Plan for upcoming debt issuances for setting hedging targets. The general practice will be to set hedging targets once the structure, amount, and timing of a debt issuance are certain enough to begin execution. The hedging targets will be established on a case by case basis and will not exceed the expected issuance amount.

Appendix 2

**Authorized Interest Rate
Hedging Instruments**

Cross-Currency Swaps are agreements between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency over multiple specified interest periods. This product can be used as a hedging tool by synthetically exchanging the uncertainty of floating rate based interest payments (or receipts) in one currency for the certainty of fixed payments (or receipts) in a different currency.

Forward rate agreements (FRA) are used to fix the future interest rate that the company pays or receives for a given period. An FRA is a forward agreement made between a buyer (the payer of a fixed rate) and a seller (the receiver of the fixed rate). They have no initial impact on the balance sheet and normally settlement is made in advance for the difference between the interest amounts. Both parties agree to pay or receive at a future date (the FRA value date) the difference between the money market reference rate established at this future date and a fixed rate determined at the outset of the transaction.

Treasury Lock (Forward Sale Treasury) is similar to a forward rate agreement. Treasury Locks are used to hedge against interest rate volatility by locking in an interest rate prior to a prospective issuance settlement date. On the settlement date a buyer will pay to the seller a cash settlement amount, or if such amount is negative the seller shall pay to the buyer the absolute value of the cash settlement amount.

Futures contract on an interest rate is an agreement to buy or sell a given amount of a fixed-income security, such as a U.S. Treasury bill, bond, note, or US agency security at a particular price in a stipulated future month. Futures contracts have specific expiration dates and can only be purchased in standard lots for standard periods. Futures may involve open-ended risk as well as liquidity risk.

Swaption is an option to enter into an interest rate swap with specific terms. A call swaption is purchased, giving the owner the right to enter into an interest rate swap, in which the owner receives a fixed rate and pays floating rate. A put swaption is written or sold, giving the holder the right to pay fixed and receive floating.

Interest rate put and call options are contracts that give the holder the right, for a price known as the premium, to sell or buy an underlying interest rate at a specified rate, called the exercise or strike rate, before a specified expiration date.

REV 09/2009

American Electric Power

Interest Rate Hedge Transaction Approval Form

Purpose: This form should be completed and approved for each derivative program entered into which is part of a hedge. **The AEP Treasurer must approve all transactions prior to any execution.** The form is to document the necessary information for approval. Copies should be forwarded immediately to Raja Sundararajan (Independent Risk Oversight) and Jon Holtmuller (Accounting Policy & Research).

- **Attach all deal sheets, spreadsheets, contracts, prospectuses, and/or confirmation letters applicable to hedge instrument and hedged item.**

TO BE COMPLETED BY HEDGE ORIGINATOR — AEP Company Name

Hedged Item (Check the applicable box to indicate by type of hedged item.)

Asset — Forecasted Transaction

Liability — Firm Commitment

Full Description

Notional Amount — Currency — Interest Rate (if applicable)

Maturity or Transaction Date (if applicable) — Date acquired, or expected to be acquired or sold

Hedge Instrument (Check applicable box and complete spaces provided below) — AEP Company Name

Futures Contract — *Option*

Forward Contract or — Swap Agreement

Other (specify)

Counterparty(s) Bidding

Describe Hedge Relationship (Check applicable box and complete spaces provided below)

Cash Flow Hedge — Fair Value Hedge — Foreign Currency Net Investment Hedge

Nature of risk(s) being hedged (below)

Strategy/Objective of hedge (below)

Preparer\Title — Company\Department — Telephone #

Checklist

	Reviewed By	Date
Risk Management Review		

Hedge Complies with Interest Rate Risk Management Policy Limits — Yes — No

If no, exception approved by Treasurer or CFO — Yes — No

All transactions extending beyond 5 years must be approved by the AEP CFO.

AEP Treasurer Approval — Date

AEP Chief Financial Officer Approval — Date

Available electronically at AEP Treasury Intranet website under Treasury Policy

Appendix 4

IDENTIFICATION FORM
FOR SECTION 1256(E) TREAS. REG §§ 1.1221-2 and 1.861-9T(b)(6)
DEBT INSTRUMENT ANTICIPATORY HEDGING TRANSACTION

The Hedge Transaction described below is hereby designated as a hedge *of the* Debt Instrument described below for purposes of Treas. Reg §1.1221-2(c) and Temp. Treas. Reg §1.861-9T(b)(6)(iv)(C). This designation is also intended to be an identification for purposes of Code §1256(e).

1. **Date of Designation:** ____________________

2. **Debt Instrument:**
   - A. Expected Date of Issuance ____________________
   - B. Type of Debt Instrument ____________________
   - C. Total Expected Issue Price ____________________
   - D. Expected Interest Provisions ____________________
   - E. Expected Maturity ____________________
   - F. Duration or Amount of Hedge ____________________
   - G. Cash Flow (interest and principal) ____________________

3. **Hedging Transaction:**
   - A. Hedge Transaction
     - ☐1 Regulated Futures Contract
     - ☐2 Option Contract
     - ☐3 Notional Principal Contract (Specify) ____________________
     - ☐4 Other (Specify) ____________________
   - B. Contract Date ____________________
   - C. Counterparty under Hedge Contract ____________________
   - D. Contract Maturity Date ____________________
   - E. Description of Payments Called for Under the Hedge Contract

____

ATTACHED ALL TRADE TICKETS/RECEIPTS OR CONFIRMATION LETTERS APPLICABLE TO HEDGING TRANSACTION SET OUT IN ITEM 3 ABOVE.

THIS DESIGNATION FORM MUST BE COMPLETED NO LATER THAN THE CLOSE OF BUSINESS ON THE DAY IN WHICH THE HEDGE TRANSACTION SET OUT IN ITEM 3 ABOVE IS ENTERED INTO.

DISTRIBUTION (signed) ____________________

(one copy each of By: ____________________

AMERICAN® ELECTRIC POWER

AEP Foreign Currency Policy

APPROVED
July 2009

AEP Foreign Currency Policy

Scope

The AEP Foreign Currency Policy provides required company-wide standards and guidelines for managing the company's foreign currency exposure.

Objective(s)

The objective of the AEP Foreign Currency Policy is to establish standards for defining, measuring, managing and reporting foreign currency risk. The approach is designed to enhance shareholder value and support AEP's financial performance objectives. These objectives are accomplished by:

- Reducing earnings volatility due to movements in foreign currency markets.
- Limiting the risk of loss in the value of foreign-currency-denominated cash flows.

Authorization And Responsibilities

The AEP Finance Committee of the Board of Directors is responsible for the final approval of the AEP Foreign Currency Policy of AEP and its subsidiaries.

Foreign currency transactions will be managed centrally by the AEP Treasury Department and are not to be undertaken by subsidiary companies' personnel *without prior written* approval of the CFO or Treasurer.

The CFO or Treasurer must approve, in writing, any exceptions or deviations from the AEP Foreign Currency Policy (*see Appendix 2*). The CFO is also responsible for reviewing and approving the Foreign Currency hedging strategy and acceptable risk tolerance levels on an ongoing basis.

The Treasurer is responsible for the development, implementation and compliance with the AEP Foreign Currency Policy. The Treasurer and/or his/her delegate(s) are also responsible for the administration, analysis and reporting to ensure policy compliance.

The AEP Internal Audit Department shall be responsible for performing reviews, as needed, to determine compliance with the AEP Foreign Currency Policy.

AEP Supply Chain/Business Units or any other business units with foreign currency exposure are responsible for identifying transaction and economic exposures and providing a forecast of foreign currency exposures to AEP Treasury every quarter and periodically where circumstances dictate.

AEP Supply Chain/Business Units are also responsible for reporting actual exposure information to AEP Treasury and explaining variances vs. budget on a monthly basis. They are also responsible for communicating any extraordinary events in their entity's marketplace to AEP Treasury on an ongoing basis.

Exposure Identification

AEP defines foreign exchange exposure as the risk of realizing reduced operating cash flow and future earnings resulting from movement in foreign exchange rates.

The exposures hedged under the policy are limited to transaction and economic exposures but not for translation exposures. Following are definitions and examples of each exposure type that may be hedged under the policy.

Transaction Exposure

Transaction exposure involves the actual conversion or exchange of one currency for another and typically arises when a product or service is sold or purchased in a foreign currency.

Transaction exposure arises after a sale, purchase or other transaction has occurred and is a result of a non-functional currency asset or liability recorded on a company's balance sheet. The associated gain/(loss) is explicitly stated in the company's accounting records. This exposure is subject to mark-to-market accounting and the currency impact is ultimately reported in the income statement.

Economic Exposure

Economic exposure refers to the degree to which a firm's present value of future cash flows can be influenced by exchange rate fluctuations. It also includes forecasted currency transactions. Cash flows that do not require conversion of currencies have no transaction exposure. However, these cash flows may also be influenced significantly by exchange rate movements. For example, companies that have foreign suppliers in local markets are affected by pricing pressures from currency movements. Economic exposure is measured by how the earnings forecast changes in response to alternative exchange rate scenarios.

Translation Exposure

Translation exposure arises from converting the financial statement of a functional entity from the local operating currency to AEP parent company reporting base currency (USD). This arises due to the fact that the operations of the functional entity are completely separate from the parent and hence this exposure should not be hedged. The resulting gain/(loss) from this translation is reported in the cumulative translation adjustment (CTA) on the balance sheet's stockholders' equity section.

Exposure Measurement

Measuring exposures allows AEP to understand the magnitude and materiality of risk and to identify the potential impact of foreign currency volatility on the financial statement.

AEP Treasury is responsible for reviewing the company's annual budgets, long-term strategic business plans, anticipated cash flow information and forecasts of future revenues to assess the company's exposure to foreign currency. This review is needed to determine whether action is required to protect the company from potential adverse movements in foreign exchange rates.

Foreign Currency Exposure Reporting

In order to manage exposure risks effectively, AEP Treasury will obtain reliable and timely information regarding both the economic and transaction foreign currency exposures. This policy establishes responsibilities and procedures for communication of information necessary for the effective management of foreign exchange exposures. On a regular basis AEP Treasury will meet with AEP Corporate Planning and Budgeting and AEP Supply Chain/Business Units to review any foreign currency exposure.

- **Transaction:** Individual business units and AEP Supply Chain/Business Units will be responsible for the timely dispatch to AEP Treasury of information on transaction exposures.
- **Economic:** Economic exposure reporting will be based on forecasted data obtained in the business plan. The data must be reported in local currency by entity. AEP Treasury will use this information to calculate monthly economic exposures and to link economic and transaction exposures for hedging and reporting purposes.

The following are the requirements for exposure reporting:

Exposure	Data Requirements	Source	Frequency	Responsibility	Recipients
Transaction	Third-party Exposures	Supply Chain and B-Units	Quarterly	Treasury	Treasury /Market Risk
Economic	Economic exposures in local currency	B-Units	Annually	Treasury	Treasury /Market Risk
Hedge	Summary Report for all Hedge Activity	Treasury	Quarterly	Treasury	Treasury /Market Risk

Performance Management Reporting

Upon execution of foreign currency hedges, AEP Treasury shall issue reports to monitor the effectiveness of AEP's foreign currency risk management program. AEP Treasury shall distribute reports periodically to the CFO and Treasurer.

Use of Foreign Exchange Rates

AEP Treasury's role in the use of foreign exchange rates should include the following:

- Forecast, hedge and intercompany billing rates should be set by AEP Treasury, using methodology approved by senior management.
- AEP Treasury is responsible for reviewing, modifying and issuing all foreign exchange rate forecasts, as well as any rates used internally.

Hedging Strategy Guidelines

AEP Treasury will develop hedging strategies for each transaction or group of transactions in each currency based on business unit and AEP Supply Chain/Business Units inputs. The hedge amounts will be identified based on the exposure forecasts received from AEP entities. Hedge percentages must be calculated for a rolling 12-month period. Hedge coverage and exposures are calculated in local currencies and both are converted into dollars at the current spot exchange rate.

Economic Exposures

Once economic hedges are placed, subsequent increases or reductions in the hedges must be made in such a way that the remaining hedge positions do not exceed 100 percent of the revised exposure.

Translation Exposures

Unlike economic and transaction exposure, AEP Treasury is not authorized to hedge translation exposure without the consent of the CFO.

Exposure Hedging Horizon

AEP Treasury is responsible for actively capturing and managing AEP's foreign currency exposures for a period of not less than one year. Exposures will be periodically updated based on received exposure forecasts and will be tracked on a rolling 12-month basis.

Authorized Foreign Exchange Hedging Instruments

Speculative foreign exchange transactions are prohibited. AEP Treasury may use the instruments listed below to hedge foreign currency exposures. If AEP Treasury seeks to utilize any instruments not explicitly listed, the procedure for amending/revising the policy must be followed.

Approved Instruments

Foreign Exchange Forward Contracts

A forward contract is defined as an agreement to accept or make delivery of the specified currency at a specified future date, for a specified amount, and for an exchange rate determined at the inception of the contract (the outright or forward contract rate) transacted directly with a counterparty.

Foreign Exchange Put or Call Option Contracts

An option contract is defined as the purchase of an agreement by which the holder has the right but not the obligation to sell/buy a currency at a specified exchange rate (strike), on a specified date (delivery date) for a specified premium to be paid on a specified date. AEP may purchase either European or American options including collars (a combination of put and a call option with different strike rates). These contracts are over-the-counter agreements with a third-party financial institution.

Cross-Currency Swaps

Cross-Currency Swaps are agreements between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency over multiple specified interest periods. This product can be used as a hedging tool by synthetically exchanging the uncertainty of floating rate based interest payments (or receipts) in one currency for the certainty of fixed payments (or receipts) in a different currency *(Please refer to AEP Interest Rate Risk Management policy for additional information)*.

Authorization to Execute Foreign Exchange Transactions

The authorization limits outlined below are established to provide segregation of duties and to ensure proper approval of hedging activities. The CFO or Treasurer shall review and approve the authorizations at least annually.

The Treasurer or Assistant Treasurer must approve all transactions prior to any execution using the AEP Treasury Hedge Transaction Approval Form *(See Appendix 1).*

Transaction Limits and Authorizations

The following guidelines should also be observed with respect to transaction size and maturity limits:

- Individual hedge transactions may not exceed a U.S. dollar amount of $50 million or extend more than 12 months from trade date without approval by the CFO.

All transactions will include the following control requirements:

- Board resolutions authorizing hedging and dollar limits.
- Written Treasurer or Assistant Treasurer approval.
- Executed Final Confirmations and Term Sheets sent to the Treasurer within 2 days.

Authorization Limits for Hedging Activities

Role	Responsibility
Treasurer	Authorize, approve and execute trades ($50MM notional and less)
Managing Director(s) or Director(s)	Authorize, approve and execute trades ($25MM and less) with Letter of Delegation from the Treasurer

Approved Counterparties and Documentation

The list of approved counterparties and banks is to be maintained by AEP Credit Risk Management. AEP's existing Corporate Credit Policy will govern all counterparty approvals. The International Swap Dealers' Association (ISDA) agreement with approved counterparties will be negotiated and approved by legal and the Credit Department consistent with corporate policies. All ISDAs should be completed prior to any transactions being executed.

In the event an ISDA is not in place with a counterparty (bank), a pre-negotiated long form confirmation may be used if approved in writing by the AEP Treasurer or Assistant Treasurer, as well as authorized representatives of the Legal and Credit departments.

Market Risk Limits

AEP Risk Management is responsible for coordinating market risk analysis for the hedging instrument portfolio. Under the guidelines of this policy, AEP Treasury or Risk Management has the discretion to use any one of the following methods to assess market risk:

- Earnings-at-Risk (EaR)
- Stress testing
- Scenario analysis

FAS 133 and Reporting

The FASB standard, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133) applies to AEP and all interest rate-hedging transactions that meet the definition of a derivative under FAS 133. All foreign exchange transactions do not require hedge accounting treatment (determined by accounting policy group) and execution of these transactions is left to the Treasurer's discretion.

The AEP Accounting and Treasury departments will have joint responsibility for supplying the information required by FAS 133 under the heading of "Quantitative and Qualitative Disclosures About Market Risk" of the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 10-K and 10-Q.

A completed Accounting Hedge Identification Form is required for any derivative/foreign currency hedge transaction designated as a hedging instrument under FAS 133. *(See Appendix 1- Accounting Hedge Identification Form).*

Exception Management

Exceptions to this policy will be handled on a case-by-case basis and require written approval from the CFO and/or Treasurer for any policy exception or delegation of authority.

Policy Administration

The Treasurer is responsible for administering the AEP Foreign Currency Policy.

Revised 04/2008

American Electric Power
Accounting Hedge Identification Form - SFAS 133
Transaction Approval Form

Purpose: This form should be completed for each derivative entered into which is part of a hedge relationship for accounting purposes (as defined under SFAS 133, as amended). The form is to document the necessary information for application of hedge accounting treatment under SFAS 133. THIS DESIGNATION FORM MUST BE COMPLETED NO LATER THAN THE CLOSE OF BUSINESS ON THE DAY IN WHICH THE HEDGING INSTRUMENT IS ENTERED INTO (CONTRACT DATE). Copies should be forwarded immediately to Raja Sundararajan (Independent Risk Oversight), Denise Torrell (Tax), Renee Hawkins or Randy Boteler (Treasury), Jon Holtzmuller (Accounting) and to David Warner (Trading Middle Office).
The Treasurer or Assistant Treasurer must approve all transactions prior to any execution.

Attach all deal sheets, spreadsheets, contracts, prospectuses, and/or confirmation letters applicable to hedge instrument and hedged item.

TO BE COMPLETED BY HEDGE ORIGINATOR Date of Hedge Designation: ____

Hedged Item: (Check the applicable box to indicate by type of hedged item.) AEP Company Name: ____

☐ Asset ☐ Forecasted Transaction
☐ Liability ☐ Firm Commitment

Full Description: ____

Notional Amount: ____ Currency: ____ Interest Rate (if applicable): ____

Maturity or Transaction Date (if applicable): ____ Date acquired, or expected to be acquired or sold: ____

If the "Hedged Item" is a forecasted transaction, please provide the following additional information:

Enter Expected volume quantity of forecasted transaction: ____ Units: ____

Hedge Instrument: (Check applicable box and complete spaces provided below) AEP Company Name: ____

☐ Futures Contract ☐ Interest Rate
☐ Option ☐ Foreign Exchange
☐ Forward Contract ☐ Energy Commodity
☐ Swap Agreement
☐ Other (specify) ____

Counterparty: ____ Contract Maturity Date: ____

Contract Date: ____ Monetary Amount: ____ Currency: ____

Describe payments called for under the hedge instrument (below): Interest Rate (if applicable): ____

Describe Hedge Relationship: (Check applicable box and complete spaces provided below)

☐ Cash Flow Hedge ☐ Fair Value Hedge ☐ Foreign Currency Net Investment Hedge

Nature of risk(s) being hedged (below):

Strategy/Objective of hedge (below):

Preparer\Title: ____ Company\Department: ____ Telephone #: ____

TO BE COMPLETED BY HEDGE ORIGINATOR OR PERSON/GROUP RESPONSIBLE FOR HEDGE EFFECTIVENESS

For Prospective or Retrospective Hedge Effectiveness:

Describe method for determining prospective hedge effectiveness:

Describe analysis of prospective hedge effectiveness:

Is hedge expected to be fully effective? (Yes/No): ____

Risk Management Review: ____ Date: ____

Hedge Complies with Treasury Policies:

☐ Yes ☐ No

If no, exception approved by Treasurer or CFO:

☐ Yes ☐ No

TO BE COMPLETED BY INDEPENDENT RISK OVERSIGHT (IRO)

Qualifies as hedge? (Yes\No): ____ IRO Preparer: ____

AEP CFO, Treasurer or Assistant Treasurer Approval:

Accounting Approval:

Appendix 2

Foreign Currency Policy Exception

Description of proposed Foreign Exchange (FX):

Reason proposed FX is not allowed by current policy:

Justification for proposed FX:

Requested By:

____
Signature

Date **Month Day, Year**

Approved By:

____
Signature

Date **Month Day, Year**

Corporate Finance Policy Exhibit
Code of Conduct Requirements by State

Indiana and Michigan

Indiana Rule: §8, Affiliate Standards, of the Indiana of the Stipulation and Settlement Agreement in Utility Regulatory Commission's (IURC) Order in Cause No. 41210
Michigan Rule: §8, Affiliate Standards, of the Michigan Public Service Commission's (MPSC) Order in Case No. U-12204

- Any indebtedness incurred by a non-utility affiliate must be without recourse to the operating company.
- A operating company shall not enter into any agreements under terms of which the operating company is obligated to commit funds in order to maintain the financial viability of a non-utility affiliate.
- An operating company shall not make any investment in a non-utility affiliate under circumstances in which the operating company would be liable for the debts and/or liabilities of the non-utility affiliate incurred as a result of acts or omissions of a non-utility affiliate.
- An operating company shall not issue a security for the purpose of financing the acquisition, ownership, or operation of a non-utility affiliate.
- An operating company shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise in respect of any security of a non-utility affiliate.
- An operating company shall not pledge, mortgage or otherwise use as collateral any assets of the operating company for the benefit of a non-utility affiliate.
- A utility company shall hold harmless the retail customers of an operating company from any adverse effects of credit rating declines caused by the actions of non-utility affiliates.

Transactions between operating companies and affiliates involving a money pool for the financing of short-term funding requirements are exempt from the requirements of this paragraph. Further, the provisions of this paragraph would not preclude operating companies from issuing securities or assuming obligations related to their existing coal subsidiaries.

Ohio

Rule: §4928.17 and §4928.18 of the Ohio Rev. Code, as part of Am. Sub. S.B. No 3

- Electric utilities shall not engage, either directly or through an affiliate, in the business of supplying a noncompetitive retail electric service and supplying a competitive retail electric service, or in the businesses of supplying a noncompetitive retail electric service and supplying a product or service other than retail electric service, unless the utility implements and operates under a corporate separation plan approved by the Commission.

Virginia

- No financial contract or purchase or sale of treasury bonds or treasury capital stock made or entered into between the service company and any affiliated interest shall be valid or effective unless and until it shall have been filed with and approved by the Commission.

Arkansas

Rule: Arkansas Public Service Commission Docket 06-112-R Affiliate Transaction Rules

- Except as otherwise noted, a public utility shall not engage in any affiliate transaction to provide or share with any affiliate any financial resources or financial benefit, including but not limited to loans, extension of credit, guarantee or assumption of debt, indemnification, pledge of collateral, or encumbrance of or restriction on the disposition of any public utility.
- If a public utility's bond ratings are downgraded to a Standard and Poor's rating of BB+ or lower, or to a Moody's rating of Ba1 or lower, such utility shall notify the Commission within thirty (30) days of such downgrading. The public utility will provide the Commission a copy of publicly released information about such rating downgrade and such other information as the Commission requests.
- A public utility shall not incur any debt for purposes of investing in, or otherwise supporting, any business other than the provision of public utility service in Arkansas.
- This rule does not apply to the following:
  - Transactions in connection with the factoring of accounts receivable, the creation and use of special purpose financing entities, and the creation and use of money pool or cash management arrangements, subject to safeguards to prevent cross-subsidization and unauthorized pledges or encumbrances of public utility assets.
  - Receipt by a public utility of capital contributions or proceeds from the sale of common stock to its parent holding company.
  - Receipt by a public utility of financial resources from an affiliate for any non-public utility purpose, provided that the cost to the public utility of such financial resource shall not be recovered from the public utility's customers in Arkansas.
  - Any financing arrangement involving a public utility and any affiliate that was in existence as of the effective date of these rules.
  - Any other affiliate financial transaction proposed by a public utility provided that the public utility first files with the Commission an application for approval of such transaction.

