

AMERICAN ELECTRIC POWER CO INC
 Form 10-Q
 August 01, 2008

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 For The Quarterly Period Ended June 30, 2008
 OR
 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 | Registrant, State of Incorporation, Address of Principal Executive Offices, and Telephone Number | I.R.S. Employer Identification No. |
|------------------------|--|------------------------------------|
| 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) | 72-0323455 |
| All Registrants | 1 Riverside Plaza, Columbus, Ohio 43215-2373 Telephone (614) 716-1000 | |

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by 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

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 the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer _____

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Non-accelerated filer _____

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 the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Exchange Act.

Large accelerated filer _____

Accelerated filer _____

Non-accelerated filer

Smaller reporting company _____

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

Yes _____ No

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

Number of shares of
common stock outstanding
of the registrants at
July 31, 2008

| | |
|---------------------------------------|-----------------------------------|
| American Electric Power Company, Inc. | 402,258,849 (\$6.50 par value) |
| Appalachian Power Company | 13,499,500 (no par value) |
| Columbus Southern Power Company | 16,410,426 (no par value) |
| Indiana Michigan Power Company | 1,400,000 (no par value) |
| Ohio Power Company | 27,952,473 (no par value) |
| Public Service Company of Oklahoma | 9,013,000 (\$15 par value) |
| Southwestern Electric Power Company | 7,536,640 (\$18 par value) |

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
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June 30, 2008

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| | | Exhibit 31(b) (AEP, APCo, CSPCo, I&M, OPCo, PSO, SWEPCo) |
| | | Exhibit 32(a) (AEP, APCo, CSPCo, I&M, OPCo, PSO, SWEPCo) |
| | | Exhibit 32(b) (AEP, APCo, CSPCo, I&M, OPCo, PSO, SWEPCo) |

SIGNATURE

This combined Form 10-Q 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. Each registrant makes no representation as to information relating to the other registrants.

GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

| Term | Meaning |
|--------------------------|--|
| AEGCo | AEP Generating Company, an AEP electric utility subsidiary. |
| AEP or Parent | American Electric Power Company, Inc. |
| AEP Consolidated | AEP and its majority owned consolidated subsidiaries and consolidated affiliates. |
| AEP Credit | AEP Credit, Inc., a subsidiary of AEP which factors accounts receivable and accrued utility revenues for affiliated electric utility companies. |
| AEP East companies | APCo, CSPCo, I&M, KPCo and OPCo. |
| AEPSC | American Electric Power Service Corporation, a service subsidiary providing management and professional services to AEP and its subsidiaries. |
| AEP System or the System | 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. |
| AFUDC | Allowance for Funds Used During Construction. |
| ALJ | Administrative Law Judge. |
| AOCI | Accumulated Other Comprehensive Income. |
| APCo | Appalachian Power Company, an AEP electric utility subsidiary. |
| APSC | Arkansas Public Service Commission. |
| CAA | Clean Air Act. |
| CO ₂ | Carbon Dioxide. |
| CSPCo | Columbus Southern Power Company, an AEP electric utility subsidiary. |
| CSW | Central and South West Corporation, a subsidiary of AEP (Effective January 21, 2003, the legal name of Central and South West Corporation was changed to AEP Utilities, Inc.). |
| CTC | Competition Transition Charge. |
| CWIP | Construction Work in Progress. |
| DETM | Duke Energy Trading and Marketing L.L.C., a risk management counterparty. |
| DOE | United States Department of Energy. |
| E&R | Environmental compliance and transmission and distribution system reliability. |
| EaR | Earnings at Risk, a method to quantify risk exposure. |
| EITF | Financial Accounting Standards Board's Emerging Issues Task Force. |
| EITF 06-10 | EITF Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." |
| EPS | Earnings Per Share. |
| ERCOT | Electric Reliability Council of Texas. |
| FASB | Financial Accounting Standards Board. |
| Federal EPA | United States Environmental Protection Agency. |
| FERC | Federal Energy Regulatory Commission. |
| FIN | FASB Interpretation No. |
| FIN 46R | FIN 46R, "Consolidation of Variable Interest Entities." |
| FIN 48 | |

