

AMERICAN ELECTRIC POWER CO INC
Form 10-K
February 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number	Registrants; States of Incorporation; Address and Telephone Number	I.R.S. Employer Identification Nos.
1-3525	American Electric Power Company, Inc. (A New York Corporation)	13-4922640
1-3457	Appalachian Power Company (A Virginia Corporation)	54-0124790
1-2680	Columbus Southern Power Company (An Ohio Corporation)	31-4154203
1-3570	Indiana Michigan Power Company (An Indiana Corporation)	35-0410455
1-6543	Ohio Power Company (An Ohio Corporation)	31-4271000
0-343	Public Service Company of Oklahoma (An Oklahoma Corporation)	73-0410895
1-3146	Southwestern Electric Power Company (A Delaware Corporation) 1 Riverside Plaza, Columbus, Ohio 43215 Telephone (614) 716-1000	72-0323455

Indicate by check mark if the registrants American Electric Power Company, Inc., Yes ☒ No. ☐
Appalachian Power Company and Ohio Power Company, is each a well-known seasoned
issuer, as defined in Rule 405 on the Securities Act.

Indicate by check mark if the registrants Columbus Southern Power Company, Indiana Yes ☐ No. ☒
Michigan Power Company, Public Service Company of Oklahoma and Southwestern Electric
Power Company, are well-known seasoned issuers, as defined in Rule 405 on the Securities
Act.

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 Yes ☐ No. ☒
or Section 15(d) of the Exchange Act.

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Yes ☒ No. ☐
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or
for such shorter period that the registrants were required to file such reports), and (2) have
been subject to such filing requirements for the past 90 days.

Yes ☒ No. ☐

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Indicate by check mark whether American Electric Power Company, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Indicate by check mark whether Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Indicate by check mark if disclosure of delinquent filers with respect to Appalachian Power Company, Ohio Power Company, Public Service Company of Oklahoma or Southwestern Electric Power Company pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements of Appalachian Power Company, Ohio Power Company, Public Service Company of Oklahoma or Southwestern Electric Power Company incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether American Electric Power Company, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of 'large accelerated filer', 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

check if a smaller reporting company)

Indicate by check mark whether Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See definitions of 'large accelerated filer', 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

check if a smaller reporting company)

Indicate by check mark if the registrants are shell companies, as defined in Rule 12b-2 of the Exchange Act.

Columbus Southern Power Company and Indiana Michigan Power Company meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and are therefore filing this Form 10-K with the reduced disclosure format specified in General Instruction I(2) to such Form 10-K.

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange

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Registrant	Title of each class	on which registered
American Electric Power Company, Inc.	Common Stock, \$6.50 par value	New York Stock Exchange
Appalachian Power Company	None	
Columbus Southern Power Company	None	
Indiana Michigan Power Company	6% Senior Notes, Series D, Due 2032	New York Stock Exchange
Ohio Power Company	None	
Public Service Company of Oklahoma	6% Senior Notes, Series B, Due 2032	New York Stock Exchange
Southwestern Electric Power Company	None	

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
American Electric Power Company, Inc.	None
Appalachian Power Company	4.50% Cumulative Preferred Stock, Voting, no par value
Columbus Southern Power Company	None
Indiana Michigan Power Company	None
Ohio Power Company	4.50% Cumulative Preferred Stock, Voting, \$100 par value
Public Service Company of Oklahoma	None
Southwestern Electric Power Company	4.28% Cumulative Preferred Stock, Voting, \$100 par value 4.65% Cumulative Preferred Stock, Voting, \$100 par value 5.00% Cumulative Preferred Stock, Voting, \$100 par value

	Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2009, the last trading date of the registrants' most recently completed second fiscal quarter	Number of shares of common stock outstanding of the registrants at December 31, 2009
American Electric Power Company, Inc.	\$13,810,991,818	478,054,407
Appalachian Power Company	None	(\$6.50 par value) 13,499,500 (no par value)
Columbus Southern Power Company	None	16,410,426 (no par value)

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Indiana Michigan Power Company	None	1,400,000
		(no par value)
Ohio Power Company	None	27,952,473
		(no par value)
Public Service Company of Oklahoma	None	9,013,000
		(\$15 par value)
Southwestern Electric Power Company	None	7,536,640
		(\$18 par value)

Note On Market Value Of Common Equity Held By Non-Affiliates

American Electric Power Company, Inc. owns all of the common stock of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company (see Item 12 herein).

Documents Incorporated By Reference

Description	Part of Form 10-K Into Which Document Is Incorporated
<p>Portions of Annual Reports of the following companies for the fiscal year ended December 31, 2009:</p> <p>American Electric Power Company, Inc.</p> <p>Appalachian Power Company</p> <p>Columbus Southern Power Company</p> <p>Indiana Michigan Power Company</p> <p>Ohio Power Company</p> <p>Public Service Company of Oklahoma</p> <p>Southwestern Electric Power Company</p>	Part II
<p>Portions of Proxy Statement of American Electric Power Company, Inc. for 2009 Annual Meeting of Shareholders.</p>	Part III
<p>Portions of Information Statements of the following companies for 2009 Annual Meeting of Shareholders:</p> <p>Appalachian Power Company</p> <p>Ohio Power Company</p> <p>Public Service Company of Oklahoma</p> <p>Southwestern Electric Power Company</p>	Part III

This combined Form 10-K is separately filed by American Electric Power Company, Inc., Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Except for American Electric Power Company, Inc., each registrant makes no representation as to information relating to the other registrants.

You can access financial and other information at AEP's website, including AEP's Principles of Business Conduct (which also serves as a code of ethics applicable to Item 10 of this Form 10-K), certain committee charters and Principles of Corporate Governance. The address is www.AEP.com. AEP makes available, free of charge on its website, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

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GLOSSARY OF TERMS

The following abbreviations or acronyms used in this Form 10-K are defined below:

