# Columbus and Southern Ohio Electric Company

## ANNUAL REPORT 1981

AMERICAN ELECTRIC POWER SYSTEM

# Contents

# Background of the Company

COLUMBUS AND SOUTHERN OHIO ELECTRIC COMPANY (the Company) is a subsidiary of American Electric Power Company, Inc. (AEP) and is engaged in the generation, purchase, transmission and distribution of electric power. The Company was organized under the laws of Ohio in 1906 and became part of the AEP System in 1980. The Company's principal executive offices are in Columbus, Ohio.

The Company has two wholly owned subsidiaries, Simco Inc. and Colomet, Inc. Simco Inc. is engaged in leasing coal-mining equipment and related mining operations. Colomet, Inc. is engaged in real estate activities.

The Company serves approximately 466,000 customers in central and southern Ohio. Approximately 80% of the Company's revenues are derived from the Columbus metropolitan area which is a governmental, educational, wholesale and retail distribution center with a wide diversity of industries. Among the principal industries served are food processing, research, chemicals, stone, clay, glass and concrete products and electrical and electronic machinery. The Company also supplies wholesale electric power to other electric utilities and to municipally owned distribution systems within the service area.

The Company's generating plants and important load centers are interconnected by a high-voltage transmission network. This network in turn is interconnected either directly or indirectly with the following other AEP System companies to form a single integrated power system: Appalachian Power Company, Indiana & Michigan Electric Company, Kentucky Power Company, Kingsport Power Company, Michigan Power Company, Ohio Power Company and Wheeling Electric Company. The Company is also interconnected with the following other utilities: The Cincinnati Gas & Electric Company, The Dayton Power and Light Company, Ohio Edison Company and Ohio Valley Electric Corporation.

# Directors

John E. Arthur

Frank N. Bien

W. A. Carlile, Jr.

Richard E. Disbrow

John E. Dolan

Arthur G. Green (b)

Robert J. Grueser

James F. Kurtz (c)

Ben T. Ray

Ralph E. Waldo

W. S. White, Jr.

# Officers

W. S. White, Jr. (a)
*Chairman of the Board and Chief Executive Officer*

Robert J. Grueser (d)
*Vice Chairman of the Board*

Ben T. Ray
*President and Chief Operating Officer*

James P. Fenstermaker
*Senior Vice President-Operations*

Fred V. Stine (d)
*Senior Vice President-Customer Service*

Evan E. Williams
*Senior Vice President-Administration*

Frank N. Bien (a)
*Vice President*

Richard A. Burgert
*Vice President-Distribution and Service*

Richard E. Disbrow (a)
*Vice President*

John E. Dolan (a)
*Vice President*

A. Joseph Dowd (a)
*Vice President*

John M. Emery
*Vice President and Treasurer*

Raymond A. Heimann
*Vice President and Controller*

John H. Inskeep (d)
*Vice President-Purchasing*

Gerald P. Maloney (a)
*Vice President and Principal Financial Officer*

Richard M. McMorrow
*Vice President-Law and Risk Management*

Philip R. McNaughton (g)
*Vice President-Employee Relations*

Eugene D. Meyers (e)
*Vice President-Administrative Services*

Robert E. Sisinger (g)
*Vice President-Rates and Corporate Affairs*

Stanley P. Tomesek
*Vice President-Corporate Planning*

Willis C. Welch
*Vice President-Land Management*

Peter J. DeMaria (a)
*Assistant Treasurer and Principal Accounting Officer*

Margaret E. McCain (d)
*Secretary and Assistant Treasurer*

John R. Burton (a) (h)
*Secretary*

Quentin E. Bowers
*Assistant Controller and Assistant Secretary*

Richard P. Bourgerie (f)
*Assistant Secretary*

John F. DiLorenzo, Jr. (a)
*Assistant Secretary*

William E. Olson (a)
*Assistant Secretary*

William J. Prochaska (a)
*Assistant Secretary*

Joan St. James (a) (h)
*Assistant Secretary*

Leonard V. Assante (a)
*Assistant Treasurer*

William N. D'Onofrio (a)
*Assistant Treasurer*

Gerald R. Knorr (a)
*Assistant Treasurer*

Wayne L. Pidock
*Assistant Treasurer*

(a) Principal occupation is as an employee of American Electric Power Service Corporation of Columbus, Ohio.
(b) Resigned January 1, 1982
(c) Resigned August 31, 1981
(d) Resigned February 1, 1982
(e) Resigned February 1, 1981
(f) Resigned October 30, 1981
(g) Resigned March 1, 1982
(h) Elected March 10, 1982

# Selected Financial Data

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **1981** | 1980 | 1979 | 1978 | 1977 |
| | | | (in thousands) | | |
| **INCOME STATEMENTS DATA:** | | | | | |
| Operating Revenues — Electric | **$629,244** | $501,093 | $432,842 | $376,926 | $323,968 |
| Total Operating Expenses | **507,898** | 393,549 | 342,770 | 310,544 | 247,942 |
| Operating Income | **121,346** | 107,544 | 90,072 | 66,382 | 76,026 |
| Total Other Income and Deductions | **22,002** | 19,725 | 20,963 | 15,338 | 11,154 |
| Income Before Interest Charges | **143,348** | 127,269 | 111,035 | 81,720 | 87,180 |
| Net Interest Charges | **63,980** | 64,774 | 51,058 | 41,893 | 32,846 |
| Net Income — before nonrecurring cumulative effect of accounting change | **79,368** | 62,495 | 59,977 | 39,827 | 54,334 |
| Nonrecurring Cumulative Effect of Accounting Change | **—** | 6,457 | — | — | — |
| Net Income — before preferred and preference stock dividend requirements | **79,368** | 68,952 | 59,977 | 39,827 | 54,334 |
| Preferred and Preference Stock Dividend Requirements | **21,339** | 14,723 | 13,890 | 12,021 | 10,090 |
| Earnings Applicable to Common Stock | **$ 58,029** | $ 54,229 | $ 46,087 | $ 27,806 | $ 44,244 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | **1981** | 1980 | 1979 | 1978 | 1977 |
| | | | (in thousands) | | |
| **BALANCE SHEETS DATA:** | | | | | |
| Electric Utility Plant | **$1,737,241** | $1,637,356 | $1,582,543 | $1,476,436 | $1,353,974 |
| Accumulated Provision for Depreciation | **358,138** | 324,976 | 294,349 | 263,936 | 231,438 |
| Net Electric Utility Plant | **1,379,103** | 1,312,380 | 1,288,194 | 1,212,500 | 1,122,536 |
| Total Assets | **1,634,827** | 1,555,272 | 1,448,666 | 1,360,826 | 1,254,851 |
| Common Stock, Premiums on Capital Stock and Other Paid-in Capital | **360,642** | 320,642 | 290,014 | 285,496 | 282,685 |
| Retained Earnings | **145,049** | 143,102 | 140,851 | 129,370 | 138,898 |
| Cumulative Preferred Stock: | | | | | |
| Not Subject to Mandatory Redemption | **8,304** | 8,304 | 98,354 | 98,354 | 98,354 |
| Subject to Mandatory Redemption | **106,780** | 91,780 | 60,000 | 60,000 | 20,000 |
| Cumulative Preference Stock | **54,834** | 54,834 | — | — | — |
| Long-term Debt (a) | **709,954** | 669,587 | 649,828 | 592,321 | 548,862 |

(a) Including portion due within one year.

# Management's Discussion and Analysis of Results of Operations and Financial Condition

The following are the more significant factors affecting the financial condition of the Company as reflected in the results of operations. This discussion refers to the financial statements appearing on the following pages.

**Operating Revenues and Expenses**

Operating revenues increased 26% in 1981 and 16% in 1980 compared to increases in energy sales of 36% and 2%, respectively. The smaller increase in 1981 revenues as compared with energy sales was the result of higher sales for resale which produce lower revenues per kilowatt-hour than other sales. The greater proportionate increase in 1980 revenues over energy sales was the result of a rate increase implemented during 1980 and the recovery of higher fuel costs through fuel adjustment provisions. Revenues in 1980 also increased due to an accounting change, adopted in 1980, to record unbilled revenues.

Approximately 75% of the Company's revenues from kilowatt-hour sales in 1981 were collected from retail customers (residential, commercial, and industrial). In 1981, revenues attributable to retail customers rose 5% on a 2% increase in kilowatt-hour sales while 1980 retail revenues and kilowatt-hour sales were up 16% and 4%, respectively.

Wholesale revenues increased significantly in 1981 on a large increase in kilowatt-hour sales and increased 5% in 1980 on an 11% decline in kilowatt-hour sales. On January 1, 1981, the Company became a participant in the AEP System power pool. As a participant, the Company is able to take advantage of AEP's generating capability and transmission system which has increased wholesale transactions between the Company and other utilities.

Operating expenses rose 29% in 1981 and 15% in 1980 due primarily to fuel for electric generation which increased 14% in 1981 and 10% in 1980. Purchased and interchange power increased substantially in 1981 also as a result of the Company's participation in the AEP System power pool. Future fuel expenses may be affected by the possibility of more stringent environmental restrictions on burning certain types of coal. Whether or not continued increases will adversely affect earnings will depend on the Company's ability to recover those costs promptly in the face of efforts by consumer groups and others to delay or reduce rate increases and to eliminate or reduce the extent of coverage of fuel adjustment clauses.

**Construction and Financing Program**

Expenditures for the Company's construction program over the three-year period 1982-1984 are estimated to be approximately $361,500,000. Substantial additional expenditures may be required if existing generating plants have to be modified or require additional facilities to comply with present and future environmental quality standards. In recent years, the Company's construction program has been affected by substantial increases in construction costs and difficulties in obtaining financing for the program due to high costs of capital and dividend or interest coverage requirements. The Company's construction program is reviewed continuously and revised from time to time in response to revised projections of load growth and changes in the cost and availability of capital. In recent years, these reviews have resulted in extending construction schedules of a number of projects with the objective of reducing the level of annual construction expenditures. However, deferrals of construction projects may have an adverse effect on the quality of service provided to customers in the future, and any resulting reductions in current construction costs may, in the long run, be at least partially offset by cancellation charges and general inflationary trends. In addition, when the completion date of a project under construction is substantially delayed, it becomes more expensive, both because of the foregoing factors and because certain costs, such as allowance for funds used during construction (AFUDC) and other overheads, continue to accrue until the facility is placed in commercial operation.