| | |
|---------------------------|---|
| | FIN 48, “Accounting for Uncertainty in Income Taxes” and FASB Staff Position FIN 48-1 “Definition of Settlement in FASB Interpretation No. 48.” |
| FSP | FASB Staff Position. |
| FTR | Financial Transmission Right. |
| GAAP | Accounting Principles Generally Accepted in the United States of America. |
| HPL | Houston Pipeline Company, a former AEP subsidiary. |
| IGCC | Integrated Gasification Combined Cycle, technology that turns coal into a cleaner-burning gas. |
| 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. |
| IRS | Internal Revenue Service. |
| IURC | Indiana Utility Regulatory Commission. |
| I&M | Indiana Michigan Power Company, an AEP electric utility subsidiary. |
| JMG | JMG Funding LP. |
| KPCo | Kentucky Power Company, an AEP electric utility subsidiary. |
| KPSC | Kentucky Public Service Commission. |
| kV | Kilovolt. |
| KWH | Kilowatthour. |
| LPSC | Louisiana Public Service Commission. |
| MISO | Midwest Independent Transmission System Operator. |
| MTM | Mark-to-Market. |
| MW | Megawatt. |
| MWH | Megawatthour. |
| NOx | Nitrogen oxide. |
| Nonutility Money Pool | AEP System’s Nonutility Money Pool. |
| NSR | New Source Review. |
| NYMEX | New York Mercantile Exchange. |
| OCC | Corporation Commission of the State of Oklahoma. |
| OPCo | Ohio Power Company, an AEP electric utility subsidiary. |
| OPEB | Other Postretirement Benefit Plans. |
| OTC | Over-the-counter. |
| PJM | Pennsylvania – New Jersey – Maryland regional transmission organization. |
| PSO | Public Service Company of Oklahoma, an AEP electric utility subsidiary. |
| PUCO | Public Utilities Commission of Ohio. |
| PUCT | Public Utility Commission of Texas. |
| Registrant Subsidiaries | AEP subsidiaries which are SEC registrants; APCo, CSPCo, I&M, OPCo, PSO and SWEPCo. |
| REP | Texas Retail Electric Provider. |
| Risk Management Contracts | Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges. |
| Rockport Plant | A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana, owned by AEGCo and I&M. |
| RSP | Rate Stabilization Plan. |
| RTO | Regional Transmission Organization. |
| S&P | Standard and Poor’s. |
| SCR | Selective Catalytic Reduction. |
| SEC | United States Securities and Exchange Commission. |
| SECA | Seams Elimination Cost Allocation. |
| SFAS | |

| | |
|---------------------------------|--|
| | Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board. |
| SFAS 71 | Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." |
| SFAS 133 | Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." |
| SFAS 157 | Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." |
| SIA | System Integration Agreement. |
| SNF | Spent Nuclear Fuel. |
| SO2 | Sulfur Dioxide. |
| SPP | Southwest Power Pool. |
| Stall Unit | J. Lamar Stall Unit at Arsenal Hill Plant. |
| Sweeny | Sweeny Cogeneration Limited Partnership, owner and operator of a four unit, 480 MW gas-fired generation facility, owned 50% by AEP. AEP's 50% interest in Sweeny was sold in October 2007. |
| SWEPCo | Southwestern Electric Power Company, an AEP electric utility subsidiary. |
| TCC | AEP Texas Central Company, an AEP electric utility subsidiary. |
| TEM | SUEZ Energy Marketing NA, Inc. (formerly known as Tractebel Energy Marketing, Inc.). |
| Texas Restructuring Legislation | Legislation enacted in 1999 to restructure the electric utility industry in Texas. |
| TNC | AEP Texas North Company, an AEP electric utility subsidiary. |
| True-up Proceeding | A filing made under the Texas Restructuring Legislation to finalize the amount of stranded costs and other true-up items and the recovery of such amounts. |
| Turk Plant | John W. Turk, Jr. Plant. |
| Utility Money Pool | AEP System's Utility Money Pool. |
| VaR | Value at Risk, a method to quantify risk exposure. |
| Virginia SCC | Virginia State Corporation Commission. |
| WPCo | Wheeling Power Company, an AEP electric distribution subsidiary. |
| WVPSC | Public Service Commission of West Virginia. |

FORWARD-LOOKING INFORMATION

This report made by AEP and its Registrant Subsidiaries contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although AEP and each of its Registrant Subsidiaries 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:

- Electric load and customer growth.
- Weather conditions, including storms.
- Available sources and costs of, and transportation for, fuels and the creditworthiness and performance of fuel suppliers and transporters.
- Availability of generating capacity and the performance of our generating plants.
- 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 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 canceled) 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.
- 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 disputes arising from the bankruptcy of Enron Corp. and related matters).
- Our ability to constrain operation and maintenance costs.
- The economic climate and growth in our service territory and changes in market demand and demographic patterns.
- Inflationary and interest rate trends.
- Volatility in the financial markets, particularly developments affecting the availability of capital on reasonable terms and developments impairing our ability to refinance existing debt at attractive rates.
- 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.
- Changes in utility regulation, including the implementation of the recently-passed utility law in Ohio and the allocation of costs within RTOs.
- 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.
- Prices 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.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Base Rate Filings

Our significant base rate filings include:

| Operating Company | Jurisdiction | Revised Annual Rate Increase Request (in millions) | Projected Effective Date of Rate Increase |
|-------------------|--------------|---|---|
| APCo | Virginia | \$ 208 | November 2008 (a) |
| PSO | Oklahoma | 117(b) | February 2009 |
| I&M | Indiana | 80 | June 2009 |

(a) Subject to refund.

(b) Net of estimated amounts that PSO expects to recover through a generation cost recovery rider which will terminate upon implementation of the new base rates.

Ohio Electric Security Plan Filings

In April 2008, the Ohio legislature passed Senate Bill 221, which amends the restructuring law effective July 31, 2008 and requires electric utilities to adjust their rates by filing an Electric Security Plan (ESP). In July 2008, within the parameters of the ESPs, CSPCo and OPCo each requested an annual rate increase for 2009 through 2011 that would not exceed approximately 15% per year. A significant portion of the requested increases results from the implementation of a fuel cost recovery mechanism.

Turk Plant

In July 2008, the PUCT approved a certificate of convenience and necessity for construction of the plant. We expect a written order in August 2008 which will also provide for the conditions of the PUCT's approval. SWEPCo has received approvals from all of the state commissions that regulate its retail rates and services. However, the APSC approval has been appealed to the Arkansas State Court of Appeals. SWEPCo is working with the Arkansas Department of Environmental Quality and the U.S. Army Corps of Engineers for approval later this year. Through June 30, 2008, SWEPCo capitalized \$407 million in expenditures related to the Turk Plant.

IGCC Plants

We have delayed construction of the West Virginia and Ohio IGCC plants. In May 2008, the Virginia SCC denied APCo's request to reconsider the Virginia SCC's previous denial of APCo's request to recover initial costs associated with a proposed IGCC plant in West Virginia. In July 2008, the WVPSC issued a notice seeking comments from parties on how the WVPSC should proceed regarding its earlier approval of the IGCC plant. In Ohio, CSPCo and OPCo await the result of an Ohio Supreme Court remand to the PUCO regarding recovery of IGCC pre-construction costs.

Fuel Costs

We currently estimate 2008 coal prices to increase by about 20% due to escalating domestic prices and increased needs, primarily in the east. We had expected coal costs to increase by 13% in 2008. We continue to see increases in prices due to expiring lower priced coal and transportation contracts being replaced with higher priced contracts. Prices for fuel oil are at record highs and remain volatile. We have limited exposure to price risk related to our open positions for coal, natural gas and fuel oil especially since we do not currently have an active fuel cost recovery adjustment mechanism in Ohio, which represents approximately 20% of our fuel costs. However, under Ohio's amended restructuring law, we have requested the PUCO to reinstate a fuel cost recovery mechanism effective January 1, 2009. Fuel cost adjustment rate clauses in our other jurisdictions will help offset future negative impacts of fuel price increases on our gross margins.

Capital Expenditures

We reduced our projections for capital expenditures to approximately \$6.75 billion from \$7.35 billion for 2009 through 2010.

RESULTS OF OPERATIONS

Segments

Our principal operating business segments and their related business activities are as follows:

Utility Operations

- Generation of electricity for sale to U.S. retail and wholesale customers.
- Electricity transmission and distribution in the U.S.