Abbreviation or Acronym	Definition
AECC	Arkansas Electric Cooperative Corporation, an unaffiliated corporation
AEGCo	AEP Generating Company, an electric utility subsidiary of AEP
AEP or parent	American Electric Power Company, Inc.
AEP East companies	APCo, CSPCo, I&M, KPCo and OPCo
AEP Power Pool	APCo, CSPCo, I&M, KPCo and OPCo, as parties to the Interconnection Agreement
AEP River Operations	AEP's inland river transportation subsidiary, AEP River Operations LLC (formerly AEP MEMCO LLC), operating primarily on the Ohio, Illinois, and lower Mississippi rivers
AEPSC	American Electric Power Service Corporation, a service company subsidiary of AEP
AEP System or the System	The American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries
AEP West companies	PSO, SWEPCo, TCC and TNC
AEP Utilities	AEP Utilities, Inc., a subsidiary of AEP, formerly, Central and South West Corporation
AFUDC	Allowance for funds used during construction (the net cost of borrowed funds, and a reasonable rate of return on other funds, used for construction under regulatory accounting)
ALJ	Administrative law judge
APCo	Appalachian Power Company, a public utility subsidiary of AEP
APSC	Arkansas Public Service Commission
Buckeye	Buckeye Power, Inc., an unaffiliated corporation
CAA	Clean Air Act
CAAA	Clean Air Act Amendments of 1990
CCS	Carbon capture and storage technology
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CO ₂	Carbon dioxide and other greenhouse gases
Cook Plant	The Donald C. Cook Nuclear Plant, owned by I&M, and located near Bridgman, Michigan
CSPCo	Columbus Southern Power Company, a public utility subsidiary of AEP
CSW	Central and South West Corporation, a public utility holding company that merged with AEP in June 2000.
CSW Operating Agreement	Agreement, dated January 1, 1997, as amended, originally by and among PSO, SWEPCo, TCC and TNC, currently by and between PSO and SWEPCO governing generating capacity allocation. AEPSC acts as the agent for the parties.
DOE	United States Department of Energy
DP&L	The Dayton Power and Light Company, an unaffiliated utility company
Duke Ohio	Duke Energy Ohio, Inc.
EMF	Electric and Magnetic Fields
EPA	United States Environmental Protection Agency
EPACT	The Energy Policy Act of 2005
ERCOT	Electric Reliability Council of Texas
ESP	Electric Security Plans, filed with the PUCO, pursuant to the Ohio Amendments
ETEC	East Texas Electric Cooperative
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings, Inc.
FPA	Federal Power Act

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I&M	Indiana Michigan Power Company, a public utility subsidiary of AEP
IGCC	Integrated Gasification Combined Cycle
Interconnection Agreement	Agreement, dated July 6, 1951, as amended, by and among APCo, CSPCo, I&M, KPCo and OPCo, defining the sharing of costs and benefits associated with their respective generating plants
IURC	Indiana Utility Regulatory Commission
KgPCo	Kingsport Power Company, a public utility subsidiary of AEP
KPCo	Kentucky Power Company, a public utility subsidiary of AEP
KPSC	Kentucky Public Service Commission
Lawrenceburg Plant	A 1,146 MW gas-fired unit owned by AEGCo and located near Lawrenceburg, Indiana
LLWPA	Low-Level Waste Policy Act of 1980
LPSC	Louisiana Public Service Commission
MISO	Midwest Independent Transmission System Operator
Moody's	Moody's Investors Service, Inc.
MW	Megawatt
NOx	Nitrogen oxide
NPC	National Power Cooperatives, Inc., an unaffiliated corporation
NRC	Nuclear Regulatory Commission
NSR Consent Decree	The 2007 settlement with the Federal EPA, the United States Department of Justice, certain states and special interest groups that ended the litigation which had alleged that APCo, CSPCo, I&M and OPCo violated the new source review requirements of the CAA.
OASIS	Open Access Same-time Information System
OATT	Open Access Transmission Tariff, filed with FERC
OCC	Corporation Commission of the State of Oklahoma
Ohio Act	Ohio electric restructuring legislation
Ohio Amendments	Amendments to the Ohio Act adopted in April 2008 which required electric utilities to adjust their rates by filing an ESP with the PUCO
OPCo	Ohio Power Company, a public utility subsidiary of AEP
OSS	Off-system sales
OVEC	Ohio Valley Electric Corporation, an electric utility company in which AEP and CSPCo together own a 43.47% equity interest
PJM	PJM Interconnection, L.L.C., a regional transmission organization
PM	Particulate Matter
PSO	Public Service Company of Oklahoma, a public utility subsidiary of AEP
PUCO	Public Utilities Commission of Ohio
PUCT	Public Utility Commission of Texas
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REP	Texas retail electricity provider
Rockport Plant	A generating plant owned and partly leased by AEGCo and I&M (two 1,300 MW, coal-fired) located near Rockport, Indiana
ROE	Return on Equity
RTO	Regional Transmission Organization
SEC	Securities and Exchange Commission
S&P	Standard & Poor's Ratings Service
SO2	Sulfur dioxide
SPP	Southwest Power Pool
SWEPCo	Southwestern Electric Power Company, a public utility subsidiary of AEP
TA	Transmission Agreement dated April 1, 1984 by and among APCo, CSPCo, I&M, KPCo and OPCo, which allocates costs and benefits in connection with the operation of transmission assets

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TCA	Transmission Coordination Agreement dated January 1, 1997, restated and amended, as approved by FERC in 2002, by and among, PSO, SWEPCo, TNC and AEPSC, in connection with the operation of the transmission assets of the three public utility subsidiaries
TCC	AEP Texas Central Company, formerly Central Power and Light Company, a public utility subsidiary of AEP
Texas Act	Texas electric restructuring legislation
TNC	AEP Texas North Company, formerly West Texas Utilities Company, a public utility subsidiary of AEP
TVA	Tennessee Valley Authority
VSCC	Virginia State Corporation Commission
WPCo	Wheeling Power Company, a public utility subsidiary of AEP
WVPSC	West Virginia Public Service Commission

FORWARD-LOOKING INFORMATION

This report made by the registrants contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although the registrants believe that their expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are:

- The economic climate and growth in, or contraction within, our service territory and changes in market demand and demographic patterns.
- Inflationary or deflationary interest rate trends.
- Volatility in the financial markets, particularly developments affecting the availability of capital on reasonable terms and developments impairing our ability to finance new capital projects and refinance existing debt at attractive rates.
- The availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material.
- Electric load and customer growth.
- Weather conditions, including storms, and our ability to recover significant storm restoration costs through applicable rate mechanisms.
- Available sources and costs of, and transportation for, fuels and the creditworthiness and performance of fuel suppliers and transporters.
- Availability of necessary generating capacity and the performance of our generating plants.
- Our ability to recover I&M's Donald C. Cook Nuclear Plant Unit 1 restoration costs through warranty, insurance and the regulatory process.
- Our ability to recover regulatory assets and stranded costs in connection with deregulation.
- Our ability to recover increases in fuel and other energy costs through regulated or competitive electric rates.
- Our ability to build or acquire generating capacity, including the Turk Plant, and transmission line facilities (including our ability to obtain any necessary regulatory approvals and permits) when needed at acceptable prices and terms and to recover those costs (including the costs of projects that are cancelled) through applicable rate cases or competitive rates.
- New legislation, litigation and government regulation, including requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances or additional regulation of flyash and similar combustion products that could impact the continued operation and cost recovery of our plants.
- Timing and resolution of pending and future rate cases, negotiations and other regulatory decisions (including rate or other recovery of new investments in generation, distribution and transmission service and environmental compliance).
- Resolution of litigation (including our dispute with Bank of America).
- Our ability to constrain operation and maintenance costs.
- Our ability to develop and execute a strategy based on a view regarding prices of electricity, natural gas and other energy-related commodities.
- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading market.
- Actions of rating agencies, including changes in the ratings of debt.
- Volatility and changes in markets for electricity, natural gas, coal, nuclear fuel and other energy-related commodities.

