

Power Generation Outlook at AEP

Gas/Electric Partnership Workshop XVI

Houston, Texas

January 31, 2008

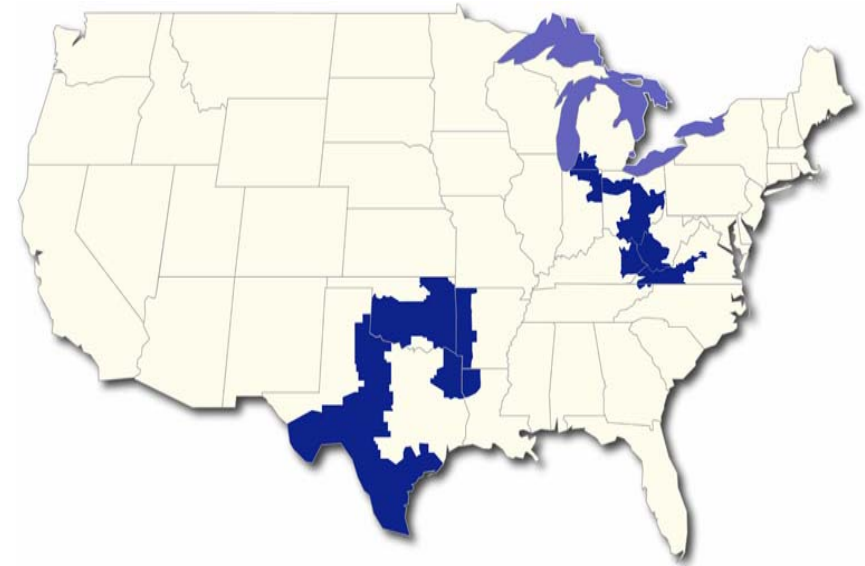


Marguerite Mills
Vice-President, Fuel Procurement-West

Company Overview

- 5.1 million customers in 11 states
- Industry-leading size and scale of assets:

<u>Asset</u>	<u>Size</u>	<u>Industry Rank</u>
Domestic Generation	~38,000 MW	# 3
Transmission	~39,000 miles	# 1
Distribution	~210,000 miles	# 1



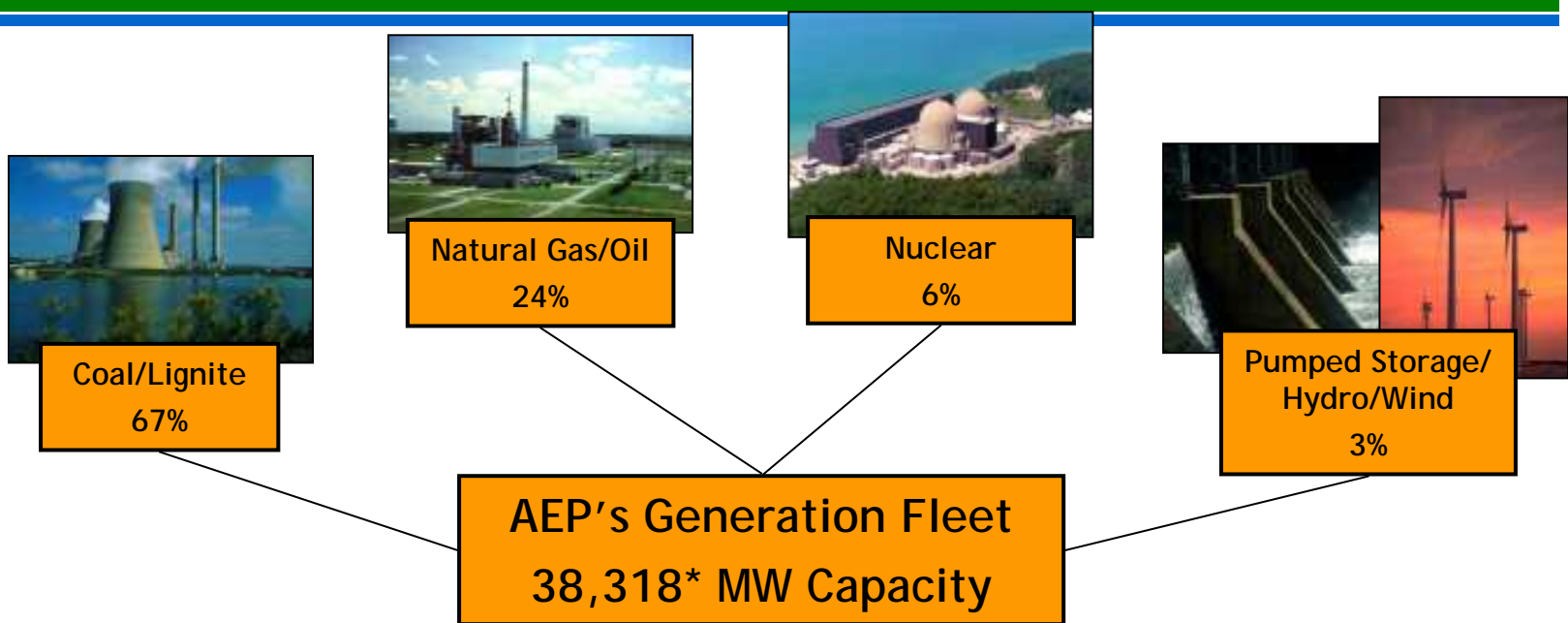
Source: Company research & Resource Data
International Platts, PowerDat 2005

