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Date of Hearing: 10/24/14

Case No. 14-841-EL-SSO/14-842-EL-ATA

PUCO Case Caption: 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 & In the Matter of the Application

of Duke Energy Ohio for Authority to Amend its Certified Supplier tariff

P.U.C.O. No. 20.

List of exhibits being filed:

Volume III

IEU 5

IEU 6

IEU 7

FEU 8

IEU 9

IEU 10

IEU 11

IEU 12

IEU 13

Duke 8

Duke 10

Seima Club 3

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EXHIBIT

5

IEU

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

AMENDED AND RESTATED

INTER-COMPANY POWER AGREEMENT

THIS AGREEMENT, dated as of September 10, 2010 (the "Agreement"), by and among OHIO VALLEY ELECTRIC CORPORATION (herein called OVEC), ALLEGHENY ENERGY SUPPLY COMPANY, L.L.C. (herein called Allegheny), APPALACHIAN POWER COMPANY (herein called Appalachian), BUCKEYE POWER GENERATING, LLC (herein called Buckeye), COLUMBUS SOUTHERN POWER COMPANY (herein called Columbus), THE DAYTON POWER AND LIGHT COMPANY (herein called Dayton), DUKE ENERGY OHIO, INC. (formerly known as The Cincinnati Gas & Electric Company and herein called Duke Ohio), FIRSTENERGY GENERATION CORP. (herein called FirstEnergy), INDIANA MICHIGAN POWER COMPANY (herein called Indiana), KENTUCKY UTILITIES COMPANY (herein called Kentucky), LOUISVILLE GAS AND ELECTRIC COMPANY (herein called Louisville), MONONGAHELA POWER COMPANY (herein called Monongahela), OHIO POWER COMPANY (herein called Ohio Power), PENINSULA GENERATION COOPERATIVE (herein called Peninsula), and SOUTHERN INDIANA GAS AND ELECTRIC COMPANY (herein called Southern Indiana, and all of the foregoing, other than OVEC, being herein sometimes collectively referred to as the Sponsoring Companies and individually as a Sponsoring Company) hereby amends and restates in its entirety, the Inter-Company Power Agreement dated as of March 13, 2006, as amended by Modification No. 1, dated as of March 13, 2006 (herein called the Current Agreement), by and among OVEC and the Sponsoring Companies.

WITNESSETH THAT:

WHEREAS, the Current Agreement amended and restated the original Inter-Company Power Agreement, dated as of July 10, 1953, as amended by Modification No. 1, dated as of June 3, 1966; Modification No. 2, dated as of January 7, 1967; Modification No. 3, dated as of November 15, 1967; Modification No. 4, dated as of November 5, 1975; Modification No. 5, dated as of September 1, 1979; Modification No. 6, dated as of August 1, 1981; Modification No. 7, dated as of January 15, 1992; Modification No. 8, dated as of January 19, 1994; Modification No. 9, dated as of August 17, 1995; Modification No. 10, dated as of January 1, 1998; Modification No. 11, dated as of April 1, 1999; Modification No. 12, dated as of November 1, 1999; Modification No. 13, dated as of May 24, 2000; Modification No. 14, dated as of April 1, 2001; and Modification No. 15, dated as of April 30, 2004 (together, herein called the Original Agreement); and

WHEREAS, OVEC designed, purchased, and constructed, and continues to operate and maintain two steam-electric generating stations, one station (herein called Ohio Station) consisting of five turbo-generators and all other necessary equipment, at a location on the Ohio River near Cheshire, Ohio, and the other station (herein called Indiana Station) consisting of six turbogenerators and all other necessary equipment, at a location on the Ohio River near Madison,

Indiana, (the Ohio Station and the Indiana Station being herein called the Project Generating Stations); and

WHEREAS, OVEC also designed, purchased, and constructed, and continues to operate and maintain necessary transmission and general plant facilities (herein called the Project Transmission Facilities) and OVEC established or cause to be established interconnections between the Project Generating Stations and the systems of certain of the Sponsoring Companies; and

WHEREAS, OVEC entered into an agreement, attached hereto as Exhibit A, with Indiana-Kentucky Electric Corporation (herein called IKEC), a corporation organized under the laws of the State of Indiana as a wholly owned subsidiary corporation of OVEC, which has been amended and restated as of the date of this Agreement and embodies the terms and conditions for the ownership and operation by IKEC of the Indiana Station and such portion of the Project Transmission Facilities which are to be owned and operated by it; and

WHEREAS, transmission facilities were constructed by certain of the Sponsoring Companies to interconnect the systems of such Sponsoring Companies, directly or indirectly, with the Project Generating Stations and/or the Project Transmission Facilities, and the Sponsoring Companies have agreed to pay for Available Power, as hereinafter defined, as may be available at the Project Generating Stations; and

WHEREAS, the parties hereto desire to amend and restate in their entirety, the Current Agreement to define the terms and conditions governing the rights of the Sponsoring Companies to receive Available Power from the Project Generating Stations and the obligations of the Sponsoring Companies to pay therefor.

NOW, THEREFORE, the parties hereto agree with each other as follows:

ARTICLE 1

DEFINITIONS

1.01. For the purposes of this Agreement, the following terms, wherever used herein, shall have the following meanings:

1.011 "Affiliate" means, with respect to a specified person, any other person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, such specified person; provided that "control" for these purposes means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.

1.012 "Arbitration Board" has the meaning set forth in Section 9.10.

1.013 "Available Energy" of the Project Generating Stations means the energy associated with Available Power.

1.014 "Available Power" of the Project Generating Stations at any particular time means the total net kilowatts at the 345-kV busses of the Project Generating Stations which Corporation in its sole discretion will determine that the Project Generating Stations will be capable of safely delivering under conditions then prevailing, including all conditions affecting capability.

1.015 "Corporation" means OVEC, IKEC, and all other subsidiary corporations of OVEC.

1.016 "Decommissioning and Demolition Obligation" has the meaning set forth in Section 5.03(f) hereof.

1.017 "Effective Date" means September 10, 2010, or to the extent necessary, such later date on which Corporation notifies the Sponsoring Companies that all conditions to effectiveness, including all required waiting periods and all required regulatory acceptances or approvals, of this Agreement have been satisfied in form and substance satisfactory to the Corporation.

1.018 "Election Period" has the meaning set forth in Section 9.183(a) hereof.

1.019 "Minimum Generating Unit Output" means 80 MW (net) for each of the Corporation's generation units; provided that such "Minimum Generating Unit Output" shall be confirmed from time to time by operating tests on the Corporation's generation units and shall be adjusted by the Operating Committee as appropriate following such tests.

1.0110 "Minimum Loading Event" means a period of time during which one or more of the Corporation's generation units are operating at below the Minimum Generating Output as a result of the Sponsoring Companies' failure to schedule and take delivery of sufficient Available Energy.

1.0111 "Minimum Loading Event Costs" means the sum of the following costs caused by one or more Minimum Loading Events: (i) the actual costs of any of the Corporation's generating units burning fuel oil; and (ii) the estimated actual additional costs to the Corporation resulting from Minimum Loading Events, including without limitation the incremental costs of additional emissions allowances, reflected in the schedule of charges prepared by the Operating Committee and in effect as of the commencement of any Minimum Loading Event, which schedule may be adjusted from time to time as necessary by the Operating Committee.

1.0112 "Month" means a calendar month.

1.0113 "Nominal Power Available" means an individual Sponsoring Company's Power Participation Ratio share of the Corporation's current estimate of the maximum amount of Available Power available for delivery at any given time.

1.0114 "Offer Notice" means the notice required to be given to the other Sponsoring Companies by a Transferring Sponsor offering to sell all or a portion of such Transferring Sponsor's rights, title and interests in, and obligations under this Agreement. At a minimum, the Offer Notice shall be in writing and shall contain (i) the rights, title and interests in, and obligations under this Agreement that the Transferring Sponsor proposes to Transfer; and (ii) the cash purchase price and any other material terms and conditions of such proposed transfer. An Offer Notice may not contain terms or conditions requiring the purchase of any non-OVEC interests.

1.0115 "Permitted Assignee" means a person that is (a) a Sponsoring Company or its Affiliate whose long-term unsecured non-credit enhanced indebtedness, as of the date of such assignment, has 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 the proposed assignee's long-term unsecured non-credit enhanced indebtedness is not currently rated by one of Standard & Poor's or Moody, such assignee'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); or (b) a Sponsoring Company or its Affiliate that does not meet the criteria in subsection (a) above, if the Sponsoring Company or its Affiliate that is assigning its rights, title and interests in, and obligations under, this Agreement agrees in writing (in form and substance satisfactory to Corporation) to remain obligated to satisfy all of the obligations related to the assigned rights, title and interests to the extent such obligations are not satisfied by the assignee of such rights, title and interests; provided that, in no event shall a person be deemed a "Permitted Assignee" if counsel for the Corporation reasonably determines that the assignment of the rights, title or interests in, or obligations under, this Agreement to such person could cause a termination, default, loss or payment obligation under any security issued, or agreement entered into, by the Corporation prior to such transfer.

1.0116 "Postretirement Benefit Obligation" has the meaning set forth in Section 5.03(e) hereof.

1.0117 "Power Participation Ratio" as applied to each of the Sponsoring Companies refers to the percentage set forth opposite its respective name in the tabulation below:

Company

Power Participation
Ratio—Percent

Allegheny	3.01
Appalachian.....	15.69
Buckeye.....	18.00
Columbus	4.44
Dayton.....	4.90
Duke Ohio.....	9.00
FirstEnergy.....	4.85
Indiana.....	7.85
Kentucky	2.50
Louisville	5.63
Monongahela.....	0.49
Ohio Power	15.49
Peninsula	6.65
Southern Indiana	<u>1.50</u>
Total.....	100.0

1.0118 "Tariff" means the open access transmission tariff of the Corporation, as amended from time to time, or any successor tariff, as accepted by the Federal Energy Regulatory Commission or any successor agency.

1.0119 "Third Party" means any person other than a Sponsoring Company or its Affiliate.

1.0120 "Total Minimum Generating Output" means the product of the Minimum Generating Unit Output times the number of the Corporation's generation units available for service at that time.

1.0121 "Transferring Sponsor" has the meaning set forth in Section 9.183(a) hereof.

1.0122 "Uniform System of Accounts" means the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as in effect on January 1, 2004.

ARTICLE 2

TRANSMISSION AGREEMENT AND FACILITIES

2.01. *Transmission Agreement.* The Corporation shall enter into a transmission service agreement under the Tariff, and the Corporation shall reserve and schedule transmission service, ancillary services and other transmission-related services in accordance with the Tariff to provide for the delivery of Available Power and Available Energy to the applicable delivery point under this Agreement.

2.02. *Limited Burdening of Corporation's Transmission Facilities.*

Transmission facilities owned by the Corporation, including the Project Transmission Facilities, shall not be burdened by power and energy flows of any Sponsoring Company to an extent which would impair or prevent the transmission of Available Power.

ARTICLE 3

[RESERVED]

ARTICLE 4

AVAILABLE POWER SUPPLY

4.01. *Operation of Project Generating Stations.* Corporation shall operate and maintain the Project Generating Stations in a manner consistent with safe, prudent, and efficient operating practice so that the Available Power available from said stations shall be at the highest practicable level attainable consistent with OVEC's obligations under ReliabilityFirst Reliability Standard BAL-002-RFC throughout the term of this Agreement.

4.02. *Available Power Entitlement.* The Sponsoring Companies collectively shall be entitled to take from Corporation and Corporation shall be obligated to supply to the Sponsoring Companies any and all Available Power and Available Energy pursuant to the provisions of this Agreement. Each Sponsoring Company's Available Power Entitlement hereunder shall be its Power Participation Ratio, as defined in subsection 1.0117, of Available Power.

4.03. *Available Energy.* Corporation shall make Available Energy available to each Sponsoring Company in proportion to said Sponsoring Company's Power Participation Ratio. No Sponsoring Company, however, shall be obligated to avail itself of any Available Energy. Available Energy shall be scheduled and taken by the Sponsoring Companies in accordance with the following procedures:

4.031 Each Sponsoring Company shall schedule the delivery of all or any portion (in whole MW increments) of its entitlement to Available Energy in accordance with scheduling procedures established by the Operating Committee from time to time.

4.032 In the event that any Sponsoring Company does not schedule the delivery of all of its Power Participation Ratio share of Available Energy, then each such other Sponsoring Company may schedule the delivery of all or any portion (in whole MW increments) of any such unscheduled share of Available Energy (through successive allotments if necessary) in proportion to their Power Participation Ratios.