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- Changes in utility regulation, including the implementation of ESPs and related regulation in Ohio and the allocation of costs within regional transmission organizations, including PJM and SPP.
- Accounting pronouncements periodically issued by accounting standard-setting bodies.
- The impact of volatility in the capital markets on the value of the investments held by our pension, other postretirement benefit plans and nuclear decommissioning trust and the impact on future funding requirements.
- Prices and demand for power that we generate and sell at wholesale.
- Changes in technology, particularly with respect to new, developing or alternative sources of generation.
- Other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes and other catastrophic events.

The registrants expressly disclaim any obligation to update any forward-looking information.

PART I

ITEM 1. BUSINESS

GENERAL

OVERVIEW AND DESCRIPTION OF SUBSIDIARIES

AEP was incorporated under the laws of the State of New York in 1906 and reorganized in 1925. It is a public utility holding company that owns, directly or indirectly, all of the outstanding common stock of its public utility subsidiaries and varying percentages of other subsidiaries.

The service areas of AEP's public utility subsidiaries cover portions of the states of Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. The generating and transmission facilities of AEP's public utility subsidiaries are interconnected and their operations are coordinated. Transmission networks are interconnected with extensive distribution facilities in the territories served. The public utility subsidiaries of AEP have traditionally provided electric service, consisting of generation, transmission and distribution, on an integrated basis to their retail customers. Restructuring legislation in Michigan, Ohio, and the ERCOT area of Texas has caused AEP public utility subsidiaries in those states to unbundle previously integrated regulated rates for their retail customers.

The AEP System is an integrated electric utility system. As a result, the member companies of the AEP System have contractual, financial and other business relationships with the other member companies, such as participation in the AEP System savings and retirement plans and tax returns, sales of electricity and transportation and handling of fuel. The companies of the AEP System also obtain certain accounting, administrative, information systems, engineering, financial, legal, maintenance and other services at cost from a common provider, AEPSC.

At December 31, 2009, the subsidiaries of AEP had a total of 21,673 employees. Because it is a holding company rather than an operating company, AEP has no employees. The public utility subsidiaries of AEP are:

APCo (organized in Virginia in 1926) is engaged in the generation, transmission and distribution of electric power to approximately 959,000 retail customers in the southwestern portion of Virginia and southern West Virginia, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities and other market participants. At December 31, 2009, APCo and its wholly owned subsidiaries had 2,577 employees. Among the principal industries served by APCo are paper, rubber, coal mining, textile mill products and stone, clay and glass products. In addition to its AEP System interconnections, APCo is interconnected with the following unaffiliated utility companies: Carolina Power & Light Company, Duke Carolina and Virginia Electric and Power Company. APCo has several points of interconnection with TVA and has entered into agreements with TVA under which APCo and TVA interchange and transfer electric power over portions of their respective systems. APCo is a member of PJM.

CSPCo (organized in Ohio in 1937, the earliest direct predecessor company having been organized in 1883) is engaged in the generation, transmission and distribution of electric power to approximately 749,000 retail customers in Ohio, and in supplying and marketing electric power at wholesale to other electric utilities, municipalities and other market participants. At December 31, 2009, CSPCo had 1,283 employees. CSPCo's service area is comprised of two areas in Ohio, which include portions of twenty-five counties. One area includes the City of Columbus and the other is a predominantly rural area in south central Ohio. Among the principal industries served are primary metals, chemicals and allied products, health services and electronic machinery. In addition to its AEP System interconnections, CSPCo is interconnected with the following unaffiliated utility companies: Duke Ohio, DP&L and Ohio Edison

Company. CSPCo is a member of PJM.

I&M (organized in Indiana in 1925) is engaged in the generation, transmission and distribution of electric power to approximately 583,000 retail customers in northern and eastern Indiana and southwestern Michigan, and in supplying and marketing electric power at wholesale to other electric utility companies, rural electric cooperatives, municipalities and other market participants. At December 31, 2009, I&M had 3,008 employees. Among the principal industries served are primary metals, transportation equipment, electrical and electronic machinery, fabricated metal products, rubber and chemicals and allied products, rubber products and transportation equipment. Since 1975, I&M has leased and operated the assets of the municipal system of the City of Fort Wayne, Indiana. This lease extends through February 2010 and its termination is currently being litigated. In addition to its AEP System interconnections, I&M is interconnected with the following unaffiliated utility companies: Central Illinois Public Service Company, Duke Ohio, Commonwealth Edison Company, Consumers Energy Company, Illinois Power Company, Indianapolis Power & Light Company, Louisville Gas and Electric Company, Northern Indiana Public Service Company, Duke Indiana and Richmond Power & Light Company. I&M is a member of PJM.

KPCo (organized in Kentucky in 1919) is engaged in the generation, transmission and distribution of electric power to approximately 175,000 retail customers in an area in eastern Kentucky, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities and other market participants. At December 31, 2009, KPCo had 478 employees. Among the principal industries served are petroleum refining, coal mining and chemical production. In addition to its AEP System interconnections, KPCo is interconnected with the following unaffiliated utility companies: Kentucky Utilities Company and East Kentucky Power Cooperative Inc. KPCo is also interconnected with TVA. KPCo is a member of PJM.

KgPCo (organized in Virginia in 1917) provides electric service to approximately 47,000 retail customers in Kingsport and eight neighboring communities in northeastern Tennessee. Kingsport Power Company does not own any generating facilities and is a member of PJM. It purchases electric power from APCo for distribution to its customers. At December 31, 2009, Kingsport Power Company had 57 employees.

OPCo (organized in Ohio in 1907 and re-incorporated in 1924) is engaged in the generation, transmission and distribution of electric power to approximately 710,000 retail customers in the northwestern, east central, eastern and southern sections of Ohio, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities and other market participants. At December 31, 2009, OPCo had 2,391 employees. Among the principal industries served by OPCo are primary metals, chemical manufacturing, petroleum refining, and rubber and plastic products. In addition to its AEP System interconnections, OPCo is interconnected with the following unaffiliated utility companies: Duke Ohio, The Cleveland Electric Illuminating Company, DP&L, Duquesne Light Company, Kentucky Utilities Company, Monongahela Power Company, Ohio Edison Company, The Toledo Edison Company and West Penn Power Company. OPCo is a member of PJM.

PSO (organized in Oklahoma in 1913) is engaged in the generation, transmission and distribution of electric power to approximately 531,000 retail customers in eastern and southwestern Oklahoma, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities, rural electric cooperatives and other market participants. At December 31, 2009, PSO had 1,281 employees. Among the principal industries served by PSO are paper manufacturing and timber products, natural gas and oil extraction, transportation, non-metallic mineral production, oil refining and steel processing. In addition to its AEP System interconnections, PSO is interconnected with Empire District Electric Company, Oklahoma Gas and Electric Company, Southwestern Public Service Company and Westar Energy, Inc. PSO is a member of SPP.