It is estimated that approximately 65% of the Company's projected construction expenditures for 1982-1984 will be financed with internally generated funds. The additional amounts needed will have to be raised externally through sales of securities and investments in the Company's common equity by AEP. The Company initially finances current construction expenditures in excess of available internally generated funds by issuing unsecured short-term debt. Short-term debt is then periodically reduced with the proceeds of subsequent sales of long-term debt securities and preferred stock. Prior to the acquisition of the Company by AEP, proceeds from the sale of common stock were also used to reduce short-term debt. Additional funds are now obtained through cash capital contributions from the parent company which are ultimately financed through the sale of AEP's common stock.

The amount of short-term debt which the Company may issue is primarily limited by regulatory restrictions under the Public Utility Holding Company Act of 1935. At December 31, 1981, the Company was permitted under these restrictions to issue a total of approximately $72,000,000 of short-term debt. On the same date, the Company had outstanding unused short-term bank lines of credit, many of which are shared with other AEP companies, of approximately $339,000,000. Bank lines of credit may be withdrawn by the banks extending them at any time and require the maintenance of compensating deposit balances or the payment of fees in lieu of deposits.

In order for the Company to issue additional long-term debt and preferred stock, it is necessary to comply with earnings coverage requirements contained in mortgage bond and debenture indentures and in the charter. The issuance of additional long-term debt (except to refund maturing long-term debt) requires pre-tax earnings equal to at least twice the annual interest charges on long-term debt, giving effect to the issuance of the new debt, for a period of 12 consecutive months within the 15 months immediately preceding the date of the new issue. To issue additional preferred stock, the Company must have after-tax gross income at least equal to one and one-half times annual interest charges and preferred and preference dividends, giving effect to the issuance of the new preferred stock, for the same period. At December 31, 1981, the long-term debt and preferred stock coverages of the Company were 2.37 and 1.60, respectively.

In view of these restrictions on the issuance of additional debt securities and preferred stock, it is evident that it will be possible to meet the capital requirements of the Company's construction program only if rate increases over the next several years are sufficient to maintain the earnings levels required to issue the necessary amounts of long-term debt and preferred stock and to provide an appropriate return on new equity investment.

**Net Income**

Net income before preferred and preference dividends increased 15% in 1981. Net income for 1980 also increased 15%. The 1980 increase was largely attributable to adopting the unbilled method of recording revenues. Total AFUDC included in net income was 33% in 1981, 26% in 1980 and 32% in 1979. The increase in 1981 reflects an increase in the accrual rate. The decrease in 1980 relates to the inclusion in rate base of part of the construction expenditures related to the Zimmer nuclear unit in the Company's most recent rate case. AFUDC does not represent cash income or a reduction in actual interest expense, but is an accounting convention, required by regulatory systems of accounts. The net cost of borrowed funds used for construction and a reasonable rate of return on other funds when so used is capitalized as a cost of construction projects with a concurrent credit to the Statement of Income. The amount capitalized is generally included in the plant investment base for setting rates and recovered through depreciation charges included in the rates after the project is placed in commercial operation.

**Effects of Inflation**

The high rates of inflation have had a severe effect on the Company's revenues, expenses and net income that is not readily evident in conventional financial statements. For additional information on the effects of inflation, refer to Note 13 of Notes to Financial Statements which presents a statement of income for 1981, adjusted for the effects of inflation, and a comparison of selected supplementary data for a three-year period, similarly adjusted.

# Auditors' Opinion

**Deloitte Haskins Sells**

155 East Broad Street
Columbus, Ohio 43215
(614) 221-1000
Cable DEHANDS

To the Shareowners and Board of Directors of Columbus and Southern Ohio Electric Company:

February 23, 1982

We have examined the balance sheet of Columbus and Southern Ohio Electric Company as of December 31, 1981 and the related statements of income, retained earnings and sources and applications of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Columbus and Southern Ohio Electric Company for the years ended December 31, 1980 and 1979 were examined by other auditors whose report thereon, dated February 6, 1981, expressed an unqualified opinion except as to the year ended December 31, 1980 was modified as to consistency with respect to the change in 1980 (with which they concurred) to the unbilled method of recognizing revenues as discussed in Note 2 of Notes to Financial Statements.

In our opinion, the financial statements for 1981 present fairly the financial position of Columbus and Southern Ohio Electric Company at December 31, 1981 and the results of its operations and its sources and applications of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year subsequent to the change to the unbilled method of recognizing revenues discussed above.

Deloitte Haskins & Sells

# Statements of Income

| | Year Ended December 31, | | |
|---|---|---|---|
| | **1981** | 1980 | 1979 |
| | | (in thousands) | |
| OPERATING REVENUES — ELECTRIC | **$629,244** | $501,093 | $432,842 |
| OPERATING EXPENSES: | | | |
| Operation: | | | |
| Fuel for Electric Generation | **172,148** | 151,018 | 137,078 |
| Purchased and Interchange Power (net) | **75,637** | (147) | (1,785) |
| Other | **88,800** | 82,400 | 69,345 |
| Maintenance | **48,890** | 49,516 | 37,776 |
| Depreciation | **43,366** | 41,705 | 39,843 |
| Taxes Other Than Federal Income Taxes | **47,736** | 40,799 | 38,193 |
| Federal Income Taxes | **31,321** | 28,258 | 22,320 |
| Total Operating Expenses | **507,898** | 393,549 | 342,770 |
| OPERATING INCOME | **121,346** | 107,544 | 90,072 |
| OTHER INCOME AND DEDUCTIONS: | | | |
| Allowance for Other Funds Used During Construction | **14,924** | 8,854 | 9,825 |
| Equity in Earnings of Subsidiary Companies | **1,557** | 2,136 | 1,727 |
| Miscellaneous Nonoperating Income Less Deductions | **5,521** | 8,735 | 9,411 |
| Total Other Income and Deductions | **22,002** | 19,725 | 20,963 |
| INCOME BEFORE INTEREST CHARGES | **143,348** | 127,269 | 111,035 |
| INTEREST CHARGES: | | | |
| Interest on Long-term Debt | **68,088** | 57,243 | 50,719 |
| Interest on Short-term Debt | **6,570** | 15,975 | 8,993 |
| Miscellaneous Interest Charges | **912** | 474 | 422 |
| Total Interest Charges | **75,570** | 73,692 | 60,134 |
| Allowance for Borrowed Funds Used During Construction (credit) | **(11,590)** | (8,918) | (9,076) |
| Net Interest Charges | **63,980** | 64,774 | 51,058 |
| NET INCOME BEFORE NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE | **79,368** | 62,495 | 59,977 |
| NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE (net of $5,501,000 applicable taxes) | **—** | 6,457 | — |
| NET INCOME AFTER NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE — before preferred and preference stock dividend requirements | **79,368** | 68,952 | 59,977 |
| PREFERRED AND PREFERENCE STOCK DIVIDEND REQUIREMENTS | **21,339** | 14,723 | 13,890 |
| EARNINGS APPLICABLE TO COMMON STOCK | **$ 58,029** | $ 54,229 | $ 46,087 |
| Pro forma amounts assuming the method of recording unbilled revenues is applied retroactively: | | | |
| Earnings Applicable to Common Stock | | $ 47,772 | $ 45,815 |

*See Notes to Financial Statements.*

# Balance Sheets

| | December 31, 1981 | December 31, 1980 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Electric Utility Plant: | | |
| Production | **$ 666,445** | $ 655,087 |
| Transmission | **248,405** | 244,570 |
| Distribution | **414,716** | 391,716 |
| General and Miscellaneous | **58,027** | 56,859 |
| Construction Work in Progress | **349,648** | 289,124 |
| Total Electric Utility Plant | **1,737,241** | 1,637,356 |
| Less Accumulated Provision for Depreciation | **358,138** | 324,976 |
| Electric Utility Plant Less Provision | **1,379,103** | 1,312,380 |
| Other Property and Investments | **27,178** | 28,021 |
| Current Assets: | | |
| Cash | **3,747** | 5,937 |
| Special Deposits and Working Funds | **9,405** | 8,540 |
| Accounts Receivable: | | |
| Customers | **33,075** | 36,618 |
| Associated Companies | **7,056** | 101 |
| Miscellaneous | **5,093** | 3,938 |
| Accumulated Provision for Uncollectible Accounts | **(678)** | (680) |
| Materials and Supplies (at average cost): | | |
| Fuel | **39,616** | 53,342 |
| Construction and Operation Materials and Supplies | **22,018** | 17,855 |
| Accrued Utility Revenues | **14,011** | 13,891 |
| Prepayments and Other Current Assets | **8,335** | 7,349 |
| Total Current Assets | **141,678** | 146,891 |
| Deferred Debits: | | |
| Unamortized Debt Expense | **2,932** | 3,178 |
| Property Taxes | **26,295** | 23,220 |
| Deferred Collection of Fuel Costs | **5,118** | — |
| Other Work in Progress | **44,247** | 36,655 |
| Other Deferred Debits | **8,276** | 4,927 |
| Total Deferred Debits | **86,868** | 67,980 |
| Total | **$1,634,827** | $1,555,272 |

