

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

**KENTUCKY POWER COMPANY**

Line No.					Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 132)			\$51,642,512
			<u>Total</u>	<u>Allocator</u>	
2	REVENUE CREDITS	(Note A) (Worksheet E)	1,005,221	DA 1.00000	\$ 1,005,221
3	REVENUE REQUIREMENT For All KPCo Facilities	(In 1 less In 2)			<u>\$ 50,637,291</u>
<b>MEMO: The Carrying Charge Calculations on lines 4 to 12 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line is included in the total on line 3.</b>					
4	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives) (Worksheet J)		-	DA 1.00000	\$ -
5	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
6	Annual Rate	( (In 1 - In 101 - In 102) / In 43 x 100)			18.17%
7	Monthly Rate	(In 6 / 12)			1.51%
8	NET PLANT CARRYING CHARGE ON LINE 6 , W/O DEPRECIATION (w/o incentives) (Note B)				
9	Annual Rate	( (In 1 - In 101 - In 102 - In 107) / In 43 x 100)			15.81%
10	NET PLANT CARRYING CHARGE ON LINE 8, W/O INCOME TAXES, RETURN (Note B)				
11	Annual Rate	( (In 1 - In 101 - In 102 - In 107 - In 129 - In 130) / In 43 x 100)			4.22%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				-
13	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
14	Total Load Dispatch & Scheduling (Account 561)	Line 81 Below			2,218,840
15	Less: Load Dispatch - Scheduling, System Control and Dispatch Services (321.88.b)				1,181,168
16	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				205,033
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)			<u>832,639</u>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

KENTUCKY POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
Line No.	<u>RATE BASE CALCULATION</u>	<u>Data Sources (See "General Notes")</u>	<u>TO Total NOTE C</u>	<u>Allocator</u>	<u>Total Transmission</u>
13	GROSS PLANT IN SERVICE				
13	Production	(Worksheet A In 1.C)	527,219,064	NA	0.00000
14	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	(3,337,422)	NA	0.00000
15	Transmission	(Worksheet A In 3.C & In 136)	431,804,417	DA	
16	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP	0.99630
17	Plus: Transmission Plant-in-Service Additions (Worksheet I)		21,682,645	TP	0.99630
18	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		-	TP	0.99630
19	Distribution	(Worksheet A In 5.C)	528,711,039	NA	0.00000
20	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA	0.00000
21	General Plant	(Worksheet A In 7.C)	33,659,644	W/S	0.09006
22	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S	0.09006
23	Intangible Plant	(Worksheet A In 9.C)	22,360,066	W/S	0.09006
24	TOTAL GROSS PLANT	(sum Ins 13 to 23)	1,562,099,453		
25	ACCUMULATED DEPRECIATION AND AMORTIZATION				
26	Production	(Worksheet A In 12.C)	210,169,120	NA	0.00000
27	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	(199,087)	NA	0.00000
28	Transmission	(Worksheet A In 14.C & 28.C)	135,462,933	TP1=	0.99589
29	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1=	0.99589
30	Plus: Transmission Plant-in-Service Additions (Worksheet I)		138,190	DA	1.00000
31	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		-	DA	1.00000
32	Plus: Additional Transmission Depreciation for 2009 (In 107)		7,010,560	TP1	0.99589
33	Plus: Additional General & Intangible Depreciation for 2009 (In 109 + In 110)		4,080,441	W/S	0.09006
34	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		-	DA	1.00000
35	Distribution	(Worksheet A In 16.C)	133,637,433	NA	0.00000
36	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA	0.00000
37	General Plant	(Worksheet A In 18.C)	6,568,989	W/S	0.09006
38	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S	0.09006
39	Intangible Plant	(Worksheet A In 20.C)	20,273,525	W/S	0.09006
40	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 26 to 39)	517,142,104		
41	NET PLANT IN SERVICE				
42	Production	(In 13 + In 14 - In 26 - In 27)	313,911,609		
43	Transmission	(In 15 + In 16 - In 28 - In 29)	296,341,484		
44	Plus: Transmission Plant-in-Service Additions (In 17 - In 30)		21,544,455		
45	Plus: Additional Trans Plant on Transferred Assets (In 18 - In 31)		-		
46	Plus: Additional Transmission Depreciation for 2009 (-In 32)		(7,010,560)		
47	Plus: Additional General & Intangible Depreciation for 2009 (-In 33)		(4,080,441)		
48	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 34)		-		
49	Distribution	(In 19 + In 20 - In 35 - In 36)	395,073,606		
50	General Plant	(In 21 + In 22 - In 37 - In 38)	27,090,655		
51	Intangible Plant	(In 23 - In 39)	2,086,541		
52	TOTAL NET PLANT IN SERVICE	(sum Ins 42 to 51)	1,044,957,349		
53	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
54	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	(32,792,379)	NA	
55	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(131,548,600)	DA	
56	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(27,781,673)	DA	
57	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	42,717,261	DA	
58	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	-	DA	
59	TOTAL ADJUSTMENTS	(sum Ins 54 to 58)	(149,405,391)		
60	PLANT HELD FOR FUTURE USE	(Worksheet A In 29.C & In 30.C)	6,808,947	DA	
61	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP	0.99630
62	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	
63	WORKING CAPITAL	(Note E)			
64	Cash Working Capital	(1/8 * In 100)	3,427,471		
65	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	38,016	TP	0.99630
66	A&G Materials & Supplies	(Worksheet C, In 3.(D))	94,928	W/S	0.09006
67	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h)	0.28255
68	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	17,051,597	W/S	0.09006
69	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	778,895	GP(h)	0.28255
70	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA	1.00000
71	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(16,559,778)	NA	0.00000
72	TOTAL WORKING CAPITAL	(sum Ins 64 to 71)	4,831,129		
73	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7.(B))	(228,221)	DA	1.00000
74	RATE BASE (sum Ins 52, 59, 60, 72, 73)		906,963,812		
					274,338,922