SWEPCo (organized in Delaware in 1912) is engaged in the generation, transmission and distribution of electric power to approximately 474,000 retail customers in northeastern Texas, northwestern Louisiana and western Arkansas, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities, rural electric cooperatives and other market participants. At December 31, 2009, SWEPCo had 1,671

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employees. Among the principal industries served by SWEPCo are natural gas and oil production, petroleum refining, manufacturing of pulp and paper, chemicals, food processing, and metal refining. The territory served by SWEPCo also includes several military installations, colleges and universities. SWEPCo also owns and operates a lignite coal mining operation. In addition to its AEP System interconnections, SWEPCo is interconnected with Cleco Corp., Empire District Electric Co., Entergy Corp. and Oklahoma Gas & Electric Co. SWEPCo is a member of SPP.

In November 2009, SWEPCo signed a letter of intent to purchase the transmission and distribution assets and to assume certain liabilities of Valley Electric Membership Corporation (VEMCO) for approximately \$96 million, subject to regulatory approval by the LPSC and the APSC. VEMCO services approximately 30,000 member customers in eight parishes south of Shreveport, Louisiana. SWEPCo expects to complete the transaction in the second quarter of 2010.

TCC (organized in Texas in 1945) is engaged in the transmission and distribution of electric power to approximately 766,000 retail customers through REPs in southern Texas. Under the Texas Act, TCC has completed the final stage of exiting the generation business and has sold all of its generation assets. At December 31, 2009, TCC had 1,174 employees. Among the principal industries served by TCC are chemical and petroleum refining, chemicals and allied products, oil and gas extraction, food processing, metal refining, plastics, and machinery equipment. In addition to its AEP System interconnections, TCC is a member of ERCOT.

TNC (organized in Texas in 1927) is engaged in the transmission and distribution of electric power to approximately 185,000 retail customers through REPs in west and central Texas. TNC's remaining generating capacity that is not deactivated has been transferred to an affiliate at TNC's cost pursuant to an agreement effective through 2027. At December 31, 2009, TNC had 368 employees. Among the principal industries served by TNC are petroleum refining, agriculture and the manufacturing or processing of cotton seed products, oil products, precision and consumer metal products, meat products and gypsum products. The territory served by TNC also includes several military installations and correctional facilities. In addition to its AEP System interconnections, TNC is a member of ERCOT.

WPCo (organized in West Virginia in 1883 and reincorporated in 1911) provides electric service to approximately 41,000 retail customers in northern West Virginia. WPCo does not own any generating facilities. WPCo is a member of PJM. It purchases electric power from OPCo for distribution to its customers. At December 31, 2009, WPCo had 60 employees.

AEGCo (organized in Ohio in 1982) is an electric generating company. AEGCo sells power at wholesale to I&M, CSPCo and KPCo. AEGCo has no employees.

SERVICE COMPANY SUBSIDIARY

AEP also owns a service company subsidiary, AEPSC. AEPSC provides accounting, administrative, information systems, engineering, financial, legal, maintenance and other services at cost to the AEP affiliated companies. The executive officers of AEP and certain of its public utility subsidiaries are employees of AEPSC. At December 31, 2009, AEPSC had 6,180 employees.

CLASSES OF SERVICE

The principal classes of service from which the public utility subsidiaries of AEP derive revenues and the amount of such revenues during the year ended December 31, 2009 are as follows:

Description	AEP			
	System(a)	APCo	CSPCo	I&M
		(in thousands)		

UTILITY OPERATIONS:

Retail Sales

Residential Sales	\$ 4,405,000	\$ 1,022,942	\$ 749,623	\$ 265,428
Commercial Sales	3,171,000	493,297	715,727	352,821
Industrial Sales	2,630,000	598,631	265,403	368,109
PJM Net Charges	(7,000)	(777)	(1,893)	(1,918)
Provision for Rate Refund	1,000	197	-	-
Other Retail Sales	191,000	68,123	6,341	6,572
Total Retail	10,391,000	2,182,413	1,735,201	991,012
Wholesale				
Off-System Sales	1,617,000	386,534	186,759	485,440
Transmission	232,000	(47)	(1,520)	11,698
Total Wholesale	1,849,000	386,487	185,239	497,138
Other Electric Revenues	385,000	35,594	13,898	197,158
Other Operating Revenues	108,000	8,772	3,022	193,422
Sales to Affiliates	-	263,389	67,213	306,294
Total Utility Operating Revenues	12,733,000	2,876,655	2,004,573	2,185,024
OTHER	756,000	-	-	-
TOTAL REVENUES	\$ 13,489,000	\$ 2,876,655	\$ 2,004,573	\$ 2,185,024

- (a) Includes revenues of other subsidiaries not shown. Intercompany transactions have been eliminated for the year ended December 31, 2009.

Description	OPCo	PSO (in thousands)	SWEPCo
UTILITY OPERATIONS:			
Retail Sales			
Residential Sales	\$637,838	\$441,743	\$423,987
Commercial Sales	424,982	295,817	366,616
Industrial Sales	608,614	197,605	238,224
PJM Net Charges	(2,180)	-	-
Provision for Rate Refund	-	(1,599)	2,591
Other Retail Sales	10,140	64,695	7,658
Total Retail	1,679,394	998,261	1,039,076
Wholesale			
Off-System Sales	235,321	32,809	215,640
Transmission	(3,847)	28,571	42,740
Total Wholesale	231,474	61,380	258,380
Other Electric Revenues	30,389	15,373	17,600
Other Operating Revenues	12,570	3,980	44,928
Sales to Affiliates	1,057,747	45,756	29,318
Total Utility Operating Revenues	3,011,574	1,124,750	1,389,302
OTHER	-	-	-
TOTAL REVENUES	\$3,011,574	\$1,124,750	\$1,389,302

FINANCING

General

Companies within the AEP System generally use short-term debt to finance working capital needs. Short-term debt is also used to finance acquisitions, construction and redemption or repurchase of outstanding securities until such needs can be financed with long-term debt. In recent history, short-term funding needs have been provided for by cash on hand, borrowing under AEP's revolving credit agreements and AEP's commercial paper program. Funds are made available to subsidiaries under the AEP corporate borrowing program. Certain public utility subsidiaries of AEP also sell accounts receivable to provide liquidity. See Management's Financial Discussion and Analysis of Results of Operations, included in the 2009 Annual Reports, under the heading entitled Financial Condition for additional information concerning short-term funding and our access to bank lines of credit, commercial paper and capital markets.

AEP's revolving credit agreements (which backstop the commercial paper program) include covenants and events of default typical for this type of facility, including a maximum debt/capital test and a \$50 million cross-acceleration provision. At December 31, 2009, AEP was in compliance with its debt covenants. With the exception of a voluntary bankruptcy or insolvency, any event of default has either or both a cure period or notice requirement before termination of the agreements. A voluntary bankruptcy or insolvency of AEP would be considered an immediate termination event. See Management's Financial Discussion and Analysis of Results of Operations, included in the 2009 Annual Reports, under the heading entitled Financial Condition for additional information with respect to AEP's credit agreements.