*See Notes to Financial Statements.*

## CAPITALIZATION AND LIABILITIES

| | December 31, 1981 | December 31, 1980 |
|---|---|---|
| | (in thousands) | |
| **Capitalization:** | | |
| Common Stock — No Par Value: | | |
| Authorized — 24,000,000 Shares | | |
| Outstanding — 16,410,426 Shares | **$ 41,026** | $ 41,026 |
| Premiums on Capital Stock | **249,616** | 249,616 |
| Other Paid-in Capital | **70,000** | 30,000 |
| Retained Earnings | **145,049** | 143,102 |
| Total Common Shareowner's Equity | **505,691** | 463,744 |
| Cumulative Preferred Stock: | | |
| Not Subject to Mandatory Redemption | **8,304** | 8,304 |
| Subject to Mandatory Redemption | **106,780** | 91,780 |
| Cumulative Preference Stock | **54,834** | 54,834 |
| Long-term Debt (less portion due within one year) | **657,692** | 654,722 |
| Total Capitalization (less portion due within one year) | **1,333,301** | 1,273,384 |
| **Current Liabilities:** | | |
| Long-term Debt Due Within One Year | **52,262** | 14,865 |
| Short-term Debt: | | |
| Notes Payable to Banks | **26,696** | 48,032 |
| Notes Payable to Other Financial Institutions | **—** | 30,000 |
| Accounts Payable: | | |
| General | **30,750** | 30,045 |
| Associated Companies | **1,732** | 538 |
| Customer Deposits | **2,248** | 1,800 |
| Taxes Accrued | **54,814** | 50,038 |
| Interest Accrued | **17,296** | 17,184 |
| Other Current Liabilities | **12,726** | 9,883 |
| Total Current Liabilities | **198,524** | 202,385 |
| **Commitments and Contingencies (Note 10)** | | |
| **Deferred Credits and Operating Reserves:** | | |
| Deferred Income Taxes | **45,031** | 34,165 |
| Deferred Investment Tax Credits | **51,855** | 42,728 |
| Other Deferred Credits and Operating Reserves | **6,116** | 2,610 |
| Total Deferred Credits and Operating Reserves | **103,002** | 79,503 |
| Total | **$1,634,827** | $1,555,272 |

# Statements of Sources and Applications of Funds

| | Year Ended December 31, | | |
|---|---|---|---|
| | **1981** | 1980 | 1979 |
| | | (in thousands) | |
| SOURCES OF FUNDS: | | | |
| Funds from Operations: | | | |
| Net Income | **$ 79,368** | $ 68,952 | $ 59,977 |
| Principal Non-fund Charges (Credits) to Income: | | | |
| Depreciation | **43,529** | 41,705 | 39,843 |
| Provision for Deferred Income Taxes (net) | **10,865** | 8,376 | 4,509 |
| Deferred Investment Tax Credits (net) | **13,687** | 14,629 | 5,768 |
| Allowance for Other Funds Used During Construction | **(14,924)** | (8,854) | (9,825) |
| Equity in Undistributed Earnings of Subsidiaries | **(1,346)** | 1,450 | 1,824 |
| Other (net) | **1,016** | 1,176 | 831 |
| Total Funds from Operations | **132,195** | 127,434 | 102,927 |
| Funds from Contributions and Financings: | | | |
| Contributions and Financings: | | | |
| Common Stock | **—** | 1,311 | 4,528 |
| Capital Contributions from Parent Company | **40,000** | 30,000 | — |
| Cumulative Preference Stock | **—** | 54,667 | — |
| Cumulative Preferred Stock | **14,497** | 49,415 | — |
| Long-term Debt | **79,123** | 79,200 | 79,775 |
| Short-term Debt (net) | **(51,336)** | 27,369 | (2,769) |
| Total | **82,284** | 241,962 | 81,534 |
| Less Retirements of Cumulative Preferred Stock and Long-term Debt | **39,093** | 182,082 | 22,532 |
| Net Funds from Contributions and Financings | **43,191** | 59,880 | 59,002 |
| Total Sources of Funds | **$175,386** | $187,314 | $161,929 |
| APPLICATIONS OF FUNDS: | | | |
| Gross Additions to Utility Plant | **$108,965** | $101,904 | $114,921 |
| Gross Other Additions | **7,394** | 1,515 | 1,636 |
| Total Gross Additions | **116,359** | 103,419 | 116,557 |
| Allowance for Other Funds Used During Construction | **(14,924)** | (8,854) | (9,825) |
| Net Additions to Utility Plant | **101,435** | 94,565 | 106,732 |
| Dividends on Common Stock | **55,467** | 38,041 | 34,606 |
| Dividends on Cumulative Preferred and Preference Stock | **21,339** | 14,723 | 13,890 |
| Deferred Collection of Fuel Costs | **5,118** | — | — |
| Other Items (net) | **7,318** | (676) | 4,005 |
| Increase (Decrease) in Working Capital (a) | **(15,291)** | 40,661 | 2,696 |
| Total Applications of Funds | **$175,386** | $187,314 | $161,929 |
| (a) Excludes Long-term Debt Due Within One Year and Short-term Debt and is represented by increase (decrease) as follows: | | | |
| Cash and Cash Items | **$ (1,325)** | $ 3,230 | $ 1,402 |
| Accounts Receivable | **4,568** | 4,265 | 469 |
| Materials and Supplies | **(9,563)** | 24,231 | 6,206 |
| Accrued Utility Revenues | **121** | 13,891 | — |
| Accounts Payable | **(1,898)** | (2,559) | (2,624) |
| Taxes Accrued | **(4,776)** | 439 | (10,484) |
| Other (net) | **(2,418)** | (2,836) | 7,727 |
| | **$ (15,291)** | $40,661 | $ 2,696 |

*See Notes to Financial Statements.*

# Statements of Retained Earnings

| | Year Ended December 31, | | |
|---|---|---|---|
| | **1981** | 1980 | 1979 |
| | | (in thousands) | |
| Balance at Beginning of Year | **$143,102** | $140,851 | $129,370 |
| Net Income after Nonrecurring Cumulative Effect of Accounting Change | **79,368** | 68,952 | 59,977 |
| Total | **222,470** | 209,803 | 189,347 |
| Deductions: | | | |
| Dividends Declared: | | | |
| Common Stock | **55,467** | 38,041 | 34,606 |
| Cumulative Preferred Stock: | | | |
| 4.25 % Series | **34** | 169 | 440 |
| 4.65 % Series | **23** | 154 | 419 |
| 10 % Series | **210** | 740 | 1,800 |
| 7.52 % Series | **63** | 443 | 1,203 |
| 8.52 % Series | **79** | 621 | 1,704 |
| 10.52 % Series | **187** | 826 | 2,104 |
| $2.42 Series | **306** | 1,011 | 2,420 |
| 9.50 % Series | **3,800** | 3,800 | 3,800 |
| $3.45 Series | **6,900** | 1,570 | — |
| $3.75 Series | **1,375** | — | — |
| Cumulative Preference Stock — $15.25 Series | **8,362** | 5,389 | — |
| Total Cash Dividends Declared | **76,806** | 52,764 | 48,496 |
| Premium and Expense on Retirement of Cumulative Preferred Stock | **—** | 13,016 | — |
| Capital Stock Expense | **615** | 921 | — |
| Total Deductions | **77,421** | 66,701 | 48,496 |
| Balance at End of Year | **$145,049** | $143,102 | $140,851 |

*See Notes to Financial Statements.*

# Notes to Financial Statements

**1. Significant Accounting Policies:**

The common stock of the Company is wholly owned by American Electric Power Company, Inc. (AEP). The financial statements include the accounts of the Company and two wholly owned subsidiaries, Simco Inc. and Colomet, Inc. Simco Inc. is engaged in leasing coal-mining equipment and related mining operations. Colomet, Inc. is engaged in real estate activities. The Company accounts for its investment in such subsidiaries by use of the equity method.

The accounting and rates of the Company are subject in certain respects to the requirements of the Public Utilities Commission of Ohio (PUCO) and to the requirements of the Federal Energy Regulatory Commission (FERC). The financial statements have been prepared on the basis of the accounts which are maintained for FERC purposes.

*Electric Utility Plant; Other Property and Investments and Depreciation*

Electric utility plant is stated at original cost. Generally, the plant of the Company is subject to first mortgage liens.

The Company capitalizes, as a construction cost, an allowance for funds used during construction, an item not representing cash income, which is defined in the applicable regulatory systems of accounts as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The effective net-of-tax rate used by the Company was 9.50% in 1981, 8.71% in 1980 and 7.38% in 1979 (applied on a semi-annual compound basis).

The Company provides for depreciation on a straight-line basis over the estimated useful lives of the property. Provisions for depreciation, stated as a percentage of the average balance of related electric properties, approximated 3.31% for 1981, 3.29% for 1980 and 3.28% for 1979.

Operating expenses are charged with the costs of labor, materials, supervision and other costs incurred in maintaining the properties. Property accounts are charged with the costs of betterments and major replacements of property and the accumulated provision for depreciation is charged with retirements, together with removal costs less salvage.

Other property and investments are generally stated at cost.

*Revenue and Fuel*

Prior to 1980, revenues were recorded as billed to customers on a monthly cycle basis. In 1980, the Company began to record unbilled utility revenues (see Note 2).

Effective July 1, 1981, the Company became subject to the Ohio fuel regulations adopted February 25, 1981 and, as authorized by the PUCO, changed its method of accounting to defer recognition of fuel costs not recovered through the fuel recovery mechanism. Under the new regulations, the PUCO establishes an electric fuel component (EFC) rate for a six month period based on fuel costs of the prior six month period. Fuel costs not recovered through the application of the EFC rate are deferred and subsequently amortized in the period that such costs are reflected in billings to PUCO jurisdictional customers. At December 31, 1981, $5,118,000 of recoverable fuel costs were deferred. Prior to July 1, 1981, the Company charged to expense the cost of fuel as it was consumed. The Company does not practice deferred fuel cost accounting for energy transactions not subject to the PUCO's EFC regulations. Ohio law and regulations require refunds of amounts collected through the fuel recovery mechanism found by the PUCO, after audit and hearing, not to be justified. Hearings to date have not required any significant refunds.

*Income Taxes*

Deferred Federal income taxes, reduced where applicable by investment tax credits, are provided by the Company generally to the extent that such amounts are allowed for rate-making purposes. In accordance with a PUCO rate order and the adoption of a net-of-tax allowance for funds rate, the Company records in other income rather than as a reduction in Federal income taxes, the tax benefits associated with borrowed funds used to finance construction.

The Company practices deferral accounting for the effect of tax reductions resulting from the application of investment tax credits to provisions for current and certain deferred Federal income taxes. The deferred investment tax credit applicable to current Federal income taxes payable is amortized over the composite life of the related property.

*Pension Plan*

The Company has a non-contributory retirement income plan which covers substantially all of its employees.

