BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Duke Energy Ohio for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service.	: Case No. 14-841-EL-SSO
In the Matter of the Application of Duke Energy Ohio for Authority to Amend its Certified Supplier Tariff, P.U.C.O. No. 20.	: Case No. 14-842-EL-ATA

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DEPOSITION

of John D. Brodt, taken before me, Carolyn M. Burke, a Notary Public in and for the State of Ohio, at the offices of the Ohio Consumers' Counsel, 10 West Broad Street, 18th, Floor, Columbus, Ohio, on Monday, September 15, 2014, at 10:30 a.m.

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APPEARANCES:

Duke Energy
By Ms. Amy B. Spiller
and Ms. Jeanne Kingery (via speakerphone)
139 East Fourth Street, 1303-Main
Cincinnati, Ohio 45202

On behalf of the Applicant.

Bruce J. Weston, Ohio Consumers' Counsel
By Mr. Edmund "Tad" Berger
Assistant Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On behalf of the Residential Ratepayers of Duke Energy Ohio.

Simpson Thacher & Bartlett LLP
By Mr. Brian Chisling
Mr. Michael J. Castiglione (via speakerphone)
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New York, New York 10017-3954

On behalf of OVEC.

McNees, Wallace & Nurick, LLC
By Mr. Matthew R. Pritchard
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Columbus, Ohio 43215-4288

On behalf of the Industrial Energy Users - Ohio.

Carpenter, Lipps & Leland, LLP
By Ms. Kimberly W. Bojko
280 North High Street, Suite 1300
Columbus, Ohio 43215

On behalf of the Ohio Manufacturers' Association.

APPEARANCES: (Continued)

Carpenter, Lipps & Leland, LLP
By Ms. Rebecca L. Hussey
280 North High Street, Suite 1300
Columbus, Ohio 43215

On behalf of The Kroger Company.

IGS Energy
By Mr. Joseph Oliker
6100 Emerald Parkway
Dublin, Ohio 43016

On behalf of IGS Energy.

FirstEnergy Solutions Corp.
By Mr. Jacob A. McDermott (via speakerphone)
and Mr. Scott J. Casto (via speakerphone)
76 South Main Street
Akron, Ohio 44308

On behalf of FirstEnergy Solutions Corp.

Mike DeWine, Ohio Attorney General
By Mr. Steven Beeler (via speakerphone)
Assistant Attorney General
Public Utilities
180 East Broad Street, 6th floor
Columbus, Ohio 43215

On behalf of the Staff of the Public Utilities Commission.

Ohio Partners for Affordable Energy
By Ms. Colleen L. Mooney (via speakerphone)
231 West Lima Street
Findlay, Ohio 45840

On behalf of Ohio Partners for Affordable Energy.

Williams, Allwein and Moser, LLC
By Mr. Christopher J. Allwein
1500 West Third Avenue, Suite 330
Columbus, Ohio 43212

On behalf of the Sierra Club.

APPEARANCES: (Continued)

Mr. Douglas E. Hart (via speakerphone)
441 Vine Street, Suite 4192
Cincinnati, Ohio 45202

On behalf of the Greater Cincinnati Health Council.

American Electric Power
By Mr. Steven T. Nourse
1 Riverside Plaza, 29th floor
Columbus, Ohio 43215-2373

On behalf of Ohio Power Company.

Vorys, Sater, Seymour & Pease, LLP
By Ms. Gretchen L. Petrucci (via speakerphone)
52 East Gay Street
Columbus, Ohio 43216-1008

On behalf of the Retail Energy Supply Association.

ALSO PRESENT:

Mr. Greg Slone, OCC.
Mr. Don Wathen, Duke Energy Ohio.
Ms. Tammy Turkenton, PUCO (via speakerphone).

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Monday Morning Session,
September 15, 2014.

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MR. BERGER: Good morning. My name is Tad Berger. I'm with the office of the Ohio Consumers' Counsel, 10 West Broad Street, Suite 1800, Columbus, Ohio 43215. With me here is Greg Slone, not appearing as counsel, however. Thank you.

MR. PRITCHARD: On behalf of the Industrial Energy Users of Ohio, my name is Matthew Ryan Pritchard, with the law firm of McNees, Wallace & Nurick, 21 East State Street, Columbus, Ohio 43215.

MR. OLIKER: On behalf of IGS Energy, Joseph Oliker, 6100 Emerald Parkway, Dublin, Ohio 43016.

MR. ALLWEIN: Christopher J. Allwein, A-l-l-w-e-i-n, on behalf of The Sierra Club, I'm with Williams, Allwein and Moser, 1500 West Third Avenue, Columbus, Ohio 43212.

MS. BOJKO: On behalf of the Ohio Manufacturers' Association, Kimberly W. Bojko, Carpenter, Lipps & Leland, 280 North High Street, Suite 1300, Columbus, Ohio 43215.

MS. HUSSEY: On behalf of The Kroger Company, Rebecca Hussey with the law firm of

Carpenter, Lipps & Leland, 280 North High Street, Suite 1300, Columbus, Ohio 43215.

MS. SPILLER: Amy Spiller for Duke Energy Ohio, 139 East Fourth Street, Cincinnati, Ohio 45202. Also present with me for the company is Don Wathen.

MR. NOURSE: And this is Steve Nourse on behalf of Ohio Power Company, 1 Riverside Plaza, Columbus, Ohio 43215.

MR. CHISLING: Brian Chisling on behalf of Ohio Valley Electric Corporation with the law firm Simpson, Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017.

MR. BRODT: John Brodt, Ohio Valley Electric Corporation, 3932 U.S. Route 23, Piketon, Ohio 45661.

MR. BERGER: Would the people on the phone please identify themselves or enter their appearances. Thank you.

MR. McDERMOTT: Jacob McDermott and Scott Casto for FirstEnergy Solutions Corp., 76 South Main Street, Akron, Ohio 44308.

MS. KINGERY: Jeanne Kingery also for Duke Energy Ohio.

MR. BEELER: On behalf of the staff of the Public Utilities Commission of Ohio, Steve Beeler with the Ohio Attorney General's Office, 180 East Broad Street, Columbus, Ohio 42315.

MS. PETRUCCI: On behalf of the Retail Energy Supply Association, the law firm of Vorys, Sater, Seymour & Pease, Gretchen L. Petrucci, 52 East Gay Street, Columbus, Ohio 43215.

MS. MOONEY: On behalf of Ohio Partners for Affordable Energy, I'm Colleen Mooney, 231 West Lima Street, Findlay, Ohio.

MR. CASTIGLIONE: Michael Castiglione, C-a-s-t-i-g-l-i-o-n-e, of Simpson, Thacher & Bartlett for OVEC. Again, it's 425 Lexington Avenue, New York, New York 10017.

MR. HART: For the Greater Cincinnati Health Council, Douglas E. Hart, 441 Vine Street, Suite 4192, Cincinnati, Ohio 45202.

MR. BERGER: Thank you. I think that's all the appearances. I understand that Tammy Turkenton is on the phone.

Are there any other individuals on the phone who are not entering appearances as counsel?

Hearing none, would the court reporter please swear the witness.

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JOHN D. BRODT

being first duly sworn, as prescribed by law, was examined and testified as follows:

CROSS-EXAMINATION

By Mr. Berger:

Q. Good morning, Mr. Brodt. As you heard earlier, I'm Tad Berger with the Consumers' Counsel's office. Would you please state your name and business address for the record and identify your position.

A. My name is John Brodt. I'm the CFO and secretary and treasurer for Ohio Valley Electric Corporation. The address is 3932 U.S. Route 23, Piketon, Ohio 45661.

Q. And you said you're the CFO of OVEC. Is that okay to refer to your company as "OVEC"?

A. That is correct.

Q. How long have you been in that position?

A. I've been in this position -- I've worked for OVEC for 38 years, and I think I've been in this position since 1988; 28 years.

Q. And what does your position involve as CFO?

A. CFO for Ohio Valley Electric, I have multiple departments under me, mostly dealing with administration of the electric company, which Ohio Valley Electric is a parent company, we have a subsidiary, Indiana-Kentucky Electric, which is a subsidiary. My departments are accounting department, accounts payable, information systems, taxes and insurance, budgeting, office services, and supply chain.

Q. And what is your professional background, Mr. Brodt?

A. I have a degree, a bachelor of business degree in -- bachelor of business administration degree in accounting with a focus on accounting and I've been serving in that position for a number of years.

Q. Do you have any licensing?

A. No.

Q. Mr. Brodt, is the information regarding who the OVEC board of directors and/or committee members are, is that confidential information in any way?

A. No.

Q. Does OVEC maintain a confidentiality policy with respect to its internal documents?

A. Yes, with some of its documents.

Q. There is a written confidentiality

policy?

A. There's a confidentiality policy if someone wishes to view them.

Q. And what is that confidentiality policy? Do you know?

A. I do not know.

Q. Okay. Are you familiar with the oversight of the Public Utilities Commission of Ohio with respect to a number of the OVEC sponsoring companies in terms of their regulated affairs?

A. No, I'm not.

Q. Okay. Are you aware that the Public Utilities Commission of Ohio has directed a number of sponsoring companies to divest their generation assets from the regulated utility operations?

A. Yes, I'm aware of that.

Q. Okay. And has OVEC received a number of requests to either sell or transfer the assets of regulated utilities in Ohio to an unaffiliated entity?

MS. SPILLER: Can I have the question read back?

Q. Either -- strike that.

Are you aware of requests by sponsoring companies in OVEC to sell or transfer their interest in OVEC to either an affiliate, an unregulated affiliate, or to a third party?

MS. SPILLER: Objection to the relevance.

MR. CHISLING: Objection that we may be getting an answer that includes confidential information. We should probably determine whether or not we have people that could receive confidential information.

MR. BERGER: I believe the fact that there have been requests that have been made is or is not confidential -- is nonconfidential since it was testified to in this proceeding on a nonconfidential basis.

MS. SPILLER: It was discussed in Mr. Whitlock's confidential portion.

MR. BERGER: But the fact that a request was made, I don't believe is on the confidential record, and it's public record with respect to AEP Ohio.

MS. SPILLER: Well, I think, as I shared last week, we're not responsible for that record, but I do think in Mr. Whitlock's deposition it was in the confidential portion.

MR. CHISLING: And to be clear with respect to my objection, it's -- I don't -- the breadth of your question is very broad and I'm not sure where the answer may take us.

MR. BERGER: Okay. Well, I just asked him if he was aware that requests had been made.

MR. CHISLING: You can answer.

A. Yes.

Q. Okay. And do you know what companies made requests to transfer?

MR. BERGER: And if you believe that the question at any point --

MR. CHISLING: Yeah, again, the answer to that question may or may not be confidential depending on whether or not the party that had made the request has made that information public. Or whether or not the transfer actually occurred in which case it would then become public.

MR. BERGER: Okay. So you're asking that the identity of any party requesting such treatment be kept on the confidential record; is that correct?

MR. CHISLING: To the extent it's not public information. Again, the breadth of your question could be, you know, any temporal range. I don't know where the breadth of the question goes to.

Q. (By Mr. Berger) Okay. Well, Mr. Brodt, since 2010 are you aware of nonconfidential information regarding requests for consent to transfer a publically-regulated utility's generating -- or, interest in OVEC to an unregulated affiliate or third party, and tell me the public requests, the information that is public. If you know.

A. The requests were made in confidential contact with us, so I think they're confidential.

Q. Okay. You don't know whether those -- the fact that there has been requests made by certain entities has been publicly disclosed --

A. That's true.

Q. Okay. Do you consider the time frame when those requests were made to be confidential?

A. I suppose not.

Q. Okay. Can you tell me when those requests were made?

A. In the 2010 time frame, I believe. I don't recall exactly.

MS. BOJKO: I'm sorry. Could I have the answer reread?

MR. OLIKER: Could I have the question as well, please.

(Record read.)

Q. Are you aware of requests that were made in 2013?

A. Yes, I believe they were more around 2013 than 2010.

MS. BOJKO: I'm sorry, I'm just having trouble hearing you. Did you say not 2010?

THE WITNESS: Yeah. I said not 2010. I believe they were more in 2013.

MS. BOJKO: Thank you.

Q. Can you tell me the number of requests that were made since 2010?

MS. SPILLER: Object to the relevance.

A. From what I can recall, two.

Q. Can you tell me the process, Mr. Brodt, through which requests for consent to transfer a party's -- a sponsoring company's interest and obligations in OVEC are considered by the board of directors or other committees within OVEC?

A. Could you say that again, please?

Q. Can you tell me the process through which requests for consent to transfer a sponsoring company's interest and obligation in OVEC are proposed to be transferred to either an affiliate or a third party?

A. Well, this process is detailed in the Inter-Company Power Agreement, and it's -- I don't remember the exact -- there's several different paths it can take depending on what the transfer is. I don't recall exactly what the process is for each given transfer, type of transfer.

Q. Now, you're familiar with the provision in Section 9.181 of the Inter-Company Agreement, the ICPA?

A. Yes.

Q. And under that provision a party may transfer their interest if they obtain the unanimous consent of the other sponsoring companies. Are you familiar with that?

A. Yes.

Q. And you mentioned that there were two requests. Can you tell me whether both of those requests were submitted under Section 9.181?

MS. SPILLER: Objection. Relevance.

A. The requests never ended up with us. There was a discussion about such transfers, but there was never any documentation of the transfers taking place sent to us.

Q. Was there a written request for a transfer sent to the OVEC board for approval?

A. Not that I'm aware of.

Q. Are you aware of the OVEC board ever voting on such a request?

MS. SPILLER: Objection. Relevance.

A. The board wouldn't vote on the request. It would be the sponsoring companies that would vote individually on the request.

Q. And how would that vote take place?

A. It's up to the transferring sponsoring company to obtain the consent from all the rest of the sponsoring companies.

Q. Would the board be aware of the requests, would it be an intermediary for those requests?

A. They could be, yes.

Q. Was the board an intermediary for any request to transfer?

A. To my recollection there was no formal board meeting that had that discussion.

Q. Now, the sponsoring companies are all members of the board, correct?

A. That's correct.

Q. Are you aware of -- there's also an executive committee; is that correct?

A. That's correct.

Q. Is that a subset of the board or is that the same people who are on the board?

A. It's a subset of the board.

Q. And who is on the executive committee that is not on the board or is it the other way around?

A. It's the other way around.

Q. Who's on the board that's not on the executive committee?

A. I'd have to look at the roster. Sorry, I couldn't tell you off the top of my head.

Q. Okay. Does every sponsoring company have a member of the executive committee as well as the board?

A. No.

Q. So if a party wanted -- if a sponsoring company wanted to obtain consent to a transfer of its interest under Section 9.18, it would have to circulate that to everybody who is a member of the board.

A. They would have to circulate it to the sponsoring companies and, yes, the sponsoring companies have representatives on the board.

Q. All the sponsoring companies have representatives on the board, but not all of them are on the executive committee, correct?

A. That's correct.

Q. And I think you said earlier the board, to the best of your knowledge, did not act as an intermediary for circulating any requests for consent; is that correct?

A. To my recollection they did not.

Q. How did it come to your attention that these requests for consent under Section 9.18 had been made?

A. My recollection is that there was a call and that there was a letter to be sent to the sponsoring companies asking for the consent.

Q. There was a -- who was the call among?

A. The call was among the board members, members of the board. It was not a board meeting.

Q. Were you present for that call?

A. I was on the call.

Q. And did that single call consider both requests for consent to transfer that you earlier referenced?

A. The call, my recollection was that a letter was going to be sent to the sponsoring companies asking for consent.

Q. Do you recall whether on that call there was a vote that took place?

A. I do not recall that there was a vote that took place.

Q. Do you recall whether on that call any party indicated that they would not consent to such a transfer?

A. I do not recall that any party made such representation.

Q. Are you aware of any notes that were made or minutes taken of the call that you're referencing?

A. I do -- I'm not aware of any minutes taken from that call.

Q. You're the secretary of the corporation, correct?

A. That is correct.

Q. You would normally sign the minutes; is that correct?

A. That's correct.

Q. Are minutes maintained of calls that are not in committee meetings or board meetings? Do you know?

A. Could you say the question again, please.

Q. Yes. Does the corporation maintain records of calls in which officers of OVEC are involved by maintaining minutes of such calls?

A. No, we do not.

Q. But you do maintain minutes of both executive committee meetings and the board meetings; is that correct?

A. That is correct yes.
Q. And do you sign off on executive committee meetings, too, as secretary?
A. Yes, I do.
Q. And you don't recall any minutes pertaining to any request for consent to transfer a sponsoring company's interest and obligations in OVEC to an affiliate or to a third party; is that correct?
A. No, I do not.
Q. Are you aware of any records maintained by OVEC pertaining to the call that you earlier referenced?
A. I am not aware of any records of that call.
Q. Are you aware of any e-mail communications or other kinds of correspondence or internal memorandum pertaining to that call?
A. I am not aware of anything. There was probably an e-mail reservation for that call. I'm not sure about that.
Q. Do you know what date that call was done on?
A. It was in 2013 as best I can recall.
Q. Was it in August 2013 to the best of your recollection?

A. I couldn't tell you what month.
Q. Do you recall whether all the sponsoring companies participated in that call?
A. I do not recall.
Q. Do you recall whether an attendance was taken at that call?
A. Not that I recall. I'm sure there was attendance taken on the call, itself, as to who was on the call, but was there a recorded attendance, not that I'm aware of.
Q. Does your secretary sit in with you on such calls?
A. No.
Q. So when you say an attendance was taken, are you saying that the individuals who were participating in the call may have written down names or asked for who was on the call?
A. I'm saying that on the call everyone was asked to identify themselves so there was a record -- or, there was a voice record of who was on the call.
Q. Okay. You don't maintain recordings of these calls, do you?
A. I do not.
Q. OVEC does not maintain.
A. OVEC does not.

Q. So when you were saying that there would be a voice record, you're just saying that somebody asked who was on the call; would that have been you?
A. No, I did not lead the call.
Q. Do you know who led the call?
A. No, I do not.
Q. Are you aware of any other telephone calls regarding this subject matter other than the one you've referenced?
A. No.
Q. Has OVEC approved transfer requests in the past, to the best of your knowledge, for a company to transfer its interest to an affiliate or a third party?
A. Yes.
Q. Those approved requests are not confidential, are they?
A. Not to my knowledge.
Q. Okay. So let's go back to 2000. Since 2000, have there been approved requests to the best of your recollection?
A. I think there's been maybe three requests that have been approved since 2000.
Q. And can you tell me which ones they were? Who made the request; who was the interest

transferred to.

A. There was a transfer for Buckeye Power. There was a transfer for Wolverine Power. There was a transfer for FirstEnergy Solutions.

Q. Were they the receiving entities or were they the requesting entities?

A. They were the receiving entities.

Q. Who were the parties transferring to them?

A. They would have all been FirstEnergy.

Q. Do you know what time frame that happened in?

A. The last one was in 2013, FirstEnergy Solutions -- or, 2014, I'm sorry. I do not recall the dates for Buckeye Power and for Wolverine. They were after 2000.

Q. Do you -- strike that.

Were all these transfers that you just referenced from FirstEnergy, were they all transfers that were made under Section 9.181, requiring unanimous consent, or were these transfers under another provision of Section 9.18?

A. I don't recall the provisions, but the Buckeye and Wolverine transfers were third-party transfers.

Q. So that would have been under Section 9.183 if you're familiar with the agreement?

A. I'm familiar with the agreement but I can't tell you that it's 9.183.

Q. Okay. Would looking at the agreement refresh your recollection about that or not?

A. I could tell by looking at the agreement, yes.

Q. Did you bring any documents with you today by the way?

A. I did not.

MR. BERGER: I have a copy here of Section 9.18 of the agreement. Can we mark this as OCC Deposition Exhibit 1.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MS. SPILLER: What portions of the ICPA are you marking?

MR. BERGER: Just 9.183 -- 9.183, excuse me.

MR. OLIKER: Tad, this document doesn't deviate at all from what we saw last week, does it?

MR. BERGER: It's the same document I shared with the parties on Thursday.

MS. SPILLER: It's more than just page 20 and 21?

MR. BERGER: It's page 20 through 23 of the agreement.

If anybody would like a copy, we have a couple of extra copies here.

MR. NOURSE: I could use one if you have an extra.

Q. (By Mr. Berger) Does that refresh your recollection, Mr. Brodt, regarding which provision of Section 9.18 the request to transfer was made by FirstEnergy?

A. For -- to Buckeye Power and to Wolverine, yes, it appears that the proper section is 9.183.

Q. And was a right of first refusal offered to the sponsoring companies for that transfer?

A. Yes, that was my recollection.

Q. And with respect to the transfer to FirstEnergy Solutions, was that under 9.181 or was that under another section?

A. That was under 9.181.

Q. And was that approval done at a board meeting?

A. FirstEnergy -- the transfer to FirstEnergy Solutions?

Q. Yes.

A. No. There was no -- there was no need for approval by the sponsoring companies because the entity that it was transferring to had the appropriate credit required.

Q. So that would have been under Section 9.182 not 9.181; is that correct?

A. You are correct. I'm sorry.

Q. Thank you.

Now, let's move on to a different area, and we'll come back later on the confidential record to this issue, but in terms of the process, I wanted to talk with you about the process of budgeting that OVEC goes through.

Am I correct that OVEC budgets both by a current operation budget for the forthcoming year, calendar year, and also on a long-term basis for a five-year period?

A. That is correct.

Q. Does OVEC budget more than five years into the future?

A. OVEC has prepared forecasts beyond the five years, but those forecasts are, at best, just indications of where the budget may be going in that period of time.

Q. And the company uses a document called a "billable cost summary." Are you familiar with that?

A. Yes, I am.

Q. Are you responsible for those billable cost summaries?

A. Someone in my department is.

Q. Is the billable cost summary the same as a budget?

A. Yes. It's the final document that we prepare as a budget.

Q. And are billable cost summaries updated periodically during the year?

A. Yes, they are.

Q. And are they revised to reflect changes in estimates?

A. Yes, they are.

Q. Now, I have a copy of two budgets, I believe two billable cost summaries here, one's prepared in, I think, 2012, and one prepared in 2013, and I'd like to provide those to you. That's a confidential document so I'm not going to mark it at this time. I'm going to wait until later to mark it, but I did want to ask you questions about what the lines mean without getting into the numbers, which I assume Mr. Chisling is fine --

MR. CHISLING: Depends on how in depth you get into the questions of the line items since the document is confidential.

MR. BERGER: Well, will you let me know if there's any concern you have over the confidentiality of anything I'm talking about here?

MR. CHISLING: Sure.

Q. (By Mr. Berger) What I'm providing you, and hopefully your eyes are better than mine because the first one is a document you provided us that says revisions November 26, 2012, and then a second one is a version or v12-11-13, December 11, 2013. I'm going to hand that to you.

MR. BERGER: I don't know if other parties, Mr. Chisling, have signed the confidentiality agreement. I don't mind sharing it with other parties at this time.

MR. CHISLING: Well, I believe, according to my records, we only have one party on the line who has not signed the confidentiality agreement, unless I'm mistaken. So it may ease up the division of this deposition. All of the -- well, except for people that signed today, everyone that signed a confidentiality agreement received the same information.

MR. BERGER: Okay. Are you sure?

MR. PRITCHARD: I just signed today.

MR. BERGER: Oh, okay. Did you receive -- oh, okay. Some people did just sign today.

MR. CHISLING: Yes. Or over the weekend.

MR. BERGER: I have a few extra copies here if people want to see them.

Q. (By Mr. Berger) I just want to go through the lines here. So let's talk about -- let's look at the November 26, 2012, revision. The first line there -- and tell me if I'm getting into anything confidential -- just says estimated delivered power sales from OVEC generation megawatt hours. Do you see that?

A. Yes.

MR. NOURSE: Excuse me, Tad. Did you say you have extras or you ran out?

MR. BERGER: All I have are five copies.

MR. NOURSE: Okay. I'll share.

MR. BERGER: If you guys want to share.

MS. BOJKO: Could you repeat the question?

Q. I just asked him about the estimated delivered power sales from OVEC generation megawatt hours. Would I be correct that that just shows a forecast of how much power the company is going to -- OVEC is going to sell during the indicated year?

A. That is correct.

Q. And right below that is estimated surplus energy use factor percentage. Can you tell me what that means?

A. The use factor -- surplus energy use factor is an estimate of how much power we think the sponsoring companies are going to take as a whole in a given year and that is represented by the number above.

Q. Does this include DOE or is this just the sponsoring companies?

A. OVEC does not supply power to the Department of Energy.

Q. That's something I'm confused about then. Let me show you the company's annual report.

MR. BERGER: Can we mark this, for 2013, it's not a public -- it is a public document, so. And, again, I only have a few copies of the one page I'm going to reference here. I have a copy of the full annual report that I'd ask be marked as OCC Deposition Exhibit 2.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. I'm just referencing one page from this report, page 34, you're probably familiar with that page. It has a five-year summary of the company's performance.

A. It's the second page.

Q. Maybe it got copied wrong. It's on the second page?

A. It's on the second page of this document.

MR. BERGER: I apologize. Can we substitute this one for that one? Because that's confusing.

MR. OLIKER: Tad, which page are you on?

MR. BERGER: I'm on page 34.

THE WITNESS: It says page 34, but it's out of order.

MR. BERGER: It's out of order.

Let me give you -- can we mark this as OCC Deposition Exhibit 2 rather than that one?

MS. SPILLER: What's OCC Exhibit No. 2?

MR. BERGER: That's the OVEC annual report for 2013.

MS. SPILLER: So it's not the two-page document you just circulated?

MR. BERGER: It's the full report. I'm going to be referencing just the one page, the two-page document, basically, as part of my cross-examination.

Q. (By Mr. Berger) Now, Mr. Brodt, in this report do you see where it says "Energy Delivered" and it has "DOE" and "Sponsors"?