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

KENTUCKY POWER COMPANY

Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
75	OPERATION & MAINTENANCE EXPENSE				
76	Production	321.80.b	499,308,352		
77	Distribution	322.156.b	26,602,282		
78	Customer Related Expense	322.164.b & 323.171,178.b	9,054,783		
79	Regional Marketing Expenses	322.131.b	1,026,386		
80	Transmission	321.112.b	6,738,351		
81	TOTAL O&M EXPENSES	(sum Ins 75 to 79)	542,730,154		
82	Less: Total Account 561	(Note G) 321.84-92.b	2,218,840		
83	Less: Account 565	(Note H) 321.96.b	(1,531,617)		
84	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4)	-		
85	Total O&M Allocable to Transmission	(Ins 79 - 81 - 82 - 83)	6,051,128	TP 0.99630	6,028,713
86	Administrative and General	323.197.b (Note K)	22,281,818		
87	Less: Acct. 924, Property Insurance	323.185.b	367,523		
88	Acct. 928, Reg. Com. Exp.	323.189.b	2,026		
89	Acct. 930.1, Gen. Advert. Exp.	323.191.b	154,799		
90	Acct. 930.2, Misc. Gen. Exp.	323.192.b	2,210,676		
91	Balance of A & G	(In 85 - sum In 86 to In 89)	19,546,794	W/S 0.09006	1,760,465
92	Plus: Acct. 924, Property Insurance	(In 86)	367,523	GP(h) 0.28255	103,845
93	Acct. 928 - Transmission Specific	Worksheet F In 19.(E) (Note L)	-	TP 0.99630	-
94	Acct. 928 - Transmission Allocated	Worksheet F In 19.(F) (Note L)	-	GP(h) 0.28255	-
95	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 36.(E) (Note L)	-	DA 1.00000	-
96	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 36.(F) (Note L)	-	GP(h) 0.28255	-
97	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 42.(E) (Note L)	1,103,343	DA 1.00000	1,103,343
98	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 42.(F) (Note L)	263,862	W/S 0.09006	23,764
99	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	(87,115)	W/S 0.09006	(7,846)
100	A & G Subtotal	(sum Ins 90 to 97 less In 98)	21,368,637		2,999,263
101	O & M EXPENSE SUBTOTAL	(In 84 + In 99)	27,419,765		9,027,977
102	Plus: TEA Settlement in Account 565	Company Records (Note M)	(2,022,570)	DA 1.00000	(2,022,570)
103	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)		-	DA 1.00000	-
104	TOTAL O & M EXPENSE	(In 100 + In 101 + In 102)	25,397,195		7,005,407
105	DEPRECIATION AND AMORTIZATION EXPENSE				
106	Production	336.2-6.f	18,286,792	NA 0.00000	-
107	Distribution	336.8.f	18,041,242	NA 0.00000	-
108	Transmission	336.7.f	7,010,560	TP 0.99630	6,984,592
109	Plus: Transmission Plant-in-Service Additions (Worksheet I)		138,190	TP 0.99630	137,678
110	General	336.10.f	865,797	W/S 0.09006	77,977
111	Intangible	336.1.f	3,214,644	W/S 0.09006	289,524
112	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 105 to 110)	47,557,225		7,489,771
113	TAXES OTHER THAN INCOME	(Note N)			
114	Labor Related				
115	Payroll	Worksheet H In 18.(D)	1,891,552	W/S 0.09006	170,361
116	Plant Related				
117	Property	Worksheet H In 18.(C), 30.(C)	6,520,591	DA	2,555,209
118	Gross Receipts/Sales & Use	Worksheet H In 18.(F)	523,437	NA 0.00000	-
119	Other	Worksheet H In 18.(E)	708,638	GP(h) 0.28255	200,228
120	TOTAL OTHER TAXES	(sum Ins 114 to 118)	9,644,218		2,925,798
121	INCOME TAXES	(Note O)			
122	T=1 - [(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p) =		38.23%		
123	EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =		40.60%		
124	where WCLTD=(In 155) and WACC = (In 158)				
125	and FIT, SIT & p are as given in Note O.				
126	GRCF=1 / (1 - T) = (from In 121)		1.6189		
127	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	(875,186)		
128	Income Tax Calculation	(In 122 * In 130)	33,045,510		9,995,624
129	ITC adjustment	(In 125 * In 126)	(1,416,858)	NP(h) 0.28799	(408,040)
130	TOTAL INCOME TAXES	(sum Ins 127 to 128)	31,628,653		9,587,584
131	RETURN ON RATE BASE (Rate Base*WACC)	(In 74 * In 158)	81,394,405		24,620,225
132	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2)		13,727	DA 1.00000	13,727
133	TOTAL REVENUE REQUIREMENT	(sum Ins 103, 111, 119, 129, 130, 131)	195,635,422		51,642,512



AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

KENTUCKY POWER COMPANY

Letter

Notes

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Plant balances in this study are projected as of December 31, 2009. Other ratebase amounts are as of December 31, 2008.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 100.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 73 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 131.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 119.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 11.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and  $p =$  "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 126) multiplied by  $(1/1-T)$ . If the applicable tax rates are zero enter 0.
- |                  |       |   |
|------------------|-------|---|
| Inputs Required: | FIT = | 35.00%  |
|                  | SIT=  | 4.97% (State Income Tax Rate or Composite SIT. Worksheet G)         |
|                  | p =   | 0.00% (percent of federal income tax deductible for state purposes) |
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 146) / long term debt (In 155). Preferred Stock cost rate = preferred dividends (In 147) / preferred outstanding (In 156). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO.
- T This note only applies to Indiana Michigan Power Company.

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

**KENTUCKY POWER COMPANY**

Line No.			Total	Allocator	Transmission Amount
159	REVENUE REQUIREMENT (w/o incentives)	(In 290)			\$49,723,831
160	REVENUE CREDITS	(Note A) (Worksheet E)	1,005,221	DA 1.00000	\$ 1,005,221
161	REVENUE REQUIREMENT For All KPCo Facilities	(In 159 less In 160)			<u>\$ 48,718,609</u>
<b>MEMO: The Carrying Charge Calculations on lines 162 to 170 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line is included in the total on line 161.</b>					
162	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives)	(Worksheet J)	-	DA 1.00000	\$ -
163	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
164	Annual Rate	((In 159 - In 259 - In 260) / In 201 x 100)			17.52%
165	Monthly Rate	(In 164 / 12)			1.46%
166	NET PLANT CARRYING CHARGE ON LINE 164 , W/O DEPRECIATION (w/o incentives) (Note B)				
167	Annual Rate	((In 159 - In 259 - In 260 - In 265) / In 201 x 100)			15.16%
168	NET PLANT CARRYING CHARGE ON LINE 166, W/O INCOME TAXES, RETURN (Note B)				
169	Annual Rate	((In 159 - In 259 - In 260 - In 265 - In 287 - In 288) / In 201 x 100)			4.18%
170	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				
171	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
172	Total Load Dispatch & Scheduling (Account 561)	Line 239 Below			2,218,840
173	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				1,181,168
174	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				205,033
175	Total 561 Internally Developed Costs	(Line 172 - Line 173 - Line 174)			<u>832,639</u>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

KENTUCKY POWER COMPANY

Line No.	(1)	(2)	(3)	(4)	(5)
	<b>RATE BASE CALCULATION</b>	<b>Data Sources (See "General Notes")</b>	<b>TO Total NOTE C</b>	<b>Allocator</b>	<b>Total Transmission</b>
171	GROSS PLANT IN SERVICE				
171	Production	(Worksheet A In 1.C)	527,219,064	NA 0.00000	-
172	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	(3,337,422)	NA 0.00000	-
173	Transmission	(Worksheet A In 3.C & In 294)	431,804,417	DA	430,204,933
174	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP 0.99630	-
175	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA 0.00000	N/A
176	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA 0.00000	N/A
177	Distribution	(Worksheet A In 5.C)	528,711,039	NA 0.00000	-
178	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA 0.00000	-
179	General Plant	(Worksheet A In 7.C)	33,659,644	W/S 0.09006	3,031,526
180	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S 0.09006	-
181	Intangible Plant	(Worksheet A In 9.C)	22,360,066	W/S 0.09006	2,013,840
182	TOTAL GROSS PLANT	(sum Ins 171 to 181)	1,540,416,808	GP(h)= 0.282554 GTD= 0.44789	435,250,299
183	ACCUMULATED DEPRECIATION AND AMORTIZATION				
184	Production	(Worksheet A In 12.C)	210,169,120	NA 0.00000	-
185	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	(199,087)	NA 0.00000	-
186	Transmission	(Worksheet A In 14.C & 28.C)	135,462,933	TP1= 0.99589	134,906,408
187	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1= 0.99589	-
188	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA 1.00000	N/A
189	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA 1.00000	N/A
190	Plus: Additional Transmission Depreciation for 2009 (In 265)		N/A	TP1 0.99589	N/A
191	Plus: Additional General & Intangible Depreciation for 2009 (In 264 + In 265)		N/A	W/S 0.09006	N/A
192	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA 1.00000	N/A
193	Distribution	(Worksheet A In 16.C)	133,637,433	NA 0.00000	-
194	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA 0.00000	-
195	General Plant	(Worksheet A In 18.C)	6,568,989	W/S 0.09006	591,630
196	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S 0.09006	-
197	Intangible Plant	(Worksheet A In 20.C)	20,273,525	W/S 0.09006	1,825,917
198	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 184 to 197)	505,912,913		137,323,956
199	NET PLANT IN SERVICE				
200	Production	(In 171 + In 172 - In 184 - In 185)	313,911,609		-
201	Transmission	(In 173 + In 174 - In 186 - In 187)	296,341,484		295,298,524
202	Plus: Transmission Plant-in-Service Additions (In 175 - In 188)		N/A		N/A
203	Plus: Additional Trans Plant on Transferred Assets (In 176 - In 189)		N/A		N/A
204	Plus: Additional Transmission Depreciation for 2009 (-In 190)		N/A		N/A
205	Plus: Additional General & Intangible Depreciation for 2009 (-In 191)		N/A		N/A
206	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 192)		N/A		N/A
207	Distribution	(In 177 + In 178 - In 193 - In 194)	395,073,606		-
208	General Plant	(In 179 + In 180 - In 195 - In 196)	27,090,655		2,439,896
209	Intangible Plant	(In 181 - In 197)	2,086,541		187,922
210	TOTAL NET PLANT IN SERVICE	(sum Ins 200 to 209)	1,034,503,895	NP(h)= 0.287990	297,926,343
211	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
212	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	(32,792,379)	NA	-
213	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(131,548,600)	DA	(42,453,539)
214	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(27,781,673)	DA	(1,621,711)
215	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	42,717,261	DA	3,639,841
216	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	-	DA	-
217	TOTAL ADJUSTMENTS	(sum Ins 212 to 216)	(149,405,391)		(40,435,409)
218	PLANT HELD FOR FUTURE USE	(Worksheet A In 29.C & In 30.C)	6,808,947	DA	30,592
219	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31. (C))	-	TP 0.99630	-
220	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
221	WORKING CAPITAL	(Note E)			
222	Cash Working Capital	(1/8 * In 258)	3,427,471		1,128,497
223	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	38,016	TP 0.99630	37,875
224	A&G Materials & Supplies	(Worksheet C, In 3.(D))	94,928	W/S 0.09006	8,550
225	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h) 0.28255	-
226	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	17,051,597	W/S 0.09006	1,535,737
227	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	778,895	GP(h) 0.28255	220,080
228	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA 1.00000	-
229	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(16,559,778)	NA 0.00000	-
230	TOTAL WORKING CAPITAL	(sum Ins 222 to 229)	4,831,129		2,930,739
231	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7.(B))	(228,221)	DA 1.00000	(228,221)
232	RATE BASE (sum Ins 210, 217, 218, 230, 231)		896,510,358		260,224,043