Texas

Rule: §25.272. Code of Conduct for Electric Utilities and Their Affiliates

- A utility may share credit, investment, or financing arrangements with its competitive affiliates if it complies with the following:

- The utility shall implement adequate safeguards precluding employees of a competitive affiliate from gaining access to information in a manner that would allow or provide a means to transfer confidential information from a utility to an affiliate, create an opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates.
- The utility shall not allow an affiliate to obtain credit under any arrangement that would include a specific pledge of any assets in the rate base of the utility or a pledge of cash reasonably necessary for utility operations. This subsection does not affect a utility's obligations under other law or regulations, such as the obligations of a public utility holding company under §25.271(c)(2) of this title (relating to Foreign Utility Company Ownership by Exempt Holding Companies).

American Electric Power
Subsidiaries Columbus Southern Power Company and Ohio Power Company, DBA as AEP Ohio
Summary of Compliance with Ohio Administrative Code
Chapter II Section (B) (9) (b) (ii and v)
Executive Summary Applicant Utilities'
Management Policies, Practices and Organization Schedule S-4.2

Finance and Accounting

SFR Reference

(B)(9)(b)(ii)	Accounting Systems and Financial Reporting
(B)(9)(b)(v)	Materials and Inventory Management and Control

I. Policy and Goal Setting

The Accounting Department's primary objective is to develop and maintain polices, systems, controls, records and supporting documents to properly account for AEPSC's, CSP's and OP's (doing business as AEP Ohio) operations and financial position, and to report such information to management, security-holders, regulators and others. This objective includes developing sound policies and procedures, maintaining adequate internal controls, recognizing generally accepted accounting principles and *conforming to all relevant requirements* established by taxing and regulatory authorities such as the Federal Energy Regulatory Commission (FERC), Public Utilities Commission of Ohio (PUCO), Securities and Exchange Commission (SEC), Financial Accounting Standards Board (FASB) and the Internal Revenue Service (IRS).

Policies related to accounting issues generally are established or modified in response to changes in authoritative accounting literature and regulatory pronouncements. The senior vice president, controller and chief accounting officer (senior vice president, controller and CAO) is responsible for setting overall accounting policy affecting AEP System operating companies. Generally, similar accounting transactions either require or benefit from uniform and consistent treatment among the operating companies. In some circumstances, accounting policies related more specifically to certain jurisdictions are established to ensure compliance with local regulatory authority decisions.

In general, accounting policies are designed to ensure the timely recording, reliable accounting and accurate reporting of the companies' operations and financial position for use by management, shareholders, regulators and other interested parties. Inherent in policymaking is the establishment and maintenance of sound internal controls and competent personnel.

Goals and objectives are determined on an annual basis at the departmental level and relate to the corporate goals and objectives. Criteria used in determining goals and objectives include available resources, benefits to be derived, community presence, historical precedent and trends, as well as, future projections, regulatory requirements and contribution to overall corporate goals and objectives.

II. Strategic and Long-Range Planning

Strategic and long-range planning activities generally are conducted by AEP senior management and focus on the safe and reliable generation of electricity, delivery of that electricity to AEP's customers and providing a fair return to AEP's shareholders. Within the Accounting Department, strategic and long-range planning activities are aligned with the AEP's overall objectives and are directed by the senior vice president, controller and CAO.

III. Organization Structure

The Accounting Department within AEP is divided into a number of groups that specialize in the proper accounting and accurate reporting of the results of operations for AEP and the individual operating companies, including AEP Ohio. The overall direction of the accounting function is provided by the senior vice president, controller and CAO. The various accounting functions provide regulatory accounting support and reporting, customer accounting, accounts receivable, accounts payable, property accounting, analysis and research, and cash remittance processing services to all utility affiliates.

Functionally, there are six direct reports to the senior vice president, controller and CAO representing the following groups: corporate accounting [including Financial Policy Transactions & Analysis (FPT&A) and AEPSC accounting], accounting operations (including property accounting), business integration strategy, regulatory accounting services, accounting policy and research (including internal and external reporting) and tax. Below are descriptions of the duties performed by selected groups within the accounting function:

Corporate Accounting

This group maintains the books and records of AEP (including AEP Ohio), prepares monthly entries to the ledgers, and develops and maintains the accounting and business systems that support these activities. Additional accounting services provided include preparing FERC, state and SEC financial reports, and the preparation and filing of the consolidated financial statements. Services provided also include ensuring compliance with generally accepted accounting principles and corporate accounting policy, and monitoring SEC and FASB rulemaking activities. Included within corporate accounting are the following accounting groups: regulated ledger, Transmission, commodity, derivative, IPP/Investment, fuel and joint plant, and Generation and reporting.

Financial Policy Transactions & Analysis

FPT&A primarily is responsible for reviewing transactions within AEP Commercial Operations, AEP Fuel Emissions & Logistics and AEP Corporate Finance, as well as certain other groups within AEP, and ensures the proper accounting treatment. FPT&A assesses contracts for derivatives, leases and/or consolidations, researches technical accounting issues and interprets accounting guidance. In addition, FPT&A consults with AEP's business operations, as well as external auditors Deloitte & Touche, LLP to achieve the correct accounting result. FPT&A actively participates in the preparation of AEP 10-K and 10-Q's, specifically the sections dealing with derivative and fair value disclosures.

AEPSC Accounting

This group is responsible for maintaining the AEPSC general ledger, processing the monthly service corporation billing to affiliate companies, and processing all of the AEPSC work order requests. Additionally, AEPSC accounting supports the rate case process by providing witnesses and responses for all affiliate issues. AEPSC accounting also is responsible for maintaining a statistical library of all billing allocation factors, reconciling and paying monthly invoices for lease payments and the preparation of reports for federal and state regulatory bodies.

Accounting Operations

This group consists of a number of accounting groups including assets and receivables, payables and inventory, and revenue and remittance. Each group is responsible for ensuring that transactions related to their specific area are properly recorded in the general ledger. Assets and receivables primarily is responsible for ensuring proper classification of expense allocations, miscellaneous accounts receivable, capital and operating lease review and classification, and property accounting. Payables and inventory primarily is responsible for accurate and timely processing of accounts payable invoices, wire transfer payments and accounts payable processing support and accounting system support. Revenue and remittance is responsible for providing controls over the retail electric revenue, accounts receivable and customer deposit transactions recorded in the marketing, accounting and customer services system. Each group is responsible for recording related transactions in an accurate and timely manner to properly reflect results of operations in AEP's financial records. Accounting operations systems are shown in Exhibit 1.

Property Accounting

This group primarily is responsible for maintaining the capital work order system, capitalizing, depreciating and retiring assets from the continuing property records, accruing the allowance for funds used during construction, accounting for asset retirement obligations, and addressing capital vs. operations and maintenance expense issues. In addition, property accounting assists in the preparation of reports such as the FERC Form 1, federal income tax analysis schedules and monthly financial pages for property and depreciation reserve. Property accounting also provides rate case support and support for new strategic corporate initiatives such as acquisitions and divestitures, joint ventures and new Transmission companies.

Business Integration Strategy (BIS)

This group provides project management expertise in support of Finance and Accounting goals and objectives. BIS primarily is responsible for managing key cross-functional projects that include: process improvement, system implementation, and business/system integration. The BIS team also coordinates tasks for Finance and Accounting during acquisitions, divestitures or other large transactions. BIS interacts with all units in Finance and Accounting, as well as other units across AEP and is responsible for knowing and applying standard project management methodologies and best practices. BIS also is responsible for managing project scope, schedule, quality, risk, and budget concerns, resolving conflicts and communicating with all stakeholders appropriately.

Regulatory Accounting Services

This group is responsible for providing accounting support and consultation to the AEP operating subsidiaries' regulatory management and staff. They also participate in the development of regulatory strategy and assist in the development and preparation of regulatory filings for AEP's operating subsidiaries, including AEP Ohio. In conjunction with these rate case filings, regulatory accounting services management and staff further support the rate case process by serving as expert regulatory accounting witnesses. This department also monitors regulatory developments by reviewing regulatory statutes, rulemakings, testimony, settlement agreements and orders to determine the regulatory accounting and financial reporting implications and direct the development of the appropriate regulatory accounting and financial disclosures.

Accounting Policy & Research (AP&R)

AP&R provides accounting consultation and support to AEP's operating subsidiaries regarding accounting and reporting issues related to the interpretation and application of generally accepted accounting principles, external financial reporting (e.g. SEC, FERC) and various other regulatory accounting matters. AP&R regularly interacts with employees in legal, finance, regulatory and other departments within AEP to obtain the information necessary to perform a thorough accounting analysis. In addition, AP&R works closely with AEP's external audit firm to identify, research and provide an accurate conclusion on various accounting and reporting related matters.

Internal Financial Reporting

This group provides timely and accurate consolidated financial statements, develops and maintains hierarchical reporting structures to support both external/legal reporting and internal/management reporting. In addition, they provide ongoing support and analysis other groups within AEP including: Investor Relations, corporate Finance and Treasury.

External Financial Reporting

This group is responsible for the planning, coordination, completion and filing/distribution of:

- all 10-K's and 10-Q's for AEP consolidated and its six registrant subsidiaries (including AEP Ohio) with the SEC;
- quarterly and/or annual financial statements for 13 other AEP companies prepared in accordance with generally accepted accounting principles in response to debt, loan, guarantee, lease or partnership agreements; and
- footnotes for use in the annual FERC Form 1 and quarterly FERC Form 3-Q's for all 20 AEP FERC reporting companies including the seven new Transmission companies.

In addition to the above, external financial reporting electronically converts and files all required filings to HyperText Markup Language (HTML), monitors new SEC and generally accepted accounting principles literature affecting the presentation and content of financial reporting filings made by AEP and its affiliated companies, and provides financial information to other groups within AEP including: Legal, corporate Finance and Investor Relations.

Tax Research and Consultation

This group provides services in both state and federal tax areas, including the preparation and filing of all income tax returns and the administration of IRS, state and local examinations, protests and appeals. The tax department also prepares and files all state and local tax returns, such as gross receipts, franchise, property and sales tax. The tax department also provides federal and state tax planning and payment forecasting and the monitoring of federal and state tax legislation and rulemaking activities.

The Accounting Department organization chart is provided in Exhibit 2.

IV. Decision-Making

Each level of management in accounting is involved in or contributes to the decision-making process. Routine day-to-day decisions that fall within the confines of delegated authority are the responsibility of the manager and/or supervisor of the respective accounting function. The composition of individuals involved in the decision-making process is expanded to include upper-level management as the complexity of the decision increases, affects documented accounting policies or procedures or when the decision could have a material effect on the AEP or operating subsidiary financial statements.

Decisions typically involve selecting between alternative methods of recording accounting transactions, implementing procedures or interpreting authoritative accounting guidance. The senior vice president, controller and CAO is consulted and approves all final decisions as they relate to overall accounting policy.

V. Ring Fencing

The principles of ring fencing in utility regulation were codified in various provisions of the Public Utility Holding Company Act of 1935, (PUHCA). American Electric Power Company, Inc., (AEP), was a registered public utility holding company under the PUHCA until that act was repealed in 2005. The separation of regulated utility functions from non-regulated businesses required by PUHCA and prevailing throughout the AEP system has not been altered or diluted as it relates to AEP Ohio since the repeal of PUHCA. As a result, AEP Ohio, as constituent public utilities within the AEP system, continues to benefit from the ring fencing protections set forth in the PUHCA. In practical terms, this means that AEP Ohio:

1. has not made any investment in any entity engaged in a non-regulated business;
2. has not made loans or extended credit to AEP or to any affiliate engaged in a non-regulated business; and
3. has not guaranteed the indebtedness or the obligations of AEP or any affiliate engaged in a non-regulated business.

AEP Ohio consists of two separate legal entities, Ohio Power Company and Columbus Southern Power Company. Each AEP Ohio utility is a registered issuer under federal securities acts; each has independent access to public capital markets through which each continually raises capital. Each AEP Ohio utility is independently rated by the nationally recognized statistical credit rating agencies. Each AEP Ohio utility is managed by a board of directors that is responsible for authorizing action, including the acquisition or disposition of material assets, issuances of securities, and declaration of dividends, in such a way as to preserve the credit ratings and creditworthiness of each entity.

On June 2, 2010, the Commission approved AEP Ohio's corporate separation plans, filed June 1, 2009, and specifically found that the corporate separation plans were adequately implemented by AEP Ohio in accordance with Section 4928.17, Revised Code, Chapter 4901:1-37, O.A.C., and the orders of the Commission. (Opinion and Order in Case No. 09-464-EL-UNC). With its corporate separation plans, AEP Ohio has in place structural safeguards to ensure the independent functioning of the companies and their affiliates in a manner which is consistent with the Commission's Code of Conduct and which rejects cross-subsidization. The companies' accounting protocols, approach to financial arrangements, adherence to the Cost Allocation Manual requirements, employee education and training and internal compliance monitoring each support the goals and policies set out in Section 4928.02, Revised Code.

VI. <u>Controlling Process</u>

The overall direction of the accounting department is provided by the senior vice president, controller and CAO in regard to the policies, procedures and controls that are in place to ensure accurate and timely recording of amounts in the general ledger, compliance with regulatory filing requirements, and accurate financial reporting.

Accounting Department polices and procedures are reviewed and approved by the senior vice president, controller and CAO and updated as necessary based on changes in processes or accounting literature. Many policies are posted on the accounting internal website, which allows all employees access to the information. Some policies are maintained within a specific accounting department for reference regarding a specific activity (e.g. account reconciliation, monthly review procedure, etc.). The senior vice president, controller and CAO also ensures that the accounting department is in compliance with designated control activities related to the Sarbanes-Oxley Act. Various accounting policies and procedures are shown in Exhibits 3-8.

Financial information is reported on a timely, accurate and concise basis and in a manner that satisfies the informational needs of management, security holders, shareholders, regulators and others. A formal schedule of reporting assignments is prepared and monitored to ensure the timely completion of quarterly and/or annual filing requirements. The monthly/quarterly/annual closing schedule is posted on the internal corporate accounting website, to help ensure timely completion of required journal entries and other deadlines. Prior to filing, financial reports are reviewed for accuracy of amounts and disclosures by accounting, legal, senior management and others within AEP.

Funds are disbursed on a timely but prudent basis. Payments for vendor invoices and other obligations are controlled in accordance with AEP disbursement guidelines regarding proper review and approval of supporting documentation.

In addition to the policies, procedures and controls that govern the timely and accurate reporting of financial information, compliance of specific polices, procedures and controls is monitored by the AEP Audit Services Department, the external auditors and/or regulatory agencies.

VII. Internal and External Communications

Information is communicated internally between the various accounting functions both formally and informally. An internal corporate accounting website is maintained that contains information such as the relevant period-end closing schedule, accounting policies and procedures, a listing of accounting groups and departments, and an employee information section. Individual departmental staff meetings are also conducted on a regular basis to discuss accounting issues impacting AEP, including AEP Ohio.

Internal communication between the various accounting functions and other departments within the company also occurs on a frequent basis. Most frequently, accounting communicates with legal, regulatory, corporate planning and budgeting, corporate finance, Human Resources, risk management, audit services and other functions as deemed necessary.

External communication between AEP Ohio and AEP primarily is conducted through the filing of the required regulatory reports with SEC (e.g. Form 10-K, Form 10-Q, Form 8-K, etc.), FERC (e.g. FERC Form 1 and FERC Form 3-Q), and respective state commissions such as the PUCO. In addition, the tax group files the necessary returns for compliance with IRS and state department of taxation requirements. The corporate accounting departments also communicate with other publicly held utilities either through membership in the Edison Electrical Institute (EEI), an association of shareholder-owned utilities, or directly with other utilities regarding various accounting matters affecting the utility industry. Consultation with EEI and other utilities occurs most frequently when preparing comment letters to the FASB regarding the effect of newly proposed accounting standards on the public utility industry.

Exhibit 1 – Accounting Operations Systems Chart

Accounting Systems

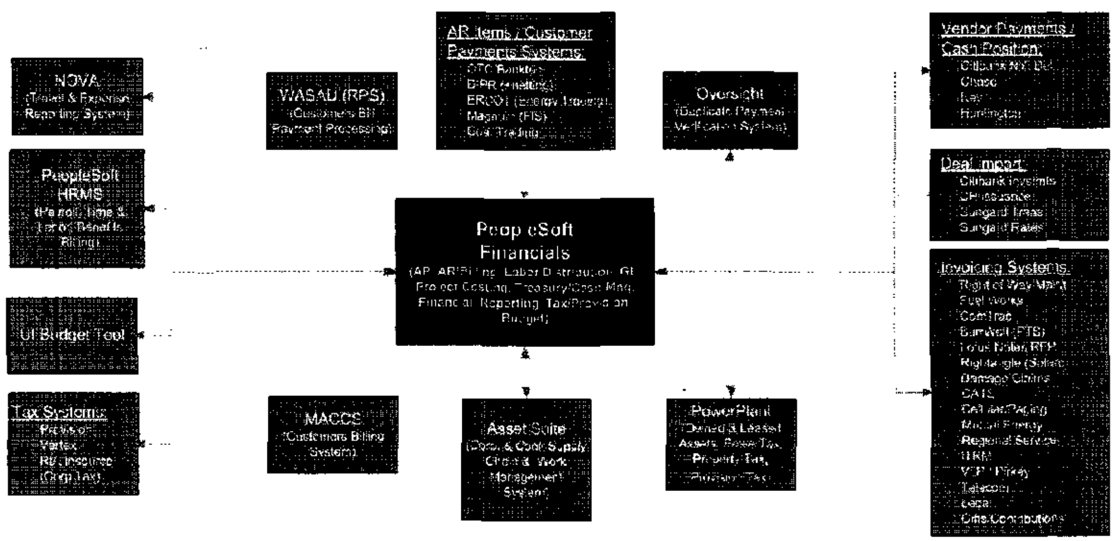
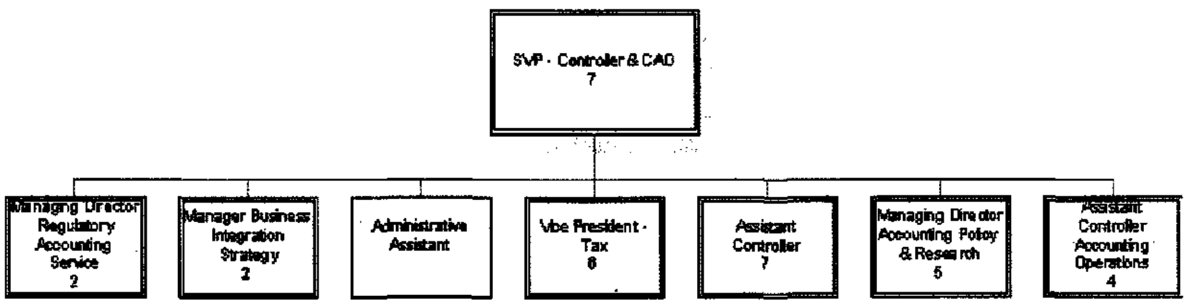


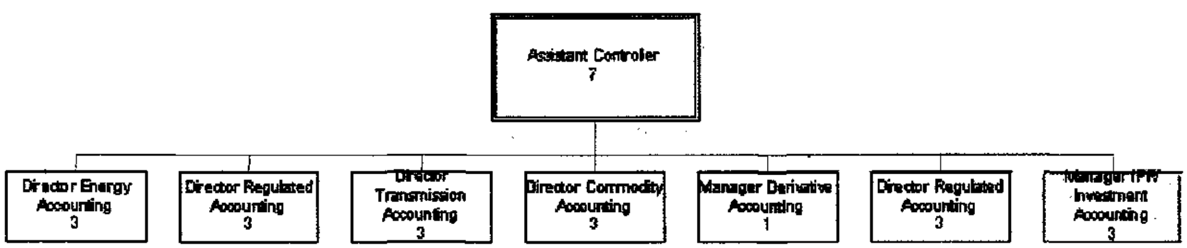
Exhibit 2 – Accounting Department Organization Chart

AMERICAN ELECTRIC POWER

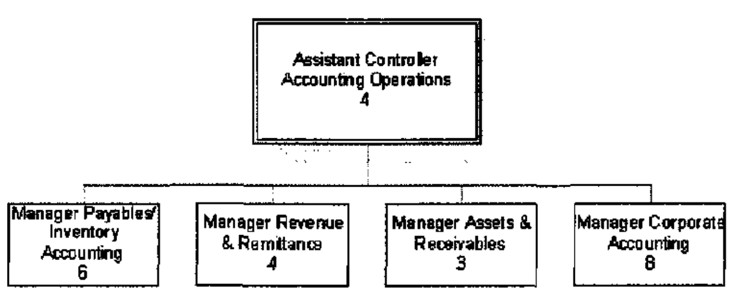
Director Group Accounting & Tax



Assistant Controller

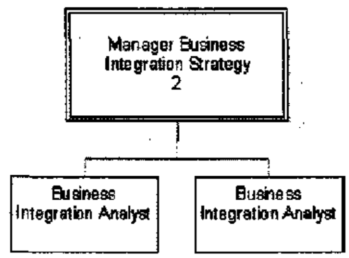


Assistant Controller Accounting Operations

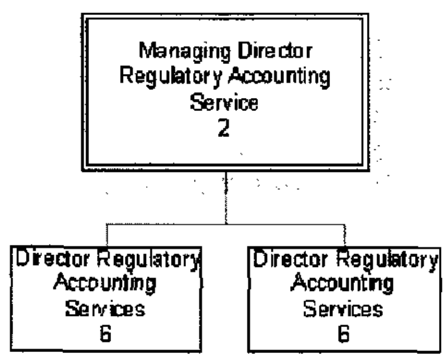


8

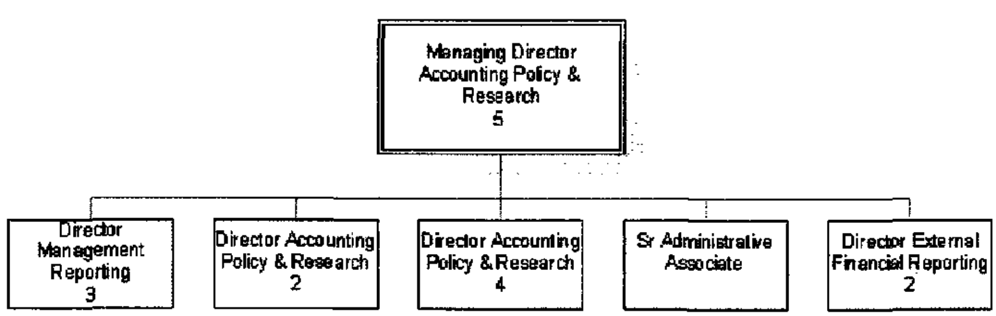
Manager Business Integration Strategy



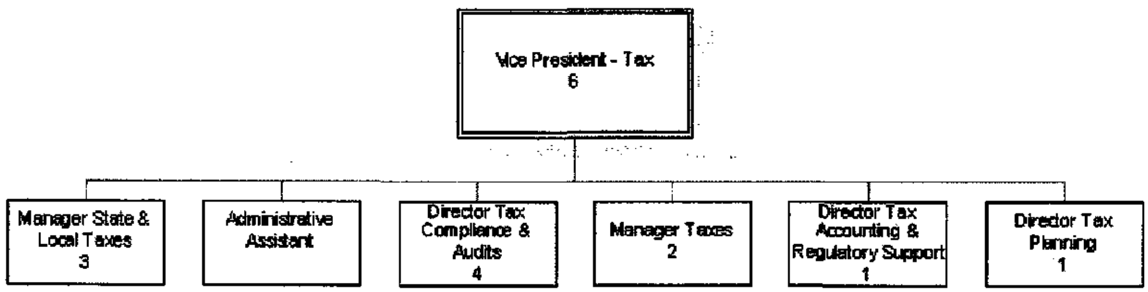
Managing Director Regulatory Accounting Services



Managing Director Accounting Policy & Research



Vice President Tax



American Electric Power
Subsidiaries Columbus Southern Power Company and Ohio Power Company, DBA as AEP Ohio
Summary of Compliance with Ohio Administrative Code
Chapter II Section (B) (9) (b) (iii and iv)
Executive Summary Applicant Utilities'
Management Policies, Practices and Organization Schedule S-4.2

Finance and Accounting

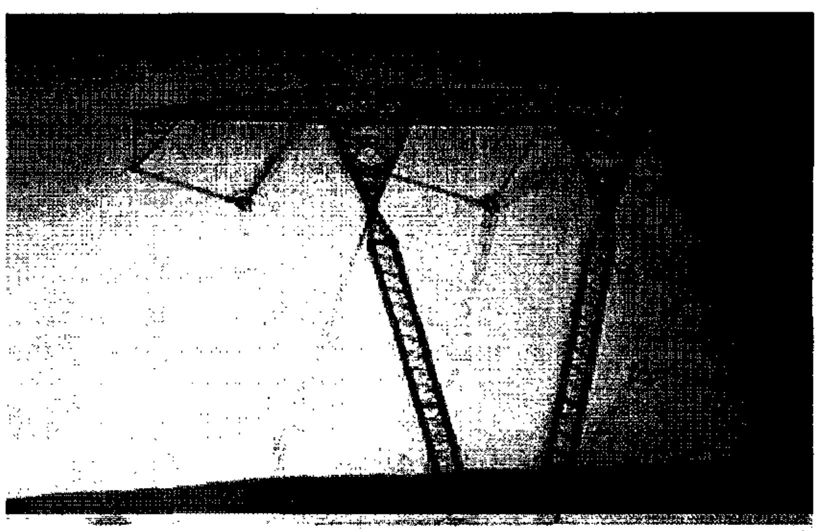
<u>SFR Reference</u>

(B)(9)(b)(iii)	Budgeting and Forecasting
(B)(9)(b)(iv)	Financial Planning Process and Objectives

Information regarding (B)(9)(b)(iii and iv) also is included in section (a) plant operations and construction.