- Coal & transportation assets
 - Control over 8,300 railcars
 - Own/lease and operate over 2,600 barges & 51 towboats
 - Coal handling terminal with 20 million tons of capacity
- 20,000+ employees

AEP Generation Portfolio				
Coal	Gas	Nuclear	Hydro	Wind
67%	24%	6%	2%	1%

We procure approximately 81 million tons of coal and consume approximately 77 million tons of coal, annually

Domestic Generation Fleet



* Includes 1,022MW of mothballed/decommissioned generating capacity.

Operating Statistics

	Equivalent Availability Factor	Equivalent Capacity Factor
2004	85.19%	62.43%
2005	84.76%	63.18%
2006	82.62%	60.06%

NERC Regional Presence

RFC	72%
SPP	23%
ERCOT	5%

Strategic Direction

- Invest in our established utility business
- Achieve continued environmental improvements of existing facilities
- Buy or build additional generation to meet franchise service obligations
- Upgrade our energy delivery infrastructure
- Achieve adequate returns on all assets



Deliver value to investors and cost effective service to our customers

Continued Commitment To Our Core Utility Mission: Bring Reasonably Priced Electric Service To Our Customers, Thereby Strengthening Our Communities And Rewarding Our Investors

AEP Service Territory

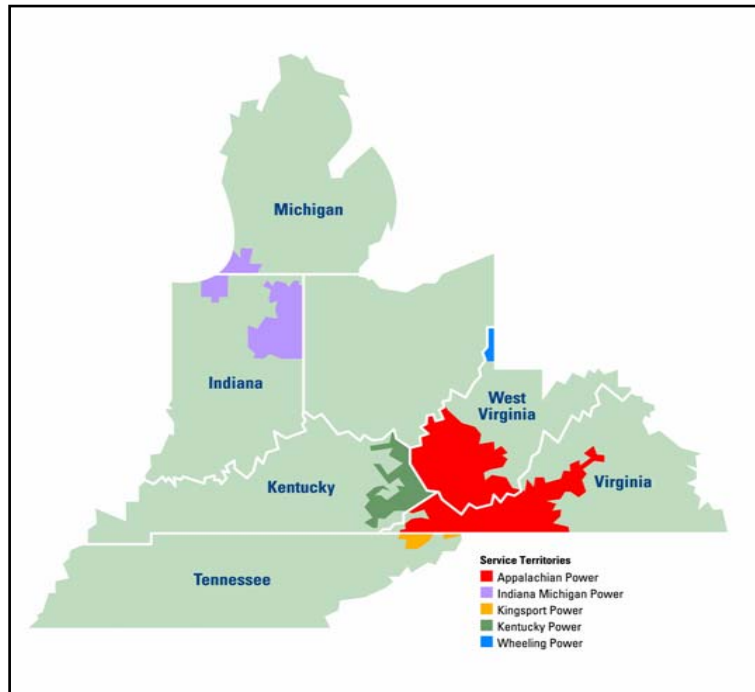
AEP EAST OPERATING COMPANIES

EAST REGULATED UTILITIES

- Appalachian Power Company
- Indiana Michigan Power Company
- Kingsport Power Company
- Kentucky Power Company
- Wheeling Power Company

AEP OHIO

- Columbus Southern Power Company
- Ohio Power Company



AEP Service Territory

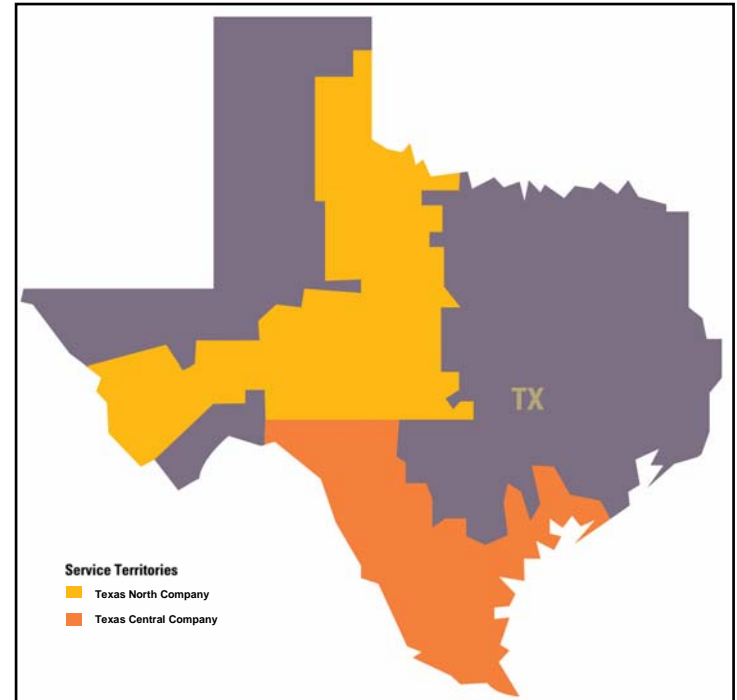
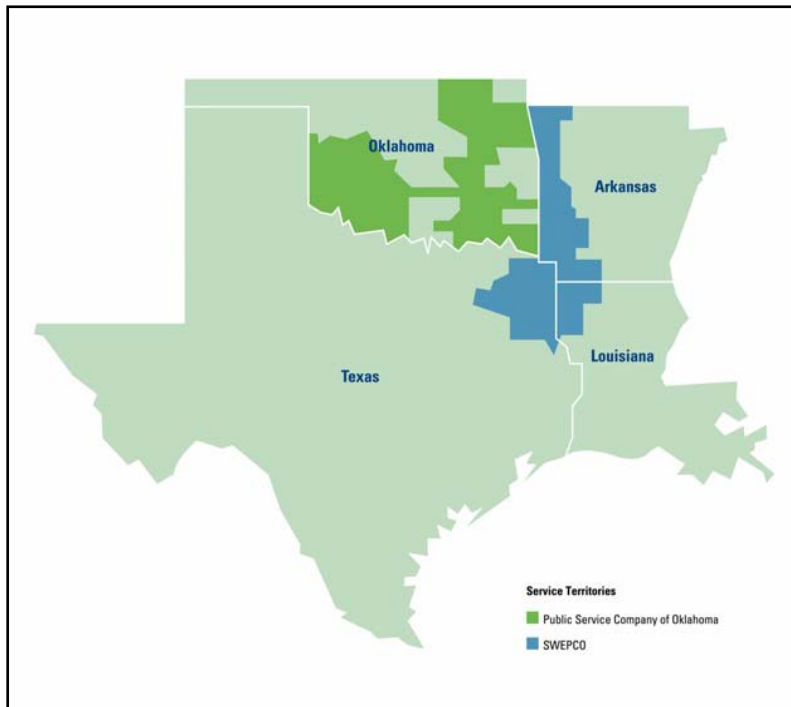
AEP WEST OPERATING COMPANIES