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

KENTUCKY POWER COMPANY

Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
233	OPERATION & MAINTENANCE EXPENSE				
233	Production	321.80.b	499,308,352		
234	Distribution	322.156.b	26,602,282		
235	Customer Related Expense	322.164 & 323.171,178.b	9,054,783		
236	Regional Marketing Expenses	322.131.b	1,026,386		
237	Transmission	321.112.b	6,738,351		
238	TOTAL O&M EXPENSES	(sum Ins 233 to 237)	542,730,154		
239	Less: Total Account 561	(Note G) 321.84-92.b	2,218,840		
240	Less: Account 565	(Note H) 321.96.b	(1,531,617)		
241	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4)	-		
242	Total O&M Allocable to Transmission	(Ins 237 - 239 - 240 - 241)	6,051,128	TP 0.99630	6,028,713
243	Administrative and General	323.197.b (Note K)	22,281,818		
244	Less: Acct. 924, Property Insurance	323.185.b	367,523		
245	Acct. 928, Reg. Com. Exp.	322.189.b	2,026		
246	Acct. 930.1, Gen. Advert. Exp.	322.191.b	154,799		
247	Acct. 930.2, Misc. Gen. Exp.	322.192.b	2,210,676		
248	Balance of A & G	(In 243 - sum In 244 to In 247)	19,546,794	W/S 0.09006	1,760,465
249	Plus: Acct. 924, Property Insurance	(In 244)	367,523	GP(h) 0.28255	103,845
250	Acct. 928 - Transmission Specific	Worksheet F In 19.(E) (Note L)	-	TP 0.99630	-
251	Acct. 928 - Transmission Allocated	Worksheet F In 19.(F) (Note L)	-	GP(h) 0.28255	-
252	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 36.(E) (Note L)	-	GP(h) 0.28255	-
253	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 36.(F) (Note L)	-	DA 1.00000	-
254	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 42.(E) (Note L)	1,103,343	DA 1.00000	1,103,343
255	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 42.(F) (Note L)	263,862	W/S 0.09006	23,764
256	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	(87,115)	W/S 0.09006	(7,846)
257	A & G Subtotal	(sum Ins 248 to 255 less In 256)	21,368,637		2,999,263
258	O & M EXPENSE SUBTOTAL	(In 242 + In 257)	27,419,765		9,027,977
259	Plus: TEA Settlement in Account 565	Company Records (Note M)	(2,022,570)	DA 1.00000	(2,022,570)
260	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)			DA 1.00000	-
261	TOTAL O & M EXPENSE	(In 258 + In 259 + In 260)	25,397,195		7,005,407
262	DEPRECIATION AND AMORTIZATION EXPENSE				
263	Production	336.2-6.f	18,286,792	NA 0.00000	-
264	Distribution	336.8.f	18,041,242	NA 0.00000	-
265	Transmission	336.7.f	7,010,560	TP 0.99630	6,984,592
266	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A		N/A
267	General	336.10.f	865,797	W/S 0.09006	77,977
268	Intangible	336.1.f	3,214,644	W/S 0.09006	289,524
269	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 263 to 268)	47,419,035		7,352,093
270	TAXES OTHER THAN INCOME	(Note N)			
271	Labor Related				
272	Payroll	Worksheet H In 18.(D)	1,891,552	W/S 0.09006	170,361
273	Plant Related				
274	Property	Worksheet H In 18.(C) & 30.(C)	6,520,591	DA	2,555,209
275	Gross Receipts/Sales & Use	Worksheet H In 18.(F)	523,437	NA 0.00000	-
276	Other	Worksheet H In 18.(E)	708,638	GP(h) 0.28255	200,228
277	TOTAL OTHER TAXES	(sum Ins 272 to 276)	9,644,218		2,925,798
278	INCOME TAXES	(Note O)			
279	$T=1 - ((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p)$		38.23%		
280	$EIT=(T/(1-T)) * (1-(WCLTD/WACC))$		40.60%		
281	where WCLTD=(In 313) and WACC = (In 316)				
282	and FIT, SIT & p are as given in Note O.				
283	$GRCF=1 / (1 - T) =$ (from In 279)		1.6189		
284	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	(875,186)		
285	Income Tax Calculation	(In 280 * In 288)	32,664,635		9,481,344
286	ITC adjustment	(In 283 * In 284)	(1,416,858)	NP(h) 0.28799	(408,040)
287	TOTAL INCOME TAXES	(sum Ins 285 to 286)	31,247,778		9,073,304
288	RETURN ON RATE BASE (Rate Base*WACC)	(In 232 * In 316)	80,456,272		23,353,502
289	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2)		13,727	DA 1.00000	13,727
290	TOTAL REVENUE REQUIREMENT (sum Ins 261, 269, 277, 287, 288, 289)		194,178,224		49,723,831