4.033 Notwithstanding any Available Energy schedules made in accordance with this Section 4.03 and the applicable scheduling procedures, (i) the Corporation shall adjust all schedules to the extent that the Corporation's actual generation output is less than or more than the expected Nominal Power Available to all Sponsoring Companies, or to the extent that the Corporation is unable to obtain sufficient transmission service under the Tariff for the delivery of all scheduled Available Energy; and (ii) immediately following a Minimum Loading Event, any Sponsoring Company causing (in whole or part) such Minimum Loading Event shall have its Available Energy schedules increased after the schedules of the Sponsoring Companies not causing such Minimum Load Event, in accordance with the estimated ramp rates associated with the shutdown and start-up of the Corporation's generation units as reflected in the schedules prepared by the Operating Committee and in effect as of the commencement of any Minimum Loading Event, which schedules may be adjusted from time to time as necessary by the Operating Committee.

4.034 Each Sponsoring Company availing itself of Available Energy shall be entitled to an amount of energy (herein called billing kilowatt-hours of Available Energy) equal to its portion, determined as provided in this Section 4.03, of the total Available Energy after deducting therefrom such Sponsoring Company's proportionate share, as defined in this Section 4.03, of all losses as determined in accordance with the Tariff incurred in transmitting the total of such Available Energy from the 345-kV busses of the Project Generating Stations to the applicable delivery points, as scheduled pursuant to Section 9.01, of all Sponsoring Companies availing themselves of Available Energy. The proportionate share of all such losses that shall be so deducted from such Sponsoring Company's portion of Available Energy shall be equal to all such losses multiplied by the ratio of such portion of Available Energy to the total of such Available Energy. Each Sponsoring Company shall have the right, pursuant to this Section 4.03, to avail itself of Available Energy for the purpose of meeting the loads of its own system and/or of supplying energy to other systems in accordance with agreements, other than this Agreement, to which such Sponsoring Company is a party.

4.035 To the extent that, as a result of the failure by one or more Sponsoring Companies to take its respective Power Participation Ratio share of the applicable Total Minimum Generating Output during any hour, a Minimum Loading Event shall occur, then such one or more Sponsoring Companies shall be assessed charges for any Minimum Loading Event Costs in accordance with Section 5.05.

ARTICLE 5

CHARGES FOR AVAILABLE POWER AND MINIMUM LOADING EVENT COSTS

5.01. *Total Monthly Charge.* The amount to be paid to Corporation each month by the Sponsoring Companies for Available Power and Available Energy supplied under this

Agreement shall consist of the sum of an energy charge, a demand charge, and a transmission charge, all determined as set forth in this *Article 5*.

5.02. *Energy Charge*. The energy charge to be paid each month by the Sponsoring Companies for Available Energy shall be determined by Corporation as follows:

5.021 Determine the aggregate of all expenses for fuel incurred in the operation of the Project Generating Stations, in accordance with Account 501 (Fuel), Account 506.5 (Variable Reagent Costs Associated With Pollution Control Facilities) and 509 (Allowances) of the Uniform System of Accounts.

5.022 Determine for such month the difference between the total cost of fuel as described in subsection 5.021 above and the total cost of fuel included in any Minimum Loading Event Costs payable to the Corporation for such month pursuant to Section 8.03. For the purposes hereof the difference so determined shall be the fuel cost allocable for such month to the total kilowatt-hours of energy generated at the Project Generating Stations for the supply of Available Energy. For Available Energy availed of by the Sponsoring Companies, each Sponsoring Company shall pay Corporation for each such month an amount obtained by multiplying the ratio of the billing kilowatt-hours of such Available Energy availed of by such Sponsoring Company during such month to the aggregate of the billing kilowatt-hours of all Available Energy availed of by all Sponsoring Companies during such month times the total cost of fuel as described in this subsection 5.022 for such month.

5.03. *Demand Charge*. During the period commencing with the Effective Date and for the remainder of the term of this Agreement, demand charges payable by the Sponsoring Companies to Corporation shall be determined by the Corporation as provided below in this Section 5.03. Each Sponsoring Company's share of the aggregate demand charges shall be the percentage of such charges represented by its Power Participation Ratio.

The aggregate demand charge payable each month by the Sponsoring Companies to Corporation shall be equal to the total costs incurred for such month by Corporation resulting from its ownership, operation, and maintenance of the Project Generating Stations and Project Transmission Facilities determined as follows:

As soon as practicable after the close of each calendar month the following components of costs of Corporation (eliminating any duplication of costs which might otherwise be reflected among the corporate entities comprising Corporation) applicable for such month to the ownership, operation and maintenance of the Project Generating Stations and the Project Transmission Facilities, including additional facilities and/or spare parts (such as fuel processing plants, flue gas or waste product processing facilities, and facilities reasonably required to enable the Corporation to limit the emission of pollutants or the discharge of wastes in compliance with governmental requirements) and

replacements necessary or desirable to keep the Project Generating Stations and the Project Transmission Facilities in a dependable and efficient operating condition, and any provision for any taxes that may be applicable to such charges, to be determined and recorded in the following manner:

(a) Component (A) shall consist of fixed charges made up of (i) the amounts of interest properly chargeable to Accounts 427, 430 and 431, less the amount thereof credited to Account 432, of the Uniform System of Accounts, including the interest component of any purchase price, interest, rental or other payment under an installment sale, loan, lease or similar agreement relating to the purchase, lease or acquisition by Corporation of additional facilities and replacements (whether or not such interest or other amounts have come due or are actually payable during such Month), (ii) the amounts of amortization of debt discount or premium and expenses properly chargeable to Accounts 428 and 429, and (iii) an amount equal to the sum of (I) the applicable amount of the debt amortization component for such month required to retire the total amount of indebtedness of Corporation issued and outstanding, (II) the amortization requirement for such month in respect of indebtedness of Corporation incurred in respect of additional facilities and replacements, and (III) to the extent not provided for pursuant to clause (II) of this clause (iii), an appropriate allowance for depreciation of additional facilities and replacements.

(b) Component (B) shall consist of the total operating expenses for labor, maintenance, materials, supplies, services, insurance, administrative and general expense, etc., properly chargeable to the Operation and Maintenance Expense Accounts of the Uniform System of Accounts (exclusive of Accounts 501, 509, 555, 911, 912, 913, 916, and 917 of the Uniform System of Accounts), minus the total of all non-fuel costs included in any Minimum Loading Event Costs payable to the Corporation for such month pursuant to Section 8.03, minus the total of all transmission charges payable to the Corporation for such month pursuant to Section 5.04, and plus any additional amounts which, after provision for all income taxes on such amounts (which shall be included in Component (C) below), shall equal any amounts paid or payable by Corporation as fines or penalties with respect to occasions where it is asserted that Corporation failed to comply with a law or regulation relating to the emission of pollutants or the discharge of wastes.

(c) Component (C) shall consist of the total expenses for taxes, including all taxes on income but excluding any federal income taxes arising from payments to Corporation under Component (D) below, and all operating or other costs or expenses, net of income, not included or

specifically excluded in Components (A) or (B) above, including tax adjustments, regulatory adjustments, net losses for the disposition of property and other net costs or expenses associated with the operation of a utility.

(d) Component (D) shall consist of an amount equal to the product of \$2.089 multiplied by the total number of shares of capital stock of the par value of \$100 per share of Ohio Valley Electric Corporation which shall have been issued and which are outstanding on the last day of such month.

(e) Component (E) shall consist of an amount to be sufficient to pay the costs and other expenses relating to the establishment, maintenance and administration of life insurance, medical insurance and other postretirement benefits other than pensions attributable to the employment and employee service of active employees, retirees, or other employees, including without limitation any premiums due or expected to become due, as well as administrative fees and costs, such amounts being sufficient to provide payment with respect to all periods for which Corporation has committed or is otherwise obligated to make such payments, including amounts attributable to current employee service and any unamortized prior service cost, gain or loss attributable to prior service years ("Postretirement Benefit Obligation"); provided that, the amount payable for Postretirement Benefit Obligations during any month shall be determined by the Corporation based on, among other factors, the Statement of Financial Accounting Standards No. 106 (Employers' Accounting For Postretirement Benefits Other Than Pensions) and any applicable accounting standards, policies or practices as adopted from time to time relating to accruals with respect to all or any portion of such Postretirement Benefit Obligation.

(f) Component (F) shall consist of an amount that may be incurred in connection with the decommissioning, shutdown, demolition and closing of the Project Generating Stations when production of electric power and energy is discontinued at such Project Generating Stations, which amount shall include, without limitation the following costs (net of any salvage credits): the costs of demolishing the plants' building structures, disposal of non-salvageable materials, removal and disposal of insulating materials, removal and disposal of storage tanks and associated piping, disposal or removal of materials and supplies (including fuel oil and coal), grading, covering and reclaiming storage and disposal areas, disposing of ash in ash ponds to the extent required by regulatory authorities, undertaking corrective or remedial action required by regulatory authorities, and any other costs incurred in putting the facilities

in a condition necessary to protect health or the environment or which are required by regulatory authorities, or which are incurred to fund continuing obligations to monitor or to correct environmental problems which result, or are later discovered to result, from the facilities' operation, closure or post-closure activities ("Decommissioning and Demolition Obligation") provided that, the amount payable for Decommissioning and Demolition Obligations during any month shall be calculated by Corporation based on, among other factors, the then-estimated useful life of the Project Generating Stations and any applicable accounting standards, policies or practices as adopted from time to time relating to accruals with respect to all or any portion of such Decommissioning and Demolition Obligation, and provided further that the Corporation shall recalculate the amount payable under this Component (F) for future months from time to time, but in no event later than five (5) years after the most recent calculation.

5.04. *Transmission Charge.* The transmission charges to be paid each month by the Sponsoring Companies shall be equal to the total costs incurred for such month by Corporation for the purchase of transmission service, ancillary services and other transmission-related services under the Tariff as reserved and scheduled by the Corporation to provide for the delivery of Available Power and Available Energy to the applicable delivery point under this Agreement. Each Sponsoring Company's share of the aggregate transmission charges shall be the percentage of such charges represented by its Power Participation Ratio.

5.05. *Minimum Loading Event Costs.* To the extent that, as a result of the failure by one or more Sponsoring Companies to take its respective Power Participation Ratio share of the applicable Total Minimum Generating Output during any hour, a Minimum Loading Event shall occur, then the sum of all Minimum Loading Event Costs relating to such Minimum Loading Event shall be charged to such Sponsoring Company or group of Sponsoring Companies that failed take its respective Power Participation Ratio share of the applicable Total Minimum Generating Output during such period, with such Minimum Loading Event Costs allocated among such Sponsoring Companies on a pro-rata basis in accordance with such Sponsoring Company's MWh share of the MWh reduction in the delivery of Available Energy causing any Minimum Loading Event. The applicable charges for Minimum Loading Event Costs as determined by the corporation in accordance with Section 5.05 shall be paid each month by the applicable Sponsoring Companies.

ARTICLE 6

Metering of Energy Supplied

6.01. *Measuring Instruments.* The parties hereto shall own and maintain such metering equipment as may be necessary to provide complete information regarding the delivery of power and energy to or for the account of any of the parties hereto; and the ownership and

expense of such metering shall be in accordance with agreements among them. Each party will at its own expense make such periodic tests and inspections of its meters as may be necessary to maintain them at the highest practical commercial standard of accuracy and will advise all other interested parties hereto promptly of the results of any such test showing an inaccuracy of more than 1%. Each party will make additional tests of its meters at the request of any other interested party. Other interested parties shall be given notice of, and may have representatives present at, any test and inspection made by another party.

ARTICLE 7

COSTS OF REPLACEMENTS AND ADDITIONAL FACILITIES; PAYMENTS FOR EMPLOYEE BENEFITS; DECOMMISSIONING, SHUTDOWN, DEMOLITION AND CLOSING CHARGES

7.01. *Replacement Costs.* The Sponsoring Companies shall reimburse Corporation for the difference between (a) the total cost of replacements chargeable to property and plant made by Corporation during any month prior thereto (and not previously reimbursed) and (b) the amounts received by Corporation as proceeds of fire or other applicable insurance protection, or amounts recovered from third parties responsible for damages requiring replacement, plus provision for all taxes on income on such difference; provided that, to the extent that the Corporation arranges for the financing of any replacements, the payments due under this Section 7.01 shall equal the amount of all principal, interest, taxes and other costs and expenses related to such financing during any month. Each Sponsoring Company's share of such payment shall be the percentage of such costs represented by its Power Participation Ratio. The term cost of replacements, as used herein, shall include all components of cost, plus removal expense, less salvage.

