

Exhibit KMM-3

ANNUAL REPORT — 2012

OHIO VALLEY ELECTRIC CORPORATION

and subsidiary

INDIANA-KENTUCKY ELECTRIC CORPORATION

Ohio Valley Electric Corporation

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

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

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

OVEC and the Sponsoring Companies signed an Inter-Company Power Agreement (ICPA) on July 10, 1953, to support the DOE Power Agreement and provide for excess energy sales to the Sponsoring Companies of power not utilized by the DOE or its predecessors. Since the termination of the DOE Power Agreement on April 30, 2003, OVEC's entire generating capacity has been available to the Sponsoring Companies under the terms of the ICPA. The Sponsoring Companies and OVEC entered into an Amended and Restated ICPA, effective as of August 11, 2011, which extends its term to June 30, 2040.

OVEC's Kyger Creek Plant at Cheshire, Ohio, and IKEC's Clifty Creek Plant at Madison, Indiana, have nameplate generating capacities of 1,086,300 and 1,303,560 kilowatts, respectively. These two generating stations, both of which began operation in 1955, are connected by a network of 705 circuit miles of 345,000-volt transmission lines. These lines also interconnect with the major power transmission networks of several of the utilities serving the area.

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

Allegheny Energy, Inc. ¹	3.50
American Electric Power Company, Inc.*	39.17
Buckeye Power Generating, LLC ²	18.00
The Dayton Power and Light Company ³	4.90
Duke Energy Ohio, Inc. ⁴	9.00
Kentucky Utilities Company ⁵	2.50
Louisville Gas and Electric Company ⁵	5.63
Ohio Edison Company ¹	0.85
Ohio Power Company** ⁶	4.30
Peninsula Generation Cooperative ⁷	6.65
Southern Indiana Gas and Electric Company ⁸	1.50
The Toledo Edison Company ¹	4.00
	<u>100.00</u>

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

Allegheny Energy Supply Company LLC ¹	3.01
Appalachian Power Company ⁶	15.69
Buckeye Power Generating, LLC ²	18.00
The Dayton Power and Light Company ³	4.90
Duke Energy Ohio, Inc. ⁴	9.00
FirstEnergy Generation, LLC ¹	4.85
Indiana Michigan Power Company ⁶	7.85
Kentucky Utilities Company ⁵	2.50
Louisville Gas and Electric Company ⁵	5.63
Monongahela Power Company ¹	0.49
Ohio Power Company ⁶	19.93
Peninsula Generation Cooperative ⁷	6.65
Southern Indiana Gas and Electric Company ⁸	1.50
	<u>100.00</u>

Some of the Common Stock issued in the name of:

- *American Gas & Electric Company
- **Columbus and Southern Ohio Electric Company

Subsidiary or affiliate of:

- ¹FirstEnergy Corp.
- ²Buckeye Power, Inc.
- ³The AES Corporation
- ⁴Duke Energy Corporation
- ⁵PPL Corporation
- ⁶American Electric Power Company, Inc.
- ⁷Wolverine Power Supply Cooperative, Inc.
- ⁸Vectren Corporation

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

A Message from the President

Ohio Valley Electric Corporation and its subsidiary, Indiana-Kentucky Electric Corporation, observed their 60th anniversary as corporate entities on October 1, 2012. Over the years, the companies' long-established competitive operating efficiency and performance have proved to be valuable to our owners, the Sponsoring Companies. Going forward, we will continue to focus on our values — safety, operational excellence, cost controls and environmental compliance.

FLUE GAS DESULFURIZATION (FGD) PROJECTS

The first FGD scrubber at Kyger Creek was successfully placed into service in November 2011, and the second Kyger FGD scrubber began successful operation in February 2012. Both scrubbers continue to meet our environmental performance expectations. As designed, the Kyger Creek scrubbers achieve 98 percent sulfur dioxide (SO₂) removal efficiency.

The first Clifty Creek plant FGD system was successfully placed into service in March 2013, and the second FGD system began successful operation in May 2013. These FGDs are also designed to achieve 98 percent SO₂ removal efficiency, and initial data shows that the Clifty Creek FGD systems will perform as designed.

ENERGY SALES

OVEC's use factor — the ratio of power scheduled by the Sponsoring Companies to power available — for the combined on- and off-peak periods averaged 69.4 percent in 2012 compared with 89.6 percent in 2011. The on-peak use factor averaged 82.9 percent in 2012 compared with 98.9 percent in 2011. The off-peak use factor averaged 52.4 percent in 2012 and 77.5 percent in 2011.

In 2012, OVEC delivered 10.34 million MWh to the Sponsoring Companies compared with 14.20 million MWh in 2011.

POWER COSTS

In 2012, OVEC's average power cost to the Sponsoring Companies was \$62.86 per MWh compared with \$50.86 per MWh in 2011. The total Sponsoring Company power costs were \$650 million in 2012 compared with \$722 million in 2011. The lower energy sales in 2012 accounted for the majority of the increase in the cost per MWh in 2012. Mild weather, a soft energy market and low-cost natural gas generation were responsible for lower energy sales in 2012.

2013 ENERGY SALES OUTLOOK

In 2013, the demand for energy remains weak as the national economy continues to recover and natural gas generation continues to compete with coal-fired generation. OVEC projects that these factors will continue to impact the Sponsors' scheduling of OVEC's power in 2013. As a result, OVEC anticipates the combined use factor for 2013 will be approximately 75 percent.

COST CONTROL INITIATIVES

In 2012 and continuing in 2013, OVEC has been engaged in a continuous improvement initiative to control costs, improve operating performance and explore opportunities to enhance the value of the OVEC investment. This work will produce sustainable savings through OVEC's partnering with the workforce in forming change management teams.

AVAILABILITY

In 2012, the combined equivalent availability of the five generating units at Kyger Creek and the six units at Clifty Creek was 78.9 percent compared with 83.0 percent in 2011.

OVEC FERC ORDER 1000 COMPLIANCE

The Federal Energy Regulatory Commission (FERC) Order 1000 issued in July 2011 requires transmission providers, including OVEC, to participate in regional and interregional transmission planning. Because OVEC is not a member of a Regional Transmission Organization that provides such planning to its members, OVEC partnered with LG&E/KU to join the Southeast Regional Transmission Planning (SERTP) group. The SERTP had been formed in 2007 by a group of utilities led by Southern Company. Working with this group, OVEC was able to submit a compliance filing to the FERC for the regional planning portion of Order 1000 in February 2013. A ruling on this filing is expected from the FERC later this summer. OVEC is currently working with the SERTP on developing a filing to address the interregional portion of Order 1000. As it did for the regional filing, the FERC has granted an extension of the interregional filing date from April until July 2013.

DOE ARRANGEMENTS WITH OVEC

In 2012, OVEC purchased 245,994 MWh of power and energy from other electricity suppliers for delivery and use by the Department of Energy (DOE) for its Portsmouth facility. At the request of the DOE, OVEC makes these limited purchases of power and energy under the terms and conditions of an Arranged Power Agreement with the DOE.

As ordered by the FERC, the North American Electric Reliability Corporation (NERC) registered OVEC as the load-serving entity for the DOE load at the Portsmouth facility. OVEC is working with Sponsor representatives to mitigate any impacts, other than additional NERC compliance obligation, that could result from this additional NERC registration. Discussions continue with the DOE on assuming responsibility for the remaining high-voltage substation at the facility.

ENVIRONMENTAL COMPLIANCE

OVEC and IKEC have a strong commitment to maintain compliance with all applicable federal, state and local environmental rules and regulations. During 2012, the Kyger Creek and Clifty Creek plants operated in compliance with their respective air emission limits, and the Companies received no notices of violation from any of the environmental

agencies responsible for overseeing the status of our environmental compliance activities.

SAFETY

OVEC and IKEC are committed to providing a safe and healthy place to work for all employees. In 2012, the Companies continued making progress on their transition to a culture that leads with safety. Safety training on Human Performance Improvement tools was initiated in 2012 and will continue in 2013. Strong leadership and the involvement of all employees will help ensure that we achieve and sustain the desired goal of zero harm.

BOARD OF DIRECTORS AND OFFICERS CHANGES

In December 2012, James R. Haney, vice president, compliance & regulated services and chief FERC compliance officer of FirstEnergy Services Company, was elected to serve as a director of OVEC following the resignation of Stanley F. Szwed. Also in December 2012, Charles D. Lasky, vice president, fossil fleet operations of FirstEnergy Generation, LLC, was elected a director of IKEC and appointed to the Executive Committee of OVEC and IKEC, succeeding Stanley F. Szwed. Mr. Szwed had served on the OVEC and IKEC boards and as a member of the Executive Committee of both companies since 2003. Effective March 1, 2013, Lana L. Hillebrand, senior vice president and chief administrative officer of American Electric Power Company, Inc., was elected a director of OVEC and a member of the OVEC Human Resources Committee, replacing Pablo A. Vegas. Mr. Vegas had served on the OVEC board and as a member of the Human Resources Committee since 2012.

In January 2013, Julie Sloat, senior vice president and treasurer for American Electric Power Company, Inc., was elected assistant secretary and assistant treasurer of OVEC and IKEC.