AMERICAN ELECTRIC POWER

SIGNIFICANT ACCOUNTING POLICIES & PROCEDURES MANUAL



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LAST UPDATED 1/31/2010

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Policy/Procedure Title	Fixed Asset Policy and Conventions	Date	1/31/2010
Author:	Dave Hummel, Susannah Hannis, Paul Pennino, Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the Company's fixed asset accounting.

Policy/Procedure Statement

Accounting Policy

Fixed assets are capitalized according to their fair value. Note, FERC reporting requires regulated assets, purchased from a third party, to be recorded at their original cost and accumulated depreciation and a valuation adjustment booked to reflect fair value. In recent acquisitions of distressed generation at market prices below cost, the Company has recorded the valuation adjustment to accumulated depreciation. Fixed assets are tested for recoverability and/or impairment when a triggering event occurs. Asset retirement obligations are recorded at their fair value on the date the legal obligation exists. Leases are accounted for according to ASC 840-10 *Leases* and ASC 980-10 *Regulated Operations*.

Background

Depreciation / Amortization / Depletion -

Plant, property and equipment, excluding coal-mining properties, are depreciated on a straight-line method using composite group rates by electric plant account based on the following functional classes (regulated and nonregulated):

- Production
- Transmission
- Distribution
- General
- Other – (coal mining, nuclear fuel, etc.)

Note, the cost of removal and salvage credits are included in the depreciation rates of regulated business units.

Coal mining assets are depreciated, amortized and depleted over each asset's estimated useful life, or estimated life of the mine, whichever is shorter, using the straight line method for structures and equipment. The straight-line or units-of-production method is used to amortize mine development costs and deplete coal rights based on estimated recoverable tonnage.

Asset Retirement Obligations -

Upon establishment of a legal liability, ASC 410-20 *Asset Retirement Obligation* requires a corresponding asset retirement obligation (ARO) to be established, for which the cost will be depreciated and the obligation will be accreted over its useful life. The Company assesses ARO's annually. A conditional ARO has an unconditional obligation to perform the asset retirement activity even though uncertaintiy exists about the timing and (or) method of settlement. A liability for a conditional ARO is recognized if the fair value can be reasonably estimated. When an ARO is fully settled, the related asset, accumulated depreciation and liability are written-off and any gain or loss on the settlement is recognized in earnings, or recorded to Account 1080013 or regulatory asset/liability for certain regulated companies.

Testing for Impairment -

Quarterly the Company compiles an "Issues Book." The process involves all business units within American Electric Power, Inc. During the compilation process we ask each business unit whether any events have occurred that may trigger impairment of long-lived assets. A recoverability test and/or an impairment test is performed when triggering events are identified. Impairment is considered according to the following guidelines:

- ASC 360-980-35 *Accounting for Abandonments* is followed for abandonments and "recently completed" plants.
- ASC 360-10 *Impairment of Long Lived Assets* is followed for all other long lived assets.

Also, as part of the process, we ask that we be informed if one of the triggering events occurs outside of the formal quarterly compilation.

Allowance for Funds Used During Construction (AFUDC) and Interest Capitalization -

AFUDC represents the cost of financing construction as financed partially by borrowings and partially by equity, capitalized as part of the cost of plant and equipment pursuant to requirements of the regulator according to ASC 835-980-20 *Regulated Operations* and FERC Order No. 561. For nonregulated operations, including domestic generating assets, interest is capitalized during construction according to ASC 835-20 *Capitalization of Interest*.

Maintenance Costs -

The Company expenses maintenance costs as incurred. If it becomes probable that we will recover specifically incurred costs through future rates, we establish a regulatory asset to match the expensing of those maintenance costs with their recovery in cost-based regulatory revenues, such as nuclear fuel outages.

Leased Assets -

The Company leases plant, property and equipment for periods up to 60 years. The Company utilizes ASC 840-10-25 *Lease Classification Criteria* to determine whether a lease should be accounted for as a capital or operating lease. Capital leases for nonregulated property are accounted for as if the assets were owned and financed. For regulated property, both operating and capital leases are treated the same with regard to expense, in accordance with rate-making treatment for regulated operations. Regardless if regulated or nonregulated, capital leases are capitalized to the balance sheet as an asset and liability (refer to the regulatory policy memo for additional details).

Sale-leaseback transactions are accounted for in accordance with ASC 840-40 *Sale-Leaseback Transactions*. When a sale leaseback transaction involves real estate, the Company will follow the guidance of ASC 840-40-25 *Real Estate*.

Capital leases are accounted for according to ASC 840-30 *Capital Leases*. Regulated business units follow ASC 840-980 *Regulated Operations* which allows the Company to record capital lease payments as expense, similar to an operating lease, in lieu of recording leased asset depreciation and interest expense. Monthly, we record a monthly charge to accumulated amortization that is equal to the reduction in lease obligation. Leased accumulated amortization will always equal the lease obligation.

Nonregulated business units, including OP-Gen and CSP-Gen, record capital leases in accordance with ASC 840-30 *Capital Leases*. Monthly, the Company depreciates the capital lease using straight-line depreciation over the life of the lease and records the interest expense. The difference between the accumulated depreciation expense and the actual principal payment is disclosed. Capital leases, accounted for under ASC 840-30 *Capital Leases* are depreciated using the straight-line method over the life of the lease.

Leases are subject to a Master Lease Agreement that defines the type of equipment, maximum / minimum terms and algorithms to be used to determine the interest rate at inception. Each draw against the Master Lease Agreement is governed by an Individual Lease Record that sets the lease terms for that separately identifiable transaction. Each lease is recorded when the interest rate and lease terms are known. The Company records the related short-term and long-term liabilities at the NPV of the future minimum lease payments. If the interest rate and / or terms are not known, quarterly, the Company records the lease assuming a 4-year lease life and a NPV equal to 100% of the financed amount.

Gain/Loss Recognition –

Regulated business units book retirements from the plant accounts and associated removal costs, net of salvage, is charged to accumulated depreciation. Gains and losses on disposal and sale are charged to accumulated depreciation unless an asset constituting an operating unit or system is sold, conveyed or transferred to another party where the utility will file with FERC to record proposed journal entries. Gain and loss on land sale and/or disposal is booked to the consolidated statement of income. Under FERC, gains and losses are included "below the line" in other income.

Nonregulated business units account for fixed asset retirements and disposals by removing the asset and accumulated depreciation from the consolidated balance sheet. [Note: The NBV of the retired asset remains in accumulated depreciation.] Utility fixed asset continuous interim routine replacements, under the group composite method of depreciation, are charged to accumulated depreciation at their original cost less, salvage. A gain or loss would be recorded if the retirement was not considered an interim routine replacement. Under GAAP gains and losses are included in operating income. Note, gains and losses are recorded in the income statement for any retirements in the AEP River Operations and Generation [Note: Only if not an interim routine replacement for generation.] and Marketing segments.

Overhead Cost Capitalization -

Construction overhead charges are capitalized in steam and hydro generation, nuclear generation, transmission and distribution work orders. These charges represent salaries and expenses of the Service Corporation and the Company's administrative and general, engineering, supervision and related drafting and technical work applicable to construction but not specifically related to individual construction projects.

Construction overhead charges are spread on a monthly basis to all applicable construction projects in proportion to the direct costs charged to such projects.

Authoritative Guidance

Fixed assets are accounted for according to, but are not limited to, the following authoritative guidance.

- FERC *Accounting and Reporting Requirements for Public Utilities and Licenses*
  - Details FERC accounting and reporting requirements.
- CON 6 *Elements of Financial Statements*
  - Authoritative literature for defining an asset.
- ASC 840-10 *Leases*
  - Authoritative literature establishing standards of financial accounting and reporting for leases by lessees and lessors.
- ASC 840-40 *Sale-Leaseback Transactions*
  - Authoritative literature requires the seller to recognize some profit or loss in either of the following limited circumstances: 1). If the seller retains the use of only a minor portion of the remaining use of the property sold, 2). If the seller retains more than a minor part but less than substantially all of the use of the property through the leaseback and the profit on the sale exceeds the present value of the minimum lease payments called for by the leaseback for an operating lease or the recorded amount of the leased asset for a capital lease, 3). The fair value of the property at the time of the transaction is less tat its undepreciated cost, in which circumstance a loss shall be recognized immediately.

- ASC 835-20 *Capitalization of Interest*
    - Authoritative literature establishes standards of financial accounting and reporting for capitalizing interest cost as a part of the historical cost of acquiring certain assets.
- ASC 980-10 *Regulated Operations*
    - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains, losses and capitalization of an allowance for funds used during construction (AFUDC) for regulated business units.
- ASC 360-980-25 *Accounting For Abandonments*
    - Authoritative literature specifies the accounting for plant abandonments and disallowances of costs of recently completed plants. It also provides guidance for the capitalization of an allowance for funds used during construction
- ASC 840-40-25 *Real Estate*
    - Statement specifies the accounting by a seller-lessee for a sale-leaseback transaction involving real estate, including real estate with equipment.
- ASC 410-20 *Asset Retirement Obligation*
    - Authoritative literature for accruing costs associated with the retirement of a long-lived asset when a legal obligation exists.
    - Clarifies the term "conditional asset retirement obligation" used in SFAS 143.
- ASC 360-10 *Impairment of Long Lived Assets*
    - Authoritative literature for testing fixed assets for impairment and accounting for fixed assets that are to be disposed of.
- ASC 820-10 *Fair Value Measurements*
    - Authoritative literature that defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles (GAAP).
- ASC 840-10-25 *Lease Classification Criteria*
    - Authoritative literature used to determine whether an arrangement contains a lease.
- ASC 805-20-55 *Mining Assets Acquired in a Business Combination*
    - Authoritative literature providing guidance on determining whether mineral rights are tangible or intangible assets.
- ASC 930-805-30 *Business Combinations*
    - Authoritative literature to determine whether an entity should include value beyond proven and probable reserves (VBPP) and the effects of anticipated fluctuations in the future market price of minerals when (a) allocating the purchase price of a business combination and (b) testing a mining asset for impairment.

Conventions

The following are some of the accounting conventions existing within the property, plant and equipment process.

- Fixed assets depreciation commences on the 1st of the month following their in-service transfer.
- AFUDC Conventions:
    - AFUDC is recorded after month-end based on the prior month ending CWIP balance plus one half of the current month CWIP charges.
    - Minimum dollar amount required in the estimate to calculate AFUDC is zero.
    - Minimum number of estimated months of a work order required for calculation of AFUDC is zero.
    - One half month of AFUDC is taken in the in-service month.
    - For prior period in-service dates, there is no AFUDC reversal for the in-service month (leaves the in-service month with a full month's AFUDC).
- Depreciation expense is recorded using the straight-line method, generally using composite or group rates by functional class.
    - Exception coal mining assets:
        - Straight-line method for mining structures and equipment.

  - Straight-line or units-of-production method to amortize mine development costs and deplete coal rights.
- The Company performs quarterly reviews of advance payment credits in jobbing work orders. If the net advance payment credit balance for any company is deemed to be material then the advance payment credits in excess of construction charges would be reclassified to a customer deposit account. This only applies to advance payments, all other credits in CWIP remain.
- Leases: If the interest rate and / or terms are not known, quarterly, the Company records the lease assuming a 4-year lease life and a NPV equal to 100% of the financed amount. This is subsequently reviewed until finalized.

Approved By

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Policy/Procedure Title	Financial Reporting Policies and Conventions	Date	1/31/2010
Author:	Tyler Ross, Mike Baird, Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support financial reporting.

Policy/Procedure Statement

Accounting Policy

The Company's financial reporting policies and procedures are in accordance with the requirements set forth by the Securities and Exchange Commission (SEC) Regulation S-X, the Federal Energy Regulatory Commission (FERC) and the Financial Accounting Standards Board (FASB).

Background

Principles of Consolidation -

Our consolidated financial statements include AEP and its wholly-owned and majority-owned subsidiaries consolidated with their wholly-owned subsidiaries or substantially-controlled variable interest entities (VIEs). The Company accounts for VIEs in accordance with ASC 810-10 *Consolidation.* Intercompany items are eliminated in consolidation. Equity investments not substantially-controlled that are 50% or less owned are accounted for using the equity method of accounting. We also have generating units that are jointly-owned with nonaffiliated companies. Our proportionate share of the operating costs associated with such facilities is included on our Consolidated Statements of Income and our proportionate share of the assets and liabilities are reflected on our Consolidated Balance Sheets.

Statement of Income -

The Company reports its period income statement using the SEC commercial form according to SEC Regulation S-X. The SEC provides public utility registrants an exception to file under FERC rules, form and regulation. The Company has elected the SEC commercial form.

Balance Sheet -

The Company reports its period balance sheet using the SEC commercial form according to SEC Regulation S-X.

Statement of Cash Flows -

The statement of cash flows is prepared in accordance with ASC 230-10 *Statement of Cash Flows.*

Off-balance Sheet Arrangements -

Under a limited set of circumstances, we enter into off-balance sheet arrangements for various reasons including accelerating cash collections, reducing operational expenses and spreading risk of loss to third parties. Our current guidelines restrict the use of off-balance sheet financing entities or structures to traditional operating lease arrangements and sales of customer accounts receivable that we enter in the normal course of business. We disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships in accordance with SEC requirements.

Business Segments –

The Company accounts for business segments in accordance with ASC 280-10 *Segment Reporting*. We have identified 3 business segments that we consider to be representative and inclusive of our significant ongoing business activities.

- Utility Operations
- AEP River Operations
- Generation and Marketing

Note: activities of the Company that do not fall within the above 3 business segments are presented as "All Other." All Other includes:

a) Parent company's guarantee revenue received from affiliates, investment income, interest income and interest expense and other nonallocated costs.
b) Tax and interest expense adjustments related to AEP's UK operations and SEEBOARD, which were sold in 2004 and 2002 respectively.
c) Forward natural gas contracts that were not sold with AEP's gas pipeline and storage operations in 2004 and 2005.
d) Revenue sharing related to the Plaquemine Cogeneration Facility, which was sold in 2006.
e) The 2008 cash settlement of a purchase power and sale agreement with TEM related to the Plaquemine Cogeneration Facility.

Quantifying Misstatements –

The Company performs an ASC 250-10 *Accounting Changes* analysis quarterly which includes consideration of management estimates which the Company considers significant and for which the actual amount is known prior to filing.

Authoritative Guidance

Financial reporting is performed in accordance with, but not limited to, the following authoritative guidance. (Note, other specific GAAP references, also applicable, are referred to in other policy and convention memos)

- ASC 323-10 *Equity Method and Joint Ventures*
  - Authoritative literature for accounting for investments in the common stock of entities other than subsidiaries, namely corporate joint ventures and other noncontrolled entities.
- ASC 810-10 *Consolidation*
  - Authoritative literature for consolidating financial statements.
  - Authoritative literature to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary
  - Authoritative literature that addresses consolidation by business enterprises of variable interest entities
- ASC 405-980 *Regulated Operations*
  - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains and losses for regulated business units.
- ASC 230-10 *Statement of Cash Flows*
  - Authoritative literature that establishes standards for cash flow reporting.
- ASC 505-50 *Equity-Based Payments for Non Employees*
  - Authoritative literature that establishes standards for which an entity exchanges goods or services with nonemployees,and is to recognize in the financial statements the most reliably measurable fair values of such transactions. In addition, concurrent disclosure about the financial statement effect of share-based payment transactions, including how such fair values were determined and their effect on cash flows, are also objectives for this accounting
- ASC 280-10 *Segment Reporting*

- Authoritative literature that provides guidance to public business entities on how to report certain information about operating segments in complete sets of financial statements of the public entity and in condensed financial statements of interim periods issued to shareholders. It also requires that public entities report certain information about their products and services, the geographic areas in which they operate, and their major customers.
- ASC 805-10-10-01 *Business Combinations*
  - Authoritative literature that improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.
- ASC 250-10 *Accounting Changes*
  - Authoritative literature that provides guidance on the accounting for and reporting of accounting changes and error corrections. This guidance also establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. In addition to guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable

Conventions

The following are some of the accounting conventions existing within the financial reporting process.

- The Company files a combined 10K/10Q including all registrants. AEP is a standalone separate section "A". The MD&As and Financial Statements for OPCo, CSPCo, I&M, APCo, PSO and SWEPCo are included in separate sections "B-G". Sections "H and I" include the combined footnotes and additional MD&A items for the six subsidiary registrants.
- We follow reduced disclosure rules under General Instruction I. (1) (a)-(b) for 10K/10Q for qualified subsidiaries I&M and CSPCo.

Approved By

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Policy/Procedure Title	Regulatory Accounting Policy and Conventions	Date	1/31/2010
Author:	Len Assante, Tom Mitchell, Jeff Brubaker, Randall Hamlett, and Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the regulatory accounting process.

Policy/Procedure Statement

Accounting Policy

The Company accounts for rate-regulated transactions according to the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USofA) and the Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards (SFAS) as codified in the FASB Accounting Standards Codification (ASC) manual and SEC pronouncements. The Company's mostly cost-based regulated business units practice regulatory accounting to reflect the economics of cost based regulation in its financial statements. The Company's regulatory accounting is based on ASC 450 *Contingencies*, ASC 980 *Regulated Operations* ASC 980-340 *Other Assets and Deferred Costs*, ASC 980-20 *Discontinuation of Rate-Regulated Accounting*, ASC 360 *Property, Plant, and Equipment* ASC 840-40-55 *Sale-Leaseback Transactions>Implementation Guidance and Illustrations*, ASC 980-605-25 *Revenue Recognition*, ASC 980-715 *Retirement Benefits*, ASC 980-715-25-8 *Accounting for Regulatory Assets when Criteria Are Met in a Subsequent Period*, ASC 980-20-35 *Discontinuation of Rate-Regulated Accounting>Subsequent Events*. Where the FERC accounting principles differ from those of the FASB the Company reports to the SEC and the investing public in accordance with GAAP as promulgated by the FASB and the SEC and reports to the FERC and state Commissions in accordance with the FERC USofA.

Background

<u>GAAP Regulatory Accounting -</u>

AEP's electric operating companies, or just their Transmission and Distribution business units if their generation/supply business unit is not cost-based regulated and the AEP Service Corp (AEPSC) are cost-based regulated and, therefore, meet the criteria in ASC 980 *Regulated Operations* to practice regulatory accounting, in order to reflect the economics of the ratemaking process in the Company's financial statements. This is accomplished in ASC 980 *Regulated Operations* by matching in the same accounting period, incurred costs and income/refunds with the regulated revenues recovering those incurred costs or refunding that income. The matching is accomplished by deferring incurred expenses and incurred losses that are probable of recovery in the future, as regulatory assets and amortizing those regulatory assets to expense in future accounting period(s) commensurate with their recovery in regulated revenues and by deferring income and other amounts to be refunded to customers as regulatory liabilities to be amortized and recognized when regulated revenues are reduced in the future to refund the regulatory liabilities.

In order for a cost to be deferred as a regulatory asset it must be an incurred cost. However, ASC 980-605-25 *Revenue Recognition* permits the Company to defer as regulatory assets non-incurred costs, such as lost revenues under demand side management programs and incentive revenues under certain incentive ratemaking plans provided such revenues will be recovered automatically within 24 months of the end of the period in which the deferral is recorded. ASC 980-715-25-8 *Accounting for Regulatory Assets when Criteria Are Met in a Subsequent Period* permits the Company to recognize, a cost that does not meet the asset recognition criteria in ASC 980 *Regulated Operations* at the date the cost is incurred, a regulatory asset when it does meet those criteria at a later date. The Company reviews its regulatory assets for probability of recovery at every balance sheet date in accordance with ASC 980 *Regulatd Operations*. If, due to new events, the future recovery or refund becomes impaired, i.e. is no longer probable, the impaired portion of the subject regulatory asset or regulatory liability is reversed and recognized in earnings.

The Company records provisions for losses or refunds when it is probable, under ASC 450 *Contingencies*, that it has a liability or a loss. The provision can result in a regulatory liability if it is probable that a refund to customers will be required.

With regard to regulatory asset impairments the Company follows ASC 980-340-35-1 *Effect of Rate Action on Asset Value*, which indicates that if the rate actions of a regulator reduces or eliminates the value of an asset, for example by excluding its recovery as an allowable cost in setting rates, the carrying amount of the asset shall be reduced to the extent of the excluded cost. Whether other assets have been impaired is judged in the same manner as for an enterprise in general, ASC 360 *Property, Plant, and Equipment* applies. However, there is one exception, i.e. if a regulator allows recovery of a cost previously disallowed (excluded from allowable costs for ratemaking purposes) the Company would recognize a new asset to the extent it is probable that it will be recovered in future regulated rates.

In accordance with ASC 980 *Regulated Operations*, the Company accrues a debt and equity allowance to finance construction called an Allowance for Funds Used During Construction (AFUDC) if the cost of the plant is probable to be recovered in cost- based regulated rates when it goes in service through allowable depreciation expense.

