Columbus and Southern Ohio Electric Company

ANNUAL REPORT 1980

AMERICAN ELECTRIC POWER SYSTEM

8104070349

COLUMBUS AND SOUTHERN OHIO ELECTRIC COMPANY
215 North Front Street, Columbus, Ohio 43215

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 66 communities and approximately 461,000 customers in a 6,200 square mile area of central and southern Ohio with an estimated population of 1,129,150. Approximately 80% of the Company's revenues are derived from the Columbus metropolitan area which is a political, educational, wholesale and retail distribution center with a wide diversity of industries. Among the principal industries served are manufacturers of plastic tape and coating, beverages, aircraft and missiles, industrial machinery and equipment, paper products and containers, telephone equipment, electric appliances, metal and metal parts, cement products, industrial abrasives, electronic components, food processing and research. 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.

Selected Financial Data

	Year Ended December 31,				
	1980	1979	1978	1977	1976
	(In Thousands)				
INCOME STATEMENTS DATA:					
OPERATING REVENUES — ELECTRIC	**$ 501,093**(a)	$432,842	$ 376,926	$ 323,968	$ 280,096
TOTAL OPERATING EXPENSES	**393,549**	342,770	310,544	247,942	213,123
OPERATING INCOME	**107,544**	90,072	66,382	76,026	66,973
TOTAL OTHER INCOME AND DEDUCTIONS	**19,725**	20,963	15,338	11,154	27,697
INCOME BEFORE INTEREST CHARGES	**127,269**	111,035	81,720	87,180	94,670
NET INTEREST CHARGES	**64,774**	51,058	41,893	32,846	40,368
CONSOLIDATED NET INCOME — before nonrecurring cumulative effect of accounting change	**62,495**	59,977	39,827	54,334	54,302
NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE	**6,457**	—	—	—	—
CONSOLIDATED NET INCOME — before preferred and preference stock dividend requirements	**68,952**	59,977	39,827	54,334	54,302
PREFERRED AND PREFERENCE STOCK DIVIDEND REQUIREMENTS	**14,723**	13,890	12,021	10,090	7,925
EARNINGS APPLICABLE TO COMMON STOCK	**$ 54,229**	$ 46,087	$ 27,806	$ 44,244	$ 46,377
BALANCE SHEETS DATA:					
ELECTRIC UTILITY PLANT	**$1,637,356**	$1,582,543	$1,476,436	$1,353,974	$1,196,996
ACCUMULATED PROVISION FOR DEPRECIATION	**324,976**	294,349	263,936	231,438	205,439
NET ELECTRIC UTILITY PLANT	**1,312,380**	1,288,194	1,212,500	1,122,536	991,557
TOTAL ASSETS AND OTHER DEBITS	**1,555,272**	1,448,666	1,360,826	1,254,851	1,121,014
COMMON STOCK, PREMIUMS ON CAPITAL STOCK AND OTHER PAID-IN CAPITAL	**463,744**	430,865	414,866	421,583	356,453
CUMULATIVE PREFERRED STOCK:					
NOT SUBJECT TO MANDATORY REDEMPTION	**8,304**	98,354	98,354	98,354	98,354
SUBJECT TO MANDATORY REDEMPTION	**91,780**	60,000	60,000	20,000	20,000
CUMULATIVE PREFERENCE STOCK	**54,834**	—	—	—	—
LONG-TERM DEBT (B)	**669,587**	649,828	592,321	548,862	507,365

(a) Includes $1,932,900 of unbilled revenues — See Note 2 of Notes to Consolidated Financial Statements.
(b) Including portion due within one year.

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

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

Operating Revenues and Expenses

Operating revenues increased 15% in 1979 and 16% in 1980 compared to increases in energy sales of 7% and 2%, respectively. The greater increases in revenues are primarily the result of rate increases implemented during the period 1978-1980 and the recovery of higher fuel costs through fuel adjustment provisions. 1980 revenues also increased due to an accounting change, adopted in 1980, to record unbilled revenues.

Approximately 90% of the Company's revenues are collected from retail customers (residential, commercial and industrial). In 1979, revenues attributable to retail customers rose 14% on a 4% increase in kilowatthour sales while 1980 retail revenues and sales were up 16% and 4%, respectively.

Wholesale revenues increased 24% in 1979 on a 23% increase in kilowatthour sales and increased 5% in 1980 despite an 11% decline in sales. On January 1, 1981, following the May 1980 acquisition of the Company by American Electric Power Company, Inc. (AEP), the Company became a participant in the AEP System power pool. As a participant, the Company is now able to take advantage of AEP's generating capability and transmission system which is expected to increase wholesale transactions between the Company and other utilities.