Nicholas K. Akins
President

June 24, 2013

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
ELECTRIC PLANT:		
At original cost	\$1,985,645,118	\$1,782,236,938
Less — accumulated provisions for depreciation	<u>1,115,363,691</u>	<u>1,041,198,318</u>
	870,281,427	741,038,620
Construction in progress	<u>645,484,896</u>	<u>684,076,875</u>
Total electric plant	<u>1,515,766,323</u>	<u>1,425,115,495</u>
CURRENT ASSETS:		
Cash and cash equivalents	19,924,318	4,752,223
Accounts receivable	36,952,825	40,901,450
Fuel in storage	79,550,095	71,696,998
Materials and supplies	27,464,418	27,805,915
Property taxes applicable to future years	2,503,440	2,521,920
Emission allowances	86,649	28,519
Deferred tax assets	18,302,793	13,213,395
Income taxes receivable	15,832,666	1,441,451
Regulatory assets	8,277,357	-
Prepaid expenses and other	<u>2,168,143</u>	<u>1,907,652</u>
Total current assets	<u>211,062,704</u>	<u>164,269,523</u>
REGULATORY ASSETS:		
Unrecognized postemployment benefits	2,498,759	2,412,685
Pension benefits	30,561,325	50,922,795
Postretirement benefits	<u>1,324,775</u>	<u>2,980,610</u>
Total regulatory assets	<u>34,384,859</u>	<u>56,316,090</u>
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	14,485,787	13,714,625
Deferred tax assets	22,265,884	31,902,804
Long-term investments	120,351,712	106,177,206
Special deposits - restricted	57,938,752	-
Other	<u>103,107</u>	<u>222,482</u>
Total deferred charges and other	<u>215,145,242</u>	<u>152,017,117</u>
TOTAL	<u>\$1,976,359,128</u>	<u>\$1,797,718,225</u>

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock, \$100 par value — authorized, 300,000 shares; outstanding, 100,000 shares in 2012 and 2011	\$ 10,000,000	\$ 10,000,000
Long-term debt	1,358,347,337	1,197,204,828
Line of credit borrowings	60,000,000	100,000,000
Retained earnings	5,293,968	4,037,278
Total capitalization	<u>1,433,641,305</u>	<u>1,311,242,106</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	238,138,903	135,797,658
Accounts payable	53,916,997	78,722,972
Deferred revenue — advances for construction	19,389,380	31,084,284
Accrued other taxes	8,651,108	8,811,972
Regulatory liabilities	2,586,594	2,973,856
Accrued interest and other	25,822,574	22,909,899
Total current liabilities	<u>348,505,556</u>	<u>280,300,641</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
REGULATORY LIABILITIES:		
Decommissioning and demolition	14,230,459	10,610,565
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	38,645,647	40,284,930
Total regulatory liabilities	<u>58,093,181</u>	<u>56,112,570</u>
OTHER LIABILITIES:		
Pension liability	30,561,325	50,922,795
Asset retirement obligations	20,961,379	19,809,316
Postretirement benefits obligation	82,097,623	76,918,112
Postemployment benefits obligation	2,498,759	2,412,685
Total other liabilities	<u>136,119,086</u>	<u>150,062,908</u>
TOTAL	<u>\$1,976,359,128</u>	<u>\$1,797,718,225</u>

See notes to consolidated financial statements.

(Concluded)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES — Sales of electric energy to:		
Department of Energy	\$ 9,097,306	\$ 11,643,355
Sponsoring Companies	<u>661,721,951</u>	<u>705,294,774</u>
Total operating revenues	<u>670,819,257</u>	<u>716,938,129</u>
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	302,925,697	397,543,208
Purchased power	8,552,565	10,912,769
Other operation	101,967,242	95,597,681
Maintenance	89,645,354	81,451,764
Depreciation	85,140,820	56,131,434
Taxes — other than income taxes	10,765,327	11,207,820
Income taxes	<u>893,533</u>	<u>851,608</u>
Total operating expenses	<u>599,890,538</u>	<u>653,696,284</u>
OPERATING INCOME	70,928,719	63,241,845
OTHER INCOME	<u>10,920,111</u>	<u>10,167,078</u>
INCOME BEFORE INTEREST CHARGES	<u>81,848,830</u>	<u>73,408,923</u>
INTEREST CHARGES:		
Amortization of debt expense	4,606,617	1,478,943
Interest expense	<u>74,985,523</u>	<u>69,259,876</u>
Total interest charges	<u>79,592,140</u>	<u>70,738,819</u>
NET INCOME	2,256,690	2,670,104
RETAINED EARNINGS — Beginning of year	4,037,278	2,367,174
CASH DIVIDENDS ON COMMON STOCK	<u>(1,000,000)</u>	<u>(1,000,000)</u>
RETAINED EARNINGS — End of year	<u>\$ 5,293,968</u>	<u>\$ 4,037,278</u>

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES:		
Net income	\$ 2,256,690	\$ 2,670,104
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	85,140,820	56,131,434
Amortization of debt expense	4,606,617	1,478,943
Deferred taxes/refundable taxes	2,908,239	(1,236,767)
(Gain) on marketable securities	(6,345,075)	(5,844,074)
Changes in assets and liabilities:		
Accounts receivable	3,948,625	3,517,008
Fuel in storage	(7,853,097)	(8,859,671)
Materials and supplies	341,497	(4,853,014)
Property taxes applicable to future years	18,480	(19,920)
Emission allowances	(58,130)	612,810
Income taxes receivable	(14,391,215)	12,430,808
Prepaid expenses and other	(260,491)	496,868
Other regulatory assets	11,638,471	(43,323,464)
Other assets	-	(117,906)
Other noncurrent assets	119,375	(222,242)
Accounts payable	2,571,729	13,822,449
Deferred revenue - advances for construction	(11,694,904)	16,858,709
Accrued taxes	(160,864)	299,402
Accrued interest and other	2,912,675	235,410
Other liabilities	(13,943,822)	61,025,439
Other regulatory liabilities	5,248,035	(8,904,125)
Net cash provided by operating activities	<u>67,003,655</u>	<u>96,198,201</u>
INVESTING ACTIVITIES:		
Electric plant additions	(203,169,352)	(151,562,139)
Proceeds from sale of LT investments	20,342,154	26,095,488
Purchases of long-term investments	<u>(86,110,337)</u>	<u>(38,955,548)</u>
Net cash used in investing activities	<u>(268,937,535)</u>	<u>(164,422,199)</u>
FINANCING ACTIVITIES:		
Issuance of Senior 2012 Bonds	299,403,938	-
Issuance of Senior 2010 Bonds	-	100,000,000
Loan origination cost	(5,377,779)	(3,807,975)
Repayment of Senior 2006 Notes	(14,730,774)	(15,842,599)
Repayment of Senior 2007 Notes	(10,392,343)	(10,524,555)
Repayment of Senior 2008 Notes	(10,797,067)	(12,853,086)
Proceeds from line of credit	160,000,000	80,000,000
Payments on line of credit	(200,000,000)	(85,000,000)
Dividends on common stock	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Net cash provided by financing activities	<u>217,105,975</u>	<u>50,971,785</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>15,172,095</u>	<u>(17,252,213)</u>
CASH AND CASH EQUIVALENTS — Beginning of year	<u>4,752,223</u>	<u>22,004,436</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 19,924,318</u>	<u>\$ 4,752,223</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 74,160,307	\$ 69,615,825
Income taxes paid (received) — net	\$ 12,504,500	\$ (7,486,412)
Non-cash electric plant additions included in accounts payable at December 31	\$ 8,654,116	\$ 36,031,820

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Organization — The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and two affiliates of generation and transmission rural electric cooperatives. These entities or their affiliates comprise the Sponsoring Companies. The Sponsoring Companies purchase power from OVEC according to the terms of the Inter-Company Power Agreement (ICPA), which has a current termination date of June 30, 2040. Approximately 27% of the Companies' employees are covered by a collective bargaining agreement that expires August 31, 2014.

Prior to 2004, OVEC's primary commercial customer was the U.S. Department of Energy (DOE). The contract to provide OVEC-generated power to the DOE was terminated in 2003 and all obligations were settled at that time. Currently, OVEC has an agreement to arrange for the purchase of power (Arranged Power), under the direction of the DOE, for resale directly to the DOE. All purchase costs are billable by OVEC to the DOE.

Rate Regulation — The proceeds from the sale of power to the Sponsoring Companies are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, as well as earn a return on equity before federal income taxes. In addition, the proceeds from power sales are designed to cover debt amortization and interest expense associated with financings. The Companies have continued and expect to continue to operate pursuant to the cost plus rate of return recovery provisions at least to June 30, 2040, the date of termination of the ICPA.

The accounting guidance for Regulated Operations provides that rate-regulated utilities account for and report assets and liabilities consistent with the economic effect of the way in which rates are established, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. The Companies follow the accounting and reporting requirements in accordance with the guidance for Regulated Operations. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the accompanying consolidated balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2012 and 2011, were as follows:

	2012	2011
Regulatory assets:		
Current assets:		
Lease termination costs/liquidated damages	\$ 5,225,467	\$ -
Unrecognized loss on coal sales	<u>3,051,890</u>	<u>-</u>
Total	<u>8,277,357</u>	<u>-</u>
Other assets:		
Unrecognized postemployment benefits	\$ 2,498,759	\$ 2,412,685
Pension benefits	30,561,325	50,922,795
Postretirement benefits	<u>1,324,775</u>	<u>2,980,610</u>
Total	<u>34,384,859</u>	<u>56,316,090</u>
Total regulatory assets	<u>\$42,662,216</u>	<u>\$56,316,090</u>
Regulatory liabilities:		
Current liabilities:		
Deferred credit — EPA emission allowance proceeds	\$ 274,687	\$ 269,506
Advance collection of interest	<u>2,311,907</u>	<u>2,704,350</u>
Total	<u>2,586,594</u>	<u>2,973,856</u>
Other liabilities:		
Decommissioning and demolition	\$14,230,459	\$10,610,565
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	<u>38,645,647</u>	<u>40,284,930</u>
Total	<u>58,093,181</u>	<u>56,112,570</u>
Total regulatory liabilities	<u>\$60,679,775</u>	<u>\$59,086,426</u>

Regulatory Assets — Regulatory assets consist primarily of postretirement benefits, income taxes billable to customers, and pension benefits. Income taxes billable to customers are billed to customers in the period when the related deferred tax liabilities are realized. The fuel related costs, including railcar lease

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

termination costs and liquidated damages, will be billed to customers in 2013. All other regulatory assets are being recovered on a long-term basis.

Regulatory Liabilities — The regulatory liabilities classified as current in the accompanying consolidated balance sheet as of December 31, 2012, consist primarily of interest expense collected from customers in advance of expense recognition. These amounts outstanding will be credited to customer bills during 2013. Other regulatory liabilities consist primarily of income taxes refundable to customers, postretirement benefits, and decommissioning and demolition costs. Income taxes refundable to customers are credited to customer bills in the period when the related deferred tax assets are realized. The Companies' current ratemaking policy recovers postretirement benefits in an amount equal to estimated benefit accrual cost plus amortization of unfunded liabilities, if any. As a result, related regulatory liabilities are being credited to customer bills on a long-term basis. The remaining regulatory liabilities are awaiting credit to customer bills in a future period that is yet to be determined.