A. Yes.

Q. And am I correct that the company has delivered energy to DOE over the last five years?

A. We have delivered energy to DOE in the last five years, but it's not from our generation.

Q. So you're saying that delivered energy -- why is there an indication that energy is delivered to DOE if it's not from your generation? Are you using your transmission facilities for that?

A. We act as, under a letter agreement with the Department of Energy, we purchase power for -- from third parties for the Department of Energy and deliver it to them for a price.

Q. So you're an intermediary for somebody else producing energy.

A. Yes. For DOE.

Q. So when we look at the numbers here, the sponsors are the only ones receiving OVEC generation; is that correct?

A. That is correct.

Q. Now, how long has it been the case that power sold to DOE as an intermediary rather than a sale of OVEC generation, has that been since 2003?

A. I believe that is the date, yes.
Q. And that's when OVEC's agreement with DOE came to an end, correct?
A. That is correct.
Q. And, since that time, no OVEC generation has been delivered to DOE; is that correct?
A. That is correct.
Q. And the reason that DOE has elected to purchase generation from other entities, although using OVEC as an intermediary, is that because of the price of the energy?
A. Could you state that question again, please?
Q. Do you know the reason that DOE has elected to purchase energy from other parties rather than OVEC since 2003?
A. They need energy to run their facilities at the Portsmouth location. Without power from the DOE power agreement, they needed energy.
Q. Why wouldn't they purchase that energy from OVEC?
A. The -- when they -- when DOE terminated the DOE power agreement, all of the energy that OVEC had available was made available to the sponsoring companies under the Inter-Company Power Agreement.

Q. Does OVEC sell any of its energy to any person or entity other than the sponsoring companies currently?
A. No.
Q. Has it sold any of its power to any entity or person other than the sponsoring companies since the DOE agreement came to an end in 2003?
A. No.
Q. Is OVEC prohibited by the ICPA from selling energy to any entity or person other than the sponsoring companies?
A. Yes.
Q. Do you know what provision that's in?
A. Not off the top of my head.
Q. Okay. All right. So getting back to our pink sheet there, and your definition of estimated surplus energy use factor percentage, could you restate that definition again?
A. The use factor is a calculation of the percentage of power that we believe the sponsoring companies are going to take of our generation.
Q. And would you agree that that would be all of the generation that you believe, that OVEC believes is economical for those sponsoring companies to purchase from OVEC? Would that be accurate?

A. Yes, I think that is an accurate statement.

Q. Would you agree that that percentage reflects OVEC's estimate of the amount of energy that would clear PJM or would be dispatched into PJM under PJM's marginal cost pricing model?

A. I'm not sure that that is the total definition. Some sponsors use power for their internal purposes.

Q. And is the power used for the internal purposes included in the projection on estimated surplus energy use factor percentage?

A. Yes.

Q. So basically you're saying some portion of that line consists of energy used for internal purposes and the balance consists of energy dispatched into PJM at marginal cost?

A. I think some of our sponsors may not be in PJM, so.

Q. Now, do the individual sponsoring companies make their own individual determinations as to how they want -- as to what amount of energy to purchase from OVEC?

A. Yes.

Q. Is there a minimum quantity of energy that they're required to purchase from OVEC under the ICPA?

A. There are minimum operating loads that are required to keep the units available.

Q. Now, going down to the next line, "Projected Annual Capital Improvement Costs (excluding SCR, PRB Coal Switch, PGD and Other Financed Projects)." Do you see that?

A. Yes.

Q. Is that your capital improvement budget?

A. Yes, it is.

Q. And when it says "costs" there, does that include estimated annual depreciation expense as well as -- or, is that calculated in some other way?

A. That does not include depreciation expense.

Q. So it's basically a capital budget of how much you're going to spend in any particular year to make improvements in the system; is that correct?

A. Yes.

Q. But it does not include operation and maintenance expenses, does it?

A. That is correct, it does not.

Q. And why is SCR, PRB coal switch, FGD and other financed projects excluded from that particular line?

A. Because those projects would be included through the debt section that is below that line.

Q. So those particular things, everything that's excluded from that one line is included elsewhere under "Demand Charge"; is that correct?

A. That is correct.

Q. Now, if you look at the two budgets we have here, the one from 2012, would you agree with me that's your 2012 overview of the budget, the one dated November 26th, 2012?

A. Yes.

Q. This is the one that was approved by the board, I believe it was in December of 2012?

A. That is correct.

Q. And the next one is v12-11-13, that was the one that was approved by the board in December 2013?

A. Yes.

Q. Now, there's a significant decrease in costs between these two budgets? Are you aware of that?

A. I would expect that that would be true, yes.

Q. For example, if we look at 2014, under demand charges you have --

MR. CHISLING: Wait a minute.

MR. BERGER: I'm sorry.

MR. CHISLING: We don't want to put any of the numbers in the record.

MR. BERGER: I'm sorry. I'm sorry. Can we strike that from the record, please. Come back to that on the confidential record.

Q. If I'm getting into anything confidential by asking generally regarding what is the -- how is the board able to make a significant decrease in costs from one year to the next under these budgets?

A. Well, the board doesn't make the decrease in costs. OVEC, in its budgeting, determines what the costs will be and presents it to the board for approval.

Q. Okay. So the OVEC departments come and they propose a budget for the -- that goes into this model.

A. Yes.

Q. And they figured out ways to cut costs from one year to the next, correct?

A. Yes.

Q. And they proposed that and the board approved it, correct?

A. That is correct.

Q. And does OVEC prepare a report like this which compares budgets to actuals?

A. During the year, yes.

Q. Do you look back over some period of time? For example, you've been preparing this report that we're talking about here for many years, correct --

A. Correct.

Q. -- this billable cost summary? And do you take the billable cost summary and say for 2010 here's what the billable cost summary was, the budgeted amount, and here's the actual amount for that period of time?

A. Yes.

Q. Okay. And do you have a report that shows the history of that?

A. We have individual annual reports that reconcile actual costs to budgeted costs for each year, yes.

Q. You did not provide those to -- in the discovery in this case.

A. No.

Q. Okay. Are you familiar with the information that OCC requested in the subpoena that was issued?

A. Somewhat familiar, yes.

Q. You reviewed it?

A. Yes.

Q. Now, looking at the annual report, is there a correspondence between the manner in which page 34 of the annual report, the numbers are shown on page 34 of the annual report, and the way in which the numbers are shown on the pink page, operating budget, billable cost summary, that I earlier -- that I provided you? Could one determine one from the other or not?

A. Of course what's in the annual report are actual numbers and what's on the forecasts are forecasted numbers, so they are different.

Q. Okay. Well, let's look at the annual report for a minute. The amounts that are shown under demand charges on the pink paper, not the amounts, but the items, are they reflected under a particular line item in the annual report? Would you know?

A. For demand?

Q. Yeah.

A. Yes. The demand costs include operating expenses and taxes and payroll.

Q. Anything else included under demand?
A. There are things that are on the forecasts that are not on the five-year comparison page.
Q. What items would those be?
A. Well, capital improvements, return on equity.
Q. Return on equity is shown on --
A. Projected ROE costs.
Q. Are you talking about the annual report has projected ROE costs?
A. No, no, no. I'm talking about the --
Q. The billable cost summary?
A. Billable cost.
Q. Okay. Is that under projected dividend or is that something else?
A. Yeah, it would be under dividend.
Q. Okay. So other than the dividend and the capital improvements, would there be any other items that would be shown as demand charges -- strike that.
Other than capital improvements, would there be any items shown on the billable cost summary as demand charge that is not reflected under operating expenses, taxes, and payroll?
A. Not that I can recall.

Q. Okay. When you're referring to projected annual capital improvement costs, you're talking about all the financing issuances, too, correct?
A. Yes.
Q. Would you agree with me that under demand charge, on the billable cost summary ICPA Component B would be equivalent to the operating expenses?
A. It would be a part of it, yes.
Q. And ICPA Component C would be the taxes?
A. Yes.
Q. And ICPA Component D would be -- would not be reflected on the annual report, correct?
A. Correct.
Q. Would ICPA Component E be included in the annual report as operating expenses?
A. I believe so.
Q. And ICPA Component F, decommissioning and demolition obligation, would that be reflected in the annual report as operating expenses?
A. I believe it would be as well.
Q. Okay. And in terms of cost of fuel consumed, which is shown on the annual report, would that be equivalent to the cost of coal under the energy charges on the billable cost summary?
A. Yes.

Q. On the billable cost summary, the items, projected allowance cost, and projected other-fuel related costs, would that also be included in cost of fuel consumed on the annual report for actual costs incurred or would that be somewhere else on the annual report?

A. I am not sure. They may be up in the demand charge, those items, allowances and other fuel-related costs may be up in demand charges.

Q. And transmission charges shown on the billable cost summary would be included in operating expenses, ICPA -- which is an ICPA component?

A. Sorry. What was the question?

Q. Yes. Would the transmission charge --

A. Oh. Would the transmission charge be part of the --

Q. Part of the operating expenses --

A. Yes.

Q. -- on the annual report.

A. Yes.

Q. Okay. And why is the dividend not shown on the OVEC performance? Is there any particular reason?

A. This is just supposed to be a summary of some of the financial, the important financial

information. It's not necessarily something we put on there that we thought was important enough to put on this page.
Q. Okay. But the dividend is shown elsewhere on the annual report; is that correct?
A. Yes. Yes.
Q. Would you consider questions generally regarding the change in the budget for postretirement obligations to be confidential?
A. Yes.
Q. Okay. I'll hold those questions for later.
Would you agree with me that actual operating expenses increased from 2009 to 2013 under the terms as shown on the annual report?
A. Yes, they did.
Q. And payroll also increased during that time frame?
A. Yes, it did.
Q. Is depreciation expense included on the annual report as part of operating expenses?
A. Depreciation expense is tied to the amortization of the debt.
Q. But is it included in the line "Operating Expenses" on page 34 or is it included on some other

line?

A. Depreciation expense would be in operating expenses.

Q. On the billable cost summary is a projected dividend subtracted or added to total projected power production costs?

A. It is subtracted.

Q. Can you tell me what the reason is for that?

A. We're trying to show what the total cost of our power is to our -- under the Inter-Company Power Agreement, and the dividend is a return of funds.

Q. So you're trying to show the cost of operating OVEC excluding the dividend is what you're saying.

A. Yes.

Q. Would you agree with me that, as a general proposition, the operating expenses are going to vary to some extent with the level of generation?

A. Yes.

Q. And the particular operating expenses, can you identify which operating expenses generally are going to vary? Would that be mostly maintenance? The more power you produce, the more maintenance you

generally incur?
A. Yes.
Q. Are there other expenses that vary due to increased generation?
A. In the demand charge?
Q. Yes, in the demand charge.
A. No.
Q. And by saying "the demand charge" you're saying, well, yeah, the cost of fuel is going to change.
A. Yes.
Q. When you produce more energy, you're going to need more coal.
A. Yes.
Q. Okay. And would you agree generally with me that the lower OVEC's marginal cost of production as compared to the marginal cost of production in PJM, the more OVEC will generally dispatch.
A. I think that is what we benchmark against, but, again, there are contributing factors, such as internal use of power by some of the sponsoring companies and the fact that not all the sponsoring companies are in PJM, may play a factor into that.
Q. It "may play a factor," is that because

of the internal use that some sponsoring companies make of the OVEC generation regardless of PJM production?

A. Yes.

Q. And you'd agree with me that the two plants that OVEC operates have different marginal costs of production, generally speaking.

A. Yes.

Q. Which is the more expensive, generally, to operate?

MR. BERGER: If that's confidential, just let me know.

MR. CHISLING: I'm not sure if it's confidential, so I'd rather leave that for the confidential portion. If it's not, we'll mark it so.

Q. Would you agree with me that except for generation that's provided to sponsoring companies for their internal use, that, as a general rule, OVEC will not dispatch unless it recovers more than at least its marginal cost of production.

A. Could you repeat that question?

MR. BERGER: Could you reread the question?

(Record read.)

A. I don't know that OVEC can make that

determination. That's -- we make the power available and the sponsoring companies take it. I think that's a good assumption, but whether it's fact, I don't know that we can say that.

Q. So the sponsoring companies make that decision. OVEC does not make the decision whether to dispatch. The sponsoring company says we want you to dispatch, they make the decision whether it's economic or not; is that correct?

A. That's correct.

Q. Would you agree with me that the marginal cost of production generally is composed of the cost of coal and other fuel-related costs as shown under the energy charge?

A. Yes.

Q. And when a sponsoring company says we want you to dispatch so much energy or however they do that at a particular time, does OVEC advise them of the marginal cost at that point in time or is there a general OVEC marginal cost that they assume?

A. OVEC makes available the best estimate for what the marginal cost is going to be on a monthly basis, but, based on the terms of the Inter-Company Power Agreement, the marginal cost can't be calculated until the end of the month.

Q. So the sponsoring companies are doing a little guesstimation when they say "dispatch this," as to what they're going to end up paying for that production; is that correct?

A. OVEC gives an indication of our best estimate, but, yes, they're making an assumption.

Q. Are there any other components, other than the cost of fuel and other fuel-related costs under the energy charge that would make up the marginal cost of production?

A. No.

Q. Okay. Looking at the annual report under the line where it says "Unit Cost of Fuel Burned." Would you agree with me that there's been approximately a 32 percent increase in the marginal cost of production in OVEC from 2009 to 2013?

A. I would agree that there's been an increase. I don't know that it's 32 percent. I'll take your word for it.

Q. Okay.

MR. BERGER: We've been going for a while. Can we take a five-minute break?

MR. CHISLING: That'd be great.

(Recess taken.)

MR. BERGER: Resuming with the

deposition, Mr. Brodt. I just have a few more questions on the public record.

Q. (By Mr. Berger) Can you just remind me when was the OVEC -- when were the OVEC generation plants put into service initially?

A. The OVEC units went into service in and around 1956.

Q. And what was the original life expectancy, if you know, of these plants?

A. I am not sure. I was not at OVEC at that point in time.

Q. Do you know whether the life expectancy of the plants has been extended due to upgrades since they were initially constructed?

A. I think the major maintenance that's been done at OVEC on the plants has enhanced the life of the units. I don't recall there ever being a retirement date of those units.

Q. And the units are currently intended to operate through the term of the current ICPA, through 2040?

A. Yes.

Q. And the company has recently invested substantial sums of money in various improvements for environmental purposes; is that right?

A. That is correct.

Q. Now, referring again to page 34 of the annual report, there's a substantial difference in the average price paid by DOE and the average price paid by the sponsors. Would you agree with that? At least since 2011 and it's been getting larger since then.

A. Yes.

Q. Can you tell me what, in your opinion, has driven that increasing differential in price?

A. Well, I can't -- first of all, I can't speak to the DOE price; I'm not involved in that process. It is a limited, short-term -- as I understand it, it's a limited, short-term arrangement that we arrange with third parties for the DOE. So it's not the same cost profile that a base-loaded unit might have.

With regard to OVEC's price, it has been escalating because of the drop in the use factor in 2012 and 2013.

Q. Okay. And is the projected use factor confidential information, I take it?

A. Yes.

Q. Okay. And do you know whether under the terms of the ICPA that the -- that OVEC sponsoring companies could vote to retire the facilities prior to the 2040 end of the ICPA agreement?

A. I believe that they can terminate the agreement.

Q. Do you know whether or not it would have to be terminated under -- through unanimous consent or would that be through a majority?

A. Matters related to the Inter-Company Power Agreement actually require 100 percent approval of the sponsoring companies.

Q. So a majority interest cannot shut down the facilities; is that correct?

A. That's my opinion, yes.

MR. BERGER: That's all I have on the public record. Thank you very much, Mr. Brodt.

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CROSS-EXAMINATION

By Mr. Pritchard:

Q. Good afternoon. My name is Matt Pritchard. I represent the Industrial Energy Users of Ohio. I have a couple questions to clean up some questions I had regarding the transfers that you were discussing with Mr. Berger that were approved.

During some of the questions and answers there's references to FirstEnergy and to FirstEnergy

Solutions. Was the most recent transfer of an OVEC interest, was the transferring party FirstEnergy or FirstEnergy Solutions?

A. Actually, I think the transferring party was FirstEnergy Generation Corporation.

Q. Okay. And prior to that, the interests that FirstEnergy Generation Company had were transferred from FirstEnergy, the electric distribution utility in Ohio, to FirstEnergy Generation; is that correct?

A. Yes.

Q. And the recent transfer involving FirstEnergy Generating Company, the transfer was FirstEnergy Generating Company to Buckeye and to Wolverine; is that correct?

A. That's my recollection, yes.

Q. And that transfer, is it correct that that transfer occurred in 2014?

A. No. Those transfers were much earlier in 2000 -- I'm thinking after 2003. I'm not sure of the exact dates.

Q. And what is the most recent transfer involving an OVEC interest that was approved?

A. Well, that was approved? Was approved by who?

Q. Under the ICPA. So I'm not talking about proposals that were made but ultimately rejected for one reason or another, but actual transfers of interests that went through.
A. I think the transfer to Wolverine would have been the most recent.
Q. And that was the one that occurred --
A. That was approved.
Q. -- around the 2003-2004 kind of time frame?
A. It was later than that. I just can't remember the time frame.
Q. But not in the last year or two?
A. No, not in the last year or two.
Q. The document that OCC's counsel had marked as Exhibit 2, I believe it's titled the annual report for 2013. Is the document that was marked as OCC Exhibit 2 a complete copy or is that an excerpt of the annual report?
A. It appears to be a complete copy.
Q. And this 2013 annual report would have been made at or near the time of 2013, correct?
A. The annual report was issued about June 2014.
Q. And the person that prepared this report,

would they be a person knowledgeable of the information that's contained in this report?

A. Yes.

Q. And the information that is contained in this annual report is kept in the regular course of OVEC's business, correct?

A. Correct.

Q. And these annual reports, I assume that they're made annually?

A. That's correct.

MR. PRITCHARD: I'd like to have another document marked as IEU-Ohio Exhibit 1.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have in front of you what has been marked as IEU-Ohio Exhibit 1?

A. Yes, I do.

Q. For identification purposes, this document is titled "Annual Report - 2012, Ohio Valley Electric Corporation and subsidiary Indiana-Kentucky Electric Corporation." Is this document OVEC's 2012 annual report?

A. Yes, it is.

Q. And this report would have been made at or near the time shortly after 2012?

A. Yes.

Q. And the information -- or, this report would have been prepared by someone who is knowledgeable of the information contained in the report?

A. Yes.

Q. And the information that's reflected in this report is maintained in OVEC's regular course of business?

A. Yes.

Q. And it's regular practice to make this report?

A. Yes.

MR. PRITCHARD: I'd like to have a document marked as IEU-Ohio Exhibit 2.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have in front of you what's been marked as IEU-Ohio Exhibit 2?

A. Yes, I do.

Q. And for identification purposes this document is titled "Ohio Valley Electric Corporation and Subsidiary Company Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report." Does this appear to be the consolidated financial statements prepared by OVEC for the years identified?

A. Yes, it does appear to be.
Q. And was this report made at or near the time of 2012 and 2013?
A. Yes.
Q. And was the report prepared by someone with knowledge of the information contained in the report?
A. Yes.
Q. And the information that's reflected in this document is information that's kept in the regular course of OVEC's business?
A. Yes.
Q. And is it regular practice to produce this report?
A. Yes.
MR. PRITCHARD: I'd like to mark an exhibit as IEU-Ohio Exhibit 3.
(EXHIBIT MARKED FOR IDENTIFICATION.)
Q. Do you have in front of you what has been marked as IEU-Ohio Exhibit 3?
A. Yes, I do.
Q. And does this document appear to be OVEC's 2012 FERC Form 1?
A. Yes.
Q. And was this document made at or near the

time of 2012?

A. It was made in 2013.

Q. And was this report prepared by a person with knowledge of the information contained in the report?

A. Yes.

Q. And is the information contained in this report kept in the ordinary course of OVEC's business activity?

A. Yes.

Q. Is it regular practice to make this report?

A. Yes.

Q. One final document for you.

MR. PRITCHARD: I'd like to mark this document as IEU-Ohio Exhibit 4.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have in front of you what's been marked as IEU-Ohio Exhibit 4?

A. Yes, I do.

Q. Does this appear to be OVEC's 2013 FERC Form 1?

A. Yes, it does.

Q. Was this document -- or, sorry. Was this report made at or near the time of 2013?

A. It was made in 2014.
Q. Was this report made by someone with knowledge of the information contained in the report?
A. Yes, it was.
Q. And the information that's reflected in this report, is it maintained in the regular course of OVEC's business?
A. Yes.
Q. Is it regular practice to make this report?
A. Yes.
MR. PRITCHARD: Those are all the questions I have. Thank you.

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CROSS-EXAMINATION

By Mr. Oliker:
Q. Good afternoon, Mr. Brodt. My name is Joe Oliker. I represent IGS Energy. I just have a few questions.
A. Okay.
Q. I will try not to repeat anything, but I apologize if I plow the same ground.
There was some discussions earlier about projections of sales and megawatt output for the OVEC plants. Do you remember that discussion?

A. Yes.
Q. How often does OVEC adjust its forecasts?
A. We look at our forecasts every month.
Q. Do you remember the most -- the date of the most recent forecast?
A. I do not. It would have been the prior month.
Q. So likely either the end of June or the -- or, sorry, the end of July or the end of August?
A. Yes.
Q. Regarding some questions that you were asked regarding transfer from FirstEnergy to FirstEnergy Generation to Wolverine and Buckeye. Just a few questions on that. I think you said the most recent transfer involved FirstEnergy Generation Corp. to Wolverine; is that correct?
A. The most recent transfer was FirstEnergy Generation Corporation to FirstEnergy Solutions.
Q. When did that occur?
A. 2014. Early 2014.
Q. Okay. And the most recent prior to that, which transfer was that?
A. FirstEnergy to Wolverine.
Q. Is that FirstEnergy Generation to Wolverine?

A. No. It was FirstEnergy --
Q. The electric distribution utility?
A. Yes.
Q. Prior to that, could you describe that transfer?
A. Prior to that, it would have been FirstEnergy to Buckeye Power.
Q. And when you say "FirstEnergy," do you mean FirstEnergy the distribution utility or FirstEnergy Generation?
A. Actually, I think it was Allegheny Power which is now part of FirstEnergy to Buckeye Power was the transaction.
Q. Okay. Thank you.
Now, the transfer -- let me take a step back.
Were all of these transfers executed through a right of first refusal?
A. My recollection was only the Wolverine and the Buckeye Power transfers were right of first refusal.
Q. Okay. And is it your understanding when a transfer occurs through a right of first refusal, if the transferee that's identified has a sufficient credit rating, you do not need the approval of the

other sponsoring companies?

A. That's correct.

Q. So let me ask you a hypothetical. Assuming Duke Energy Ohio brought a proposal to the board -- or, to the other sponsoring companies that it wanted to transfer its interest in OVEC to a third party and that third party had a sufficient credit rating, no other party could stop Duke from transferring its interest.

A. That's correct.

MS. SPILLER: I'm going to object to the form, the hypothetical, and the relevance.

Q. You may answer.

A. That's correct.

Q. Thank you.

Now, just a few questions about the generating plants. We talked about Clifty Creek and Kyger Creek; is that correct?

A. That's correct.

Q. And would you agree that Clifty Creek is located in Indiana?

A. Yes, it is.

Q. And would you agree it's located in Indiana that is actually a part of Indiana that's actually in MISO?

A. That's correct.

Q. Earlier you mentioned that some of the sponsoring companies are actually located in MISO, correct?

A. Yes.

Q. And would you agree that some of the power from Clifty Creek is sometimes dispatched into MISO?

A. I expect that that's probably true. I do not know that to be a fact.

Q. And if you don't know the answer, that's fine, but at any given time can the power from Clifty Creek be dispatched into MISO and PJM at the same time?

A. Again, the sponsors make decisions about where they sell the power then. All we do is sell the power to the sponsoring companies.

Q. Okay. You indicated that sometimes -- scratch that. Sorry.

On a day-to-day basis, who determines whether or not the OVEC generating plants operate?

A. On a day-to-day basis, OVEC receives requests from the sponsoring companies to schedule power. And, as a result of those requests, OVEC determines which units will be run and how much, how much we will generate.

Q. The determination to run the plants, though, a coal plant isn't really nimble where Duke could say I don't want to run today, so you're not going to use my portion of its output. The plant is either on or it's off, right?

MS. SPILLER: Can you read that question back?

(Record read.)

MS. SPILLER: I'm going to object to the form.

Q. If you understand what I'm saying, you can correct my question, try to make sense out of it; if not, I can try to restate it.

A. When OVEC takes requests for scheduled power, they schedule the power based on the requests. If someone does not request power, they offer it up to the other sponsoring companies, which they can take power in place of those that haven't requested power, and a schedule is put together based on that.

Q. And that process occurs every day.

A. Yes.

Q. Okay. Are you familiar with the term "pseudo tie"?

A. Vaguely.

Q. Do you know whether Clifty Creek is pseudo tied to PJM Interconnection?

A. I do not.

Q. Are you familiar with the PJM capacity market?

A. Somewhat.

Q. Are you familiar with the rules for the PJM capacity market with respect to external resources?

A. No, I'm not.

Q. I apologize if I just asked this and I forgot, but is Clifty Creek pseudo tied to PJM?

A. I think you did ask it, but I still don't know.

(Laughter.)

Q. I thought I did.

Are you aware whether Clifty Creek has a firm transmission path to PJM Interconnection? If you know.

A. I do not know.

MR. OLIKER: I think my remaining questions are confidential. Thank you very much, Mr. Brodt.

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CROSS-EXAMINATION

By Mr. Allwein:

Q. I do have just a couple questions based on something that Mr. Berger asked you. Good afternoon. My name is Chris Allwein and I'm here today representing The Sierra Club.