Operating expenses increased 10% in 1979 and 15% in 1980 primarily due to fuel for electric generation which increased 12% in 1979 and 10% in 1980. Future fuel expenses may be affected by impending contract negotiations between the coal industry and the United Mine Workers as well as the possibility of more stringent environmental restrictions on burning certain types of coal. Whether or not continued increases in fuel costs 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 1981-1983 are estimated to be approximately $350,863,000. 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 of certain costs such as real property taxes, allowance for funds used during construction (AFUDC) and other overheads which continue to accrue until the facility is placed in commercial operation.

It is estimated that approximately 33% of the Company's projected construction expenditures for 1981-1983 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, 1980, the Company was permitted under these restrictions to issue a total of approximately $200,000,000 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 $187,000,000. Bank lines of credit may be withdrawn by the banks extending them at any time and, in most cases, require the maintenance of compensating balance deposits 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 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, 1980, the long-term debt and preferred stock coverages of the Company were 2.32 and 1.40, 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

Consolidated net income before preferred and preference dividends increased 51% in 1979. The increase reflects the significant difference in operating conditions compared to 1978 when various extraordinary events, including the prolonged coal strike, resulted in a 27% decline in earnings. Net income for 1980 increased 15%, however, over 84% of the increase was attributable to adopting the unbilled method of recording revenues. The increases in net income were accompanied by a decrease in the total AFUDC reflected in net income, from 51% in 1978 to 31.5% in 1979 and 25.8% in 1980. The decreases were the result of the completion of a major construction project which was transferred to plant in service in 1978 and 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 Consolidated 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 16 of Notes to Consolidated Financial Statements which presents a statement of income for 1980, adjusted for the effects of inflation, and a comparison of selected supplementary data, similarly adjusted.

Auditors' Opinion

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

We have examined the consolidated balance sheets of COLUMBUS AND SOUTHERN OHIO ELECTRIC COMPANY (an Ohio Corporation) and subsidiary companies as of December 31, 1980 and 1979, and the related consolidated statements of income, retained earnings and source and application of funds for each of the three years in the period ended December 31, 1980. Our examinations were 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.

In our opinion, the financial statements referred to above present fairly the financial position of Columbus and Southern Ohio Electric Company and subsidiary companies as of December 31, 1980 and 1979, and the results of their operations and their source and application of funds for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles which, except for the change in 1980 (with which we concur) to the unbilled method of recognizing revenues described in Note 2, were applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Columbus, Ohio,
February 6, 1981.

Consolidated Statements of Income

	Year Ended December 31,		
	1980	1979	1978
		(In Thousands)	
OPERATING REVENUES — ELECTRIC	**$501,093**	$432,842	$376,926
OPERATING EXPENSES:			
Operation:			
Fuel for Electric Generation	**151,018**	137,078	122,584
Purchased and Interchange Power (Net)	**(147)**	(1,785)	18,760
Other	**82,400**	69,345	65,854
Maintenance	**49,516**	37,776	33,668
Depreciation	**41,705**	39,843	35,754
Taxes Other Than Federal Income Taxes	**40,799**	38,193	32,763
Federal Income Taxes	**28,258**	22,320	1,161
Total Operating Expenses	**393,549**	342,770	310,544
OPERATING INCOME	**107,544**	90,072	66,382
OTHER INCOME AND DEDUCTIONS:			
Allowance for Other Funds Used During Construction	**8,854**	9,825	11,270
Equity in Earnings of Subsidiary Companies	**2,136**	1,727	341
Miscellaneous Nonoperating Income Less Deductions	**8,735**	9,411	3,727
Total Other Income and Deductions	**19,725**	20,963	15,338
INCOME BEFORE INTEREST CHARGES	**127,269**	111,035	81,720
INTEREST CHARGES:			
Interest on Long-term Debt	**57,243**	50,719	46,746
Interest on Short-term Debt	**15,975**	8,993	3,753
Miscellaneous Interest Charges	**474**	422	450
Total Interest Charges	**73,692**	60,134	50,949
Allowance for Borrowed Funds Used During Construction (Credit)	**(8,918)**	(9,076)	(9,056)
Net Interest Charges	**64,774**	51,058	41,893
CONSOLIDATED NET INCOME BEFORE NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE	**62,495**	59,977	39,827
NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NET OF $5,501,000 APPLICABLE TAXES)	**6,457**	—	—
CONSOLIDATED NET INCOME AFTER NONRECURRING CUMULATIVE EFFECT OF ACCOUNTING CHANGE — before preferred and preference stock dividend requirements	**68,952**	59,977	39,827
PREFERRED AND PREFERENCE STOCK DIVIDEND REQUIREMENTS	**14,723**	13,890	12,021
EARNINGS APPLICABLE TO COMMON STOCK	**$ 54,229**	$ 46,087	$ 27,806
Pro forma amounts assuming the new method of recording unbilled revenues is applied retroactively:			
Earnings Applicable to Common Stock	**$ 47,772**	$ 45,815	$ 28,857