Pension costs for the years ended December 31, 1981, 1980 and 1979 were approximately $14,170,000, $13,020,000 and $10,655,000, respectively. The amounts cover the costs of currently accruing benefits together with principal and interest on unfunded prior-service costs, which are being amortized over various periods not to exceed 40 years.

A comparison of the plan's accumulated benefits and net assets as of January 1, 1981, the date of the most recent actuarial study, is presented below:

| | January 1, | |
|---|---|---|
| | 1981 | 1980 |
| | (in thousands) | |
| Actuarial present value of accumulated plan benefits: | | |
| Vested | $82,400 | $79,700 |
| Nonvested | 15,663 | 3,000 |
| | $98,063 | $82,700 |
| Net assets available for benefits | $92,900 | $70,700 |

The assumed rate of return used by the actuary in determining the actuarial present value of accrued benefits was 7½% at each valuation date.

**2. Change in Accounting Method:**

The Company changed its method of accounting in 1980 to accrue utility revenues for services rendered but not billed at month-end. Prior to the change, revenues were recorded as billed to customers on a monthly cycle basis. The new method was adopted to permit a better matching of costs and revenues and to allow the Company's results to be more comparable with other operating companies within the AEP System.

The change (net of applicable taxes) increased 1980 income before the cumulative effect of the accounting change by $1,043,000. The nonrecurring cumulative effect of the accounting change applicable to years prior to January 1, 1980 is shown separately in the Statement of Income for 1980. Pro forma amounts are shown in the Statements of Income to disclose the amount of earnings applicable to common stock that would have been reported for 1980 and 1979 if the method of accounting for revenues had been in effect in prior years.

**3. Federal Income Taxes:**

The details of Federal income taxes as reported are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | | (in thousands) | |
| Charged to Operating Expenses: | | | |
| Current (net) | $ 6,769 | $10,754 | $12,043 |
| Deferred (net) | 10,865 | 2,875 | 4,509 |
| Deferred Investment Tax Credits (net) | 13,687 | 14,629 | 5,768 |
| Total | 31,321 | 28,258 | 22,320 |
| Credited to Other Income and Deductions — Current (net) | (4,131) | (7,905) | (7,969) |
| Charged to Nonrecurring Cumulative Effect of Accounting Change (a) | — | 5,501 | — |
| Total Federal Income Taxes as Reported | $27,190 | $25,854 | $14,351 |

(a) Represents deferred taxes applicable to the change in the Company's book accounting method to recognize unbilled revenues (See Note 2).

The following is a reconciliation of the difference between the amount of Federal income taxes computed, by multiplying book income before Federal income taxes by the statutory tax rate, and the amount of Federal income taxes reported in the Statements of Income.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | | (in thousands) | |
| Net Income Before Preferred and Preference Stock Dividend Requirements | $ 79,368 | $68,952 | $59,977 |
| Federal Income Taxes | 27,190 | 25,854 | 14,351 |
| Pre-tax Book Income | $106,558 | $94,806 | $74,328 |
| Federal Income Taxes on Pre-tax Book Income at Statutory Rate (46%) | $ 49,017 | $43,611 | $ 34,191 |
| Decrease in Federal Income Taxes Resulting From the Following Items on Which Deferred Taxes Are Not Provided: | | | |
| Excess of Tax Over Book Depreciation | (1,577) | (1,657) | (4,784) |
| Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes | (10,941) | (9,990) | (11,471) |
| Investment Tax Credits Not Deferred | (402) | (151) | (1,333) |
| Other | (8,907) | (5,959) | (2,252) |
| Total Federal Income Taxes as Reported | $ 27,190 | $25,854 | $ 14,351 |
| Effective Federal Income Tax Rate | 25.5% | 27.3% | 19.3% |

The following are the principal components of Federal income taxes as reported:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | | (in thousands) | |
| Current: | | | |
| Federal Income Taxes | $ 14,702 | $ 14,113 | $11,905 |
| Investment Tax Credit | (12,064) | (11,264) | (7,831) |
| Total Current Federal Income Taxes (net) | 2,638 | 2,849 | 4,074 |
| Deferred: | | | |
| Depreciation (liberalized, ADR and ACRS) | 5,493 | 6,118 | 4,740 |
| Unbilled Revenues | 56 | 6,390 | — |
| Allowance for Borrowed Funds Used During Construction | 3,016 | — | — |
| Other | 5,417 | 341 | (231) |
| Investment Tax Credit Applicable to Certain Deferred Income Taxes | (3,117) | (4,473) | — |
| Total Deferred Federal Income Taxes (net) | 10,865 | 8,376 | 4,509 |
| Total Deferred Investment Tax Credits (net) | 13,687 | 14,629 | 5,768 |
| Total Federal Income Taxes as Reported | $ 27,190 | $ 25,854 | $14,351 |

The Company filed separate Federal income tax returns for taxable years prior to the acquisition by AEP on May 9, 1980. From the date of acquisition the Company has joined in filing a consolidated Federal income tax return with its affiliated companies in the AEP System. The allocation of the AEP System's consolidated Federal income tax to the System companies is in accordance with Securities and Exchange Commission (SEC) rules under the Public Utility Holding Company Act of 1935. In 1981, the SEC amended its rules to permit the allocation of the benefit of current tax losses to the System companies giving rise to such losses in determining taxes currently payable. In prior years, in order to be consistent with rate-making, the benefits of these tax losses, without affecting taxes payable, were reallocated to the AEP System companies giving rise to such losses in determining each System company's Federal income tax expense. The tax loss of the System parent company, American Electric Power Company, Inc., continues to be allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the new method of allocation approximates a separate return result for each company in the consolidated group. Consolidated investment tax credits utilized are generally allocated to the System companies giving rise to them.

Unused AEP System investment tax credits at December 31, 1981 aggregated approximately $260,000,000, of which $22,000,000, generated by the Company are available for its future utilization. Of the Company's investment tax credit carryforwards, approximately $7,600,000 has been applied as a reduction of deferred income taxes prior to December 31, 1981 and will not be reflected in net income when realized in future years except as affected by changes in deferred income taxes.

The Federal income tax returns of the Company for the years prior to 1975 have been settled. The Internal Revenue Service has reviewed the returns for 1975 and 1976, and disallowances for those years have been proposed, some of which the Company has protested. The proposed disallowances would not result in an assessment of additional taxes due to the availability of investment tax credit carryforward. In the opinion of the Company, adequate provision has been made for Federal income taxes.

**4. Common Ownership of Generating and Transmission Facilities:**

The following table summarizes the Company's ownership in facilities in which the Company's ownership interest, and that of The Cincinnati Gas & Electric Company and The Dayton Power and Light Company, is that of a tenant in common. Each of the participating companies is obligated to pay a share of the costs of any such jointly owned facilities in the same proportion as its ownership interest. The Company's proportionate share of the operating cost associated with such facilities are included in the Statements of Income and the amounts reflected in the accompanying Balance Sheets under utility plant include such costs as follows.

| | | Company's Share December 31, | | | |
|---|---|---|---|---|---|
| | | 1981 | | 1980 | |
| | Percent of Ownership | Utility Plant in Service | Construction Work in Progress | Utility Plant in Service | Construction Work in Progress |
| | | (in thousands) | | | |
| Production: | | | | | |
| W. C. Beckjord Generating Station (Unit No. 6) | 12.5 | $ 9,666 | $ 113 | $ 9,620 | $ 25 |
| Conesville Generating Station (Unit No. 4) | 43.5 | 58,837 | 218 | 57,918 | 756 |
| J. M. Stuart Generating Station | 26.0 | 128,535 | 1,883 | 123,649 | 4,493 |
| Wm. H. Zimmer Nuclear Power Station (Unit No. 1) | 28.5 | — | 328,348 (a) | — | 262,323 (a) |
| | | $197,038 | $330,562 | $191,187 | $267,597 |
| Transmission | (b) | $ 53,477 | $ 1,429 | $ 53,371 | $ 940 |

(a) Includes $24,408,000 and $19,050,000 at December 31, 1981 and 1980, respectively, for Zimmer Unit No. 1 nuclear fuel.
(b) Varying percentage of ownership.

At December 31, 1981 and 1980, the accumulated provision for depreciation with respect to the Company's share of jointly owned facilities amounted to $57,204,000 and $50,058,000, respectively.

**5. Common Stock, Premiums on Capital Stock and Other Paid-in Capital:**

The changes in common stock outstanding during the three years ended December 31, 1981 are detailed below:

| | Common Stock Issued | | |
|---|---|---|---|
| Year | Number of Shares | Stated Value | Premiums, Net of Expense on Capital Stock |
| | | (in thousands) | |
| 1981 | — | $ — | $ — |
| 1980 | 64,475 | 161 | 1,150 |
| 1979 | 197,975 | 495 | 4,033 |

The changes in common stock shown above resulted exclusively from issuances through the Company's dividend reinvestment and employees' stock purchase plans prior to the acquisition by AEP. As a result of the acquisition the dividend reinvestment plan was terminated and parent company common stock is now being purchased for the employees' stock purchase plan.

The premiums on capital stock was reduced $2,074,600 in 1980. The reduction represents the amount of premium originally contributed by certain shares of preferred stock which were reacquired during 1980 as a result of a tender offer.

The Company received from its parent cash capital contributions of $40,000,000 in 1981 and $30,000,000 in 1980 which were credited to other paid-in capital.

**6. Retained Earnings:**

Various restrictions on the use of retained earnings for cash dividends on common stock and other purposes are contained in or result from covenants in the Company's mortgage indentures, debenture indenture and charter provisions. Approximately $74,400,000 was so restricted at December 31, 1981.

**7. Cumulative Preferred and Preference Stock:**

At December 31, 1981, authorized shares of cumulative preferred and preference stock were as follows:

| Cumulative Preferred Stock | Shares Authorized |
|---|---|
| $100 Par Value | 1,500,000 |
| 25 Par Value | 5,000,000 |
| Cumulative Preference Stock | |
| $100 Stated Value | 2,000,000 |

The cumulative preferred and preference stock is callable at the option of the Company at the prices indicated plus accrued dividends. The involuntary liquidation preference is par value for all outstanding shares of cumulative preferred stock and $100 per share for cumulative preference stock.