A little bit ago, OCC's counsel asked you two questions regarding whether maintenance has extended the life of the two units. Do you recall that line of questioning?

A. Vaguely, yes.

Q. Okay. And one of the questions was, I'll characterize the question, I didn't write it down exactly, but I believe Mr. Berger asked you if you have invested substantial sums of money for environmental improvements and you agreed. Do you recall that?

A. Yes.

Q. Are those environmental improvements to both the Clifty Creek and Kyger Creek?

A. Yes, they are.

Q. And what is the time period that you're referring to here in terms of your investment?

A. The time period for the environmental investments is that the question?

Q. Yes, sir.

A. We've put substantial environmental investments into the plants ever since I joined the company. We've added precipitators, SCRs, FGDs.

Q. And for the record, I know you're using acronyms there, can you spell out what those are?

A. Sorry. Selective catalytic reduction equipment is SCRs. And FGDs are -- they're scrubbers.

Q. And so, you're saying that the time period that you're referring to in terms of substantial sums of money for environmental improvements, you're saying that time period goes all the way back to when you started with the company?

A. The precipitators were added in the 1980s. Yes.

Q. When were the scrubbers added?

A. They were just completed last year, 2013.

Q. Is that for both plants?

A. Yes.

Q. And how about the --

A. SCRs?

Q. Yes.

A. They were 2005, 2006, something like that.

Q. And can you detail the cost for each of those items for each of the plants?

A. Not off the top of my head.

Q. Let me ask you about the -- I'll come back to that in a second.

Let me ask you about the billable cost summary that OCC showed you this morning. It's the pink paper.

A. Yes.

Q. Does your forecasting, does it include future environmental improvements?

A. Yes.

Q. And can you tell me what those future environmental improvements are?

A. We have some improvements for coal combustion residuals that are planned for the future and some controls associated with Section 316(b) compliance.

Q. And for the record can you say what Section 316(b) compliance means?

A. My understanding it has to do with the intakes, water intakes, at both facilities.

Q. And do these future improvements, are they meant to address the proposed carbon rules recently put out by the Federal Environmental

Protection Agency?

A. No.

Q. And in your opinion are you going to need to make additional improvements to these plants in order to comply with the proposed carbon rules recently put out by the Federal Environmental Protection Agency?

A. From my understanding I think that's unknown at this point.

Q. Okay. And one more question on the billable cost summary, that those projections on the billable cost summary do not reflect any proposed potential or future compliance with the Federal EPA's proposed carbon rules; is that correct?

A. That's correct.

Q. So if there were anything additional that you needed to do in order to comply with the Federal EPA proposed carbon rules, those expenses would be in addition to what is in this particular billable cost summary; is that correct?

A. That's correct.

Q. And besides -- or, excuse me, in addition to the precipitators, the scrubbers, and the SCRs, are there any other environmental improvements that you're aware of that have occurred?

A. I'm sure there are other environmental improvements, but those are the major dollar cost-type --

Q. Okay. And when you --

A. -- improvements.

Q. Okay. Thank you. Sorry. I didn't mean to interrupt you. Were you finished?

A. Yes.

Q. Sorry about that.

Can you tell me what the costs of the scrubbers were for each plant in 2013?

A. The final cost for both plants was approximately $1.3 billion.

Q. And can you tell me what the cost of the SCRs were for each plant in 2005, 2006, I believe you said.

A. If I remember correctly, I think it was around $365 million.

Q. Is that for both plants?

A. Both plants. I don't know the breakdown.

Q. So $365 million total; is that correct?

A. Yes.

Q. And have those costs, the $1.3 billion for the scrubbers and the $365 million, have those amounts been collected by the company?

A. Those amounts are being collected by the company through the financing, through the debt obligations.

Q. Okay. Is that reflected in this billable cost summary?

A. Yes, it is.

Q. And how far forward does that -- does the collection of those expenses run into the future on this summary?

A. It runs through June 30th, 2040, some of it.

MR. ALLWEIN: I have no further questions. Thank you, Mr. Brodt.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, sir. My name is Kim Bojko. I represent the Ohio Manufacturers' Association. Following up on a question that Mr. Allwein just asked you regarding, I thought you answered, when he asked you whether the billable cost summary included future environmental improvements, you responded "yes" to coal combustion residuals; is that right?

A. Yes.

Q. But if you look at the bottom of the document, the 11/26/12 version, the "Critical Assumptions" at the bottom --
A. Yes.
Q. -- it specifically says "future projects related --
MR. CHISLING: Objection. We might not want to talk about the substance of the confidential document in the nonconfidential portion of this deposition.
MS. BOJKO: Well, I thought he just did. I'm just playing off of what he just said.
MR. CHISLING: If you want to refer to his testimony, that's fine.
MS. BOJKO: Okay. I don't want to put in anything confidential --
MR. CHISLING: Sure.
MS. BOJKO: -- but I also don't want to make the record unclear from the public versus confidential versions.
Q. (By Ms. Bojko) It's my understanding that this billable cost summary does not include certain future projects, but I think you just testified that it does include. Could you clarify?
A. The 2012 does not, but the 2013 does. I

did not make that clear. What's excluded in 2013 which I mentioned -- or, what's excluded on the 2012 version has been included in the 2013 version.

Q. I see. Okay. Thank you for that clarification.

We talked about an 11/26/12 version and some people today -- let's just clarify terminology, this is on a paper called "Billable Cost Summary," but have you also referred to this as the "budget forecast"?

A. I have, yes.

Q. Okay. So those are one and the same.

A. Yes.

Q. Okay. We've talked about an 11/26/12 version and then we've discussed a December 11, 2013, version. Do you have a more recent billable cost summary or budget forecast than the 12/11/2013 version?

A. Yes.

Q. Okay. What would the date of that be?

A. We take a look at the forecasts on a monthly basis so they can change on a monthly basis.

Q. Okay. And that's what you were referring to as the monthly forecast.

A. That's right.

Q. Okay. But you did not provide the most recent monthly forecast in your responses to OCC's depo request?
A. No.
Q. The latest you would have done it was the -- by the annual year; is that correct?
A. Yes. Because this is what has been approved. This is what was approved by the board.
Q. Okay. That's helpful. Thanks.
So there's no other forecasts that have been approved by the board.
A. That's correct.
Q. Okay. I'm just going to ask you the dates on the public record and then we can talk more about it later, but could you turn to OVEC, it's a Bates stamp of 104. The document itself is marked confidential, but I don't believe a date would be confidential. Do you know the date of this presentation?
MR. BERGER: 104?
MS. BOJKO: Yes.
Oh, I'm sorry. You didn't bring these documents with you.
THE WITNESS: No.
MS. BOJKO: Would the title be

confidential?
MR. BERGER: The whole document is confidential.
MR. CHISLING: Do you want to show him the document?
MS. BOJKO: Sure.
MR. BERGER: Do you have the number because I have some -- is it 104 or is it something else?
MS. BOJKO: Yes, 104. Oh, you have copies?
MR. BERGER: Well, I think I do. Yeah, I have copies.
MS. BOJKO: Thank you.
Q. (By Ms. Bojko) Do you know the date of this presentation given to OVEC?
A. Do I know the date of this presentation?
Q. Either that it was prepared or provided to OVEC?
A. It would have been prepared after the board meeting which sought approval for the -- this forecast that was dated 12/11/13, so it would have been prepared shortly after that, after it was approved at the board level.
Q. And was this prepared by OVEC or by

somebody else?
A. This is prepared by OVEC.
Q. Okay. And then I have the same questions for the 140. It appears to be the same type of presentation; the dates are just different. Would that have been for the prior year --
A. Yes.
Q. -- board meeting?
A. Yeah, it would have been prepared after the board meeting in the prior year.
Q. Regarding the first billable summary that we talked about, the 11 --
A. Yes, the one dated --
Q. -- 2012.
A. The one dated 11, whatever that is, 2012.
Q. 11/26/2012.
A. Yes.
Q. And, similarly, this would have been prepared by OVEC?
A. Yes.
Q. Is that you who prepares these reports?
A. No. Someone in my department.
Q. I'm going to talk to you for just a minute about confidential versus not confidential with regards to what OVEC, the entity, believes is

confidential or what it maintains as confidential. Are your board minutes confidential?
A. Yes.
Q. Is the ICAP confidential?
A. "ICPA."
Q. Did I say it backward? The Inter-Company Power Agreement --
MS. HUSSEY: ICPA.
Q. ICPA. Sorry.
A. It's a public document.
Q. Okay. And what about the audited financials, those are public because they're on the website; is that right?
A. That's correct.
Q. And the budget forecasts?
A. Those are confidential.
Q. And, again, you don't see a distinction between any forecasts that OVEC prepares versus budgets that OVEC prepares. Is the terminology the same?
A. The terminology is the same.
Q. And what about board votes, are those confidential or public?
A. Confidential.
Q. And, obviously, the billable cost

summaries are the same thing as budget forecasts and those are confidential.

A. Yes.

Q. Earlier today you talked about a request that was made for a transfer and you stated that you believe there was going to be a follow-up letter sent to the sponsoring companies. Do you recall that?

A. Yes.

Q. Was that follow-up letter ever sent to the sponsoring companies?

A. I do not know.

Q. Would you have received a copy of the follow-up letter to the sponsoring companies?

A. I don't recollect that I did.

Q. So as you understood your discussion earlier this morning about there was a phone call made for these requests and then you believed that there was going to be a follow-up, no formal board vote would ever be taken because it wasn't done in the context of a board meeting; is that correct?

A. That's correct.

Q. And that's what you would believe would happen for all of these requests to transfer, that they would not be done in the context of a board meeting?

A. That's correct.

Q. And you stated in 2013 that there was a call that you recollected. Was that call about one request or about two requests?

A. I believe it was about two requests.

Q. And FES that had the -- or, FirstEnergy that transferred to FES, that was not included in that 2013 call; is that correct?

A. That's correct.

Q. Now, we talked a little bit about timing. I want to make sure I have the timeline correct. You believe between 2013, 2012, somewhere in that, there were two transfers requested and approved, or at least the right of first refusal was granted, is that right, Buckeye and Wolverine?

A. No. They would have been earlier than that.

Q. Earlier than 2003?

A. You said '12 and '13.

Q. Oh, I apologize. I said -- somewhere between 2003 and 2013 is what I meant to say. I apologize.

A. Yes, that's correct.

Q. Okay. And then in 2013 there were two requests that were ultimately not approved; is that correct?

MS. SPILLER: I'm going to object to the form.

A. I don't know whether they were approved. I assume they weren't approved because we never saw anything from them.

Q. Okay. But that time frame is 2013; is that correct?

A. Yes.

Q. And then your recollection is that there was one request made in 2014 that was ultimately approved.

A. It did not need approval.

Q. Or the right of first refusal occurred and there was a transfer.

A. The transfer occurred, but there was no -- there was no consent required.

Q. Okay. And that was 2014.

A. Yes.

Q. Okay. You talked about what you're calling the estimated surplus as what the sponsoring companies, what you project that they're going to take from you; is that correct?

A. Yes.

Q. And if the sponsoring companies do not end up taking that amount, OVEC does not, in turn, sell that to the market or to some other third party; is that correct?

A. That's correct.

Q. And you stated earlier this morning that the Department of Energy no longer purchases OVEC generation and that you just purchase from a third party; is that correct?

A. We purchase from a third party for them.

Q. Okay. And just to be clear, the third parties would not be any sponsoring companies; is that accurate?

A. No, that's not accurate. It may very well be a sponsoring company.

Q. Oh, okay. So DOE purchases from OVEC, OVEC schedules with a third party, but one of those third parties could in fact be a sponsoring company.

A. Yes.

Q. So DOE could in fact be taking generation from OVEC facilities through this third party contract.

A. I don't know that I could make that determination.

Q. Well, I thought you unequivocally stated earlier that OVEC generation was not going to DOE, and that's what I'm asking, it could be going to DOE.

A. I couldn't testify that it was in any matter. We don't know what happens to the generation once it's sold to the sponsoring companies.

Q. But OVEC would have to, as I understood your arrangement with DOE, OVEC is contracting with the third party to provide the energy to DOE.

A. Yes.

Q. And I thought you just told me that one of the third parties could be a sponsoring company, so OVEC would contract with the sponsoring company to provide the power to DOE.

A. Could.

Q. Okay. There's no prohibition from that arrangement; is that correct?

A. Could you state the question again? I'm sorry.

Q. Is there any prohibition, either from the ICPA or any other OVEC bylaws or regulations that would prohibit the contract between OVEC and a sponsoring company to sell power to DOE?

A. No, not that I'm aware of.

Q. Do you know whether that occurs today?

A. I do not know.

Q. Would you be the person that schedules the DOE power?

A. No, I'm not.

Q. Somebody within OVEC does that?

A. Yes, somebody in OVEC schedules the power, yes.

Q. And you talked about marginal costs earlier today and the assumptions that you make with regard to marginal costs on a monthly basis. Do you recall that discussion?

A. Yes.

Q. And your assumptions are based on if all of the sponsoring companies take the minimal levels of power; is that correct?

A. Could you repeat that question? I'm sorry.

Q. Sure. Your marginal cost assumptions that you said you do on a monthly basis to provide figures to the sponsoring companies, that underlining assumption, when you make those assumptions or estimates is based upon all the sponsoring companies taking their entitled share or their minimal share of power?

A. I don't understand the question. Are we talking about the use factor?

Q. Well, you stated earlier today -- I don't know what you base your assumptions on, that's why I'm trying to ask. You stated earlier today that you made marginal costs assumptions and provided that information to utilities before -- I thought you said before they provide you with a level of power that they're going to take.

A. Oh, I'm sorry. Okay. The marginal -- the fuel costs. I understand. So now ask me the question.

Q. Are you changing -- I thought you used "marginal costs." Are you using a different word, "fuel costs," now?

A. It's fuel costs. I'm sorry.

Q. Okay. I apologize if I misunderstood.

A. No. It's the same thing.

Q. Okay. So when you provide the estimated fuel cost numbers to the sponsoring companies, the underlining assumption when you make that estimate is that all of the sponsoring companies are going to take their full entitled percentage of OVEC power.

A. They make their own decision. We provide them the estimated fuel costs or marginal costs on a -- what we think it's going to be for that particular month, and then they make a decision on whether they want to take the power or not based on that information and other information.

Q. And that underlining assumption that you make that upon is them taking the full entitlements. Is it at the use factor percentage that you have listed in this billable cost summary?

A. The use factor percentage is an estimate, it's a guess what we think they're going to take throughout the year based on what we -- our view of the market. The marginal cost information we put out there is based on what our actual fuel cost is going to be -- an estimate of what the actual fuel cost is going to be on a monthly basis. That's the information we provide and then they make a decision on whether they want to take power or not.

Q. And that estimate, the underlining assumption of that estimate is based on all the sponsoring companies taking their full allotted amount of power.

A. No. I think it would be based on the use factor because that's what's in our budget, that's what we're projecting. Now, we're adjusting the use factor based on what's happened up through that period of time, so it can change from what's in the budget, but it would be based on what the use factor -- our projected use factor is at that given point in time. So it might be 92 percent. It would not be a hundred percent. It would be whatever we think the projected use factor is as well.

Q. And when you say "whatever you think," that's based on the historical use factors that have occurred in the last six months, the past year, where is that underlining assumption, where does that come from?

A. It's -- part of it's history, part of it's what we think the period, if it's a summer period versus a spring period, versus a winter period, there's different assumptions to be made.

Q. And regardless of whether the sponsoring companies actually dispatch or not, the sponsoring companies still are obligated to pay the fixed costs for the facilities; is that accurate?

A. That's correct.

MS. BOJKO: I think that's all I have in the public domain. Thank you very much, sir.

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CROSS-EXAMINATION

By Ms. Hussey:

Q. I am Rebecca Hussey on behalf of The Kroger Company. I just have a couple quick follow-up questions for you. You mentioned, just a moment ago,

that another person in OVEC lines up the power for the DOE contract; is that correct?
A. That's correct.
Q. Okay. Would you be willing to share the name of that person?
A. It's actually a group of people that do it. They're in our power scheduling group.
Q. And could you tell me are they directly OVEC employees or are they employed by one of the sponsoring companies?
A. They're OVEC employees.
MS. HUSSEY: Thank you. That's all I have.
MR. NOURSE: I have no questions for the public.
- - -
CROSS-EXAMINATION
By Ms. Spiller:
Q. Mr. Brodt, good afternoon. Just a couple questions for you, sir, in connection with the public portion of your deposition. You have the portions of the ICPA there in front of you that Mr. Berger presented?
A. Yes.
Q. And, sir, the line of questioning that

I'm about to ask in respect to that ICPA, I'm doing so with Duke Energy Ohio expressly reserving their right to assert objections during the hearing of this matter, but that document, sir, the ICPA governs the assignment of a sponsoring company's title, rights, and interests under the ICPA, correct?

A. That's correct.

Q. There's no other documents signed by the sponsoring companies that identifies requirements for assigning their rights, titles, and interests in the Ohio Valley Electric Corporation, correct?

A. That's correct.

Q. And, sir, I believe you stated that according to the ICPA, an assignment of rights, titles, and interests in OVEC can be accomplished in one of a variety of paths, correct?

A. Correct.

Q. Sir, would you agree with me that there are three such paths under the ICPA?

A. Yes.

Q. Now, the first way is to obtain unanimous consent of all sponsoring companies, correct?

A. Correct.

Q. The second way is for a sponsoring company to assign its rights, titles, and interests

under the ICPA to a permitted assignee, correct?
A. Correct.
Q. And the final way is for a sponsoring company to assign its rights, titles, and interests under the ICPA to an unrelated third party after having first tendered the offer notice to the other sponsoring companies, correct?
A. That's correct.
Q. And, sir, a permitted assignee is a defined term under the ICPA, correct?
A. Correct.
Q. A permitted assignee under the ICPA either has a minimum credit rating from Standard & Poor's or Moody's, or has obtained an unlimited guarantee from its affiliated sponsoring company with regard to the obligations under the ICPA, correct?
A. Correct.
Q. And a third party, for the purposes of ICPA, is also a defined term, correct?
A. Correct.
Q. And in the event a sponsoring company wanted to assign or transfer its rights, titles, and interests under the ICPA to an affiliated company, it could not use the assignment option that is provided for under Section 9.183, that relating to the offer

notice, correct?

A. That's correct.

MR. OLIKER: Could I have that question and answer read, please?

(Record read.)

MR. OLIKER: Thank you.

Q. To the extent, Mr. Brodt, a sponsoring company wanted to assign or transfer its rights, titles, and interests to an affiliate, either the sponsoring company needs to obtain unanimous consent from all other sponsoring companies or the assignment needs to be made to a permitted assignee, correct?

A. That's correct.

Q. And if unanimous consent is not obtained or the affiliate is not a permitted assignee, the ICPA will preclude the sponsoring company from assigning its rights, titles, and interests to an affiliated company, correct?

A. That's correct.

Q. And, sir, you've briefly mentioned OVEC when identifying your responsibilities. OVEC is the Ohio Valley Electric Corporation, correct?

A. That's correct.

Q. And OVEC wholly owns the Indiana-Kentucky Electric Corporation, correct?

A. That's correct.

Q. And OVEC -- and do you call it "IKEC"?

A. Yes.

Q. OVEC and IKEC, together, own and operate two generating stations, correct?

A. That's correct.

Q. OVEC and IKEC directly own and operate the Clifty Creek generating station and the Kyger Creek generating station; correct?

A. That's correct.

MS. SPILLER: And, sir, I believe, based upon some prior depositions in this case, that the balance of my questions will be confidential in nature, so I'll reserve for that portion of your deposition.

MR. BERGER: Anybody on the phone line have questions on the public record?

Hearing none, why don't we take a break.

MR. CHISLING: Sure.

(At 1:10 p.m. a lunch recess was taken until 1:45 p.m.)

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(CONFIDENTIAL PORTION EXCERPTED.)

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State of Ohio :
: SS:
County of ___________________ :

I, John D. Brodt, do hereby certify that I have read the foregoing transcript of my deposition given on Monday, September 15, 2014; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

____
John D. Brodt

I do hereby certify that the foregoing transcript of the deposition of John D. Brodt was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the ________ day of ______________________, 2014.

____
Notary Public

My commission expires _________________, ________.

\- - -

CERTIFICATE

State of Ohio :
: SS:
County of Franklin :

I, Carolyn M. Burke, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named John D. Brodt was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 18th day of September, 2014.

____
Carolyn M. Burke, Registered
Professional Reporter, and
Notary Public in and for the
State of Ohio.

My commission expires July 17, 2018.

\- - -

Execution Copy

AMENDED AND RESTATED

INTER-COMPANY POWER AGREEMENT

DATED AS OF SEPTEMBER 10, 2010

AMONG

OHIO VALLEY ELECTRIC CORPORATION,
ALLEGHENY ENERGY SUPPLY COMPANY, L.L.C.
APPALACHIAN POWER COMPANY,
BUCKEYE POWER GENERATING, LLC,
COLUMBUS SOUTHERN POWER COMPANY,
THE DAYTON POWER AND LIGHT COMPANY,
DUKE ENERGY OHIO, INC.,
FIRSTENERGY GENERATION CORP.,
INDIANA MICHIGAN POWER COMPANY,
KENTUCKY UTILITIES COMPANY,
LOUISVILLE GAS AND ELECTRIC COMPANY,
MONONGAHELA POWER COMPANY,
OHIO POWER COMPANY,
PENINSULA GENERATION COOPERATIVE, and
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

PENGAD 800-631-6989
EXHIBIT
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(b) The receipt of all regulatory approvals, in form and substance satisfactory to the Sponsoring Companies, necessary to permit the Sponsoring Companies to carry out all transactions contemplated herein.

9.15. *Notices.* All notices, requests or other communications under this Agreement shall be in writing and shall be sufficient in all respects: (i) if delivered in person or by courier, upon receipt by the intended recipient or an employee that routinely accepts packages or letters from couriers or other persons for delivery to personnel at the address identified above (as confirmed by, if delivered by courier, the records of such courier), (ii) if sent by facsimile transmission, when the sender receives confirmation from the sending facsimile machine that such facsimile transmission was transmitted to the facsimile number of the addressee, or (iii) if mailed, upon the date of delivery as shown by the return receipt therefor.

9.16. *Waiver.* Performance by any party to this Agreement of any responsibility or obligation to be performed by such party or compliance by such party with any condition contained in this Agreement may by a written instrument signed by all other parties to this Agreement be waived in any one or more instances, but the failure of any party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights, but the same shall continue and remain in full force and effect.

9.17. *Titles of Articles and Sections.* The titles of the Articles and Sections in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

9.18. *Successors and Assigns.* This Agreement may be executed in any number of counterparts, all of which shall constitute but one and the same document.

9.181 This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns, but a party to this Agreement may not assign this Agreement or any of its rights, title or interests in or obligations (including without limitation the assumption of debt obligations) under this Agreement, except to a successor to all or substantially all the properties and assets of such party or as provided in Section 9.182 or 9.183, without the written consent of all the other parties hereto.

9.182 Notwithstanding the provisions of Section 9.181, any Sponsoring Company shall be permitted to, upon thirty (30) days notice to the Corporation and each other Sponsoring Company, without any further action by the Corporation or the other Sponsoring Companies, assign all or part of its rights, title and interests in, and obligations under this Agreement to a Permitted Assignee, provided that, the assignee and assignor of the rights, title and interests in, and obligations under, this Agreement have executed an assignment agreement in form and substance acceptable to the Corporation in its reasonable discretion (including, without limitation; the agreement by the Sponsoring Company assigning such rights, title and interests in, and obligations under, this Agreement to reimburse the Corporation and the other Sponsoring Companies for any fees or expenses required under any security issued, or agreement entered into, by the Corporation as a result of such assignment, including without limitation any consent fee or additional financing costs to the Corporation under the Corporation's then-existing securities or agreements resulting from such assignment).

9.183 Notwithstanding the provisions of Section 9.181, any Sponsoring Company shall be permitted to, subject to compliance with all of the requirements of this Section 9.183, assign all or part of its rights, title and interests in, and obligations under this Agreement to a Third Party without any further action by the Corporation or the other Sponsoring Companies.

(a) A Sponsoring Company (the "Transferring Sponsor") that desires to assign all or part of its rights, title and interests in, and obligations under this Agreement to a Third Party shall deliver an Offer Notice to the Corporation and each other Sponsoring Company. The Offer Notice shall be deemed to be an irrevocable offer of the subject rights, title and interests in, and obligations under this Agreement to each of the other Sponsoring Companies that is not an Affiliate of the Transferring Sponsor, which offer must be held open for no less than thirty (30) days from the date of the Offer Notice (the "Election Period").

(b) The Sponsoring Companies (other than the Transferring Sponsor and its Affiliates) shall first have the right, but not the obligation, to purchase all of the rights, title and interests in, and obligations under this Agreement described in the Offer Notice at the price and on the terms specified therein by delivering written notice of such election to the Transferring Sponsor and the Corporation within the Election Period; provided that, irrespective of the terms and conditions of the Offer Notice, a Sponsoring Company may condition its election to purchase the interest described in the Offer Notice on the receipt of approval or consent from such Sponsoring Company's Board of Directors; provided further that, written notice of such conditional election must be delivered to the Transferring Sponsor and the Corporation within the Election Period and such conditional election shall be deemed withdrawn (as if it had never been provided) unless the Sponsoring Company that delivered such conditional election subsequently delivers written notice to the Transferring Sponsor and the Corporation on or before the tenth (10^{th}) day after the expiration of the Election Period that all necessary approval or consent of such Sponsoring Company's Board of Directors have been obtained. To the extent that more than one Sponsoring Company exercises its right to purchase all of the rights, title and interests in, and obligations under this Agreement described in the Offer Notice in accordance with the previous sentence, such rights, title and interests in, and obligations under this Agreement shall be allotted (successively if necessary) among the Sponsoring Companies exercising such right in proportion to their respective Power Participation Ratios.