Also in accordance with ASC 980 *Regulated Operations*, the Company does not eliminate inter-company profit on affiliated goods and services if the regulated sales price is reasonable (acceptable to the regulator) and if it is probable that it will be recovered through the ratemaking process.

In addition, the company recognizes lease payments as lease expense in determining earnings under capital leases when the regulator includes the lease payments in allowable costs for ratemaking purposes, in lieu of expensing the depreciation of the capitalized lease assets and the interest on the lease. Assets under capital leases are capitalized at the Net Present Value of the remaining lease payments, along with the obligation. We amortize the capital asset at the same amount as the principal reduction of the capital lease obligation.

In accordance with ASC 980-360 *Property, Plant, and Equipment*, the Company discounts any regulatory asset to recover abandoned, disallowed, or cancelled plant costs if the resultant regulatory asset does not earn a reasonable return. In accordance with ASC 980-340 *Other Assets and Deferred Costs*, the company would not defer, as a regulatory asset, newly completed plant expenses even if they were deferred for ratemaking purposes and are probable of recovery in future regulated rates. Also, in accordance with ASC 980-340 *Other Assets and Deferred Costs*, the Company does not record a regulatory asset nor recognize in income the equity component of a carrying cost regulatory asset until the carrying cost is billable to customers except during construction.

When business units are no longer cost-based regulated or when they start a transition to non-cost based rate regulation per ASC 980-20-35 *Discontinuation of Rate-Regulated Accounting; Subsequent Measurement*, the Company discontinues ASC 980 *Regulated Operations* regulatory accounting in accordance with ASC 980-20 *Discontinuation of Rate-Regulated*. ASC 980-20 requires recognition, as an extraordinary loss, of an impairment of regulatory assets and plant costs if it is probable that they are, or will no longer be recoverable in cost-based regulated rates. If a regulatory liability is no longer refundable to customers it is also written-off as an extraordinary item.

If a business unit which is no longer cost based regulated, is returned to cost based regulation, the Company reapplies ASC 980 *Regulated Operations* regulatory accounting. If ASC 980 is reapplied, the Company is required to recognize regulatory assets and / or recognize regulatory liabilities, and the

Company would charge or credit an extraordinary item consistent with ASC 980-20 *Discontinuation of Rate-Regulated Accounting.*

FERC / GAAP (FASB) Differences –

The FERC is an independent federal agency that, among other things administers accounting and reporting to the FERC in the wholesale jurisdiction and in those state retail jurisdictions that have adopted the FERC USofA. AEP's eleven state retail Commissions have adopted the FERC USofA. For the most part the FERC USofA is consistent with Generally Accepted Accounting Principles (GAAP). However, the FERC's guidance, rulemakings and accounting releases, as codified in the FERC USofA, may result in recording certain transactions in a different manner than required by GAAP as administered by the FASB and the SEC. For example, gains and losses from the sale of assets are recorded in operating income for GAAP purposes and in other income for FERC purposes. Another difference is that FERC Form 1 financial statements are on the equity basis, i.e. they are not consolidated as required by GAAP. The Company's account structure allows for both FERC and GAAP reporting where differences exist.

Authoritative Guidance

Regulatory transactions are recorded according to, but not limited to, the following authoritative guidance.

- Code of Federal Regulations, Subchapter C- Accounts Federal Power, Part 101-Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act (The FERC USofA)
- ASC 450– *Contingencies*
  - Authoritative literature that establishes standards of financial accounting and reporting for loss contingencies.
- ASC 980– *Regulated Operations*
  - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains and losses for regulated business units.
- ASC 980-360 – *Regulated Operations – Property, Plant, and Equipment*
  - Authoritative literature that specifies the accounting for plant abandonments and disallowances of costs of recently completed plants. It also provides guidance for the capitalization of an allowance for funds used during construction.
  - Authoritative literature for testing fixed assets for impairment and accounting for fixed assets that are to be disposed of.
- ASC 980-340 – *Regulated Operations – Other Assets and Deferred Costs*
  - Authoritative literature for accounting for regulator phase-in plans for recovery of allowable costs of a new plant and provides guidance on timing of negotiation of equity returns.
- ASC 980-20 – *Regulated Operations - Discontinuation of Rate-Regulated Accounting*
  - Authoritative literature specifying how an enterprise that ceases to meet the criteria for application of ASC 980, to all or part of its operations, should account for and report that event in its external financial statements.
- FASB ASC 840-40-55 – *Sale-Leaseback Transactions-Implementation Guidance and Illustrations*
- ASC 980-605-25– *Revenue Recognition*
- ASC 980-715– *Compensation-Retirement Benefits*
  - Authoritative literature for accounting for regulatory assets related to ASC 340 costs for rate-regulated enterprises meeting the criteria of ASC 980.
  - Refer to "Pension and OPEB" policy memo.
- ASC 980-715-25-8– *Accounting for Regulatory Assets when Criteria Are Met in a Subsequent Period*
  - Authoritative literature conceding that a cost that does not meet the asset recognition criteria in ASC 980-340-25-1 *Recognition of Regulatory Assets* at the date the cost is

incurred should be recognized as a regulatory asset when it does meet those criteria at a later date.

- ASC 980-20-35– *Discontinuation of Rate=Regulated Accounting-Subsequent Measurement*

Conventions

The following are some of the accounting conventions existing within the regulatory accounting process.

- When establishing a regulatory asset with numerous different expense accounts being deferred, we generally credit only the expense account with the largest amount being deferred if that amount is significant.
- When recording a provision for refund, only prior year amounts are recorded to the provision for refund account. Current year amounts are recorded in the normal revenue accounts.
- Deferred fuel accounting entries follow a history that is consistent with each jurisdiction's preferences. Thus, actual accounts used to record deferred fuel may differ between jurisdictions. However, for SEC purposes beginning in 2008, these over/under revenues are presented as fuel expense.
- For multi-jurisdictional utilities such as APCo, I&M and SWEPCO, AFUDC equity is based on a blended ROE rate granted by the different jurisdictions.
- For multi-jurisdictional utilities such as APCo, I&M and SWEPCO, depreciation expense is calculated using a blended depreciation rate based on the different depreciation rates ordered by the various jurisdictions.
- When carrying charge regulatory assets include a debt and equity component, the debt portion of the weighted average cost of capital (WACC) used to calculate the carrying charge is equivalent to the nominal cost of debt. The equity portion of the WACC is the difference between the overall pre-tax WACC and the nominal debt cost.
- Amortization of capital leases assets is recorded at the same amount as the reduction in principal.
- Regulatory assets and liabilities are generally classified as long-term except for under/over recovery of fuel which is generally classified as current unless there is a phase-in plan.

Approved By

Policy/Procedure Title	Treasury Policies and Conventions	Date	1/31/2010
Author:	Debbie Laws, Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the treasury process.

Policy/Procedure Statement

Accounting Policy

Cash and cash equivalents include temporary cash investments with original maturities of three-months or less. Other temporary cash investments include marketable securities which the Company intends to hold for < 1 year and funds held by trustees primarily for the payment of debt. Term debt is classified in the Consolidated Balance Sheet according to its maturity date, current = < 1 year and long-term = > 1 year. If it is the Company's intention to refinance a debt issue, and we have the ability to refinance on a long term basis, that obligation that may be due within 1-year is classified as a long-term liability.

Background

Cash & Cash Equivalents -

Cash and cash equivalents are temporary investments with maturities of 3 months or less.

Trust Accounts -

Cash deposits held in trusts are reflected as restricted cash until the requirements as set forth in the trust are met.

Equity Investments-Foreign Currency Translation -

Any investments outside the U.S. that are accounted for under the equity method of accounting are measured using the local currency as the functional currency and are translated into U.S. dollars in accordance with ASC 830 *Foreign Currency*. Revenues and expenses are translated at monthly average FX rates, unless a specific rate can be identified through an event. Assets and liabilities are translated at the period end FX rate. Currency translation gain and loss adjustments are recorded in AOCI.

Other Temporary Investments (OTI) -

This investment classification includes marketable securities that the Company intends to hold for < 1 year and funds held by trustees primarily for the payment of debt. Investments in marketable securities are classified as available-for-sale or held-to-maturity, in accordance with ASC 320-10 *Investments*. Available-for-sale securities in OTI are held at fair value. Unrealized gain or loss is reported net of tax in other comprehensive income, realized gains and losses are reported in earnings, according to ASC 320-10 *Investments*. Held-to-maturity securities in OTI are carried at amortized cost. The cost of securities sold is based on specific identification or the weighted average cost method.

If the Company determines a decline the fair value of an available-for-sale or held-to-maturity investment to be other than temporary, the cost basis of the individual security will be written down to fair value as a new cost basis and the amount of the write-down is included in earnings.

Nuclear Decommissioning Trust Fund (NDTF) and Spent Nuclear Fuel Trust Fund Investments -

We record securities held in these trust funds as Spent Nuclear Fuel and Decommissioning Trusts on our Consolidated Balance Sheets. We record these securities at market value and classify them in the trust funds as available-for-sale, due to their long-term purpose. In accordance with ASC 320-10-35-30 *Investments – Debt and Equity Securities*, we consider all NDTF and spent nuclear fuel trust fund investments in unrealized loss positions to be other-than-temporary impairments because we do not have unilateral discretion to hold or sell the securities.

Thus, effective in 2006, the other-than-temporary impairments are considered realized losses and will reduce the cost basis of the securities which will affect any future unrealized gain or realized gains or losses. We record unrealized gains and losses and other-than-temporary impairments from securities in these trust funds as adjustments to the regulatory liability account for the nuclear decommissioning trust funds and to regulatory assets or liabilities for the spent nuclear fuel disposal trust funds in accordance with their treatment in rates.

Term Debt –

Lines of Credit and Short-Term Debt

- The corporate borrowing program is used to meet the short-term borrowing needs of our subsidiaries. The Company uses credit facilities including commercial paper and lines of credit to support the short-term corporate borrowing program. Term debt payments due within 1 year are classified as short-term. Note: regulatory orders limit the amount of corporate borrowings and external borrowings a subsidiary may enter into.

Long-Term Debt

- Term debt principal payments due greater than 1 year into the future are classified as long-term. Note: regulatory orders limit the amount of corporate borrowings and external borrowings a subsidiary may enter into.

Debt Discount or Premium and Issue Costs

- The Company generally elects to amortize these using the straight-line method as we have determined it approximates the effective interest method and it is consistent with the treatment in rates for regulated operations. Amortization expense is included in interest expense. According to ASC 835-30-35 *Accounting for Debt Discounts and Issuance Costs on Callable Debt* issue costs are deferred and amortized over the life of the debt.

Gains and Losses on Reacquisition

- (Regulated) The Company amortizes the deferral of reacquisition gains and losses over the remaining term of the reacquired debt unless the debt is refinanced. If debt is refinanced, the refinancing costs of the business subject to cost-based regulatory accounting are generally deferred and amortized over the term of the replacement debt consistent with its recovery in rates, noting some jurisdictions may require different treatment.
- (Non-regulated) The Company reports gains and losses on reacquisition of debt in interest expense. Accounting for debt refinancing, as well as any deferred debt issue costs and balance of premium or discount is performed in accordance with ASC 470-50 *Modifications and Extinguishments*.

Debt Covenants

- The Corporate Finance Group performs the required debt covenant calculations quarterly to ensure compliance with the Company's debt agreements.

Hybrid Debt Instruments -

Hybrid debt instruments include items such as preferred stock and convertible debt instruments, which are accounted for according to ASC 480 *Distinguishing Liabilities from Equity*. The Company presents preferred stock in the mezzanine section of the Consolidated Balance Sheet. Where reflected in regulatory rates, redemption premiums paid to reacquire preferred stock of certain Registrant Subsidiaries are included in APIC and the premiums are amortized to retained earnings commensurate with its recovery in rates. We credit the excess of par value over the costs of preferred stock reacquired to APIC and reclassify the excess to retained earnings upon redemption of the entire series of preferred stock. For nonregulated subsidiaries we credit the excess of par value over the costs of reacquired preferred stock directly to retained earnings. Monthly we record dividends declared and accrue dividends payable.

Cash Flow Hedging -

Certain qualifying wholesale marketing and risk management derivative transactions are designated as hedges of variability in future cash flows as a result of forecasted transactions (cash flow hedge). We initially record the effective portion of the cash flow hedge's gain or loss as a component of Accumulated Other Comprehensive Income (Loss) (ACOI). When the forecasted transaction is realized and affects earnings, we subsequently reclassify the gain or loss in AOCI on the hedge into revenues or expenses on the Consolidated Statements of Income, within the same financial statement line item as the forecasted transaction. We recognize the ineffective portion of the gain or loss in revenues or expense, depending on the specific nature of the associated hedged risk, on our Consolidated Statements of Income immediately, except in those jurisdictions subject to cost-based regulation. In those regulated jurisdictions we defer the ineffective portion as regulatory assets (for losses) and regulatory liabilities (for gains).

Authoritative Guidance

Treasury transactions are accounted for according to, but are not limited to, the following authoritative guidance.

- CON 6 – *Elements of Financial Statements*
  - Authoritative literature for defining assets and liabilities.
- ASC 835-30-35 *Accounting for Debt Discounts and Issuance Costs on Callable Debt*
  - Authoritative literature that discusses interest on receivables and payables and the FASB Board's opinion regarding the accounting for such items.
- ASC 470-10-45 *Debt > Other Presentation*
  - Authoritative literature that specifies the correct classification of short-term obligations and short-term obligations that are expected to be refinanced.
- ASC 440-10-50-2 *Unconditional Purchase Obligations*
  - Authoritative literature that requires that an enterprise disclose its commitments under unconditional purchase obligations that is associated with suppliers' financing arrangements.
- ASC 830 *Foreign Currency Matters*
  - Authoritative literature that establishes revised standards of financial accounting and reporting for foreign currency transactions and translating foreign currency financial statements.
- ASC 980 *Regulated Operations*
  - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains and losses for regulated business units.
- ASC 320-10 *Investments*
  - Authoritative literature addressing the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities.
- ASC 480 *Distinguishing Liabilites from Equity*
  - Authoritative literature for determining how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity.
- ASC 470-50 *Modifications and Extinguishments*
  - Authoritative literature for determining if an exchange or modification of debt instrument(s) should be accounted for using modification or extinguishment accounting or both.

Conventions

The following are some of the accounting conventions existing within the treasury process.

- Nuclear Decommissioning Trust and Spent Fuel Trust account balances are closed based on the prior month's statements, due to timing of receipt of the trust statements.

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Policy/Procedure Title	Revenue and Receivables Policies and Conventions	Date	1/31/2010
Author:	Charles Oberlin, Diana Gregory, Russell Doyle, Andrew Reis, Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the revenue and receivables process.

Policy/Procedure Statement

Accounting Policy

Revenue is recognized when the earning process is complete according to the guidelines set forth in the appropriate authoritative literature.

Background

Overview -

The earnings process is determined according to the transaction in question.

- Traditional electric supply and delivery revenue is earned when delivery occurs.
- Regulated business units will recognize expenses, reimbursements, gains and losses in the same period as the related revenue.
- Energy marketing and risk management revenue is earned based on the following:
    - Derivative – MTM until settlement.
    - Derivative (Normal) - when delivered.
    - Derivative (Cash flow hedge) – MTM in OCI, then in earnings when the hedged item affects earnings
    - Non-Derivative – when delivered.
- Purchased power and sale contracts are accounted for using MTM, hedge or accrual accounting depending on the type of contract and how it is settled (similar to risk management revenue above).
- Barging activities revenue is earned according to the percentage-of-completion of contracts (in miles).
- Construction project revenue is earned when costs are incurred based on percentage-of-completion accounting.
- The FERC regulated Power Pools, System Integration Agreement (SIA) and the System Interim Allowance Agreement allocate shared system costs and revenues to each of the utility subsidiaries that are parties to the respective agreements.
- PJM is the Regional Transmission Organization (RTO) operating in the East service territory, which functions as an exchange. Power is sold to the RTO and purchased back to supply the Company's load. These power sales and purchases are reported on a net basis.

Regulatory Accounting -

The Company recognizes regulatory assets (deferred expenses to be recovered in the future) and regulatory liabilities (deferred future revenue reductions or refunds) for the economic effects of regulation. Specifically, we match the timing of our expense recognition with the recovery of such expenses in regulated revenues. Likewise, we match income with the regulated revenues from our customers in the same accounting period. We also record regulatory liabilities for refunds, or probable refunds, to customers that have not been made.

Unbilled Revenue -

The Company records revenues when energy is delivered to the customer. The determination of sales to individual customers is based on the reading of their meters, which we perform on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the last meter reading are estimated and the corresponding unbilled revenue accrual is recorded. The estimate is reversed in the following month and actual revenue is recorded based on meter readings. Recordation of the fuel portion of unbilled revenue is in accordance with the applicable state commission regulatory treatment, for example various jurisdictions do not allow for the fuel portion to be included in unbilled revenue.

Estimated Receivables -

Estimated billed revenues are recorded for large commercial and industrial customer billings that were not entered into the Customer Information System (CIS) before the end of the month cutoff day. (These differ from unbilled revenues in that the meters are read and billings are to be rendered prior to closing).

Power Pool Activity -

The FERC regulates the activity of the East (AEP System Power Pool "Interconnection Agreement"), West ("CSW Operating Agreement") and the System Integration Agreement (SIA). The SIA integrates and coordinates internal sales and expenses between the East and West Pools. Internal costs and revenues allocated within and between the East and West Pools are accounted for as related party transactions and are eliminated in total in AEP's consolidated revenues and expenses.

Revenues and costs arising from certain 3rd party wholesale sales are generally shared within the respective pools that serve those sales. East Pool sales are allocated based on member load ratios (MLR's). West Pool sales are shared based on specific participation in each sale. Sales not dedicated to either pool or to a specific operating company are shared in accordance with the SIA, as modified April, 2006.

Revenues and costs may also be dedicated to a specific East or West operating company. These transactions are entered into as dedicated versus as an East transaction based on MLR's or West transaction based on peak load ratios. These transactions normally are entered as dedicated because the sale or purchase is being modeled against a specific supply or demand need for an operating company.

Transmission Agreements -

The AEP System Transmission Integration Agreement serves to integrate and coordinate the planning, operation and maintenance of the transmission facilities within the East and West companies. The agreement governs the allocation of transmission costs and revenues and the allocation of third-party transmission costs and revenues and System dispatch costs.

The Company integrates and coordinates the planning, operation, and maintenance of the transmission facilities within the East and West companies. The East companies operate under the "Transmission Equalization Agreement" for extra high voltage & 138 KV lines plus extra high voltage and sub extra high voltage facilities and stations. Under this agreement, the East companies' settle the cost of capital associated with one member having surplus transmission investment that aids another member of the pool who is in a deficit position compared to their MLR. These associated revenues and costs are internal, accounted for as related party transactions and are eliminated in total in AEP's consolidated expenses. The West companies are part of the "Transmission Coordination Agreement" which allows the West companies to share transmission revenue based on the Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT).

PJM and the Southwest Power Pool (SPP) -

PJM and SPP operate the transmission grid for the East and West Pools. The Companies within the Pools pay PJM and SPP for transmission service for internal load and receive back, on an allocated basis, transmission revenues. The PJM settlement is recorded net in revenues. The SPP settlement is recorded net in revenues for transmission surplus companies and net in operating expense for transmission deficit companies.

Accounting for Derivative Instruments –

The Company recognizes revenues and expenses from wholesale marketing and risk management transactions that are not derivatives upon delivery of the commodity. We use MTM accounting for wholesale marketing and risk management transactions that are derivatives unless the derivative is designated in a qualifying cash flow or fair value hedge relationship, or as a normal purchase or sale. We include the unrealized and realized gains and losses on wholesale marketing and risk management transactions that are accounted for using MTM in Revenues on a net basis. In jurisdictions subject to cost-based regulation, we defer the unrealized MTM amounts as regulatory assets (for losses) and regulatory liabilities (for gains).

Certain qualifying wholesale marketing and risk management derivative transactions are designated as hedges of variability in future cash flows as a result of forecasted transactions (cash flow hedge) or as hedges of a recognized asset, liability or firm commitment (fair value hedge). We recognize the gains or losses on derivatives designated as fair value hedges in revenues in the period of change together with the offsetting losses or gains on the hedged item attributable to the risks being hedged. For derivatives designated as cash flow hedges, we initially record the effective portion of the cash flow hedge's gain or loss as a component of Accumulated Other Comprehensive Income (Loss). When the forecasted transaction is realized and affects earnings, we subsequently reclassify the gain or loss in Accumulated Other Comprehensive Income (Loss) on the hedge into revenues or expenses on the Consolidated Statements of Income, within the same financial statement line item as the forecasted transaction. We recognize the ineffective portion of the gain or loss in revenues or expense, depending on the specific nature of the associated hedged risk, on our Consolidated Statements of Income immediately, except in those jurisdictions subject to cost-based regulation. In those regulated jurisdictions we defer the ineffective portion as regulatory assets (for losses) and regulatory liabilities (for gains).

Reserve for Bad Debts –

The Company has the following bad debt reserve policies:

- Utility Receivables – Reserves are only applied to receivables generated within Wheeling Power and the West Virginia portion of Appalachian Power, TCC and TNC; all other A/R is factored (refer below). The West Virginia reserves are calculated based on a rolling 2-year average of write-off to gross accounts receivable. TCC and TNC reserves are calculated using the specific identification of receivables greater than 120 days delinquent.
- Miscellaneous Receivables – A reserve may be established for receivables in AEPSC, Transmission, Distribution, and Generation companies for accounts 1430023, 1430123 and 1430081. Items open 180 days or greater will be automatically reserved at 100% unless the originating business unit specifies otherwise or requests the balance be written-off. Also, items open less than 180 days may be reserved using specific identification by the business unit responsible for the receivable.

Factoring of Receivables –

AEP Credit has a sale of receivables agreement with various banks and paper conduits. Under this agreement, AEP Credit sells an interest in the receivables it acquires from affiliated utility subsidiaries. This transaction is accounted for as a sale of receivables under ASC 860-10 *Transfers and Servicing*. The Company is permitted to remove the receivables sold from the balance sheet while it continues to service the receivables. Note: Regulatory authority is required to permit factoring of subsidiaries arising from a regulated jurisdiction. Miscellaneous accounts receivable are fully retained and not securitized.

Receivables are sold without recourse from the participating operating companies to AEP Credit. The affiliate operating companies sell the receivables to AEP credit net of the amount expected to be uncollectible, based on a 12-month rolling average. The operating company records the portion expected to be uncollectible as bad debt expense and AEP Credit records that same amount as allowance for doubtful accounts. The operating companies record the gross receivables sold in a contra accounts receivable account and AEP Credit records the gross receivables purchased as accounts receivable factored.

Authoritative Guidance

Revenue is recognized according, but is not limited to, the following authoritative guidance.