7.02. *Additional Facility Costs.* The Sponsoring Companies shall reimburse Corporation for the total cost of additional facilities and/or spare parts purchased and/or installed by Corporation during any month prior thereto (and not previously reimbursed), plus provision for all taxes on income on such costs; provided that, to the extent that the Corporation arranges for the financing of any additional facilities and/or spare parts, the payments due under this Section 7.02 shall equal the amount of all principal, interest, taxes and other costs and expenses related to such financing during any month. Each Sponsoring Company's share of such payment shall be the percentage of such costs represented by its Power Participation Ratio.

7.03. *Payments for Employee Benefits.* Not later than the effective date of termination of this Agreement, each Sponsoring Company will pay to Corporation its Power Participation Ratio share of additional amounts, after provision for any taxes that may be applicable thereto, sufficient to cover any shortfall if the amount of the Postretirement Benefit Obligation collected by the Corporation prior to the effective date of termination of the Agreement is insufficient to permit Corporation to fulfill its commitments or obligations with respect to both postemployment benefit obligations under the Statement of Financial Accounting Standards No. 112 and postretirement benefits other than pensions, as determined by Corporation

with the aid of an actuary or actuaries selected by the Corporation based on the terms of the Corporation's then-applicable plans.

7.04. *Decommissioning, Shutdown, Demolition and Closing.* The Sponsoring Companies recognize that a part of the cost of supplying power to it under this Agreement is the amount that may be incurred in connection with the decommissioning, shutdown, demolition and closing of the Project Generating Stations when production of electric power and energy is discontinued at such Project Generating Stations. Not later than the effective date of termination of this Agreement, each Sponsoring Company will pay to Corporation its Power Participation Ratio share of additional amounts, after provision for any taxes that may be applicable thereto, sufficient to cover any shortfall if the amount of the Decommissioning and Demolition Obligation collected by the Corporation prior to the effective date of termination of the Agreement is insufficient to permit Corporation to complete the decommissioning, shutdown, demolition and closing of the Project Generating Stations, based on the Corporation's recalculation of the Decommissioning and Demolition Obligation in accordance with Section 5.03(f) of this Agreement no earlier than twelve (12) months before the effective date of termination of this Agreement.

ARTICLE 8

BILLING AND PAYMENT

8.01. *Available Power, and Replacement and Additional Facility Costs.* As soon as practicable after the end of each month Corporation shall render to each Sponsoring Company a statement of all Available Power and Available Energy supplied to or for the account of such Sponsoring Company during such month, specifying the amount due to the Corporation therefor, including any amounts for reimbursement for the cost of replacements and additional facilities and/or spare parts incurred during such month, pursuant to *Articles 5 and 7* above. Such Sponsoring Company shall make payment therefor promptly upon the receipt of such statement, but in no event later than fifteen (15) days after the date of receipt of such statement. In case any factor entering into the computation of the amount due for Available Power and Available Energy cannot be determined at the time, it shall be estimated subject to adjustment when the actual determination can be made.

8.02. *Provisional Payments for Available Power.* The Sponsoring Companies shall, from time to time, at the request of the Corporation, make provisional semi-monthly payments for Available Power in amounts approximately equal to the estimated amounts payable for Available Power delivered by Corporation to the Sponsoring Companies during each semi-monthly period. As soon as practicable after the end of each semi-monthly period with respect to which Corporation has requested the Sponsoring Companies to make provisional semi-monthly payments for Available Power, Corporation shall render to each Sponsoring Company a separate statement indicating the amount payable by such Sponsoring Company for such semi-monthly period. Such Sponsoring Company shall make payment therefor promptly upon receipt of such statement, but in no event later than fifteen (15) days after the date of receipt of such

statement and the amounts so paid by such Sponsoring Company shall be credited to the account of such Sponsoring Company with respect to future payments to be made pursuant to *Articles 5 and 7* above by such Sponsoring Company to Corporation for Available Power.

8.03. *Minimum Loading Event Costs.* As soon as practicable after the end of each month, Corporation shall render to each Sponsoring Company a statement indicating any applicable charges for Minimum Loading Event Costs pursuant to Section 5.05 during such month, specifying the amount due to the Corporation therefor pursuant to *Article 5* above. Such Sponsoring Company shall make payment therefor promptly upon the receipt of such statement, but in no event later than fifteen (15) days after the date of receipt of such statement. In case the computation of the amount due for Minimum Loading Event Costs cannot be determined at the time, it shall be estimated subject to adjustment when the actual determination can be made, and all payments shall be subject to subsequent adjustment.

8.04. *Unconditional Obligation to Pay Demand and Other Charges.* The obligation of each Sponsoring Company to pay its specified portion of the Demand Charge under Section 5.03, the Transmission Charge under Section 5.04, and all charges under *Article 7* for any Month shall not be reduced irrespective of:

- (a) whether or not any Available Power or Available Energy are supplied by the Corporation during such calendar month and whether or not any Available Power or Available Energy are accepted by any Sponsoring Company during such calendar month;
- (b) the existence of any claim, set-off, defense, reduction, abatement or other right (other than irrevocable payment, performance, satisfaction or discharge in full) that such Sponsoring Company may have, or which may at any time be available to or be asserted by such Sponsoring Company, against the Corporation, any other Sponsoring Company, any creditor of the Corporation or any other Person (including, without limitation, arising as a result of any breach or alleged breach by either the Corporation, any other Sponsoring Company, any creditor of the Corporation or any other Person under this Agreement or any other agreement (whether or not related to the transactions contemplated by this Agreement or any other agreement) to which such party is a party); or
- (c) the validity or enforceability against any other Sponsoring Company of this Agreement or any right or obligation hereunder (or any release or discharge thereof) at any time.

ARTICLE 9

GENERAL PROVISIONS

9.01. *Characteristics of Supply and Points of Delivery.* All power and energy delivered hereunder shall be 3-phase, 60-cycle, alternating current, at a nominal unregulated voltage designated for the point of delivery as described in this Article 9. Available Power and Available Energy to be delivered between Corporation and the Sponsoring Companies pursuant to this Agreement shall be delivered under the terms and conditions of the Tariff at the points, as scheduled by the Sponsoring Company in accordance with procedures established by the Operating Committee and in accordance with Section 9.02, where the transmission facilities of Corporation interconnect with the transmission facilities of any Sponsoring Company (or its successor or predecessor); provided that, to the extent that a joint and common market is established for the sale of power and energy by Sponsoring Companies within one or more of the regional transmission organizations or independent system operators approved by the Federal Energy Regulatory Commission in which the Sponsoring Companies are members or otherwise participate, then Corporation and the Sponsoring Companies shall take such action as reasonably necessary to permit the Sponsoring Companies to bid their entitlement to power and energy from Corporation into such market(s) in accordance with the procedures established for such market(s).

9.02. *Modification of Delivery Schedules Based on Available Transmission Capability.* To the extent that transmission capability available for the delivery of Available Power and Available Energy at any delivery point is less than the total amount of Available Power and Available Energy scheduled for delivery by the Sponsoring Companies at such delivery point in accordance with Section 9.01, then the following procedures shall apply and the Corporation and the applicable Sponsoring Companies shall modify their delivery schedules accordingly until the total amount of Available Power and Available Energy scheduled for delivery at such delivery point is equal to or less than the transmission capability available for the delivery of Available Power and Available Energy: (a) the transmission capability available for the delivery of Available Power and Available Energy at the following delivery points shall be allocated first on a pro rata basis (in whole MW increments) to the following Sponsoring Companies up to their Power Participation Ratio share of the total amount of Available Energy available to all Sponsoring Companies (and as applicable, further allocated among Sponsoring Companies entitled to allocation under this Section 9.02(a) in accordance with their Power Participation Ratios): (i) to Allegheny, Appalachian, Buckeye, Columbus, FirstEnergy, Indiana, Monongahela, Ohio Power and Peninsula (or their successors) for deliveries at the points of interconnection between the Corporation and Appalachian, Columbus, Indiana or Ohio Power, or their successors; (ii) to Duke Ohio (or its successor) for deliveries at the points of interconnection between the Corporation and Duke Ohio or its successor; (iii) to Dayton (or its successor) for deliveries at the points of interconnection between the Corporation and Dayton or its successor; and (iv) to Kentucky, Louisville and Southern Indiana (or their successors) for deliveries at the points of interconnection between the Corporation and Louisville or Kentucky, or their successors; and (b) any remaining transmission capability available for the delivery of

Available Power and Available Energy shall be allocated on a pro rata basis (in whole MW increments) to the Sponsoring Companies in accordance with their Power Participation Ratios.

9.03. *Operation and Maintenance of Systems Involved.* Corporation and the Sponsoring Companies shall operate their systems in parallel, directly or indirectly, except during emergencies that temporarily preclude parallel operation. The parties hereto agree to coordinate their operations to assure maximum continuity of service from the Project Generating Stations, and with relation thereto shall cooperate with one another in the establishment of schedules for maintenance and operation of equipment and shall cooperate in the coordination of relay protection, frequency control, and communication and telemetering systems. The parties shall build, maintain and operate their respective systems in such a manner as to minimize so far as practicable rapid fluctuations in energy flow among the systems. The parties shall cooperate with one another in the operation of reactive capacity so as to assure mutually satisfactory power factor conditions among themselves.

The parties hereto shall exercise due diligence and foresight in carrying out all matters related to the providing and operating of their respective power resources so as to minimize to the extent practicable deviations between actual and scheduled deliveries of power and energy among their systems. The parties hereto shall provide and/or install on their respective systems such communication, telemetering, frequency and/or tie-line control facilities essential to so minimizing such deviations; and shall fully cooperate with one another and with third parties (such third parties whose systems are either directly or indirectly interconnected with the systems of the Sponsoring Companies and who of necessity together with the parties hereto must unify their efforts cooperatively to achieve effective and efficient interconnected systems operation) in developing and executing operating procedures that will enable the parties hereto to avoid to the extent practicable deviations from scheduled deliveries.

In order to foster coordination of the operation and maintenance of Corporation's transmission facilities with those facilities of Sponsoring Companies that are owned or functionally controlled by a regional transmission organization or independent system operator, Corporation shall use commercially reasonable efforts to enter into a coordination agreement with any regional transmission organization or independent system operator approved by the Federal Energy Regulatory Commission that operates transmission facilities that interconnect with Corporation's transmission facilities, and to enter into a mutually agreeable services agreement with a regional transmission organization or independent system operator to provide the Corporation with reliability and security coordination services and other related services.

9.04. *Power Deliveries as Affected by Physical Characteristics of Systems.* It is recognized that the physical and electrical characteristics of the transmission facilities of the interconnected network of which the transmission systems of the Sponsoring Companies, Corporation, and other systems of third parties not parties hereto are a part, may at times preclude the direct delivery at the points of interconnection between the transmission systems of one or more of the Sponsoring Companies and Corporation, of some portion of the energy supplied under this Agreement, and that in each such case, because of said characteristics, some

of the energy will be delivered at points which interconnect the system of one or more of the Sponsoring Companies with systems of companies not parties to this Agreement. The parties hereto shall cooperate in the development of mutually satisfactory arrangements among themselves and with such companies not parties hereto whereby the supply of power and energy contemplated hereunder can be fulfilled.

9.05. *Operating Committee.* There shall be an "Operating Committee" consisting of one member appointed by the Corporation and one member appointed by each of the Sponsoring Companies electing so to do; provided that, if any two or more Sponsoring Companies are Affiliates, then such Affiliates shall together be entitled to appoint only one member to the Operating Committee. The "Operating Committee" shall establish (and modify as necessary) scheduling, operating, testing and maintenance procedures of the Corporation in support of this Agreement, including establishing: (i) procedures for scheduling delivery of Available Energy under Section 4.03, (ii) procedures for power and energy accounting, (iii) procedures for the reservation and scheduling of firm and non-firm transmission service under the Tariff for the delivery of Available Power and Available Energy, (iv) the Minimum Generating Unit Output, and (v) the form of notifications relating to power and energy and the price thereof. In addition, the Operating Committee shall consider and make recommendations to Corporation's Board of Directors with respect to such other problems as may arise affecting the transactions under this Agreement. The decisions of the Operating Committee, including the adoption or modification of any procedure by the Operating Committee pursuant to this Section 9.04, must receive the affirmative vote of at least two-thirds of the members of the Operating Committee, regardless of the number of members of the Operating Committee present at any meeting.