WEST REGULATED UTILITIES

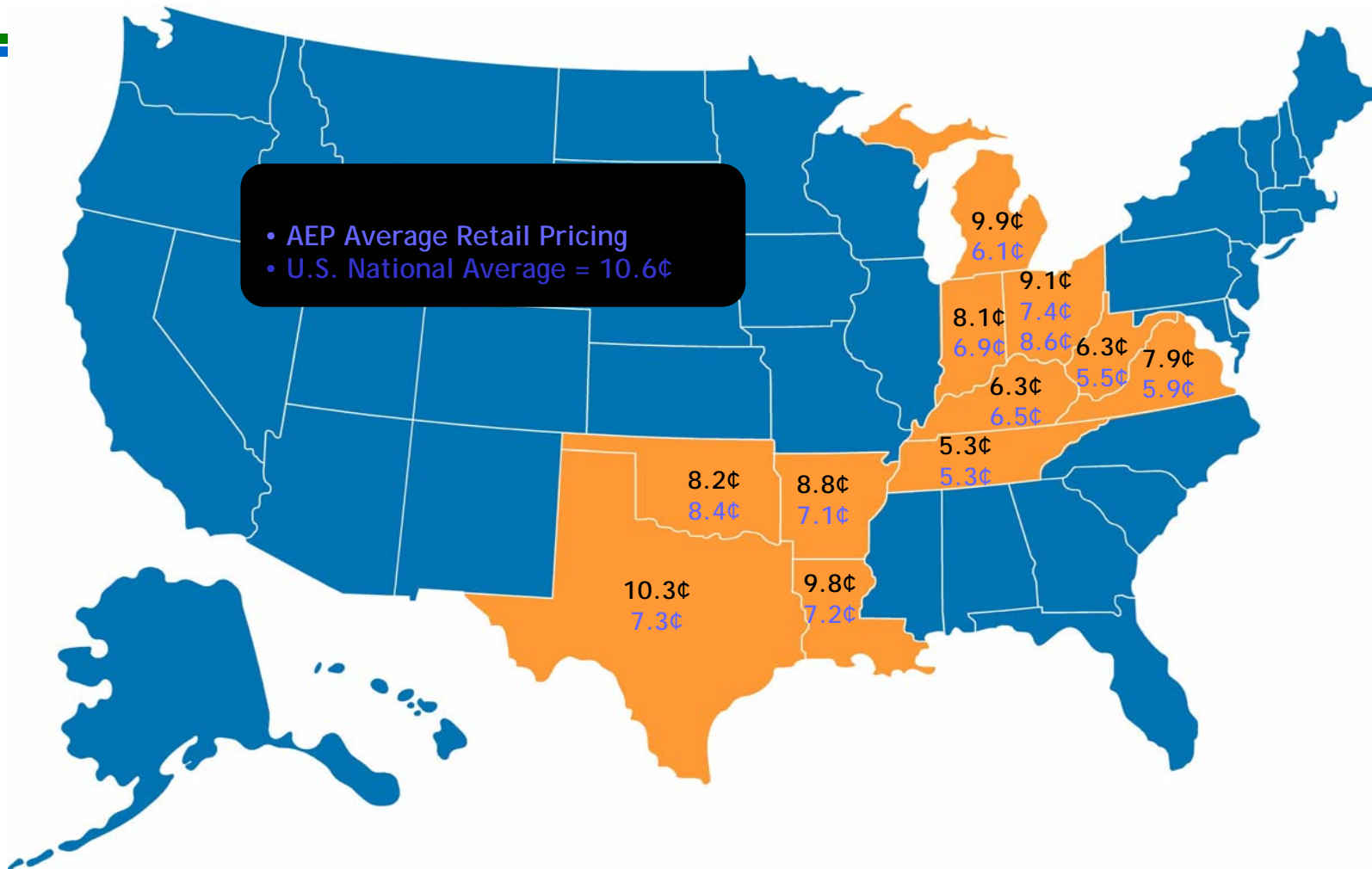
Public Service Company of Oklahoma
Southwestern Electric Power Company