- ASC 605-10-S99-1 *Revenue Recognition*
  - General revenue recognition model, revenue is realized or realizable and earned when all the following are met:
    1. Persuasive evidence of an arrangement exists,
    2. Delivery has occurred or services have been rendered,
    3. The seller's price to the buyer is fixed or determinable, and
    4. Collectibility is reasonably assured.
- ASC 980 *Regulated Operations*
  - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains and losses for regulated business units.
- ASC 860 *Transfers and Servicing*
  - Authoritative literature providing accounting and reporting standards for transfers and servicing of financial assets.
- ASC 405-20 *Extinguishments of Liabilities*
  - Authoritative literature providing accounting and reporting standards for extinguishments of liabilities based on application of a *financial-components approach.*
- ASC 815-10-15-96 *Initial Net Investments*
  - Authoritative literature amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts.
- ASC 605-35 *Construction-Type and Production-Type Contracts*
  - Authoritative literature on the accounting for the performance of contracts for which specifications are provided by the customer for the construction of the facilities or the production of goods or for the provisions of related services.
- ASC 605-45 *Principal Agent Considerations*
  - Authoritative literature that provides guidance as to whether an entity should report revenues gross or net of certain amounts paid to others.
- ASC 815 *Derivatives and Hedging*
  - Authoritative literature addressing certain issues related to energy trading activities, including (a) gross versus net presentation in the income statement, (b) whether the initial fair value of an energy trading contract can be other than the price at which it was exchanged, and (c) additional disclosure requirements for energy trading activities.
  - Authoritative literature providing guidance on the appropriate level of income statement summarization of a derivative's realized gains and losses and whether those should be gross or net.
  - Authoritative literature for identifying, valuing and accounting for derivative instruments and activity.
- ASC 210-10 *Offsetting*
  - Authoritative literature defining right of setoff and what conditions must be met to have that right. It also addresses the applicability of that general principle to forward, interest rate swap, currency swap, option, and other conditional or exchange

contracts and clarifies the circumstances in which it is appropriate to offset amounts recognized for those contracts.

- ASC 815-10-45 *Netting Cash Collateral Receivables or Payables with Derivatives under a Master Netting Agreement*
  - Authoritative literature that addresses whether a reporting entity that is party to a master netting arrangement can offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against FV amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with ASC 210.

Conventions

The following are some of the accounting conventions existing within the revenue and receivables process.

- Accounts receivable are written-off according to the following:
  - Electric non-factored receivables – write-off occurs only after the account has been closed and has been inactive for 4 months.
  - Miscellaneous receivables – A balance is written off after 270 days unless the originating business unit requests otherwise and is approved by a Vice President responsible for that business unit. The VP can request the full balance remain an active receivable or request that the balance remain with a continued reserve.
- The Company reclassifies credit balances in accounts receivable according to the following:
  - Electric - Credit balances are reclassified either to customer advance payments or accounts payable, as appropriate. Credit balances less than $100,000 are reclassified monthly to the customer advance payment account. Those greater than $100,000 are reclassified monthly either to the customer advance payment account or accounts payable, as appropriate.
  - Miscellaneous Receivables – Credit balances are reclassified either to customer advance payments or accounts payable, as appropriate. Balances over $100,000 are reclassified monthly and all balances are reviewed at quarter end.
- Percentage-of-completion accounting is used to recognize revenue on long-term (> 1 year) construction contracts for outside parties (based on cost incurred to date and total estimated cost).

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Policy/Procedure Title	Share-based Payment Policy and Conventions	Date	1/31/2010
Author:	Susannah Hannis, John Scalzo, and Andy Carlin	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the Company's share based payment accounting.

Policy/Procedure Statement

Accounting Policy

The cost of employee share-based payment equity awards is measured at grant-date fair value and recognized over the vesting period. Liability awards are remeasured at fair value until settlement.

Background

The Amended and Restated American Electric Power System Long-Term Incentive Plan (LTIP) authorizes the use of 19,200,000 shares of AEP common stock for various types of stock-based compensation awards, including stock options, to employees. A maximum of 9,000,000 shares may be used under this plan for full value share awards, which include performance units, restricted shares and restricted stock units. The Board of Directors and shareholders both adopted the original LTIP in 2000 and the amended and restated version in 2005.

Restricted Shares

The Board of Directors granted 300,000 restricted shares to the Chairman, President and CEO on January 2, 2004 upon the commencement of his AEP employment. Of these restricted shares, 50,000 vested on January 1, 2005, 50,000 vested on January 1, 2006 and 66,666 vested November 30, 2009. The remaining 133,334 restricted shares vest, subject to his continued employment, in equal halves on November 30, 2010 and 2011. Compensation cost for restricted shares is measured at fair value on the grant date and recorded over the vesting period. Fair value is determined by multiplying the number of shares granted by the grant date closing market price. The Board of Directors has not granted other restricted shares. Dividends on these restricted shares are paid in cash.

Effective January 1, 2009, these restricted shares areincluded in the basic EPS calculation, instead of diluted EPS.

Restricted Stock Units

Restricted stock units (RSUs) generally vest, subject to the participant's continued employment, over at least three years in approximately equal annual increments on the anniversaries of the grant date. Amounts equivalent to dividends paid on RSUs accrue as additional RSUs and vest on the last vesting date associated with the underlying units. Compensation cost is measured at fair value on the grant date and recorded over the vesting period. Fair value is determined by multiplying the number of units granted by the grant date closing market price.

Upon adoption of SFAS 123R, AEP elected to account for share-based payment awards with graded vesting and a service condition only on a straight-line basis over the requisite service period for the entire award. General & Corporate Accounting monitors the expense recognized to ensure the amount of compensation cost recognized at any date at least equals the portion of the grant-date value of the award that is vested at that date.

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Performance Units

Performance units are typically granted to certain employees each year in December, with a three-year performance and vesting period beginning the following January 1. Performance units are equal in value to the market value of shares of AEP common stock. At the end of the performance period, the number of performance units held is multiplied by a performance score to determine the actual number of performance units realized. The performance metrics that determine the score include both performance and market conditions, established for each grant within the first 90 days of the performance period by the Human Resources Committee of the Board of Directors. The score can range from 0 percent to 200 percent.

Performance units are generally paid in cash at the end of the three-year vesting period, except to the extent that they are needed to satisfy a participant's stock ownership requirements, in which case they are mandatorily deferred as AEP Career Shares, a form of phantom stock units, until after the end of the participant's AEP career. AEP Career Shares have a value equivalent to the market value of shares of AEP common stock shares and are paid in cash after the participant's termination of employment. Amounts equivalent to cash dividends on both performance units and AEP Career Shares accrue as additional units.

We record compensation cost for performance units over the three-year vesting period. The liability for both the performance units and AEP Career Shares is adjusted for changes in value. The fair value of performance unit awards is based on the estimated performance score and the current 20-day average closing price of AEP common stock at the date of valuation.

Historically, performance units were paid in cash or stock at the employee's election, and were included in the diluted EPS calculation until settlement. Awards granted in December 2007 and subsequent years require payment in cash, and are not included in the diluted EPS calculation.

Stock Options

The exercise price of all outstanding stock options equaled or exceeded the market price of AEP's common stock on the date of grant. All outstanding stock options were granted with a ten-year term and generally vested, subject to the participant's continued employment, in approximately equal 1/3 increments on January 1st of the year following the first, second and third anniversary of the grant date. Since adoption of SFAS 123R effective January 1, 2006, we record compensation cost for stock options over the vesting period based on the fair value on the grant date. The terms of the LTIP do not allow stock options to be granted "in-the-money", and they cannot be repriced downward without shareholder approval. Only non-qualified stock options have been granted.

AEP Co. Directors' Stock Units

The Stock Unit Accumulation Plan for Non-Employee Directors provides each non-employee director with AEP stock units as a substantial portion of their quarterly compensation for their services as a director. Amounts equivalent to cash dividends on the stock units accrue as additional AEP stock units. The stock units are not subject to vesting conditions and are, therefore, vested at the time they are awarded. Stock units are paid in cash upon termination of board service or up to 10 years later if the participant so elects. Cash payments for stock units are calculated based on the average closing price of AEP common stock for the 20 trading days immediately preceding the payment date.

We recorded the compensation cost for stock units when the units are awarded and adjusted the liability for changes in value based on the current 20-day average closing price of AEP common stock at the date of valuation.

Issuance of Shares

Our practice is to use authorized but unissued shares to fulfill share commitments for stock option exercises and RSU vesting. Although we do not currently anticipate any changes to this practice, we could use reacquired shares, shares acquired in the open market specifically for distribution under the LTIP or any combination thereof for this purpose.

Classification

ASC 718-10-35-35-15, *Change in Classification Due to Change in Probable Settlement Outcome*, requires liability and mark-to-market accounting for equity awards (issued as employee compensation) with a cash settlement provision that is contingent upon an event outside the employee's control when that event is probable. All outstanding AEP employee stock options contain a cash settlement provision if a change in control occurs. Therefore, AEP's outstanding stock options would be classified as a liability only if a change in control becomes probable (generally when the parties have entered into a change in control agreement).

SEC registrants must consider the guidance in ASR 268, which requires options and similar instruments subject to mandatory redemption requirements or whose redemption is outside the control of the issuer to be classified outside permanent equity. Related guidance includes ASC 480-10-S99-S99-3A, *SEC Staff Announcement: Classification and Measurement of Redeemable Securities*. AEP restricted shares and stock units have a cash settlement provision if a change in control occurs. S99-3A, paragraph 11, clarifies that if the decision to merge with or be consolidated into another company requires approval of the board of directors, it is within the control of the issuer. AEP's Legal Department confirmed that in addition to AEP's Articles of Incorporation, the New York Business Corporation Law requires that "(T)he board of each corporation proposing to participate in a merger or consolidation under section 901..shall adopt a plan of merger or consolidation..." {Section 902}. Section 902 goes on to describe the elements of the plan of merger which must be approved. In addition, Section 903 then requires the merger or plan of consolidation to be approved by the shareholders of the corporation. Because a change in control is not outside the control of AEP, restricted shares and stock units are appropriately classified in permanent equity.

Authoritative Guidance

Share-based payments are accounted for according to, but not limited to, the following authoritative guidance.

- ASC 718, *Stock Compensation*
  - Establishes standards for the accounting for share-based payment transactions with employees.
- SEC Staff Accounting Bulletin 107
  - Expresses views of the staff regarding interaction between SFAS 123R and certain SEC rules and regulations.
- ASC 260-10, *Earnings per share*
  - Establishes standards for computing and presenting earnings per share and diluted earnings per share.

Conventions

The following are some of the accounting conventions existing within the share-based payment process.

- Upon adoption of EITF 06-11 effective January 1, 2008, the realized income tax benefit from all dividend equivalents on restricted stock units (including unvested prior year dividend equivalents), is recognized as an increase to additional paid-in capital. The consensus in EITF 06-11 called for prospective application to income tax benefits of dividends declared beginning in 2008.
- General & Corporate Accounting determines if an estimate of forfeitures is appropriate, based on the size and distribution of awards.

Approved By

Policy/Procedure Title	Intangibles - Goodwill and Other Policy and Conventions	Date	1/31/2010
Author:	Paul Pennino, Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the goodwill and intangible asset process.

Policy/Procedure Statement

Accounting Policy

When the Company acquires a business, we record the fair value of all the assets and liabilities, including intangible assets. Goodwill is measured as the extent that the total consideration given exceeds the fair value of the identified net assets. Goodwill and other intangible assets are tested for impairment at least annually as of December 31st, or when a triggering event occurs during the interim period. Finite lived intangibles are amortized over their estimated useful lives.

Background

Goodwill -

Goodwill is tested for impairment at the reporting unit level as defined in ASC 350-30-20. The fair values of the reporting units with goodwill are estimated using cash flow projections and, when necessary, other market value indicators.

ASC 350, *Intangibles – Goodwill and Other* defines a reporting unit as an operating segment or one level below an operating segment.

ASC 280, *Segment Reporting* defines an operating segment as a component of a public entity that has all of the following characteristics:

a. It engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity),
b. Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
c. Its discrete financial information is available.

The Company has identified (2) reporting units meeting the above criteria, with respect to goodwill:

1. **Utility Operations** – Represents a group of operating segments meeting the requirements of ASC 280 listed above. This reporting unit consists of APCo, OPCo, CSP, KYPCo, and I&M.
2. **AEP River Operations** - Meets all the requirements of ASC 280 listed above and is reviewed separately from the Utility operations.

Other Intangible Assets -

Other intangible assets are tested for impairment at the asset level. These assets are grouped into major asset classes which are as follows:

- Easements
- Purchased Technology
- Advanced Royalties

Intangible assets that have finite lives are amortized over their respective estimated lives, to their estimated residual values, if any. The Company reviews the lives of the finite lived intangible assets on an annual basis. Intangible assets without finite lives are not amortized until a finite life is determined in accordance with ASC 350.

Authoritative Guidance

Goodwill and other intangibles are recorded according, but not limited to, the following authoritative guidance.

- ASC 805 – *Business Combinations*
  - Authoritative literature to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.
- ASC 350 – *Intangibles - Goodwill and Other*
  - It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition, and also how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.
- ASC 280 – *Segment Reporting*
  - Authoritative literature establishing standards for the way that public entities report information about operating segments in annual financial statements and requires that those entities report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.
- ASC 820 – *Fair Value Measurements and Disclosures*
  - Defines fair value, sets out a framework for measuring fair value, which refers to certain valuation concepts and practices and requires certain disclosures about fair value measurements.

Conventions

The Company has not identified any general accounting conventions existing within the goodwill and other intangible asset process.

Approved By

Policy/Procedure Title	Pension and Postretirement Benefit Plan Policies and Conventions	Date	1/31/2010
Author:	Hugh McCoy	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the pension and postretirement benefit plan process.

Policy/Procedure Statement

Accounting Policy

The Company accounts for pension and postretirement benefit plans in accordance with the requirements set forth by the Department of Labor (DOL), the Employment Retirement Income Security Act of 1974 (ERISA), the Internal Revenue Service (IRS), the Pension Benefit Guaranty Corporation (PBGC), the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC) and the Financial Accounting Standards Board (FASB).

Background

Defined Benefit Pension Plans -

The Company sponsors both qualified and nonqualified pension plans (as defined by ERISA).

Defined Benefit Other Postretirement Benefit Plans -

The Company sponsors postretirement benefit plans to provide medical and life insurance benefits to retired employees.

Pension Cost –

The Company determines its pension expense or income using a market-related valuation of assets, recognizing investment gains and losses over a 5-year period from the year in which they occur. Investment gains and losses are calculated as the difference between the expected return calculated using the market-related value of assets and the actual return.

Pension and Postretirement Benefits Assumptions –

The Company has a formal Pension and Postretirement Benefits Accounting Assumptions Policy that specifies how each assumption is selected at the end of each year. See attachment to file.

Defined Benefit Plans Funded Status –

At the end of each year, the Company marks-to-market an asset for a pension plan's or a postretirement benefit plan's overfunded status or a liability for a plan's underfunded status. We measure the plan's assets and obligations that determine the funded status annually as of the end of our fiscal year. The changes in the funded status of the plan during the year are recognized in other comprehensive income. Pretax Accumulated Other Comprehensive Income (AOCI) is adjusted at the end of each year for both the underfunded and overfunded defined benefit pension and other postretirement employee benefit plans to an amount equal to the remaining unrecognized deferrals for unamortized actuarial losses or gains, prior service costs and transition obligations.

Regulated Operations –

The Company records a regulatory asset or liability for a funded status mark-to-market adjustment that for ratemaking purposes will be deferred for future recovery, thereby reducing the portion of the adjustment affecting pre-tax AOCI.

Authoritative Guidance

Pension and postretirement benefit plan transactions are recorded according to, but not limited to, the following authoritative guidance.

- ASC 980 *Regulated Operations*
  - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains and losses for regulated business units.
  - Authoritative literature for accounting for regulatory assets related to postretirement benefit costs for rate-regulated enterprises.
- ASC 715 *Compensation – Retirement Benefits*
  - Authoritative literature for accounting for single employer defined benefit pension plans as well as defined contribution pension plans.
  - Authoritative literature establishing accounting standards principally focused on postretirement health care benefits, but also including life insurance benefits.
  - Authoritative literature requiring employers to fully recognize the overfunded or underfunded status of a single employer defined benefit plan as an asset or liability with changes to the funded status in comprehensive income.
- FERC Docket No. AI07-1-000 – *Commission Accounting and Reporting Guidance to Recognize the Funded Status of Defined Benefit Postretirement Plans*
  - Chief Accountant's guidance on implementation of a funded status mark-to-market adjustment, which requires that a plan's overfunded status be recorded in Account 129 (Account 128 for centralized service companies).

Conventions

The following are some of the accounting conventions existing within the pension and postretirement benefit plan accounting process.

- The postretirement benefit transition obligation was deferred, off-balance sheet, and is being amortized annually through 2011.
- Pension cost is based on a market-related valuation of assets that recognizes investment gains or losses versus expected returns over the subsequent five years.
- Pension and postretirement benefit mark-to-market adjustments and benefit plans footnote disclosures are based on preliminary, estimated market values of pension and postretirement benefit funds. When the actual final market value amounts become available two or three weeks after closing the books, Accounting Policy and Research compares the actual values to the estimated amounts and addresses whether or not the change is sufficient enough to require the recording of an adjustment.
- Regulatory assets or liabilities are recorded for <u>all</u> of AEPSC's funded status mark-to-market adjustment. An offsetting reduction is recorded in consolidation to the extent that AEPSC's labor costs were distributed to nonregulated operations for the previous twelve months ended November.

Approved By

ATTACHMENT

AEP System Policy
Pension and Postretirement Benefit (OPEB) Accounting Assumptions
Year-End 2009

General Policy
In selecting the appropriate assumptions for recording and reporting pension and postretirement benefits (OPEB) in accordance with generally accepted accounting principles, it shall be the general policy of American Electric Power Company to regularly update its assumptions by applying methods that are consistent from update to update and by using the most recently available applicable data for each assumption from data sources that are consistent from update to update.

Specific Policy
This policy shall be applied to specific assumptions as listed below.

The Discount Rate assumption for each plan shall be updated annually as of the close of business on the final day of the calendar year based on a study of the composite yield of a duration-based portfolio of corporate Aa rated noncallable bonds. The discount rate shall be computed by the Company's actuary under the RATE:Link methodology by matching the timing of expected plan benefit disbursements for the qualified pension plan, the non-qualified pension plan, and for each OPEB plan (Non-UMWA Plan and UMWA Plan) to the yield curves of a large portfolio of non-callable bonds. Bonds included in the analysis must have yields in the 10^{th} through the 90^{th} percentile of each bond class. The final rate for the OPEB plans is a weighted average based on the relative size of each plan's obligations. Each final rate is rounded to the nearest 5 basis points.

The Rate of Return on Plan Assets assumption shall be updated annually in the fourth quarter by applying each plan's portfolio investment mix to an analysis of consensus estimates of future market returns for each investment class and giving consideration to historic AEP plan returns over the past ten years and historic broad-based index returns over the past 30 to 50 years.

The Health Care Cost Trend Rate assumption shall be updated annually in the fourth quarter based on the Company's actuary's analysis of (i) historic plan health care cost increases, and (ii) national health care trend information provided by Towers Perrin's Annual Health Care Cost Survey.

The Average Annual Claims Cost assumptions shall be updated annually in the fourth quarter based on the Company's actuary's analysis of each postretirement welfare plan's actual paid claims costs. Due to the relative size of the population covered by each of our OPEB plans, this analysis shall be based on the past year of information for the Non-UMWA OPEB Plan and the last three years of information for the UMWA OPEB Plan.

Each year's actual Cash Balance Crediting Rate is based on the average 30-year Treasury Bond rate for November of the previous plan year. The Cash Balance Crediting Rate assumption shall be updated annually in the fourth quarter based on the company's forecast of expected future 30-year Treasury Bond yields.

The Lump Sum Conversion Rate shall be updated in the fourth quarter based on the Company's actuary's analysis of expected IRS prescribed segment rates applied to the average participant age. This rate is used in converting either (a) a cash balance lump sum benefit to an annuity or (b) a final average pay annuity benefit to a lump sum.

The Social Security Wage Base is used in the calculation of grandfathered benefits in the pension plan. The Social Security Wage Base assumption shall be updated annually in the fourth quarter based on historical data available from the Social Security Administration.

The Rate of Compensation Increase assumption, the Termination Rate assumption, the Retirement Rate assumption, and the Health Plan Participation Rate assumption shall be based on a periodic study of AEP actual experience to be performed by the Company's actuary. This study shall be updated every five years. An earlier update should occur whenever there are believed to be circumstances that challenge the continuing viability of the current assumption. Triggers for such earlier update would include:

- A change in company policy or economic trends that would significantly affect the assumption.
- A significant change in the underlying plan population.
- An emerging pattern of consistent actuarial gains or losses.

The Mortality Rate assumption shall be updated annually in the fourth quarter to conform to the most current mortality tables prescribed by the IRS for funding purposes in accordance with the Pension Protection Act of 2006.

The Disability Rate assumption shall remain the same unless underlying job conditions change significantly. Since enough disability incidence is not available to determine specific rates based on AEP's actual experience, a standard table issued by the Society of Actuaries is assumed.

The Form of Payment assumption is used to project the incidence of participants' lump sum elections versus benefits paid periodically as an annuity. This assumption shall be updated annually in the fourth quarter based on AEP's actual historic election percentages and shall include the expected effects of any future events that may alter future benefit elections.

The Percent Married assumption shall be updated annually in the fourth quarter based on AEP's actual historic information.

The Spouse Age assumption is used to forecast the age of a future retiree's spouse at the time of retirement. This assumption shall remain unchanged (i.e., wives are three years younger) to be consistent with standard actuarial industry practice. The actual age of a retiree's spouse is used upon benefit commencement.

The Disabled Mortality assumption shall be updated annually in the fourth quarter to conform to the most current rate study by the Society of Actuaries.

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Policy/Procedure Title	Tax Accounting Policy and Conventions	Date	1/31/2010
Author:	Mark Pyle, Jeff Bartsch . Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support accounting for taxes.

Policy/Procedure Statement

Accounting Policy

The Company accounts for taxes in accordance with ASC 330 *Inventories*, ASC 740 *Income Taxes*, ASC 980 *Regulated Operations* and other financial standards referencing tax accounting provisions. In additions, the FERC and state regulatory commissions specify tax accounting requirements with respect to their jurisdictions. Also, the Internal Revenue Code (IRC), Treasury Regulations and other official IRS tax guidance, dictate certain tax accounting treatment with respect to deferred taxes and deferred investment tax credits.

Background

Income Taxes -

Generally, the Company follows the liability method of accounting for income taxes, under ASC 740. This method provides deferred income taxes for all temporary differences that result in a future tax consequence.

Federal Income Taxes (FIT) –

Current and deferred Federal income taxes are calculated and recorded monthly through the tax provision system based on current month information. FIT returns are filed on a consolidated basis. When determining income tax expense at the subsidiary level, the benefit resulting from current tax losses are allocated to the subsidiaries that gave rise to such losses. The tax benefit of loss of the parent company is allocated to subsidiaries with taxable income. With the exception of the loss of the parent company, the allocation method reflects a separate return result for each subsidiary. Refer to the "Tax Agreement Regarding Method of Allocating Consolidated Income Taxes" for specific application of this rule on Federal and State income taxes. The tax agreement discusses the allocation of the consolidated annual net current FIT liability and / or benefit, as well as State income tax liabilities and / or benefits.

State and Local Income Taxes -

Current and deferred State and local income taxes are calculated and recorded monthly through the tax provision system based on current month information. State income tax filing requirements vary depending on state jurisdiction. Some state income tax returns are filed on a consolidated tax basis, whereas others are filed on a separate or combined basis.

Other –

Several jurisdictions require the flow through method of accounting for income taxes. Under this requirement, deferred federal and state income taxes are recorded on the flow through temporary differences with a corresponding regulatory asset or liability. A regulatory asset or liability gross-up is then recorded along with an offsetting deferred tax asset or liability.

Uncertain Tax Positions -

The Company accounts for uncertainty in income taxes under ASC 740. Interest accruals related to income tax positions are recorded in interest income or expense and penalties are recorded in other operation and maintenance for SEC reporting purposes.