AEP's subsidiaries have also utilized, and expect to continue to utilize, additional financing arrangements, such as leasing arrangements, including the leasing of coal transportation equipment and facilities.

Credit Ratings

The credit ratings of AEP and its registrant subsidiaries as of February 23, 2010 are set forth below. In 2009, Moody's Investors Service placed the credit ratings of AEP (the parent) on negative outlook. In 2009, Fitch Ratings placed the credit ratings of TCC and SWEPCO on negative outlook. See Management's Financial Discussion and Analysis of Results of Operations, included in the 2009 Annual Reports, under the heading entitled Financial Condition for additional information with respect to the credit ratings of the registrants.

Company	Moody's		S&P		Fitch	
	Senior	Unsecured Outlook*	Senior	Unsecured Outlook*	Senior	Unsecured Outlook*
AEP	Baa2	N	BBB	S	BBB	S
AEP Short Term Rating	P-2	N	A-2	S	F-2	S
APCo	Baa2	S	BBB	S	BBB	S
CSPCo	A3	S	BBB	S	A-	S
I&M	Baa2	S	BBB	S	BBB	S
OPCo	Baa1	S	BBB	S	BBB+	S
PSO	Baa1	S	BBB	S	BBB+	S
SWEPCo	Baa3	S	BBB	S	BBB+	N

* S=Stable Outlook; N=Negative Outlook

ENVIRONMENTAL AND OTHER MATTERS

General

AEP's subsidiaries are currently subject to regulation by federal, state and local authorities with regard to air and water-quality control and other environmental matters, and are subject to zoning and other regulation by local authorities. The environmental issues that we believe are potentially material to the AEP system are outlined below.

Clean Air Act Requirements

The CAA establishes a comprehensive program to protect and improve the nation's air quality and control mobile and stationary sources of air emissions. The major CAA programs affecting our power plants are described below. The states implement and administer many of these programs and could impose additional or more stringent requirements.

National Ambient Air Quality Standards: The CAA requires the Federal EPA to review periodically the available scientific data for six criteria pollutants and establish a concentration level in the ambient air for those substances that is adequate to protect the public health and welfare with an extra safety margin. These concentration levels are known as national ambient air quality standards (NAAQS).

Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (nonattainment areas). Each state must develop a state implementation plan (SIP) to bring nonattainment areas into compliance with the NAAQS and maintain good air quality in attainment areas. All SIPs are submitted to the Federal EPA for approval. If a state fails to develop adequate plans, the Federal EPA develops and implements a plan. As the Federal EPA reviews the NAAQS, the attainment status of areas can change and states may be required to develop new SIPs. In 2008, the Federal EPA issued revised NAAQS for both ozone and fine particulate matter (PM 2.5). The PM 2.5 standard was remanded by the D.C. Circuit Court of Appeals, but a new standard has not yet been proposed. In 2009 the Obama Administration reconsidered the ozone standard and proposed a more stringent standard. Federal EPA has also proposed a new short-term standard for SO₂ and a new, lower standard for NO₂. The Federal EPA also established a lower standard for lead. These new standards could result in additional emission reductions being required from our facilities.

In 2005, the Federal EPA issued the Clean Air Interstate Rule (CAIR). It requires specific reductions in SO₂ and NO_x emissions from power plants and assists states developing new SIPs to meet the NAAQS. CAIR reduces regional emissions of SO₂ and NO_x (which can be transformed into PM and ozone) from power plants in the Eastern U.S. (28 states and the District of Columbia). CAIR requires power plants within these states to reduce emissions of SO₂ by 45% by 2010, and by 57% by 2015 from 2003 levels. NO_x emissions were subject to additional limits beginning in 2009, and would be reduced by a total of 61% by 2015 from 2003 levels. Reduction of both SO₂ and NO_x emissions under CAIR is to be achieved through a cap-and-trade program. In July 2008, the D.C. Circuit Court of Appeals remanded CAIR to the Federal EPA. CAIR remains in effect while Federal EPA conducts further rulemaking, and we are complying with our obligations under CAIR. We are unable to predict how the Federal EPA will respond to the remand, but we expect a proposal from Federal EPA in the spring of 2010. A SIP that complied with CAIR also established compliance with other CAA requirements, including certain visibility goals. It is uncertain how Federal EPA will deal with these requirements on remand. The Federal EPA or states may elect to seek further reductions of SO₂ and NO_x in response to more stringent PM and ozone NAAQS or restrict or eliminate the trading programs in the replacement developed for CAIR.

Hazardous Air Pollutants: As a result of the 1990 Amendments to the CAA, the Federal EPA investigated hazardous air pollutant (HAP) emissions from the electric utility sector and submitted a report to Congress, identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the Federal EPA issued a Clean Air Mercury Rule (CAMR) setting New Source Performance Standards (NSPS) for mercury emissions from new and modified coal-fired power plants and requiring all states to issue new SIPs including mercury requirements for existing coal-fired power plants. The Federal EPA issued a model federal rule based on a cap-and-trade program for mercury emissions from existing coal-fired power plants that would reduce mercury emissions to 38 tons per year from all existing plants in 2010, and to 15 tons per year in 2018.

In 2008, the D.C. Circuit Court of Appeals vacated and remanded CAMR to the Federal EPA. The Federal EPA has issued an information collection request to coal-fired power plants for emission information on mercury and several additional HAPs, and has announced its intention to issue a proposed rule in 2011. We are unable to predict at this time how the Federal EPA response to the remand will affect our facilities or their costs of operation, but it could be material.

To comply with the remand of CAIR, Federal EPA may impose NO_x and/or SO₂ budgets on a state-by-state basis rather than across a multi-state region. If Federal EPA takes this approach, we would have significantly less flexibility planning for compliance and may have to install additional environmental control equipment on some of our units. In addition, with the remand of CAMR, Federal EPA will likely establish Maximum Achievable Control Technology (MACT) standards for mercury and other hazardous air pollutants that could require installation of scrubbers on all coal units, regardless of age or size. It would be costly and inefficient to retrofit all of our units with such controls, and we will urge Federal EPA to carefully consider all of the options available to it to avoid such a result. However, we have a number of our older units, including some that are already subject to control requirements under the NSR Consent Decree, for which it may be economically inefficient to install scrubbers or other environmental controls, including CCS. The timing and ultimate disposition of those units will be dictated by environmental regulations, the economics of maintaining or retrofitting the units, transmission requirements, demand for electricity, availability and cost of replacement power, legislative mandates and capital requirements, and regulatory decisions about cost recovery of the remaining investment in retired units. In addition, if some coal units are prematurely forced to retire, we may need to make investments in new transmission lines and substations to create stronger interconnections with neighboring systems.

The Acid Rain Program: The 1990 Amendments to the CAA include a cap-and-trade emission reduction program for SO₂ emissions from power plants. By 2000, the program established a nationwide cap on power plant SO₂ emissions of 8.9 million tons per year. The 1990 Amendments also contain requirements for power plants to reduce NO_x emissions through the use of available combustion controls.