AEP TEXAS

Texas Central Company
Texas North Company



Average Retail Price of Electricity



AEP's pricing will remain competitive following anticipated rate increases.

Data source: EEI Summary of Average Realizations for the twelve months ended December 31, 2006
Ohio: OPCo = 7.4¢ / CSP = 8.6¢



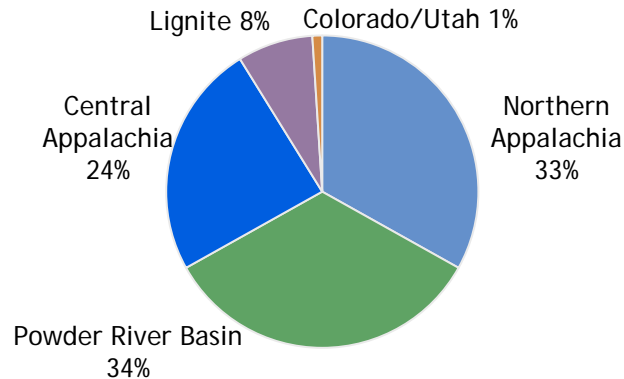
Fuel Strategy

- **Fuel Procurement Objectives**
 - Reliability (ensure fuel is available)
 - Adequacy (in sufficient quantities)
 - Flexibility (to meet changing needs)
 - Price (at lowest reasonable cost)
- **Fuel Cost Volatility Mitigation Strategies**
 - Maximum utilization of lower-cost coal and lignite capacity
 - Use of purchased power when economical
 - Increase flexibility in fuel supply and transportation contracts
 - Mix of long-term firm & discretionary supplies of suitable fuel and transportation capacity
 - Periodic use of fuel oil when more economical than natural gas