9.06. *Acknowledgment of Certain Rights.* For the avoidance of doubt, all of the parties to this Agreement acknowledge and agree that (i) as of the effective date of the Current Agreement, certain rights and obligations of the Sponsoring Companies or their predecessors under the Original Agreement were changed, modified or otherwise removed, (ii) to the extent that the rights of any Sponsoring Company or their predecessors were thereby changed, modified or otherwise removed as of the effective date of the Current Agreement, such Sponsoring Company may be entitled to rights under applicable law, regulation, rules or orders under the Federal Power Act or otherwise adopted by the Federal Energy Regulatory Commission ("FERC"), (iii) as a result of the elimination as of the effective date of the Current Agreement of the firm transmission service previously provided during the term of the Original Agreement to Sponsoring Companies or their predecessors whose transmission systems were only indirectly connected to the Corporation's facilities through intervening transmission systems by certain Sponsoring Companies or their predecessors whose transmission systems were directly connected to the Corporation's facilities, such Sponsoring Companies or their predecessors whose transmission systems were only indirectly connected to the Corporation's facilities through intervening transmission systems shall have been entitled to such "roll over" firm transmission service for delivery of their entitlement to their Power Participation Ratio share of Surplus Power and Surplus Energy under this Agreement, to the border of such Sponsoring Company system and intervening Sponsoring Company system, as would be accorded a long-

term firm point-to-point transmission service reservation under the then otherwise applicable FERC Open Access Transmission Tariff ("OATT"), (iv) the obligation of any Sponsoring Company to maintain or expand transmission capacity to accommodate another Sponsoring Company's "roll over" rights to transmission service for delivery of their entitlement to their Power Participation Ratio share of Surplus Power and Surplus Energy under this Agreement shall be consistent with the obligations it would have for long-term firm point-to-point transmission service provided pursuant to the then otherwise applicable OATT, and (v) the parties shall cooperate with any Sponsoring Company that seeks to obtain and/or exercise any such rights available under applicable law, regulation, rules or orders under the Federal Power Act or otherwise adopted by the FERC.

9.07. *Term of Agreement.* This Agreement shall become effective upon the Effective Date and shall terminate upon the earlier of: (1) June 30, 2040 or (2) the sale or other disposition of all of the facilities of the Project Generating Stations or the permanent cessation of operation of such facilities; provided that, the provisions of *Articles 5, 7 and 8*, this Section 9.07 and Sections 9.08, 9.09, 9.10, 9.11, 9.12, 9.14, 9.15, 9.16, 9.17 and 9.18 shall survive the termination of this Agreement, and no termination of this Agreement, for whatever reason, shall release any Sponsoring Company of any obligations or liabilities incurred prior to such termination.

9.08. *Access to Records.* Corporation shall, at all reasonable times, upon the request of any Sponsoring Company, grant to its representatives reasonable access to the books, records and accounts of the Corporation, and furnish such Sponsoring Company such information as it may reasonably request, to enable it to determine the accuracy and reasonableness of payments made for energy supplied under this Agreement.

9.09. *Modification of Agreement.* Absent the agreement of all parties to this Agreement, the standard for changes to provisions of this Agreement related to rates proposed by a party, a non-party or the Federal Energy Regulatory Commission (or a successor agency) acting sua sponte shall be the "public interest" standard of review set forth in *United Gas Pipeline Co. v. Mobile Gas Serv. Corp.*, 350 U.S. 332 (1956) and *Federal Power Comm'n v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956).

9.10. *Arbitration.* Any controversy, dispute or claim arising out of this Agreement or the refusal by any party hereto to perform the whole or any part thereof, shall be determined by arbitration, in the City of Columbus, Franklin County, Ohio, in accordance with the Commercial Arbitration Rules of the American Arbitration Association or any successor organization, except as otherwise set forth in this Section 9.10.

The party demanding arbitration shall serve notice in writing upon all other parties hereto, setting forth in detail the controversy, dispute or claim with respect to which arbitration is demanded, and the parties shall thereupon endeavor to agree upon an arbitration board, which shall consist of three members ("Arbitration Board"). If all the parties hereto fail so to agree within a period of thirty (30) days from the original notice, the party demanding

arbitration may, by written notice to all other parties hereto, direct that any members of the Arbitration Board that have not been agreed to by the parties shall be selected by the American Arbitration Association, or any successor organization. No person shall be eligible for appointment to the Arbitration Board who is an officer, employee, shareholder of or otherwise interested in any of the parties hereto or in the matter sought to be arbitrated.

The Arbitration Board shall afford adequate opportunity to all parties hereto to present information with respect to the controversy, dispute or claim submitted to arbitration and may request further information from any party hereto; provided, however, that the parties hereto may, by mutual agreement, specify the rules which are to govern any proceeding before the Arbitration Board and limit the matters to be considered by the Arbitration Board, in which event the Arbitration Board shall be governed by the terms and conditions of such agreement.

The determination or award of the Arbitration Board shall be made upon a determination of a majority of the members thereof. The findings and award of the Arbitration Board shall be final and conclusive with respect to the controversy, dispute or claim submitted for arbitration and shall be binding upon the parties hereto, except as otherwise provided by law. The award of the Arbitration Board shall specify the manner and extent of the division of the costs of the arbitration proceeding among the parties hereto.

9.11. *Liability.* The rights and obligations of all the parties hereto shall be several and not joint or joint and several.

9.12. *Force Majeure.* No party hereto shall be held responsible or liable for any loss or damage on account of non-delivery of energy hereunder at any time caused by an event of Force Majeure. "Force Majeure" shall mean the occurrence or non-occurrence of any act or event that could not reasonably have been expected and avoided by exercise of due diligence and foresight and such act or event is beyond the reasonable control of such party, including to the extent caused by act of God, fire, flood, explosion, strike, civil or military authority, insurrection or riot, act of the elements, or failure of equipment. For the avoidance of doubt, "Force Majeure" shall in no event be based on any Sponsoring Company's financial or economic conditions, including without limitation (i) the loss of the Sponsoring Company's markets; or (ii) the Sponsoring Company's inability economically to use or resell the Available Power or Available Energy purchased hereunder.

9.13. *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of Ohio.

9.14. *Regulatory Approvals.* This Agreement is made subject to the jurisdiction of any governmental authority or authorities having jurisdiction in the premises and the performance thereof shall be subject to the following:

- (a) The receipt of all regulatory approvals, in form and substance satisfactory to Corporation, necessary to permit Corporation to perform all the duties and obligations to be performed by Corporation hereunder.

(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 (10th) 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.

ARTICLE 10

REPRESENTATIONS AND WARRANTIES

10.01. *Representations and Warranties.* Each Sponsoring Company hereby represents and warrants for itself, on and as of the date of this Agreement, as follows:

(a) it is duly organized, validly existing and in good standing under the laws of its state of organization, with full corporate power, authority and legal right to execute and deliver this Agreement and to perform its obligations hereunder;

(b) it has duly authorized, executed and delivered this Agreement, and upon the execution and delivery by all of the parties hereto, this Agreement will be in full force and effect, and will constitute a legal, valid and binding obligation of such Sponsoring Company, enforceable in accordance with the terms hereof, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally;

(c) Except as set forth in Schedule 10.01(c) hereto, no consents or approvals of, or filings or registrations with, any governmental authority or public regulatory authority or agency, federal state or local, or any other entity or person are required in connection with the execution, delivery and performance by it of this Agreement, except for those which have been duly obtained or made and are in full force and effect, have not been revoked, and are not the subject of a pending appeal; and

(d) the execution, delivery and performance by it of this Agreement will not conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default under its charter or by-laws or any indenture or other material agreement or instrument to which it is a party or by which it may be bound or result in the imposition of any liens, claims or encumbrances on any of its property.

ARTICLE 11

EVENTS OF DEFAULT AND REMEDIES

11.01. *Payment Default.* If any Sponsoring Company fails to make full payment to Corporation under this Agreement when due and such failure is not remedied within ten (10) days after receipt of notice of such failure from the Corporation, then such failure shall constitute a "Payment Default" on the part of such Sponsoring Company. Upon a Payment Default, the

Corporation may suspend service to the Sponsoring Company that has caused such Payment Default for all or part of the period of continuing default (and such Sponsoring Company shall be deemed to have notified the Corporation and the other Sponsoring Companies that any Available Energy shall be available for scheduling by such other Sponsoring Companies in accordance with Section 4.032). The Corporation's right to suspend service shall not be exclusive, but shall be in addition to all remedies available to the Corporation at law or in equity. No suspension of service or termination of this Agreement shall relieve any Sponsoring Company of its obligations under this Agreement, which are absolute and unconditional.

11.02. *Performance Default.* If the Corporation or any Sponsoring Company fails to comply in any material respect with any of the material terms, conditions and covenants of this Agreement (and such failure does not constitute a Payment Default under Section 11.01), the Corporation (in the case of a default by any Sponsoring Company) and any Sponsoring Company (in the case of a default by the Corporation) shall give the defaulting party written notice of the default ("Performance Default"). To the extent that a Performance Default is not cured within thirty (30) days after receipt of notice thereof (or within such longer period of time, not to exceed sixty (60) additional days, as necessary for the defaulting party with the exercise of reasonable diligence to cure such default), then the Corporation (in the case of a default by any Sponsoring Company) and any Sponsoring Company (in the case of a default by the Corporation) shall have all of the rights and remedies provided at law and in equity, other than termination of this Agreement or any release of the obligation of the Sponsoring Companies to make payments pursuant to this Agreement, which obligation shall remain absolute and unconditional.

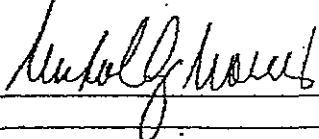
11.03. *Waiver.* No waiver by the Corporation or any Sponsoring Company of any one or more defaults in the performance of any provision of this Agreement shall be construed as a waiver of any other default or defaults, whether of a like kind or different nature.

11.04. *Limitation of Liability and Damages.* TO THE FULLEST EXTENT PERMITTED BY LAW, NEITHER THE CORPORATION, NOR ANY SPONSORING COMPANY SHALL BE LIABLE UNDER THIS AGREEMENT FOR ANY CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST REVENUES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, OR OTHERWISE.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Inter-Company Power Agreement to be duly executed and delivered by their proper and duly authorized officers as of September 10, 2010.

**OHIO VALLEY ELECTRIC
CORPORATION**

By 
Its _____

**ALLEGHENY ENERGY SUPPLY
COMPANY, L.L.C.**

By _____
Its _____

APPALACHIAN POWER COMPANY

By _____
Its _____

**BUCKEYE POWER GENERATING,
LLC**

By _____
Its _____

**COLUMBUS SOUTHERN POWER
COMPANY**

By _____
Its _____

**THE DAYTON POWER AND
LIGHT COMPANY**

By _____
Its _____

DUKE ENERGY OHIO, INC.

By _____
Its _____

**FIRSTENERGY GENERATION
CORP.**

By _____
Its _____

**INDIANA MICHIGAN POWER
COMPANY**

By _____
Its _____

**KENTUCKY UTILITIES
COMPANY**

By _____
Its _____

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**OHIO VALLEY ELECTRIC
CORPORATION**

By _____
Its _____

**ALLEGHENY ENERGY SUPPLY
COMPANY, L.L.C.**

By _____
Its _____

APPALACHIAN POWER COMPANY

By 
Its _____

**BUCKEYE POWER GENERATING,
LLC**

By _____
Its _____

**COLUMBUS SOUTHERN POWER
COMPANY**

By _____
Its _____

**THE DAYTON POWER AND
LIGHT COMPANY**

By _____
Its _____

DUKE ENERGY OHIO, INC.

By _____
Its _____

**FIRSTENERGY GENERATION
CORP.**

By _____
Its _____

**INDIANA MICHIGAN POWER
COMPANY**

By _____
Its _____

**KENTUCKY UTILITIES
COMPANY**

By _____
Its _____

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**OHIO VALLEY ELECTRIC
CORPORATION**

By _____
Its _____

**ALLEGHENY ENERGY SUPPLY
COMPANY, L.L.C.**

By _____
Its _____

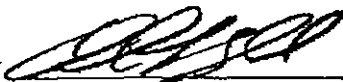
APPALACHIAN POWER COMPANY

By _____
Its _____

**BUCKEYE POWER GENERATING,
LLC**

By _____
Its _____

**COLUMBUS SOUTHERN POWER
COMPANY**

By 
Its _____

**THE DAYTON POWER AND
LIGHT COMPANY**

By _____
Its _____

DUKE ENERGY OHIO, INC.

By _____
Its _____

**FIRSTENERGY GENERATION
CORP.**

By _____
Its _____

**INDIANA MICHIGAN POWER
COMPANY**

By _____
Its _____

**KENTUCKY UTILITIES
COMPANY**

By _____
Its _____

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Inter-Company Power Agreement to be duly executed and delivered by their proper and duly authorized officers as of September 10, 2010.