**A. Cumulative Preferred Stock Not Subject to Mandatory Redemption:**

| | | | | Shares Outstanding December 31, | | Amount December 31, | |
|---|---|---|---|---|---|---|---|
| Series | Current Call Price | Redemption Restricted Prior to | Par Value | 1981 | 1980 | 1981 | 1980 |
| | | | | | | (in thousands) | |
| 4.25% | $110 | — | $100 | 7,942 | 7,942 | $ 794 | $ 794 |
| 4.65% | 101 | — | 100 | 4,852 | 4,852 | 485 | 485 |
| 10% | 106.75 | — | 100 | 20,967 | 20,967 | 2,097 | 2,097 |
| 7.52% | 108 | — | 100 | 8,393 | 8,393 | 839 | 839 |
| 8.52% | 108 | — | 100 | 9,258 | 9,258 | 926 | 926 |
| $2.42 | 29.075 | — | 25 | 126,503 | 126,503 | 3,163 | 3,163 |
| | | | | | | $8,304 | $8,304 |

## B. Cumulative Preferred Stock Subject to Mandatory Redemption:

| Series | (a) | Current Call Price | Redemption Restricted Prior to | Par Value | Shares Outstanding December 31, 1981 | Shares Outstanding December 31, 1980 | Amount December 31, 1981 (in thousands) | Amount December 31, 1980 (in thousands) |
|---|---|---|---|---|---|---|---|---|
| 10.52% | (b) | ...... $107.25 | 8-2-85 | $100 | 17,804 | 17,804 | $ 1,780 | $ 1,780 |
| 9.50% | (c) | ...... 120 | — | 100 | 400,000 | 400,000 | 40,000 | 40,000 |
| $3.45 | (d) | ...... 28.45 | 11-1-85 | 25 | 2,000,000 | 2,000,000 | 50,000 | 50,000 |
| $3.75 | (e) | ...... 28.75 | 5-1-86 | 25 | 600,000 | — | 15,000 | — |
| | | | | | | | $106,780 | $91,780 |

## C. Cumulative Preference Stock Subject to Mandatory Redemption:

| Series | (a) | Current Call Price | Redemption Restricted Prior to | Stated Value | Shares Outstanding December 31, 1981 | Shares Outstanding December 31, 1980 | Amount December 31, 1981 (in thousands) | Amount December 31, 1980 (in thousands) |
|---|---|---|---|---|---|---|---|---|
| $15.25 | (f) | ....... $115.25 | — | $100 | 548,342 | 548,342 | $54,834 | $54,834 |

(a) The minimum sinking fund provisions of the series subject to mandatory redemption aggregate $1,600,000 for 1984 and $6,841,000 for 1985 and $7,591,000 for 1986.

(b) A sinking fund for the 10.52% Series requires the Company to provide, on or before August 1, of each year beginning in 1981, for the redemption of 10,000 shares of such series. The Company has the right, on each sinking fund date, to redeem an additional 10,000 shares and has the option to credit shares purchased or otherwise acquired in lieu of redeeming shares for the sinking fund. Approximately 182,200 shares of the 10.52% Series were acquired in 1980 which may be used to satisfy sinking fund requirements through 1998. Prior to August 2, 1985 shares may not be redeemed, other than by operation of the applicable sinking fund, through refunding operations at an effective cost of less than 10.52% per annum.

(c) A sinking fund for the 9.50% Series requires the Company to provide, on or before May 1, of each year beginning in 1984, for the redemption of 16,000 shares of such series. The Company has the right, on each sinking fund date, to redeem an additional 16,000 shares.

(d) A sinking fund for the $3.45 Series requires the Company to provide on or before November 1, of each year beginning in 1985, for the redemption of 100,000 shares of such series. The Company has the right, on each sinking fund date, to redeem an additional 100,000 shares.

(e) A sinking fund for the $3.75 Series requires the Company to provide, on or before May 1, of each year beginning in 1986, for the redemption of 30,000 shares of such series. The Company has the right, on each sinking fund date, to redeem an additional 30,000 shares.

(f) A sinking fund for the $15.25 Series requires the Company to provide, on or before May 1, of each year beginning in 1985, for the redemption of 27,417 shares of such series. The Company has the right, on each sinking fund date, to redeem an additional 27,417 shares.

(g) Differences between redemption prices (including commissions and reacquisition expenses) and the stated value plus any premium and less any discount or expenses applicable to the shares as they are retired are accounted for in the following manner as prescribed by the FERC. Gains on reacquisition are recorded as an increase in proprietary capital and losses are a reduction of previous reacquisition gains with an excess being charged to retained earnings.

## 8. Long-term Debt, Lines of Credit and Compensating Balances:

Long-term debt by major category was outstanding as follows (less portion due within one year):

| | December 31, 1981 | December 31, 1980 |
|---|---|---|
| | (in thousands) | |
| First Mortgage Bonds | $636,963 | $609,903 |
| Debentures | 20,157 | 20,714 |
| Other Long-term Debt: | | |
| Term Loans | — | 22,960 |
| Other | 572 | 1,145 |
| Total | $657,692 | $654,722 |

First mortgage bonds outstanding were as follows:

| % Rate | Due | December 31, 1981 | December 31, 1980 |
|---|---|---|---|
| | | (in thousands) | |
| 3¼% | 1981 — September 1 | $ — | $ 9,000 |
| 9¼% | 1982 — June 1 | 50,000 | 50,000 |
| 11% | 1983 — January 1 | 30,000 | 30,000 |
| 3⅝% | 1983 — November 1 | 7,590 | 7,590 |
| 3¼% | 1984 — October 1 | 7,569 | 7,698 |
| 9½% | 1984 — November 1 | 60,000 | 60,000 |
| 7⅝% | 1985 — July 1 | 45,000 | 45,000 |
| 3¾% | 1986 — April 1 | 9,315 | 9,480 |
| 4½% | 1987 — March 1 | 15,789 | 15,789 |
| 4⅛% | 1988 — January 1 | 13,860 | 13,860 |
| 13⅝% | 1990 — October 1 | 80,000 | 80,000 |
| 16⅝% | 1991 — May 1 (a) | 80,000 | — |
| 4⅜% | 1992 — May 1 | 15,827 | 15,827 |
| 9.45% | 1996 — May 1 | 40,000 | 40,000 |
| 6¼% | 1997 — October 1 | 14,640 | 14,640 |
| 9.20% | 1998 — March 1 | 45,000 | 45,000 |
| 7% | 1998 — June 1 | 24,750 | 24,750 |
| 10¼% | 1999 — September 1 | 60,000 | 60,000 |
| 9% | 1999 — December 1 | 20,000 | 20,000 |
| 9.90% | 2004 — May 1 | 35,000 | 35,000 |
| 8⅞% | 2006 — September 1 | 35,000 | 35,000 |
| Unamortized (Discount) Premium (net) | | (287) | 269 |
| | | 689,053 | 618,903 |
| Less Portion Due Within One Year | | 52,090 | 9,000 |
| Total | | $636,963 | $609,903 |

(a) Issued by the Company in May 1981.

Long-term debt of the Company, excluding premium or discount, outstanding at December 31, 1981 is due over the next five years, as follows:

| | Principal Amount (in thousands) |
|---|---|
| 1982 | $52,262 |
| 1983 | 39,973 |
| 1984 | 75,499 |
| 1985 | 52,994 |
| 1986 | 16,859 |

At December 31, 1981, the principal amount of debentures reacquired in anticipation of sinking fund requirements was $843,000.

The Company had unused short-term bank lines of credit of approximately $339,000,000 and $187,000,000 at December 31, 1981 and 1980, respectively. Available lines of credit are subject to withdrawal at the banks' option and approximately $334,000,000 and $181,000,000 of such lines at December 31, 1981 and 1980, respectively, are shared with other companies in the AEP System. In accordance with informal agreements with the banks, compensating balance deposits of up to 10% or equivalent fees are required to maintain the lines of credit and, on any amounts actually borrowed, generally either additional compensating balance deposits of up to 10% are maintained or adjustments in interest rates are made. Substantially all bank balances are maintained by the Company to compensate the banks for services and for the Company's share of both used and available lines of credit.

The Company has a line of credit which extends until October 1982 with a major leasing company. The line of credit was unused at December 31, 1981. When used, no compensating balances will be required but, rather, short-term notes payable secured by the Company's coal and oil inventories will be issued.

Under the Company's lines of credit and other short-term borrowing agreements, notes will mature not more than 270 days after the day of issuance or renewal.

## 9. Supplementary Income Statement Information and Related-Party Transactions:

Operating revenues — electric shown in the Statement of Income for 1980 includes approximately $3,757,000 representing sales of energy to an affiliated company within the AEP System subsequent to the acquisition of the Company on May 9, 1980.

Operating expenses shown in the Statements of Income include certain items not shown separately, as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | (in thousands) | | |
| Purchased Power (a) (b) | $21,480 | $ 459 | $ 430 |
| Interchange Power (net): | | | |
| AEP System Electric Utilities (c) | 54,434 | 281 | — |
| Other Companies (d) | (277) | (887) | (2,215) |
| | $75,637 | $(147) | $(1,785) |
| Taxes Other Than Federal Income Taxes: | | | |
| Real and Personal Property Taxes | $24,140 | $20,711 | $20,654 |
| State Excise on Gross Receipts | 18,539 | 16,283 | 14,323 |
| Social Security Taxes — Federal and State | 4,447 | 3,351 | 2,764 |
| Other | 610 | 454 | 452 |
| | $47,736 | $40,799 | $38,193 |
| Depletion applicable to coal operations included in Other Income and Deductions | $ 114 | $ 127 | $ 117 |

(a) Purchased power for 1980 includes $227,000 representing transactions with an affiliated company within the AEP System subsequent to May 1, 1980.

(b) Includes power purchased from Ohio Valley Electric Corporation of approximately $6,579,000 in 1981, $(366,000) in 1980 and $87,000 in 1979.

(c) 1980 amount represents transactions subsequent to May 9, 1980.