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

KENTUCKY POWER COMPANY

**SUPPORTING CALCULATIONS**

In No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
291	Total transmission plant	(In 173)						431,804,417
292	Less transmission plant excluded from PJM Tariff (Note P)							-
293	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)							1,599,484
294	Transmission plant included in PJM Tariff	(In 291 - In 292 - In 293)						430,204,933
295	Percent of transmission plant in PJM Tariff	(In 294 / In 291)					<b>TP=</b>	<b>0.99630</b>
296	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Direct Payroll	Payroll Billed from AEP Service Corp.	Total			
297	Production	354.20.b	11,105,987	4,190,845	15,296,832	NA	0.00000	-
298	Transmission	354.21,22.b	1,623,057	1,123,373	2,746,430	TP	0.99630	2,736,257
299	Distribution	354.23.b	7,870,260	671,164	8,541,424	NA	0.00000	-
300	Other (Excludes A&G)	354.24,25,26.b	1,981,869	1,814,654	3,796,523	NA	0.00000	-
301	Total	(sum Ins 297 to 300)	22,581,173	7,800,036	30,381,209			2,736,257
302	Transmission related amount						<b>W/S=</b>	<b>0.09006</b>
303	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							\$
304	Long Term Interest	(Worksheet K)						25,254,043
305	Preferred Dividends	(Worksheet K)						-
306	<u>Development of Common Stock:</u>							
307	Proprietary Capital	(FF1 p 112, Ln 16.c)						398,008,673
308	Less Preferred Stock (In 314)	(FF1 p 112, Ln 3.c)						-
309	Less Account 216.1	(FF1 p 112, Ln 12.c)						-
310	Less Account 219	(FF1 p 112, Ln 15.c)						59,584
311	Common Stock	(In 307 - In 308 - In 309 - In 310)						397,949,089
312			\$	%			Cost (Note S)	Weighted
313	Long Term Debt (Note T)	(Worksheet K)	420,000,000	51.35%			6.01%	0.0309
314	Preferred Stock	(In 308)	-	0.00%			0.00%	0.0000
315	Common Stock	(In 311)	397,949,089	48.65%			12.10%	0.0589
316	Total	(Sum Ins 313 to 315)	817,949,089				<b>WACC=</b>	<b>0.0897</b>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

KENTUCKY POWER COMPANY

Letter

Notes

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Plant balances in this study are as of December 31, 2008.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 258.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 231 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 289.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 277.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 169.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 284) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.  
Inputs Required:
- |       |        |   |
|-------|--------|---|
| FIT = | 35.00% |   |
| SIT = | 4.97%  | (State Income Tax Rate or Composite SIT. Worksheet G))        |
| p =   | 0.00%  | (percent of federal income tax deductible for state purposes) |
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 304) / long term debt (In 313). Preferred Stock cost rate = preferred dividends (In 305) / preferred outstanding (In 314). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO.
- T This note only applies to Indiana Michigan Power Company.

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

**KENTUCKY POWER COMPANY**

Line No.					Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 132)			\$0
			Total		
2	REVENUE CREDITS	(Note A) (Worksheet E)	-	DA	1.00000
3	REVENUE REQUIREMENT For All KPCo Facilities	(In 1 less In 2)			-
<b>MEMO: The Carrying Charge Calculations on lines 4 to 12 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line is included in the total on line 3.</b>					
4	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives)	(Worksheet J)	-	DA	1.00000
5	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
6	Annual Rate	((In 1 - In 101 - In 102) / In 43 x 100)			0.00%
7	Monthly Rate	(In 6 / 12)			0.00%
8	NET PLANT CARRYING CHARGE ON LINE 6 , W/O DEPRECIATION (w/o incentives) (Note B)				
9	Annual Rate	((In 1 - In 101 - In 102 - In 107) / In 43 x 100)			0.00%
10	NET PLANT CARRYING CHARGE ON LINE 8, W/O INCOME TAXES, RETURN (Note B)				
11	Annual Rate	((In 1 - In 101 - In 102 - In 107 - In 129 - In 130) / In 43 x 100)			0.00%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				
12	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
14	Total Load Dispatch & Scheduling (Account 561)	Line 81 Below			-
15	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				-
16	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				-
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)			-

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KENTUCKY POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
	<u>RATE BASE CALCULATION</u>	<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TQ Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
Line No.	<b>GROSS PLANT IN SERVICE</b>				
13	Production	(Worksheet A In 1.C)	-	NA	0.00000
14	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	-	NA	0.00000
15	Transmission	(Worksheet A In 3.C)	-	DA	-
16	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP	0.00000
17	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA	0.00000
18	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA	0.00000
19	Distribution	(Worksheet A In 5.C)	-	NA	0.00000
20	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA	0.00000
21	General Plant	(Worksheet A In 7.C)	-	W/S	0.00000
22	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S	0.00000
23	Intangible Plant	(Worksheet A In 9.C)	-	W/S	0.00000
24	<b>TOTAL GROSS PLANT</b>	(sum Ins 13 to 23)	-	<b>GP(h)=</b>	<b>0.00000</b>
				<b>GTD=</b>	<b>0.00000</b>
25	<b>ACCUMULATED DEPRECIATION AND AMORTIZATION</b>				
26	Production	(Worksheet A In 12.C)	-	NA	0.00000
27	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	-	NA	0.00000
28	Transmission	(Worksheet A In 14.C & 14.C)	-	TP1=	0.00000
29	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1=	0.00000
30	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA	1.00000
31	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
32	Plus: Additional Transmission Depreciation for 2009 (In 107)		N/A	TP1	0.00000
33	Plus: Additional General & Intangible Depreciation for 2009 (In 106 + In 107)		N/A	W/S	0.00000
34	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
35	Distribution	(Worksheet A In 16.C)	-	NA	0.00000
36	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA	0.00000
37	General Plant	(Worksheet A In 18.C)	-	W/S	0.00000
38	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S	0.00000
39	Intangible Plant	(Worksheet A In 20.C)	-	W/S	0.00000
40	<b>TOTAL ACCUMULATED DEPRECIATION</b>	(sum Ins 26 to 39)	-		-
41	<b>NET PLANT IN SERVICE</b>				
42	Production	(In 13 + In 14 - In 26 - In 27)	-		-
43	Transmission	(In 15 + In 16 - In 28 - In 29)	-		-
44	Plus: Transmission Plant-in-Service Additions (In 17 - In 30)		N/A		N/A
45	Plus: Additional Trans Plant on Transferred Assets (In 18 - In 31)		N/A		N/A
46	Plus: Additional Transmission Depreciation for 2009 (-In 32)		N/A		N/A
47	Plus: Additional General & Intangible Depreciation for 2009 (-In 33)		N/A		N/A
48	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 34)		N/A		N/A
49	Distribution	(In 19 + In 20 - In 35 - In 36)	-		-
50	General Plant	(In 21 + In 22 - In 37 - In 38)	-		-
51	Intangible Plant	(In 23 - In 39)	-		-
52	<b>TOTAL NET PLANT IN SERVICE</b>	(sum Ins 42 to 51)	-	<b>NP(h)=</b>	<b>0.00000</b>
53	<b>DEFERRED TAX ADJUSTMENTS TO RATE BASE</b>				
54	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.E)	-	NA	-
55	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.E)	-	DA	-
56	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.E)	-	DA	-
57	Account No. 190.1	(Worksheet B, In 17 & In 20.E)	-	DA	-
58	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.E)	-	DA	-
59	<b>TOTAL ADJUSTMENTS</b>	(sum Ins 54 to 58)	-		-
60	PLANT HELD FOR FUTURE USE	(Worksheet A In 29 & In 30)	-	DA	-
61	CONSTRUCTION WORK IN PROGRESS	Company Records	-	TP	0.00000
62	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
63	<b>WORKING CAPITAL</b>				
64	Cash Working Capital	(1/8 * In 100)	-		-
65	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	-	TP	0.00000
66	A&G Materials & Supplies	(Worksheet C, In 3.(D))	-	W/S	0.00000
67	Stores Expense	(Worksheet C, In .(D))	-	GP(h)	0.00000
68	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.F)	-	W/S	0.00000
69	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.E)	-	GP(h)	0.00000
70	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.D)	-	DA	1.00000
71	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.C)	-	NA	0.00000
72	<b>TOTAL WORKING CAPITAL</b>	(sum Ins 64 to 71)	-		-
73	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 8 (C))	-	DA	1.00000
74	<b>RATE BASE</b> (sum Ins 52, 59, 60, 72, 73)		-		-