The success of the SO₂ cap-and-trade program encouraged the Federal EPA and the states to use it as a model for other emission reduction programs, including CAIR and CAMR. We continue to meet our obligations under the Acid Rain Program through the installation of controls, use of alternate fuels and participation in the emissions allowance markets. CAIR currently uses the SO₂ allowances originally allocated through the Acid Rain Program as the basis for its SO₂ cap-and-trade system. We are unable to predict if or how any replacement for CAIR will utilize the SO₂ allowances from the Acid Rain Program.

Regional Haze: The CAA establishes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing impairment of visibility in these areas (Regional Haze program). In 2005, the Federal EPA issued its Clean Air Visibility Rule (CAVR), detailing how the CAA's best available retrofit technology (BART) requirements will be applied to facilities built between 1962 and 1977 that emit more than 250 tons per year of certain pollutants in specific industrial categories, including power plants. The final rule contains a demonstration that CAIR will result in more visibility improvements than BART for power plants subject to it. Thus, states are allowed to substitute CAIR requirements in their Regional Haze program SIPs for controls that would otherwise be required by BART. For BART-eligible facilities located in states not subject to CAIR requirements for SO₂ and NO_x (Oklahoma, Texas and Arkansas of the AEP System), some additional controls will be required. The courts upheld the final rule.

In January 2009, the Federal EPA issued a determination that 37 states (including Indiana, Ohio, Oklahoma, Texas and Virginia) failed to submit SIPs fulfilling the Regional Haze program requirements by the deadline, and commencing a 2-year period for the development of a Federal Implementation Plan (FIP) in these states. We are unable to predict if or how the remand of CAIR or the development of a FIP to satisfy CAVR in certain states may affect our compliance obligations for the Regional Haze programs.

Clean Water Act Requirements

Our operations are also subject to the Federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits, and regulates systems that withdraw surface water for use in our power plants. In 2004, the Federal EPA issued a final rule requiring all large existing power plants with once-through cooling water systems to meet certain standards to reduce mortality of aquatic organisms pinned against the plant's cooling water intake screen or entrained in the cooling water. The standards vary based on the water bodies from which the plants draw their cooling water. We expected additional capital and operating expenses, which the Federal EPA estimated could be \$193 million for our plants. We undertook site-specific studies and have been evaluating site-specific compliance or mitigation measures that could significantly change these cost estimates.

In July 2007, the Federal EPA suspended the 2004 rule, except for the requirement that permitting agencies develop best professional judgment (BPJ) controls for existing facility cooling water intake structures that reflect the best technology available for minimizing adverse environmental impact. The result is that the BPJ control standard for cooling water intake structures in effect prior to the 2004 rule is used as the applicable standard by permitting agencies pending finalization of revised rules by the Federal EPA.

In April 2009, the U.S. Supreme Court issued a decision that allows the Federal EPA the discretion to rely on cost-benefit analysis in setting national performance standards and in providing for cost-benefit variances from those standards as part of the regulations. We cannot predict if or how the Federal EPA will apply this decision to any revision of the regulations or what effect it may have on similar requirements adopted by the states. We expect Federal EPA to issue revised rules in 2010.

Federal EPA is also engaged in rulemaking to update the technology-based standards that govern discharges from new and existing power plants under the Clean Water Act's NPDES program. These standards were last updated over 20 years ago, and EPA has issued two rounds of information collection requests to inform its rulemaking. In October 2009, Federal EPA issued a final report for the power plant sector and determined that revisions to its existing standards are necessary, but EPA has not yet proposed any specific requirements. Until new standards are proposed, we cannot predict the outcome or impact of these rules on our operations.

Coal Ash Regulation

Our operations produce a number of different coal combustion products, including flyash, bottom ash, gypsum, and other materials. In December 2008, the breach of a dike at the Tennessee Valley Authority's Kingston Station resulted in a spill of several million cubic yards of ash into a nearby river and onto private properties, prompting federal and state reviews of ash storage and disposal practices at many coal-fired electric generating facilities, including ours. AEP operates 37 ash ponds and we manage these ponds in a manner that complies with state and local requirements, including dam safety rules designed to assure the structural integrity of these facilities. We also operate a number of dry disposal facilities in accordance with state standards, including ground water monitoring and other applicable standards. Approximately 40% of AEP's coal combustion products are recycled. Federal EPA completed an extensive study of the characteristics of coal ash in 2000 and concluded that combustion wastes do not warrant regulation as hazardous waste. However, Federal EPA issued a Notice of Data Availability and request for public comment in 2007, and is expected to propose new management standards for coal ash and related wastes in early 2010, which could require conversion of ash impoundments to dry disposal facilities or impose hazardous waste regulations upon these wastes. Until these standards are proposed, we cannot predict the outcome or impact of these rules on our operations, but the costs could be material and could reduce our ability to market combustion wastes for beneficial uses.

Global Warming

Position and strategy: The topics of whether the earth is warming, how much and how fast, what role human activity plays, and what to do about it are very controversial and actively debated. The public policy makers and influencers in Washington and in the 11 states we serve have conflicting views. We are focused on taking, in the short term, actions that we see as prudent, such as improving energy efficiency, investing in developing cost-effective and less carbon-intensive technologies, and evaluating our assets across a range of plausible scenarios and outcomes. We are also active participants in a variety of public policy discussions at state and federal levels, to assure that proposed new requirements are feasible and the economies of the states we serve are not placed at a competitive disadvantage.

We support a reasonable approach to reduce emissions of CO₂ and other greenhouse gases (generally referred to throughout as CO₂) that recognizes that a reliable and affordable electric supply is vital to economic stability. We have taken measurable, voluntary actions to reduce and offset our own CO₂ emissions. We participate in a number of voluntary programs to monitor, mitigate, and reduce CO₂ emissions, including the Federal EPA's Climate Leaders program, the DOE's CO₂ reporting program, and the Chicago Climate Exchange. We are considering several options that protect the reliability of the electric system while reducing our carbon emissions. Our strategy is to pursue multiple options including renewable energy, energy efficiency, new technologies, offsets and nuclear generation. At the same time we will continue to improve the efficiency of our plants, retire or mothball some older, inefficient coal units when factors warrant, and complete our environmental retrofit program. For additional information on legislative and regulatory responses to global warming, including limitations on CO₂ emissions, see Management's Financial Discussion and Analysis of Results of Operations under the headings entitled Environmental Matters – Global Warming. Specific steps taken to reduce CO₂ emissions include the following:

Carbon Capture and Storage

We successfully captured, transported and stored CO₂ emissions from a coal-fired power plant in deep geologic formations for the first time in October 2009, for 20 MW of our 1,300 MW Mountaineer Plant in West Virginia. The next phase of this project – to install the nation's first commercial-scale coal-derived CO₂ capture and storage system at the Mountaineer Plant—will be partially funded through the U.S. Department of Energy's (DOE) Clean Coal Power Initiative. AEP has been awarded federal grant funding of \$334 million, which represents approximately half the cost of this phase of the project, exclusive of asset retirement obligations. The commercial-scale phase of AEP's CO₂ program will capture approximately 90% of the CO₂ from 235 MW of the plant's 1,300 MW of capacity.