In 2003, the DOE terminated the DOE Power Agreement with OVEC, entitling the Sponsoring Companies to 100% of OVEC's generating capacity under the terms of the ICPA. Under the terms of the DOE Power Agreement, OVEC was entitled to receive a "termination payment" from the DOE to recover unbilled costs upon termination of the agreement. The termination payment included unbilled postretirement benefit costs. In 2003, OVEC recorded a settlement payment of \$97 million for the DOE obligation related to postretirement benefit costs. The regulatory liability for postretirement benefits recorded at December 31, 2012 and December 31, 2011, represents amounts collected in historical billings in excess of the Generally Accepted Accounting Principles net periodic benefit costs, including the DOE termination payment.

Cash and Cash Equivalents — Cash and cash equivalents primarily consist of cash and money market funds and their carrying value approximates fair value. For purposes of these statements, the Companies consider temporary cash investments to be cash equivalents since they are readily convertible into cash and have original maturities of less than three months.

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Long-Term Investments — Long-term investments consist of marketable securities that are held for the purpose of funding postretirement benefits and decommissioning and demolition costs. These securities have been classified as trading securities in accordance with the provisions of Investments — Debt and Equity Securities accounting guidance. Trading securities reflected in Long-Term Investments are carried at fair value with the unrealized gain or loss, reported in Other Income. The cost of securities sold is based on the specific identification cost method. The fair value of most investment securities is determined by reference to currently available market prices. Where quoted market prices are not available, we use the market price of similar types of securities that are traded in the market to estimate fair value. See Fair Value Measurements in Note 10. Due to tax limitations, the amounts held in the postretirement benefits portfolio have not yet been transferred to the Voluntary Employee Beneficiary Association (VEBA) trusts (see Note 8). Long-term investments primarily consist of municipal bonds, money market mutual fund investments, and mutual funds. Net unrealized gains (losses) recognized during 2012 and 2011 on securities still held at the balance sheets date were \$6,250,092 and \$5,844,074, respectively.

Special Deposits — Special deposits consist of money market mutual funds held by trustees restricted for use in specific construction projects. The fair value of special deposits at the balance sheet date was \$57,938,752.

Money market mutual funds reflected in special deposits are carried at fair value with the related investment income reported in Other Income. The cost of securities sold is based on the specific identification method. The fair value of money market mutual funds is determined by reference to currently available market prices and, as such, is considered Level 1. There were no unrealized gains or losses recognized on this portfolio during 2012.

Fair Value Measurements of Assets and Liabilities — The accounting guidance for Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Where observable inputs are available, pricing may be completed using comparable securities, dealer values and general market conditions to determine fair value. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets and other observable inputs for the asset or liability.

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

These asset retirement obligations are primarily related to obligations associated with future asbestos abatement at certain generating stations and certain plant closure costs.

Balance — January 1, 2011	\$ 30,999,653
Accretion	2,130,471
Liabilities settled	(338,375)
Revision in cash flow estimates	<u>(12,982,433)</u>
Balance — December 31, 2011	19,809,316
Accretion	1,429,394
Liabilities settled	(277,331)
Revision in cash flow estimates	<u>-</u>
Balance — December 31, 2012	<u>\$ 20,961,379</u>

The revised estimated costs are recorded in the accompanying balance sheets. The asset retirement obligations originally assumed a decommissioning and demolition date consistent with the ICPA expiring in 2026. As the ICPA was extended an additional 14 years to 2040, the cash flow estimates were revised to reflect the new decommissioning and demolition date, which resulted in a decreased obligation as of December 31, 2011.

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

Income Taxes — The Companies use the liability method of accounting for income taxes. Under the liability method, the Companies provide deferred income taxes for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence. The Companies account for uncertain tax positions in accordance with the accounting guidance for Income Taxes.

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

Subsequent Events — In preparing the accompanying financial statements and disclosures, the Companies reviewed subsequent events through April 10, 2013, which is the date the consolidated financial statements were issued.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2012 and 2011 included the sale of all generated power to them, the purchase of Arranged Power from them and other utility systems in order to meet the Department of Energy's power requirements, contract barging services, railcar services, and minor transactions for services and materials. The Companies have Power Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, Kentucky Utilities Company, Ohio Edison Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies; and Transmission Service Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, The Toledo Edison Company, Ohio Edison Company, Kentucky Utilities Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies.

At December 31, 2012 and 2011, balances due from the Sponsoring Companies are as follows:

	2012	2011
Accounts receivable	<u>\$34,343,741</u>	<u>\$36,650,231</u>

American Electric Power Company, Inc. and subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2012. The following is a summary of the principal services received from the American Electric Power Service Corporation as authorized by the Companies' Boards of Directors:

	2012	2011
General services	\$ 3,216,482	\$ 3,656,595
Specific projects	<u>12,746,357</u>	<u>9,612,272</u>
Total	<u>\$15,962,839</u>	<u>\$13,268,867</u>

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

3. COAL SUPPLY

The Companies have coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2013 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have 94% of their 2013 coal requirements under long-term agreements of one year or greater. These contracts are based on rates in effect at the time of purchase. During 2012, OVEC failed to meet the contracted obligations relating to one coal transportation contract, which resulted in liquidated damages of \$2,227,781. These costs are payable to vendors and recoverable from the Sponsor Companies within the next 12 months and are recorded as current regulatory assets (see Note 1).

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

4. ELECTRIC PLANT

Electric plant at December 31, 2012 and 2011, consists of the following:

	2012	2011
Steam production plant	\$1,898,140,562	\$1,695,243,965
Transmission plant	74,777,994	74,443,405
General plant	12,699,998	12,523,004
Intangible	26,564	26,564
	<u>1,985,645,118</u>	<u>1,782,236,938</u>
Less accumulated depreciation	<u>1,115,363,691</u>	<u>1,041,198,318</u>
	870,281,427	741,038,620
Construction in progress	<u>645,484,896</u>	<u>684,076,875</u>
Total electric plant	<u>\$1,515,766,323</u>	<u>\$1,425,115,495</u>

All property additions and replacements are fully depreciated on the date the property is placed in service, unless the addition or replacement relates to a financed project. The majority of financed projects placed in service over the past 5 years have been recorded to steam production plant with depreciable lives ranging from 32 to 45 years. However, as the Companies' policy is to bill in accordance with the principal billings of the debt agreements, all financed projects are being depreciated in line with principal payments on outstanding debt.

5. BORROWING ARRANGEMENTS AND NOTES

OVEC has an unsecured bank revolving line of credit agreement with a borrowing limit of \$275 million as of December 31, 2012, and \$225 million as of December 31, 2011. The \$225 million line of credit was renewed in June 2010, increased to \$275 million in April 2012, and has an expiration date of June 18, 2015. At December 31, 2012 and 2011, OVEC had borrowed \$60 million and \$100 million, respectively, under this line of credit. Interest expense related to line of credit borrowings was \$3,139,158 in 2012 and \$2,216,871 in 2011. During 2012 and 2011, OVEC incurred annual commitment fees of \$412,458 and \$573,958, respectively, based on the borrowing limits of the line of credit.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

6. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2012 and 2011:

	Interest Rate	2012	2011
Senior 2006 Notes:			
2006A due February 15, 2026	5.80 %	\$ 292,095,074	\$ 306,042,656
2006B due June 15, 2040	6.40	61,252,481	62,035,673
Senior 2007 Notes:			
2007A-A due February 15, 2026	5.90	132,475,263	138,983,105
2007A-B due February 15, 2026	5.90	33,362,594	35,001,279
2007A-C due February 15, 2026	5.90	33,628,247	35,279,980
2007B-A due June 15, 2040	6.50	30,609,314	31,003,872
2007B-B due June 15, 2040	6.50	7,708,654	7,808,021
2007B-C due June 15, 2040	6.50	7,770,034	7,870,192
Senior 2008 Notes:			
2008A due February 15, 2026	5.92	41,334,943	43,362,126
2008B due February 15, 2026	6.71	83,014,206	86,898,218
2008C due February 15, 2026	6.71	84,578,521	88,408,080
2008D due June 15, 2040	6.91	44,242,121	44,765,728
2008E due June 15, 2040	6.91	45,010,851	45,543,556
Series 2009 Notes:			
2009A due February 15, 2013	1.96	100,000,000	100,000,000
Series 2009 Bonds:			
2009A due February 1, 2026	0.11	25,000,000	25,000,000
2009B due February 1, 2026	0.11	25,000,000	25,000,000
2009C due February 1, 2026	0.12	25,000,000	25,000,000
2009D due February 1, 2026	0.12	25,000,000	25,000,000
2009E due October 1, 2019	5.63	100,000,000	100,000,000
Series 2010 Bonds:			
2010A due June 29, 2014	1.48	50,000,000	50,000,000
2010B due June 29, 2016	1.48	50,000,000	50,000,000
Series 2012 Bonds:			
2012A due June 1, 2032	4.95	77,091,234	-
2012A due June 1, 2039	5.05	122,312,703	-
2012B due June 1, 2040	0.12	50,000,000	-
2012C due June 1, 2040	0.11	50,000,000	-
Total debt		1,596,486,240	1,333,002,486
Current portion of long-term debt		238,138,903	135,797,658
Total long-term debt		<u>\$ 1,358,347,337</u>	<u>\$ 1,197,204,828</u>

All of the OVEC amortizing unsecured senior notes have maturities scheduled for February 15, 2026, or June 15, 2040, as noted in the previous table.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

During 2009, OVEC issued \$100 million variable rate non-amortizing unsecured senior notes (2009A Notes) in private placement, a series of four \$25 million variable rate non-amortizing tax exempt pollution control bonds (2009A, B, C, and D Bonds), and \$100 million fixed rate non-amortizing tax exempt pollution control bonds (2009E Bonds). The variable rates listed above reflect the interest rate in effect at December 31, 2012.

The 2009 Series A, B, C, and D Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring August 12, 2013, and August 21, 2013, issued for the benefit of the owners of the bonds. The interest rate on the bonds are adjusted weekly, and bondholders may require repurchase of the bonds at the time of such interest rate adjustments. OVEC has entered into an agreement to provide for the remarketing of the bonds if such repurchase is required. The 2009A, B, C, and D Series Bonds are current, as they are callable at any time.