**OHIO VALLEY ELECTRIC
CORPORATION**

By _____
Its _____

**ALLEGHENY ENERGY SUPPLY
COMPANY, L.L.C.**

By _____
Its _____

APPALACHIAN POWER COMPANY

By _____
Its _____

**BUCKEYE POWER GENERATING,
LLC**

By _____
Its _____

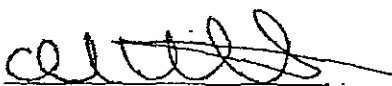
**COLUMBUS SOUTHERN POWER
COMPANY**

By _____
Its _____

**THE DAYTON POWER AND
LIGHT COMPANY**

By _____
Its _____

DUKE ENERGY OHIO, INC.

By 
Its VICE PRESIDENT

**FIRSTENERGY GENERATION
CORP.**

By _____
Its _____

**INDIANA MICHIGAN POWER
COMPANY**

By _____
Its _____

**KENTUCKY UTILITIES
COMPANY**

By _____
Its _____

Amended and Restated Inter-Company Power Agreement
S-1

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OHIO VALLEY ELECTRIC
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COMPANY, LLC

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Its _____

BUCKEYE POWER GENERATING,
LLC

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Its _____

COLUMBUS SOUTHERN POWER
COMPANY

By _____
Its _____

THE DAYTON POWER AND
LIGHT COMPANY

By _____
Its _____

DUKE ENERGY OHIO, INC.

By _____
Its _____

FIRSTENERGY GENERATION
CORP.

By _____
Its _____

INDIANA MICHIGAN POWER
COMPANY

By *Mark G. Lewis*
Its *Vice President*

KENTUCKY UTILITIES
COMPANY

By _____
Its _____

Amended and Restated Inter-Company Power Agreement
S-1

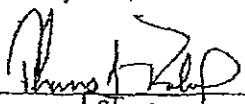
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IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Inter-Company Power Agreement to be duly executed and delivered by their proper and duly authorized officers as of September 10, 2010.

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Its _____

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COMPANY, L.L.C.**

By 
Its VICE PRESIDENT

APPALACHIAN POWER COMPANY

By _____
Its _____

**BUCKEYE POWER GENERATING,
LLC**

By _____
Its _____

**COLUMBUS SOUTHERN POWER
COMPANY**

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Its _____

**THE DAYTON POWER AND
LIGHT COMPANY**

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Its _____

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Its _____

**FIRSTENERGY GENERATION
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Its _____

**KENTUCKY UTILITIES
COMPANY**

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Its _____

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CORPORATION

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Its _____

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COLUMBUS SOUTHERN POWER
COMPANY

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Its _____

DUKE ENERGY OHIO, INC.

By _____
Its _____

INDIANA MICHIGAN POWER
COMPANY

By _____
Its _____

ALLEGHENY ENERGY SUPPLY
COMPANY, L.L.C.

By _____
Its _____

BUCKEYE POWER GENERATING,
LLC

By 
Its President & CEO

THE DAYTON POWER AND
LIGHT COMPANY

By _____
Its _____

FIRSTENERGY GENERATION
CORP.

By _____
Its _____

KENTUCKY UTILITIES
COMPANY

By _____
Its _____

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Its _____

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COMPANY, L.L.C.**

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Its _____

APPALACHIAN POWER COMPANY

By _____
Its _____

**BUCKEYE POWER GENERATING,
LLC**

By _____
Its _____

**COLUMBUS SOUTHERN POWER
COMPANY**

By _____
Its _____

**THE DAYTON POWER AND
LIGHT COMPANY**

By *Gary Stephenson*
Its *EXECUTIVE VICE PRESIDENT*
Gary Stephenson

DUKE ENERGY OHIO, INC.

By _____
Its _____

**FIRSTENERGY GENERATION
CORP.**

By _____
Its _____

**INDIANA MICHIGAN POWER
COMPANY**

By _____
Its _____

**KENTUCKY UTILITIES
COMPANY**

By _____
Its _____

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OHIO VALLEY ELECTRIC
CORPORATION

ALLEGHENY ENERGY SUPPLY
COMPANY, L.L.C.

By _____
Its _____

By _____
Its _____

APPALACHIAN POWER COMPANY.

BUCKEYE POWER GENERATING,
LLC

By _____
Its _____

By _____
Its _____

COLUMBUS SOUTHERN POWER
COMPANY

THE DAYTON POWER AND
LIGHT COMPANY

By _____
Its _____

By _____
Its _____

DUKE ENERGY OHIO, INC.

FIRSTENERGY GENERATION
CORP.

By _____
Its _____

By Mary R. Lerdahl
Its President

INDIANA MICHIGAN POWER
COMPANY

KENTUCKY UTILITIES
COMPANY

By _____
Its _____

By _____
Its _____

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Inter-Company Power Agreement to be duly executed and delivered by their proper and duly authorized officers as of September 10, 2010.

OHIO VALLEY ELECTRIC
CORPORATION

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Its _____

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COMPANY, L.L.C.

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Its _____

APPALACHIAN POWER COMPANY

By _____
Its _____

BUCKEYE POWER GENERATING,
LLC

By _____
Its _____

COLUMBUS SOUTHERN POWER
COMPANY

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Its _____

THE DAYTON POWER AND
LIGHT COMPANY

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Its _____

DUKE ENERGY OHIO, INC.

By _____
Its _____

FIRSTENERGY GENERATION
CORP.

By _____
Its _____

INDIANA MICHIGAN POWER
COMPANY

By _____
Its _____

KENTUCKY UTILITIES
COMPANY

By *[Signature]*
Its *Sr. Vice President*

LOUISVILLE GAS AND ELECTRIC
COMPANY

By *John N. V. Jr.*
Its *VP Trans & Generation*
Services

MONONGAHELA POWER
COMPANY

By _____
Its _____

OHIO POWER COMPANY

By _____
Its _____

SOUTHERN INDIANA GAS AND
ELECTRIC COMPANY

By _____
Its _____

LOUISVILLE GAS AND ELECTRIC
COMPANY

By _____
Its _____

MONONGAHELA POWER
COMPANY

By _____
Its _____

OHIO POWER COMPANY

By  _____
Its _____

SOUTHERN INDIANA GAS AND
ELECTRIC COMPANY

By _____
Its _____

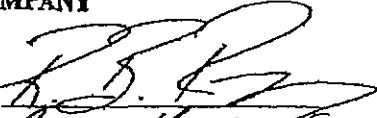
Amended and Restated Inter-Company Power Agreement

S-2

LOUISVILLE GAS AND ELECTRIC
COMPANY

By _____
Its _____

MONONGABELA POWER
COMPANY

By 
Its General Manager, Electric Supply

OHIO POWER COMPANY

By _____
Its _____

SOUTHERN INDIANA GAS AND
ELECTRIC COMPANY

By _____
Its _____

LOUISVILLE GAS AND ELECTRIC
COMPANY

By _____
Its _____

MONONGAHELA POWER
COMPANY

By _____
Its _____

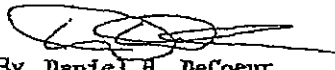
OHIO POWER COMPANY

By _____
Its _____

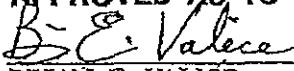
SOUTHERN INDIANA GAS AND
ELECTRIC COMPANY

By Ronald E. Christen
Its President

PENINSULA GENERATION COOPERATIVE


By Daniel H. DeCoeur
Its President

APPROVED AS TO FORM:


BRIAN E. VALICE
ATTORNEY FOR PENINSULA
GENERATION COOPERATIVE

SCHEDULE 10.01(c)

Allegheny Energy Supply Company, L.L.C.

and

Monongahela Power Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

SCHEDULE 10.01(c)

Appalachian Power Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

Approval of the Virginia State Corporation Commission .

Filing with the Public Service Commission of West Virginia

SCHEDULE 10.01(c)

Buckeye Power Generating, LLC

None

SCHEDULE 10.01(c)

Columbus Southern Power Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

SCHEDULE 10.01(c)

The Dayton Power and Light Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

SCHEDULE 10.01(c)

Duke Energy Ohio, Inc.

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

SCHEDULE 10.01(c)

FirstEnergy Generation Corp.

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

SCHEDULE 10.01(c)

Indiana Michigan Power Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

Filing with the Indiana Utility Regulatory Commission

SCHEDULE 10.01(c)

Kentucky Utilities Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

Consent or approval of, or filings or registrations with, the Kentucky Public Service Commission
may be required

SCHEDULE 10.01(c)

Louisville Gas and Electric Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

Consent or approval of, or filings or registrations with, the Kentucky Public Service Commission
may be required

SCHEDULE 10.01(c)

Ohio Power Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission

SCHEDULE 10.01(c)

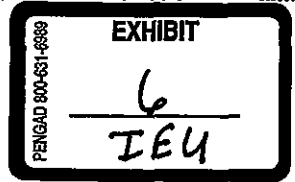
Peninsula Generation Cooperative

None

SCHEDULE 18.01(c)

Southern Indiana Gas and Electric Company

Filing with, or consent or approval of, the Federal Energy Regulatory Commission



ANNUAL REPORT — 2012

OHIO VALLEY ELECTRIC CORPORATION

and subsidiary

INDIANA-KENTUCKY ELECTRIC CORPORATION

Ohio Valley Electric Corporation

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

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

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

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

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

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

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

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

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

Some of the Common Stock issued in the name of

*American Gas & Electric Company

**Columbus and Southern Ohio Electric Company

Subsidiary or affiliate of:

¹FirstEnergy Corp.

²Buckeye Power, Inc.

³The AES Corporation

⁴Duke Energy Corporation

⁵PPL Corporation

⁶American Electric Power Company, Inc.

⁷Wolverine Power Supply Cooperative, Inc.

⁸Vectren Corporation

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

A Message from the President

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

FLUE GAS DESULFURIZATION (FGD) PROJECTS

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

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

ENERGY SALES

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

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

POWER COSTS

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

2013 ENERGY SALES OUTLOOK

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

COST CONTROL INITIATIVES

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

AVAILABILITY

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

OVEC FERC ORDER 1000 COMPLIANCE

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

DOE ARRANGEMENTS WITH OVEC

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

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

ENVIRONMENTAL COMPLIANCE

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

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

SAFETY

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

BOARD OF DIRECTORS AND OFFICERS CHANGES

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

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



Nicholas K. Akins
President

June 24, 2013

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

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

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011

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

See notes to consolidated financial statements.

(Concluded)

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

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

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

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

	2012	2011
OPERATING ACTIVITIES:		
Net income	\$ 2,256,690	\$ 2,670,104
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	85,140,820	56,131,434
Amortization of debt expense	4,606,617	1,478,943
Deferred taxes/refundable taxes	2,908,239	(1,236,767)
(Gain) on marketable securities	(6,345,075)	(5,844,074)
Changes in assets and liabilities:		
Accounts receivable	3,948,625	3,517,008
Fuel in storage	(7,853,097)	(8,859,671)
Materials and supplies	341,497	(4,853,014)
Property taxes applicable to future years	18,480	(19,920)
Emission allowances	(58,130)	612,810
Income taxes receivable	(14,391,215)	12,430,808
Prepaid expenses and other	(260,491)	496,868
Other regulatory assets	11,638,471	(43,323,464)
Other assets	-	(117,906)
Other noncurrent assets	119,375	(222,242)
Accounts payable	2,571,729	13,822,449
Deferred revenue - advances for construction	(11,694,904)	16,858,709
Accrued taxes	(160,864)	299,402
Accrued interest and other	2,912,675	235,410
Other liabilities	(13,943,822)	61,025,439
Other regulatory liabilities	5,248,035	(8,904,125)
Net cash provided by operating activities	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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

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

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

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

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

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

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

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

2. RELATED-PARTY TRANSACTIONS

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

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

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

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

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

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

3. COAL SUPPLY

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

4. ELECTRIC PLANT

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

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

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

5. BORROWING ARRANGEMENTS AND NOTES

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

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

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

6. LONG-TERM DEBT

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

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

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

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

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

7. INCOME TAXES

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

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

Components of the income tax provision were as follows:

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

	2012	2011
Deferred tax assets:		
Deferred revenue — advances for construction	\$ 6,789,730	\$ 10,967,289
AMT credit carryforwards	2,574,572	2,574,572
Federal net operating loss	9,392,878	-
Postretirement benefit obligation	28,748,763	27,328,379
Pension liability	9,207,805	16,511,400
Postemployment benefit obligation	875,010	851,254
Asset retirement obligations	7,340,209	6,989,207
Miscellaneous accruals	2,742,592	2,833,433
Regulatory liability — investment tax credits	1,188,204	1,197,184
Regulatory liability — net antitrust settlement	638,700	643,527
Regulatory liability — asset retirement costs	4,983,191	3,743,665
Regulatory liability — income taxes refundable to customers	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.