(c) Each Sponsoring Company exercising its right to purchase any rights, title and interests in, and obligations under this Agreement pursuant to this Section 9.183 may choose to have an Affiliate purchase such rights, title and interests in, and obligations under this Agreement; provided that, notwithstanding anything in this Section 9.183 to the contrary, any assignment to a Sponsoring Company or its Affiliate hereunder must comply with the requirements of Section 9.182.

(d) If one or more Sponsoring Companies have elected to purchase all of the rights, title and interests in, and obligations under this Agreement of the Transferring Sponsor pursuant to the Offer Notice, the assignment of such rights, title and interests in, and obligations under this Agreement shall be consummated as soon as practical after the delivery of the election notices, but in any event no later than fifteen (15) days after the filing and receipt, as applicable, of all necessary governmental filings, consents or other approvals and the expiration of all applicable waiting periods. At the closing of the purchase of such rights, title and interests in, and obligations under this Agreement from the Transferring Sponsor, the Transferring Sponsor shall provide representations and warranties customary for transactions of this type, including those as to its title to such securities and that there are no liens or other encumbrances on such securities (other than pursuant to this Agreement) and shall sign such documents as may reasonably be requested by the Corporation and the other Sponsoring Companies. The Sponsoring Companies or their Affiliates shall only be required to pay cash for the rights, title and interests in, and obligations under this Agreement being assigned by the Transferring Sponsor.

(e) To the extent that the Sponsoring Companies have not elected to purchase all of the rights, title and interests in, and obligations under this Agreement described in the Offer Notice, the Transferring Sponsor may, within one-hundred and eighty (180) days after the later of the expiration of the Election Period or the deemed withdrawal of a conditional election by a Sponsoring Company under Section 9.183(b) hereof (if applicable), enter into a definitive agreement to, assign such rights, title and interests in, and obligations under this Agreement to a Third Party at a price no less than 92.5% of the purchase price specified in the Offer Notice and on other material terms and conditions no more favorable to the such Third Party than those specified in the Offer Notice; provided that such purchases shall be conditioned upon: (i) such Third Party having long-term unsecured non-credit enhanced indebtedness, as of the date of such assignment, with a Standard & Poor's credit rating of at least BBB- and a Moody's Investors Service, Inc. credit rating of at least Baa3 (provided that, if such Third Party's long-term unsecured non-credit enhanced indebtedness is not currently rated by one of Standard & Poor's or Moody, such Third Party's long-term unsecured non-credit enhanced indebtedness, as of the date of such assignment, must have either a Standard & Poor's credit rating of at least BBB- or a Moody's Investors Service, Inc. credit rating of at least Baa3); (ii) the filing or receipt, as applicable, of any necessary governmental filings, consents or other approvals; (iii) the determination by counsel for the Corporation that the assignment of the rights, title or interests in, or obligations under, this Agreement to such Third Party would not cause a termination, default, loss or payment obligation under any security issued, or agreement entered into, by the Corporation prior to such transfer; and (iv) such Third Party executing a counterpart of this Agreement, and both such Third Party and the Sponsoring Company which is assigning its rights, title and interests in, and obligations under, this Agreement executing such other documents as may be reasonably requested by the Corporation (including, without limitation, an assignment agreement in form and substance acceptable to the Corporation in its reasonable discretion and containing the agreement by such Sponsoring Company to reimburse the Corporation and the other Sponsoring Companies for any fees or expenses required under any security issued, or agreement entered into, by the Corporation as a result of such assignment, including without limitation any consent fee or additional financing costs to the Corporation under the Corporation's then-existing securities or agreements resulting from such assignment). In the event that the Sponsoring Company and a Third Party have not entered into a definitive agreement to assign the interests specified in the Offer Notice to such Third Party within the later of one-hundred and eighty (180) days after the expiration of the Election Period or the deemed withdrawal of a conditional election by a Sponsoring Company under Section 9.183(b) hereof (if applicable) for any reason or if either the price to be paid by such Third Party would be less than 92.5% of the purchase price specified in the Offer Notice or the other material terms of such assignment would be more favorable to such Third Party than the terms specified in the Offer Notice, then the restrictions provided for herein shall again be effective, and no assignment of any rights, title and interests in, and obligations under this Agreement may be made thereafter without again offering the same to Sponsoring Companies in accordance with this Section 9.183.

ANNUAL REPORT — 2013

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
	100.00

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

Allegheny Energy Supply Company 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 Solutions Corp.[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
	100.00

Some of the Common Stock issued in the name of:

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

Subsidiary or affiliate of:

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

A Message from the President

Ohio Valley Electric Corporation and its subsidiary, Indiana-Kentucky Electric Corporation, have begun a new journey competing in a volatile power market equipped with new environmental controls and new human performance improvement tools to adapt to a challenging future. We are partnering with our employees to ensure a zero harm workplace, address our challenges, operate our facilities efficiently and be the provider of choice for our owners.

SAFETY

OVEC and IKEC are committed to providing a safe and healthy place to work for all employees. In 2013, 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 continued in 2013. Strong leadership and the involvement of all employees and our contractors will help ensure that we achieve and sustain the desired goal of zero harm.

FLUE GAS DESULFURIZATION (FGD) PROJECTS AND FUTURE ENVIRONMENTAL COMPLIANCE OBLIGATIONS

The two FGD scrubbers at Kyger Creek were successfully placed into service in November 2011 and February 2012. The two Clifty Creek plant FGD systems were successfully placed into service in March 2013 and May 2013. All four scrubbers continue to meet our environmental performance expectations. The pollution control systems installed at both plants are also expected to meet emission limitations under the Mercury and Air Toxics Standards (MATS) beginning in April 2015 as well as future requirements under the Cross-State Air Pollution Rule (CSAPR), which was recently upheld by the U.S. Supreme Court.

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 75.1 percent in 2013 compared with 69.4 percent in 2012. The on-peak use factor averaged 89.0 percent in 2013 compared with 82.9 percent in 2012. The off-peak use factor averaged 57.4 percent in 2013 and 52.4 percent in 2012.

In 2013, OVEC delivered 10.3 million MWh to the Sponsoring Companies, which is the same amount delivered in 2012.

POWER COSTS

In 2013, OVEC's average power cost to the Sponsoring Companies was $65.183 per MWh compared with $62.862 per MWh in 2012. The total Sponsoring Company power costs were $672 million in 2013 compared with $650 million in 2012. The lack of energy sales in 2013 continued to account for the majority of the increased cost per MWh in 2013. Mild weather, low energy market prices and competitive natural gas generation were all contributing factors for lower-than-average energy sales in 2013.

2014 ENERGY SALES OUTLOOK

In 2014, the demand for energy improved significantly due to below average temperatures during the first quarter of 2014 and the increase in the cost of natural gas generation. OVEC projects that higher natural gas prices will have a significant impact on the Sponsors scheduling more of OVEC's power in 2014. As a result, OVEC anticipates the combined use factor for 2014 will be approximately 90 percent, which will result in increased energy sales estimated at 12 million MWh and average power costs less than $55 per MWh.

COST CONTROL INITIATIVES

In 2013, OVEC continued its engagement of employees in a continuous improvement initiative to control costs, improve operating performance and explore opportunities to enhance the value of the OVEC investment. These lean activities, developed and implemented by OVEC employees, are producing process improvements and sustainable savings that translate into meaningful improvements. The continuous improvement team efforts are changing the culture of our Company, impacting our decision making and leading the way toward how we plan to do business in the future.

Enterprise Asset Management System

The OVEC Enterprise Asset Management (EAM) System was placed into service on August 12, 2013, after a team of OVEC employees spent over one year at the vendor's location developing and installing the system. The use of an EAM System allows the integration of core functionality within OVEC, including work management, labor entry, inventory management, purchasing and contracts management, project management and various accounting functions. Some of the benefits of the system include a transition from reactive maintenance to proactive maintenance, better data for informed decision making and standardized work practices and processes.

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. On July 18, 2013, FERC issued a ruling on this filing accepting in part and rejecting in part certain provisions of the regional filing. Among the terms rejected were the Cost Allocation Methodology based on avoided construction costs and addressing Public Policy Requirements. On January 14, 2014, OVEC and its SERTP partners filed revisions to correct the issues identified by FERC. A ruling on this filing is expected later this summer. A ruling on the interregional filing made last July is also expected this summer.

DOE Arrangements with OVEC

In 2013, OVEC purchased 230,042 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 obligations, 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. OVEC continues to explore other options for providing power and energy to the DOE.

Environmental Compliance

OVEC and IKEC have a strong commitment to maintain compliance with all applicable federal, state and local environmental rules and regulations. During 2013, the Kyger Creek and Clifty Creek plants operated in compliance with their respective air emission limits. The Companies received no enforcement actions or fines from any of the environmental agencies responsible for overseeing the status of our environmental compliance activities. In addition, we have begun marketing the gypsum generated from our new scrubber operations as an agricultural soil amendment and are preparing to meet boiler tuning and optimization obligations under MATS.

Board of Directors and Officers Changes

In August 2013, Philip R. Herrington, president, competitive generation of AES U.S. Strategic Business Unit, was elected to serve as a director of OVEC following the resignation of Dennis A. Lantzy. Mr. Lantzy had served on the OVEC board since 2012. In June 2014, William S. Doty, executive vice president – utility operations of Vectren Corporation, resigned as a director of OVEC and IKEC.

In January 2014, David E. Jones retired as vice president-operations of OVEC and IKEC. He had served as vice president-operations of both Companies since 1990.

Nicholas K. Akins
President

June 30, 2014

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
ELECTRIC PLANT:		
At original cost	$ 2,671,807,219	$ 1,985,645,118
Less — accumulated provisions for depreciation	1,182,491,224	1,115,363,691
	1,489,315,995	870,281,427
Construction in progress	30,583,795	645,484,896
Total electric plant	1,519,899,790	1,515,766,323
CURRENT ASSETS:		
Cash and cash equivalents	70,757,710	19,924,318
Accounts receivable	35,332,653	36,952,825
Fuel in storage	43,020,394	79,550,095
Materials and supplies	32,564,435	27,464,418
Property taxes applicable to future years	2,702,905	2,503,440
Emission allowances	62,428	86,649
Deferred tax assets	9,980,768	18,302,793
Income taxes receivable	3,331,536	15,832,666
Regulatory assets	371,297	8,277,357
Prepaid expenses and other	2,244,413	2,168,143
Total current assets	200,368,539	211,062,704
REGULATORY ASSETS:		
Unrecognized postemployment benefits	2,078,864	2,498,759
Pension benefits	8,542,293	30,561,325
Postretirement benefits	-	1,324,775
Total regulatory assets	10,621,157	34,384,859
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	13,401,209	14,485,787
Deferred tax assets	19,432,479	22,265,884
Long-term investments	117,106,668	120,351,712
Special deposits — restricted	-	57,938,752
Other	488,407	103,107
Total deferred charges and other	150,428,763	215,145,242
TOTAL	$ 1,881,318,249	$ 1,976,359,128

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

CAPITALIZATION AND LIABILITIES	2013	2012
CAPITALIZATION:		
Common stock, $100 par value — authorized, 300,000 shares; outstanding, 100,000 shares in 2013 and 2012	$ 10,000,000	$ 10,000,000
Long-term debt	1,267,873,554	1,358,347,337
Line of credit borrowings	30,000,000	60,000,000
Retained earnings	6,478,234	5,293,968
Total capitalization	1,314,351,788	1,433,641,305
CURRENT LIABILITIES:		
Current portion of long-term debt	290,496,381	238,138,903
Accounts payable	50,131,367	53,916,997
Accrued other taxes	9,062,813	8,651,108
Regulatory liabilities	27,406,208	21,975,974
Accrued interest and other	28,145,464	25,822,574
Total current liabilities	405,242,233	348,505,556
COMMITMENTS AND CONTINGENCIES (Notes 3, 11, 12)		
REGULATORY LIABILITIES:		
Postretirement benefits	32,619,457	-
Decommissioning and demolition	19,140,730	14,230,459
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	28,380,282	38,645,647
Total regulatory liabilities	85,357,544	58,093,181
OTHER LIABILITIES:		
Pension liability	8,542,293	30,561,325
Asset retirement obligations	22,230,109	20,961,379
Postretirement benefits obligation	42,173,401	82,097,623
Postemployment benefits obligation	2,078,864	2,498,759
Other non-current liabilities	1,342,017	-
Total other liabilities	76,366,684	136,119,086
TOTAL	$1,881,318,249	$1,976,359,128

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, 2013 AND 2012

	2013	2012
OPERATING REVENUES — Sales of electric energy to:		
Department of Energy	$ 9,281,567	$ 9,097,306
Sponsoring Companies	666,367,706	661,721,951
Total operating revenues	675,649,273	670,819,257
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	311,899,995	302,925,697
Purchased power	8,763,157	8,552,565
Other operation	98,197,470	101,967,242
Maintenance	83,396,811	89,645,354
Depreciation	80,172,750	85,140,820
Taxes — other than income taxes	11,421,154	10,765,327
Income taxes	890,377	893,533
Total operating expenses	594,741,714	599,890,538
OPERATING INCOME	80,907,559	70,928,719
OTHER INCOME	530,109	10,920,111
INCOME BEFORE INTEREST CHARGES	81,437,668	81,848,830
INTEREST CHARGES:		
Amortization of debt expense	5,166,736	4,606,617
Interest expense	74,086,666	74,985,523
Total interest charges	79,253,402	79,592,140
NET INCOME	2,184,266	2,256,690
RETAINED EARNINGS — Beginning of year	5,293,968	4,037,278
CASH DIVIDENDS ON COMMON STOCK	(1,000,000)	(1,000,000)
RETAINED EARNINGS — End of year	$ 6,478,234	$ 5,293,968

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 2,184,266	$ 2,256,690
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	80,172,750	85,140,820
Amortization of debt expense	5,166,736	4,606,617
Deferred taxes/refundable taxes	890,065	2,908,239
(Gain) on marketable securities	4,331,444	(6,345,075)
Changes in assets and liabilities:		
Accounts receivable	1,620,172	3,948,625
Fuel in storage	36,529,701	(7,853,097)
Materials and supplies	(5,100,017)	341,497
Property taxes applicable to future years	(199,465)	18,480
Emission allowances	24,221	(58,130)
Income taxes receivable	12,501,130	(14,391,215)
Prepaid expenses and other	(76,270)	(260,491)
Other regulatory assets	46,467,540	11,638,471
Other assets	-	-
Other noncurrent assets	(385,300)	119,375
Accounts payable	(829,201)	2,571,729
Deferred revenue — advances for construction	-	(11,694,904)
Accrued taxes	411,706	(160,864)
Accrued interest and other	2,322,890	2,912,675
Other liabilities	(59,752,402)	(13,943,822)
Other regulatory liabilities	28,162,184	5,248,035
Net cash provided by operating activities	154,442,150	67,003,655
INVESTING ACTIVITIES:		
Electric plant additions	(87,262,647)	(203,169,352)
Proceeds from sale of LT investments	97,023,136	20,342,154
Purchases of long-term investments	(40,170,784)	(86,110,337)
Net cash used in investing activities	(30,410,295)	(268,937,535)
FINANCING ACTIVITIES:		
Issuance of Senior 2012 Bonds	-	299,403,938
Issuance of Senior 2010 Bonds	-	-
Loan origination cost	(4,059,559)	(5,377,779)
Repayment of Senior 2006 Notes	(15,602,389)	(14,730,774)
Repayment of Senior 2007 Notes	(11,017,149)	(10,392,343)
Repayment of Senior 2008 Notes	(11,519,366)	(10,797,067)
Proceeds from line of credit	10,000,000	160,000,000
Payments on line of credit	(40,000,000)	(200,000,000)
Dividends on common stock	(1,000,000)	(1,000,000)
Net cash provided by financing activities	(73,198,463)	217,105,975
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,833,392	15,172,095
CASH AND CASH EQUIVALENTS — Beginning of year	19,924,318	4,752,223
CASH AND CASH EQUIVALENTS — End of year	$ 70,757,710	$ 19,924,318
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 74,902,175	$ 74,160,307
Income taxes paid (received) — net	$ (12,501,572)	$ 12,504,500
Non-cash electric plant additions included in accounts payable at December 31	$ 5,697,686	$ 8,654,116

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Organization — The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and 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.

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2013 and 2012, were as follows:

	2013	2012
Regulatory assets:		
Current assets:		
Lease termination costs/liquidated damages	$ 371,297	$ 5,225,467
Unrecognized loss on coal sales	-	3,051,890
Total	371,297	8,277,357
Other assets:		
Unrecognized postemployment benefits	2,078,864	2,498,759
Pension benefits	8,542,293	30,561,325
Postretirement benefits	-	1,324,775
Total	10,621,157	34,384,859
Total regulatory assets	$ 10,992,454	$ 42,662,216
Regulatory liabilities:		
Current liabilities:		
Deferred credit — EPA emission allowance proceeds	$ 275,108	$ 274,687
Deferred revenue — voluntary severance	1,510,609	-
Deferred revenue — advances for construction	23,158,632	19,389,380
Deferred credit — gain on coal sale	246,701	-
Deferred credit — advance collection of interest	2,215,158	2,311,907
Total	27,406,208	21,975,974
Other liabilities:		
Post retirement benefits	32,619,457	-
Decommissioning and demolition	19,140,730	14,230,459
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	28,380,282	38,645,647
Total	85,357,544	58,093,181
Total regulatory liabilities	$ 112,763,752	$ 80,069,155

Regulatory Assets — Regulatory assets consist primarily of pension benefit costs, postretirement benefit costs and income taxes billable to customers. 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 termination costs and liquidated damages, will be billed to customers in 2014. 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, 2013, consist primarily of interest expense collected from customers in advance of expense recognition, customer billings for construction in progress, and voluntary severance payments collected in advance of expense recognition. These amounts will be credited to customer bills during 2014. In October 2013, OVEC announced a voluntary severance program for active employees who would be retirement-eligible by the end of 2014. Approved employees in the program are entitled to receive a one-time severance payment and would retire on an agreed-upon date after they are retirement-eligible, but not later than January 1, 2015. Total expected costs related to the one-time payments are $4.6 million for OVEC and $1.6 million for IKEC, of which $3.5 million for OVEC and $1.2 million for IKEC has been expensed in 2013 recorded in the Other Operation under Operating Expenses. As the Companies have collected the entire expected costs from Sponsor Companies as of December 31, 2013, the remaining $1.1 million for OVEC and $0.4 million for IKEC to be expensed during 2014 has been recorded as a current regulatory liability at December 31, 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' ratemaking policy will recover 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, 2013 and December 31, 2012, represents amounts collected in historical billings in excess of the Generally Accepted Accounting Principles (GAAP) net periodic benefit costs, including the DOE termination payment and incremental unfunded plan obligations recognized in the balance sheets but not yet recognizable in GAAP net periodic benefit costs.

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.

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 the accounting guidance for Investments — Debt and Equity Securities. Trading securities reflected in Long-Term Investments are carried at fair value with the unrealized gain or loss, reported in Other Income (Expense). 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 2013 and 2012 on securities still held at the balance sheets date were $(3,698,604) and $6,250,092, respectively.

Special Deposits — Special deposits at December 31, 2012 consisted of money market mutual funds held by trustees restricted for use in specific construction projects. The fair value of special deposits was $0 and $57,938,752 at December 31, 2013 and December 31, 2012, respectively.

Money market mutual funds reflected in special deposits were 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 2013 or 2012. These funds were used for construction in 2013.

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.

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, 2012	$ 19,809,316
Accretion	1,429,394
Liabilities settled	(277,331)
Balance — December 31, 2012	20,961,379
Accretion	1,450,943
Liabilities settled	(182,213)
Balance — December 31, 2013	$22,230,109

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 16, 2014, which is the date the consolidated financial statements were issued.

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2013 and 2012 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, 2013 and 2012, balances due from the Sponsoring Companies are as follows:

	2013	2012
Accounts receivable	$31,129,486	$34,343,741

During 2013 and 2012, American Electric Power accounted for approximately 43% of operating revenues from Sponsoring Companies and Buckeye Power accounted for approximately 18%. No other Sponsoring Company accounted for more than 10%.

American Electric Power Company, Inc. and subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2013. 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:

	2013	2012
General services	$ 3,384,509	$ 3,216,482
Specific projects	10,964,133	12,746,357
Total	$ 14,348,642	$ 15,962,839

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 2014 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have approximately 90% of their 2014 coal requirements under contract. These contracts are based on rates in effect at the time of purchase.

4. ELECTRIC PLANT

Electric plant at December 31, 2013 and 2012, consists of the following:

	2013	2012
Steam production plant	$2,582,429,102	$1,898,140,562
Transmission plant	76,855,762	74,777,994
General plant	12,495,791	12,699,998
Intangible	26,564	26,564
	2,671,807,219	1,985,645,118
Less accumulated depreciation	1,182,491,224	1,115,363,691
	1,489,315,995	870,281,427
Construction in progress	30,583,795	645,484,896
Total electric plant	$1,519,899,790	$1,515,766,323

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, 2013 and December 31, 2012. The $275 million line of credit has an expiration date of June 18, 2015. At December 31, 2013 and 2012, OVEC had borrowed $30 million and $60 million, respectively, under this line of credit. Interest expense related to line of credit borrowings was $634,109 in 2013 and $3,139,158 in 2012. During 2013 and 2012, OVEC incurred annual commitment fees of $737,792 and $412,458, respectively, based on the borrowing limits of the line of credit.

6. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2013 and 2012:

	Interest Rate	2013	2012
Senior 2006 Notes:			
2006A due February 15, 2026	5.80 %	$ 277,326,804	$ 292,095,074
2006B due June 15, 2040	6.40	60,418,362	61,252,481
Senior 2007 Notes:			
2007A-A due February 15, 2026	5.90	125,578,853	132,475,263
2007A-B due February 15, 2026	5.90	31,625,801	33,362,594
2007A-C due February 15, 2026	5.90	31,877,625	33,628,247
2007B-A due June 15, 2040	6.50	30,188,693	30,609,314
2007B-B due June 15, 2040	6.50	7,602,725	7,708,654
2007B-C due June 15, 2040	6.50	7,663,261	7,770,034
Senior 2008 Notes:			
2008A due February 15, 2026	5.92	39,185,975	41,334,943
2008B due February 15, 2026	6.71	78,865,206	83,014,206
2008C due February 15, 2026	6.71	80,487,688	84,578,521
2008D due June 15, 2040	6.91	43,681,707	44,242,121
2008E due June 15, 2040	6.91	44,440,700	45,010,851
Series 2009 Notes:			
2009A due February 15, 2013	1.96	-	100,000,000
Series 2009 Bonds:			
2009A due February 1, 2026	0.48	25,000,000	25,000,000
2009B due February 1, 2026	0.48	25,000,000	25,000,000
2009C due February 1, 2026	0.60	25,000,000	25,000,000
2009D due February 1, 2026	0.60	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	2.16	50,000,000	50,000,000
2010B due June 29, 2016	2.16	50,000,000	50,000,000
Series 2012 Bonds:			
2012A due June 1, 2032 (a)	5.00	77,080,192	77,091,234
2012A due June 1, 2039 (a)	5.00	122,346,343	122,312,703
2012B due June 1, 2040	0.60	50,000,000	50,000,000
2012C due June 1, 2040	0.60	50,000,000	50,000,000
Series 2013 Notes:			
2013A due February 15, 2018	1.67	100,000,000	-
Total debt		1,558,369,935	1,596,486,240
Current portion of long-term debt		290,496,381	238,138,903
Total long-term debt		$ 1,267,873,554	$ 1,358,347,337

(a) 2012A Bonds are net of unamortized discount of $573,465 at December 31, 2013 and $596,063 at December 31, 2012

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.

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, 2013.

The 2009 Series A, B, C, and D Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring August 12, 2016, and August 21, 2016, 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 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) with initial interest periods of 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, 2013.

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.

The annual maturities of long-term debt as of December 31, 2013, are as follows:

2014	$ 290,496,381
2015	42,977,594
2016	95,536,872
2017	48,461,307
2018	51,460,006
2019–2040	1,029,437,775
Total	$1,558,369,935

Note that the 2014 current maturities of long-term debt include $200 million of remarketable variable-rate bonds. The Companies expect cash maturities of only $40,496,382 to the extent the remarketing agents are successful in their ongoing efforts to remarket the bonds through the contractual maturity dates in February 2026 and June 2040.

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:

	2013	2012
Income tax expense at 35% statutory rate	$ 1,076,125	$ 1,102,283
State income taxes — net of federal benefit	-	549
Temporary differences flowed through to customer bills	(212,144)	(224,609)
Permanent differences and other	26,396	15,310
Income tax provision	$ 890,377	$ 893,533

Components of the income tax provision were as follows:

	2013	2012
Current income tax (benefit)/expense	$ -	$ (9,609,247)
Deferred income tax expense/(benefit)	890,377	10,502,780
Total income tax provision	$ 890,377	$ 893,533

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 $28,380,282 and $38,645,647 at December 31, 2013 and 2012, respectively.