Investment Tax Credits -

The Company uses the flow-through method to account for investment tax credits. An exception may occur where a regulatory commission reflects investment tax credits in rates on a deferral basis. Deferred investment tax credits are amortized over the life of the plant investment.

Excise Taxes -

The Company acts as an agent for some state and local governments by collecting taxes from our customers on behalf of those government bodies. The taxes collected are not recognized as revenue or expenses, we account for them only on the balance sheet.

Property Taxes –

The Company uses the deferral method to account for property taxes. The liability is accrued on the property tax lien date along with a corresponding deferral. The deferral is then amortized ratably to expense over the privilege year.

Authoritative Guidance

Tax transactions are recorded according to, but not limited to, the following authoritative guidance.

- ASC 330 *Inventories*
  - Addresses the accounting principles and reporting practices applicable to inventory.
- ASC 980 *Regulated Operations*
  - Authoritative literature for measuring revenue and recognizing expenses, reimbursements, gains and losses for regulated business units.
- ASC 740 *Income Taxes*
  - Authoritative literature establishing financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting.
  - Authoritative literature that addresses the accounting for uncertainty in income taxes. This literature prescribes a recognition threshold and measurement attribute for measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.
- IRC Sections 46(f), 167(l), 168 and 203(e) of the Tax Reform Act of 1986
  - The rules under these sections require normalization method of tax accounting for deferred taxes related to depreciable property and deferred investment tax credits.

Conventions

The following are some of the accounting conventions existing within the tax accounting process.

- ASC 740 Federal Regulatory Assets/Liabilities are grossed-up by dividing the preliminary Regulatory Asset/Liability amount (Flow-thru Schedule M times the Federal Tax Rate) by one minus the Federal Income Tax.
- ASC 740 State Regulatory Assets/Liabilities are grossed-up using the same accounting methodology as Federal, except that the net State Regulatory Asset is grossed-up using the overall effective deferred state income tax rate.

Accounting Policy/Procedure

Approved By

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Policy/Procedure Title	Inventory	Date	1/31/2010
Author:	Tim Dooley, Mike Baird, Diona Cannon	Status: (Draft, Under Review, Approved)	Approved

Purpose

Document the significant policies, procedures, authoritative guidance and conventions that support the Coal Inventory accounting process.

Policy/Procedure Statement

Accounting Policy

Coal inventories are generally carried at average cost.

Background

We utilize the following FERC accounts to classify the more significant items of coal cost: Account 151, *Fuel Stock*; Account 152, *Fuel Stock Expenses Undistributed*; Account 501, Fuel; and Account 502, *Steam Expenses*.

ACCOUNT 151, *FUEL STOCK-COAL*

This account, as it applies to coal, shall include the invoice cost of coal, freight, switching, demurrage, barging, excise taxes, insurance, and other purchase and transportation related costs.

ACCOUNT 152, *FUEL STOCK EXPENSES UNDISTRIBUTED-COAL*

This account, as it applies to coal, shall include the cost of labor and supplies used and expenses incurred in procuring coal, in unloading coal from the shipping medium at the generating plant site and in handling coal prior to use. Amounts included herein shall be charged monthly to Account 501, Fuel, based on the product of the accumulated average handling costs per ton (as of the close of the current month) and the tons of coal consumed. The balance maintained in this account shall not exceed the expenses attributable to the inventory of fuel on hand (therefore, inventory adjustments to correct overages and shortages should include a proportionate share of the expenses included in Account 152).

ACCOUNT 501, *FUEL*

This account, as it applies to coal, shall include the cost of coal ***used*** in the production of steam for the generation of electricity, including expenses in unloading coal from the shipping media and handling thereof up to the point where it enters the boiler-house structure. Costs shall be charged to this account from Accounts 151, Fuel Stock, and 152, Fuel Stock Expenses Undistributed. In addition, this account shall include, on a direct charge basis, the cost of labor, supplies used and expenses incurred for preparing and maintaining coal records and reports of coal consumed, testing refuse ash and refuse to determine characteristics and properties, consultants' fees and expenses applicable to fuel consumed, disposal expenses regarding cinders, fly ash and other residuals (less any sales proceeds derived from the disposal thereof) and information services and usage charges in connection with monitoring of coal shipments en route and reporting of coal shipments received. 501 may also include debits/credits related to settled coal hedging activity reclassified from Accumulated Other Comprehensive Income,

ACCOUNT 502, *STEAM EXPENSES*

This account shall include the cost (labor, supplies, and expenses) operating air pollution control equipment located outside the boiler plant, e.g., fly ash bins, silos and pump houses, operating water pollution control equipment in the ash disposal system, operating ash-handling equipment outside of the boiler plant, testing refuse ash and refuse to determine characteristics and properties (when related to other than disposal of residuals) and operating coal conveying, storage, weighing and processing equipment within the boiler plant.

Authoritative Guidance

FERC Uniform System of Accounts
General guidance from Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing
Accounting Standards Codification

Conventions

An annual physical inventory of coal piles shall be conducted at each coal burning power plant. Based on an evaluation of the results of the annual or special physical inventory, adjustments will be made to the coal inventory accounts for differences between the physical inventory and the perpetual inventory records. Adjustments will be recorded as expeditiously as possible after receipt of the inventory report. Prior to being recorded, adjustments will be reviewed for mathematical accuracy by accounting and the variance explanation will be reviewed for reasonableness. For surveys completed prior to a quarter-end, the report should be distributed no later than the first work day of the following month so adjustments can be recorded in the same quarter. For surveys completed during the last week of a quarter-end month, whereby the completion of the reports by the first work day of the following month is not feasible, the reports should be completed as soon as possible and the results provided to Accounting immediately. Accounting will assess the materiality of the survey adjustment to determine if the books should be reopened to record the survey adjustment.

If, as the result of a physical inventory, the difference between the book inventory and the physical inventory as a percent of the coal consumed is greater than the established tolerance, currently +/- 2%, an investigation will be conducted to determine the cause of the difference, a plan will be developed to correct the cause and an additional, special, physical inventory will be performed within six months to measure and record the results of the corrective action.

Policies / Procedures

Policy Central/Corporate Accounting
(http://acctg/policies/default.asp)

Account Review - Reconciliation Exhibits 3B 1-5

Balance Sheet Account Reconciliation (Jan 2008)

Balance Sheet Review (Aug 2004)

Balance Sheet Review - Appendix (Jan 2006)

Income Statement Review - Reg and Parent (Dec 2004)

Non-Utility Income Statement Review (Nov 2005)

AEP Accounting Bulletins Exhibits 3B 6-9

Accounting Bulletin 04 Accounting for Coal Costs (Mar 2007)

Accounting Bulletin 14 Accounting for Spare Parts and Spare Equipment (Nov 2003)

Accounting Bulletin 15 Revision - Accounting for Minor Equipment - *new version pending*

Accounting Bulletin 16 Accounting for Ash Disposal Costs (Sep 2010)

AEP Service Corporation Exhibits 3B 10-11

AEPSC Policy (Oct 2004)

AEPSC Procedure Design Document Revisions (Mar 2004)

Change Control Exhibits 3B 12-15

Chartfield Policy (Nov 05)

Combo Edit Maintenance Policy (Mar 2004)

Finance Change Control Policy (Dec 2005)

GL Security Review Policy (Feb 2004)

Coding - Classification Exhibits 3B 16-19

Accounting Code Flowchart for Contributions and Memberships (Mar 2007)

Convenience Payments Policy (Aug 2004)

Overall Payment Policy (Aug 2004)

G Work Order Training Convenience Payments (Jul 2004)

Financial Spreadsheets & Database Controls Exhibits 3B 20-31

Financial Spreadsheet and Database Controls Policy (Jun 2009)

FAQs on Spreadsheet Control SECOND RELEASE (Jul 2009)

Policy Figure 2 Financial Spreadsheet Risk Assessment Template (Jun 2009) Policy Central/Corporate Accounting (http://acctg/policies/default.asp)

Spreadsheet and DB Control Best Practices (Jun 2009)

Procedure Standards for Financial Databases (May 2010)

Procedure Standards for Financial Spreadsheets (Jun 2009)

Standards Appendix C Spreadsheet Information Template (Jun 2009)

Standards Appendix E Control Procedures Documentation Template (Jun 2009)

Standards Appendix F Control Procedures Documentation Example (Jun 2009)

Standards Appendix G Spreadsheet Control Checklist (Jun 2009)

Appendix H (Aug 2009)

Prodiance user project overview (Jul 2009)

Journal Entry Exhibits 3B 32-40

Policies

JE Control Final - External Sources (Mar 2006)

Late JE Policy rev (Mar 2009)

Journal Entry Preparation, Review, and Approval (Oct 2004)

NonRecurring JE Approval-Rev (Mar 2005)

Statement Force Loading (Dec 2004)

Standardized Journal Coding of Adjusting Entries (Feb 2003)

InterUnit Entries (May 2003)

Procedures

JE Classification Correction Procedure (Jun 2004)

JE Classification Correction REV 05 2008.xls

Miscellaneous Exhibits 3B 41-53

Policies

Business Unit Tree Alignment (Sep 2005)

Consolidations - Treasury Sheet and Consolidation (Jun 2005)

Disclosure Support Policy (Dec 2004)

Financial Data Archive (May 2009)

IAB Project Scorecard Policy (Jun 2005)

Provision for Uncollectible Receivables (Jul 2007)

Policy Central/Corporate Accounting (http://acctg/policies/default.asp)

Recording Receivables (Mar 2009)

RECEIVABLES WRITEOFF OF UNCOLL MISC RECEIVABLES (Sep 2007)

Reserve for Bad Debt Policy - Texas REPs (May 2004)

Retention Policy Statement (Nov 2004)

SOX Retention Policy Statement (Feb 2005)

Procedures

Financial Approval Procedure (Sep 2010)

Property Accounting Exhibits 3B 54-70

Forms

In Service Detail Form Distribution rev 041310 .doc

In Service Detail Form for Transmission rev 041310 .doc

In Service Detail Form Generation rev 041310 .doc

JE Classification Correction REV 05 2008.xls

Property Transfer Report Form.xls

Sale Between OPCOs - NBV Request Form .xls

Sale-Loan of Equip Between AEP Syst Cos Form.doc

WO Cancellation REV 06 2008 v3.xls

Work Order Suspension Form Rev 112009.doc

Policies and Procedures

Capitalization Policy (Jan 2006)

CCD Non Oper Plnt Proc (Jul 2005)

Distribution Perpetual Work Order Review Process-Field Review (Apr 2010)

DWMS Allocation WO Policy (Feb 2009)

Inactive Work Order Review (Feb 2007)

JE Classification Correction Procedure (Jun 2004)

Retirement Review Procedure (Jun 2005)

Storm Work Order Procedure (Jun 2005)

WO Cancellation Procedure (Jan 2008)

Work Order Charge Review Procedure (Dec 2004)

Work Order In Service Procedure (Dec 2008)

Work Order Suspension Policy Rev (Oct 2010)

Policy Central/Corporate Accounting (http://acctg/policies/default.asp)

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Policy Title	**Balance Sheet Account Reconciliation**	**Date**	**1/15/2008**
Authors:	**Charles Vest, Brad Funk, Tom Myers, Mike Giardina**	**Status:**	**Approved**

Purpose

To document the timing, responsibility, and documentation requirements for balance sheet account reconciliation.

Policy Statement

Following the close of business each month, certain balance sheet accounts will be reconciled for each AEP ledger. Balance sheet accounts that are to be reconciled monthly are those meeting certain qualitative and/or quantitative risk thresholds, and are identified in the Sarbanes-Oxley Risk Matrix for Financial Statements. The matrix qualitatively assesses each balance sheet account according to High, Medium, or Low risk in three categories: Subjectivity in Determining Balance, Susceptibility to Fraud, and Complexity of Calculation. In addition, any balance sheet account whose balance meets a specified level of materiality is identified regardless of qualitative attributes. The accounts meeting either the qualitative or quantitative threshold will be reconciled on a monthly basis. Reconciliations should be completed and reviewed as applicable no later than the last calendar day of the month directly following (e.g. March month-end balances need to be reconciled and reviewed by April 30). Manager\supervisor approval is only required for reconciliations of months that represent the end of a quarter (non-quarter ending months do not require supervisor review).

A review of the balance sheet classification will be performed for accounts that are required to be reconciled on a monthly basis in accordance with this policy. The SEC balance sheet line item that the account maps to must be documented in the work papers which support the monthly reconciliation. A PDF file of balance sheet account classifications will be maintained on the Corporate Accounting Website by the Financial Reporting Group.

The Risk Matrix will be reviewed and updated by Accounting after the close of June business, on an annual basis. Each balance sheet account will be reviewed in order to determine whether the account's risk assessment has changed since the previous version. Upon activation of a new account, the account will be added to the Risk Matrix along with its associated risk assessment. Any updates to the Risk Matrix must be approved by an Assistant Controller or Managing Director.

A PeopleSoft Account Reconciliation database will be used to record each account reconciliation and related approval. Following the close of each accounting period, balance sheet accounts not meeting the Risk Matrix thresholds will be reviewed for reasonableness in accordance with the Balance Sheet Review Policy.

Each balance sheet account will be assigned a Reconciliation Manager, based on the group or groups responsible for the account. These assignments will be listed in the PeopleSoft Account Reconciliation database. The Reconciliation Manager is responsible for reviewing and approving the reconciliations for months representing the end of a quarter. In nearly all cases, the reconciliation is to be performed by a member of the Reconciliation Manager's team. However, in some cases the Reconciliation Manager's team may not have the information necessary to perform the reconciliation for that account for each General Ledger Business Unit. In such instances, the group actually using the account is responsible for completing the reconciliation and recording it in the PeopleSoft database for the applicable General Ledger Business Units. In these situations, the Reconciliation manager should coordinate with the other group in order to ensure that the reconciliation is performed and reviewed, as well as recorded in the PeopleSoft Account Reconciliation database.

Worksheets supporting the reconciliations performed must be retained by each Reconciliation Manager's group and should be readily available when requested by auditors, both internal and external, as well as other departments within AEP.

The timing of necessary account adjustments discovered as a result of any reconciliation will be determined based on materiality and in accordance with the Financial Reporting policy on late journal entries dated June 2004.

Business units not on the PeopleSoft accounting system must reconcile the necessary balance sheet accounts on their system. In such instances, the ledger owner and business unit owner must determine who will balance each PeopleSoft account and sign off that the reconciliation has been completed.

Any deviations from this policy must be approved by the affected Assistant Controller or Managing Director.

Approved By

Debbie Laws, Director,
Utility General & Regulated Accounting — **Date**

Neil Felber, Director,
Utility General & Regulated Accounting — **Date**

Scott Krawec, Assistant Controller,
Utility Energy & Commercial Accounting — **Date**

Susan Higginson, Managing Director,
Accounting Services and Special Projects — **Date**

Becky Buonavolonte, Managing Director,
Financial Reporting — **Date**

Mark Pyle, Vice President - Tax,
Financial Reporting — **Date**

Joseph Buonaiuto
Senior Vice President- Controller and Chief Accounting Officer — **Date**

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Accounting Policy

Policy Title	Balance Sheet Review	**Date**	8/11/2004
Author:	Jeff Hoersdig	**Status:**	Approved

Purpose

The purpose of this policy is to document a standard for the monthly review of balance sheets for legal entities and certain AEP Consolidated Levels. See appendix for list of legal entities and consolidation levels to be reviewed.

Policy/Procedure Statement

Following the close of business each month, meetings will be held with each ledger team to review the balance sheet of certain consolidated levels or legal entities for which the team is responsible. Attendees will consist of the ledger team staff, manager and administrator/supervisor (monthly basis), ledger accounting director (quarterly basis) and/or assistant controller (quarterly basis).

Balance sheets to be reviewed will compare current month balance with prior month balance.

Each account is to be reviewed and any questions or issues raised by any attendee will be documented and ultimate resolution of the question or issue will be as well. The nature of the account and level of the consolidation will determine subjective thresholds for review. Unusual balances will be questioned and/or reviewed. Indicators bringing rise to questions include:

- Debit balances in an account that typically should have a credit balance
- Credit balances in an account that typically should have a debit balance
- Clearing accounts with a remaining balance
- Unsupported deferred debit and deferred credit balances
- Balance sheet accounts with balances that counter to companion income statement account trends (e.g. revenues)
- Month to month variances greater than 10% <u>and</u> $1,000,000
- Balance sheet account balances that are illogical considering the lines of business for the consolidated level
- Accounts with balances but no activity for an extended period

For any account that is not reconciled by the general ledger staff, a reconciliation can be requested from the appropriate account owner, if required by Balance Sheet Account Reconciliation Policy. The status of the reconciliation for each account will be stored in a database by business unit and account owner.

Any adjustments needed to general ledger accounts, as a result of this reconciliation will be made in the month following the discovery of the adjustment or in the current month in accordance with the Financial Reporting policy on late journal entries dated June 2004.

Following each meeting, minutes will be forwarded to each attendee by staff members for each assistant controller. Minutes will consist of all issues raised during the meeting and will be updated with the resolution of each issue. All reports and minutes will be retained by staff members for each assistant controller.

Any deviations from this policy must be approved by the affected Assistant Controller or Managing Director.

Accounting Policy

Approved By

In Review:

Signature on File
Sandra S. Bennett, Assistant Controller, **Date**
Regulated Accounting

Signature on File
Thomas M. Myers, Assistant Controller, **Date**
Commercial and Investment Accounting

Signature on File
Susan Higginson, Managing Director, **Date**
Accounting Services and Special Projects

Signature on File
Brian Capo, Managing Director, **Date**
Financial Reporting

Signature on File
Joseph Buonaiuto **Date**
Senior Vice President- Controller and Chief Accounting Officer

Appendix for Balance Sheet Review

Appalachian Power Consolidated (Distribution-140, Generation-215, Transmission-150)
AEP Texas Central Consolidated (Distribution-211, Generation-147, Transmission-162, Nuclear-179)
Columbus Southern Power Consolidated (Distribution-220, Generation-144, Transmission-130)
Indiana Michigan Power Consolidated (Distribution-170, Generation-132, Transmission-120, Nuclear-190 River Transportation – 280)
Kentucky Power Consolidated (Distribution-110, Generation-117, Transmission-180)
Kingsport Power Consolidated (Distribution-230, Transmission-260)
Ohio Power Consolidated (Distribution-250, Generation-181, Transmission-160, Cook Coal Terminal-270)
Public Service Co of Oklahoma Consolidated (Distribution-167, Generation-198, Transmission-114)
Southwestern Electric Power Consolidated (Distribution-159 & 161, Generation-168, Transmission-111 & 194)
AEP Texas North Consolidated (Distribution-119, Generation-166, Transmission-192)
Wheeling Power Consolidated (Distribution-210, Transmission-200)
AEP Generating Company
American Electric Power Corporation
American Electric Power Service Corporation
AEP Resources, Inc.
AEP Delaware Investment
AEP Delaware Investment II
AEP Delaware Investment III
AEP Resources Australia Holdings Pty., LTD
AEP Energy Services Consolidated
Ventures Lease LLC
AEP Memco Consolidated
Cardinal Operating Co
AEP System Pool
Simco, Inc.
AEP Texas C&I Retail LP
AEP C&I Company Consolidated
Colomet, Inc
Mutual Energy LLC
Conesville Coal Prep. Co.
AEP Texas POLR Consolidated
AEP Coal Consolidated
CSW International Consolidated
CSW Energy Consolidated
CSW Energy Services Consolidated
AEP Desert Sky Consolidated
AEP T & D Services LLC
AEP ProServ Consolidated
AEP Power Marketing Consolidated
AEP Communications Consolidated
AEP Investments Consolidated

Accounting Policy

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Policy Title	Income Statement Review- Regulated Entities and AEP Parent	Date	12/14/2004
Author:	Jeff Hoersdig	Status:	Approved

Purpose

The purpose of this policy is to document a standard for the monthly review of pre-tax income statements for each regulated AEP legal entity and AEP Parent.

Policy Statement

On the workday following the deadline for pre-tax net income entries, two meetings will occur with the purpose of reviewing the income statement of each regulated AEP legal entity. The meetings are segregated by region, with one meeting held for the east operating companies and one held for the west operating companies. Attendees will consist of the appropriate ledger team administrators/supervisors and managers, ledger accounting director, assistant controller, member from Corporate Financial Reporting, and member from Corporate Planning & Budgeting.

AEP Parent does not conduct a meeting, rather they compile and distribute a variance analysis report. The report is prepared monthly by a senior accountant in the Corporate and General Accounting group and distributed to the Corporate and General Accounting Manager and Director, Corporate Financial Reporting Administrator, Corporate Financial Planning Senior Financial Analyst, and the Tax Accounting Senior Tax Analyst.

Income statement review (for regulated entities) or variance analysis (for AEP Parent) will include:

- Comparison of current year current month actuals to prior year current month actuals. Comparisons will be performed on a legal entity basis.
- Comparison of current month actuals to current month budget. Comparisons will be performed on a legal entity basis.
- For regulated entities only, each ledger team will review variances in net revenue, exclusive of power trading. A supplemental price/volume variance report will accompany the income statement variance report when applicable.
- For regulated entities only, variances in power trading gains and losses will be tied to power optimization reports provided by Commercial & Investment Accounting. Supplemental variance analysis will be provided as well.
- For AEP Parent only, variance analysis will be performed on current year-to-date actuals to current year-to-date budgets.
- For AEP Parent only, variance analysis will be performed on current year-to-date actuals to prior year-to-date actuals.

Remaining variances in other operating revenues will be analyzed by each ledger team and explained to within $1 million per legal entity.

"Other Operations" expense will be reviewed by ledger teams and variances will be documented such that unexplained variances are no greater than $1 million per legal entity.

Variances in maintenance, for regulated entities only, will be analyzed by reviewing plant data relating to planned and forced outages as well as other monthly correspondence with plant personnel. Unexplained variances should be no greater than $1 million per legal entity.

The remaining categories of depreciation, taxes, other income & deductions and interest will be analyzed by each ledger team and any unexplained variances should be no greater than $1 million per legal entity for each category.

In addition to income variance analysis:

- Selected deferred expense balance sheet accounts on regulated ledgers will be analyzed to ensure that all appropriate expense flows through the income statement in the proper month. A supplemental report will be provided to all attendees with this data.
- Other selected balance sheet accounts will be reviewed for income statement correlation and reasonableness.
- Parent company debt will be analyzed to ensure all appropriate expense flows through the income statement in the proper month. A supplemental report containing this data will be provided.

The variance reports and analyses used in the income statement review meetings (for regulated entities) and the variance analysis (for AEP Parent), along with any supplemental reports will serve as meeting minutes. Additionally, any issues to be researched after the meeting will be documented and the resolution of each issue will be filed with the variance report package. All reports and minutes will be retained by a staff member for each assistant controller.

All deviations from this policy must be approved by the Assistant Controller or the Managing Director of Accounting Services and Special Projects, depending on the affected entity.

Approved By

Sandra S. Bennett, Assistant Controller, **Regulated Accounting**	**Date**
Susan Higginson, Managing Director, **Accounting Services and Special Projects**	**Date**
Rebecca Buonavolonte, Managing Director, **Financial Reporting**	**Date**
Joseph Buonaiuto **Senior Vice President- Controller and Chief Accounting Officer**	**Date**

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Accounting Policy

Policy Title	Non-Utility Entities Income Statement Review	**Date**	11/15/05
Author:	Michael Giardina	**Status:**	Approved

Purpose

The purpose of this policy is to document a standard for the monthly review of income statements for non-utility business units (excluding AEP parent company).