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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.

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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.

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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:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. FAIR VALUE MEASUREMENTS

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

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

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

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2012			
Equity mutual funds	\$21,192,480	\$ -	\$ -
Fixed income municipal securities	-	96,088,024	-
Cash and cash equivalents	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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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

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

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

11. LEASES

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

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

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

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

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

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

12. COMMITMENTS AND CONTINGENCIES

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ohio Valley Electric Corporation:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

DELOITTE & TOUCHE LLP

DeLoitte & Touche LLP

April 10, 2013

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

OVEC PERFORMANCE—A 5-YEAR COMPARISON

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

DIRECTORS

Ohio Valley Electric Corporation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Indiana-Kentucky Electric Corporation

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

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

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

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

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

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

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

OFFICERS—OVEC AND IKEC

NICHOLAS K. AKINS
President

MARK A. PEIFER
Vice President and
Chief Operating Officer

DAVID E. JONES
Vice President-Operations

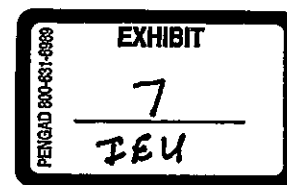
JOHN D. BRODT
Chief Financial Officer,
Secretary and Treasurer

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

JULIE SLOAT
Assistant Secretary and
Assistant Treasurer

¹Member of Executive Committee.

²Member of Human Resources Committee.



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
	<u>100.00</u>

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

Allegheny Energy Supply Company LLC ¹	3.01
Appalachian Power Company ⁶	15.69
Buckeye Power Generating, LLC ²	18.00
The Dayton Power and Light Company ³	4.90
Duke Energy Ohio, Inc. ⁴	9.00
FirstEnergy 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
	<u>100.00</u>

Some of the Common Stock issued in the name of:

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

Subsidiary or affiliate of:

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

A Message from the President

Ohio Valley Electric Corporation and its subsidiary, Indiana-Kentucky Electric Corporation, 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

	2013	2012
ASSETS		
ELECTRIC PLANT:		
At original cost	\$ 2,671,807,219	\$ 1,985,645,118
Less — accumulated provisions for depreciation	<u>1,182,491,224</u>	<u>1,115,363,691</u>
	1,489,315,995	870,281,427
Construction in progress	<u>30,583,795</u>	<u>645,484,896</u>
Total electric plant	<u>1,519,899,790</u>	<u>1,515,766,323</u>
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	<u>2,244,413</u>	<u>2,168,143</u>
Total current assets	<u>200,368,539</u>	<u>211,062,704</u>
REGULATORY ASSETS:		
Unrecognized postemployment benefits	2,078,864	2,498,759
Pension benefits	8,542,293	30,561,325
Postretirement benefits	<u>-</u>	<u>1,324,775</u>
Total regulatory assets	<u>10,621,157</u>	<u>34,384,859</u>
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	<u>488,407</u>	<u>103,107</u>
Total deferred charges and other	<u>150,428,763</u>	<u>215,145,242</u>
TOTAL	<u>\$ 1,881,318,249</u>	<u>\$ 1,976,359,128</u>

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
CAPITALIZATION AND LIABILITIES		
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	<u>666,367,706</u>	<u>661,721,951</u>
Total operating revenues	<u>675,649,273</u>	<u>670,819,257</u>
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	<u>890,377</u>	<u>893,533</u>
Total operating expenses	<u>594,741,714</u>	<u>599,890,538</u>
OPERATING INCOME	80,907,559	70,928,719
OTHER INCOME	<u>530,109</u>	<u>10,920,111</u>
INCOME BEFORE INTEREST CHARGES	<u>81,437,668</u>	<u>81,848,830</u>
INTEREST CHARGES:		
Amortization of debt expense	5,166,736	4,606,617
Interest expense	<u>74,086,666</u>	<u>74,985,523</u>
Total interest charges	<u>79,253,402</u>	<u>79,592,140</u>
NET INCOME	2,184,266	2,256,690
RETAINED EARNINGS — Beginning of year	5,293,968	4,037,278
CASH DIVIDENDS ON COMMON STOCK	<u>(1,000,000)</u>	<u>(1,000,000)</u>
RETAINED EARNINGS — End of year	<u>\$ 6,478,234</u>	<u>\$ 5,293,968</u>

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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	<u>371,297</u>	<u>8,277,357</u>
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	<u>10,621,157</u>	<u>34,384,859</u>
Total regulatory assets	<u>\$ 10,992,454</u>	<u>\$ 42,662,216</u>
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	<u>27,406,208</u>	<u>21,975,974</u>
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	<u>85,357,544</u>	<u>58,093,181</u>
Total regulatory liabilities	<u>\$ 112,763,752</u>	<u>\$ 80,069,155</u>

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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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	<u>(277,331)</u>
Balance — December 31, 2012	20,961,379
Accretion	1,450,943
Liabilities settled	<u>(182,213)</u>
Balance — December 31, 2013	<u>\$ 22,230,109</u>

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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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	<u>\$31,129,486</u>	<u>\$34,343,741</u>

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	<u>10,964,133</u>	<u>12,746,357</u>
Total	<u>\$14,348,642</u>	<u>\$15,962,839</u>

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

3. COAL SUPPLY

The Companies have coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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
	<u>2,671,807,219</u>	<u>1,985,645,118</u>
Less accumulated depreciation	<u>1,182,491,224</u>	<u>1,115,363,691</u>
	1,489,315,995	870,281,427
Construction in progress	<u>30,583,795</u>	<u>645,484,896</u>
Total electric plant	<u>\$1,519,899,790</u>	<u>\$1,515,766,323</u>

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

5. BORROWING ARRANGEMENTS AND NOTES

OVEC has an unsecured bank revolving line of credit agreement with a borrowing limit of \$275 million as of December 31, 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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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		<u>\$ 1,267,873,554</u>	<u>\$ 1,358,347,337</u>

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 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.

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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	<u>1,029,437,775</u>
Total	<u>\$1,558,369,935</u>

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	<u>26,396</u>	<u>15,310</u>
Income tax provision	<u>\$ 890,377</u>	<u>\$ 893,533</u>

Components of the income tax provision were as follows:

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

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

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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.

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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

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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.

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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.

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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	<u>179,046,962</u>	<u>195,007,159</u>	<u>162,744,143</u>	<u>190,323,891</u>
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	<u>170,504,669</u>	<u>164,445,834</u>	<u>120,570,742</u>	<u>108,226,268</u>
(Underfunded) status — end of year	<u>\$ (8,542,293)</u>	<u>\$ (30,561,325)</u>	<u>\$ (42,173,401)</u>	<u>\$ (82,097,623)</u>

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

On December 8, 2003, the President of the United States of America signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit to retirees as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is actuarially equivalent to the benefit provided by Medicare. The Companies believe that the coverage for prescription drugs is at least actuarially equivalent to the benefits provided by Medicare for most current retirees because the benefits for that group substantially exceed the benefits provided by Medicare, thereby allowing the Companies to qualify for the subsidy. The Companies' employer contributions for Other Postretirement Benefits in the above table are net of subsidies received of \$300,508 and \$323,844 for 2013 and 2012, respectively. The Companies have

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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.

	<u>Pension Plan</u>		<u>Other Postretirement Benefits</u>	
	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	<u>428,567</u>	<u>2,086,365</u>	<u>1,828,893</u>	<u>1,577,730</u>
Total benefit cost	<u>\$ 6,711,508</u>	<u>\$ 9,187,095</u>	<u>\$11,438,014</u>	<u>\$ 9,535,351</u>
Pension and other postretirement benefits expense recognized in the consolidated statements of income and retained earnings and billed to Sponsoring Companies under the ICPA	<u>\$ 6,422,687</u>	<u>\$ 5,500,000</u>	<u>\$ 5,400,000</u>	<u>\$ 5,500,000</u>

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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		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013			
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	<u>\$ 54,822,901</u>	<u>\$ 115,681,768</u>	<u>\$ -</u>
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	<u>\$ 45,775,210</u>	<u>\$ 118,670,624</u>	<u>\$ -</u>

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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		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013			
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	<u>\$ 102,363,025</u>	<u>\$ 18,207,717</u>	<u>\$ -</u>
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	<u>\$ 94,644,378</u>	<u>\$ 13,581,890</u>	<u>\$ -</u>

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

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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:

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

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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 (CAAA) required the Companies to reduce sulfur dioxide (SO₂) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO₂ allowances. 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.

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

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

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

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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 SO₂ 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 SO₂ and NO_x allowances were purchased to operate the Clifty Creek generating units to comply with the reinstated CAIR environmental emission rules during the 2012 compliance period. With the Kyger Creek FGD 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 SO₂ 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 SO₂ allowances available without having to rely on market purchases if the CSAPR rules are upheld in their current form; however, additional NO_x allowances or additional NO_x controls may be necessary for Clifty Creek Unit 6 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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

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	<u>\$ 1,684,165,978</u>	<u>\$ 1,558,369,935</u>	<u>\$ 1,848,202,504</u>	<u>\$ 1,596,486,240</u>

11. LEASES

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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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	<u>\$1,900,242</u>	2,324,427
Less estimated interest element		<u>549,901</u>
Estimated present value of future minimum lease payments		<u>\$1,774,526</u>

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.

* * * * *

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.

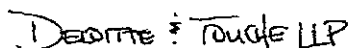
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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
Senior Vice President and Chief Administrative Officer
American Electric Power Company, Inc.

¹ CHARLES D. LASKY, Akron, Ohio
Vice President, Fossil Operations and Engineering
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
Senior 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, JR., Louisville, Kentucky
Vice President, Transmission and Generation Services
LG&E and KU Energy LLC

¹ CHARLES WHITLOCK, Cincinnati, Ohio
President, Commercial Asset Management & Operations
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
Chairman, President and Chief Executive Officer
American Electric Power Company, Inc.

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

¹Member of Executive Committee.

²Member of Human Resources Committee.

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2009	Year/Period of Report End of 2009/Q4
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SALES FOR RESALE (Account 447)

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).

2. Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.

3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows: RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.

LF - for long-term service. "Long-term" means five years or Longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or seller can unilaterally get out of the contract.

IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.

SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.

LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.

IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means Longer than one year but Less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	NOTE					
2	American Electric Power Eastern Op. Co.	OS	FPC1-B	NA	NA	NA
3	Appalachian Power Company	OS	FPC1-B	NA	NA	NA
4	Buckeye Power Generating, LLC	OS	FPC1-B	NA	NA	NA
5	The Cincinnati Gas & Electric Company	OS	FPC1-B	NA	NA	NA
6	Columbus Southern Power Company	OS	FPC1-B	NA	NA	NA
7	The Dayton Power and Light Company	OS	FPC1-B	NA	NA	NA
8	FirstEnergy Generation Corporation	OS	FPC1-B	NA	NA	NA
9	Indiana Michigan Power Company	OS	FPC1-B	NA	NA	NA
10	Kentucky Utilities Company	OS	FPC1-B	NA	NA	NA
11	Louisville Gas and Electric Company	OS	FPC1-B	NA	NA	NA
12	Monongahela Power Company	OS	FPC1-B	NA	NA	NA
13	Ohio Power Company	OS	FPC1-B	NA	NA	NA
14	Southern Indiana Gas & Electric Company	OS	FPC1-B	NA	NA	NA
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2009	Year/Period of Report End of 2009/Q4
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SALES FOR RESALE (Account 447)

- Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).
- Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.
- In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows:
 RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.
 LF - for long-term service. "Long-term" means five years or Longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or seller can unilaterally get out of the contract.
 IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.
 SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.
 LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.
 IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means Longer than one year but Less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	See Footnote		NA	NA	NA	NA
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2009	Year/Period of Report End of 2009/Q4
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SALES FOR RESALE (Account 447) (Continued)

OS - for other service. use this category only for those services which cannot be placed in the above-defined categories, such as all non-firm service regardless of the Length of the contract and service from designated units of Less than one year. Describe the nature of the service in a footnote.

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

4. Group requirements RQ sales together and report them starting at line number one. After listing all RQ sales, enter "Subtotal - RQ" in column (a). The remaining sales may then be listed in any order. Enter "Subtotal-Non-RQ" in column (a) after this Listing. Enter "Total" in column (a) as the Last Line of the schedule. Report subtotals and total for columns (9) through (k)

5. In Column (c), identify the FERC Rate Schedule or Tariff Number. On separate Lines, List all FERC rate schedules or tariffs under which service, as identified in column (b), is provided.