(d) Includes interchange power sold to Ohio Valley Electric Corporation of approximately $(118,000) in 1981, $(94,000) in 1980 and $(435,000) in 1979.

The Company has no significant royalty or advertising expenses.

American Electric Power Service Corporation provides certain services to the Company and the affiliated companies in the AEP System. The costs of the services are determined by the service company on a direct-charge basis to the extent practicable and on reasonable bases of proration for indirect costs. The charges for services are made on a cost basis but include no compensation for the use of equity capital, all of which is furnished to the service company by AEP. The service company is subject to the regulation of the SEC under the Public Utility Holding Company Act of 1935.

**10. Commitments and Contingencies:**

The Company estimates that its construction program for the year 1982 will require expenditures of approximately $118,000,000. Substantial commitments have been made in connection with the construction program including commitments for commonly-owned nuclear generation and transmission facilities.

Effective December 31, 1980, the Company suspended construction of two generating units at its Poston Station and transferred the associated construction costs from Construction Work in Progress to Other Work in Progress. Construction will resume if American Municipal Power - Ohio Inc. (AMPO), the members of which are certain Ohio municipal electric systems, elect to purchase one or both of the two units pursuant to a coordination agreement, dated May 1, 1979. AMPO is currently required to make its decision with respect to such a purchase on or before September 30, 1982. In the event that AMPO does not elect to purchase the units and if the Company should determine not to resume construction, the principles in a Supreme Court of Ohio decision involving an unaffiliated utility may require the Company to write-off a portion of the deferred construction costs which could have a material impact on the Company's earnings for the period in which the write-off might occur. The amount of any potential write-off is not determinable at this time and would depend on various factors including the tax effects, sale or salvage value of a turbine generator and other assets acquired for the construction project. As of December 31, 1981, construction costs related to the two Poston units amounted to $41,644,000.

The Company is subject to certain developing laws and regulations with respect to air and water quality, land use and other environmental matters. While the Company is unable to predict the ultimate effect of such laws and regulations, it is possible that the Company may be required to pay penalties for failure to comply during certain periods or that compliance therewith may require the Company to modify or replace existing and proposed equipment and facilities.

Ohio Valley Electric Corporation (OVEC), which was organized by the Company, its parent, three affiliated operating companies and several unaffiliated utility companies, has a long-term contract which extends to 1992 to supply power to the U.S. Department of Energy (DOE). The proceeds from the sale of power by OVEC are designed to be sufficient for OVEC to meet its operating expenses, fixed costs and to provide an annual return on its equity capital. The participating utilities are obligated to purchase, in proportion to their Equity Participation Ratio, an additional $10,000,000 of OVEC common stock in the event the outstanding demand notes are called, and are also obligated to provide any additional capital required by OVEC not available from other sources. The Company is entitled to receive

from OVEC, and is obligated to pay for, 4.3% of the power not required by DOE.

On January 4, 1982, IU Conversion Systems, Inc. filed both a complaint for declaratory judgment, equitable relief and damages, and a motion for temporary restraining order and preliminary injunction against the Company in the United States District Court for the Southern District of Ohio. The complaint alleged that the Company breached a contract with the plaintiff in connection with the construction and supervision of the operation of a waste management facility for the Conesville Plant Units 5 and 6 by both wrongfully terminating said contract and failing to pay the plaintiff a proper termination fee. On January 6, 1982, the plaintiff withdrew the motion for temporary restraining order and preliminary injunction and, on January 25, filed an amended complaint seeking, among other things, $13,000,000 damages for the Company's alleged improper termination and breach of contract. The Company filed an answer and counterclaim on February 23, 1982 denying the plaintiff's allegations and seeking over $15,000,000 damages because of the plantiff's breach of contract warranties.

### 11. Leases:

The Company, as part of its operations, leases property, plant and equipment under leases ranging in length from 5 to 30 years. Most of the leases require the Company to pay related property taxes, maintenance costs and other costs of operation. The Company expects that in the normal course of business, leases will generally be renewed or replaced by other leases. The majority of the various rentals are under leases having purchase options or renewal options for substantially all of the economic lives of the properties.

Rentals are classified approximately as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | (in thousands) | | |
| Operating Expenses | $ 5,051 | $3,783 | $3,147 |
| Clearing and Miscellaneous Accounts (a) | 7,243 | 5,567 | 3,195 |
| Total | $12,294 | $9,350 | $6,342 |

(a) In the apportionment of these accounts, part of the amounts shown are charged to income.

Future minimum lease payments, by period and in the aggregate, of the Company's capital leases and noncancellable operating leases consisted of the following at December 31, 1981:

| | Capital Leases | Operating Leases |
|---|---|---|
| | (in thousands) | |
| 1982 | $ 7,000 | $ 1,000 |
| 1983 | 5,000 | 2,000 |
| 1984 | 5,000 | 2,000 |
| 1985 | 5,000 | 2,000 |
| 1986 | 5,000 | 2,000 |
| Later Years | 32,000 | 19,000 |
| Total Future Minimum Lease Payments | 59,000 | $28,000 |
| Less Estimated Interest Element Included Therein (a) | 26,000 | |
| Estimated Present Value of Future Minimum Lease Payments | $33,000 | |

(a) Interest rates used range from 7.4% to 18.7%.

The following is a pro forma analysis of leased properties under capital leases and related obligations assuming that such leases were capitalized:

| | December 31, | |
|---|---|---|
| | 1981 | 1980 |
| | (in thousands) | |
| Environmental Facilities | $14,000 | $10,000 |
| Transportation Equipment | 14,000 | 10,000 |
| Electric Production | 12,000 | 12,000 |
| Real Estate | 2,000 | 2,000 |
| Gross Properties Under Capital Leases | 42,000 | 34,000 |
| Less Accumulated Provision for Amortization | 13,000 | 11,000 |
| Net Properties Under Capital Leases | $29,000 | $23,000 |
| Obligations Under Capital Leases (a) | $33,000 | $30,000 |

(a) Including an estimated $3,000,000 and $2,000,000, respectively, due within one year.

Had capital leases been capitalized, any additional net expense for each of the three years ended December 31, 1981 would have been insignificant. The pro forma data does not give recognition to offsetting adjustments in allowable revenues that the Company believes would normally be expected to occur through the regulatory rate-making process, if the related leases had been capitalized.

**12. Unaudited Quarterly Financial Information:**

The following quarterly financial information is unaudited but, in the opinion of the Company, includes all adjustments necessary for a fair presentation of the amounts shown:

| Quarterly Periods Ended | Operating Revenues | Operating Income | Net Income (a) |
|---|---|---|---|
| | | (in thousands) | |
| 1981 | | | |
| Mar. 31 | $160,286 | $30,202 | $17,801 |
| June 30 | 156,836 | 28,376 | 16,699 |
| Sept. 30 | 167,490 | 36,917 | 26,685 |
| Dec. 31 | 144,632 | 25,851 | 18,183 |
| 1980 | | | |
| Mar. 31 | 124,185 | 26,258 | 23,402 |
| June 30 | 112,343 | 22,590 | 10,614 |
| Sept. 30 | 142,824 | 33,460 | 21,055 |
| Dec. 31 | 121,741 | 25,236 | 13,881 |
| 1979 | | | |
| Mar. 31 | 106,259 | 19,895 | 12,371 |
| June 30 | 101,294 | 19,644 | 12,242 |
| Sept. 30 | 117,545 | 29,073 | 21,724 |
| Dec. 31 | 107,744 | 21,460 | 13,640 |

(a) Before preferred stock dividend requirements.

**13. Unaudited Information on Inflation and Changing Prices:**

The supplementary information in the statements below is presented in compliance with the requirements of the Financial Accounting Standards Board (FASB). The information is intended to disclose the effects of both general inflation and changing prices; however, the amounts should be considered approximations of such effects rather than precise measures since a number of subjective judgments and estimating techniques were employed in developing the information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the average level of the 1981 Consumer Price Index for All Urban Consumers (CPI-U).

Current cost amounts reflect the changes in specific prices of property, plant and equipment from the date such assets were acquired to the present, and differ from constant dollar amounts to the extent that specific prices have risen at a different rate than the general inflation rate as measured by the CPI-U. The current cost of property, plant and equipment represents the approximate cost of replacing such resources and includes utility plant in service, construction work in progress, land, land rights and other property and investments. Current cost amounts were determined primarily by applying appropriate indexes from the Handy-Whitman Index of Public Utility Construction Costs.

Statement of Income
Adjusted for Effects of Changing Prices

| Year Ended December 31, 1981 | As Stated in the Primary Financial Statements | Adjusted for General Inflation (constant dollar) | Adjusted for Changes in Specific Prices (current cost) |
|---|---|---|---|
| | | (in thousands) | |
| Operating Revenues | $ 629,244 | $ 629,000 | $ 629,000 |
| Operating Expenses: | | | |
| Operation: | | | |
| Fuel for Electric Generation | 172,148 | 172,000 | 172,000 |
| Purchased and Interchange Power (net) | 75,637 | 76,000 | 76,000 |
| Other | 88,800 | 89,000 | 89,000 |
| Maintenance | 48,890 | 49,000 | 49,000 |
| Depreciation (a) | 43,366 | 92,000 | 93,000 |
| Taxes Other Than Federal Income Taxes | 47,736 | 48,000 | 48,000 |
| Federal Income Taxes | 31,321 | 31,000 | 31,000 |
| Total Operating Expenses | 507,898 | 557,000 | 558,000 |
| Operating Income | 121,346 | 72,000 | 71,000 |
| Other Income and Deductions (a) | 22,002 | 21,000 | 21,000 |
| Net Interest Charges | (63,980) | (64,000) | (64,000) |
| Preferred and Preference Stock Dividend Requirements | (21,339) | (21,000) | (21,000) |
| Earnings Applicable to Common Stock (b) | $ 58,029 | $ 8,000 | $ 7,000 |
| Increase in Specific Prices (current cost) of Property, Plant and Equipment Held During the Year (c) | | | $ 251,000 |
| Reduction to Net Recoverable Cost (d) | | $ (67,000) | (91,000) |
| Effect of Increase in General Price Level | | | (226,000) |
| Excess of Increase in General Price Level over Increase in Specific Prices After Reduction to Net Recoverable Cost | | | (66,000) |
| Gain from Decline in Purchasing Power of Net Amounts Owed (e) | | 74,000 | 74,000 |
| Net | | $ 7,000 | $ 8,000 |

(a) As prescribed by the FASB, the items in the Statement of Income that have been adjusted are depreciation and depletion (including portions classified in Other Income and Deductions). The inflation-adjusted data for accumulated provisions for depreciation were estimated by applying to such amounts the historical ratios of accumulated provisions to original cost. Depreciation and depletion charges were computed by applying current accrual rates to various accounts after adjusting such accounts for the effects of changing prices.