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

	2013	2012
Deferred tax assets:		
Deferred revenue — advances for construction	$ 8,110,780	$ 6,789,730
AMT credit carryforwards	2,574,572	2,574,572
Federal net operating loss	61,312,280	9,392,878
Postretirement benefit obligation	14,770,267	28,748,763
Pension liability	1,684,610	9,207,805
Postemployment benefit obligation	728,074	875,010
Asset retirement obligations	7,785,586	7,340,209
Miscellaneous accruals	2,131,262	2,742,592
Regulatory liability — other	1,288,943	-
Regulatory liability — investment tax credits	1,188,372	1,188,204
Regulatory liability — net antitrust settlement	638,789	638,700
Regulatory liability — asset retirement costs	6,703,602	4,983,191
Regulatory liability — postretirement benefits	10,283,147	-
Regulatory liability — income taxes refundable to customers	13,856,458	13,844,317
Total deferred tax assets	133,056,742	88,325,971
Deferred tax liabilities:		
Prepaid expenses	(679,165)	(622,408)
Electric plant	(85,468,227)	(29,477,415)
Unrealized gain/loss on marketable securities	(3,580,925)	(5,616,658)
Regulatory asset — postretirement benefits	-	(463,906)
Regulatory asset — pension benefits	(2,991,742)	(10,701,897)
Regulatory asset — unrecognized postemployment benefits	(728,074)	(875,010)
Total deferred tax liabilities	(93,448,133)	(47,757,294)
Valuation allowance	(10,195,362)	-
Deferred income tax assets	$ 29,413,247	$ 40,568,677
Current deferred income taxes	$ 9,980,768	$ 18,302,793
Non-current deferred income taxes	19,432,479	22,265,884

During 2013, due to trends in market factors surrounding U.S. coal-fired generation and wholesale power prices, the Companies recorded a valuation allowance in order to recognize only those deferred tax assets that are more likely than not of realization through the end of the ICPA contract term in 2040.

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, 2013 and 2012, and accordingly, no liabilities for uncertain tax positions have been recognized.

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. As the law has been in effect for 2013, there is no additional adjustment in 2013 or going forward.

During 2013 and 2012, the passage of the PPAC Act resulted in a reduction of the postemployment benefits deferred tax asset of approximately $0 and $80,000 and a reduction to the related regulatory liability (income taxes refundable to customers) of approximately $0 and $80,000, respectively.

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, 2012. 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, 2013, and approximately a 57% and 43% split between OVEC and IKEC, respectively, as of December 31, 2012. The Pension Plan's assets as of December 31, 2013, 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. 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. 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.

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.

Fixed Income Limitations — As of December 31, 2013, 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, 2013 and 2012, are as follows:

	Pension Plan		Other Postretirement Benefits	
	2013	2012	2013	2012
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	$ 195,007,159	$ 192,294,158	$ 190,323,891	$ 171,866,123
Service cost	6,825,230	7,050,298	7,375,556	6,411,493
Interest cost	8,357,208	8,383,604	8,180,654	7,442,065
Plan participants' contributions	-	-	979,846	908,758
Benefits paid	(4,289,481)	(3,536,952)	(5,067,595)	(4,449,852)
Net actuarial (gain)/loss	(23,604,558)	(9,114,566)	(39,654,091)	7,821,460
Medicare subsidy	-	-	300,508	323,844
Plan amendments	(3,173,345)	-	305,374	-
Expenses paid from assets	(75,251)	(69,383)	-	-
Projected benefit obligation — end of year	179,046,962	195,007,159	162,744,143	190,323,891
Change in fair value of plan assets:				
Fair value of plan assets — beginning of year	164,445,834	141,371,363	108,226,268	94,948,011
Actual return on plan assets	4,000,880	21,180,806	9,279,474	10,538,257
Expenses paid from assets	(75,251)	(69,383)	-	-
Employer contributions	6,422,687	5,500,000	6,852,241	5,957,250
Plan participants' contributions	-	-	979,846	908,758
Medicare subsidy	-	-	300,508	323,844
Benefits paid	(4,289,481)	(3,536,952)	(5,067,595)	(4,449,852)
Fair value of plan assets — end of year	170,504,669	164,445,834	120,570,742	108,226,268
(Underfunded) status — end of year	$ (8,542,293)	$ (30,561,325)	$ (42,173,401)	$ (82,097,623)

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 $300,508 and $323,844 for 2013 and 2012, respectively. The Companies have accounted for the subsidy as a reduction of the benefit obligation detailed in the above table. In June 2013, the Companies converted the prescription drug program for retirees over the age of 65 to a group-based company sponsored Medicare Part D program, or Employer Group Waiver Plan, or EGWP. Beginning in June 2013, the Companies use the Part D subsidies delivered through the EGWP each year to reduce net company retiree medical costs. Accordingly, the Companies no longer receive subsidies directly from the Medicare program and no subsidies have been included in the benefit obligation.

The accumulated benefit obligation for the Pension Plan was $156,748,676 and $167,595,378 at December 31, 2013 and 2012, 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	
	2013	2012	2013	2012
Service cost	$ 6,825,230	$ 7,050,298	$ 7,375,556	$ 6,411,493
Interest cost	8,357,208	8,383,604	8,180,654	7,442,065
Expected return on plan assets	(9,088,934)	(8,522,609)	(5,562,089)	(5,516,937)
Amortization of prior service cost	189,437	189,437	(385,000)	(379,000)
Recognized actuarial loss	428,567	2,086,365	1,828,893	1,577,730
Total benefit cost	$ 6,711,508	$ 9,187,095	$11,438,014	$ 9,535,351
Pension and other postretirement benefits expense recognized in the consolidated statements of income and retained earnings and billed to Sponsoring Companies under the ICPA	$ 6,422,687	$ 5,500,000	$ 5,400,000	$ 5,500,000

The following table presents the classification of Pension Plan assets within the fair value hierarchy at December 31, 2013 and 2012:

	Fair Value Measurements at Reporting Date Using		
2013	**Quoted Prices In Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic equity mutual funds	$ 16,572,985	$ -	$ -
Common stock - domestic	8,480,137	-	-
International and global equity mutual funds	24,557,818	-	-
International and global private investment funds	-	5,102,504	-
Cash equivalents	5,211,961	-	-
U.S. Treasury securities	-	7,505,362	-
Corporate debt securities	-	94,537,258	-
Municipal debt securities	-	8,536,644	-
Total fair value	$ 54,822,901	$ 115,681,768	$ -
2012			
Domestic equity	$ 23,558,247	$ -	$ -
International and global equity	17,292,251	8,550,837	-
Cash equivalents	4,924,712	-	-
U.S. Treasury securities	-	6,804,928	-
Corporate debt securities	-	92,091,492	-
Municipal debt securities	-	11,223,367	-
Total fair value	$ 45,775,210	$ 118,670,624	$ -

The following table presents the classification of VEBA and 401(h) account assets within the fair value hierarchy at December 31, 2013 and 2012:

	Fair Value Measurements at Reporting Date Using		
2013	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic equity mutual funds	$ 40,105,729	$ -	$ -
International and global equity mutual funds	22,737,909	-	-
International and global private investment funds	-	4,267,427	-
Fixed income mutual funds	33,485,886	-	-
Fixed income securities	-	13,940,290	-
Cash equivalents	6,033,501	-	-
Total fair value	$ 102,363,025	$ 18,207,717	$ -
2012			
Domestic equity mutual funds	$ 21,360,870	$ -	$ -
International and global equity	22,601,305	-	-
Fixed income mutual funds	48,177,536	-	-
Fixed income securities	-	13,581,890	-
Cash equivalents	2,504,667	-	-
Total fair value	$ 94,644,378	$ 13,581,890	$ -

Pension Plan and Other Postretirement Benefit Assumptions — Actuarial assumptions used to determine benefit obligations at December 31, 2013 and 2012, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2013	2012	2013		2012	
			Medical	Life	Medical	Life
Discount rate	5.15 %	4.29 %	5.20 %	5.20 %	4.40 %	4.30 %
Rate of compensation increase	3.00	3.00	N/A	3.00	N/A	3.00

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2013 and 2012, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2013	2012	2013		2012	
			Medical	Life	Medical	Life
Discount rate	4.29 %	4.40 %	4.40 %	4.30 %	4.40 %	4.40 %
Expected long-term return on plan assets	5.50	6.00	4.95	5.75	5.60	6.50
Rate of compensation increase	3.00	4.00	N/A	3.00	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, 2013 and 2012, were as follows.

	2013	2012
Health care trend rate assumed for next year — participants under 65	7.50 %	8.00 %
Health care trend rate assumed for next year — participants over 65	7.50	8.00
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	$ 3,631,271	$ (2,784,708)
Effect on postretirement benefit obligation	28,284,656	(22,171,247)

Pension Plan and Other Postretirement Benefit Assets — The asset allocation for the Pension Plan and VEBA trusts at December 31, 2013 and 2012, by asset category was as follows:

	Pension Plan		VEBA Trusts	
	2013	2012	2013	2012
Asset category:				
Equity securities	32 %	30 %	42 %	41 %
Debt securities	68	70	58	59

Pension Plan and Other Postretirement Benefit Contributions — The Companies expect to contribute $6,600,000 to their Pension Plan and $7,759,496 to their Other Postretirement Benefits plan in 2014.

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
2014	$5,416,910	$5,923,496
2015	6,126,992	6,300,880
2016	7,042,389	6,852,055
2017	7,848,396	7,425,451
2018	8,664,325	7,890,713
Five years thereafter	56,948,180	47,510,450

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 56% and 44% split between OVEC and IKEC, respectively, as of December 31, 2013, and approximately a 45% and 55% split between OVEC and IKEC, respectively, as of December 31, 2012. 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 $2,078,864 and $2,498,759 at December 31, 2013 and 2012, 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 2013 and 2012 were $1,956,546 and $1,942,045, respectively.

9. ENVIRONMENTAL MATTERS

Title IV of the 1990 Clean Air Act Amendments (CAAAs) required the Companies to reduce sulfur dioxide (SO_2) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO_2 allowances. Historically, the cost of these purchased allowances has been inventoried and included on an average cost basis in the cost of fuel consumed when used.

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 SO_2 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 SO_2; 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 with MATS emission limits by April 15, 2015. Management expects that, with the SCRs and FGD systems fully functional, OVEC-IKEC 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.

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, 2012. However, on December 30, 2011, the D.C. Circuit Court issued an indefinite "stay" of the CSAPR rule until the Court considered 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 considered 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. That petition was denied by the D.C. Circuit Court on January 24, 2013; however, the U.S. Solicitor General petitioned the U.S. Supreme Court to review the D.C. Circuit Court's decision on CSAPR in March of 2013, and the Supreme Court granted that petition in June of 2013. Oral arguments were presented before the Supreme Court in December of 2013, and we now await a decision from the Supreme Court. That decision is expected to be issued in the summer of 2014. In the interim, CAIR will remain in effect.

The first Kyger Creek plant FGD system became fully operational in November 2011 and the second FGD system began operation in February 2012. Clifty Creek's two FGD scrubbers were placed into service in March and May of 2013. As a result, OVEC-IKEC is positioned to meet the anticipated reductions in SO_2 and NO_x emissions that are required under the CSAPR rule if the U.S. EPA ultimately prevails on its appeal and the rule is reinstated. Alternatively, OVEC-IKEC is also positioned to meet comparable emissions reductions that may be required by an equivalent replacement rule if the D.C. Circuit Court decision is ultimately upheld and the U.S. EPA is required to develop a replacement rule.

Additional SO_2 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 and the Clifty Creek FGD systems now fully operational, and with the 10 SCR systems operational at both plants, management did not need to purchase additional SO_2 allowances in 2013; however, there were limited NO_x purchases and there may be a need to purchase limited NO_x allowances in 2014 and beyond.

Now that all FGD systems are fully operational, OVEC-IKEC expects to have adequate SO_2 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 either under a reinstated CSAPR rule or any promulgated replacement rule.

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-IKEC 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-IKEC 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. Those monthly email progress reports were discontinued once the second of the two FGD scrubbers at Clifty Creek was placed into service in May of 2013.

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. In addition, mutual funds are classified as Level 1 holdings because they are actively traded at quoted market prices. 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.

As of December 31, 2013 and 2012, 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, 2013 and 2012, were as follows:

	Fair Value Measurements at Reporting Date Using		
2013	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity mutual funds	$ 24,795,074	$ -	$ -
Fixed income municipal securities	-	88,696,555	-
Cash equivalents	3,615,039	-	-
Total fair value	$ 28,410,113	$ 88,696,555	$ -
2012			
Equity mutual funds	$ 21,192,480	$ -	$ -
Fixed income municipal securities	-	96,088,024	-
Cash equivalents	61,009,960	-	-
Total fair value	$ 82,202,440	$ 96,088,024	$ -

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.

The fair values and recorded values of the senior notes and fixed and variable rate bonds as of December 31, 2013 and 2012, are as follows:

	2013		2012	
	Fair Value	Recorded Value	Fair Value	Recorded Value
Total	$ 1,684,165,978	$ 1,558,369,935	$ 1,848,202,504	$ 1,596,486,240

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. OVEC also has various other operating leases with other property and equipment. During 2013, OVEC terminated certain railcar lease agreements, which resulted in lease termination costs of $3,497,300. As of December 31, 2013, OVEC had billed Sponsor Companies $3,126,003 resulting in a balance of $371,297 that will be recovered from the Sponsor Companies within the next 12 months. This amount is recorded in current regulatory assets (see Note 1) and is not included in the lease payments below.

The amount in property under capital leases is $2,793,119 with accumulated depreciation of $905,642 and $460,693 as of December 31, 2013 and 2012, respectively.

Future minimum lease payments for capital and operating leases at December 31, 2013, are as follows:

Years Ending December 31	Operating	Capital
2014	$ 1,072,266	$ 677,352
2015	814,895	528,896
2016	13,081	264,693
2017	-	216,247
2018	-	137,643
Thereafter	-	499,596
Total future minimum lease payments	$ 1,900,242	2,324,427
Less estimated interest element		549,901
Estimated present value of future minimum lease payments		$ 1,774,526

The annual operating lease cost incurred was $1,862,319 and $3,310,227 for 2013 and 2012, respectively, and the annual capital lease cost incurred (depreciation expense) was $593,456 and $437,084 for 2013 and 2012, 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.

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OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ohio Valley Electric Corporation:

We have audited the accompanying consolidated 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, 2013 and 2012, 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, 2013 and 2012, 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 16, 2014

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

OVEC PERFORMANCE—A 5-YEAR COMPARISON

	2013	2012	2011	2010	2009
Net Generation (MWh)	**10,471,693**	10,514,762	14,468,168	14,634,079	15,260,922
Energy Delivered (MWh) to:					
DOE	**195,470**	207,692	253,157	249,139	264,664
Sponsors	**10,304,107**	10,340,568	14,199,025	14,421,180	15,069,699
Maximum Scheduled (MW) by:					
DOE	**33**	36	39	39	39
Sponsors	**2,160**	2,165	2,247	2,223	2,212
Power Costs to:					
DOE	**$9,282,000**	$9,097,000	$11,643,000	$11,207,000	$11,451,000
Sponsors	**$671,648,000**	$650,027,000	$722,153,000	$671,671,000	$632,506,000
Average Price (MWh):					
DOE	**$47.483**	$43.802	$45.993	$44.984	$43.266
Sponsors	**$65.183**	$62.862	$50.859	$46.575	$41.972
Operating Revenues	**$675,649,000**	$670,819,000	$716,938,000	$690,687,000	$648,593,000
Operating Expenses	**$594,742,000**	$599,891,000	$653,696,000	$618,790,000	$584,881,000
Cost of Fuel Consumed	**$311,900,000**	$302,926,000	$397,543,000	$358,507,000	$329,448,000
Taxes (federal, state, and local)	**$12,312,000**	$11,659,000	$12,059,000	$11,208,000	$12,298,000
Payroll	**$63,175,000**	$61,907,000	$57,141,000	$55,609,000	$56,589,000
Fuel Burned (tons)	**4,958,872**	5,290,009	7,310,107	7,506,530	7,900,894
Heat Rate (Btu per kWh, net generation)	**10,715**	10,581	10,467	10,310	10,299
Unit Cost of Fuel Burned (per mmBtu)	**$2.78**	$2.72	$2.63	$2.38	$2.10
Equivalent Availability (percent)	**73.9**	78.9	83.0	81.0	81.6
Power Use Factor (percent)	**75.05**	69.40	89.61	92.82	96.29
Employees (year-end)	**781**	828	810	783	809

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
Chairman, 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.

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

PHILIP R. HERRINGTON, Dayton, Ohio
President, Competitive Generation
AES U.S. Strategic Business Unit

[2] **LANA L. HILLEBRAND**, Columbus, Ohio
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[2] **PAUL W. THOMPSON**, Louisville, Kentucky
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[1] **JOHN N. VOYLES, JR.**, Louisville, Kentucky
Vice President, Transmission and Generation Services
LG&E and KU Energy LLC

[1] **CHARLES WHITLOCK**, Cincinnati, Ohio
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[1] **ANTHONY J. AHERN**, Columbus, Ohio
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PAUL CHODAK, Fort Wayne, Indiana
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Indiana Michigan Power

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

[1] **CHARLES D. LASKY**, Akron, Ohio
Vice President, Fossil Operations and Engineering
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

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

[1]Member of Executive Committee.
[2]Member of Human Resources Committee.

ANNUAL REPORT — 2012

OHIO VALLEY ELECTRIC CORPORATION

and subsidiary

INDIANA-KENTUCKY ELECTRIC CORPORATION

PENGAD 800-631-6989
EXHIBIT
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IEU-OHIO

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
	100.00

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

Allegheny Energy Supply Company 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
	100.00

Some of the Common Stock issued in the name of:

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

Subsidiary or affiliate of:
[1]FirstEnergy Corp.
[2]Buckeye Power, Inc..
[3]The AES Corporation
[4]Duke Energy Corporation
[5]PPL Corporation
[6]American Electric Power Company, Inc.
[7]Wolverine Power Supply Cooperative, Inc.
[8]Vectren 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 (SO_2) 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 SO_2 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	1,115,363,691	1,041,198,318
	870,281,427	741,038,620
Construction in progress	645,484,896	684,076,875
Total electric plant	1,515,766,323	1,425,115,495
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	2,168,143	1,907,652
Total current assets	211,062,704	164,269,523
REGULATORY ASSETS:		
Unrecognized postemployment benefits	2,498,759	2,412,685
Pension benefits	30,561,325	50,922,795
Postretirement benefits	1,324,775	2,980,610
Total regulatory assets	34,384,859	56,316,090
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	103,107	222,482
Total deferred charges and other	215,145,242	152,017,117
TOTAL	$1,976,359,128	$1,797,718,225

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011

CAPITALIZATION AND LIABILITIES	2012	2011
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	1,433,641,305	1,311,242,106
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	348,505,556	280,300,641
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	58,093,181	56,112,570
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	136,119,086	150,062,908
TOTAL	$1,976,359,128	$1,797,718,225

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	661,721,951	705,294,774
Total operating revenues	670,819,257	716,938,129
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	893,533	851,608
Total operating expenses	599,890,538	653,696,284
OPERATING INCOME	70,928,719	63,241,845
OTHER INCOME	10,920,111	10,167,078
INCOME BEFORE INTEREST CHARGES	81,848,830	73,408,923
INTEREST CHARGES:		
Amortization of debt expense	4,606,617	1,478,943
Interest expense	74,985,523	69,259,876
Total interest charges	79,592,140	70,738,819
NET INCOME	2,256,690	2,670,104
RETAINED EARNINGS — Beginning of year	4,037,278	2,367,174
CASH DIVIDENDS ON COMMON STOCK	(1,000,000)	(1,000,000)
RETAINED EARNINGS — End of year	$ 5,293,968	$ 4,037,278

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	67,003,655	96,198,201
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	(86,110,337)	(38,955,548)
Net cash used in investing activities	(268,937,535)	(164,422,199)
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	(1,000,000)	(1,000,000)
Net cash provided by financing activities	217,105,975	50,971,785
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,172,095	(17,252,213)
CASH AND CASH EQUIVALENTS — Beginning of year	4,752,223	22,004,436
CASH AND CASH EQUIVALENTS — End of year	$ 19,924,318	$ 4,752,223
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.

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.

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	3,051,890	-
Total	8,277,357	-
Other assets:		
Unrecognized postemployment benefits	$ 2,498,759	$ 2,412,685
Pension benefits	30,561,325	50,922,795
Postretirement benefits	1,324,775	2,980,610
Total	34,384,859	56,316,090
Total regulatory assets	$42,662,216	$56,316,090
Regulatory liabilities:		
Current liabilities:		
Deferred credit — EPA emission allowance proceeds	$ 274,687	$ 269,506
Advance collection of interest	2,311,907	2,704,350
Total	2,586,594	2,973,856
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	38,645,647	40,284,930
Total	58,093,181	56,112,570
Total regulatory liabilities	$60,679,775	$59,086,426

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 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.

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.

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	(12,982,433)
Balance — December 31, 2011	19,809,316
Accretion	1,429,394
Liabilities settled	(277,331)
Revision in cash flow estimates	-
Balance — December 31, 2012	$ 20,961,379

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.

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	$34,343,741	$36,650,231

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	12,746,357	9,612,272
Total	$15,962,839	$13,268,867

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).

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
	1,985,645,118	1,782,236,938
Less accumulated depreciation	1,115,363,691	1,041,198,318
	870,281,427	741,038,620
Construction in progress	645,484,896	684,076,875
Total electric plant	$ 1,515,766,323	$ 1,425,115,495

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.

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		$ 1,358,347,337	$ 1,197,204,828

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.

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	1,280,807,382
Total	$1,596,486,240

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	15,310	29,293
Income tax provision	$ 893,533	$ 851,608
Effective tax rate	28.4 %	24.2 %

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)	10,502,780	(4,152,909)
Total income tax provision	$ 893,533	$ 851,608

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.

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	13,844,317	14,613,570
Total deferred tax assets	88,325,971	88,253,480
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	(875,010)	(851,254)
Total deferred tax liabilities	(47,757,294)	(43,137,281)
Deferred income tax assets	$ 40,568,677	$ 45,116,199
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.

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.

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.

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:

	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	195,007,159	192,294,158	190,323,891	171,866,123
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	(3,536,952)	(3,142,434)	(4,449,852)	(4,937,587)
Fair value of plan assets — end of year	164,445,834	141,371,363	108,226,268	94,948,011
(Underfunded) status — end of year	$ (30,561,325)	$ (50,922,795)	$ (82,097,623)	$ (76,918,112)

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.

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	2,086,365	-	1,577,730	(133,988)
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	$ 5,500,000	$ 6,100,000	$ 5,500,000	$ 4,908,485

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		
2012	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	$45,775,210	$118,670,624	$ -
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	$41,066,044	$100,305,319	$ -

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		
2012	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	$94,644,378	$13,581,890	$ -
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	$94,948,011	$ -	$ -

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

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:

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

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 (CAAAs) required the Companies to reduce sulfur dioxide (SO_2) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO_2 allowances. The cost of these purchased allowances has been inventoried and 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 SO_2 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 SO_2; 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,

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 SO_2 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 SO_2 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 SO_2 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 SO_2 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.

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.

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	61,009,960	-	-
Total fair value	$82,202,440	$96,088,024	$ -
2011			
Equity mutual funds	$17,515,143	$ -	$ -
Fixed income municipal securities	-	86,556,577	-
Cash and cash equivalents	2,105,486	-	-
Total fair value	$19,620,629	$86,556,577	$ -

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.

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	$ 1,848,202,504	$ 1,596,486,240	$ 1,489,195,631	$ 1,333,002,486

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.

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	$ 3,740,072	2,246,050
Less estimated interest element		590,372
Estimated present value of future minimum lease payments		$ 1,655,678

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

[1]Member of Executive Committee.
[2]Member of Human Resources Committee.

Ohio Valley Electric Corporation and Subsidiary Company

Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report

Deloitte.