In December 2010, OVEC established a borrowing facility under which OVEC borrowed, in 2011, \$100 million variable rate bonds due February 1, 2040. In June 2011, the \$100 million variable rate bonds were issued as two \$50 million non-amortizing pollution control revenue bonds (Series 2010A and 2010B) in a short-term bank arrangement for three years and five years, respectively.

During 2012, OVEC issued \$200 million fixed rate tax-exempt midwestern disaster relief revenue bonds (2012A Bonds) and two series of \$50 million variable rate tax-exempt midwestern disaster relief revenue bonds (2012B and 2012C Bonds). The 2012A, 2012B, and 2012C Bonds will begin amortizing June 1, 2027, to their respective maturity dates. The variable rates listed above reflect the interest rate in effect at December 31, 2012.

The 2012B and 2012C Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring June 28, 2014, and June 28, 2015, issued for the benefit of the owners of the bonds. The interest rates on the bonds are adjusted weekly, and bondholders may require repurchase of the bonds at the time of such interest rate adjustments. OVEC has entered into agreements to provide for the remarketing of the bonds if such repurchase is required. The 2012B and 2012C Bonds are current, as they are callable at any time.

In 2013, the \$100 million 2009A Notes were retired on February 15, 2013, with funding from the issuance of \$100 million 2013A variable rate non-amortizing unsecured senior notes (2013A Notes). The 2013A Notes mature on February 15, 2018. As a result, the 2009A Notes are excluded from current liabilities and classified as long term at December 31, 2012.

The annual maturities of long-term debt as of December 31, 2012, are as follows:

2013	\$ 38,138,903
2014	90,496,382
2015	43,000,194
2016	95,559,472
2017	48,483,907
2018-2040	<u>1,280,807,382</u>
Total	<u>\$1,596,486,240</u>

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

7. INCOME TAXES

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

	2012	2011
Income tax expense at 35% statutory rate	\$1,102,283	\$1,232,599
State income taxes — net of federal benefit	549	(181,531)
Temporary differences flowed through to customer bills	(224,609)	(228,753)
Permanent differences and other	<u>15,310</u>	<u>29,293</u>
Income tax provision	<u>\$ 893,533</u>	<u>\$ 851,608</u>
Effective tax rate	<u>28.4 %</u>	<u>24.2 %</u>

Components of the income tax provision were as follows:

	2012	2011
Current income tax (benefit)/expense	\$ (9,609,247)	\$ 5,004,517
Deferred income tax expense/(benefit)	<u>10,502,780</u>	<u>(4,152,909)</u>
Total income tax provision	<u>\$ 893,533</u>	<u>\$ 851,608</u>

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

To the extent that the Companies have not reflected credits in customer billings for deferred tax assets, they have recorded a regulatory liability representing income taxes refundable to customers under the applicable agreements among the parties. The regulatory liability was \$38,645,647 and \$40,284,930 at December 31, 2012 and 2011, respectively.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Deferred income tax assets (liabilities) at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Deferred tax assets:		
Deferred revenue — advances for construction	\$ 6,789,730	\$ 10,967,289
AMT credit carryforwards	2,574,572	2,574,572
Federal net operating loss	9,392,878	-
Postretirement benefit obligation	28,748,763	27,328,379
Pension liability	9,207,805	16,511,400
Postemployment benefit obligation	875,010	851,254
Asset retirement obligations	7,340,209	6,989,207
Miscellaneous accruals	2,742,592	2,833,433
Regulatory liability — investment tax credits	1,188,204	1,197,184
Regulatory liability — net antitrust settlement	638,700	643,527
Regulatory liability — asset retirement costs	4,983,191	3,743,665
Regulatory liability — income taxes refundable to customers	<u>13,844,317</u>	<u>14,613,570</u>
Total deferred tax assets	<u>88,325,971</u>	<u>88,253,480</u>
Deferred tax liabilities:		
Prepaid expenses	(622,408)	(587,327)
Electric plant	(29,477,415)	(19,226,351)
Unrealized gain/loss on marketable securities	(5,616,658)	(3,453,921)
Regulatory asset — postretirement benefits	(463,906)	(1,051,631)
Regulatory asset — pension benefits	(10,701,897)	(17,966,797)
Regulatory asset — unrecognized postemployment benefits	<u>(875,010)</u>	<u>(851,254)</u>
Total deferred tax liabilities	<u>(47,757,294)</u>	<u>(43,137,281)</u>
Deferred income tax assets	<u>\$ 40,568,677</u>	<u>\$ 45,116,199</u>
Current deferred income taxes	\$ 18,302,793	\$ 13,213,395
Non-current deferred income taxes	22,265,884	31,902,804

The accounting guidance for Income Taxes addresses the determination of whether the tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Companies have not identified any uncertain tax positions as of December 31, 2012 and 2011, and accordingly, no liabilities for uncertain tax positions have been recognized.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the PPAC Act). The PPAC Act is a comprehensive health care reform bill that includes revenue-raising provisions of nearly \$400 billion over 10 years through tax increases on high-income individuals, excise taxes on high-cost group health plans, and new fees on selected health-care-related industries. In addition, on March 30, 2010, President Obama signed into law the reconciliation measure, which modifies certain provisions of the PPAC Act.

An employer offering retiree prescription drug coverage that is at least as valuable as Medicare Part D coverage is currently entitled to a federal retiree drug subsidy. Employers can currently claim a deduction for the entire cost of providing the prescription drug coverage even though a portion of the cost is offset by the subsidy they receive. However, the PPAC Act repealed the current rule permitting a deduction of the portion of the drug coverage expense that is offset by the Medicare Part D subsidy. This provision of the PPAC Act as modified by the reconciliation measure is effective for taxable years beginning after December 31, 2012.

During 2012, the passage of the PPAC Act resulted in a reduction of the postemployment benefits deferred tax asset of approximately \$80,000 and a reduction to the related regulatory liability (income taxes refundable to customers) of approximately \$80,000.

The Companies file income tax returns with the Internal Revenue Service and the states of Ohio, Indiana, and the Commonwealth of Kentucky. The Companies are no longer subject to federal tax examinations for tax years 2007 and earlier. The Companies are currently under audit by the Internal Revenue Service for the tax years ended December 31, 2008 through December 31, 2011. The Companies are no longer subject to State of Indiana tax examinations for tax years 2007 and earlier. The Companies are no longer subject to Ohio and the Commonwealth of Kentucky examinations for tax years 2006 and earlier.

8. PENSION PLAN, OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

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

Funding for the Pension Plan is based on actuarially determined contributions, the maximum of which is generally the amount deductible for income tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The full cost of the pension benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 57% and 43% split between OVEC and IKEC, respectively, as of December 31, 2012, and approximately a 56% and 44% split for OVEC and IKEC, respectively, as of December 31, 2011. The Pension Plan's assets as of December 31, 2012 consist of investments in equity and debt securities.

In addition to the Pension Plan, the Companies provide certain health care and life insurance benefits (Other Postretirement Benefits) for retired employees. Substantially all of the Companies' employees become eligible for these benefits if they reach retirement age while working for the Companies. These and similar benefits for active employees are provided through employer funding and insurance policies.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

In December 2004, the Companies established Voluntary Employee Beneficiary Association (VEBA) trusts. In January 2011, the Companies established an IRC Section 401(h) account under the Pension Plan.

All of the trust funds' investments for the pension and postemployment benefit plans are diversified and managed in compliance with all laws and regulations. Management regularly reviews the actual asset allocation and periodically rebalances the investments to targeted allocation when appropriate. The investments are reported at fair value under the Fair Value Measurements and Disclosures accounting guidance.

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies, and target asset allocations by plan. Benefit plan assets are reviewed on a formal basis each quarter by the OVEC/IKEC Qualified Plan Trust Committee.

The investment philosophies for the benefit plans support the allocation of assets to minimize risks and optimize net returns.

Investment strategies include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs, and tax liabilities to maximize investment earnings.
- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style neutral to limit volatility compared to applicable benchmarks.

The target asset allocation for each portfolio is as follows:

Pension Plan Assets	Target
Domestic equity	15.0 %
International and global equity	15.0
Fixed income	70.0
VEBA Plan Assets	Target
Domestic equity	20.0 %
International and global equity	20.0
Fixed income	57.0
Cash	3.0

Each benefit plan contains various investment limitations. These limitations are described in the investment policy statement and detailed in customized investment guidelines or documented by mutual fund prospectus. These investment guidelines require appropriate portfolio diversification and define security concentration limits. Each investment manager's portfolio is compared to an appropriate diversified benchmark index.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Equity investment limitations:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of each investment manager's equity portfolio.
- Individual securities must be less than 15% of each manager's equity portfolio.
- No investment in excess of 5% of an outstanding class of any company.
- No securities may be bought or sold on margin or other use of leverage.
- As otherwise defined by fund prospectus.

Fixed Income Limitations — As of December 31, 2012, the Pension Plan fixed income allocation consists of managed accounts composed of U.S. Government, corporate, and municipal obligations. The VEBA benefit plans' fixed income allocation is composed of a variety of fixed income managed accounts and mutual funds. Investment limitations for these fixed income funds are defined by manager prospectus.