(b) Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis and current cost basis would have been $59,000,000 and $84,000,000, respectively.

(c) At December 31, 1981, current cost of property, plant and equipment, net of accumulated depreciation and depletion was $2,782,000,000 while historical cost or net cost recoverable through depreciation was $1,401,000,000.

(d) The reduction to net recoverable cost of property, plant and equipment (as expressed in terms of inflation-adjusted cost) to historical cost recognizes that the rate-making process limits the Company to recovery of the historical cost of the subject assets.

(e) To properly reflect the economics of rate regulation in the Statement of Income Adjusted for Effects of Changing Prices, the reduction to net recoverable costs should be offset by the gain that results from the decline in purchasing power of the net amounts owed by the Company. During a period of inflation, holders of monetary assets such as cash and receivables suffer a loss of general purchasing power while holders of monetary liabilities, generally long-term debt, experience a gain (because debt will be repaid in dollars having less purchasing power). The Company's gain from the decline in purchasing power of its net amounts owed is primarily attributable to the substantial amount of debt and cumulative preferred stock subject to mandatory redemption which has been used to finance utility plant.

Five-Year Comparison of Selected Supplementary Data
Adjusted for Effects of Changing Prices
(dollar amounts are expressed in terms of average 1981 dollars)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1981 | 1980 | 1979 | 1978 | 1977 |
| | (in thousands, except index data) | | | | |
| Operating Revenues | \$629,000 | \$552,000 | \$542,000 | \$525,000 | \$486,000 |
| *Historical Cost Information Adjusted for General Inflation:* | | | | | |
| Income from Operations (excluding reduction to net recoverable cost) | \$8,000 | \$14,000 | \$17,000 | | |
| Net Assets at Year-end at Net Recoverable Cost | \$497,000 | \$497,000 | \$625,000 | | |
| *Current Cost Information:* | | | | | |
| Income from Operations (excluding reduction to net recoverable cost) | \$7,000 | \$12,000 | \$23,000 | | |
| Excess of Increase in General Price Level over Increase in Specific Prices after Reduction to Net Recoverable Cost | \$(66,000) | \$(123,000) | \$(158,000) | | |
| Net Assets at Year-end at Net Recoverable Cost | \$497,000 | \$497,000 | \$625,000 | | |
| *General Financial Data:* | | | | | |
| Gain from Decline in Purchasing Power of Net Amounts Owed | \$74,000 | \$105,000 | \$117,000 | | |
| Average Consumer Price Index | 272.1 | 246.8 | 217.5 | 195.4 | 181.5 |

# Operating Statistics

| OPERATING STATISTICS | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| ELECTRIC OPERATING REVENUES (in thousands): | | | | | |
| From Kilowatt-hour Sales: | | | | | |
| Residential: | | | | | |
| Without Electric Heating | **$156,512** | $156,464 | $134,915 | $121,883(a) | $111,470 |
| With Electric Heating | **49,723** | 46,682 | 37,037 | 33,459(a) | 24,801 |
| Total Residential | **206,235** | 203,146 | 171,952 | 155,342 | 136,271 |
| Commercial | **170,570** | 155,287 | 131,773 | 111,717 | 100,226 |
| Industrial | **89,305** | 87,519 | 80,057 | 69,802 | 60,019 |
| Sales for Resale: | | | | | |
| Municipalities | **19,966** | 19,023 | 15,931 | 15,168 | 10,747 |
| Other Electric Utilities | **128,574** | 15,333 | 16,655 | 11,183 | 4,582 |
| Total Sales for Resale | **148,540** | 34,356 | 32,586 | 26,351 | 15,329 |
| Miscellaneous | **9,169** | 16,816 | 12,688 | 10,016 | 9,130 |
| Total from Kilowatt-hour Sales | **623,819** | 497,124 | 429,056 | 373,228 | 320,975 |
| Other Operating Revenues | **5,425** | 3,969 | 3,786 | 3,698 | 2,993 |
| Total Electric Operating Revenues | **$629,244** | $501,093 | $432,842 | $376,926 | $323,968 |

| | | | | | |
|---|---|---|---|---|---|
| SOURCES AND SALES OF ENERGY (in millions of kilowatt-hours): | | | | | |
| Sources: | | | | | |
| Net Generated — Steam and Peaking Units | **11,342** | 10,540 | 10,495 | 9,427 | 9,670 |
| Purchased | **950** | 108 | 3 | 306 | 55 |
| Net Interchange | **1,858** | (66) | (115) | 98 | (173) |
| Total Sources | **14,150** | 10,582 | 10,383 | 9,831 | 9,552 |
| Less: Losses, Company Use, Etc. | **751** | 719 | 699 | 739 | 687 |
| Net Sources | **13,399** | 9,863 | 9,684 | 9,092 | 8,865 |
| Sales: | | | | | |
| Residential: | | | | | |
| Without Electric Heating | **2,411** | 2,468 | 2,349 | 2,300 (a) | 2,433 |
| With Electric Heating | **995** | 968 | 873 | 855 (a) | 676 |
| Total Residential | **3,406** | 3,436 | 3,222 | 3,155 | 3,109 |
| Commercial | **3,112** | 2,902 | 2,742 | 2,584 | 2,684 |
| Industrial | **2,032** | 2,045 | 2,131 | 2,042 | 2,045 |
| Sales for Resale: | | | | | |
| Municipalities | **590** | 589 | 559 | 520 | 498 |
| Other Electric Utilities | **4,025** | 518 | 678 | 484 | 216 |
| Total Sales for Resale | **4,615** | 1,107 | 1,237 | 1,004 | 714 |
| Miscellaneous | **234** | 373 | 352 | 307 | 313 |
| Total Sales | **13,399** | 9,863 | 9,684 | 9,092 | 8,865 |

## OPERATING STATISTICS (Concluded)

| | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| **AVERAGE COST OF FUEL CONSUMED (b)** | | | | | |
| Cents per Million Btu: | | | | | |
| Coal | **144.16** | 129.38 | 119.66 | 115.89 | 95.61 |
| Fuel Oil | **486.27** | 386.03 | 310.[illegible]9 | 285.17 | 251.30 |
| Gas | **298.43** | 284.10 | 233.97 | 228.83 | 178.19 |
| Overall | **144.79** | 131.24 | 121.66 | 120.88 | 97.97 |
| Cents per Kilowatt-hour Generated: | | | | | |
| Coal | **1.55** | 1.41 | 1.28 | 1.24 | 1.03 |
| Fuel Oil | **4.13** | 5.55 | 4.21 | 3.92 | 3.45 |
| Gas | **4.68** | 4.42 | 3.89 | 4.20 | 3.86 |
| Overall | **1.56** | 1.43 | 1.31 | 1.30 | 1.06 |
| **RESIDENTIAL SERVICE — AVERAGES:** | | | | | |
| Annual Kwh Use per Customer: | | | | | |
| Total | **8,121** | 8,270 | 7,896 | 7,876 | 7,883 |
| With Electric Heating | **18,884** | 19,930 | 20,471 | 20,425(a) | 22,079 |
| Annual Electric Bill: | | | | | |
| Total | **$492** | $489 | $421 | $388 | $346 |
| With Electric Heating | **$944** | $961 | $868 | $799(a) | $810 |
| Price per Kwh (in cents): | | | | | |
| Total | **6.05** | 5.91 | 5.34 | 4.92 | 4.38 |
| With Electric Heating | **5.00** | 4.82 | 4.24 | 3.91(a) | 3.67 |
| **NUMBER OF ELECTRIC CUSTOMERS — Year-End:** | | | | | |
| Residential: | | | | | |
| Without Electric Heating | **368,036** | 366,277 | 366,068 | 364,319 | 364,194 |
| With Electric Heating | **54,181** | 51,115 | 45,948 | 39,204 | 33,806 |
| Total Residential | **422,217** | 417,392 | 412,016 | 403,523 | 398,000 |
| Commercial | **41,524** | 39,906 | 41,461 | 40,708 | 40,018 |
| Industrial | **2,336** | 2,400 | 2,487 | 2,505 | 2,563 |
| Sales for Resale: | | | | | |
| Municipalities | **4** | 4 | 4 | 4 | 4 |
| Other Electric Utilities | **2** | 5 | 4 | 4 | 3 |
| Total Sales for Resale | **6** | 9 | 8 | 8 | 7 |
| Miscellaneous | **291** | 1,324 | 1,318 | 1,169 | 1,130 |
| Total Electric Customers | **466,374** | 461,031 | 457,290 | 447,913 | 441,718 |

(a) Estimated
(b) 1981 amounts exclude the effect of deferred collection of fuel costs.