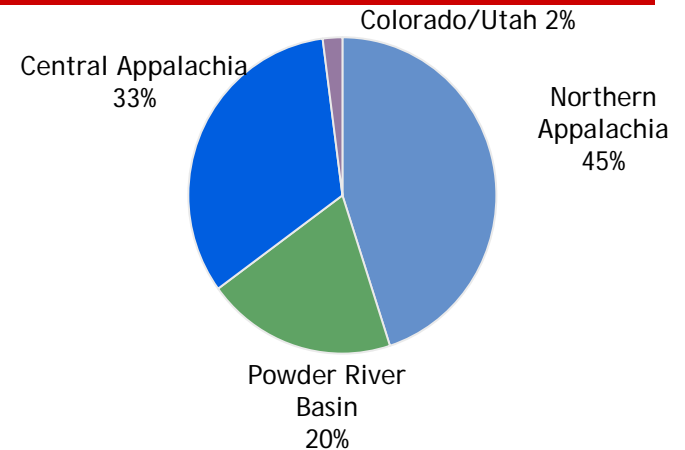
Coal Procurement-2008 Projected

AEP consumes approximately 77 million tons of coal per year

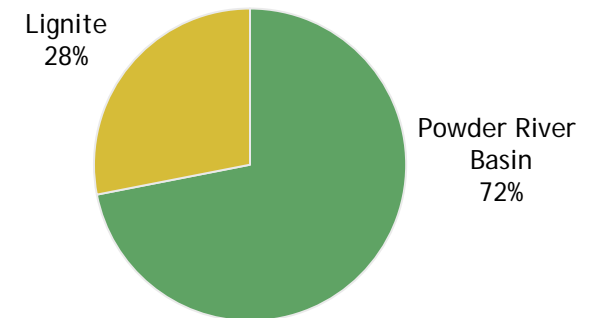
Total AEP System



AEP East



AEP West



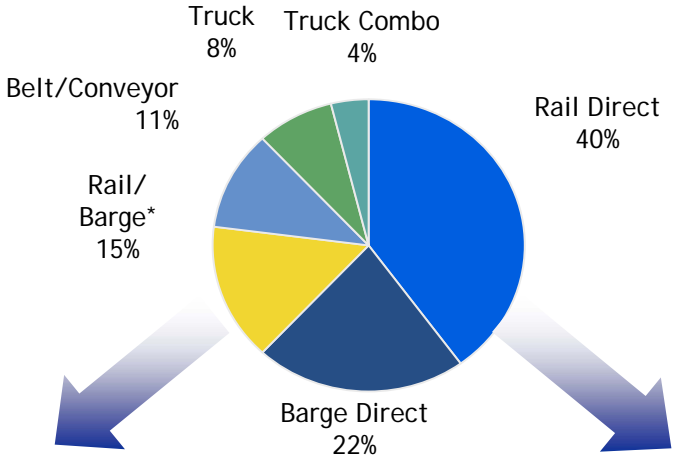
Coal Stats:

- Approximately 93% contracted for 2008
- Average delivered price ~ \$36.58/ton in 2007
- Approximate 13% price increase in 2008 based on 2007 actual results.