MEMCO Operations

- Barging operations that annually transport approximately 35 million tons of coal and dry bulk commodities primarily on the Ohio, Illinois and Lower Mississippi Rivers. Approximately 39% of the barging is for the transportation of agricultural products, 30% for coal, 14% for steel and 17% for other commodities. Effective July 30, 2008, AEP MEMCO LLC's name was changed to AEP River Operations, LLC.

Generation and Marketing

- Wind farms and marketing and risk management activities primarily in ERCOT.

The table below presents our consolidated Income Before Discontinued Operations and Extraordinary Loss by segment for the three and six months ended June 30, 2008 and 2007.

| | Three Months Ended | | Six Months Ended June | |
|--|--------------------|--------|-----------------------|--------|
| | June 30, 2008 | 2007 | 30, 2008 | 2007 |
| | (in millions) | | | |
| Utility Operations | \$ 263 | \$ 238 | \$ 673 | \$ 491 |
| MEMCO Operations | 3 | 7 | 10 | 22 |
| Generation and Marketing | 26 | 15 | 27 | 14 |
| All Other (a) | (12) | (3) | 143 | 1 |
| Income Before Discontinued Operations | \$ 280 | \$ 257 | \$ 853 | \$ 528 |

and Extraordinary Loss

(a) All Other includes:

- Parent's guarantee revenue received from affiliates, investment income, interest income and interest expense and other nonallocated costs.
- Forward natural gas contracts that were not sold with our natural gas pipeline and storage operations in 2004 and 2005. These contracts are financial derivatives which will gradually liquidate and completely expire in 2011.
- The first quarter 2008 cash settlement of a purchase power and sale agreement with TEM related to the Plaquemine Cogeneration Facility which was sold in the fourth quarter of 2006. The cash settlement of \$255 million (\$163 million, net of tax) is included in Net Income.
- Revenue sharing related to the Plaquemine Cogeneration Facility.

AEP Consolidated

Second Quarter of 2008 Compared to Second Quarter of 2007

Income Before Discontinued Operations and Extraordinary Loss in 2008 increased \$23 million compared to 2007 primarily due to an increase in Utility Operations segment earnings of \$25 million. The increase in Utility Operations segment earnings primarily relates to rate increases implemented since the second quarter of 2007 in Ohio, Virginia, West Virginia, Texas and Oklahoma, higher off-system sales and unfavorable regulatory provisions recorded in the prior year related to our Virginia and Texas jurisdictions, partially offset by higher operation and maintenance expenses system-wide and higher fuel expenses in Ohio.

Average basic shares outstanding increased to 402 million in 2008 from 399 million in 2007 primarily due to the issuance of shares under our incentive compensation and dividend reinvestment plans. Actual shares outstanding were 402 million as of June 30, 2008.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Income Before Discontinued Operations and Extraordinary Loss in 2008 increased \$325 million compared to 2007 primarily due to an increase in Utility Operations segment earnings of \$182 million and income of \$163 million (net of tax) from the cash settlement of a power purchase-and-sale agreement with TEM related to the Plaquemine Cogeneration Facility which was sold in the fourth quarter of 2006. The increase in Utility Operations segment earnings primarily relates to rate increases implemented since the second quarter of 2007 in Ohio, Virginia, West Virginia, Texas and Oklahoma, higher off-system sales and lower operation and maintenance expenses as a result of a favorable Oklahoma ice storm settlement partially offset by higher interest expense.

Average basic shares outstanding increased to 401 million in 2008 from 398 million in 2007 primarily due to the issuance of shares under our incentive compensation and dividend reinvestment plans. Actual shares outstanding were 402 million as of June 30, 2008.

Utility Operations

Our Utility Operations segment includes primarily regulated revenues with direct and variable offsetting expenses and net reported commodity trading operations. We believe that a discussion of the results from our Utility Operations segment on a gross margin basis is most appropriate in order to further understand the key drivers of the segment. Gross margin represents utility operating revenues less the related direct cost of fuel, including consumption

of chemicals and emissions allowances, and purchased power.

Utility Operations Income Summary
For the Three and Six Months Ended June 30, 2008 and 2007

| Three Months Ended | | Six Months Ended | |
|--------------------|------|------------------|------|
| June 30, | | June 30, | |
| 2008 | 2007 | 2008 | 2007 |
| (in millions) | | | |