# Price Range of Cumulative Preference and Cumulative Preferred Stock

*By Quarters (1981 and 1980)*

| | 1981 — Quarters | | | | 1980 — Quarters | | | |
|---|---|---|---|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th | 1st | 2nd | 3rd | 4th |
| *Cumulative Preference Stock* | | | | | | | | |
| ($100 Stated Value) | | | | | | | | |
| $15.25 Series (Old Money Issue) | | | | | | | | |
| Dividends Paid Per Share | $3.8125 | $3.8125 | $3.8125 | $3.8125 | — | — | $3.4736 | $3.8125 |
| Market Price — $ Per Share | | | | | | | | |
| (NYSE) — High | 104½ | 100 | 97½ | 98½ | — | 115 | 113 | 105 |
| — Low | 99 | 95½ | 89½ | 87⅛ | — | 110 | 110¾ | 104 |
| $15.25 Series (New Money Issue) | | | | | | | | |
| Dividends Paid Per Share | $3.8125 | $3.8125 | $3.8125 | $3.8125 | — | — | $3.4736 | $3.8125 |
| Market Price — $ Per Share | | | | | | | | |
| (NYSE) — High | 108½ | 104 | 104 | 101½ | — | 119¾ | 114 | 111 |
| — Low | 104 | 98 | 93 | 92 | — | 100 | 109½ | 104 |
| *Cumulative Preferred Stock* | | | | | | | | |
| ($100 Par Value) | | | | | | | | |
| 4.25% Series | | | | | | | | |
| Dividends Paid Per Share | $1.0625 | $1.0625 | $1.0625 | $1.0625 | $1.06 | $1.06 | $1.06 | $1.07 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | 93⅓/93⅓ | 110/110 | 35/35 | 31/31 |
| Bid (High/Low) | 27/27 | 27/26 | 26/24 | 25/22 | 56/56 | 90/90 | 30/30 | 25/25 |
| 4.65% Series | | | | | | | | |
| Dividends Paid Per Share | $1.1625 | $1.1625 | $1.1625 | $1.1625 | $1.16 | $1.16 | $1.16 | $1.17 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | 85/85 | 101/101 | 38/38 | 35/35 |
| Bid (High/Low) | 30/30 | 30/29 | 29/27 | 27/25 | 80/80 | 85/85 | 33½/33½ | 28/28 |
| 7.52% Series | | | | | | | | |
| Dividends Paid Per Share | $1.88 | $1.88 | $1.88 | $1.88 | $1.88 | $1.88 | $1.88 | $1.88 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | 92/92 | 108/108 | 62½/62½ | 56¾/56¾ |
| Bid (High/Low) | 48/48 | 48/46 | 47/44 | 44/43 | 74/74 | 53½/53½ | 55/55 | 48/48 |
| 8.52% Series | | | | | | | | |
| Dividends Paid Per Share | $2.13 | $2.13 | $2.13 | $2.13 | $2.13 | $2.13 | $2.13 | $2.13 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | 92/92 | 108/108 | 71/71 | 64¼/64¼ |
| Bid (High/Low) | 55/55 | 55/53 | 54/50 | 49/48 | 86/86 | 57/57 | 64/64 | 55/55 |

| | 1981 — Quarters | | | | 1980 — Quarters | | | |
|---|---|---|---|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th | 1st | 2nd | 3rd | 4th |
| *Cumulative Preferred Stock* | | | | | | | | |
| ($100 Par Value) | | | | | | | | |
| 10.00% Series | | | | | | | | |
| Dividends Paid Per Share | $2.50 | $2.50 | $2.50 | $2.50 | $2.50 | $2.50 | $2.50 | $2.50 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | 96/96 | 109½/109½ | 83/83 | 71/71 |
| Bid (High/Low) | 64/63 | 63/61 | 61/65 | 56/55 | 90/90 | 71/71 | 72½/72½ | 62/62 |
| 9.50% Series | | | | | | | | |
| Dividends Paid Per Share | $2.375 | $2.375 | $2.375 | $2.375 | $2.375 | $2.375 | $2.375 | $2.375 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | 76/76 | 63/63 | 70/70 | 63/63 |
| Bid (High/Low) | — | — | — | — | 72½/72½ | 59/59 | 63/63 | 59/59 |
| 10.52% Series | | | | | | | | |
| Dividends Paid Per Share | $2.63 | $2.63 | $2.63 | $2.63 | $2.63 | $2.63 | $2.63 | $2.63 |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | 62/62 | 104 | 115 | 90 | 79⅜ |
| Bid (High/Low) | 68/67 | 67/65 | 65/62 | 63/59 | 94 | 75 | 76½ | 70 |
| ($25 Par Value) | | | | | | | | |
| $2.42 Series | | | | | | | | |
| Dividends Paid Per Share | $0.605 | $0.605 | $0.605 | $0.605 | $0.605 | $0.605 | $0.605 | $0.605 |
| Market Price — $ Per Share (NYSE) — High | 17¾ | 17½ | 16½ | 17 | 28½ | 31.07 | 24 | 21 |
| — Low | 16¾ | 15½ | 15⅜ | 14¾ | 25¼ | 19½ | 17¼ | 16 |
| $3.45 Series | | | | | | | | |
| Dividends Paid Per Share | $0.8625 | $0.8625 | $0.8625 | $0.8625 | — | — | — | $0.21 |
| Market Price — $ Per Share (NYSE) — High | — | 25 | 24 | 23⅞ | — | — | — | 25¼/25¼ |
| — Low | — | 23 | 22 | 21 | — | — | — | 24¾/24¾ |
| $3.75 Series (1) | | | | | | | | |
| Dividends Paid Per Share | — | — | $0.73 | $0.9375 | — | — | — | — |
| Market Price — $ Per Share (OTC) | | | | | | | | |
| Ask (High/Low) | — | — | — | — | — | — | — | — |
| Bid (High/Low) | — | — | — | — | — | — | — | — |

OTC — Over-the-Counter
NYSE — New York Stock Exchange
(1) Issued May 1981
Note — The above quotations bid and asked represent prices between dealers and do not represent actual transactions.
Dash indicates quotation not available.

The Company's Annual Report (Form 10-K) to the Securities and Exchange Commission will be available on or about March 31, 1982 to shareowners upon written request and at no cost. Please address such requests to:

Mr. H. D. Post
Assistant Treasurer
American Electric Power
Service Corporation
180 East Broad Street
Columbus, Ohio 43215

**Transfer Agents**

**Cumulative Preferred Stock**

**The Huntington National Bank**
P.O. Box 1558, Columbus, Ohio 43216

**Citibank, N.A.***
111 Wall Street, New York, New York 10043

**Cumulative Preference Stock**

**AmeriTrust Company**
900 Euclid Avenue, Cleveland, Ohio 44101

**Registrars**

**Cumulative Preferred Stock**

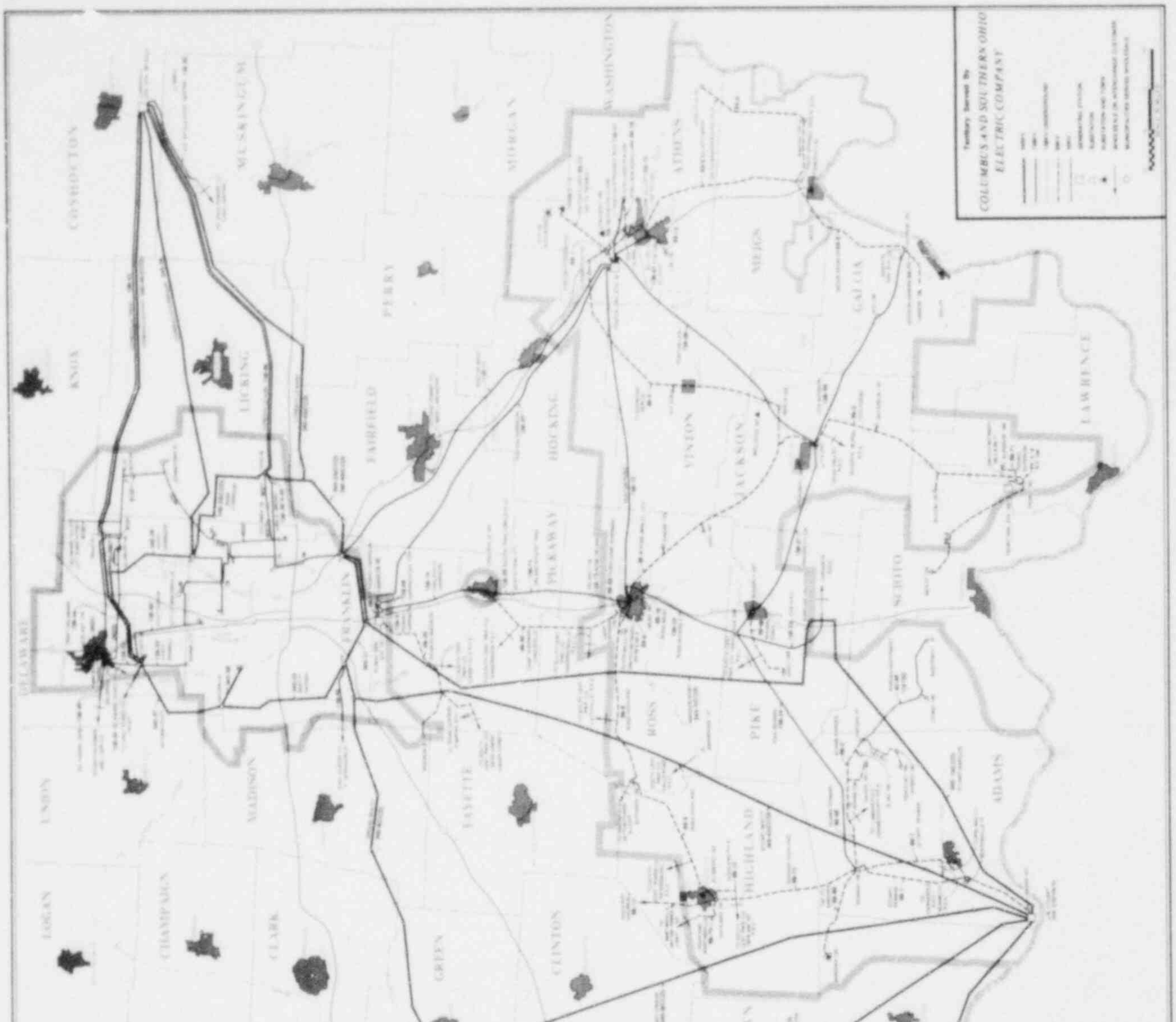
**BancOhio National Bank**
155 East Broad Street, Columbus, Ohio 43265

**Manufacturers Hanover Trust Company***
4 New York Plaza, New York, New York 10015

**Cumulative Preference Stock**

**AmeriTrust Company**
900 Euclid Avenue, Cleveland, Ohio 44101

* Not applicable to the 4.25% Series.




COLUMBUS AND SOUTHERN OHIO ELECTRIC COMPANY