Cash Limitations — Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments, including money market mutual funds, certificates of deposit, treasury bills, and other types of investment-grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity. Projected Pension Plan and Other Postretirement Benefits obligations and funded status as of December 31, 2012 and 2011, are as follows:

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Pension Plan		Other Postretirement Benefits	
	2012	2011	2012	2011
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	\$ 192,294,158	\$ 150,799,587	\$ 171,866,123	\$ 123,680,352
Service cost	7,050,298	5,235,212	6,411,493	4,318,132
Interest cost	8,383,604	7,862,149	7,442,065	6,727,007
Plan participants' contributions	-	-	908,758	846,824
Benefits paid	(3,536,952)	(3,142,434)	(4,449,852)	(4,937,587)
Net actuarial (gain)/loss	(9,114,566)	31,589,560	7,821,460	40,723,781
Medicare subsidy	-	-	323,844	507,614
Expenses paid from assets	(69,383)	(49,916)	-	-
Projected benefit obligation — end of year	<u>195,007,159</u>	<u>192,294,158</u>	<u>190,323,891</u>	<u>171,866,123</u>
Change in fair value of plan assets:				
Fair value of plan assets — beginning of year	141,371,363	127,044,744	94,948,011	92,356,147
Actual return on plan assets	21,180,806	11,418,969	10,538,257	288,095
Expenses paid from assets	(69,383)	(49,916)	-	-
Employer contributions	5,500,000	6,100,000	5,957,250	5,891,110
Plan participants' contributions	-	-	908,758	846,824
Medicare subsidy	-	-	323,844	503,422
Benefits paid	<u>(3,536,952)</u>	<u>(3,142,434)</u>	<u>(4,449,852)</u>	<u>(4,937,587)</u>
Fair value of plan assets — end of year	<u>164,445,834</u>	<u>141,371,363</u>	<u>108,226,268</u>	<u>94,948,011</u>
(Underfunded) status — end of year	<u>\$ (30,561,325)</u>	<u>\$ (50,922,795)</u>	<u>\$ (82,097,623)</u>	<u>\$ (76,918,112)</u>

See Note 1 for information regarding regulatory assets related to the Pension Plan and Other Postretirement Benefits plan.

On December 8, 2003, the President of the United States of America signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit to retirees as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is actuarially equivalent to the benefit provided by Medicare. The Companies believe that the coverage for prescription drugs is at least actuarially equivalent to the benefits provided by Medicare for most current retirees because the benefits for that group substantially exceed the benefits provided by Medicare, thereby allowing the Companies to qualify for the subsidy. The Companies' employer contributions for Other Postretirement Benefits in the above table are net of subsidies received of \$323,844 and \$503,422 for 2012 and 2011, respectively. The Companies have accounted for the subsidy as a reduction of the benefit obligation detailed in the above table. The benefit obligation was reduced by approximately \$0 and \$500,000 as of December 31, 2012 and 2011, respectively. See Note 7 for changes in the tax law surrounding the new health care bill.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The accumulated benefit obligation for the Pension Plan was \$167,595,378 and \$154,437,821 at December 31, 2012 and 2011, respectively.

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

Pension expense is recognized as amounts are contributed to the Pension Plan and billed to customers. The accumulated difference between recorded pension expense and the yearly net periodic pension expense, as calculated under the accounting guidance for Compensation — Retirement Benefits, is billable as a cost of operations under the ICPA when contributed to the pension fund. This accumulated difference has been recorded as a regulatory asset in the accompanying consolidated balance sheets

	Pension Plan		Other Postretirement Benefits	
	2012	2011	2012	2011
Service cost	\$ 7,050,298	\$ 5,235,212	\$ 6,411,493	\$ 4,318,132
Interest cost	8,383,604	7,862,149	7,442,065	6,727,007
Expected return on plan assets	(8,522,609)	(7,693,957)	(5,516,937)	(5,282,524)
Amortization of prior service cost	189,437	189,437	(379,000)	(379,000)
Recognized actuarial loss	<u>2,086,365</u>	<u>-</u>	<u>1,577,730</u>	<u>(133,988)</u>
Total benefit cost	9,187,095	5,592,841	9,535,351	5,249,627
Pension and other postretirement benefits expense recognized in the consolidated statements of income and retained earnings and billed to Sponsoring Companies under the ICPA	<u>\$ 5,500,000</u>	<u>\$ 6,100,000</u>	<u>\$ 5,500,000</u>	<u>\$ 4,908,485</u>

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

The following table presents the classification of Pension Plan assets within the fair value hierarchy at December 31, 2012 and 2011:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2012			
Domestic equity	\$23,558,247	\$ -	\$ -
International and global equity	17,292,251	8,550,837	-
Cash and cash equivalents	4,924,712	-	-
U.S. Treasury securities	-	6,804,928	-
Corporate securities	-	92,091,492	-
Municipal securities	-	11,223,367	-
Total fair value	<u>\$45,775,210</u>	<u>\$118,670,624</u>	<u>\$ -</u>
2011			
Domestic equity	\$21,716,581	\$ -	\$ -
International and global equity	14,047,289	6,902,062	-
Cash and cash equivalents	5,302,174	-	-
U.S. Treasury securities	-	93,403,257	-
Total fair value	<u>\$41,066,044</u>	<u>\$100,305,319</u>	<u>\$ -</u>

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The following table presents the classification of VEBA and 401(h) account assets within the fair value hierarchy at December 31, 2012 and 2011:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2012			
Domestic equity	\$21,360,870	\$ -	\$ -
International and global equity	22,601,305	-	-
Fixed income mutual funds	48,177,536	-	-
Fixed income securities	-	13,581,890	-
Cash and cash equivalents	2,504,667	-	-
Total fair value	<u>\$94,644,378</u>	<u>\$13,581,890</u>	<u>\$ -</u>
2011			
Domestic equity	\$19,752,467	\$ -	\$ -
International and global equity	31,865,804	-	-
Fixed income mutual funds	37,880,252	-	-
Cash and cash equivalents	5,449,488	-	-
Total fair value	<u>\$94,948,011</u>	<u>\$ -</u>	<u>\$ -</u>

Pension Plan and Other Postretirement Benefit Assumptions — Actuarial assumptions used to determine benefit obligations at December 31, 2012 and 2011, were as follows:

	Pension Plan		Benefits			
	2012	2011	2012		2011	
			Medical	Life	Medical	Life
Discount rate	4.29 %	4.40 %	4.40 %	4.30 %	4.40 %	4.40 %
Rate of compensation increase	3.00	4.00	N/A	3.00	N/A	4.00

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2012 and 2011, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2012	2011	2012		2011	
			Medical	Life	Medical	Life
Discount rate	4.40 %	5.50 %	4.40 %	4.40 %	5.50 %	5.50 %
Expected long-term return on plan assets	6.00	6.00	5.60	6.50	5.60	5.60
Rate of compensation increase	4.00	4.00	N/A	4.00	N/A	4.00

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

Assumed health care cost trend rates at December 31, 2012 and 2011, were as follows.

	2012	2011
Health care trend rate assumed for next year — participants under 65	8.00 %	8.50 %
Health care trend rate assumed for next year — participants over 65	8.00	8.50
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) — participants under 65	5.00	5.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) — participants over 65	5.00	5.00
Year that the rate reaches the ultimate trend rate	2019	2019

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

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost	\$ 3,134,278	\$ (2,355,685)
Effect on postretirement benefit obligation	36,349,761	(28,085,825)

Pension Plan and Other Postretirement Benefit Assets — The asset allocation for the Pension Plan and VEBA trusts at December 31, 2012 and 2011, by asset category was as follows:

Asset category:	Pension Plan		VEBA Trusts	
	2012	2011	2012	2011
Equity securities	30 %	30 %	41 %	41 %
Debt securities	70	70	59	59

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Pension Plan and Other Postretirement Benefit Contributions — The Companies expect to contribute \$6,400,000 to their Pension Plan and \$7,661,448 to their Other Postretirement Benefits plan in 2013.

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

Years Ending December 31	Pension Plan	Other Postretirement Benefits
2013	\$ 4,175,740	\$ 5,651,448
2014	4,804,038	5,992,604
2015	5,537,299	6,385,523
2016	6,393,997	6,983,700
2017	7,237,682	7,567,996
Five years thereafter	50,302,520	45,794,286

Postemployment Benefits — The Companies follow the accounting guidance in Compensation — Non-Retirement Postemployment Benefits and accrue the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Such benefits include, but are not limited to, salary continuations, supplemental unemployment, severance, disability (including workers' compensation), job training, counseling, and continuation of benefits, such as health care and life insurance coverage. The cost of such benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 45% and 55% split between OVEC and IKEC, respectively, as of December 31, 2012, and approximately a 46% and 54% split between OVEC and IKEC, respectively, as of December 31, 2011. The liability is offset with a corresponding regulatory asset and represents unrecognized postemployment benefits billable in the future to customers. The accrued cost of such benefits was \$2,498,759 and \$2,412,685 at December 31, 2012 and 2011, respectively.

Defined Contribution Plan — The Companies have a trustee-defined contribution supplemental pension and savings plan that includes 401(k) features and is available to employees who have met eligibility requirements. The Companies' contributions to the savings plan equal 100% of the first 1% and 50% of the next 5% of employee-participants' contributions. Benefits to participating employees are based solely upon amounts contributed to the participants' accounts and investment earnings. By its nature, the plan is fully funded at all times. The employer contributions for 2012 and 2011 were \$1,942,045 and \$1,804,270, respectively.

9. ENVIRONMENTAL MATTERS

Title IV of the 1990 Clean Air Act Amendments (CAAAAs) required the Companies to reduce sulfur dioxide (SO₂) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO₂ allowances. The cost of these purchased allowances has been inventoried and

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

included on an average cost basis in the cost of fuel consumed when used. The cost of unused allowances at December 31, 2012 and 2011, was \$86,649 and \$28,519, respectively.

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

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

On March 10, 2005, the United States Environmental Protection Agency (the U.S. EPA) issued the Clean Air Interstate Rule (CAIR) that required further significant reductions of SO₂ and NO_x emissions from coal-burning power plants. On March 15, 2005, the U.S. EPA also issued the Clean Air Mercury Rule (CAMR) that required significant mercury emission reductions for coal-burning power plants. These emission reductions were required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO₂; and 2010 and 2018 for mercury. Ohio and Indiana subsequently finalized their respective versions of CAIR and CAMR. In response, the Companies determined that it would be necessary to install flue gas desulfurization (FGD) systems at both plants to comply with these new rules. Following completion of the necessary engineering and permitting, construction was started on the new FGD systems.