6. For requirements RQ sales and any type-of-service involving demand charges imposed on a monthly (or Longer) basis, enter the average monthly billing demand in column (d), the average monthly non-coincident peak (NCP) demand in column (e), and the average monthly coincident peak (CP)

demand in column (f). For all other types of service, enter NA in columns (d), (e) and (f). Monthly NCP demand is the maximum metered hourly (60-minute integration) demand in a month. Monthly CP demand is the metered demand during the hour (60-minute integration) in which the supplier's system reaches its monthly peak. Demand reported in columns (e) and (f) must be in megawatts. Footnote any demand not stated on a megawatt basis and explain.

7. Report in column (g) the megawatt hours shown on bills rendered to the purchaser.

8. Report demand charges in column (h), energy charges in column (i), and the total of any other types of charges, including out-of-period adjustments, in column (j). Explain in a footnote all components of the amount shown in column (j). Report in column (k) the total charge shown on bills rendered to the purchaser.

9. The data in column (g) through (k) must be subtotaled based on the RQ/Non-RQ grouping (see instruction 4), and then totaled on the Last -line of the schedule. The "Subtotal - RQ" amount in column (g) must be reported as Requirements Sales For Resale on Page 401, line 23. The "Subtotal - Non-RQ" amount in column (g) must be reported as Non-Requirements Sales For Resale on Page 401, line 24.

10. Footnote entries as required and provide explanations following all required data.

MegaWatt Hours Sold (g)	REVENUE			Total (\$) (h+i+j) (k)	Line No.
	Demand Charges (\$) (h)	Energy Charges (\$) (i)	Other Charges (\$) (j)		
					1
					2
2,529,260	47,549,824	55,331,709		102,881,533	3
2,133,113	45,488,498	46,722,844		92,211,342	4
1,119,652	27,275,234	24,432,011		51,707,245	5
716,124	13,455,782	15,666,349		29,122,131	6
743,801	14,849,849	16,257,881		31,107,730	7
2,110,717	43,913,656	45,997,401		89,911,057	8
1,265,083	23,790,065	27,675,661		51,465,726	9
369,840	7,576,454	8,084,413		15,660,867	10
832,895	17,062,174	18,206,442		35,268,616	11
542,306	10,607,035	11,859,243		22,466,278	12
2,497,234	46,943,708	54,631,228		101,574,936	13
209,674	4,545,872	4,582,923		9,128,795	14
0	0	0	0	0	
15,069,699	307,694,075	329,448,105	0	637,142,180	
15,069,699	307,694,075	329,448,105	0	637,142,180	

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2010	Year/Period of Report End of 2010/Q4
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SALES FOR RESALE (Account 447)

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).

2. Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.

3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows: RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.

LF - for long-term service. "Long-term" means five years or Longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or setter can unilaterally get out of the contract.

IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.

SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.

LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.

IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means Longer than one year but Less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	NOTE					
2	American Electric Power Eastern Op. Co.	OS	FPC1-B	NA	NA	NA
3	Appalachian Power Company	OS	FPC1-B	NA	NA	NA
4	Buckeye Power Generating, LLC	OS	FPC1-B	NA	NA	NA
5	The Cincinnati Gas & Electric Company	OS	FPC1-B	NA	NA	NA
6	Columbus Southern Power Company	OS	FPC1-B	NA	NA	NA
7	The Dayton Power and Light Company	OS	FPC1-B	NA	NA	NA
8	FirstEnergy Generation Corporation	OS	FPC1-B	NA	NA	NA
9	Indiana Michigan Power Company	OS	FPC1-B	NA	NA	NA
10	Kentucky Utilities Company	OS	FPC1-B	NA	NA	NA
11	Louisville Gas and Electric Company	OS	FPC1-B	NA	NA	NA
12	Monongahela Power Company	OS	FPC1-B	NA	NA	NA
13	Ohio Power Company	OS	FPC1-B	NA	NA	NA
14	Southern Indiana Gas & Electric Company	OS	FPC1-B	NA	NA	NA
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Valley Electric Corporation	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	12/31/2010	End of 2010/Q4

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).

3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows: RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.

IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.

LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	See footnote 1		NA	NA	NA	NA
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2010	Year/Period of Report End of 2010/Q4
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SALES FOR RESALE (Account 447) (Continued)

OS - for other service. use this category only for those services which cannot be placed in the above-defined categories, such as all non-firm service regardless of the Length of the contract and service from designated units of Less than one year. Describe the nature of the service in a footnote.

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

4. Group requirements RQ sales together and report them starting at line number one. After listing all RQ sales, enter "Subtotal - RQ" in column (a). The remaining sales may then be listed in any order. Enter "Subtotal-Non-RQ" in column (a) after this Listing. Enter "Total" in column (a) as the Last Line of the schedule. Report subtotals and total for columns (9) through (k)

5. In Column (c), identify the FERC Rate Schedule or Tariff Number. On separate Lines, List all FERC rate schedules or tariffs under which service, as identified in column (b), is provided.

6. For requirements RQ sales and any type of-service involving demand charges imposed on a monthly (or Longer) basis, enter the average monthly billing demand in column (d), the average monthly non-coincident peak (NCP) demand in column (e), and the average monthly coincident peak (CP) demand in column (f). For all other types of service, enter NA in columns (d), (e) and (f). Monthly NCP demand is the maximum metered hourly (60-minute integration) demand in a month. Monthly CP demand is the metered demand during the hour (60-minute integration) in which the supplier's system reaches its monthly peak. Demand reported in columns (e) and (f) must be in megawatts. Footnote any demand not stated on a megawatt basis and explain.

7. Report in column (g) the megawatt hours shown on bills rendered to the purchaser.

8. Report demand charges in column (h), energy charges in column (i), and the total of any other types of charges, including out-of-period adjustments, in column (j). Explain in a footnote all components of the amount shown in column (j). Report in column (k) the total charge shown on bills rendered to the purchaser.

9. The data in column (g) through (k) must be subtotaled based on the RQ/Non-RQ grouping (see instruction 4), and then totaled on the Last line of the schedule. The "Subtotal - RQ" amount in column (g) must be reported as Requirements Sales For Resale on Page 401, line 23. The "Subtotal - Non-RQ" amount in column (g) must be reported as Non-Requirements Sales For Resale on Page 401, line 24.

10. Footnote entries as required and provide explanations following all required data.

MegaWatt Hours Sold (g)	REVENUE			Total (\$) (h+i+j) (k)	Line No.
	Demand Charges (\$) (h)	Energy Charges (\$) (i)	Other Charges (\$) (j)		
					1
642,092	14,836,759	15,309,528		30,146,287	2
2,254,119	49,135,403	56,004,744		105,140,147	3
1,983,887	41,532,728	49,994,397		91,527,125	4
1,140,728	28,184,744	28,263,945		56,448,689	5
638,259	13,904,474	15,857,742		29,762,216	6
798,376	15,345,027	19,900,202		35,245,229	7
1,650,873	36,013,839	41,075,745		77,089,584	8
1,127,782	24,583,360	28,020,664		52,604,024	9
373,224	7,829,095	9,285,939		17,115,034	10
840,516	17,631,123	20,912,327		38,543,450	11
553,245	10,960,734	13,788,918		24,749,652	12
2,225,394	48,509,075	55,291,099		103,800,174	13
192,685	4,697,457	4,802,194		9,499,651	14
0	0	0	0	0	
14,421,180	320,972,322	358,507,444	0	679,479,766	
14,421,180	320,972,322	358,507,444	0	679,479,766	

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2011	Year/Period of Report End of 2011/Q4
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SALES FOR RESALE (Account 447)

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).
2. Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.
3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows:
 RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.
 LF - for long-term service. "Long-term" means five years or Longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or seller can unilaterally get out of the contract.
 IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.
 SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.
 LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.
 IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means Longer than one year but Less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	NOTE: [REDACTED]					
2	American Electric Power Eastern Op. Co.	OS	FPC1-B	NA	NA	NA
3	Appalachian Power Company	OS	FPC1-B	NA	NA	NA
4	Buckeye Power Generating, LLC	OS	FPC1-B	NA	NA	NA
5	The Cincinnati Gas & Electric Company	OS	FPC1-B	NA	NA	NA
6	Columbus Southern Power Company	OS	FPC1-B	NA	NA	NA
7	The Dayton Power and Light Company	OS	FPC1-B	NA	NA	NA
8	FirstEnergy Generation Corporation	OS	FPC1-B	NA	NA	NA
9	Indiana Michigan Power Company	OS	FPC1-B	NA	NA	NA
10	Kentucky Utilities Company	OS	FPC1-B	NA	NA	NA
11	Louisville Gas and Electric Company	OS	FPC1-B	NA	NA	NA
12	Monongahela Power Company	OS	FPC1-B	NA	NA	NA
13	Ohio Power Company	OS	FPC1-B	NA	NA	NA
14	Peninsula Generation Cooperative	OS	FPC1-B	NA	NA	NA
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2011	Year/Period of Report End of 2011/Q4
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SALES FOR RESALE (Account 447)

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).

2. Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.

3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows:
 RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.
 LF - for long-term service. "Long-term" means five years or Longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or seller can unilaterally get out of the contract.
 IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.
 SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.
 LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.
 IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means Longer than one year but Less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	Southern Indiana Gas & Electric Company	OS	FPC1-B	NA	NA	NA
2			NA			
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2011	Year/Period of Report End of 2011/Q4
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SALES FOR RESALE (Account 447) (Continued)

OS - for other service. use this category only for those services which cannot be placed in the above-defined categories, such as all non-firm service regardless of the Length of the contract and service from designated units of Less than one year. Describe the nature of the service in a footnote.

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

4. Group requirements RQ sales together and report them starting at line number one. After listing all RQ sales, enter "Subtotal - RQ" in column (a). The remaining sales may then be listed in any order. Enter "Subtotal-Non-RQ" in column (a) after this Listing. Enter "Total" in column (a) as the Last Line of the schedule. Report subtotals and total for columns (9) through (k)

5. In Column (c), identify the FERC Rate Schedule or Tariff Number. On separate Lines, List all FERC rate schedules or tariffs under which service, as identified in column (b), is provided.

6. For requirements RQ sales and any type of-service involving demand charges imposed on a monthly (or Longer) basis, enter the average monthly billing demand in column (d), the average monthly non-coincident peak (NCP) demand in column (e), and the average monthly coincident peak (CP) demand in column (f). For all other types of service, enter NA in columns (d), (e) and (f). Monthly NCP demand is the maximum metered hourly (60-minute integration) demand in a month. Monthly CP demand is the metered demand during the hour (60-minute integration) in which the supplier's system reaches its monthly peak. Demand reported in columns (e) and (f) must be in megawatts. Footnote any demand not stated on a megawatt basis and explain.

7. Report in column (g) the megawatt hours shown on bills rendered to the purchaser.

8. Report demand charges in column (h), energy charges in column (i), and the total of any other types of charges, including out-of-period adjustments, in column (j). Explain in a footnote all components of the amount shown in column (j). Report in column (k) the total charge shown on bills rendered to the purchaser.

9. The data in column (g) through (k) must be subtotaled based on the RQ/Non-RQ grouping (see instruction 4), and then totaled on the Last -line of the schedule. The "Subtotal - RQ" amount in column (g) must be reported as Requirements Sales For Resale on Page 401, line 23. The "Subtotal - Non-RQ" amount in column (g) must be reported as Non-Requirements Sales For Resale on Page 401, line 24.