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KENTUCKY POWER COMPANY

Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
75	OPERATION & MAINTENANCE EXPENSE				
76	Production	322.80.b			
77	Distribution	321.156.b			
78	Customer Related Expense	322.164,171,178.b			
79	Regional Marketing Expenses	322.131.b			
80	Transmission	321.112.b			
81	TOTAL O&M EXPENSES	(sum Ins 75 to 79)	-		
82	Less: Total Account 561	(Note G) 322.84-92.b			
83	Less: Account 565	(Note H) 322.96.b			
84	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4)	-		
84	Total O&M Allocable to Transmission	(Ins 79 - 81 - 82 - 83)	-	TP 0.00000	-
85	Administrative and General	323.197.b (Note K)			
86	Less: Acct. 924, Property Insurance	323.185.b			
87	Acct. 928, Reg. Com. Exp.	322.189.b			
88	Acct. 930.1, Gen. Advert. Exp.	322.191.b			
89	Acct. 930.2, Misc. Gen. Exp.	322.192.b			
90	Balance of A & G	(In 85 - sum In 86 to In 89)	-	W/S 0.00000	-
91	Plus: Acct. 924, Property Insurance	(In 86)	-	GP(h) 0.00000	-
92	Acct. 928 - Transmission Specific	Worksheet F In 61.(E) (Note L)	-	TP 0.00000	-
93	Acct. 928 - Transmission Allocated	Worksheet F In 61.(F) (Note L)	-	GP(h) 0.00000	-
94	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 77.(E) (Note L)	-	GP(h) 0.00000	-
95	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 77.(F) (Note L)	-	DA 1.00000	-
96	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 83.(E) (Note L)	-	DA 1.00000	-
97	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 83.(F) (Note L)	-	W/S 0.00000	-
98	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(F) (Note L)	-	W/S 0.00000	-
99	A & G Subtotal	(sum Ins 90 to 97 less In 98)	-		-
100	O & M EXPENSE SUBTOTAL	(In 84 + In 99)	-		-
101	Plus: TEA Settlement in Account 565	Company Records (Note M)		DA 1.00000	-
102	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)			DA 1.00000	-
103	TOTAL O & M EXPENSE	(In 100 + In 101 + In 102)	-		-
104	DEPRECIATION AND AMORTIZATION EXPENSE				
105	Production	336.2-6.f		NA 0.00000	-
106	Distribution	336.8.f		NA 0.00000	-
107	Transmission	336.7.f		TP 0.00000	-
108	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A		N/A
109	General	336.10.f		W/S 0.00000	-
110	Intangible	336.1.f		W/S 0.00000	-
111	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 105 to 110)	-		-
112	TAXES OTHER THAN INCOME	(Note N)			
113	Labor Related				
114	Payroll	Worksheet H	-	W/S 0.00000	-
115	Plant Related				
116	Property	Worksheet H	-	DA	-
117	Gross Receipts/Sales & Use	Worksheet H	-	NA 0.00000	-
118	Other	Worksheet H	-	GP(h) 0.00000	-
119	TOTAL OTHER TAXES	(sum Ins 114 to 118)	-		-
120	INCOME TAXES	(Note O)			
121	$T=1 - \frac{((1 - SIT) * (1 - FIT))}{(1 - SIT * FIT * p)}$		0.00%		
122	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$		0.00%		
123	where WCLTD=(In 155) and WACC = (In 158)				
124	and FIT, SIT & p are as given in Note O.				
125	$GRCF=1 / (1 - T) =$ (from In 121)		-		
126	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)			
127	Income Tax Calculation	(In 122 * In 130)	-		-
128	ITC adjustment	(In 125 * In 126)	-	NP(h) 0.00000	-
129	TOTAL INCOME TAXES	(sum Ins 127 to 128)	-		-
130	RETURN ON RATE BASE (Rate Base*WACC)	(In 74 * In 158)	-		-
131	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2.(C))		-	DA 1.00000	-
132	TOTAL REVENUE REQUIREMENT (sum Ins 103, 111, 119, 129, 130, 131)		-		-

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KENTUCKY POWER COMPANY

SUPPORTING CALCULATIONS

In No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
133	Total transmission plant	(In 15)						-
134	Less transmission plant excluded from PJM Tariff (Note P)							-
135	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)							-
136	Transmission plant included in PJM Tariff	(In 133 - In 134 - In 135)						-
137	Percent of transmission plant in PJM Tariff	(In 136 / In 133)					TP=	0.00000
138	WAGES & SALARY ALLOCATOR (W/S)	(Note R)						
139	Production	354.20.b	Direct Payroll	Payroll Billed from AEP Service Corp.	Total			-
140	Transmission	354.21,22.b				-	NA	0.00000
141	Distribution	354.23.b				-	TP	0.00000
142	Other (Excludes A&G)	354.24,25,26.b				-	NA	0.00000
143	Total	(sum Ins 139 to 142)	0	0	0			-
144	Transmission related amount						W/S=	0.00000
145	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							\$
146	Long Term Interest	(FF1 p. 257,ln 33.i; p. 112, Lns 63-66.c)						-
147	Preferred Dividends	(Worksheet K)						-
148	<u>Development of Common Stock:</u>					12/31/2007	12/31/2008	Average
149	Proprietary Capital	(FF1 p 112, Ln 16.c.d.)				-		-
150	Less Preferred Stock (In 156)	(FF1 p 112, Ln 3.c.d.)				-		-
151	Less Account 216.1	(FF1 p 112, Ln 13.c.d.)				-		-
152	Less Account 219	(FF1 p 112, Ln 15.c.d.)				-		-
153	Common Stock	(In 149 - In 150 - In 151 - In 152)						-
154			Average \$	%		Cost (Note S)		Weighted
155	Long Term Debt (Note T)	(Worksheet K)	-	0.00%		0.00%		0.0000
156	Preferred Stock	(In 150)	-	0.00%		0.00%		0.0000
157	Common Stock	(In 153)	-	0.00%		12.10%		0.0000
158	Total	(Sum Ins 155 to 157)	-				WACC=	0.0000

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KENTUCKY POWER COMPANY

Letter

Notes

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C No true-up.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 100.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 73 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 131.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 119.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 11.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 126) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.  
Inputs Required: FIT = [redacted] (State Income Tax Rate or Composite SIT. Worksheet G))  
SIT= [redacted]  
p = [redacted] (percent of federal income tax deductible for state purposes)
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 146) / long term debt (In 155). Preferred Stock cost rate = preferred dividends (In 147) / preferred outstanding (In 156). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO.
- T This note only applies to Indiana Michigan Power Company.

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Plant Balances  
KENTUCKY POWER COMPANY