Policy/Procedure Statement

Prior to the close of business each month, an income variance report package for each consolidated group of non-utility companies (groupings will be as deemed appropriate) will be presented at a meeting with a Managing Director or Assistant Controller. The review will consist of a comparison of income components (revenue and expense) for 1) current year current month to prior year current month, 2) current year-to-date to prior year-to-date, and 3) current quarter to prior year quarter if on calendar quarter end.

All variances in revenue and/or pre-tax expense which are greater than $5 Million are reviewed and explained.

The variance report package along with any applicable supplemental reports will serve as meeting minutes. Additionally, any follow-up issues will be documented and the resolution of each issue will be filed with the variance report package. A staff member designated by an Assistant Controller or Managing Director will retain the variance report packages and supplemental reports.

All deviations from this policy must be approved by a Managing Director or Assistant Controller.

Approved By

Signature on File — **11/15/05**
Thomas M. Myers, Assistant Controller, — **Date**
Utility Energy & Commercial Accounting

Signature on File — **11/15/05**
Susan E. Higginson, Managing Director, — **Date**
Accounting Services and Special Projects

Signature on File — **11/15/05**
Rebecca J. Buonavolonte, Managing Director, — **Date**
Financial Reporting

Signature on File — **11/15/05**
Joseph M. Buonaiuto — **Date**
Senior Vice President- Controller and Chief Accounting Officer

Exhibit 3B6 -- Bulletin

Date March 15, 2007

Subject AEP System Accounting Bulletin No. 4: Accounting for Coal Costs

From T.E. Mitchell/S.M. Hannis

To File

Attached is revised Bulletin No. 4, Accounting for Coal Costs. Section VI.A.1.a. has been revised to include deadlines for Coal Pile Inventory (CPI) report distribution and 0955A report distribution, so adjustments can be recorded in the same quarter to the extent possible in order to accurately represent our financial statements.

Section VI.A.3.a. has been revised to provide that adjustments to the coal inventory accounts for differences between the physical inventory and the perpetual inventory records will be recorded as expeditiously as possible after receipt of the inventory report. Prior to being recorded, adjustments will be reviewed for mathematical accuracy by accounting and the variance explanation will be reviewed for reasonableness. Previously, adjustments were recorded one month after acceptance of the inventory report.

cc: J.M. Buonaiuto
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AEP SYSTEM ACCOUNTING BULLETIN NO. 4

ACCOUNTING FOR COAL COSTS

CONTENTS

AEP SYSTEM ACCOUNTING BULLETIN NO. 4

I. PURPOSE

The detailed instructions that follow have been developed for the purpose of establishing System uniformity in the classification of the more significant items of coal cost among Account 151, Fuel Stock; Account 152, Fuel Stock Expenses Undistributed; Account 501, Fuel; and Account 502, Steam Expenses. If so desired, any of these costs may be first classified to another appropriate account for review prior to being transferred to the accounts noted in this Bulletin. (For example, certain costs related to the Putnam Coal Terminal.)

This Bulletin also outlines the physical inventory process and the procedures for recognizing coal inventory adjustments.

As additional information, except for PSO, TCC, and TNC, the regulated domestic utility companies value fossil fuel inventories using a weighted average cost method. PSO, TCC and TNC, utilize the LIFO method to value fossil fuel inventories. For those domestic utilities whose generation is unregulated, inventory of coal and oil is carried at the lower of cost or market. Coal mine inventories are also carried at the lower of cost or market.

II. ACCOUNT 151, FUEL STOCK-COAL

This account, as it applies to coal, shall include the invoice cost of coal, freight, switching, demurrage, barging, excise taxes, insurance, and other purchase and transportation related costs. Exclude from this account all costs of labor and other expenses of unloading coal at the generating plant site and handling in storage, as provided in "Account 152, Fuel Stock Expenses Undistributed."

Items:

1. Invoice price of coal, less any trade discounts.

2. Freight, switching, barging, demurrage and other transportation charges and related taxes.

3. Inventory adjustments to correct overages and shortages.

4. Excise taxes, purchasing agents' commissions, liability insurance on cargo and barge operations, other insurance and expenses directly related to the purchase and transportation of coal.

5. Tipple and dumping charges regarding transfer from railroad cars to barges and other transfer activities prior to delivery at the generating plant site.

6. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport coal anywhere between the point of acquisition and the generating plant unloading point.

7. Lease or rental costs of transportation equipment used to transport coal anywhere between the point of acquisition and the generating plant unloading point.

III. ACCOUNT 152, FUEL STOCK EXPENSES UNDISTRIBUTED-COAL

This account, as it applies to coal, shall include the cost of labor and supplies used and expenses incurred in procuring coal, in unloading coal from the shipping medium at the generating plant site and in handling coal prior to use.

Amounts included herein shall be charged monthly to Account 501, Fuel, based on the product of the accumulated average handling costs per ton (as of the close of the current month) and the tons of coal consumed. The balance maintained in this account shall not exceed the expenses attributable to the inventory of fuel on hand (therefore, inventory adjustments to correct overages and shortages should include a proportionate share of the expenses included in Account 152, see Section VI. C.)

Labor:

1. Procurement activities performed by AEP System personnel, including investigation of sources of coal supply and the negotiation of contracts.

2. Unloading coal shipments from rail cars, barges or trucks into storage.

3. Weighing and recording coal.

4. Fuel accounting activities performed by AEP System personnel, including the processing of invoices and related records for coal placed in stock would be included in Account 152.

5. Moving of coal in storage pile; e.g., movement for fire prevention purposes and transferring from one station to another.

6. Packing coal pile.

7. Checking moisture content of coal pile.

8. Controlling dust from coal in storage.

9. Cleaning coal bunkers separate from boiler-house structure to prevent or release jams.

10. Routine analysis of coal before being consumed.

11. Routine testing and calibrating of coal conveyor scales located outside of the boiler-house structure.

12. Handling coal from shipping medium and storage to the first bunker in the boiler-house structure.

13. Conducting a physical inventory of the coal pile, including vendor costs. (See Section V1. B. for recordation of adjustments.)

Supplies and Expenses:

1. Expenses associated with procurement activities performed by AEP System personnel, including investigation of sources of coal supply and negotiation of contracts.

2. Oil for thawing coal in coal cars or barges at the plant site.

3. Rent of leased coal handling and storage equipment.

4. Transportation and other expenses in moving coal in storage and from plant to plant.

5. Stores expenses applicable to coal.

6. Tools, lubricants, fuel and miscellaneous supplies used in connection with analyzing coal, dust control, packing and inventorying the coal pile and operating coal handling equipment.

NOTES:

(A) Maintenance of fuel handling equipment located within the boiler plant shall be charged to Account 512.0, Maintenance of Boiler Plant.

(B) Fuel oil not used in the generation of electricity should be classified to account 152000, Fuel Stock Expenses Undistributed.

IV. ACCOUNT 501, FUEL

This account, as it applies to coal, shall include the cost of coal used in the production of steam for the generation of electricity, including expenses in unloading coal from the shipping media and handling thereof up to the point where it enters the boiler-house structure.

Costs shall be charged to this account from Accounts 151, Fuel Stock, and 152, Fuel Stock Expenses Undistributed, as provided in Sections II. and III. above.

In addition, this account shall include, on a direct charge basis, the cost of labor, supplies used and expenses incurred for:

1. Preparing and maintaining coal records and reports of coal consumed.
2. Testing refuse ash and refuse to determine characteristics and properties (when related to disposal of residuals).
3. Consultants' fees and expenses applicable to fuel consumed.
4. Disposal expenses regarding cinders, fly ash and other residuals after they are accumulated at a generating plant site, less any sales proceeds derived from the disposal thereof.
5. Information services and usage charges in connection with monitoring of coal shipments en route and reporting of coal shipments received.
6. Other significant fuel related activities with review of AEPSC Accounting Policy and Research.

V. ACCOUNT 502, STEAM EXPENSES

The cost (labor, supplies, and expenses) of the following activities shall be charged to Account 502, Steam Expenses:

1. Operating air pollution control equipment located outside the boiler plant, e.g., fly ash bins, silos and pump houses.

2. Operating water pollution control equipment in the ash disposal system, i.e., checking, adjusting, cleaning and lubricating motors and related equipment of the bottom ash pond reclaim water system.

3. Operating ash-handling equipment outside of the boiler plant. Testing refuse ash and refuse to determine characteristics and properties (when related to other than disposal of residuals).

4. Operating coal conveying, storage, weighing and processing equipment within the boiler plant.

VI. COAL INVENTORY ADJUSTMENTS

A. Procedures for Determining the Amount of the Adjustment

1. Frequency of Inventories

a. An annual physical inventory of coal piles shall be conducted at each coal burning power plant. The results of this inventory shall be reported by each plant, using form 0955A-Coal Storage Inventory Report, in accordance with Circular Letter CI-O-CL-008 as developed by the Civil Engineering Lab. Civil Engineering will provide an updated copy of the coal pile inventory schedule to Accounting when changes are made. The schedule will include deadlines for Coal Pile Inventory (CPI) report distribution (density and volume of coal) and the 0955A report distribution (tons of coal). Accounting will review the deadlines and will follow up with the plants as necessary, if a report is not received on schedule. For surveys completed prior to a quarter-end, the 0955A report should be distributed no later than the first work day of the following month so adjustments can be recorded in the same quarter.

For surveys completed during the last week of a quarter-end month, whereby the completion of the CPI and 0955A reports by the first work day of the following month is not feasible, the reports should be completed as soon as possible and the results provided to Accounting immediately. Accounting will assess the materiality of the survey adjustment to determine if the books should be reopened to record the survey adjustment.

(i) As set out in Circular Letter CI-O-CL-008, if, as the result of a physical inventory, the difference between the book inventory and the physical inventory as a percent of the coal consumed is greater than the established tolerance, currently +/- 2%, an investigation will be conducted to determine the cause of the difference, a plan will be developed to correct the cause and an additional, special, physical inventory will be performed within six months to measure and record the results of the corrective action.

b. An annual physical inventory at Cook Coal Terminal will not be required as long as the coal pile has been physically depleted and adjustments made in accordance with Section VI. B. 2. of this bulletin at least once every year.

2. Acceptance of the physical inventory

a. A coal pile inventory is considered technically acceptable if, after a careful review of the measurements and computations by the AEP Civil Engineering Lab and/or a competent third party, the measurements are deemed to have been taken in accordance with the instructions in circular letter CI-O-CL-008 and that no significant errors exist in the inventory computations.

b. If the results of the physical inventory are still deemed to be unacceptable by either the Plant Manager or the Regional Director Manager of Fossil & Hydro Operations, an additional physical inventory shall be conducted as soon as possible.

3. Calculation of Adjustments

a. Based on an evaluation of the results of the annual or special physical inventory, adjustments will be made to the coal inventory accounts for differences between the physical inventory and the perpetual inventory records. Adjustments will be recorded as expeditiously as possible after receipt of the inventory report. Prior to being recorded, adjustments will be reviewed for mathematical accuracy by accounting and the variance explanation will be reviewed for reasonableness.

b. Inventory adjustments to be recorded for tonnage overages or shortages will be determined as follows:

(i) Corrections to the book tonnages resulting from any physical inventory will be recorded to the extent of 100 percent of the discrepancy between the physical inventory and the perpetual inventory records. (See NOTES.)

(ii) Before computation of the discrepancy from a physical inventory, the perpetual inventory records shall reflect any previous inventory adjustment.

(iii) Before computation of the discrepancy from a physical inventory, the perpetual inventory records shall reflect the passed through effect of a coal pile adjustment at the Cook Coal Terminal for plants receiving such coal, provided an inventory was required and performed at the Cook Coal Terminal.

NOTES:

(A) In instances where a regulatory commission requires for rate making purposes adjustment procedures other than that prescribed in this bulletin, the accounting records shall be maintained in accordance with such regulatory requirements.

(B) In cases of joint ownership of generating plants, a single method of adjusting tonnage must be used for the entire coal inventory regardless of ownership.

(C) At multiunit plants that feed different units from the same pile the amount of the adjustment shall be apportioned to each unit based on the coal consumed by each unit. The coal consumption data used to determine the ration between units shall be taken from the Fuel Data Reporting System (FDR). The reporting period for this calculation shall be from the close of business on the date of previous inventory to the close of business for the e current inventory. (replaces Circular Letter PE-0-C1-005)

4. Records and Reports Generated from Physical Inventories

a. The Materials Handling Section and the Civil Engineering Lab Section of the Civil & Mining Engineering Division shall maintain a database of coal pile inventory results.

b. The data base of coal pile inventory results shall include the following statistics:

(i) Percent Difference of Physical Inventory as compared to Book Inventory.

(ii) Percent Difference of Physical Inventory as compared to Coal Consumed during the period between inventories.

c. The data base of coal pile inventory results will be compiled as quickly as possible after receipt of 0955A reports and made available to plant managers and others.

5. Elimination of Coal in Inventory

Periodically, a coal inventory may be physically depleted, particularly at the Cook Coal Terminal. Any perpetual inventory balance at that time (including any deficit) shall be adjusted to eliminate the book balance. Such an adjustment will be recorded in the month in which the physical inventory is depleted.

At the time of physical depletion of the coal there may be unusable coal remaining in the coal yard. The depleted coal pile should be mapped to establish a revised base map of the coal yard for use in future inventories.

B. Recordation

1. Generating Plants

Account 151, Fuel Stock-Coal, and 152, Fuel Stock Expenses Undistributed-Coal, are to be charged (if the results of the physical inventory exceed the recorded amounts) or credited (if the results of the physical inventory are less than the recorded amounts) with an appropriate offset to Operating Expense Account 501, Fuel.

Overages or shortages will be priced at the average unit cost per ton during the months that the adjustments are recorded.

NOTE: Beginning in Kentucky in August 1980, the inventory adjustments were valued at $1 and passed through the fuel clause these adjustments have been accepted by the Kentucky Public Service Commission in subsequent fuel audits. However, the actual tonnage is adjusted, so the price/ton is directly affected and the adjustment is effectively recorded in subsequent months as the inventory is consumed.

Unusually large total company adjustments are to be promptly reported (before recordation) to the attention of AEPSC Accounting Policy and Research for consideration.

The Cardinal, Conesville, Okla Union, Pirkey, and Flint Creek Plants maintain separate coal piles of different quality. As a result, System companies reflect a different fuel cost per ton from that of the non-associated owner companies. .

2. Cook Coal Terminal

Adjustments will be prorated to the recipients of all AEP coal shipments from Cook Coal Terminal since the later of either the last coal inventory or the establishment of the present coal pile.

C. Example

Annual Inventory Results

Physical Inventory	625,000 tons
Perpetual Inventory	600,000
Overage	25,000
Adjustment	25,000

Average Unit Cost per ton:

Fuel Stock-Coal	$34.579
Fuel Stock Expenses	
Undistributed –Coal	.23
Total	$34.809

Entry

Account 151, Fuel Stock -Coal	$864,475	
Account 152-Fuel Stock Expenses Undist. Coal	$ 5,750	
Account 501, Fuel		$870,225

To record, in accordance with AEP System Accounting Bulletin No. 4, the coal inventory overage disclosed by the Annual coal pile inventory at the _______ plant.

D. Coal Storage Inventory Reports

Copies of the completed form 0955A-Coal Storage Inventory Reports are to be sent to the AEPSC Internal Auditing Department, the Performance Engineering Division of the AEPSC Fossil Plant Operations Department, and other personnel as specified by the circular letter CI-O-CL-008.

AEP
AMERICAN ELECTRIC POWER

Date November 21, 2003

Subject AEP System Accounting Bulletin No. 14: Accounting for Spare Parts and Spare Equipment

From T. E. Mitchell/Susannah Bibby and Gayle Thomasson

To Distribution List

Attached is revised Bulletin No. 14, Accounting for Spare Parts and Spare Equipment, which is effective immediately.

The significant revisions to the Bulletin are summarized below:

In order to be capitalized, a spare part must meet all of the following requirements:

1. It must be a retirement unit **(deleted the verbiage that allowed a major component of a retirement unit to qualify as a capitalized spare)**
2. It must be associated with specific electric plant **(no change)**
3. It cannot be subject to frequent use for normal periodic replacements (5 yrs) **(defined time frame for periodic replacement, previously not defined)**
4. It must require a long lead-time to obtain (generally 12 weeks) **(new requirement)**
5. It must have a unit cost of at least $50,000 **(increased from $1,000)**

Revised text to indicate that questions of eligibility of Capitalized Spares should be directed to Accounting Services, Property Accounting instead of Material Controls Section.

Removed text related to installation of owned non-retirement units - No longer needed, as non-retirement unit spare parts are no longer capitalized.

Removed text related to Temporary Removal of Existing Part - No longer needed since this is not current procedure.

Removed text related to Loans between Associated Companies since this is not current procedure.

Revised text related to Record Keeping and Inventories to indicate that detail information related to Capitalized Spares will be maintained by Material Services/Supply Chain. This includes the value of the Capitalized Spare Part, Vintage Year, Utility Account and the Work Order or PTR Number.

One of the major changes in the Bulletin is the increase of the value of a Capitalized Spare from $1,000 to $50,000. It is not intended to move the Capitalized Spares with a value of less than $50,000 to M&S Stock upon release of this revised bulletin. Spare parts which have previously been capitalized but which do not meet the new requirements should remain capitalized until used. When used, the part should be installed under current capitalized spare installation instructions. However, if there are any remaining quantities of capitalized spares with same Catalog ID as one installed, they will be retired and moved to M&S stock (at their net book value) at that time in all facilities. To further clarify, if any activity (removal from in service, purchase of additional items, transfer to another location, etc.) takes place on these less than $50,000 items, all of that particular item will be retired and moved to M&S stock.

If you will recall, there was a revision to policy in the mid nineties that disallowed the capitalization of non-retirement units as capitalized spares. At that time all non-retirement capitalized spare items less than $5,000 were retired and moved to M&S stock and the $5,000 and above items remained capitalized as a cap spare (grandfathered) with the qualification that once there was activity on an item, then all of that item remaining in capitalized spares would be retired and moved to M&S stock. These non-retirement unit grandfathered items are not affected by this revision of Bulletin 14.

This Bulletin does not cover specific procedures since these are being developed and will be covered in other documents to be issued by Property Accounting and Supply Chain. Training plans for the detailed procedures are being finalized and the tentative date to begin training is mid-November 2003. The Generation BU will receive training first with Energy Delivery training hopefully in early 2004. Property Accounting and Material Services will provide the training for Capitalized Spare Parts Procedures.

Please advise if you have any questions.

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AEP SYSTEM ACCOUNTING BULLETIN NO. 14

ACCOUNTING FOR SPARE PARTS AND SPARE EQUIPMENT

Revised November 2003

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AEP SYSTEM ACCOUNTING BULLETIN NO. 14

ACCOUNTING FOR SPARE PARTS AND SPARE EQUIPMENT

I. BACKGROUND AND PURPOSE

Electric utilities must purchase and maintain inventories of essential spare parts and spare equipment in order to ensure continued, reliable operations. The useful life of such spare equipment will in many cases depend more upon the remaining useful life of the related facility than upon their own physical condition or extent of usage. Accordingly, certain major spare parts and spare equipment should be added to the cost of electric plant (capitalized) and depreciated.

This Accounting Bulletin classifies electric utility spare parts and spare equipment as either Capitalized Spare Parts, which are charged to Account 101, Electric Plant in Service, or as Materials and Supplies, which are charged to Account 154, Plant Materials and Operating Supplies. Other spare materials (such as meters and line transformers) should also be capitalized in Account 101 when the FERC Uniform System of Accounts specifically provides for capitalization.

II. DEFINITIONS

A. Capitalized Spare Parts

A Capitalized Spare Part (CSP) is equipment purchased and stored at a facility to have for use in the event of an emergency that requires an immediate need for equipment in order to ensure continued, reliable operations. Capitalized Spare Parts serve to ensure against extended interruptions of service caused by mechanical and electrical failures. They are often purchased with the original facilities and are generally manufactured on special order.

In order for a spare part to be capitalized, an item of property must meet all of the following criteria:

1. It must be a retirement unit [1], which (a) can replace one or more retirement units presently in service and (b) is held available for replacement as an alternate in case of emergency needs.
2. It must be associated with specific electric plant.

[1] A retirement unit is defined as a single piece of equipment or a specific "System". Retirement units are specifically identifiable items of relatively costly and long-lived property, which have been designated as retirement units within the AEP System Retirement Unit Manual.

3. It cannot be subject to frequent use for normal periodic replacements. This does not exclude spare parts and spare equipment, which contain components that are subject to frequent wear and replacement. Periodic Replacement is linked to those items that are replaced routinely in the course of doing business and as defined here, that limitation is set at (5) years. If the item is used routinely (i.e.- every 5 years), it would not qualify.
4. It must require a long lead-time to obtain. The lead time to purchase a full replacement or purchase components for a repair plus time required to do the repair work must generally equal (12) weeks or longer.
5. It must have a unit cost of at least $50,000.

The determination as to whether a spare part should be capitalized should be applied on a consistent basis.

Capitalized Spare Parts are generally stored at or near the related facility. An exception is some large items in transmission and distribution which are not easily moved and therefore are not stored near the related facility. As long as such items meet the other criteria noted above, they would also be capitalized.

All questions of eligibility and identification of Capitalized Spare Parts should be directed to Accounting Services, Property Accounting for final determination.

B. Distribution Line Transformers and Meters

In accordance with FERC guidelines, Distribution Line Transformers and Meters are to be included in Electric Plant Accounts 368 and 370 respectively, whether actually in service or held in reserve.

C. Other Spare Parts - Materials and Supplies (Inventory)

All spare parts and spare equipment which do not meet the above criteria are considered Materials and Supplies and are to be charged to Account 154, Plant materials and Operating Supplies. Account 154 generally includes materials, supplies and repair parts held in inventory to meet recurring general requirements.

III. ACCOUNTING INSTRUCTIONS

A. Capitalized Spare Parts

AEP SYSTEM ACCOUNTING BULLETIN NO. 14

ACCOUNTING FOR SPARE PARTS AND SPARE EQUIPMENT

1. **Purchases**

   The cost of capitalized Spare Parts includes the following components, as applicable:

   a. Purchase price
   b. Special test prior to acceptance
   c. Loading and unloading charges
   d. Freight
   e. Excise and other applicable taxes
   f. Company Construction Overheads
   g. Allowance for Funds Used During Construction (regulated companies) or Capitalized Interest (non-regulated companies)
   h. Other properly assignable charges

   Allowance for Funds Used During Construction (AFUDC) should be accrued for the Capitalized Spare Part while it is recorded in Account 107, Construction Work in Progress – Electric. The Capitalized Spare Part should not be reported in service prior to the commercial operating date of the owning company's first applicable generating unit or switchyard facility which can utilize the spare parts.

   The owning company should depreciate Capitalized Spare Parts, which are recorded in Account 1010, Electric Plant in Service, at the appropriate depreciation rate.

2. **Installation of Capitalized Spare Parts Other than Certain Distribution Equipment as Noted In Section III. B.**

   Replace an in-service part with a Capitalized Spare Part

   a. Capitalize the installation labor cost only of the Capitalized Spare Part. The Material cost of the Capitalized Spare Part has already been capitalized.
   b. If the replaced part is repaired and becomes a Capitalized Spare Part, charge the appropriate retirement work order with the cost of removal (if applicable)[2], retire the replaced part's original cost of installation labor. Charge the appropriate

[2] Removal cost for regulated companies is charged to the retirement work order, which is mapped to account 1080005. Removal cost **for non-regulated generating plants** is charged directly to expense account 5060003.

maintenance account with the cost of repairing the replaced part.

c. If the replaced part is not repaired, retire the replaced part, at its original cost of installation labor and material and charge the appropriate retirement work order with the cost of removal (if applicable)[2], less any salvage.
d. If a new Capitalized Spare Part is purchased, capitalize in accordance with Section III. A. 1.