Renewable Sources of Energy

Some of our states have passed legislation establishing renewable energy, alternative energy, and/or energy efficiency requirements or goals (including Ohio, Texas, Michigan, Virginia and West Virginia) and we are taking steps to comply with these requirements in a timely fashion. In order to meet these requirements and as a key part of its corporate sustainability effort, AEP pledged to increase its renewable power by an additional 2000 MW from its 2007 levels by 2011, subject to regulatory approval. By the end of 2009, AEP has already secured, through power purchase agreements, an additional 1,013.5 MW of renewable power. AEP's integrated resource plan contains a 10% renewable energy target by 2020, which, together with other qualifying alternative energy and energy efficiency measures, will exceed the clean energy requirements currently in effect in our states.

Limiting Emissions through Energy Efficiency

Energy efficiency is a high priority for us because it is a cost-effective way to reduce CO₂ emissions and can delay the need to build new power plants. We work closely with regulators, environmental groups, technical experts and others to develop and implement efficiency and demand response programs. We have a 2012 goal to reduce 1,000 MW of demand and 2,250,000 MWh of energy consumption. Through 2009, we have achieved 152 MW and 471,000 MWh of demand and energy reduction, respectively.

With regulatory support from the PUCO and partial funding from the DOE, AEP Ohio's gridSMARTSM Demonstration Project will install 110,000 advanced electricity meters, smart appliances, secure integrated smart grid technology, and enable plug-in hybrid electric vehicles and other consumer systems that will help customers manage electricity use and costs. The \$150 million project, \$75 million of which will come from federal stimulus funds, is designed to reduce energy consumption by 18,000 MWh and peak demand by 15 MW over a three year period – eliminating the equivalent of the energy needed to power 1,800 homes. To pay for this project, the PUCO approved project trackers in customer rates that allow us to recover costs specific to these programs in a timely manner.

Current and Projected CO2 Emissions: Our total CO2 emissions in 2008 (including our ownership in the Kyger Creek and Clifty Creek plants) were approximately 155 million metric tons. We estimate that our 2009 emissions were approximately 140 million metric tons. Since 2004 our cumulative CO2 emission reductions were 51 million metric tons by the end of 2008 from adjusted baseline levels in 1998 through 2001, and will be in excess of 70 million tons at the end of 2009. Emissions in 2010 and beyond will be affected by continued changes in our generation portfolio, market prices, the pace and scale of the economic recovery in our jurisdictions, available capital, weather, and other factors. We expect overall increases in CO2 emissions during the 2010-2012 timeframe as our sales and generation rebound somewhat from recession lows in 2009. However, over much of the remainder of the decade we expect emissions growth to be relatively flat as increased fossil generation needed to meet modest sales growth is largely offset by retirements of some older coal-fired units and increased use of renewable energy, particularly from wind.

Corporate governance: Several years ago in response to a shareholder proposal, our Board of Directors created an ad hoc committee to evaluate our actions to mitigate the economic impact from future policies to reduce CO2 and other emissions. Our Board of Directors continues to review environmental issues on a regular basis and in connection with its review of our strategic plan. The Board of Directors is also frequently informed of any new material environmental issues, including updates on any proposed legislation. The Board of Directors' Committee on Directors and Corporate Governance oversees our Sustainability Report, including the portion of the report that relates to environmental issues. Environmental planning and policy leadership are criteria incorporated into our executive incentive compensation plan.

Other environmental issues and matters

- Litigation with the federal and/or certain state governments and certain special interest groups regarding regulated air emissions and/or whether emissions from coal-fired generating plants cause or contribute to global warming. See Management's Financial Discussion and Analysis of Results of Operations under the heading entitled Litigation - Environmental Litigation and Note 6 to the consolidated financial statements entitled Commitments, Guarantees and Contingencies, included in the 2009 Annual Reports, for further information.
- CERCLA, which imposes costs for environmental remediation upon owners and previous owners of sites, as well as transporters and generators of hazardous material disposed of at such sites. See Note 6 to the consolidated financial statements entitled Commitments, Guarantees and Contingencies, included in the 2009 Annual Reports, under the heading entitled The Comprehensive Environmental Response Compensation and Liability Act (Superfund) and State Remediation for further information.

Environmental Investments

Investments related to improving AEP System plants' environmental performance and compliance with air and water quality standards during 2007, 2008 and 2009 and the current estimates for 2010, 2011 and 2012 are shown below, in each case excluding AFUDC or capitalized interest. AEP expects to make substantial investments in addition to the amounts set forth below in future years in connection with the modification and addition of facilities at generating plants for environmental quality controls. Such future investments are needed in order to comply with air and water quality standards that have been adopted and have deadlines for compliance after 2012 or have been proposed and may be adopted. Future investments could be significantly greater if emissions reduction requirements are accelerated

or otherwise become more onerous or if CO₂ becomes regulated. While we expect to recover our expenditures for pollution control technologies, replacement generation and associated operating costs from customers through regulated rates (in regulated jurisdictions) or market prices, without such recovery those costs could adversely affect future results of operations and cash flows, and possibly financial condition. The cost of complying with applicable environmental laws, regulations and rules is expected to be material to the AEP System. See Management's Financial Discussion and Analysis of Results of Operations under the heading entitled Environmental Matters and Note 6 to the consolidated financial statements, entitled Commitments, Guarantees and Contingencies, included in the 2009 Annual Reports, for more information regarding environmental expenditures in general.

Historical and Projected Environmental Investments

	2007 Actual	2008 Actual	2009 Actual	2010 Estimate	2011 Estimate	2012 Estimate
	(in thousands)					
Total AEP System*	\$ 994,100	\$ 886,800	\$ 457,200	\$ 321,700	\$ 233,900	\$ 405,600
APCo	351,900	361,200	191,900	127,000	57,600	16,200
CSPCo	130,000	162,800	73,800	76,600	20,600	39,000
I&M	9,300	22,400	19,600	10,100	800	1,600
OPCo	481,700	311,800	151,000	67,500	49,400	39,300
PSO	1,500	5,000	1,000	1,700	15,200	59,800
SWEPCo	14,300	12,000	10,700	30,400	64,800	143,900

* Includes expenditures of the subsidiaries shown and other subsidiaries not shown. The figures reflect construction expenditures, not investments in subsidiary companies. Excludes discontinued operations.

Electric and Magnetic Fields

EMF are found everywhere there is electricity. Electric fields are created by the presence of electric charges. Magnetic fields are produced by the flow of those charges. This means that EMF are created by electricity flowing in transmission and distribution lines, electrical equipment, household wiring, and appliances. A number of studies in the past have examined the possibility of adverse health effects from EMF. While some of the epidemiological studies have indicated some association between exposure to EMF and health effects, none has produced any conclusive evidence that EMF does or does not cause adverse health effects.