<u>Line Number</u>	<u>(A) Rate Base Item &amp; Supporting Balance</u>	<u>(B) Source of Data</u>	<u>(C) Balances @ December 31, 2008</u>	<u>(D) Balances For Update Use</u>	<u>(E) Average Balance</u>
<b>NOTE: Functional ARO investment and accumulated depreciation balances shown below are included in the total functional balances shown here.</b>					
<b><u>Plant Investment Balances</u></b>					
1	Production Plant In Service	FF1, page 204/205, ln 46, Col. (b)/(g)	527,219,064		-
2	Production Asset Retirement Obligation (ARO)	FF1, page 204/205, lns 15,24,34,44, Col. (b)/(g)	3,337,422		-
3	Transmission Plant In Service	FF1, page 206/207, ln 58, Col. (b)/(g)	431,804,417		-
4	Transmission Asset Retirement Obligation	FF1, page 206/207, ln 57, Col. (b)/(g)	-		-
5	Distribution Plant In Service	FF1, page 206/207, ln 75, Col. (b)/(g)	528,711,039		-
6	Distribution Asset Retirement Obligation	FF1, page 206/207, ln 74, Col. (b)/(g)	-		-
7	General Plant In Service	FF1, page 206/207, ln 99, Col. (b)/(g)	33,659,644		-
8	General Asset Retirement Obligation	FF1, page 206/207, lns 98, Col. (b)/(g)	-		-
9	Intangible Plant In Service	FF1, page 204/205, ln 5, Col. (b)/(g)	22,360,066		-
10	Total Property Investment Balance	(Sum of Lines: 3, 1, 5, 7, 9)	1,543,754,230	-	-
11	Total ARO Balance (included in total on line 10)	(Sum of Lines: 4, 2, 6, 8)	3,337,422	-	-
<b><u>Accumulated Depreciation &amp; Amortization Balances</u></b>					
12	Production Accumulated Depreciation	FF1, page 219, lns 20-24, Col. (b)	210,169,120		-
13	Production ARO Accumulated Depreciation	Company Records	199,087		-
14	Transmission Accumulated Depreciation	FF1, page 219, ln 25, Col. (b)	135,462,933		-
15	Transmission ARO Accumulated Depreciation	Company Records	-		-
16	Distribution Accumulated Depreciation	FF1, page 219, ln 26, Col. (b)	133,637,433		-
17	Distribution ARO Accumulated Depreciation	Company Records	-		-
18	General Accumulated Depreciation	FF1, page 219, ln 28, Col. (b)	6,568,989		-
19	General ARO Accumulated Depreciation	Company Records	-		-
20	Intangible Accumulated Amortization	FF1, page 200, ln 21, Col. (b)	20,273,525		-
21	Total Accumulated Depreciation or Amortization	(Sum of Lines: 14, 12, 16, 18, 20)	506,112,000	-	-
22	Total ARO Balance (included in total on line 21)	(Sum of Lines: 15, 13, 17, 19)	199,087	-	-
<b><u>Generation Step-Up Units</u></b>					
23	GSU Investment Amount	Company Records	1,599,484		-
24	GSU Accumulated Depreciation	Company Records	556,525		-
25	GSU Net Balance	(Line 23 - Line 24)	1,042,960	-	-
<b><u>Transmission Accumulated Depreciation Net of GSU Accumulated Depreciation</u></b>					
26	Transmission Accumulated Depreciation	(Line 14 Above)	135,462,933	-	-
27	Less: GSU Accumulated Depreciation	(Line 24 Above)	556,525	-	-
28	Subtotal of Transmission Net of GSU	(Line 26 - Line 27)	134,906,408	-	-
<b><u>Plant Held For Future Use</u></b>					
29	Plant Held For Future Use	FF1, page 214, ln 47, Col. (d)	6,808,947		-
30	Transmission Plant Held For Future	Company Records	30,592		-
31	Construction Work In Progress	Company Records	-		-
<b><u>Regulatory Assets Approved for Recovery In Ratebase</u></b>					
31					-
32					-
33					-
34					-
35					-
36	Total Regulatory Deferrals Included in Ratebase		-	-	-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting ADIT and ITC Balances  
KENTUCKY POWER COMPANY

<u>Line Number</u>	<u>(A) Description</u>	<u>(B) Source</u>	<u>(C) Balance @ December 31, 2008</u>	<u>(D) Balances For Update Use</u>	<u>(E) Average Balance</u>
1	<b><u>Account 281</u></b>				
2	Year End Utility Deferrals	FF1, p. 272 - 273, In 8, Col. (k)	32,792,379		-
3	Less: ARO Related Deferrals	Company Records	0		-
4	Less: Other Excluded Deferrals	Company Records	32,792,379		-
5	Transmission Related Deferrals	Ln 2 - In 3 - In 4	-	-	-
6	<b><u>Account 282</u></b>				
7	Year End Utility Deferrals	FF1, p. 274 - 275, In 5, Col. (k)	131,548,600		-
8	Less: ARO Related Deferrals	Company Records	468,472		-
9	Less: Other Excluded Deferrals	Company Records	88,626,589		-
10	Transmission Related Deferrals	Ln 7 - In 8 - In 9	42,453,539	-	-
11	<b><u>Account 283</u></b>				
12	Year End Utility Deferrals	FF1, p. 276 - 277, In 9, Col. (k)	27,781,673		-
13	Less: ARO Related Deferrals	Company Records	0		-
14	Less: Other Excluded Deferrals	Company Records	26,159,962		-
15	Transmission Related Deferrals	Ln 12 - In 13 - In 14	1,621,711	-	-
16	<b><u>Account 190</u></b>				
17	Year End Utility Deferrals	FF1, p. 234, In 8, Col. (c)	42,717,261		-
18	Less: ARO Related Deferrals	Company Records	1,146,114		-
19	Less: Other Excluded Deferrals	Company Records	37,931,306		-
20	Transmission Related Deferrals	Ln 17 - In 18 - In 19	3,639,841	-	-
21	<b><u>Account 255</u></b>				
22	Year End ITC Balances	FF1, p. 266-267, In 8, Col. (h)	2,519,320		-
23	Less: Balances Not Qualified for Ratebase	Company Records	2,519,320		-
24	ITC Balances Includeable Ratebase	Ln 22 - In 23	-	-	-
25	Transmission Related Deferrals	Company Records			-



AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting IPP Credits  
KENTUCKY POWER COMPANY  
(A)

<u>Line Number</u>	<u>Description</u>	<u>(B) 2008</u>	<u>(C) Balances For Update Use</u>
1	Net Funds from IPP Customers 12/31/2007 (FORM 1, P269, (b))	(214,494)	
2	Interest Accrual	(13,727)	
3	Revenue Credits to Generators		
4	<u>Other Adjustments</u>		
5	Accounting Adjustment	-	
6		-	
7	Net Funds from IPP Customers 12/31/2008 (FORM 1, P269,(f))	(228,221)	-
8	Average Balance for Year as Indicated in Column ((ln 1 + ln 7)/2)	(221,358)	-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Revenue Credits  
KENTUCKY POWER COMPANY

<u>Line Number</u>	<u>Description</u>	<u>Total Company</u>	<u>Non-Transmission</u>	<u>Transmission</u>
1	Account 450, Forfeited Discounts	1,681,161	1,681,161	-
2	Account 451, Miscellaneous Service Revenues	435,858	422,302	13,556
3	Account 454, Rent from Electric Property	11,312,172	11,295,334	16,838
4	Account 4560015, Associated Business Development	1,274,602	1,115,692	158,910
5	Account 456 - Other Electric Revenues	5,958,556	5,888,584	69,972
6	Accounts 4470004 & 5, Revenues from Grandfathered Transmission Contracts	772,722	26,777	745,945
7	<b>Total Other Operating Revenues To Reduce Revenue Requirement</b>	<b>21,435,071</b>	<b>20,429,850</b>	<b>1,005,221</b>

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Allocation of Specific O&M or A&G Expenses  
KENTUCKY POWER COMPANY