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31, 1980	December 31, 1979
	(In Thousands)	
ASSETS AND OTHER DEBITS		
Electric Utility Plant:		
Production	**$ 655,087**	$ 653,218
Transmission	**244,570**	230,835
Distribution	**391,716**	360,179
General and Miscellaneous	**56,859**	42,935
Construction Work in Progress	**289,124**	295,376
Total Electric Utility Plant	**1,637,356**	1,582,543
Less Accumulated Provision for Depreciation	**324,976**	294,349
Electric Utility Plant Less Provision	**1,312,380**	1,288,194
Other Property and Investments	**28,021**	29,243
Current Assets:		
Cash	**5,937**	5,636
Special Deposits and Working Funds	**8,540**	5,611
Accounts Receivable:		
Customers	**36,618**	28,130
Associated Companies	**101**	965
Miscellaneous	**3,938**	7,254
Accumulated Provision for Uncollectible Accounts	**(680)**	(635)
Materials and Supplies (at average cost):		
Fuel	**53,342**	31,145
Construction and Operation Materials and Supplies	**17,855**	15,820
Accrued Utility Revenues	**13,891**	—
Prepayments and Other Current Assets	**7,349**	6,550
Total Current Assets	**146,891**	100,476
Deferred Debits:		
Unamortized Debt Expense	**3,178**	2,747
Property Taxes	**23,220**	21,980
Other Work in Progress	**36,655**	2,103
Other Deferred Debits	**4,927**	3,923
Total Deferred Debits	**67,980**	30,753
Total	**$1,555,272**	$1,448,666

See Notes to Consolidated Financial Statements.

	December 31, 1980	December 31, 1979
	(In Thousands)	
LIABILITIES AND OTHER CREDITS		
CAPITALIZATION:		
Common Stock — No Par Value		
Shares Authorized: 24,000,000		
Shares Outstanding: 1980-16,410,426; 1979-16,345,951	**$ 41,026**	$ 40,865
Premiums on Capital Stock	**249,616**	249,149
Other Paid-in Capital	**30,000**	—
Retained Earnings	**143,102**	140,851
Total Common Shareowner's Equity	**463,744**	430,865
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption	**8,304**	98,354
Subject to Mandatory Redemption	**91,780**	60,000
Cumulative Preference Stock	**54,834**	—
Long-term Debt (less portion due within one year)	**654,722**	589,774
Total Capitalization (less long-term debt due within one year)	**1,273,384**	1,178,993
CURRENT LIABILITIES:		
Long-term Debt Due Within One Year	**14,865**	60,054
Short-term Debt:		
Notes Payable to Banks	**48,032**	30,663
Notes Payable to Other Financial Institutions	**30,000**	20,000
Accounts Payable:		
General	**30,045**	28,025
Associated Companies	**538**	—
Customer Deposits	**1,800**	1,514
Taxes Accrued	**50,038**	50,477
Interest Accrued	**17,184**	14,064
Other Current Liabilities	**9,883**	9,654
Total Current Liabilities	**202,385**	214,451
COMMITMENTS AND CONTINGENCIES (See Note 12)		
DEFERRED CREDITS AND OPERATING RESERVES:		
Deferred Income Taxes	**34,165**	25,790
Deferred Investment Tax Credits	**42,728**	26,466
Other Deferred Credits and Operating Reserves	**2,610**	2,966
Total Deferred Credits and Operating Reserves	**79,503**	55,222
Total	**$1,555,272**	$1,448,666