In February 2008, the D.C. Circuit Court of Appeals issued a decision which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the maximum achievable control technologies (MACT) provision of Section 112(d) of the Clean Air Act. A group of electric utilities and the U.S. EPA requested a rehearing of the decision, which was denied by the Court. Following those denials, both the group of electric utilities and the U.S. EPA requested that the U.S. Supreme Court hear the case. However, in February 2009, the U.S. EPA withdrew its request and the group of utilities' request was denied. These actions left the original court decision in place, which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the MACT provision of Section 112(d) of the Clean Air Act. The U.S. EPA has subsequently written a replacement rule for the regulation of coal-fired utility emissions of mercury and other hazardous air pollutants. This replacement rule was published in the Federal Register on February 16, 2012, and it is referred to as the Mercury and Air Toxics Standards (or MATS) rule. The rule became final on April 16, 2012, and OVEC-IKEC must be in compliance by April 15, 2015 (absent qualifying for and securing a one-year extension from the state regulatory agencies).

In July 2008, the D.C. Circuit Court of Appeals issued a decision that vacated the federal CAIR and remanded the rule to the U.S. EPA. In September 2008, the U.S. EPA, a group of electric utilities and other parties filed petitions for rehearing. In December 2008, the D.C. Circuit Court of Appeals granted the U.S. EPA's petition and remanded the rule to the U.S. EPA without vacatur, allowing the federal CAIR to remain in effect while a new rule was developed and promulgated. Following the remand, the U.S. EPA promulgated a replacement rule to CAIR. This new rule is called the Cross-State Air Pollution Rule (CSAPR) and it was issued on July 6, 2011, and it was scheduled to go into effect on January 1,

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2012. However, on December 30, 2011, the D.C. Circuit Court issued an indefinite “stay” of the CSAPR rule until the Court considers the numerous state, trade association, and industry petitions filed to have the rule either stayed or reviewed. The Court also instructed the U.S. EPA to keep CAIR in place while they consider the numerous petitions. On August 21, 2012, in a 2-1 decision, the D.C. Circuit Court vacated the CSAPR rule and ordered the U.S. EPA to keep CAIR in effect until a CSAPR replacement rule is promulgated. The U.S. EPA and other parties filed a petition seeking rehearing before the entire D.C. Circuit Court on October 5, 2012, and on January 24, 2013, the Court denied all petitions for rehearing. The U.S. EPA and other parties may now petition the U.S. Supreme Court to review the D.C. Circuit Court’s decision on CSAPR. In the interim, CAIR will remain in effect.

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

In March 2009, the Boards of Directors also authorized a delay in the tie-in of the FGD systems of all five generating units at the Kyger Creek plant pending an investigation into the structural integrity of the internal components of two newly constructed jet bubbling reactors (JBRs), which are major components of the FGD system. Extensive studies were conducted relating to this design issue, which affected the FGD construction projects at both the Kyger Creek and Clifty Creek plants, and as a result, the Boards of Directors authorized a complete redesign and replacement of the JBR internal components to resolve this structural integrity issue.

In December 2010, the Boards of Directors authorized the completion of the FGD construction projects at the Kyger Creek and Clifty Creek plants with the redesign and replacement of the JBR internal components. The Kyger Creek plant FGD system became fully operational during the second quarter of 2012 and the Clifty Creek plant FGD system is expected to be fully operational by the end of the second quarter of 2013. One of the two FGD systems at Kyger Creek began successful operations in November 2011. The second FGD at Kyger Creek began operating in the first quarter of 2012.

Additional SO₂ and NO_x allowances were purchased to operate the Clifty Creek generating units to comply with the reinstated CAIR environmental emission rules during the 2012 compliance period. With the Kyger Creek FGD system now fully operational and with the Clifty Creek FGD systems scheduled to become operational in 2013, and with the 10 SCR systems operational at both plants, management does not currently anticipate the need to purchase additional SO₂ allowances in 2013; however, there may be a need to purchase limited NO_x allowances in 2013 and beyond.

Clifty Creek’s two FGD scrubbers are scheduled to come online in March and May of 2013. As a result, OVEC is positioned to meet the anticipated reductions in SO₂ and NO_x emissions that are required under the CSAPR rule if the U.S. EPA ultimately prevails on its petition before the Supreme Court and CSAPR is reinstated. Alternatively, OVEC is also positioned to meet comparable emissions reductions that may be required by an equivalent replacement rule should the D.C. Circuit Court decision ultimately stand.

Once all FGD systems are fully operational, OVEC expects to have adequate SO₂ allowances available without having to rely on market purchases if the CSAPR rules are upheld in their current form; however, additional NO_x allowances or additional NO_x controls may be necessary for Clifty Creek Unit 6.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Management expects that, with the SCRs and FGD systems fully functional, OVEC will be able to meet the emissions requirements outlined in the Mercury and Air Toxics Standards (MATS) rule by the April 15, 2015, compliance deadline.

The total cost to complete the new Kyger Creek and Clifty Creek FGD systems and the associated landfills is currently estimated not to exceed \$1.35 billion, including the amounts expended to date and included in construction in progress in the accompanying balance sheets.

On November 6, 2009, the Companies received a Section 114 Information Request from the U.S. EPA. The stated purpose of the information request was for the U.S. EPA to obtain the necessary information to determine if the Kyger Creek and Clifty Creek plants have been operating in compliance with the Federal Clean Air Act. Attorneys for the Companies subsequently contacted the U.S. EPA and established a schedule for submission of the requested information. Based on this schedule, all requested information was submitted to the U.S. EPA by March 8, 2010.

In late December 2011, OVEC-IKEC received a letter dated December 21, 2011, from the U.S. EPA requesting follow-up information. Specifically, the U.S. EPA asked for an update on the status of the FGD scrubber projects at both plants as well as additional information on any other new emissions controls that either have been installed or are planned for installation since the last submittal we filed on March 8, 2012. This information was prepared and filed with the U.S. EPA in late January 2012. In the fall of 2012, following an on-site visit, the U.S. EPA made an informal request that OVEC provide the agency with a monthly email progress report on the Clifty Creek FGD project until both FGD systems are operational in 2013. As of this date, the only communication OVEC has had with the U.S. EPA related to either the original Section 114 data submittal or the supplemental data filing made in 2011 are the monthly email progress reports.

10. FAIR VALUE MEASUREMENTS

The accounting guidance for Financial Instruments requires disclosure of the fair value of certain financial instruments. The estimates of fair value under this guidance require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed. As cash and cash equivalents, current receivables, current payables, and line of credit borrowings are all short term in nature, their carrying amounts approximate fair value.

OVEC utilizes its trustee's external pricing service in its estimate of the fair value of the underlying investments held in the benefit plan trusts and investment portfolios. The Companies' management reviews and validates the prices utilized by the trustee to determine fair value. Equities and fixed income securities are classified as Level 1 holdings if they are actively traded on exchanges. Certain fixed income securities do not trade on an exchange and do not have an official closing price. Pricing vendors calculate bond valuations using financial models and matrices. Fixed income securities are typically classified as Level 2 holdings because their valuation inputs are based on observable market data. Observable inputs used for valuing fixed income securities are benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, and economic events. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

As of December 31, 2012 and 2011, the Companies held certain assets that are required to be measured at fair value on a recurring basis. These consist of investments recorded within special deposits and long-term investments. The special deposits consist of money market mutual funds restricted for use on certain projects. The investments consist of money market mutual funds, equity mutual funds, and fixed income municipal securities. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and unrealized gains and losses are recorded in earnings.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Companies believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Long-Term Investments — Assets measured at fair value on a recurring basis at December 31, 2012 and 2011, were as follows:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2012			
Equity mutual funds	\$21,192,480	\$ -	\$ -
Fixed income municipal securities	-	96,088,024	-
Cash and cash equivalents	<u>61,009,960</u>	<u>-</u>	<u>-</u>
Total fair value	<u>\$82,202,440</u>	<u>\$96,088,024</u>	<u>\$ -</u>
2011			
Equity mutual funds	\$17,515,143	\$ -	\$ -
Fixed income municipal securities	-	86,556,577	-
Cash and cash equivalents	<u>2,105,486</u>	<u>-</u>	<u>-</u>
Total fair value	<u>\$19,620,629</u>	<u>\$86,556,577</u>	<u>\$ -</u>

Long-Term Debt — The fair values of the senior notes and fixed rate bonds were estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. These fair values are not reflected in the balance sheets.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The fair values and recorded values of the senior notes and fixed and variable rate bonds as of December 31, 2012 and 2011, are as follows:

	2012		2011	
	Fair Value	Recorded Value	Fair Value	Recorded Value
Senior 2006 Notes	\$ 351,945,355	\$ 292,095,074	\$ 346,562,704	\$ 306,042,656
2006 Notes Extended	80,253,001	61,252,481	71,775,275	62,035,673
Senior 2007 Notes	241,074,733	199,466,104	238,414,890	209,264,364
2007 Notes Extended	60,951,383	46,088,002	54,417,306	46,682,085
Senior 2008 Notes	262,552,244	208,927,670	259,006,749	218,668,424
2008 Notes Extended	122,856,716	89,252,972	109,748,707	90,309,284
Senior 2009A Notes	100,000,000	100,000,000	98,520,000	100,000,000
2009A Bonds	25,000,000	25,000,000	25,000,000	25,000,000
2009B Bonds	25,000,000	25,000,000	25,000,000	25,000,000
2009C Bonds	25,000,000	25,000,000	25,000,000	25,000,000
2009D Bonds	25,000,000	25,000,000	25,000,000	25,000,000
2009E Bonds	115,638,000	100,000,000	110,750,000	100,000,000
2010A&B Bonds	100,000,000	100,000,000	100,000,000	100,000,000
2012A Bonds	82,713,600	77,091,234	-	-
2012A Bonds	130,217,472	122,312,703	-	-
2012B&C Bonds	100,000,000	100,000,000	-	-
Total	<u>\$ 1,848,202,504</u>	<u>\$ 1,596,486,240</u>	<u>\$ 1,489,195,631</u>	<u>\$ 1,333,002,486</u>

11. LEASES

OVEC has entered into operating leases to secure railcars for the transportation of coal in connection with the fuel switching modifications at the OVEC and the IKEC generating stations. OVEC has railcar lease agreements that extend to as long as December 31, 2025, with options to exit the leases under certain conditions. The amount in property under capital leases is \$2,277,088 with accumulated depreciation of \$460,693 and \$141,434 as of December 31, 2012 and 2011, respectively. OVEC also has various other operating leases with other property and equipment. During 2012, OVEC terminated certain railcar lease agreements, which resulted in lease termination costs of \$3,497,300. As of December 31, 2012, OVEC had billed Sponsor Companies \$499,614 resulting in a balance of \$2,997,686 that will be recovered from the Sponsor Companies within the next 12 months. This amount is to be recorded in current regulatory assets (see Note 1) and is not included in the lease payments below.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Future minimum lease payments for capital and operating leases at December 31, 2012, are as follows:

Years Ending December 31	Operating	Capital
2013	\$ 1,834,312	\$ 535,492
2014	1,050,918	527,119
2015	850,338	351,787
2016	4,504	139,313
2017	-	119,119
Thereafter	-	573,220
Total future minimum lease payments	<u>\$ 3,740,072</u>	2,246,050
Less estimated interest element		<u>590,372</u>
Estimated present value of future minimum lease payments		<u>\$ 1,655,678</u>

The annual operating lease cost incurred was \$3,310,227 and \$3,435,766 for 2012 and 2011, respectively, and the annual capital lease cost incurred was \$437,084 and \$138,376 for 2012 and 2011, respectively.