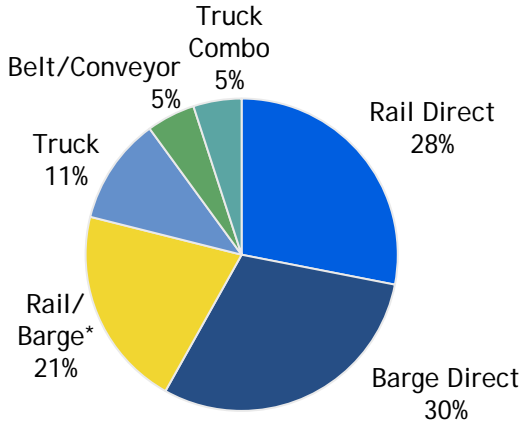
Coal Delivery

2007 Actual

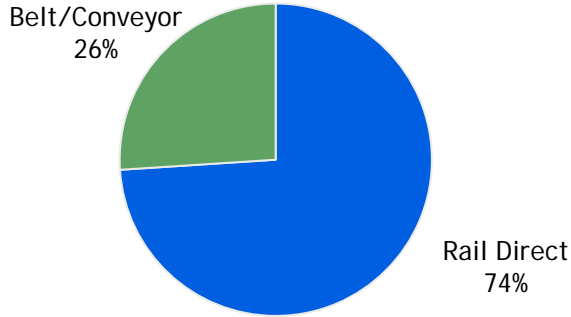
Total AEP System



AEP East



AEP West

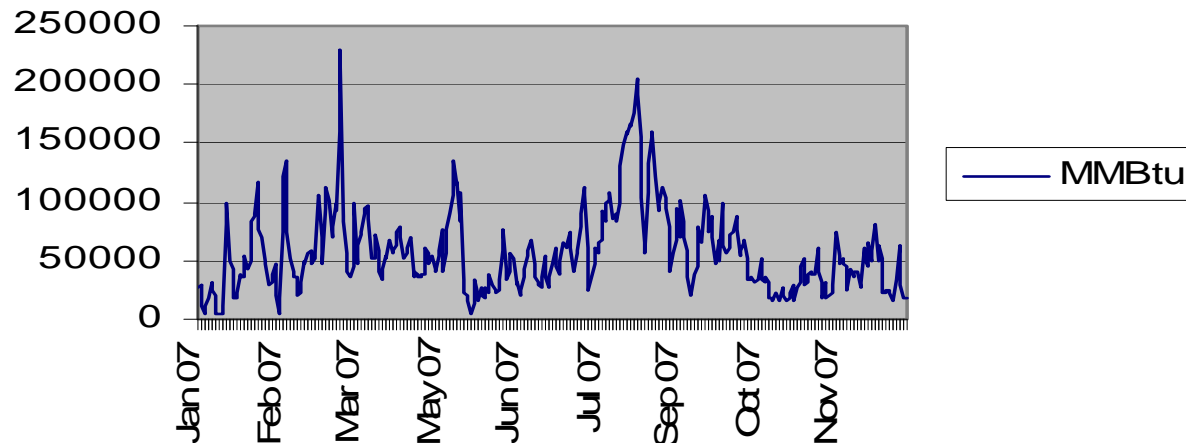


* Reflects coal delivered to AEP plants transported through a combination of rail and barge

Natural Gas Procurement

- During 2007, the delivered natural gas cost for AEP West was \$6.57/MMBtu as compared to \$1.72/MMBtu for coal and \$2.11/MMBtu for lignite
- Natural gas is used primarily for peaking, solid fuel plant outages, load following and voltage support
- Natural gas requirements are extremely volatile and unpredictable
- For example, natural gas usage at SWEPCO ranged from a low of 4,356 MMBtu to a high of 230,569 MMBtu in 2007

SWEPCO 2007 Natural Gas Burn



New Generation

Operating Company	Project Name	State	Projected Cost	Fuel Type	Plant Type	MW Capacity	Commercial Operation Date (Projected)
PSO	Southwestern	Oklahoma	\$59 MM	Gas	Simple-cycle	170	2008
PSO	Riverside	Oklahoma	\$58 MM	Gas	Simple-cycle	170	2008
AEG	Dresden	Ohio	\$265 MM	Gas	Combined-cycle	580	2010
SWEPCo	Stall	Louisiana	\$375 MM	Gas	Combined-cycle	500	2010
SWEPCo	Turk	Arkansas	\$1.3 B ⁽¹⁾	Coal	Ultra-supercritical	600 ⁽²⁾	2011
APCo	Mountaineer	West Virginia	\$2.23 B	Coal	IGCC	630	TBD
CSP/OP	Great Bend	Ohio	Under Review ⁽²⁾	Coal	IGCC	630	TBD

(1) SWEPCo will own approximately 73%, or 440 megawatts, totaling about \$986 million in capital investment.

(2) FEED (front-end engineering and design) study with GE/Bechtel is complete. Cost estimates are not yet filed with the PUCO due to the current appeals to the Supreme Court of Ohio resulting from the PUCO's April 10, 2006 Opinion and Order.

Secured Recovery Mechanism:

PSO Peaking Facilities Rider

Additional Recovery Mechanisms Under Consideration:

Formula based rates

Requests for return on CWIP

Current and future rate cases

AEP is meeting the growing electricity needs of customers through the pursuit of new economic generation facilities.

AEP's Environmental Compliance Strategy

NO_x and SO₂ emission reductions are part of AEP's on-going strategy to comply with the Clean Air Act, Title IV Regulations, the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR).

Much of this investment will position AEP to accomplish the following:

- **Reduce nitrogen oxide emissions by 90% through installation of Selective Catalytic Reduction (SCR) systems**
- **Reduce sulfur dioxide emissions by 95% to 98%+ through installation of Flue Gas Desulfurization (FGD) systems (scrubbers)**
- **Realize co-benefit of mercury capture offered through SCR and FGD systems together**
- **Avoid future landfill costs through sale of gypsum (by-product) & build where landfill costs are lower**
- **Realize benefits achieved through fuel flexibility**

Represents the best and least-cost compliance path to improve environmental performance on a fleet basis, while continuing to provide a reliable supply of power to customers at a reasonable price and a solid return for investors.