<u>Line</u> <u>Number</u>	<u>(A)</u> <u>Item No.</u>	<u>(B)</u> <u>Description</u>	<u>(C)</u> <u>2008</u> <u>Expense</u>	<u>(D)</u> <u>100%</u> <u>Non-Transmission</u>	<u>(E)</u> <u>100%</u> <u>Transmission</u> <u>Specific</u>	<u>(F)</u> <u>Transmission</u> <u>Allocated</u>	<u>(G)</u> <u>Explanation</u>
<b>Regulatory Deferrals &amp; Amortizations</b>							
1		No Applicable Charges for KPCO	-				
2			-				
3							
4		<b>Total</b>	0				
<b>Account 926</b>							
<u>2007 Base Year OPEB Expense (Note 1)</u>							
5	9260021	Postretirement Benefits - OPEB	2,650,830				
6	9260057	Postret Ben Medicare Subsidy	(945,299)				
7		Net 2007 Base Year Expense	1,705,531				
<u>2008 Current Year Expense</u>							
9	9260021	Postretirement Benefits - OPEB	2,581,262				
10	9260057	Postret Ben Medicare Subsidy	(962,846)				
11		Net 2008 Expense	1,618,416				
12		<b>Net Increase (Decrease) in OPEB Expense</b>	(87,115)	This Amount Is Allocated on Wages & Salaries			
Note 1: Absent a 205 Filing with FERC, this base amount will not change in subsequent years.							
<b>Account 928</b>							
13	9280000	Regulatory Commission Exp	3	3	-	-	N/A
14	9280001	Regulatory Commission Exp-Adm	13	13	-	-	N/A
15	9280001	Regulatory Commission Exp-Adm	-	-	-	-	N/A
16	9280002	Regulatory Commission Exp-Case	2,010	2,010	-	-	N/A
17	9280002	Regulatory Commission Exp-Case	-	-	-	-	N/A
18	9280002	Regulatory Commission Exp	-	-	-	-	N/A
19		<b>Total</b>	2,026	2,026	-	-	
<b>Account 930.1</b>							
20	9301000	General Advertising Expenses	78	78	-	-	
21	9301001	Newspaper Advertising Space	10,957	10,957	-	-	
22	9301002	Radio Station Advertising Time	2,073	2,073	-	-	
23	9301003	TV Station Advertising Time	-	-	-	-	
24	9301005	Radio & TV Advertising Prod Exp	-	-	-	-	
25	9301006	Spec Corporate Comm Info Proj	2	2	-	-	
26	9301007	Special Adv Space & Prod Exp	30	30	-	-	
27	9301008	Direct Mail and Handouts	705	705	-	-	
28	9301009	Fairs, Shows, and Exhibits	838	838	-	-	
29	9301010	Publicity	1,182	1,182	-	-	
30	9301011	Dedications, Tours, & Openings	6	6	-	-	
31	9301012	Public Opinion Surveys	22,881	22,881	-	-	
32	9301013	Movies Slide Films & Speeches	29,633	29,633	-	-	
33	9301014	Video Communications	179	179	-	-	
34	9301015	Other Corporate Comm Exp	86,235	86,235	-	-	
35	9301016	Corporate Comm Exp Transferred	-	-	-	-	
36		<b>Total</b>	154,799	154,799	-	-	
<b>Account 930.2</b>							
37	9302000	Misc General Expenses	234,657	-	-	234,657	
38	9302003	Corporate & Fiscal Expenses	29,205	-	-	29,205	
39	9302004	Research, Develop&Demonstr Exp	6,120	6,120	-	-	
40	9302005	Nucl Fac Ins - Replce Engy Cst	0	-	-	-	
41	9302007	Assoc Business Development Exp	1,940,694	837,351	1,103,343	-	
42		<b>Total</b>	2,210,676	843,471	1,103,343	263,862	

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting - Development of Composite State Income Tax Rate  
KENTUCKY POWER COMPANY

Kentucky Corporation Income Tax	6.00%	
Apportionment Factor	76.09%	
Effective Indiana State Income Tax Rate		4.57%
West Virginia Corporate Income Tax	8.75%	
Apportionment Factor	2.68%	
Effective West Virginia State Income Tax Rate		0.23%
Michigan Business Income Tax Rate	6.04%	
Apportionment Factor	1.11%	
Effective State Tax Rate		0.07%
State Income Tax Rate - Ohio	8.50%	
Phase-out Factor (Note 1)	20.00%	
Apportionment Factor	5.99%	
Effective Ohio State Income Tax Rate		0.10%
Total Effective State Income Tax Rate		<u>4.97%</u>

Note 1 The Ohio State Income Tax is being phased-out over a 5 year period and is being replaced with a Commercial Activites Tax. The taxable portion of income is 20% in 2008.

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Taxes Other than Income  
KENTUCKY POWER COMPANY

Line No.	(A) Account	(B) Total Company	(C) Property	(D) Labor	(E) Other	(F) Non-Allocable
1	<b>Revenue Taxes</b>					
2	Gross Receipts Tax	151,975				151,975
3	<b>Real Estate and Personal Property Taxes</b>					
4	Real and Personal Property - Kentucky	6,512,927	6,512,927			
5	Real and Personal Property - Other	7,664	7,664			
6	<b>Payroll Taxes</b>					
7	Federal Insurance Contribution (FICA )	1,854,341		1,854,341		
8	Federal Unemployment Tax	19,389		19,389		
9	State Unemployment Insurance	17,822		17,822		
10	<b>Miscellaneous Taxes</b>					
11	State Public Service Commission Fees	674,562			674,562	
12	State Franchise Taxes	33,936			33,936	
13	State Lic/Registration Fee	40			40	
14	Misc. State and Local Tax	100			100	
15	Sales & Use	361,932				361,932
16	Federal Excise Tax	9,530				9,530
17		-				-
18	Total Taxes by Allocable Basis (Total Company Amount Ties to FFI p.114, Ln 14,(c))	<u>9,644,218</u>	<u>6,520,591</u>	<u>1,891,552</u>	<u>708,638</u>	<u>523,437</u>

**Functional Property Tax Allocation**

	<u>Production</u>	<u>Transmission</u>	<u>Distributions</u>	<u>General</u>	<u>Total</u>
19 KENTUCKY JURISDICTION					
19 Functionalized Net Plant (Hist. TCOS, Lns 200 thru 210)	313,911,609	296,341,484	395,073,606	27,090,655	1,032,417,354
20 Less: Net Value Exempted Generation Plant	120,217,738				
21 Taxable Property Basis (Ln 19 - Ln 20)	193,693,871	296,341,484	395,073,606	27,090,655	912,199,616
22 Relative Valuation Factor	33.34%	100%	100%	100%	
23 Weighted Net Plant (Ln 21 * Ln 22)	64,577,537	296,341,484	395,073,606	27,090,655	
24 General Plant Allocator (Ln 23 / (Total - General Plant))	8.54%	39.20%	52.26%	-100.00%	
25 Functionalized General Plant (Ln 24 * General Plant)	2,314,107	10,619,264	14,157,285	(27,090,655)	-
26 Weighted KENTUCKY JURISDICTION Plant (Ln 23 + 25)	66,891,644	306,960,748	409,230,891	0	783,083,281
27 Functional Percentage (Ln 26/Total Ln 26)	8.54%	39.20%	52.26%		
28 Functionalized Payment in KENTUCKY JURISDICTION	<u>556,340</u>	<u>2,553,002</u>	<u>3,403,586</u>		<u>6,512,927</u>
29 Total Other Jurisdictions: (Line 5 * Net Plant Allocator)		2,207			<u>7,664</u>
30 Total Functionalized Property Taxes (Sum Lns 28 & 29)	<u>556,340</u>	<u>2,555,209</u>	<u>3,403,586</u>		<u>6,520,591</u>

**AEP East Companies**  
**Cost of Service Formula Rate Using 2008 FF1 Balances**  
**Worksheet Supporting Transmission Plant in Service Additions**  
**KENTUCKY POWER COMPANY**

**I. Calculation of Composite Depreciation Rate**

1	Transmission Plant @ Beginning of Historic Period (2008) (P.206, In 58,(b)):	402,228,844
2	Transmission Plant @ End of Historic Period (2008) (P.207, In 58,(g)):	431,804,417
3		<u>834,033,261</u>
4	Average Balance of Transmission Investment	417,016,631
5	Annual Depreciation Expense, Historic TCOS, In 265	7,010,560
6	Composite Depreciation Rate	1.68%
7	Round to 2% to Reflect a Composite Life of 50 Years	2.00%