12. COMMITMENTS AND CONTINGENCIES

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

* * * * *

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ohio Valley Electric Corporation:

We have audited the accompanying consolidated financial statements of Ohio Valley Electric Corporation and its subsidiary company, Indiana-Kentucky Electric Corporation (the "Companies"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Companies' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Companies as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

DeLoitte & Touche LLP

April 10, 2013

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

OVEC PERFORMANCE—A 5-YEAR COMPARISON

	2012	2011	2010	2009	2008
Net Generation (MWh)	10,514,762	14,468,168	14,634,079	15,260,922	15,260,029
Energy Delivered (MWh) to:					
DOE	207,692	253,157	249,139	264,664	270,369
Sponsors	10,340,568	14,199,025	14,421,180	15,069,699	15,026,497
Maximum Scheduled (MW) by:					
DOE	36	39	39	39	45
Sponsors	2,165	2,247	2,223	2,212	2,216
Power Costs to:					
DOE	\$9,097,000	\$11,643,000	\$11,207,000	\$11,451,000	\$18,539,000
Sponsors	\$650,027,000	\$722,153,000	\$671,671,000	\$632,506,000	\$605,355,000
Average Price (MWh):					
DOE	\$43.802	\$45.993	\$44.984	\$43.266	\$68.570
Sponsors	\$62.862	\$50.859	\$46.575	\$41.972	\$40.286
Operating Revenues	\$670,819,000	\$716,938,000	\$690,687,000	\$648,593,000	\$621,813,000
Operating Expenses	\$599,891,000	\$653,696,000	\$618,790,000	\$584,881,000	\$566,798,000
Cost of Fuel Consumed	\$302,926,000	\$397,543,000	\$358,507,000	\$329,448,000	\$340,213,000
Taxes (federal, state, and local)	\$11,659,000	\$12,059,000	\$11,208,000	\$12,298,000	\$10,808,000
Payroll	\$61,907,000	\$57,141,000	\$55,609,000	\$56,589,000	\$53,694,000
Fuel Burned (tons)	5,290,009	7,310,107	7,506,530	7,900,894	7,891,440
Heat Rate (Btu per kWh, net generation)	10,581	10,467	10,310	10,299	10,236
Unit Cost of Fuel Burned (per mmBtu)	\$2.72	\$2.63	\$2.38	\$2.10	\$2.18
Equivalent Availability (percent)	78.9	83.0	81.0	81.6	80.5
Power Use Factor (percent)	69.40	89.61	92.82	96.29	96.39
Employees (year-end)	828	810	783	809	817

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

DIRECTORS

Ohio Valley Electric Corporation

^{1,2} **ANTHONY J. AHERN**, Columbus, Ohio
President and Chief Executive Officer
Buckeye Power Generating, LLC

¹ **NICHOLAS K. AKINS**, Columbus, Ohio
President and Chief Executive Officer
American Electric Power Company, Inc.

ERIC D. BAKER, Cadillac, Michigan
President and Chief Executive Officer
Wolverine Power Supply Cooperative, Inc.

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

JAMES R. HANEY, Akron, Ohio
Vice President, Compliance & Regulated Services
and Chief FERC Compliance Officer
FirstEnergy Services Company

² **LANA L. HILLEBRAND**, Columbus, Ohio
Senior Vice President and Chief Administrative Officer
American Electric Power Company, Inc.

DENNIS A. LANTZY, Dayton, Ohio
Senior Vice President - Generation
DPL Inc.

¹ **CHARLES D. LASKY**, Akron, Ohio
Vice President, Fossil Fleet Operations
FirstEnergy Generation, LLC

² **MARK C. McCULLOUGH**, Columbus, Ohio
Executive Vice President - Generation
American Electric Power Company, Inc.

STEVEN K. NELSON, Coshocton, Ohio
Chairman, Buckeye Power Board of Trustees
The Frontier Power Company

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

ROBERT P. POWERS, Columbus, Ohio
Executive Vice President and Chief Operating Officer
American Electric Power Company, Inc.

² **PAUL W. THOMPSON**, Louisville, Kentucky
Chief Operating Officer
LG&E and KU Energy LLC

¹ **JOHN N. VOYLES**, Louisville, Kentucky
Vice President, Transmission and Generation Services
LG&E and KU Energy LLC

¹ **CHARLES WHITLOCK**, Cincinnati, Ohio
President, Midwest Commercial Generation
Duke Energy Corporation

Indiana-Kentucky Electric Corporation

¹ **ANTHONY J. AHERN**, Columbus, Ohio
President and Chief Executive Officer
Buckeye Power Generating, LLC

¹ **NICHOLAS K. AKINS**, Columbus, Ohio
President and Chief Executive Officer
American Electric Power Company, Inc.

PAUL CHODAK, Fort Wayne, Indiana
President and Chief Operating Officer
Indiana Michigan Power

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

WAYNE D. GAMES, Evansville, Indiana
Vice President – Power Supply
Vectren Corporation

¹ **CHARLES D. LASKY**, Akron, Ohio
Vice President, Fossil Fleet Operations
FirstEnergy Generation, LLC

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

OFFICERS—OVEC AND IKEC

NICHOLAS K. AKINS
President

MARK A. PEIFER
Vice President and
Chief Operating Officer

DAVID E. JONES
Vice President-Operations

JOHN D. BRODT
Chief Financial Officer,
Secretary and Treasurer

RONALD D. COOK
Assistant Secretary, Assistant
Treasurer and Supply Chain Director

JULIE SLOAT
Assistant Secretary and
Assistant Treasurer

¹Member of Executive Committee.

²Member of Human Resources Committee.

Exhibit KMM-4

**OHIO POWER COMPANY'S RESPONSE
TO INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
SECOND SET**

INTERROGATORY

INT-2-001 During the technical conference held at the Commission offices on January 8, 2014, AEP-Ohio stated that it had estimates of the impact of the proposed Power Purchase Agreement Rider. Provide the estimates of the Power Purchase Agreement Rider for each year of the proposed electric security plan ("ESP").

RESPONSE

See **COMPETITIVELY-SENSITIVE CONFIDENTIAL** IEU 2-001 Attachments 1 through 3.

Exhibit KMM-5

CONFIDENTIAL

Exhibit KMM-6

CONFIDENTIAL

Exhibit KMM-7

CONFIDENTIAL

Exhibit KMM-8

OHIO POWER COMPANY'S RESPONSE
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
FIFTH SET

INTERROGATORY

INT-5-094 Please refer to your response to IEU Set 2, INT-2-001, Confidential Attachment 1 and provide the following information:

- a. Provide a detailed description of each row;
- b. Identify the source of all raw data used in each row;
- c. Identify the August market data assumptions underlying the forecast; and
- d. Identify how the August market data assumptions (and any other assumptions) were developed and, if they were developed through a computer model, identify the computer model (including manufacturer, product model and serial number), and provide all inputs and assumptions.
- e. Please identify the date the forecast was prepared and the person(s) who was/were responsible for preparing the forecast.

RESPONSE

- a. Detailed description of each row.

OVEC capacity UCAP: The unforced capacity available to PJM for AEP Ohio's portion of the OVEC units.

OVEC Energy (GWH): The forecasted energy produced and sold in a particular month.

OVEC Demand Charge: The demand charge OVEC bills AEP Ohio.

RPM price for capacity (\$/MW-Day): The PJM reliability pricing model price of capacity in that month.

Days in month: Simply the number of days in the particular month used for calculations.

Capacity Revenue (\$ 000): Revenue associated with the sale of the AEP Ohio's portion of OVEC UCAP capacity into the PJM.

Energy Market Price (\$/MWH): Market energy price for sale.

Energy Revenue (\$000): Revenue associated with selling AEP Ohio's portion of OVEC energy.

OVEC Cost [NEC + some var] (\$/MWH): Rate charged by OVEC for producing energy, including Net Energy Cost and other variable costs.

OVEC COGS (\$000): AEP Ohio's portion of OVEC cost of goods sold.

OVEC Energy Gross Margin: Energy Revenue minus COGS.

OHIO POWER COMPANY'S RESPONSE
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
FIFTH SET

OVEC Revenue (Capacity & Energy): Total AEP Ohio OVEC monthly revenue, from adding capacity and energy revenue lines

OVEC Cost (Demand + Fuel): Total AEP Ohio OVEC monthly costs, from adding the demand costs and the variable costs, which includes fuel.

OVEC Total: Difference between the previous two lines, the net margin from AEP Ohio's OVEC share.

PPA Rider: The amount of the purchased power rider either charged to customers or credited them based upon AEP Ohio's OVEC sales.

b. Source of raw data (N/A indicates a calculation—the line is not “raw data”)

OVEC capacity UCAP: AEP Resource Planning and Analysis.

OVEC Energy (GWH): AEP Resource Planning and Analysis.

OVEC Demand Charge: Forecast from OVEC. (modified based upon process improvement)

RPM price for capacity (\$/MW-Day): PJM.

Days in month: Calendar.

Capacity Revenue (\$ 000): N/A

Energy Market Price (\$/MWH): AEP Resource Planning and Analysis.