Impact of SCR and FGD on Net Generation

- The overall generation loss in capacity associated with SCR and FGD for the entire AEP fleet is roughly 600MW
- Typically, an SCR consumes approximately 1% whereas an FGD consumes from 1.5% to 3.0% of the plant electricity output
- Plant modifications increasing unit MW ratings are being implemented as part of the retrofit program
 - For example, Mountaineer turbine valve upgrades will increase unit output by ~30 - 45 MW
 - Similar upgrades will be implemented on other units

Plant modifications will mitigate FGD and SCR Capacity Consumption

Environmental Project Status Report

Plant Name	MW Capacity	SCR	Status	FGD	Status
<u>East Plants</u>					
Amos 1	800	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2010
Amos 2	800	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2009
Amos 3	1300	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2009
Big Sandy 2	800	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2014
Cardinal 1	600	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2008
Conesville 5	375		N/A	<input checked="" type="checkbox"/>	Upgrade In-service
Conesville 6	375		N/A	<input checked="" type="checkbox"/>	Upgrade projected 2008
Gavin 1&2	2620	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	In-service; Upgrade projected 2010
Mitchell 1&2	1600	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	In-service
Mountaineer	1320	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	In-service
Muskingum River 5	585	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2015
Rockport 1	1300	<input checked="" type="checkbox"/>	Projected 2017	<input checked="" type="checkbox"/>	Projected 2017
Rockport 2	1300	<input checked="" type="checkbox"/>	Projected 2019	<input checked="" type="checkbox"/>	Projected 2019
<u>CCD Plants</u>					
Conesville 4	339	<input checked="" type="checkbox"/>	Projected 2009	<input checked="" type="checkbox"/>	Projected 2009
Stuart 1-4	620	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	Projected 2008
Zimmer	330	<input checked="" type="checkbox"/>	In-service	<input checked="" type="checkbox"/>	In-service
<u>West Plants</u>					
Dolet Hills	262		N/A	<input checked="" type="checkbox"/>	In-service; Upgrade projected 2012
Flint Creek 1	264		N/A	<input checked="" type="checkbox"/>	Projected 2014
Northeastern 3	450		N/A	<input checked="" type="checkbox"/>	Projected 2012
Northeastern 4	450		N/A	<input checked="" type="checkbox"/>	Projected 2014
Oklaunion	485		N/A	<input checked="" type="checkbox"/>	In-service
Pirkey	580		N/A	<input checked="" type="checkbox"/>	Upgrade In-service
Welsh 2	528		N/A	<input checked="" type="checkbox"/>	Projected 2012

At the conclusion of our current environmental retrofit program, over 58% of our 24,630 MW coal-fired generation fleet will be equipped with SCRs and over 73% will be scrubbed (FGDs).



AEP's Climate Position

- AEP supports a reasonable approach to carbon controls in the US
- AEP has taken measurable, voluntary actions to reduce its GHG emissions and will support a well-thought out US mandate to achieve additional, economy-wide reductions
- Global warming is a global issue and AEP supports the US taking a leadership role in developing a new international approach that will address growing emissions from all nations, including developing countries such as India and China
- A certain and consistent national policy for reasonable carbon controls should include the following principles:
 - Comprehensiveness
 - Cost-effectiveness
 - Realistic emission control objectives
 - Monitoring, verification and adjustment mechanisms
 - Technology development & deployment
- Regulatory or economic barriers must be addressed
- Recognition provided for early action/investment made for GHG mitigation
- Inclusion of adjustment provision if largest emitters in developing world do not take action

A reliable and reasonably-priced electric supply is necessary to support the economic well-being of the areas we serve.