10. Footnote entries as required and provide explanations following all required data.

MegaWatt Hours Sold (g)	REVENUE			Total (\$) (h+i+j) (k)	Line No.
	Demand Charges (\$) (h)	Energy Charges (\$) (i)	Other Charges (\$) (j)		
					1
1,219,265	31,442,987	34,286,883		65,729,870	2
2,249,442	50,931,352	63,002,363		113,933,715	3
1,383,656	26,986,863	38,589,287		65,576,150	4
1,071,027	29,214,925	29,853,768		59,068,693	5
636,802	14,412,696	17,835,156		32,247,852	6
785,405	15,905,904	22,039,684		37,945,588	7
698,400	15,743,598	19,553,461		35,297,059	8
1,125,434	25,481,907	31,521,239		57,003,146	9
348,111	8,115,257	9,742,049		17,857,306	10
783,957	18,275,559	21,939,410		40,214,969	11
520,148	11,361,360	14,574,006		25,935,366	12
2,220,691	50,282,132	62,197,469		112,479,601	13
959,275	21,586,582	26,861,713		48,448,295	14
0	0	0	0	0	
14,199,025	307,751,566	397,543,208	0	705,294,774	
14,199,025	307,751,566	397,543,208	0	705,294,774	

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2012	Year/Period of Report End of 2012/Q4
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SALES FOR RESALE (Account 447)

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).
2. Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.
3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows: RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.
- LF - for long-term service. "Long-term" means five years or Longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or setter can unilaterally get out of the contract.
- IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but Less than five years.
- SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.
- LU - for Long-term service from a designated generating unit. "Long-term" means five years or Longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.
- IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means Longer than one year but Less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	NOTE 1					
2	Appalachian Power Company	OS	FPC1-B	NA	NA	NA
3	Buckeye Power Generating, LLC	OS	FPC1-B	NA	NA	NA
4	The Cincinnati Gas & Electric Company	OS	FPC1-B	NA	NA	NA
5	Columbus Southern Power Company	OS	FPC1-B	NA	NA	NA
6	The Dayton Power and Light Company	OS	FPC1-B	NA	NA	NA
7	FirstEnergy Generation Corporation	OS	FPC1-B	NA	NA	NA
8	Indiana Michigan Power Company	OS	FPC1-B	NA	NA	NA
9	Kentucky Utilities Company	OS	FPC1-B	NA	NA	NA
10	Louisville Gas and Electric Company	OS	FPC1-B	NA	NA	NA
11	Monongahela Power Company	OS	FPC1-B	NA	NA	NA
12	Ohio Power Company	OS	FPC1-B	NA	NA	NA
13	Peninsula Generation Cooperative	OS	FPC1-B	NA	NA	NA
14	Southern Indiana Gas & Electric Company	OS	FPC1-B			
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="checked" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2012	Year/Period of Report End of 2012/Q4
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Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2012	Year/Period of Report End of 2012/Q4
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SALES FOR RESALE (Account 447) (Continued)

OS - for other service. use this category only for those services which cannot be placed in the above-defined categories, such as all non-firm service regardless of the Length of the contract and service from designated units of Less than one year. Describe the nature of the service in a footnote.

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

4. Group requirements RQ sales together and report them starting at line number one. After listing all RQ sales, enter "Subtotal - RQ" in column (a). The remaining sales may then be listed in any order. Enter "Subtotal-Non-RQ" in column (a) after this Listing. Enter "Total" in column (a) as the Last Line of the schedule. Report subtotals and total for columns (9) through (k)

5. In Column (c), identify the FERC Rate Schedule or Tariff Number. On separate Lines, List all FERC rate schedules or tariffs under which service, as identified in column (b), is provided.

6. For requirements RQ sales and any type of-service involving demand charges imposed on a monthly (or Longer) basis, enter the average monthly billing demand in column (d), the average monthly non-coincident peak (NCP) demand in column (e), and the average monthly coincident peak (CP) demand in column (f). For all other types of service, enter NA in columns (d), (e) and (f). Monthly NCP demand is the maximum metered hourly (60-minute integration) demand in a month. Monthly CP demand is the metered demand during the hour (60-minute integration) in which the supplier's system reaches its monthly peak. Demand reported in columns (e) and (f) must be in megawatts. Footnote any demand not stated on a megawatt basis and explain.

7. Report in column (g) the megawatt hours shown on bills rendered to the purchaser.

8. Report demand charges in column (h), energy charges in column (i), and the total of any other types of charges, including out-of-period adjustments, in column (j). Explain in a footnote all components of the amount shown in column (j). Report in column (k) the total charge shown on bills rendered to the purchaser.

9. The data in column (g) through (k) must be subtotaled based on the RQ/Non-RQ grouping (see instruction 4), and then totaled on the Last -line of the schedule. The "Subtotal - RQ" amount in column (g) must be reported as Requirements Sales For Resale on Page 401, line 23. The "Subtotal - Non-RQ" amount in column (g) must be reported as Non-Requirements Sales For Resale on Page 401, line 24.

10. Footnote entries as required and provide explanations following all required data.

MegaWatt Hours Sold (g)	REVENUE			Total (\$) (h+i+j) (k)	Line No.
	Demand Charges (\$) (h)	Energy Charges (\$) (i)	Other Charges (\$) (j)		
					1
1,537,023	54,460,202	44,985,934		99,446,136	2
1,973,171	62,478,243	57,798,969		120,277,212	3
750,581	31,239,121	21,995,364		53,234,485	4
434,951	15,411,300	12,730,244		28,141,544	5
622,491	17,007,966	18,265,553		35,273,519	6
498,486	16,834,416	14,632,346		31,466,762	7
768,978	27,247,456	22,506,821		49,754,077	8
304,231	8,677,534	8,921,499		17,599,033	9
685,135	19,541,806	20,091,414		39,633,220	10
376,183	12,148,547	11,035,677		23,184,224	11
1,517,436	53,765,999	44,412,665		98,178,664	12
692,479	23,082,240	20,280,139		43,362,379	13
179,423	5,206,520	5,269,272		10,475,792	14
0	0	0	0	0	
10,340,568	358,796,254	302,925,697	0	661,721,951	
10,340,568	358,796,254	302,925,697	0	661,721,951	

Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report End of 2013/Q4
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SALES FOR RESALE (Account 447)

1. Report all sales for resale (i.e., sales to purchasers other than ultimate consumers) transacted on a settlement basis other than power exchanges during the year. Do not report exchanges of electricity (i.e., transactions involving a balancing of debits and credits for energy, capacity, etc.) and any settlements for imbalanced exchanges on this schedule. Power exchanges must be reported on the Purchased Power schedule (Page 326-327).
2. Enter the name of the purchaser in column (a). Do not abbreviate or truncate the name or use acronyms. Explain in a footnote any ownership interest or affiliation the respondent has with the purchaser.
3. In column (b), enter a Statistical Classification Code based on the original contractual terms and conditions of the service as follows:
 RQ - for requirements service. Requirements service is service which the supplier plans to provide on an ongoing basis (i.e., the supplier includes projected load for this service in its system resource planning). In addition, the reliability of requirements service must be the same as, or second only to, the supplier's service to its own ultimate consumers.
 LF - for long-term service. "Long-term" means five years or longer and "firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions (e.g., the supplier must attempt to buy emergency energy from third parties to maintain deliveries of LF service). This category should not be used for Long-term firm service which meets the definition of RQ service. For all transactions identified as LF, provide in a footnote the termination date of the contract defined as the earliest date that either buyer or seller can unilaterally get out of the contract.
 IF - for intermediate-term firm service. The same as LF service except that "intermediate-term" means longer than one year but less than five years.
 SF - for short-term firm service. Use this category for all firm services where the duration of each period of commitment for service is one year or less.
 LU - for Long-term service from a designated generating unit. "Long-term" means five years or longer. The availability and reliability of service, aside from transmission constraints, must match the availability and reliability of designated unit.
 IU - for intermediate-term service from a designated generating unit. The same as LU service except that "intermediate-term" means longer than one year but less than five years.

Line No.	Name of Company or Public Authority (Footnote Affiliations) (a)	Statistical Classification (b)	FERC Rate Schedule or Tariff Number (c)	Average Monthly Billing Demand (MW) (d)	Actual Demand (MW)	
					Average Monthly NCP Demand (e)	Average Monthly CP Demand (f)
1	NOTE 1					
2	Appalachian Power Company	OS	FPC1-B	NA	NA	NA
3	Buckeye Power Generating, LLC	OS	FPC1-B	NA	NA	NA
4	The Cincinnati Gas & Electric Company	OS	FPC1-B	NA	NA	NA
5	Columbus Southern Power Company	OS	FPC1-B	NA	NA	NA
6	The Dayton Power and Light Company	OS	FPC1-B	NA	NA	NA
7	FirstEnergy Generation Corporation	OS	FPC1-B	NA	NA	NA
8	Indiana Michigan Power Company	OS	FPC1-B	NA	NA	NA
9	Kentucky Utilities Company	OS	FPC1-B	NA	NA	NA
10	Louisville Gas and Electric Company	OS	FPC1-B	NA	NA	NA
11	Monongahela Power Company	OS	FPC1-B	NA	NA	NA
12	Ohio Power Company	OS	FPC1-B	NA	NA	NA
13	Peninsula Generation Cooperative	OS	FPC1-B	NA	NA	NA
14	Southern Indiana Gas & Electric Company	OS	FPC1-B	NA	NA	NA
	Subtotal RQ			0	0	0
	Subtotal non-RQ			0	0	0
	Total			0	0	0

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Name of Respondent Ohio Valley Electric Corporation	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report End of 2013/Q4
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SALES FOR RESALE (Account 447) (Continued)

OS - for other service. use this category only for those services which cannot be placed in the above-defined categories, such as all non-firm service regardless of the Length of the contract and service from designated units of Less than one year. Describe the nature of the service in a footnote.

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

4. Group requirements RQ sales together and report them starting at line number one. After listing all RQ sales, enter "Subtotal - RQ" in column (a). The remaining sales may then be listed in any order. Enter "Subtotal-Non-RQ" in column (a) after this Listing. Enter "Total" in column (a) as the Last Line of the schedule. Report subtotals and total for columns (9) through (k)

5. In Column (c), identify the FERC Rate Schedule or Tariff Number. On separate Lines, List all FERC rate schedules or tariffs under which service, as identified in column (b), is provided.

6. For requirements RQ sales and any type of-service involving demand charges imposed on a monthly (or Longer) basis, enter the average monthly billing demand in column (d), the average monthly non-coincident peak (NCP) demand in column (e), and the average monthly coincident peak (CP)

demand in column (f). For all other types of service, enter NA in columns (d), (e) and (f). Monthly NCP demand is the maximum metered hourly (60-minute integration) demand in a month. Monthly CP demand is the metered demand during the hour (60-minute integration) in which the supplier's system reaches its monthly peak. Demand reported in columns (e) and (f) must be in megawatts. Footnote any demand not stated on a megawatt basis and explain.

7. Report in column (g) the megawatt hours shown on bills rendered to the purchaser.
8. Report demand charges in column (h), energy charges in column (i), and the total of any other types of charges, including out-of-period adjustments, in column (j). Explain in a footnote all components of the amount shown in column (j). Report in column (k) the total charge shown on bills rendered to the purchaser.

9. The data in column (g) through (k) must be subtotaled based on the RQ/Non-RQ grouping (see instruction 4), and then totaled on the Last -line of the schedule. The "Subtotal - RQ" amount in column (g) must be reported as Requirements Sales For Resale on Page 401, line 23. The "Subtotal - Non-RQ" amount in column (g) must be reported as Non-Requirements Sales For Resale on Page 401, line 24.

10. Footnote entries as required and provide explanations following all required data.

MegaWatt Hours Sold (g)	REVENUE			Total (\$) (h+i+j) (k)	Line No.
	Demand Charges (\$) (h)	Energy Charges (\$) (i)	Other Charges (\$) (j)		
					1
1,562,977	56,444,394	47,287,766		103,732,160	2
1,951,529	64,754,563	59,086,600		123,841,163	3
801,522	32,377,281	24,218,341		56,595,622	4
442,298	15,972,792	13,381,700		29,354,492	5
619,674	17,627,631	18,792,039		36,419,670	6
518,133	17,447,757	15,696,323		33,144,080	7
781,964	28,240,184	23,658,265		51,898,449	8
262,623	8,993,689	7,959,999		16,953,688	9
591,430	20,253,788	17,926,025		38,179,813	10
373,052	12,591,165	11,301,356		23,892,521	11
1,543,055	55,724,900	46,685,026		102,409,926	12
686,352	23,923,214	20,768,840		44,692,054	13
169,498	5,396,214	5,137,715		10,533,929	14
0	-5,279,862	0	0	-5,279,862	
10,304,107	359,747,572	311,899,995	0	671,647,567	
10,304,107	354,467,710	311,899,995	0	666,367,705	

Summary of OVEC Sales to Duke Energy-Ohio

(Source: OVEC FERC Form 1 Reporting)

<u>Year</u>	<u>MWH</u>	<u>Demand</u>	<u>Energy</u>	<u>Total Charges</u>	<u>Charge per MWH</u>
2013	801,522	\$32,377,281	\$24,218,341	\$56,595,622	\$70.61
2012	750,581	\$31,239,121	\$21,995,364	\$53,234,485	\$70.92
2011	1,071,027	\$29,214,925	\$29,853,768	\$59,068,693	\$55.15
2010	1,140,728	\$28,184,744	\$28,263,946	\$56,448,690	\$49.48
2009	1,119,652	\$27,275,234	\$24,432,011	\$51,707,245	\$46.18