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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, 2013 and 2012, 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, 2013 and 2012, 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

April 16, 2014

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
ELECTRIC PLANT:		
At original cost	$ 2,671,807,219	$ 1,985,645,118
Less — accumulated provisions for depreciation	1,182,491,224	1,115,363,691
	1,489,315,995	870,281,427
Construction in progress	30,583,795	645,484,896
Total electric plant	1,519,899,790	1,515,766,323
CURRENT ASSETS:		
Cash and cash equivalents	70,757,710	19,924,318
Accounts receivable	35,332,653	36,952,825
Fuel in storage	43,020,394	79,550,095
Materials and supplies	32,564,435	27,464,418
Property taxes applicable to future years	2,702,905	2,503,440
Emission allowances	62,428	86,649
Deferred tax assets	9,980,768	18,302,793
Income taxes receivable	3,331,536	15,832,666
Regulatory assets	371,297	8,277,357
Prepaid expenses and other	2,244,413	2,168,143
Total current assets	200,368,539	211,062,704
REGULATORY ASSETS:		
Unrecognized postemployment benefits	2,078,864	2,498,759
Pension benefits	8,542,293	30,561,325
Postretirement benefits	-	1,324,775
Total regulatory assets	10,621,157	34,384,859
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	13,401,209	14,485,787
Deferred tax assets	19,432,479	22,265,884
Long-term investments	117,106,668	120,351,712
Special deposits — restricted	-	57,938,752
Other	488,407	103,107
Total deferred charges and other	150,428,763	215,145,242
TOTAL	$ 1,881,318,249	$ 1,976,359,128

(Continued)

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012

CAPITALIZATION AND LIABILITIES	2013	2012
CAPITALIZATION:		
Common stock, $100 par value — authorized, 300,000 shares; outstanding, 100,000 shares in 2013 and 2012	$ 10,000,000	$ 10,000,000
Long-term debt	1,267,873,554	1,358,347,337
Line of credit borrowings	30,000,000	60,000,000
Retained earnings	6,478,234	5,293,968
Total capitalization	1,314,351,788	1,433,641,305
CURRENT LIABILITIES:		
Current portion of long-term debt	290,496,381	238,138,903
Accounts payable	50,131,367	53,916,997
Accrued other taxes	9,062,813	8,651,108
Regulatory liabilities	27,406,208	21,975,974
Accrued interest and other	28,145,464	25,822,574
Total current liabilities	405,242,233	348,505,556
COMMITMENTS AND CONTINGENCIES (Notes 3, 11, 12)		
REGULATORY LIABILITIES:		
Postretirement benefits	32,619,457	-
Decommissioning and demolition	19,140,730	14,230,459
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	28,380,282	38,645,647
Total regulatory liabilities	85,357,544	58,093,181
OTHER LIABILITIES:		
Pension liability	8,542,293	30,561,325
Asset retirement obligations	22,230,109	20,961,379
Postretirement benefits obligation	42,173,401	82,097,623
Postemployment benefits obligation	2,078,864	2,498,759
Other non-current liabilities	1,342,017	-
Total other liabilities	76,366,684	136,119,086
TOTAL	$1,881,318,249	$1,976,359,128

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, 2013 AND 2012

	2013	2012
OPERATING REVENUES — Sales of electric energy to:		
Department of Energy	$ 9,281,567	$ 9,097,306
Sponsoring Companies	666,367,706	661,721,951
Total operating revenues	675,649,273	670,819,257
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	311,899,995	302,925,697
Purchased power	8,763,157	8,552,565
Other operation	98,197,470	101,967,242
Maintenance	83,396,811	89,645,354
Depreciation	80,172,750	85,140,820
Taxes — other than income taxes	11,421,154	10,765,327
Income taxes	890,377	893,533
Total operating expenses	594,741,714	599,890,538
OPERATING INCOME	80,907,559	70,928,719
OTHER INCOME	530,109	10,920,111
INCOME BEFORE INTEREST CHARGES	81,437,668	81,848,830
INTEREST CHARGES:		
Amortization of debt expense	5,166,736	4,606,617
Interest expense	74,086,666	74,985,523
Total interest charges	79,253,402	79,592,140
NET INCOME	2,184,266	2,256,690
RETAINED EARNINGS — Beginning of year	5,293,968	4,037,278
CASH DIVIDENDS ON COMMON STOCK	(1,000,000)	(1,000,000)
RETAINED EARNINGS — End of year	$ 6,478,234	$ 5,293,968

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 2,184,266	$ 2,256,690
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	80,172,750	85,140,820
Amortization of debt expense	5,166,736	4,606,617
Deferred taxes/refundable taxes	890,065	2,908,239
(Gain) on marketable securities	4,331,444	(6,345,075)
Changes in assets and liabilities:		
Accounts receivable	1,620,172	3,948,625
Fuel in storage	36,529,701	(7,853,097)
Materials and supplies	(5,100,017)	341,497
Property taxes applicable to future years	(199,465)	18,480
Emission allowances	24,221	(58,130)
Income taxes receivable	12,501,130	(14,391,215)
Prepaid expenses and other	(76,270)	(260,491)
Other regulatory assets	46,467,540	11,638,471
Other assets	-	-
Other noncurrent assets	(385,300)	119,375
Accounts payable	(829,201)	2,571,729
Deferred revenue — advances for construction	-	(11,694,904)
Accrued taxes	411,706	(160,864)
Accrued interest and other	2,322,890	2,912,675
Other liabilities	(59,752,402)	(13,943,822)
Other regulatory liabilities	28,162,184	5,248,035
Net cash provided by operating activities	154,442,150	67,003,655
INVESTING ACTIVITIES:		
Electric plant additions	(87,262,647)	(203,169,352)
Proceeds from sale of LT investments	97,023,136	20,342,154
Purchases of long-term investments	(40,170,784)	(86,110,337)
Net cash used in investing activities	(30,410,295)	(268,937,535)
FINANCING ACTIVITIES:		
Issuance of Senior 2012 Bonds	-	299,403,938
Issuance of Senior 2010 Bonds	-	-
Loan origination cost	(4,059,559)	(5,377,779)
Repayment of Senior 2006 Notes	(15,602,389)	(14,730,774)
Repayment of Senior 2007 Notes	(11,017,149)	(10,392,343)
Repayment of Senior 2008 Notes	(11,519,366)	(10,797,067)
Proceeds from line of credit	10,000,000	160,000,000
Payments on line of credit	(40,000,000)	(200,000,000)
Dividends on common stock	(1,000,000)	(1,000,000)
Net cash provided by financing activities	(73,198,463)	217,105,975
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,833,392	15,172,095
CASH AND CASH EQUIVALENTS — Beginning of year	19,924,318	4,752,223
CASH AND CASH EQUIVALENTS — End of year	$ 70,757,710	$ 19,924,318
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 74,902,175	$ 74,160,307
Income taxes paid (received) — net	$ (12,501,572)	$ 12,504,500
Non-cash electric plant additions included in accounts payable at December 31	$ 5,697,686	$ 8,654,116

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Organization — The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and 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.

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2013 and 2012, were as follows:

	2013	2012
Regulatory assets:		
Current assets:		
Lease termination costs/liquidated damages	$ 371,297	$ 5,225,467
Unrecognized loss on coal sales	-	3,051,890
Total	371,297	8,277,357
Other assets:		
Unrecognized postemployment benefits	2,078,864	2,498,759
Pension benefits	8,542,293	30,561,325
Postretirement benefits	-	1,324,775
Total	10,621,157	34,384,859
Total regulatory assets	$ 10,992,454	$ 42,662,216
Regulatory liabilities:		
Current liabilities:		
Deferred credit — EPA emission allowance proceeds	$ 275,108	$ 274,687
Deferred revenue — voluntary severance	1,510,609	-
Deferred revenue — advances for construction	23,158,632	19,389,380
Deferred credit — gain on coal sale	246,701	-
Deferred credit — advance collection of interest	2,215,158	2,311,907
Total	27,406,208	21,975,974
Other liabilities:		
Post retirement benefits	32,619,457	-
Decommissioning and demolition	19,140,730	14,230,459
Investment tax credits	3,393,146	3,393,146
Net antitrust settlement	1,823,929	1,823,929
Income taxes refundable to customers	28,380,282	38,645,647
Total	85,357,544	58,093,181
Total regulatory liabilities	$112,763,752	$ 80,069,155

Regulatory Assets — Regulatory assets consist primarily of pension benefit costs, postretirement benefit costs and income taxes billable to customers. 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 termination costs and liquidated damages, will be billed to customers in 2014. 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, 2013, consist primarily of interest expense collected from customers in advance of expense recognition, customer billings for construction in progress, and voluntary severance payments collected in advance of expense recognition. These amounts will be credited to customer bills during 2014. In October 2013, OVEC announced a voluntary severance program for active employees who would be retirement-eligible by the end of 2014. Approved employees in the program are entitled to receive a one-time severance payment and would retire on an agreed-upon date after they are retirement-eligible, but not later than January 1, 2015. Total expected costs related to the one-time payments are $4.6 million for OVEC and $1.6 million for IKEC, of which $3.5 million for OVEC and $1.2 million for IKEC has been expensed in 2013 recorded in the Other Operation under Operating Expenses. As the Companies have collected the entire expected costs from Sponsor Companies as of December 31, 2013, the remaining $1.1 million for OVEC and $0.4 million for IKEC to be expensed during 2014 has been recorded as a current regulatory liability at December 31, 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' ratemaking policy will recover 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, 2013 and December 31, 2012, represents amounts collected in historical billings in excess of the Generally Accepted Accounting Principles (GAAP) net periodic benefit costs, including the DOE termination payment and incremental unfunded plan obligations recognized in the balance sheets but not yet recognizable in GAAP net periodic benefit costs.

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.

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 the accounting guidance for Investments — Debt and Equity Securities. Trading securities reflected in Long-Term Investments are carried at fair value with the unrealized gain or loss, reported in Other Income (Expense). 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 2013 and 2012 on securities still held at the balance sheets date were $(3,698,604) and $6,250,092, respectively.

Special Deposits — Special deposits at December 31, 2012 consisted of money market mutual funds held by trustees restricted for use in specific construction projects. The fair value of special deposits was $0 and $57,938,752 at December 31, 2013 and December 31, 2012, respectively.

Money market mutual funds reflected in special deposits were 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 2013 or 2012. These funds were used for construction in 2013.

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.

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, 2012	$ 19,809,316
Accretion	1,429,394
Liabilities settled	(277,331)
Balance — December 31, 2012	20,961,379
Accretion	1,450,943
Liabilities settled	(182,213)
Balance — December 31, 2013	$ 22,230,109

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 16, 2014, which is the date the consolidated financial statements were issued.

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2013 and 2012 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, 2013 and 2012, balances due from the Sponsoring Companies are as follows:

	2013	2012
Accounts receivable	$31,129,486	$34,343,741

During 2013 and 2012, American Electric Power accounted for approximately 43% of operating revenues from Sponsoring Companies and Buckeye Power accounted for approximately 18%. No other Sponsoring Company accounted for more than 10%.

American Electric Power Company, Inc. and subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2013. 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:

	2013	2012
General services	$ 3,384,509	$ 3,216,482
Specific projects	10,964,133	12,746,357
Total	$14,348,642	$15,962,839

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 2014 through 2017. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have approximately 90% of their 2014 coal requirements under contract. These contracts are based on rates in effect at the time of purchase.

4. ELECTRIC PLANT

Electric plant at December 31, 2013 and 2012, consists of the following:

	2013	2012
Steam production plant	$2,582,429,102	$1,898,140,562
Transmission plant	76,855,762	74,777,994
General plant	12,495,791	12,699,998
Intangible	26,564	26,564
	2,671,807,219	1,985,645,118
Less accumulated depreciation	1,182,491,224	1,115,363,691
	1,489,315,995	870,281,427
Construction in progress	30,583,795	645,484,896
Total electric plant	$1,519,899,790	$1,515,766,323

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, 2013 and December 31, 2012. The $275 million line of credit has an expiration date of June 18, 2015. At December 31, 2013 and 2012, OVEC had borrowed $30 million and $60 million, respectively, under this line of credit. Interest expense related to line of credit borrowings was $634,109 in 2013 and $3,139,158 in 2012. During 2013 and 2012, OVEC incurred annual commitment fees of $737,792 and $412,458, respectively, based on the borrowing limits of the line of credit.

6. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2013 and 2012:

	Interest Rate	2013	2012
Senior 2006 Notes:			
2006A due February 15, 2026	5.80 %	$ 277,326,804	$ 292,095,074
2006B due June 15, 2040	6.40	60,418,362	61,252,481
Senior 2007 Notes:			
2007A-A due February 15, 2026	5.90	125,578,853	132,475,263
2007A-B due February 15, 2026	5.90	31,625,801	33,362,594
2007A-C due February 15, 2026	5.90	31,877,625	33,628,247
2007B-A due June 15, 2040	6.50	30,188,693	30,609,314
2007B-B due June 15, 2040	6.50	7,602,725	7,708,654
2007B-C due June 15, 2040	6.50	7,663,261	7,770,034
Senior 2008 Notes:			
2008A due February 15, 2026	5.92	39,185,975	41,334,943
2008B due February 15, 2026	6.71	78,865,206	83,014,206
2008C due February 15, 2026	6.71	80,487,688	84,578,521
2008D due June 15, 2040	6.91	43,681,707	44,242,121
2008E due June 15, 2040	6.91	44,440,700	45,010,851
Series 2009 Notes:			
2009A due February 15, 2013	1.96	-	100,000,000
Series 2009 Bonds:			
2009A due February 1, 2026	0.48	25,000,000	25,000,000
2009B due February 1, 2026	0.48	25,000,000	25,000,000
2009C due February 1, 2026	0.60	25,000,000	25,000,000
2009D due February 1, 2026	0.60	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	2.16	50,000,000	50,000,000
2010B due June 29, 2016	2.16	50,000,000	50,000,000
Series 2012 Bonds:			
2012A due June 1, 2032 (a)	5.00	77,080,192	77,091,234
2012A due June 1, 2039 (a)	5.00	122,346,343	122,312,703
2012B due June 1, 2040	0.60	50,000,000	50,000,000
2012C due June 1, 2040	0.60	50,000,000	50,000,000
Series 2013 Notes:			
2013A due February 15, 2018	1.67	100,000,000	-
Total debt		1,558,369,935	1,596,486,240
Current portion of long-term debt		290,496,381	238,138,903
Total long-term debt		$ 1,267,873,554	$ 1,358,347,337

(a) 2012A Bonds are net of unamortized discount of $573,465 at December 31, 2013 and $596,063 at December 31, 2012

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.

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, 2013.

The 2009 Series A, B, C, and D Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring August 12, 2016, and August 21, 2016, 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 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) with initial interest periods of 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, 2013.

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.

The annual maturities of long-term debt as of December 31, 2013, are as follows:

2014	$ 290,496,381
2015	42,977,594
2016	95,536,872
2017	48,461,307
2018	51,460,006
2019–2040	1,029,437,775
Total	$1,558,369,935

Note that the 2014 current maturities of long-term debt include $200 million of remarketable variable-rate bonds. The Companies expect cash maturities of only $40,496,382 to the extent the remarketing agents are successful in their ongoing efforts to remarket the bonds through the contractual maturity dates in February 2026 and June 2040.

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:

	2013	2012
Income tax expense at 35% statutory rate	$ 1,076,125	$ 1,102,283
State income taxes — net of federal benefit	-	549
Temporary differences flowed through to customer bills	(212,144)	(224,609)
Permanent differences and other	26,396	15,310
Income tax provision	$ 890,377	$ 893,533

Components of the income tax provision were as follows:

	2013	2012
Current income tax (benefit)/expense	$ -	$ (9,609,247)
Deferred income tax expense/(benefit)	890,377	10,502,780
Total income tax provision	$ 890,377	$ 893,533

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 $28,380,282 and $38,645,647 at December 31, 2013 and 2012, respectively.

Deferred income tax assets (liabilities) at December 31, 2013 and 2012, consisted of the following:

	2013	2012
Deferred tax assets:		
Deferred revenue — advances for construction	$ 8,110,780	$ 6,789,730
AMT credit carryforwards	2,574,572	2,574,572
Federal net operating loss	61,312,280	9,392,878
Postretirement benefit obligation	14,770,267	28,748,763
Pension liability	1,684,610	9,207,805
Postemployment benefit obligation	728,074	875,010
Asset retirement obligations	7,785,586	7,340,209
Miscellaneous accruals	2,131,262	2,742,592
Regulatory liability — other	1,288,943	-
Regulatory liability — investment tax credits	1,188,372	1,188,204
Regulatory liability — net antitrust settlement	638,789	638,700
Regulatory liability — asset retirement costs	6,703,602	4,983,191
Regulatory liability — postretirement benefits	10,283,147	-
Regulatory liability — income taxes refundable to customers	13,856,458	13,844,317
Total deferred tax assets	133,056,742	88,325,971
Deferred tax liabilities:		
Prepaid expenses	(679,165)	(622,408)
Electric plant	(85,468,227)	(29,477,415)
Unrealized gain/loss on marketable securities	(3,580,925)	(5,616,658)
Regulatory asset — postretirement benefits	-	(463,906)
Regulatory asset — pension benefits	(2,991,742)	(10,701,897)
Regulatory asset — unrecognized postemployment benefits	(728,074)	(875,010)
Total deferred tax liabilities	(93,448,133)	(47,757,294)
Valuation allowance	(10,195,362)	-
Deferred income tax assets	$ 29,413,247	$ 40,568,677
Current deferred income taxes	$ 9,980,768	$ 18,302,793
Non-current deferred income taxes	19,432,479	22,265,884

During 2013, due to trends in market factors surrounding U.S. coal-fired generation and wholesale power prices, the Companies recorded a valuation allowance in order to recognize only those deferred tax assets that are more likely than not of realization through the end of the ICPA contract term in 2040.

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, 2013 and 2012, and accordingly, no liabilities for uncertain tax positions have been recognized.

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. As the law has been in effect for 2013, there is no additional adjustment in 2013 or going forward.

During 2013 and 2012, the passage of the PPAC Act resulted in a reduction of the postemployment benefits deferred tax asset of approximately $0 and $80,000 and a reduction to the related regulatory liability (income taxes refundable to customers) of approximately $0 and $80,000, respectively.

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, 2012. 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, 2013, and approximately a 57% and 43% split between OVEC and IKEC, respectively, as of December 31, 2012. The Pension Plan's assets as of December 31, 2013, 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. 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. 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.

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.

Fixed Income Limitations — As of December 31, 2013, 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, 2013 and 2012, are as follows:

	Pension Plan		Other Postretirement Benefits	
	2013	2012	2013	2012
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	$ 195,007,159	$ 192,294,158	$ 190,323,891	$ 171,866,123
Service cost	6,825,230	7,050,298	7,375,556	6,411,493
Interest cost	8,357,208	8,383,604	8,180,654	7,442,065
Plan participants' contributions	-	-	979,846	908,758
Benefits paid	(4,289,481)	(3,536,952)	(5,067,595)	(4,449,852)
Net actuarial (gain)/loss	(23,604,558)	(9,114,566)	(39,654,091)	7,821,460
Medicare subsidy	-	-	300,508	323,844
Plan amendments	(3,173,345)	-	305,374	-
Expenses paid from assets	(75,251)	(69,383)	-	-
Projected benefit obligation — end of year	179,046,962	195,007,159	162,744,143	190,323,891
Change in fair value of plan assets:				
Fair value of plan assets — beginning of year	164,445,834	141,371,363	108,226,268	94,948,011
Actual return on plan assets	4,000,880	21,180,806	9,279,474	10,538,257
Expenses paid from assets	(75,251)	(69,383)	-	-
Employer contributions	6,422,687	5,500,000	6,852,241	5,957,250
Plan participants' contributions	-	-	979,846	908,758
Medicare subsidy	-	-	300,508	323,844
Benefits paid	(4,289,481)	(3,536,952)	(5,067,595)	(4,449,852)
Fair value of plan assets — end of year	170,504,669	164,445,834	120,570,742	108,226,268
(Underfunded) status — end of year	$ (8,542,293)	$ (30,561,325)	$ (42,173,401)	$ (82,097,623)

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 $300,508 and $323,844 for 2013 and 2012, respectively. The Companies have accounted for the subsidy as a reduction of the benefit obligation detailed in the above table. In June 2013, the Companies converted the prescription drug program for retirees over the age of 65 to a group-based company sponsored Medicare Part D program, or Employer Group Waiver Plan, or EGWP. Beginning in June 2013, the Companies use the Part D subsidies delivered through the EGWP each year to reduce net company retiree medical costs. Accordingly, the Companies no longer receive subsidies directly from the Medicare program and no subsidies have been included in the benefit obligation.

The accumulated benefit obligation for the Pension Plan was $156,748,676 and $167,595,378 at December 31, 2013 and 2012, 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	
	2013	2012	2013	2012
Service cost	$ 6,825,230	$ 7,050,298	$ 7,375,556	$ 6,411,493
Interest cost	8,357,208	8,383,604	8,180,654	7,442,065
Expected return on plan assets	(9,088,934)	(8,522,609)	(5,562,089)	(5,516,937)
Amortization of prior service cost	189,437	189,437	(385,000)	(379,000)
Recognized actuarial loss	428,567	2,086,365	1,828,893	1,577,730
Total benefit cost	$ 6,711,508	$ 9,187,095	$11,438,014	$ 9,535,351
Pension and other postretirement benefits expense recognized in the consolidated statements of income and retained earnings and billed to Sponsoring Companies under the ICPA	$ 6,422,687	$ 5,500,000	$ 5,400,000	$ 5,500,000

The following table presents the classification of Pension Plan assets within the fair value hierarchy at December 31, 2013 and 2012:

	Fair Value Measurements at Reporting Date Using		
2013	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic equity mutual funds	$ 16,572,985	$ -	$ -
Common stock - domestic	8,480,137	-	-
International and global equity mutual funds	24,557,818	-	-
International and global private investment funds	-	5,102,504	-
Cash equivalents	5,211,961	-	-
U.S. Treasury securities	-	7,505,362	-
Corporate debt securities	-	94,537,258	-
Municipal debt securities	-	8,536,644	-
Total fair value	$ 54,822,901	$ 115,681,768	$ -
2012			
Domestic equity	$ 23,558,247	$ -	$ -
International and global equity	17,292,251	8,550,837	-
Cash equivalents	4,924,712	-	-
U.S. Treasury securities	-	6,804,928	-
Corporate debt securities	-	92,091,492	-
Municipal debt securities	-	11,223,367	-
Total fair value	$ 45,775,210	$ 118,670,624	$ -

The following table presents the classification of VEBA and 401(h) account assets within the fair value hierarchy at December 31, 2013 and 2012:

	Fair Value Measurements at Reporting Date Using		
2013	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic equity mutual funds	$ 40,105,729	$ -	$ -
International and global equity mutual funds	22,737,909	-	-
International and global private investment funds	-	4,267,427	-
Fixed income mutual funds	33,485,886	-	-
Fixed income securities	-	13,940,290	-
Cash equivalents	6,033,501	-	-
Total fair value	$ 102,363,025	$ 18,207,717	$ -
2012			
Domestic equity mutual funds	$ 21,360,870	$ -	$ -
International and global equity	22,601,305	-	-
Fixed income mutual funds	48,177,536	-	-
Fixed income securities	-	13,581,890	-
Cash equivalents	2,504,667	-	-
Total fair value	$ 94,644,378	$ 13,581,890	$ -

Pension Plan and Other Postretirement Benefit Assumptions — Actuarial assumptions used to determine benefit obligations at December 31, 2013 and 2012, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2013	2012	2013		2012	
			Medical	Life	Medical	Life
Discount rate	5.15 %	4.29 %	5.20 %	5.20 %	4.40 %	4.30 %
Rate of compensation increase	3.00	3.00	N/A	3.00	N/A	3.00

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2013 and 2012, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2013	2012	2013		2012	
			Medical	Life	Medical	Life
Discount rate	4.29 %	4.40 %	4.40 %	4.30 %	4.40 %	4.40 %
Expected long-term return on plan assets	5.50	6.00	4.95	5.75	5.60	6.50
Rate of compensation increase	3.00	4.00	N/A	3.00	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, 2013 and 2012, were as follows:

	2013	2012
Health care trend rate assumed for next year — participants under 65	7.50 %	8.00 %
Health care trend rate assumed for next year — participants over 65	7.50	8.00
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	$ 3,631,271	$ (2,784,708)
Effect on postretirement benefit obligation	28,284,656	(22,171,247)

Pension Plan and Other Postretirement Benefit Assets — The asset allocation for the Pension Plan and VEBA trusts at December 31, 2013 and 2012, by asset category was as follows:

	Pension Plan		VEBA Trusts	
	2013	2012	2013	2012
Asset category:				
Equity securities	32 %	30 %	42 %	41 %
Debt securities	68	70	58	59

Pension Plan and Other Postretirement Benefit Contributions — The Companies expect to contribute $6,600,000 to their Pension Plan and $7,759,496 to their Other Postretirement Benefits plan in 2014.

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
2014	$5,416,910	$5,923,496
2015	6,126,992	6,300,880
2016	7,042,389	6,852,055
2017	7,848,396	7,425,451
2018	8,664,325	7,890,713
Five years thereafter	56,948,180	47,510,450

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 56% and 44% split between OVEC and IKEC, respectively, as of December 31, 2013, and approximately a 45% and 55% split between OVEC and IKEC, respectively, as of December 31, 2012. 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 $2,078,864 and $2,498,759 at December 31, 2013 and 2012, 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 2013 and 2012 were $1,956,546 and $1,942,045, respectively.

9. ENVIRONMENTAL MATTERS

Title IV of the 1990 Clean Air Act Amendments (CAAAs) required the Companies to reduce sulfur dioxide (SO_2) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO_2 allowances. Historically, the cost of these purchased allowances has been inventoried and included on an average cost basis in the cost of fuel consumed when used.

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 SO_2 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 SO_2; 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 with MATS emission limits by April 15, 2015. Management expects that, with the SCRs and FGD systems fully functional, OVEC-IKEC 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.

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, 2012. However, on December 30, 2011, the D.C. Circuit Court issued an indefinite "stay" of the CSAPR rule until the Court considered 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 considered 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. That petition was denied by the D.C. Circuit Court on January 24, 2013; however, the U.S. Solicitor General petitioned the U.S. Supreme Court to review the D.C. Circuit Court's decision on CSAPR in March of 2013, and the Supreme Court granted that petition in June of 2013. Oral arguments were presented before the Supreme Court in December of 2013, and we now await a decision from the Supreme Court. That decision is expected to be issued in the summer of 2014. In the interim, CAIR will remain in effect.

The first Kyger Creek plant FGD system became fully operational in November 2011 and the second FGD system began operation in February 2012. Clifty Creek's two FGD scrubbers were placed into service in March and May of 2013. As a result, OVEC-IKEC is positioned to meet the anticipated reductions in SO_2 and NO_x emissions that are required under the CSAPR rule if the U.S. EPA ultimately prevails on its appeal and the rule is reinstated. Alternatively, OVEC-IKEC is also positioned to meet comparable emissions reductions that may be required by an equivalent replacement rule if the D.C. Circuit Court decision is ultimately upheld and the U.S. EPA is required to develop a replacement rule.

Additional SO_2 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 and the Clifty Creek FGD systems now fully operational, and with the 10 SCR systems operational at both plants, management did not need to purchase additional SO_2 allowances in 2013; however, there were limited NO_x purchases and there may be a need to purchase limited NO_x allowances in 2014 and beyond.

Now that all FGD systems are fully operational, OVEC-IKEC expects to have adequate SO_2 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 either under a reinstated CSAPR rule or any promulgated replacement rule.

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-IKEC 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-IKEC 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. Those monthly email progress reports were discontinued once the second of the two FGD scrubbers at Clifty Creek was placed into service in May of 2013.

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. In addition, mutual funds are classified as Level 1 holdings because they are actively traded at quoted market prices. 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.