3. Sales to Associated Companies

Accounting instructions for sales to associated companies are included in AEP System Accounting Bulleting No. 21, "Sales of Material and Equipment Between Associated Companies."

4. Sales to Outside Parties

Accounting instructions for sales to outside parties are included in AEP System Accounting Bulleting No. 21A, "Sales of Facilities to Outside Parties."

5. Record Keeping and Inventories

All Capitalized Spare Parts are to be recorded in the appropriate primary electric plant account. Material Services/Supply Chain is responsible for tracking capitalized spare parts. The value of the Capitalized Spare Part will not be included in the Material & Supplies Account 1540 even though it may be tracked in the inventory system.

The following data is needed for proper accounting of capitalized spare parts:

a. Total capitalized value of the CSP
b. Primary electric plant account (utility account)
c. Vintage Year (date capitalized)
d. Work Order or PTR number

In order to comply with standard inventory control procedures, an identification tag will be attached to each

Capitalized Spare Part. The tag will remain on the spare part, even if the part is in service, if possible.

A Capitalized Spare Parts Report should be processed at least quarterly for proper control. This report should include data as to appropriately account for Capitalized Spare Parts by Material Services Facility. It shall include such items as total capital value, vintage year, utility account, work order number (or PTR number), etc. It is the responsibility of Material Services to process the Capitalized Spare Parts Report and verify its accuracy. In the event of discrepancies, Material Services will resolve and account for the Capitalized Spare Parts accordingly.

A complete physical inventory of Capitalized Spare Parts is to be taken annually and reconciled with the Capitalized Spare Parts Report in order to comply with standard inventory controls.

B. Distribution Line Transformers and Meters

Distribution line transformers, voltage regulators and meters have special accounting requirements mandated by the FERC Uniform System of Accounts as follows:

1. **First Installation**
   The original cost of installation is capitalized for these items. This capitalization installation cost will remain identified with the equipment until the property is permanently removed from service.

2. **Subsequent Installations**
   Charge the appropriate maintenance account with the cost of installing the equipment.

3. **Removal of the Equipment**
   a. If the replaced equipment is to be repaired, charge the appropriate maintenance account with the cost of removal and repair.
   b. If the replaced equipment is to be retired, charge the appropriate retirement work order with the cost of removal, less any salvage, and retire the replaced equipment at its original cost including the original capitalized installation costs.

C. Other Spare Parts – Materials and Supplies (Inventory)

The cost of all spare parts designated as Materials and Supplies is chargeable to Account 1540, Plant Materials and Operating Supplies, and accounting therefore will be similar to that accorded all other regular materials and supplies items.

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Policy/Procedure Title	Accounting for Ash Disposal Costs	Date	9/10/10

Purpose

This accounting policy / procedure memo serves to update and replace AEP Accounting Bulletin 16, "Accounting for Ash Disposal Costs." This document addresses circumstances under which ash disposal costs should be capitalized versus expensed and when capitalized facilities cost should be retired.

This policy / procedure document may not be released to parties outside AEP without the approval of the Chief Accounting Officer.

Policy/Procedure Statement

Accounting Policy

Background

FERC acct 501 (Fuel), item 15 states, "residual disposal expenses less any proceeds from sale of residuals," should be classified to that account. Past FERC audits have concluded that "residual disposal expenses" includable in Account 501 are limited to "the additional expenses of disposing of ashes after they are accumulated at a generating plant." All other costs of operating and maintaining ash collecting, storage and handling equipment classified to Account 312, Boiler Plant Equipment, should be charged to either 502, Steam Expenses, or 512, Maintenance of Boiler Plant, regardless if equipment is located inside or outside of the generating plant building.

If a legal obligation to remediate the land upon closure exists, an asset retirement obligation (ARO) shall be set-up as of the date of first use of the disposal site. This is done by debiting 101, ARO asset and crediting 230, ARO liability for the fair value of the obligation. The asset is then depreciated over its useful life and the liability accreted to the settlement date. The Property Accounting department shall be consulted to determine (with AEP Legal's approval) whether an ARO shall be set-up and as to the correct valuation and accounting.

AEP currently uses (2) methods to store and dispose of ash:

1. Ash Disposal Ponds
2. Ash Disposal Landfills

An ash disposal pond is an impoundment formed by constructing either a dam across a valley or dikes around a specified area (flat site). Residuals from burning coal are transported to the disposal pond as a slurry from an associated plant. The residuals settle within the pond and the transport water is decanted into a stream. Sluicing operations continue until the pond is filled or the plant is retired. Generally, activities such as draining, regrading, placing an earth cover over the facility and vegetating the area are initiated only in connection with final closure.

A landfill is a filling operation conducted at a site which could be a valley, side of a hill or flat area. Residuals (including fly ash, bottom ash, gypsum and other FGD waste) from burning coal are moistened to the consistency of wet sand and transported by truck to engineered and licensed fill sites. The residual is spread and compacted by earth-moving equipment to established lines and grades. A temporary earth cover is placed on slopes and surfaces in which work must be postponed for an extended period of time due to the predetermined sequence of constructing the fill. As the landfill is progressively filled, a permanent earth cover is placed on the final exterior slopes and surface.

Accounting Treatment

Ash Transportation and Disposal, Site & Ash Equipment Maintenance, Including Sales

Account 501, Fuel

- Any costs and revenues associated with permanent disposal or utilization by others of ash prior to the final closing of an ash disposal site, regardless of how or where such disposal takes place.
- Permanent disposal is only present when there is a high probability that the ash will never be moved again.
- Moving and stockpiling costs associated with an AEP System construction project.
- Costs incurred to market ash or subsidize ash utilization by others. This includes moving and stockpiling costs incurred to facilitate the sale of ash.
- The ongoing cost of temporarily covering a landfill with earth and seeding, unrelated to the final closing. Includes costs to develop and/or reclaim a borrow area if it is not part of a construction or retirement project.
- Cessation costs incurred prior to the final closing.

Account 502, Steam Expenses

- All costs associated with operating ash collecting, storage and handling equipment classified to Account 312, Boiler Plant Equipment, including the ash disposal site itself, except for permanent disposal and site closure.
- Expense of moving ash within an existing disposal facility which does not represent permanent disposal or an increase in the capacity of that disposal facility.

Account 512, Maintenance of Boiler Plant

- All costs associated with maintaining ash disposal equipment classified to Account 312, Boiler Plant Equipment, unless such equipment is dedicated to a disposal site closure.

Account 107, CWIP

- With regard to those circumstances where ash is used for an internal AEP System construction project and the normal operations of the ash disposal facility would ultimately have required removal of the ash, then the cost of excavating and hauling the ash to the construction site should be charged to

Account 501, unless the construction site is more than five travel miles further away than the normal ash disposal site.

- Capitalize incremental costs incurred for transportation of ash for use in an internal AEP System construction project if the additional transportation distance exceeds five travel miles from the normal ash disposal site. For example, if the normal ash disposal site is three travel miles from the plant, incremental costs can only be capitalized if the construction site is more than eight travel miles from the plant (three miles plus five miles). The incremental cost to be capitalized is the additional cost of hauling the ash more than the normal three miles in this example.
- When the removal is necessitated by construction activity at the disposal site and the removal would not have been required otherwise, the full cost should be charged as site preparation to the construction project.

Disposal Site Construction

The following costs should be capitalized in Account 312, Boiler Plant Equipment. Service life must be greater than 1 year for capitalization, otherwise costs should be charged to Account 502 or if the costs related to permanent disposal, 501.

- Costs associated with the initial construction of a pond or landfill prior to the initial receipt of ash, including any initial costs to develop a borrow area as part of the construction project.
- Subsequent expansions of capacity.
- Subsequent site preparation such as the clearing and grading of land associated with the progressive development of a contiguous area.
- Cost of acquiring or constructing long-lived retirement unit assets to perform closing activities.
- Cost of converting a site for disposal of an alternate type of ash.

Disposal Site Retirement

A disposal site should be retired when it has been filled to its intended capacity and/or is no longer used and useful. The book cost of the ash disposal facility should be credited to Account 101, Plant in Service and charged to Account 108, Accumulated Provision for Depreciation of Plant.

If an ARO has been established,

- Closure costs are initially charged to the ARO settlement work order established for the particular ash disposal facility and cleared monthly to Account 230, Asset Retirement Obligations.

If an ARO has not been established,

- For regulated facilities, closure costs are charged to Account 108.
- For non-regulated facilities, closure costs are charged to Account 5060003.

Closure costs include:

- Cost of final closing activities, such as covering with earth and seeding. If applicable, include costs to develop a borrow area and/or reclaim a borrow area if it will not be used for future projects.
- Cost of post closure monitoring and maintenance of the closed facility, as required by the applicable environmental regulations (such as monitoring/testing wells, maintaining fence, mowing the closed disposal site and turf repair). After the required post closure monitoring period, such items would be charged to maintenance expense.
- Cost of operating and maintaining capitalized equipment dedicated to an ash disposal site closure (such as repair of monitoring wells).

Guidelines for Classification of Ash Disposal Costs

- Costs incurred in moving and stockpiling ash between the pond and a temporary stockpile should be charged to Account 502.
- Costs incurred in moving and stockpiling ash between the pond and a permanent disposal site should be charged to Account 501.
- Costs incurred in moving and stockpiling ash between the pond and an AEP System construction project should be charged to Account 501 unless the five mile criterion applies then the incremental costs should be charged to Account 107.
- Cost incurred in moving and stockpiling ash between one temporary stockpile and another temporary stockpile should be charged to Account 502.
- Costs incurred in moving and stockpiling ash between a temporary stockpile and a permanent disposal site should be charged to Account 501.
- Costs incurred in moving and stockpiling ash between a permanent disposal site and an AEP System construction project should be charged to Account 107.

References and Links

FERC USofA

FERC: Uniform System of Accounts - Webpage
Link to the FERC: Uniform System of Accounts - Electric

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Accounting Policy/Procedure

Policy/Procedure Title	Service Corp Procedures	**Date**	10/11/2004
Author:	Randy Roush	**Status:** (Draft, Under Review, Approved)	Approved

Purpose

The purpose of these procedures is to document the steps taken each month to help ensure that the allocation results of the AEPSC Billing System (SCBS) are reasonably accurate.

All deviations from this policy must be approved by the Assistant Controller – Regulated Accounting.

Policy/Procedure Statement

Background:
There are currently 75 Attribution Bases (billing factors) approved by the Securities and Exchange Commission (SEC) for utilization by American Electric Power Service Corporation (AEPSC) to allocate costs to client companies. AEPSC is not using all 75 billing factors at this time. The statistics for these billing factors are updated monthly, quarterly, semi-annually and annually, as applicable. Regulated Accounting adheres to the update frequency schedule as filed with the SEC, except in some instances where updates are done more frequently when deemed appropriate. Individuals in other groups provide most of the statistics to Regulated Accounting. These individuals are in the best position to provide the most accurate information, and therefore, they have been assigned with the responsibility to gather the statistics. These groups initially review the information they provide or review the information provided to them for reasonableness prior to submission to Regulated Accounting.

Gathering and Reviews of Statistics by Regulated Accounting:
Standardized spreadsheet templates have been created for many of the statistics to facilitate providing this information and to eliminate/minimize re-keying data. This makes the process more efficient and minimizes the possibility of errors.

Once received by Regulated Accounting, the statistics are stored in a directory on the "Treasury oh0co007" drive. The specific folders that contain these spreadsheets are restricted so only certain individuals in Regulated Accounting have access to the information. The Manager-Regulated Accounting controls the individuals who have this access.

Currently, Patrick Wilson is the accountant in Regulated Accounting who is primarily responsible for assuring the statistics are gathered and updated on the prescribed time schedule. He sends out reminders to the providers concerning when the next update of statistics is required. He transfers the statistics into the assigned folder as mentioned above. A major aspect of his responsibilities is to review and compare the statistics as provided against prior periods for reasonableness. Statistics are compared to one another, as appropriate, such as comparing the number of cell phones by company verses the number of employees by company to see if the relationship appears reasonable.

If reviews performed by Regulated Accounting result in questions based on previously provided information or information Regulated Accounting is aware of via AEP news updates, etc., the original provider of the statistical information is contacted to resolve the matter. The replies to the questions are reviewed to confirm that the responses and/or revised statistics are reasonable.

All E-mails submitted to Regulated Accounting regarding statistics are filed in Lotus Notes folders each month as a matter of documentation. To further enhance the documentation process, Patrick Wilson also transfers into writing in Lotus Notes any pertinent telephone conversations directly related to statistics used for billing.

Input of Statistics to PeopleSoft:
Monthly, after completing the review, Patrick Wilson prepares journal entries, via spreadsheet uploads, into the PeopleSoft Statistical Ledger. There are separate Statistical Account Numbers for each Attribution Basis. Next, another accountant in Regulated Accounting, Jim Carlson, is notified the statistics are ready for review.

Billable Business Units:
While the statistical information is being gathered and loaded into PeopleSoft, Jim Carlson prepares a list to identify the billable General Ledger Business Units (GLBU's). Currently, there are 217 active GLBU's in PeopleSoft. Since the AEPSC billing process would only allocate miniscule amounts to some of these subsidiary GLBU's, AEPSC only bills the higher-level parent GLBU's under certain circumstances. To accomplish this, the non-billable subsidiary GLBU's statistics are rolled up to its billable parent.

The resulting list of billable GLBU's is reviewed and updated monthly. Acquisitions, mergers, restructuring, sales and dissolutions of GLBU's necessitate the review of the list on a monthly basis. When a new GLBU is created, it is reviewed to determine if it is directly billable or if its statistical information should be applied to a billable parent.

Monthly, prior to the SCBS processing, Jim Carlson releases the billable GLBU list to appropriate individuals for review.

Benefiting Location Codes:
Jim Carlson also reviews multi-company Benefiting Location codes for accuracy to ensure that the description of the applicable GLBU's and the billable GLBU's listed match.

Additional Review of Statistics:
After the statistical journal entry has been completed, Jim Carlson runs a monthly query to copy the statistical information from PeopleSoft to an Excel spreadsheet. This

facilitates Jim's review utilizing Pivot Tables, etc. His review includes answering the following questions:

- Are all of the statistical accounts loaded?
- Are statistics for all of the Billable GLBU's loaded?
- Is the rollup statistical information loaded to the correct Billable Business Unit?
- Is the total number of rows comparable to the prior month?
- Is Cardinal Operating Company included in any of the X statistics?
- Are the changes, if any, reasonable when compared to the prior month's statistics?
- Do any of the statistics appear to be unusual or is any information missing?

Any identified irregularities are questioned and corrected, if necessary, and the process is repeated.

Posting of Statistical Journal Entries:
After any open items are fully resolved, Jim Carlson notifies Vicky Williams (Administrator-Regulated Accounting) or Randy Roush (Manager-Regulated Accounting) that the statistical journal entries are ready to be posted.

Also, these statistical entries have a pre-assigned Journal ID and another accountant, Kathy Messer, reviews this listing prior to running the SCBS to assure all applicable, pre-assigned entries have been posted.

Preview of Billing Processing:
After the statistical data is posted, a process is run to identify potential errors. A report is generated that identifies AEPSC transactions to work orders that will not bill due to inadequate statistical information (Report GLUNBILT) or invalid reclassification or mapping information (Report GLVALRCS). Jim Carlson investigates all items on this report and the appropriate corrective action is taken prior to the current month SCBS processing.

Verification of Net Income:
AEPSC's monthly net income must be zero, and procedures are in place to assure this happens. The review discussed above in "Preview of Billing Processing" identifies potential, unbillable transactions, which helps assure all of AEPSC's expenses are billed out properly and the offsetting revenue is recorded. However, several situations can occur that prevent AEPSC's net income from being zero, including:

- Transactions coming into the SCBS can contain fractional cents. However, the billings passed to AEPSC's client companies are rendered in whole cents. This "rounding" generally results in a couple of hundred of dollars difference each month.
- If expenses are charged to a Departmental Overhead work order for a department that did not have any labor that particular month, the transactions have no basis for allocation and strand/do not bill.

The dollar amount of these exceptions are minor, and are simply deferred in the current month to assure AEPSC's monthly net income is zero. The deferrals are cleared in the following month.

AEP®

Accounting Policy/Procedure

Transactional Testing:
Monthly, after closing, a Regulated Accountant manually traces two independent transactions through the SCBS allocation process and compares the results to the automated allocation to assure proper system functionality.

Signed paper copy to be retained by the Accounting Department.

Approved by:

In Review:

Randy Roush, Manager **Regulated Accounting**	**Date**
Kevin Bethel, Director **Regulated Accounting**	**Date**

AEP AMERICAN® ELECTRIC POWER

AEPSC Billing System
Revisions Effective January 1, 2004
Business Process Functional Design

APPROVAL SIGNATURES

Team Co-Lead: .... Date: ....

Team Co-Lead: .... Date: ....

REVISION RECORD SECTION

Version	Author	Status	Date	Description of Change
1.0	Design Doc Team	Draft	4/03	
2.0	Design Doc Team	Draft	5/13/03	Eliminated reference to CRUs; revised "Overhead Allocations" section.
3.0	Design Doc Team	Draft	5/14/03	Additional changes to "Overhead Allocations"; miscellaneous changes.
4.0	Design Doc Team	Draft	5/16/03	Added "Excluding Overheads from Certain Transactions".
5.0	Design Doc Team	Draft	5/21/03	Minor revisions.
6.0	Randy Roush	Draft	5/29/03	Additional changes to "Overhead Allocations".
7.0	Randy Roush, Mary Folz	Draft	6-9-2003	ETES Information
8.0	Pam Lifland	Draft	7-11-2003	XXNANDA Work Orders changed to SSXXNANDA
9.0	Mary Folz	Final	3-10-2004	Miscellaneous changes to complete the document.

A. Process Overview

American Electric Power Service Corporation (AEPSC) is organized under the Securities and Exchange Commission (SEC) Public Utility Holding Company Act of 1935 to provide certain services to the AEP System Affiliates. Services include accounting, engineering, finance, human resources, legal, marketing, production, and other professional services. The SEC requires that service companies "establish a system to accumulate reimbursable costs and charges to customers," and when appropriate, that the AEPSC directly bill the subsidiary that benefits from the service instead of allocating costs to several subsidiaries.

The AEPSC Billing System (SCBS) guidelines were established to:

- Ensure that all AEPSC costs, including labor and other charges, are accurately and appropriately accounted for and billed, at cost, to all client companies, in a timely, cost-efficient manner.
- Develop standards to use, maintain, and close Activities, Benefiting Locations, and Work Orders.

The SCBS has two types of Work Orders. Project Work Orders are used for services related to a specific job or project. These Work Orders begin with various letters or numbers other than "E" or "G". The billing for these Work Orders is based on the Attribution Basis and the Benefiting Location associated with the Work Order. A second type of Work Order has been established for functional services of a general nature. These Work Orders begin with the letter "G". (The letter "E" has been reserved for the same type of function, but is not being used at this time.) The charges associated with these Work Orders are billed according to the Attribution Basis associated with the Activity and the Benefiting Location associated with the Work Order.

Additional information is available in the **Functional Requirements Specification Document** for the AEPSC Billing Project.

As revised, the SCBS continues to rely on five key concepts: Attribution Basis, Activity, Benefiting Location, Account, and Work Order. A discussion of each of these concepts follows.

Attribution Basis

An Attribution Basis is a statistic or volume used to allocate/attribute costs following a reasonable method to client companies. Attribution Bases are assigned according to the most relevant cost driver associated with the service performed. The Attribution Basis, tied to an Activity or Work Order, dictates how the costs are allocated among these selected client companies.

The requestor of a new Activity or Work Order suggests the appropriate Attribution Basis since he/she has the most knowledge as to the type of work being performed. Accounting and

Corporate Planning & Budgeting review the Attribution Basis assigned. The SEC must authorize any new Attribution Basis before it may be used.

Refer to **Appendix A** for a list of currently approved Attribution Bases, which includes such measures as Number of Employees, Tons of Fuel Acquired, Number of Transmission Pole Miles, and Number of Customers.

Activity

All charges incurred by AEPSC are billed to the client companies based on the nature and scope of the service provided. An Activity is used to broadly define work performed and services provided. In addition, Activities are used to budget and track costs to properly manage not only AEPSC, but also all of the AEP system companies.

All Activities and Work Orders (except "G" Work Orders) are assigned an appropriate Attribution Basis. All Activities and Work Orders have the possibility of being direct billed to one company if a Benefiting Location is used that represents 100% to one client company.

Once Corporate Planning & Budgeting approves the need for a new Activity, the request is forwarded to AEPSC Accounting personnel to add the Activity and the corresponding Attribution Basis to PeopleSoft. An e-mail notification is automatically sent to the appropriate individuals via a Lotus Notes mail group to advise them of new Activities. This mail group includes personnel from Corporate Planning & Budgeting, and Corporate Accounting, including AEPSC Accounting personnel.

Benefiting Location

The Activity and/or Work Order define what work was performed and what Attribution Basis is used. The Benefiting Location, which is an attribute of the Work Order, defines which companies benefit from the work performed. The Benefiting Location denotes a single client company or multiple client companies.

The requester of a new Work Order suggests a Benefiting Location. Please note that the "G" Work Orders represent Benefiting Locations only. The "G" Work Order indicates whom to bill, and the Attribution Basis attached to the Activity indicates how to bill. Once Corporate Planning & Budgeting approves the need for a new Benefiting Location, they add the Benefiting Location to PeopleSoft. The Benefiting Location table in PeopleSoft indicates which companies benefit from the work performed.

Account

The Account entered on the original AEPSC transaction carries through to the associated Client Company general ledgers in most cases. See **Section E - Reclass**, for a summary of the exceptions.

Work Order

Work Orders are used to track costs associated with specific work performed. Work Orders begin with an alpha or a numeric prefix. In order for a Work Order to be unique, it requires a Project Costing Business Unit and a Budget Project. An Attribution Basis is also assigned to each Work Order. The Attribution Basis on the Work Order overrides the Attribution Basis assigned to an Activity, except in the case of "G" Work Orders. "G" Work Orders use the Attribution Basis assigned to the Activity to bill costs.

A request for a new Work Order is generally necessary when a new service is identified or a new affiliated company is acquired or formed.

Customization Summary

The allocation process has been customized using PeopleSoft allocation functions. The process was built to accommodate SEC requirements, using a series of custom extracts, panels, SQRs, and other reports. (See **Technical Design Document** for detail.) The custom tables used by this allocation process are as follow:

Z_ALLOC_STAT - This table houses statistical information extracted from the HUB (the data repository) used in the SCBS allocation process.

Z_SCB_EXC_COM - This table houses information that should go through our allocation process, but fails because it contains errors. The transactions on the table must be corrected via a journal entry to enable all the transactions to process through the allocations.

Z_SCB_TRN_ERR - This table contains the error messages associated with the Z_SCB_EXC_COM table.

Z_ACT_ID_BENBAS - This table is built using custom SQR to provide a basis for the allocation steps that bill multiple companies utilizing Work Orders (other than "G" and "E" Work Orders).

Z_RESCAT_BENBAS - This table is built using custom SQR to provide a basis for the allocation steps that bill multiple companies utilizing "G" and "E" Work Orders.