Energy Revenue (\$000): N/A

OVEC Cost [NEC + some var] (\$/MWH): Forecast from OVEC.

OVEC COGS (\$000): N/A

OVEC Energy Gross Margin: N/A

OVEC Revenue (Capacity & Energy): N/A

OVEC Cost (Demand + Fuel): N/A

OVEC Total: N/A

PPA Rider: N/A

c. See OCC INT-094 Confidential Attachment 1

d. See the Company's response to OCC INT-5-095, part c.

e. This forecast was finalized in conjunction with the ESP III financial forecast filed on Dec 20, 2013 using market data assumptions September 2013 and October 2013 as prepared by various support functions at the request of Company witness Allen.

Prepared by: William A. Allen

OHIO POWER COMPANY'S RESPONSE
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
FIFTH SET

INTERROGATORY

- INT-5-095 Please refer to your response to IEU Set 2, INT-2-001, Confidential Attachments 2 and 3, and provide the following information:
- a. Provide a detailed description of each row;
 - b. Identify the source of all raw data used in each row;
 - c. If inputs were developed through a computer model, identify the computer model (including manufacturer, product model and serial number), and identify all inputs and assumptions;
 - d. Please explain the difference between Confidential Attachments 2 and 3, including any differences in inputs and assumptions; and
 - e. Please identify the date the Summary Financial Statements were prepared and the person(s) who was/were responsible for preparing the Summary Financial Statements.

RESPONSE

- a. A line by line description is presented in OCC-INT-5-095 Attachment 1. Lines 49 through 82 are described in OCC-INT-5-095 Attachment 2.
- b. Raw input data includes
 - I.
 - II. Fuel forecast data is provided by AEP's Fuels Emissions and Logistics and AEP's Fundamentals Analysis Group
 - III. Unit performance characteristics, ie. heat rate, availability, maximum and minimum load capability, emission rates, is provided by AEP's and OVEC's engineering organizations.
 - IV. Energy price forecast is provided by AEP's Fundamentals Analysis Group.
 - V. Capacity price forecast is provided by AEP's Fundamentals Analysis Group.
- c. The primary tool used for developing the long-term, energy-related commodity pricing forecasts is the AURORAxmp Electric Market Model, developed and maintained by EPIS, Inc. (<http://epis.com/>), version 10.2.1005. There is no unique serial number, but it is licensed to American Electric Power Service Corporation. The AuroraXMP model iteratively generates

OHIO POWER COMPANY'S RESPONSE
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
FIFTH SET

locational, but not company-specific, long-term capacity expansion plans, annual energy dispatch, fuel consumption and emission totals from inputs including fuel, load, emissions and capital costs, among others. The forecasts developed include: 1) monthly and annual locational power prices (in both nominal and real \$), 2) prices for various qualities of Central Appalachian ("CAPP"), Northern Appalachian ("NAPP"), Illinois Basin ("ILB"), Powder River Basin ("PRB") and Colorado coals, 3) monthly and annual locational natural gas prices, including the benchmark Henry Hub, 4) uranium fuel prices, 5) SO₂, NO_x (summer and annual) and CO₂ values, 6) locational heat rates, 7) capacity values, 8) renewable energy subsidies and 9) inflation factors.

d. The difference between Attachments 2 and 3 is that Attachment 2 represents an updated Fundamentals forecast. In the upper right corner of page 1 for each attachment the Fundamentals forecast market date is shown. Please see Attachment #OCC-INT-5-095 for the gap analysis in Confidential Attachments 2 and 3 related to the Long-Term North American Energy Market Forecast.

e. Attachment 2 was prepared on October 30, 2013. Attachment 1 was prepared on September 5, 2013. The forecast statements were prepared by various support functions at the request of Company witness Allen.

Prepared by: William A. Allen

Exhibit KMM-9

CONFIDENTIAL

Exhibit KMM-10

OHIO POWER COMPANY'S RESPONSE TO
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
THIRD SET

INTERROGATORY

INT-3-025 Is the continuation of the Distribution Credit Rider the only quantifiable benefit of the proposed ESP (as compared to the MRO) or are there other quantifiable benefits as well? Please identify any other benefits that the Company has quantified. (Reference: Allen testimony, page 5, lines 15-18.)

RESPONSE

The only benefit of the ESP that the Company has quantified at this time is the continuation of the Distribution Credit Rider. As indicated in the testimony of Company witness Allen (page 3 line 22 through page 4 line 1) "A comprehensive ESP can more holistically address many components of electric service, whereas a MRO is primarily a plan just for power procurement."

Prepared by: William A. Allen

Exhibit KMM-11

**OHIO POWER COMPANY'S RESPONSE
TO INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
FIFTH SET**

REQUEST FOR ADMISSION

RFA-5-001 Referencing IEU-Ohio Interrogatory 3-48 and AEP-Ohio's response thereto, admit that AEP-Ohio's proposed ESP tariffs do not provide shopping customers with the ability to avoid being billed twice for the non-market based transmission costs once AEP-Ohio implements the BTCR and assuming that the shopping customer is still billed for non-market based transmission costs from its CRES provider.

RESPONSE

Deny. Whether or not a customer will be billed twice for non-market based transmission costs will be dependent on the contract with their CRES provider.

Prepared by: Andrea E. Moore

Exhibit KMM-12

**OHIO POWER COMPANY'S RESPONSE
TO INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
FIFTH SET**

INTERROGATORY

INT-5-014 Referencing AEP-Ohio's response to IEU-Ohio Interrogatory 3-34, AEP-Ohio indicated that the proposed BTCR would "enable[] CRES providers to compete on a more uniform basis across Ohio." Will AEP-Ohio's BTCR include the exact same categories of transmission and transmission related costs and credits as Duke Energy Ohio, Inc.'s, FirstEnergy's, or the Dayton Power & Light Co.'s non-bypassable transmission riders?

RESPONSE

The Company's proposal generally includes the same major items as the other Ohio utilities. Based upon the Company's review of the provisions for other Ohio utilities, there are currently minor variances amongst the various other Ohio utilities.

Prepared By: Andrea E. Moore

Exhibit KMM-13

**Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales
For the Month Ending December 31, 2013
(MWh)**

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Cleveland Electric Illuminating Company	CEI	31-Dec	2013	120877	47523	48510	228568
CRES Providers	CEI	31-Dec	2013	360642	496936	454212	1312107
Total Sales	CEI	31-Dec	2013	481519	544459	502722	1540675
EDU Share	CEI	31-Dec	2013	25.10%	8.73%	9.65%	14.84%
Electric Choice Sales Switch Rates	CEI	31-Dec	2013	74.90%	91.27%	90.35%	85.16%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Duke Energy Ohio	DUKE	31-Dec	2013	348067	87162	14739	457660
CRES Providers	DUKE	31-Dec	2013	335007	438815	421915	1314223
Total Sales	DUKE	31-Dec	2013	683074	525977	436654	1771883
EDU Share	DUKE	31-Dec	2013	50.96%	16.57%	3.38%	25.83%
Electric Choice Sales Switch Rates	DUKE	31-Dec	2013	49.04%	83.43%	96.62%	74.17%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
AEP - Ohio	AEP	31-Dec	2013	1015544	242958	230193	1493773
CRES Providers	AEP	31-Dec	2013	379722	955035	1007334	2349176
Total Sales	AEP	31-Dec	2013	1395266	1197993	1237527	3842949
EDU Share	AEP	31-Dec	2013	72.785%	20.280%	18.601%	38.870%
Electric Choice Sales Switch Rates	AEP	31-Dec	2013	27.215%	79.720%	81.399%	61.130%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
The Dayton Power and Light Company	DPL	31-Dec	2013	267654	52026	5998	361273
CRES Providers	DPL	31-Dec	2013	207358	238272	260676	773120
Total Sales	DPL	31-Dec	2013	475012	290298	266674	1134393
EDU Share	DPL	31-Dec	2013	56.35%	17.92%	2.25%	31.85%
Electric Choice Sales Switch Rates	DPL	31-Dec	2013	43.65%	82.08%	97.75%	68.15%

Source: PUCO, Energy & Environment

Note1: Total sales includes residential, commercial, industrial and other sales.

Note2: The switch rate calculation is intended to present the broadest possible picture of the state of retail electric competition in Ohio.

Appropriate calculations made for other purposes may be based on different data, and may yield different results.

Note3: "Total Sales" include "Other Sales" (e.g. street lighting).

Note4: CSP and OP have merged into AEP-Ohio

**Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales
For the Month Ending December 31, 2013
(MWh)**

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Ohio Edison Company	OEC	31-Dec	2013	249799	51986	147153	460487
CRES Providers	OEC	31-Dec	2013	582031	500438	523541	1606930
Total Sales	OEC	31-Dec	2013	831830	552424	670694	2067417
EDU Share	OEC	31-Dec	2013	30.03%	9.41%	21.94%	22.27%
Electric Choice Sales Switch Rates	OEC	31-Dec	2013	69.97%	90.59%	78.06%	77.73%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Toledo Edison Company	TE	31-Dec	2013	63059	13112	103750	181740
CRES Providers	TE	31-Dec	2013	162771	154199	363313	680332
Total Sales	TE	31-Dec	2013	225830	167311	467063	862072
EDU Share	TE	31-Dec	2013	27.92%	7.84%	22.21%	21.08%
Electric Choice Sales Switch Rates	TE	31-Dec	2013	72.08%	92.16%	77.79%	78.92%

Source: PUCO, Energy & Environment

Note1: Total sales includes residential, commercial, industrial and other sales.

Note2: The switch rate calculation is intended to present the broadest possible picture of the state of retail electric competition in Ohio.

Appropriate calculations made for other purposes may be based on different data, and may yield different results.

Note3: "Total Sales" include "Other Sales" (e.g. street lighting).

Note4: CSP and OP have merged into AEP-Ohio

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

5/6/2014 2:31:05 PM

in

Case No(s). 13-2385-EL-SSO, 13-2386-EL-AAM

Summary: Testimony Exhibits KMM-3 through KMM-13 (Public Version) to Direct Testimony of Kevin M. Murray on Behalf of the Industrial Energy Users-Ohio electronically filed by Mr. Frank P Darr on behalf of Industrial Energy Users-Ohio