As of December 31, 2013 and 2012, 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, 2013 and 2012, were as follows:

	Fair Value Measurements at Reporting Date Using		
2013	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Equity mutual funds	$ 24,795,074	$ -	$ -
Fixed income municipal securities	-	88,696,555	-
Cash equivalents	3,615,039	-	-
Total fair value	$ 28,410,113	$ 88,696,555	$ -
2012			
Equity mutual funds	$ 21,192,480	$ -	$ -
Fixed income municipal securities	-	96,088,024	-
Cash equivalents	61,009,960	-	-
Total fair value	$ 82,202,440	$ 96,088,024	$ -

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.

The fair values and recorded values of the senior notes and fixed and variable rate bonds as of December 31, 2013 and 2012, are as follows:

	2013		2012	
	Fair Value	**Recorded Value**	**Fair Value**	**Recorded Value**
Total	$ 1,684,165,978	$ 1,558,369,935	$ 1,848,202,504	$ 1,596,486,240

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. OVEC also has various other operating leases with other property and equipment. During 2013, OVEC terminated certain railcar lease agreements, which resulted in lease termination costs of $3,497,300. As of December 31, 2013, OVEC had billed Sponsor Companies $3,126,003 resulting in a balance of $371,297 that will be recovered from the Sponsor Companies within the next 12 months. This amount is recorded in current regulatory assets (see Note 1) and is not included in the lease payments below.

The amount in property under capital leases is $2,793,119 with accumulated depreciation of $905,642 and $460,693 as of December 31, 2013 and 2012, respectively.

Future minimum lease payments for capital and operating leases at December 31, 2013, are as follows:

Years Ending December 31	Operating	Capital
2014	$ 1,072,266	$ 677,352
2015	814,895	528,896
2016	13,081	264,693
2017	-	216,247
2018	-	137,643
Thereafter	-	499,596
Total future minimum lease payments	$ 1,900,242	2,324,427
Less estimated interest element		549,901
Estimated present value of future minimum lease payments		$ 1,774,526

The annual operating lease cost incurred was $1,862,319 and $3,310,227 for 2013 and 2012, respectively, and the annual capital lease cost incurred (depreciation expense) was $593,456 and $437,084 for 2013 and 2012, 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.

* * * * * *

THIS FILING IS	
Item 1: [X] An Initial (Original) Submission	OR [ ] Resubmission No. ____

Form 1 Approved
OMB No.1902-0021
(Expires 12/31/2014)
Form 1-F Approved
OMB No.1902-0029
(Expires 12/31/2014)
Form 3-Q Approved
OMB No.1902-0205
(Expires 05/31/2014)

DEPARTMENT OF ENERGY • FEDERAL ENERGY REGULATORY COMMISSION

FERC FINANCIAL REPORT
FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

PENGAD 800-631-6989
EXHIBIT
Brodt
3
IEU-OHIO

Exact Legal Name of Respondent (Company)	Year/Period of Report
Ohio Valley Electric Corporation	End of 2012/Q4

FERC FORM No.1/3-Q (REV. 02-04)

A

INSTRUCTIONS FOR FILING FERC FORM NOS. 1 and 3-Q

GENERAL INFORMATION

I. Purpose

FERC Form No. 1 (FERC Form 1) is an annual regulatory requirement for Major electric utilities, licensees and others (18 C.F.R. § 141.1). FERC Form No. 3-Q (FERC Form 3-Q)is a quarterly regulatory requirement which supplements the annual financial reporting requirement (18 C.F.R. § 141.400). These reports are designed to collect financial and operational information from electric utilities, licensees and others subject to the jurisdiction of the Federal Energy Regulatory Commission. These reports are also considered to be non-confidential public use forms.

II. Who Must Submit

Each Major electric utility, licensee, or other, as classified in the Commission's Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject To the Provisions of The Federal Power Act (18 C.F.R. Part 101), must submit FERC Form 1 (18 C.F.R. § 141.1), and FERC Form 3-Q (18 C.F.R. § 141.400).

Note: Major means having, in each of the three previous calendar years, sales or transmission service that exceeds one of the following:

(1) one million megawatt hours of total annual sales,
(2) 100 megawatt hours of annual sales for resale,
(3) 500 megawatt hours of annual power exchanges delivered, or
(4) 500 megawatt hours of annual wheeling for others (deliveries plus losses).

III. What and Where to Submit

(a) Submit FERC Forms 1 and 3-Q electronically through the forms submission software. Retain one copy of each report for your files. Any electronic submission must be created by using the forms submission software provided free by the Commission at its web site: http://www.ferc.gov/docs-filing/eforms/form-1/elec-subm-soft.asp. The software is used to submit the electronic filing to the Commission via the Internet.

(b) The Corporate Officer Certification must be submitted electronically as part of the FERC Forms 1 and 3-Q filings.

(c) Submit immediately upon publication, by either eFiling or mail, two (2) copies to the Secretary of the Commission, the latest Annual Report to Stockholders. Unless eFiling the Annual Report to Stockholders, mail the stockholders report to the Secretary of the Commission at:

Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

(d) For the CPA Certification Statement, submit within 30 days after filing the FERC Form 1, a letter or report (not applicable to filers classified as Class C or Class D prior to January 1, 1984). The CPA Certification Statement can be either eFiled or mailed to the Secretary of the Commission at the address above.

The CPA Certification Statement should:

a) Attest to the conformity, in all material aspects, of the below listed (schedules and pages) with the Commission's applicable Uniform System of Accounts (including applicable notes relating thereto and the Chief Accountant's published accounting releases), and

b) Be signed by independent certified public accountants or an independent licensed public accountant certified or licensed by a regulatory authority of a State or other political subdivision of the U. S. (See 18 C.F.R. §§ 41.10-41.12 for specific qualifications.)

Reference Schedules	Pages
Comparative Balance Sheet	110-113
Statement of Income	114-117
Statement of Retained Earnings	118-119
Statement of Cash Flows	120-121
Notes to Financial Statements	122-123

e) The following format must be used for the CPA Certification Statement unless unusual circumstances or conditions, explained in the letter or report, demand that it be varied. Insert parenthetical phrases only when exceptions are reported.

"In connection with our regular examination of the financial statements of _____ for the year ended on which we have reported separately under date of ___________ , we have also reviewed schedules __________________of FERC Form No. 1 for the year filed with the Federal Energy Regulatory Commission, for conformity in all material respects with the requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases. Our review for this purpose included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Based on our review, in our opinion the accompanying schedules identified in the preceding paragraph (except as noted below) conform in all material respects with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases."

The letter or report must state which, if any, of the pages above do not conform to the Commission's requirements. Describe the discrepancies that exist.

(f) Filers are encouraged to file their Annual Report to Stockholders, and the CPA Certification Statement using eFiling. To further that effort, new selections, "Annual Report to Stockholders," and "CPA Certification Statement" have been added to the dropdown "pick list" from which companies must choose when eFiling. Further instructions are found on the Commission's website at http://www.ferc.gov/help/how-to.asp.

(g) Federal, State and Local Governments and other authorized users may obtain additional blank copies of FERC Form 1 and 3-Q free of charge from http://www.ferc.gov/docs-filing/eforms/form-1/form-1.pdf and http://www.ferc.gov/docs-filing/eforms.asp#3Q-gas .

IV. When to Submit:

FERC Forms 1 and 3-Q must be filed by the following schedule:

a) FERC Form 1 for each year ending December 31 must be filed by April 18th of the following year (18 CFR § 141.1), and

b) FERC Form 3-Q for each calendar quarter must be filed within 60 days after the reporting quarter (18 C.F.R. § 141.400).

V. Where to Send Comments on Public Reporting Burden.

The public reporting burden for the FERC Form 1 collection of information is estimated to average 1,144 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data-needed, and completing and reviewing the collection of information. The public reporting burden for the FERC Form 3-Q collection of information is estimated to average 150 hours per response.

Send comments regarding these burden estimates or any aspect of these collections of information, including suggestions for reducing burden, to the Federal Energy Regulatory Commission, 888 First Street NE, Washington, DC 20426 (Attention: Information Clearance Officer); and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, DC 20503 (Attention: Desk Officer for the Federal Energy Regulatory Commission). No person shall be subject to any penalty if any collection of information does not display a valid control number (44 U.S.C. § 3512 (a)).

GENERAL INSTRUCTIONS

I. Prepare this report in conformity with the Uniform System of Accounts (18 CFR Part 101) (USofA). Interpret all accounting words and phrases in accordance with the USofA.

II. Enter in whole numbers (dollars or MWH) only, except where otherwise noted. (Enter cents for averages and figures per unit where cents are important. The truncating of cents is allowed except on the four basic financial statements where rounding is required.) The amounts shown on all supporting pages must agree with the amounts entered on the statements that they support. When applying thresholds to determine significance for reporting purposes, use for balance sheet accounts the balances at the end of the current reporting period, and use for statement of income accounts the current year's year to date amounts.

III Complete each question fully and accurately, even if it has been answered in a previous report. Enter the word "None" where it truly and completely states the fact.

IV. For any page(s) that is not applicable to the respondent, omit the page(s) and enter "NA," "NONE," or "Not Applicable" in column (d) on the List of Schedules, pages 2 and 3.

V. Enter the month, day, and year for all dates. Use customary abbreviations. **The "Date of Report" included in the header of each page is to be completed only for resubmissions** (see VII. below).

VI. Generally, except for certain schedules, all numbers, whether they are expected to be debits or credits, must be reported as positive. Numbers having a sign that is different from the expected sign must be reported by enclosing the numbers in parentheses.

VII For any resubmissions, submit the electronic filing using the form submission software only. Please explain the reason for the resubmission in a footnote to the data field.

VIII. Do not make references to reports of previous periods/years or to other reports in lieu of required entries, except as specifically authorized.

IX. Wherever (schedule) pages refer to figures from a previous period/year, the figures reported must be based upon those shown by the report of the previous period/year, or an appropriate explanation given as to why the different figures were used.

Definitions for statistical classifications used for completing schedules for transmission system reporting are as follows:

FNS - Firm Network Transmission Service for Self. "Firm" means service that can not be interrupted for economic reasons and is intended to remain reliable even under adverse conditions. "Network Service" is Network Transmission Service as described in Order No. 888 and the Open Access Transmission Tariff. "Self" means the respondent.

FNO - Firm Network Service for Others. "Firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions. "Network Service" is Network Transmission Service as described in Order No. 888 and the Open Access Transmission Tariff.

LFP - for Long-Term Firm Point-to-Point Transmission Reservations. "Long-Term" means one year or longer and" firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions. "Point-to-Point Transmission Reservations" are described in Order No. 888 and the Open Access Transmission Tariff. For all transactions identified as LFP, provide in a footnote the termination date of the contract defined as the earliest date either buyer or seller can unilaterally cancel the contract.

OLF - Other Long-Term Firm Transmission Service. Report service provided under contracts which do not conform to the terms of the Open Access Transmission Tariff. "Long-Term" means one year or longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions. For all transactions identified as OLF, provide in a footnote the termination date of the contract defined as the earliest date either buyer or seller can unilaterally get out of the contract.

SFP - Short-Term Firm Point-to-Point Transmission Reservations. Use this classification for all firm point-to-point transmission reservations, where the duration of each period of reservation is less than one-year.

NF - Non-Firm Transmission Service, where firm means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions.

OS - Other Transmission Service. Use this classification only for those services which can not be placed in the above-mentioned classifications, such as all other service regardless of the length of the contract and service FERC Form. Describe the type of service in a footnote for each entry.

AD - Out-of-Period Adjustments. Use this code for any accounting adjustments or "true-ups" for service provided in prior reporting periods. Provide an explanation in a footnote for each adjustment.

DEFINITIONS

I. Commission Authorization (Comm. Auth.) -- The authorization of the Federal Energy Regulatory Commission, or any other Commission. Name the commission whose authorization was obtained and give date of the authorization.

II. Respondent -- The person, corporation, licensee, agency, authority, or other Legal entity or instrumentality in whose behalf the report is made.

EXCERPTS FROM THE LAW

Federal Power Act, 16 U.S.C. § 791a-825r

Sec. 3. The words defined in this section shall have the following meanings for purposes of this Act, to with:

(3) 'Corporation' means any corporation, joint-stock company, partnership, association, business trust, organized group of persons, whether incorporated or not, or a receiver or receivers, trustee or trustees of any of the foregoing. It shall not include 'municipalities, as hereinafter defined;

(4) 'Person' means an individual or a corporation;

(5) 'Licensee, means any person, State, or municipality Licensed under the provisions of section 4 of this Act, and any assignee or successor in interest thereof;

(7) 'municipality means a city, county, irrigation district, drainage district, or other political subdivision or agency of a State competent under the Laws thereof to carry and the business of developing, transmitting, unitizing, or distributing power; ......

(11) "project' means. a complete unit of improvement or development, consisting of a power house, all water conduits, all dams and appurtenant works and structures (including navigation structures) which are a part of said unit, and all storage, diverting, or fore bay reservoirs directly connected therewith, the primary line or lines transmitting power there from to the point of junction with the distribution system or with the interconnected primary transmission system, all miscellaneous structures used and useful in connection with said unit or any part thereof, and all water rights, rights-of-way, ditches, dams, reservoirs, Lands, or interest in Lands the use and occupancy of which are necessary or appropriate in the maintenance and operation of such unit;

"Sec. 4. The Commission is hereby authorized and empowered

(a) To make investigations and to collect and record data concerning the utilization of the water 'resources of any region to be developed, the water-power industry and its relation to other industries and to interstate or foreign commerce, and concerning the location, capacity, development -costs, and relation to markets of power sites; ... to the extent the Commission may deem necessary or useful for the purposes of this Act."

"Sec. 304. (a) Every Licensee and every public utility shall file with the Commission such annual and other periodic or special* reports as the Commission may be rules and regulations or other prescribe as necessary or appropriate to assist the Commission in the -proper administration of this Act. The Commission may prescribe the manner and FERC Form in which such reports salt be made, and require from such persons specific answers to all questions upon which the Commission may need information. The Commission may require that such reports shall include, among other things, full information as to assets and Liabilities, capitalization, net investment, and reduction thereof, gross receipts, interest due and paid, depreciation, and other reserves, cost of project and other facilities, cost of maintenance and operation of the project and other facilities, cost of renewals and replacement of the project works and other facilities, depreciation, generation, transmission, distribution, delivery, use, and sale of electric energy. The Commission may require any such person to make adequate provision for currently determining such costs and other facts. Such reports shall be made under oath unless the Commission otherwise specifies*.10

"Sec. 309. The Commission shall have power to perform any and all acts, and to prescribe, issue, make, and rescind such orders, rules and regulations as it may find necessary or appropriate to carry out the provisions of this Act. Among other things, such rules and regulations may define accounting, technical, and trade terms used in this Act; and may prescribe the FERC Form or FERC Forms of all statements, declarations, applications, and reports to be filed with the Commission, the information which they shall contain, and the time within which they shall be field..."

General Penalties

The Commission may assess up to $1 million per day per violation of its rules and regulations. *See* FPA § 316(a) (2005), 16 U.S.C. § 825o(a).

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Ohio Valley Electric Corporation
Piketon, Ohio

We have audited the accompanying financial statements of Ohio Valley Electric Corporation (the "Company"), which comprise the balance sheet — regulatory basis as of December 31, 2012, and the related statements of income — regulatory basis, retained earnings — regulatory basis, and cash flows — regulatory basis for the year then ended, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form 1, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company's 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 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 regulatory-basis financial statements referred to above present fairly, in all material respects, the assets, liabilities, and proprietary capital of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

Basis of Accounting

As discussed in Note 1 to the financial statements, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restricted Use

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 15, 2013

FERC FORM NO. 1/3-Q:
REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHER

IDENTIFICATION

01 Exact Legal Name of Respondent Ohio Valley Electric Corporation	02 Year/Period of Report End of 2012/Q4
03 Previous Name and Date of Change *(if name changed during year)* / /	
04 Address of Principal Office at End of Period *(Street, City, State, Zip Code)* 3932 U.S. Route 23, Piketon, Ohio 45661	
05 Name of Contact Person John D. Brodt	06 Title of Contact Person Secretary and Treasurer
07 Address of Contact Person *(Street, City, State, Zip Code)* 3932 U.S. Route 23, Piketon, Ohio 45661	

08 Telephone of Contact Person, *Including Area Code*	09 This Report Is	10 Date of Report *(Mo, Da, Yr)*
(740) 289-7200	(1) ☒ An Original (2) ☐ A Resubmission	12/31/2012

ANNUAL CORPORATE OFFICER CERTIFICATION

The undersigned officer certifies that:

I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.

01 Name	03 Signature	04 Date Signed *(Mo, Da, Yr)*
John D. Brodt	John D. Brodt John D. Brodt	05/15/2013
02 Title Chief Financial Officer, Secretary		

Title 18, U.S.C. 1001 makes it a crime for any person to knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

LIST OF SCHEDULES (Electric Utility)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the respondents are "none," "not applicable," or "NA".

Line No.	Title of Schedule (a)	Reference Page No. (b)	Remarks (c)
1	General Information	101	
2	Control Over Respondent	102	
3	Corporations Controlled by Respondent	103	
4	Officers	104	
5	Directors	105	
6	Information on Formula Rates	106(a)(b)	NA
7	Important Changes During the Year	108-109	
8	Comparative Balance Sheet	110-113	
9	Statement of Income for the Year	114-117	
10	Statement of Retained Earnings for the Year	118-119	
11	Statement of Cash Flows	120-121	
12	Notes to Financial Statements	122-123	
13	Statement of Accum Comp Income, Comp Income, and Hedging Activities	122(a)(b)	
14	Summary of Utility Plant & Accumulated Provisions for Dep, Amort & Dep	200-201	
15	Nuclear Fuel Materials	202-203	NA
16	Electric Plant in Service	204-207	
17	Electric Plant Leased to Others	213	NONE
18	Electric Plant Held for Future Use	214	NONE
19	Construction Work in Progress-Electric	216	
20	Accumulated Provision for Depreciation of Electric Utility Plant	219	
21	Investment of Subsidiary Companies	224-225	
22	Materials and Supplies	227	
23	Allowances	228(ab)-229(ab)	
24	Extraordinary Property Losses	230	NONE
25	Unrecovered Plant and Regulatory Study Costs	230	NONE
26	Transmission Service and Generation Interconnection Study Costs	231	NONE
27	Other Regulatory Assets	232	
28	Miscellaneous Deferred Debits	233	
29	Accumulated Deferred Income Taxes	234	
30	Capital Stock	250-251	
31	Other Paid-in Capital	253	NONE
32	Capital Stock Expense	254	NONE
33	Long-Term Debt	256-257	
34	Reconciliation of Reported Net Income with Taxable Inc for Fed Inc Tax	261	
35	Taxes Accrued, Prepaid and Charged During the Year	262-263	
36	Accumulated Deferred Investment Tax Credits	266-267	

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

LIST OF SCHEDULES (Electric Utility) (continued)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the respondents are "none," "not applicable," or "NA".

Line No.	Title of Schedule (a)	Reference Page No. (b)	Remarks (c)
37	Other Deferred Credits	269	NONE
38	Accumulated Deferred Income Taxes-Accelerated Amortization Property	272-273	NONE
39	Accumulated Deferred Income Taxes-Other Property	274-275	NONE
40	Accumulated Deferred Income Taxes-Other	276-277	NONE
41	Other Regulatory Liabilities	278	
42	Electric Operating Revenues	300-301	
43	Regional Transmission Service Revenues (Account 457.1)	302	
44	Sales of Electricity by Rate Schedules	304	
45	Sales for Resale	310-311	
46	Electric Operation and Maintenance Expenses	320-323	
47	Purchased Power	326-327	
48	Transmission of Electricity for Others	328-330	NONE
49	Transmission of Electricity by ISO/RTOs	331	NONE
50	Transmission of Electricity by Others	332	NONE
51	Miscellaneous General Expenses-Electric	335	
52	Depreciation and Amortization of Electric Plant	336-337	
53	Regulatory Commission Expenses	350-351	
54	Research, Development and Demonstration Activities	352-353	
55	Distribution of Salaries and Wages	354-355	
56	Common Utility Plant and Expenses	356	NONE
57	Amounts Included in ISO/RTO Settlement Statements	397	NONE
58	Purchase and Sale of Ancillary Services	398	NONE
59	Monthly Transmission System Peak Load	400	
60	Monthly ISO/RTO Transmission System Peak Load	400a	NONE
61	Electric Energy Account	401	
62	Monthly Peaks and Output	401	
63	Steam Electric Generating Plant Statistics	402-403	
64	Hydroelectric Generating Plant Statistics	406-407	NONE
65	Pumped Storage Generating Plant Statistics	408-409	NONE
66	Generating Plant Statistics Pages	410-411	NONE

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

LIST OF SCHEDULES (Electric Utility) (continued)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the respondents are "none," "not applicable," or "NA".

Line No.	Title of Schedule (a)	Reference Page No. (b)	Remarks (c)
67	Transmission Line Statistics Pages	422-423	
68	Transmission Lines Added During the Year	424-425	NONE
69	Substations	426-427	
70	Transactions with Associated (Affiliated) Companies	429	
71	Footnote Data	450	

Stockholders' Reports Check appropriate box:

[X] Two copies will be submitted

[ ] No annual report to stockholders is prepared

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

GENERAL INFORMATION

1. Provide name and title of officer having custody of the general corporate books of account and address of office where the general corporate books are kept, and address of office where any other corporate books of account are kept, if different from that where the general corporate books are kept.

John D. Brodt, Secretary and Treasurer
3932 U.S. Route 23
P.O. Box 468
Piketon, OH 45661

2. Provide the name of the State under the laws of which respondent is incorporated, and date of incorporation. If incorporated under a special law, give reference to such law. If not incorporated, state that fact and give the type of organization and the date organized.

Incorporated under the General Corporation Laws of the State of Ohio on October 1, 1952.

3. If at any time during the year the property of respondent was held by a receiver or trustee, give (a) name of receiver or trustee, (b) date such receiver or trustee took possession, (c) the authority by which the receivership or trusteeship was created, and (d) date when possession by receiver or trustee ceased.

Not Applicable

4. State the classes or utility and other services furnished by respondent during the year in each State in which the respondent operated.

Major - Electric Utility - Ohio

5. Have you engaged as the principal accountant to audit your financial statements an accountant who is not the principal accountant for your previous year's certified financial statements?

(1) [ ] Yes...Enter the date when such independent accountant was initially engaged:
(2) [X] No

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

CONTROL OVER RESPONDENT

1. If any corporation, business trust, or similar organization or a combination of such organizations jointly held control over the repondent at the end of the year, state name of controlling corporation or organization, manner in which control was held, and extent of control. If control was in a holding company organization, show the chain of ownership or control to the main parent company or organization. If control was held by a trustee(s), state name of trustee(s), name of beneficiary or beneficiearies for whom trust was maintained, and purpose of the trust.

Ohio Valley Electric Corporation is owned by twelve entities consisting of ten investor-owned utilities or utility holding companies and two affiliates of generation and transmission rural electric cooperatives. American Electric Power Company, Inc., and its subsidiary, Columbus Southern Power Company held 43.47% of Ohio Valley Electric Corporation's capital stock at December 31, 2012.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

CORPORATIONS CONTROLLED BY RESPONDENT

1. Report below the names of all corporations, business trusts, and similar organizations, controlled directly or indirectly by respondent at any time during the year. If control ceased prior to end of year, give particulars (details) in a footnote.
2. If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved.
3. If control was held jointly with one or more other interests, state the fact in a footnote and name the other interests.

Definitions
1. See the Uniform System of Accounts for a definition of control.
2. Direct control is that which is exercised without interposition of an intermediary.
3. Indirect control is that which is exercised by the interposition of an intermediary which exercises direct control.
4. Joint control is that in which neither interest can effectively control or direct action without the consent of the other, as where the voting control is equally divided between two holders, or each party holds a veto power over the other. Joint control may exist by mutual agreement or understanding between two or more parties who together have control within the meaning of the definition of control in the Uniform System of Accounts, regardless of the relative voting rights of each party.

Line No.	Name of Company Controlled (a)	Kind of Business (b)	Percent Voting Stock Owned (c)	Footnote Ref. (d)
1	Indiana-Kentucky Electric Corp.	Electric Utility	100%	
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

OFFICERS

1. Report below the name, title and salary for each executive officer whose salary is $50,000 or more. An "executive officer" of a respondent includes its president, secretary, treasurer, and vice president in charge of a principal business unit, division or function (such as sales, administration or finance), and any other person who performs similar policy making functions.
2. If a change was made during the year in the incumbent of any position, show name and total remuneration of the previous incumbent, and the date the change in incumbency was made.

Line No.	Title (a)	Name of Officer (b)	Salary for Year (c)
1	President	Nicholas K. Akins	
2	Vice President and Chief Operating Officer	Mark A. Peifer	
3	Vice President - Operations	David E. Jones	
4	Chief Financial Officer, Secretary and Treasurer	John D. Brodt	
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Name of Respondent	This Report is:	Date of Report	Year/Period of Report
Ohio Valley Electric Corporation	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) 12/31/2012	2012/Q4

FOOTNOTE DATA

Schedule Page: 104 Line No.: 1 Column: c

Salaries are none.

Schedule Page: 104 Line No.: 2 Column: b

Mark A. Peifer replaced Scott N. Smith, effective January 1, 2012.

Schedule Page: 104 Line No.: 2 Column: c

Salaries are none.

Schedule Page: 104 Line No.: 3 Column: c

Information was reported to FERC and is also kept in the Corporation file retained by the respondent.

Schedule Page: 104 Line No.: 4 Column: c

Information was reported to FERC and is also kept in the Corporation file retained by the respondent.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

DIRECTORS

1. Report below the information called for concerning each director of the respondent who held office at any time during the year. Include in column (a), abbreviated titles of the directors who are officers of the respondent.
2. Designate members of the Executive Committee by a triple asterisk and the Chairman of the Executive Committee by a double asterisk.