Management cannot predict the ultimate impact of the question of EMF exposure and adverse health effects. If further research shows that EMF exposure contributes to increased risk of cancer or other health problems, or if the courts conclude that EMF exposure harms individuals and that utilities are liable for damages, or if states limit the strength of magnetic fields to such a level that the current electricity delivery system must be significantly changed, then the results of operations and financial condition of AEP and its operating subsidiaries could be materially adversely affected unless these costs can be recovered from customers.

UTILITY OPERATIONS

GENERAL

Utility operations constitute most of AEP's business operations. Utility operations include (i) the generation, transmission and distribution of electric power to retail customers and (ii) the supplying and marketing of electric power at wholesale (through the electric generation function) to other electric utility companies, municipalities and

other market participants. AEPSC, as agent for AEP's public utility subsidiaries, performs marketing, generation dispatch, fuel procurement and power-related risk management and trading activities.

ELECTRIC GENERATION

Facilities

AEP's public utility subsidiaries own or lease approximately 37,000 MW of domestic generation. See Item 2 — Properties for more information regarding AEP's generation capacity.

AEP Power Pool and CSW Operating Agreement

APCo, CSPCo, I&M, KPCo, OPCo, and AEPSC are parties to the AEP Interconnection Agreement, which has been approved by the FERC. This agreement defines how the member companies share the costs and benefits associated with their generating plants. This sharing is based upon each company's "member load ratio." The member load ratio is calculated monthly by dividing each company's highest monthly peak demand for the last twelve months by the aggregate of the highest monthly peak demand for the last twelve months for all member companies. The member load ratio multiplied by the aggregate generation capacity of all the member companies determines each member company's capacity obligation. The difference between each member company's obligation and its own generation capacity determines the capacity surplus or deficit of each member company. The agreement requires the deficit companies to make monthly capacity equalization payments to the surplus companies based on the surplus companies' average fixed cost of generation. Member companies that deliver energy to other member companies to meet their internal load requirements are reimbursed at average variable costs. In addition, all member companies share off-system sales margins based upon each member company's member load ratio. Consequently, the agreement provides a strong risk sharing and mitigation arrangement among the member companies. As of December 31, 2009, the member-load-ratios were as follows:

	Peak Demand (MW)	Member-Load Ratio (%)
APCo	8,308	35.6
CSPCo	4,209	18.0
I&M	4,245	18.2
KPCo	1,674	7.2
OPCo	4,901	21.0

APCo, CSPCo, I&M, KPCo and OPCo are parties to the AEP System Interim Allowance Agreement (Allowance Agreement), which has been approved by the FERC and provides, among other things, for the transfer of SO2 emission allowances associated with transactions under the Interconnection Agreement. The following table shows the net (credits) or charges allocated among the parties under the Interconnection Agreement during the years ended December 31, 2007, 2008 and 2009:

	2007	2008	2009
	(in thousands)		
APCo	\$454,800	\$575,300	\$668,700
CSPCo	173,000	233,200	257,600
I&M	(93,200)	(153,000)	(100,900)
KPCo	41,200	65,000	31,600
OPCo	(575,800)	(720,500)	(857,000)

PSO, SWEPCo and AEPSC are parties to a Restated and Amended Operating Agreement (CSW Operating Agreement), which has been approved by the FERC. The CSW Operating Agreement requires these public utility subsidiaries to maintain adequate annual planning reserve margins and requires the subsidiaries that have capacity in excess of the required margins to make such capacity available for sale to other public utility subsidiary parties as capacity commitments. Parties are compensated for energy delivered to the recipients based upon the deliverer's incremental cost plus a portion of the recipient's savings realized by the purchaser that avoids the use of more costly alternatives. Revenues and costs arising from third party sales in their region are generally shared based on the amount of energy each west zone public utility subsidiary contributes that is sold to third parties. The separation of the generation business undertaken by TCC and TNC to comply with the Texas Act has made their business operations incompatible with the CSW Operating Agreement. As a result, with FERC approval, these companies as of May 1, 2006, are no longer parties to, and no longer supply generating capacity under, the CSW Operating Agreement.

The following table shows the net (credits) or charges allocated among the parties under the CSW Operating Agreement during the years ended December 31, 2007, 2008 and 2009:

	2007	2008	2009
	(in thousands)		
PSO	\$(17,500)	\$(57,000)	\$(22,762)
SWEPCo	16,800	59,900	22,762

Power generated by or allocated or provided under the Interconnection Agreement or CSW Operating Agreement to any public utility subsidiary is primarily sold to customers by such public utility subsidiary at rates approved by the public utility commission in the jurisdiction of sale. See Regulation — Rates under Item 1, Utility Operations.

Under both the Interconnection Agreement and CSW Operating Agreement, power that is not needed to serve the native load of our public utility subsidiaries is sold in the wholesale market by AEPSC on behalf of those subsidiaries. See Risk Management and Trading, below, for a discussion of the trading and marketing of such power.

AEP's System Integration Agreement provides for the integration and coordination of AEP's East companies, PSO and SWEPCO. This includes joint dispatch of generation within the AEP System and the distribution, between the two zones, of costs and benefits associated with the transfers of power between the two zones (including sales to third parties and risk management and trading activities). It is designed to function as an umbrella agreement in addition to the Interconnection Agreement and the CSW Operating Agreement, each of which controls the distribution of costs and benefits for activities within each zone. Because TCC and TNC have exited the generation business, these two companies are no longer parties to the System Integration Agreement.

Risk Management and Trading

As agent for AEP's public utility subsidiaries, AEPSC sells excess power into the market and engages in power, natural gas, coal and emissions allowances risk management and trading activities focused in regions in which AEP traditionally operates and in adjacent regions. These activities primarily involve the purchase and sale of electricity (and to a lesser extent, natural gas, coal and emissions allowances) under physical forward contracts at fixed and variable prices. These contracts include physical transactions, over-the-counter swaps and exchange-traded futures and options. The majority of physical forward contracts are typically settled by netting into offsetting contracts. These transactions are executed with numerous counterparties or on exchanges. Counterparties and exchanges may require cash or cash related instruments to be deposited on these transactions as margin against open positions. As of December 31, 2009, counterparties have posted approximately \$52 million in cash, cash equivalents or letters of credit with AEPSC for the benefit of AEP's public utility subsidiaries (while, as of that date, AEP's public utility subsidiaries had posted approximately \$203 million with counterparties and exchanges). Since open trading contracts are valued based on market prices of various commodities, exposures change daily. See Management's Financial Discussion and

Analysis of Results of Operations, included in the 2009 Annual Reports, under the heading entitled Quantitative and Qualitative Disclosures About Risk Management Activities for additional information.

Fuel Supply

The following table shows the sources of fuel used by the AEP System:

	2007	2008	2009
Coal and Lignite	85%	86%	88%
Natural Gas	6%	6%	6%
Nuclear	9%	8%	5%
Hydroelectric and other			