**II. Calculation of Property Placed in Service by Month and the Related Depreciation Expense**

8	Month in Service	Capitalized Balance	Composite Annual Depreciation Rate	Annual Depreciation	Monthly Depreciation	No. Months Depreciation	First Year Depreciation Expense
9	January	\$ 836,868	2.00%	\$ 16,737	\$ 1,395	11	\$ 15,345
10	February	\$ 1,285,372	2.00%	\$ 25,707	\$ 2,142	10	\$ 21,420
11	March	\$ 1,317,292	2.00%	\$ 26,346	\$ 2,195	9	\$ 19,755
12	April	\$ 1,326,639	2.00%	\$ 26,533	\$ 2,211	8	\$ 17,688
13	May	\$ 1,297,667	2.00%	\$ 25,953	\$ 2,163	7	\$ 15,141
14	June	\$ 1,328,795	2.00%	\$ 26,576	\$ 2,215	6	\$ 13,290
15	July	\$ 1,274,929	2.00%	\$ 25,499	\$ 2,125	5	\$ 10,625
16	August	\$ 1,292,188	2.00%	\$ 25,844	\$ 2,154	4	\$ 8,616
17	September	\$ 1,301,552	2.00%	\$ 26,031	\$ 2,169	3	\$ 6,507
18	October	\$ 1,317,881	2.00%	\$ 26,358	\$ 2,196	2	\$ 4,392
19	November	\$ 3,246,360	2.00%	\$ 64,927	\$ 5,411	1	\$ 5,411
20	December	\$ 5,857,102	2.00%	\$ 117,142	\$ 9,762	0	\$ -
21	Investment	<u>\$ 21,682,645</u>				Depreciation Expense	<u>\$ 138,190</u>

**III. Plant Transferred**

22	\$ -	<== This input area is for original cost plant
23	\$ -	<== This input area is for accumulated depreciation that may be associated with capital expenditures. It would have an impact if a company had assets transferred from a subsidiary.
24 (Ln 7 * Ln 22)	\$ -	<== This input area is for additional Depreciation Expense

**IV. List of Major Projects Expected to be In-Service in 2009**

	<u>Estimated Cost</u> <u>(000's)</u>	<u>Month in</u> <u>Service</u>
25 <u>Major Zonal Projects</u>		
26 N/A	\$0	
27	<u>Subtotal</u>	\$0
28 <u>PJM Socialized/Beneficiary Allocated Regional Projects</u>		
29 N/A	\$0	
30	<u>Subtotal</u>	\$0

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Calculation of PJM RTEP Project Revenue Requirement Billed to Benefiting Zones  
KENTUCKY POWER COMPANY

**I. Calculate Return and Income Taxes with basis point ROE increase for Projects Qualified for Regional Billing.**

**A. Determine 'R' with hypothetical basis point increase in ROE for Identified Projects**

ROE w/o incentives (Page 9 of 27, In 315)			12.10%
Project ROE Incentive Adder			
ROE with additional basis point incentive			12.10%
Determine R (cost of long term debt, cost of preferred stock and equity percentage is from Attachment H, Ins 313 through 315)			
	%	Cost	Weighted cost
Long Term Debt	51.35%	6.01%	3.087%
Preferred Stock	0.00%	0.00%	0.000%
Common Stock	48.65%	12.10%	5.887%
		R =	8.974%

SUMMARY OF ANNUAL PJM RTEP APPROVED REGIONAL REVENUE REQUIREMENTS				
HISTORIC YEAR	2007	Rev Require	W Incentives	Incentive Amounts
As Projected in Prior Year	\$	-	\$	-
Actual after True-up	\$	-	\$	-
Incremental Revenue Requirement		-		-
PROJECTED YEAR	2008	-	-	\$

**B. Determine Return using 'R' with hypothetical basis point ROE increase for Identified Projects.**

Rate Base (Page 7 of 27, In 232)	260,224,043
R (from A. above)	8.974%
Return (Rate Base x R)	23,353,502

**C. Determine Income Taxes using Return with hypothetical basis point ROE increase for Identified Projects.**

Return (from B. above)	23,353,502
Effective Tax Rate (Page 8 of 27, In 280)	40.60%
Income Tax Calculation (Return x CIT)	9,481,344
ITC Adjustment	(408,040)
Income Taxes	9,073,304

**II. Calculate Net Plant Carrying Charge Rate (Fixed Charge Rate or FCR) with hypothetical basis point ROE increase.**

**A. Determine Annual Revenue Requirement less return and Income Taxes.**

Annual Revenue Requirement (Page 6 of 27, In 159)	49,723,831
T.E.A. & Lease Payments (Page 8 of 27, Lns 259 & 260)	(2,022,570)
Return (Page 8 of 27, In 288)	23,353,502
Income Taxes (Page 8 of 27, In 287)	9,073,304
Annual Revenue Requirement, Less Return and Taxes	19,319,595

**B. Determine Annual Revenue Requirement with hypothetical basis point increase in ROE.**

Annual Revenue Requirement, Less Return and Taxes	19,319,595
Return (from I.B. above)	23,353,502
Income Taxes (from I.C. above)	9,073,304
Annual Revenue Requirement, with Basis Point ROE increase	51,746,401
Depreciation (Page 8 of 27, In 265)	6,984,592
Annual Rev. Req. w/ Basis Point ROE increase, less Depreciation	44,761,809

**C. Determine FCR with hypothetical basis point ROE increase.**

Net Transmission Plant (Page 7 of 27, In 201)	295,298,524
Annual Revenue Requirement, with Basis Point ROE increase	51,746,401
FCR with Basis Point increase in ROE	17.52%
Annual Rev. Req. w / Basis Point ROE increase, less Dep.	44,761,809
FCR with Basis Point ROE increase, less Depreciation	15.16%
FCR less Depreciation (Page 6 of 27, In 167)	15.16%
Incremental FCR with Basis Point ROE increase, less Depreciation	0.00%

**III. Calculation of Composite Depreciation Rate**

Transmission Plant @ Beginning of Historic Period (I) (P.206, In 58.(b)):	402,228,844
Transmission Plant @ End of Historic Period (I) (P.207, In 58.(g)):	431,804,417
Subtotal	834,033,261
Average Transmission Plant Balance for 2008	417,016,631
Annual Depreciation Rate (Page 8 of 27, In 265)	7.010,560
Composite Depreciation Rate	1.68%
Depreciable Life for Composite Depreciation Rate	59.48
Round to nearest whole year	59



AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Cost of Debt  
KENTUCKY POWER COMPANY

**Calculation of Interest Expense Based on Outstanding Debt at Year End**

(A)	(B)	(C)	(D)	(E)
<u>Issuance</u>	<u>Principle Amount</u>	<u>Interest Rate</u>	<u>Annual Expense</u>	<u>Notes</u>
<b><u>Long Term Debt (FF1 p. 256-257.h)</u></b>				
Notes Payable to Parent	20,000,000	5.250%	1,050,000	
Senior Unsecured Notes - Series D	75,000,000	5.625%	4,218,750	
Senior Unsecured Notes - Series E	325,000,000	6.000%	19,500,000	
<u>Issuance Discount, Premium, &amp; Expenses:</u>				
Financial Hedges & Auction Fees	FF1.p. 256 & 257.Lines Described as Hedges or Fees		-	
Amort of Debt Discount and Expenses	FF1.p. 117.63.c		451,645	
Amor of Debt Premimums (Enter Negative)	FF1.p. 117.65.c		-	
<u>Reacquired Debt:</u>				
Amortization of Loss	FF1.p. 117.64.c		33,648	
Amortization of Gain	FF1.p. 117.66.c		-	
<b>Total Interest on Long Term Debt</b>	420,000,000	6.01%	25,254,043	
<b><u>Preferred Stock (FF1 p. 250-251)</u></b>				
	<b><u>Preferred Shares Outstanding</u></b>			
	-	0%	-	
	-	0%	-	
	-	0%	-	
<b>Dividends on Preferred Stock</b>	-	0.00%	-	

**Calculation of Average Debt Balance in Calendar Year**

Long Term Debt @ December 31, 2008	420,000,000
Long Term Debt @ December 31, 2009	FF1, p.257.33.h
Average Balance During 2009	420,000,000

**Calculation of Average Preferred Stock Balance in Calendar Year**

	<u>Balance</u>	<u>Dividend</u>
Preferred Stock @ December 31, 2008	-	
Preferred Stock @ December 31, 2009	-	
Average Balance During 2009	-	(FF1 p. 118. 29.c)