Line No.	Name (and Title) of Director (a)	Principal Business Address (b)
1	Anthony J. Ahern***	6677 Busch Blvd., Columbus, OH 43226
2	Nicholas K. Akins, President **	1 Riverside Plaza, Columbus, OH 43215
3	Eric D. Baker	10125 West Watergate Road, Cadillac, MI 49601
4	Kevin W. Crawford	1065 Woodman Drive, Dayton, OH 45432
5	William S. Doty	One Vectren Square, Evansville, IN 47708
6	Carl L. English	1 Riverside Plaza, Columbus, OH 43215
7	Joseph Hamrock	1 Riverside Plaza, Columbus, OH 43215
8	James R. Haney	76 South Main St., Akron, OH 44308
9	Dennis A. Lantzy	1065 Woodman Drive, Dayton, OH 45432
10	Charles D. Lasky***	341 White Pond Drive, WAC-A3, Akron, OH 44320
11	Mark C. McCullough	1 Riverside Plaza, Columbus, OH 43215
12	Steven K. Nelson	6677 Busch Blvd., Columbus, OH 43226
13	Patrick W. O'Loughlin	6677 Busch Blvd., Columbus, OH 43226
14	Robert P. Powers	1 Riverside Plaza, Columbus, OH 43215
15	Gary G. Stephenson	1065 Woodman Drive, Dayton, OH 45432
16	Stanley F. Szwed***	76 South Main St., Akron, OH 44308
17	Paul W. Thompson	220 West Main St., Louisville, KY 40202
18	Pablo A. Vegas	850 Tech Center Dr., Gahanna, OH 43230
19	John N. Voyles, Jr.***	220 West Main St., Louisville, KY 40202
20	Charles Whitlock ***	221 East Fourth St., 5th Floor, Cincinnati, OH 45202
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FOOTNOTE DATA

Schedule Page: 105 Line No.: 4 Column: a

Kevin W. Crawford was elected to replace Gary G. Stephenson, effective February 2012.

Schedule Page: 105 Line No.: 8 Column: a

James R. Haney was elected to replace Stanley F. Szwed, effective December 2012.

Schedule Page: 105 Line No.: 9 Column: a

Dennis A. Lantzy was elected to replace Kevin W. Crawford, effective March 2012.

Schedule Page: 105 Line No.: 14 Column: a

Robert P. Powers was elected to replace Carl L. English, effective February 2012.

Schedule Page: 105 Line No.: 18 Column: a

Pablo A. Vegas was elected to replace Joseph Hamrock, effective May 2012.

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

IMPORTANT CHANGES DURING THE QUARTER/YEAR

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Each inquiry should be answered. Enter "none," "not applicable," or "NA" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

1. Changes in and important additions to franchise rights: Describe the actual consideration given therefore and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact.
2. Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.
3. Purchase or sale of an operating unit or system: Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required. Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission.
4. Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents, and other condition. State name of Commission authorizing lease and give reference to such authorization.
5. Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required. State also the approximate number of customers added or lost and approximate annual revenues of each class of service. Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements, etc.
6. Obligations incurred as a result of issuance of securities or assumption of liabilities or guarantees including issuance of short-term debt and commercial paper having a maturity of one year or less. Give reference to FERC or State Commission authorization, as appropriate, and the amount of obligation or guarantee.
7. Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments.
8. State the estimated annual effect and nature of any important wage scale changes during the year.
9. State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.
10. Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on Page 104 or 105 of the Annual Report Form No. 1, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.
11. (Reserved.)
12. If the important changes during the year relating to the respondent company appearing in the annual report to stockholders are applicable in every respect and furnish the data required by Instructions 1 to 11 above, such notes may be included on this page.
13. Describe fully any changes in officers, directors, major security holders and voting powers of the respondent that may have occurred during the reporting period.
14. In the event that the respondent participates in a cash management program(s) and its proprietary capital ratio is less than 30 percent please describe the significant events or transactions causing the proprietary capital ratio to be less than 30 percent, and the extent to which the respondent has amounts loaned or money advanced to its parent, subsidiary, or affiliated companies through a cash management program(s). Additionally, please describe plans, if any to regain at least a 30 percent proprietary ratio.

PAGE 108 INTENTIONALLY LEFT BLANK
SEE PAGE 109 FOR REQUIRED INFORMATION.

IMPORTANT CHANGES DURING THE QUARTER/YEAR (Continued)

1. Not Applicable
2. Not Applicable
3. Not Applicable
4. Not Applicable
5. Not Applicable
6. None
7. Not Applicable
8. All 2011 employees shared a $2,400,364 bonus that was paid in 2012. Effective September 1, 2012, a general wage increase of approximately 2.3% was given to employees except management and clerical personnel.
9. Not Applicable
10. Not Applicable
11. Not Applicable
12. See Notes to the Financial Statements beginning on page 122.
13. See pages 104 and 105.
14. Not Applicable

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	1,276,438,565	1,102,960,779
3	Construction Work in Progress (107)	200-201	32,847,537	175,025,535
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		1,309,286,102	1,277,986,314
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	531,480,132	477,412,407
6	Net Utility Plant (Enter Total of line 4 less 5)		777,805,970	800,573,907
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		777,805,970	800,573,907
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		0	0
19	(Less) Accum. Prov. for Depr. and Amort. (122)		0	0
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	112,803,661	120,348,741
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		0	0
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		157,823,427	88,444,080
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		270,627,088	208,792,821
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		558,113	4,719,549
36	Special Deposits (132-134)		2,000	2,000
37	Working Fund (135)		10,699	12,599
38	Temporary Cash Investments (136)		19,330,793	0
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		34,841,120	37,346,522
41	Other Accounts Receivable (143)		17,371,823	4,536,302
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		0	0
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		632,985,163	494,263,276
45	Fuel Stock (151)	227	28,067,453	17,414,166
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	15,489,802	14,308,322
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	86,649	28,519

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		0	0
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		0	0
57	Prepayments (165)		1,169,331	979,005
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	0
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		0	0
62	Miscellaneous Current and Accrued Assets (174)		2,503,440	2,521,920
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		752,416,386	576,132,180
68	DEFERRED DEBITS			
69	Unamortized Debt Expenses (181)		14,485,787	13,714,625
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	39,394,887	33,242,142
73	Prelim. Survey and Investigation Charges (Electric) (183)		5,250	179,135
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	103,107	222,482
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		0	0
82	Accumulated Deferred Income Taxes (190)	234	15,008,843	8,218,042
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		68,997,874	55,576,426
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		1,869,847,318	1,641,075,334

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [x] An Original (2) [ ] A Resubmission	12/31/2012	end of 2012/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	10,000,000	10,000,000
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	0	0
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	5,293,968	4,037,278
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	0	0
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	0	0
16	Total Proprietary Capital (lines 2 through 15)		15,293,968	14,037,278
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	600,000,000	300,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	1,057,082,302	1,133,002,486
22	Unamortized Premium on Long-Term Debt (225)		291,235	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		887,297	0
24	Total Long-Term Debt (lines 18 through 23)		1,656,486,240	1,433,002,486
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		808,057	776,364
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		0	0
29	Accumulated Provision for Pensions and Benefits (228.3)		64,980,165	72,477,946
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		7,954,543	7,461,168
35	Total Other Noncurrent Liabilities (lines 26 through 34)		73,742,765	80,715,478
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		29,144,859	37,473,503
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		0	0
41	Customer Deposits (235)		0	0
42	Taxes Accrued (236)	262-263	5,631,604	5,648,598
43	Interest Accrued (237)		15,284,211	14,184,462
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	end of 2012/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		20,516	19,621
48	Miscellaneous Current and Accrued Liabilities (242)		4,893,327	4,696,037
49	Obligations Under Capital Leases-Current (243)		147,992	8,278
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		55,122,509	62,030,499
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		12,257,277	19,225,121
57	Accumulated Deferred Investment Tax Credits (255)	266-267	3,393,146	3,393,146
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	28,029,955	0
60	Other Regulatory Liabilities (254)	278	25,521,458	28,671,326
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		0	0
64	Accum. Deferred Income Taxes-Other (283)		0	0
65	Total Deferred Credits (lines 56 through 64)		69,201,836	51,289,593
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		1,869,847,318	1,641,075,334

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

STATEMENT OF INCOME

Quarterly

1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	670,819,257	716,938,129		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	486,106,413	569,589,375		
5	Maintenance Expenses (402)	320-323	46,001,591	38,163,186		
6	Depreciation Expense (403)	336-337	58,453,907	39,273,020		
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337				
9	Amort. of Utility Plant Acq. Adj. (406)	336-337				
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)					
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	6,198,472	6,182,742		
15	Income Taxes - Federal (409.1)	262-263	6,903,830	13,252,631		
16	- Other (409.1)	262-263	877,380	-7,380		
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	-6,888,521	-12,121,744		
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277				
19	Investment Tax Credit Adj. - Net (411.4)	266				
20	(Less) Gains from Disp. of Utility Plant (411.6)					
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)					
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		597,653,072	654,331,830		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		73,166,185	62,606,299		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

STATEMENT OF INCOME FOR THE YEAR (Continued)

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No.
						1
670,819,257	716,938,129					2
						3
486,106,413	569,589,375					4
46,001,591	38,163,186					5
58,453,907	39,273,020					6
						7
						8
						9
						10
						11
						12
						13
6,198,472	6,182,742					14
6,903,830	13,252,631					15
877,380	-7,380					16
-6,888,521	-12,121,744					17
						18
						19
						20
						21
						22
						23
						24
597,653,072	654,331,830					25
73,166,185	62,606,299					26

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2012	Year/Period of Report End of 2012/Q4

STATEMENT OF INCOME FOR THE YEAR (continued)

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		73,166,185	62,606,299		
28	Other Income and Deductions					
29	Other Income					
30	Nonutility Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)					
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)					
33	Revenues From Nonutility Operations (417)					
34	(Less) Expenses of Nonutility Operations (417.1)					
35	Nonoperating Rental Income (418)					
36	Equity in Earnings of Subsidiary Companies (418.1)	119				
37	Interest and Dividend Income (419)		8,608,674	10,664,153		
38	Allowance for Other Funds Used During Construction (419.1)					
39	Miscellaneous Nonoperating Income (421)		84,779	205,500		
40	Gain on Disposition of Property (421.1)					
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		8,693,453	10,869,653		
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)					
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		48,206	37,924		
46	Life Insurance (426.2)					
47	Penalties (426.3)		153	37,677		
48	Exp. for Certain Civic, Political & Related Activities (426.4)		10,980	5,030		
49	Other Deductions (426.5)		375			
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		59,714	80,631		
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263				
53	Income Taxes-Federal (409.2)	262-263				
54	Income Taxes-Other (409.2)	262-263				
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277				
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277				
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)					
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		8,633,739	10,789,022		
61	Interest Charges					
62	Interest on Long-Term Debt (427)		71,728,456	67,019,894		
63	Amort. of Debt Disc. and Expense (428)		4,612,598	1,478,943		
64	Amortization of Loss on Reaquired Debt (428.1)					
65	(Less) Amort. of Premium on Debt-Credit (429)		5,981			
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)					
68	Other Interest Expense (431)		3,208,161	2,226,380		
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)					
70	Net Interest Charges (Total of lines 62 thru 69)		79,543,234	70,725,217		
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		2,256,690	2,670,104		
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		2,256,690	2,670,104		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

STATEMENT OF RETAINED EARNINGS

1. Do not report Lines 49-53 on the quarterly version.
2. Report all changes in appropriated retained earnings, unappropriated retained earnings, year to date, and unappropriated undistributed subsidiary earnings for the year.
3. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive). Show the contra primary account affected in column (b)
4. State the purpose and amount of each reservation or appropriation of retained earnings.
5. List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items in that order.
6. Show dividends for each class and series of capital stock.
7. Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings.
8. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.
9. If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123.

Line No.	Item (a)	Contra Primary Account Affected (b)	Current Quarter/Year Year to Date Balance (c)	Previous Quarter/Year Year to Date Balance (d)
	UNAPPROPRIATED RETAINED EARNINGS (Account 216)			
1	Balance-Beginning of Period		4,037,278	2,367,174
2	Changes			
3	Adjustments to Retained Earnings (Account 439)			
4				
5				
6				
7				
8				
9	TOTAL Credits to Retained Earnings (Acct. 439)			
10				
11				
12				
13				
14				
15	TOTAL Debits to Retained Earnings (Acct. 439)			
16	Balance Transferred from Income (Account 433 less Account 418.1)		2,256,690	2,670,104
17	Appropriations of Retained Earnings (Acct. 436)			
18				
19				
20				
21				
22	TOTAL Appropriations of Retained Earnings (Acct. 436)			
23	Dividends Declared-Preferred Stock (Account 437)			
24				
25				
26				
27				
28				
29	TOTAL Dividends Declared-Preferred Stock (Acct. 437)			
30	Dividends Declared-Common Stock (Account 438)			
31			-1,000,000	(1,000,000)
32				
33				
34				
35				
36	TOTAL Dividends Declared-Common Stock (Acct. 438)		-1,000,000	(1,000,000)
37	Transfers from Acct 216.1, Unapprop. Undistrib. Subsidiary Earnings			
38	Balance - End of Period (Total 1,9,15,16,22,29,36,37)		5,293,968	4,037,278
	APPROPRIATED RETAINED EARNINGS (Account 215)			

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

STATEMENT OF RETAINED EARNINGS

1. Do not report Lines 49-53 on the quarterly version.
2. Report all changes in appropriated retained earnings, unappropriated retained earnings, year to date, and unappropriated undistributed subsidiary earnings for the year.
3. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive). Show the contra primary account affected in column (b)
4. State the purpose and amount of each reservation or appropriation of retained earnings.
5. List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items in that order.
6. Show dividends for each class and series of capital stock.
7. Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings.
8. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.
9. If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123.

Line No.	Item (a)	Contra Primary Account Affected (b)	Current Quarter/Year Year to Date Balance (c)	Previous Quarter/Year Year to Date Balance (d)
39				
40				
41				
42				
43				
44				
45	TOTAL Appropriated Retained Earnings (Account 215)			
	APPROP. RETAINED EARNINGS - AMORT. Reserve, Federal (Account 215.1)			
46	TOTAL Approp. Retained Earnings-Amort. Reserve, Federal (Acct. 215.1)			
47	TOTAL Approp. Retained Earnings (Acct. 215, 215.1) (Total 45,46)			
48	TOTAL Retained Earnings (Acct. 215, 215.1, 216) (Total 38, 47) (216.1)		5,293,968	4,037,278
	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account			
	Report only on an Annual Basis, no Quarterly			
49	Balance-Beginning of Year (Debit or Credit)			
50	Equity in Earnings for Year (Credit) (Account 418.1)			
51	(Less) Dividends Received (Debit)			
52				
53	Balance-End of Year (Total lines 49 thru 52)			

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

STATEMENT OF CASH FLOWS

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(3) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

Line No.	Description (See Instruction No. 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
1	Net Cash Flow from Operating Activities:		
2	Net Income (Line 78(c) on page 117)	2,256,690	2,670,104
3	Noncash Charges (Credits) to Income:		
4	Depreciation and Depletion	58,453,907	39,273,020
5	Amortization of Debt Expense	4,606,617	1,478,943
6	(Gain)/Loss on Marketable Securities	-4,676,784	-7,093,111
7			
8	Deferred Income Taxes (Net)	2,841,185	-1,057,000
9	Investment Tax Credit Adjustment (Net)		
10	Net (Increase) Decrease in Receivables	4,119,114	3,385,954
11	Net (Increase) Decrease in Inventory	-11,834,767	6,559,455
12	Net (Increase) Decrease in Allowances Inventory	-58,130	612,810
13	Net Increase (Decrease) in Payables and Accrued Expenses	8,116,623	5,575,353
14	Net (Increase) Decrease in Other Regulatory Assets	5,942,308	-18,020,274
15	Net Increase (Decrease) in Other Regulatory Liabilities	3,153,047	-9,094,231
16	(Less) Allowance for Other Funds Used During Construction		
17	(Less) Undistributed Earnings from Subsidiary Companies		
18	Other (provide details in footnote):	-28,473,953	61,738,595
19			
20			
21			
22	Net Cash Provided by (Used in) Operating Activities (Total 2 thru 21)	44,445,857	86,029,618
23			
24	Cash Flows from Investment Activities:		
25	Construction and Acquisition of Plant (including land):		
26	Gross Additions to Utility Plant (less nuclear fuel)	-50,505,005	-63,563,609
27	Gross Additions to Nuclear Fuel		
28	Gross Additions to Common Utility Plant		
29	Gross Additions to Nonutility Plant		
30	(Less) Allowance for Other Funds Used During Construction		
31	Other (provide details in footnote):		
32			
33			
34	Cash Outflows for Plant (Total of lines 26 thru 33)	-50,505,005	-63,563,609
35			
36	Acquisition of Other Noncurrent Assets (d)		
37	Proceeds from Disposal of Noncurrent Assets (d)		
38			
39	Investments in and Advances to Assoc. and Subsidiary Companies	-131,176,807	-79,688,767
40	Contributions and Advances from Assoc. and Subsidiary Companies		
41	Disposition of Investments in (and Advances to)		
42	Associated and Subsidiary Companies		
43			
44	Purchase of Investment Securities (a)	-81,086,366	-33,622,347
45	Proceeds from Sales of Investment Securities (a)	16,383,803	22,623,110

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

STATEMENT OF CASH FLOWS

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(3) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

Line No.	Description (See Instruction No. 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
46	Loans Made or Purchased		
47	Collections on Loans		
48			
49	Net (Increase) Decrease in Receivables		
50	Net (Increase) Decrease in Inventory		
51	Net (Increase) Decrease in Allowances Held for Speculation		
52	Net Increase (Decrease) in Payables and Accrued Expenses		
53	Other (provide details in footnote):		
54			
55			
56	Net Cash Provided by (Used in) Investing Activities		
57	Total of lines 34 thru 55)	-246,384,375	-154,251,613
58			
59	Cash Flows from Financing Activities:		
60	Proceeds from Issuance of:		
61	Long-Term Debt (b)	459,403,938	180,000,000
62	Preferred Stock		
63	Common Stock		
64	Other (provide details in footnote):		
65	Loan Origination Costs	-5,377,779	-3,807,975
66	Net Increase in Short-Term Debt (c)		
67	Other (provide details in footnote):		
68	Advances from Parent		
69			
70	Cash Provided by Outside Sources (Total 61 thru 69)	454,026,159	176,192,025
71			
72	Payments for Retirement of:		
73	Long-term Debt (b)	-235,920,184	-124,220,240
74	Preferred Stock		
75	Common Stock		
76	Other (provide details in footnote):		
77			
78	Net Decrease in Short-Term Debt (c)		
79			
80	Dividends on Preferred Stock		
81	Dividends on Common Stock	-1,000,000	-1,000,000
82	Net Cash Provided by (Used in) Financing Activities		
83	(Total of lines 70 thru 81)	217,105,975	50,971,785
84			
85	Net Increase (Decrease) in Cash and Cash Equivalents		
86	(Total of lines 22,57 and 83)	15,167,457	-17,250,210
87			
88	Cash and Cash Equivalents at Beginning of Period	4,734,148	21,984,358
89			
90	Cash and Cash Equivalents at End of period	19,901,605	4,734,148

Schedule Page: 120 Line No.: 18 Column: b

Other:

Property Taxes Applicable to Subsequent Years	$ 18,480
Income Taxes Receivable	(14,449,233)
Prepaids and Other	(190,326)
Other Noncurrent Assets	119,375
Deferred Revenue	(6,967,844)
Other Liabilities	(7,004,405)
Total	**$(28,473,953)**

Schedule Page: 120 Line No.: 18 Column: c

Other:

Property Taxes Applicable to Subsequent Years	$ (19,920)
Income Taxes Receivable	12,044,270
Prepaids and Other	191,417
Other Assets	(215,369)
Other Noncurrent Assets	(222,242)
Deferred Revenue	13,476,082
Other Liabilities	36,484,357
Total	**$61,738,595**

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
Ohio Valley Electric Corporation	(1) [X] An Original (2) [ ] A Resubmission	12/31/2012	End of 2012/Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

This FERC Form 1 represents the financial statements of Ohio Valley Electric Corporation at December 31, 2012. Ohio Valley Electric Corporation's financial statements have been prepared in conformity with the requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles. The following areas represent significant differences between the Uniform System of Accounts and generally accepted accounting principles: (1) the presentation of majority-owned subsidiaries, (2) the disclosure of certain significant non-cash transactions, (3) the presentation of current and non-current portions of long-term debt, deferred taxes, and certain other assets and liabilities, (4) the presentation of preliminary survey and investigation charges, and (5) the gross presentation of certain regulatory assets and regulatory liabilities.

Generally accepted accounting principles require that majority-owned subsidiaries be consolidated for financial reporting purposes. FERC requires majority-owned subsidiaries be reported as set forth in the Uniform System of Accounts and published accounting releases, which require majority-owned subsidiaries to be presented on an unconsolidated basis.

Generally accepted accounting principles require that the current and non-current portions of assets and liabilities be appropriately identified and reported as such on the balance sheet. FERC requires that certain items such as deferred taxes, long-term debt, regulatory assets, and regulatory liabilities be reported as set forth in the Uniform System of Accounts and published accounting releases, which does not recognize any segregation between the current and non-current portions of these items for reporting purposes.

Generally accepted accounting principles require that preliminary survey and investigation charges be recorded as a component of construction work in progress. FERC requires that these items be reported as set forth in the Uniform System of Accounts and published accounting releases, which require preliminary survey and investigation charges be recorded as a deferred debit.

Generally accepted accounting principles allow for net presentation of certain regulatory assets and liabilities when the legal right of offset exists. FERC requires that these items be reported as set forth in the Uniform System of Accounts and published accounting releases, which require gross presentation of certain regulatory assets and liabilities.

Ohio Valley Electric Corporation's Notes to Consolidating Financial Statements have been prepared in conformity with generally accepted accounting principles. Accordingly, certain footnotes are not reflective of Ohio Valley Electric Corporation's Financial Statements contained herein.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Consolidating Financial Statements — The consolidating 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 consolidating balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

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

	2012		2011	
	OVEC	IKEC	OVEC	IKEC
Regulatory assets:				
Current assets:				
Lease termination costs/liquidated damages	$ 5,225,467	$ -	$ -	$ -
Unrecognized loss on coal sales	-	3,051,890	-	-
Total	5,225,467	3,051,890	-	-
Other assets:				
Unrecognized postemployment benefits	1,132,247	1,366,512	1,109,542	1,303,143
Pension benefits	17,529,976	13,031,349	28,720,456	22,202,339
Postretirement benefits	-	16,122,553	-	15,762,985
Income taxes billable to customers	14,950,738	-	2,855,684	60,458
Total	33,612,961	30,520,414	32,685,682	39,328,925
Total regulatory assets	$38,838,428	$33,572,304	$32,685,682	$39,328,925
Regulatory liabilities:				
Current liabilities:				
Deferred credit — EPA emission allowance proceeds	$ 242,863	$ 31,824	$ 238,268	$ 31,238
Advance collection of interest	2,311,907	-	2,704,350	-
Total	2,554,770	31,824	2,942,618	31,238
Other liabilities:				
Postretirement benefits	14,797,778	-	12,782,375	-
Decommissioning and demolition	6,939,381	7,291,078	5,413,889	5,196,676
Investment tax credits	3,393,146	-	3,393,146	-
Net antitrust settlement	673,070	1,150,859	673,070	1,150,859
Deferred tax liability	-	-	6,302,915	-
Income taxes refundable to customers	-	53,596,385	-	43,201,072
Total	25,803,375	62,038,322	28,565,395	49,548,607
Total regulatory liabilities	$28,358,145	$62,070,146	$31,508,013	$49,579,845

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 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 consolidating 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.

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.

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

	OVEC	IKEC	Consolidated
Balance — January 1, 2011	$12,030,532	$18,969,121	$ 30,999,653
Accretion	892,408	1,238,063	2,130,471
Liabilities settled	(193,972)	(144,403)	(338,375)
Revision in cash flow estimates	(5,267,801)	(7,714,632)	(12,982,433)
Balance — December 31, 2011	7,461,167	12,348,149	19,809,316
Accretion	595,035	834,359	1,429,394
Liabilities settled	(101,659)	(175,672)	(277,331)
Revision in cash flow estimates	-	-	-
Balance — December 31, 2012	$ 7,954,543	$13,006,836	$ 20,961,379

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 consolidating 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 consolidating 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 consolidating 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 consolidating financial statements were issued.

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	$34,343,741	$36,650,231

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	12,746,357	9,612,272
Total	$15,962,839	$13,268,867

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).

4. ELECTRIC PLANT

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

	2012		2011	
	OVEC	IKEC	OVEC	IKEC
Steam production plant	$1,217,022,377	$681,118,185	$1,043,776,208	$651,467,757
Transmission plant	47,748,711	27,029,283	47,694,088	26,749,317
General plant	11,648,553	1,051,445	11,471,559	1,051,445
Intangible	18,924	7,640	18,924	7,640
	1,276,438,565	709,206,553	1,102,960,779	679,276,159
Less accumulated depreciation	531,480,132	583,883,559	477,412,407	563,785,911
	744,958,433	125,322,994	625,548,372	115,490,248
Construction in progress	32,852,787	612,632,109	175,204,670	508,872,205
Total electric plant	$ 777,811,220	$737,955,103	$ 800,753,042	$624,362,453

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.

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		$1,358,347,337	$1,197,204,828

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.

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	1,280,807,382
Total	$1,596,486,240

7. INCOME TAXES

OVEC and IKEC file a consolidated federal income tax return. The effective tax rate varied from the statutory