Consolidated Statements of Source and Application of Funds

	Year Ended December 31,		
	1980	1979	1978
	(In Thousands)		
SOURCE OF FUNDS:			
FUNDS FROM OPERATIONS:			
Consolidated Net Income	**$ 68,952**	$ 59,977	$ 39,827
Principal Non-fund Charges (Credits) to Income:			
Depreciation	**41,705**	39,843	35,754
Provision for Deferred Income Taxes (Net)	**8,376**	4,509	2,248
Deferred Investment Tax Credits (Net)	**14,629**	5,768	(6,253)
Allowance for Other Funds Used During Construction	**(8,854)**	(9,825)	(11,270)
Equity in Undistributed Earnings of Subsidiaries	**1,450**	1,824	2,228
Other (Net)	**1,176**	831	2,311
Total Funds from Operations	**127,434**	102,927	64,845
FUNDS FROM FINANCINGS:			
Issuances and Contributions:			
Common Stock	**1,311**	4,528	3,522
Capital Contribution from Parent Company	**30,000**	—	—
Cumulative Preference Stock	**54,667**	—	—
Cumulative Preferred Stock	**49,415**	—	39,520
Long-term Debt	**79,200**	79,775	52,936
Short-term Debt (Net)	**27,369**	(2,769)	20,588
Total Funds from Financings	**241,962**	81,534	116,566
Total Source of Funds	**$369,396**	$184,461	$181,411
APPLICATION OF FUNDS:			
Gross Additions to Utility Plant	**$101,904**	$114,921	$125,809
Gross Other Additions	**1,515**	1,636	1,616
Total Gross Additions	**103,419**	116,557	127,425
Allowance for Other Funds Used During Construction	**(8,854)**	(9,825)	(11,270)
Net Additions to Utility Plant	**94,565**	106,732	116,155
Retirements of Long-term Debt and Cumulative Preferred Stocks	**182,082**	22,532	9,685
Dividends on Common Stock	**38,041**	34,606	37,334
Dividends on Cumulative Preferred and Preference Stock	**14,723**	13,890	12,021
Other Items (Net)	**(676)**	4,005	3,973
Increase in Working Capital (a)	**40,661**	2,696	2,243
Total Application of Funds	**$369,396**	$184,461	$181,411
(a) Excludes Long-term Debt Due Within One Year and Short-term Debt and is represented by increase (decrease) as follows:			
Cash and Cash Items	**$ 3,230**	$ 1,402	$ 534
Accounts Receivable	**4,265**	469	8,285
Materials and Supplies	**24,231**	6,206	4,205
Accrued Utility Revenues	**13,891**	—	—
Accounts Payable	**(2,559)**	(2,624)	(3,048)
Dividends Declared	**—**	9,366	(81)
Taxes Accrued	**439**	(10,484)	(3,354)
Other (Net)	**(2,836)**	(1,639)	(4,298)
	$ 40,661	$ 2,696	$ 2,243

See Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1980	1979	1978
	(In Thousands)		
Balance at Beginning of Year	**$140,851**	$129,370	$138,898
Consolidated Net Income after Nonrecurring Cumulative Effect of Accounting Change	**68,952**	59,977	39,827
Total	**209,803**	189,347	178,725
Deductions:			
Cash Dividends Declared:			
Common Stock	**38,041**	34,606	37,334
Cumulative Preferred Stock:			
4¼ % Series	**169**	440	440
4.65% Series	**154**	419	419
10% Series	**740**	1,800	1,800
7.52% Series	**443**	1,203	1,203
8.52% Series	**621**	1,704	1,704
10.52% Series	**826**	2,104	2,104
$2.42 Series	**1,011**	2,420	2,420
9.50% Series	**3,800**	3,800	1,931
$3.45 Series	**1,570**	—	—
Cumulative Preference Stock — $15.25 Series	**5,389**	—	—
Total Cash Dividends Declared	**52,764**	48,496	49,355
Premium and Expenses on Retirement of Cumulative Preferred Stock	**13,016**	—	—
Capital Stock Expense	**921**	—	—
Total Deductions	**66,701**	48,496	49,355
Balance at End of Year	**$143,102**	$140,851	$129,370

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The common stock of the Company is wholly owned by American Electric Power Company, Inc. (AEP). The consolidated financial statements include the accounts of the Company and two wholly owned subsidiaries, Simco Inc. (Simco) and Colomet, Inc. Simco 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. Significant intercompany items have been eliminated in consolidation.

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 consolidated financial statements have been prepared on the basis of the accounts which are maintained for FERC purposes. Certain reclassifications have been made to conform to the 1980 presentation.

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 composite rate used by the Company was changed, effective May 12, 1978, from an 8.50% gross rate to a 7.25% net of tax rate and was increased to 8.53% effective January 1, 1980. Since 1977, the allowance has been compounded on a semi-annual 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 3.29% for 1980, 3.28% for 1979 and 3.30% for 1978.

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).

On January 7, 1981, the PUCO ordered the Company to refund approximately $1,378,000 of revenue collected through the application of an emergency surcharge placed in effect March 1, 1979. Operating revenues for 1980 have not been reduced to reflect the pending refund which will be made in the first quarter of 1981.

The Company charges to expense the cost of fuel as it is consumed. Substantially all of the Company's tariffs include fuel adjustment clauses under which changes in fuel expense are reflected in customers' bills in the second month following such changes. On July 2, 1980, Ohio officially abolished the automatic fuel adjustment clause. However, the PUCO has not yet finalized a method for implementing the new fuel regulation. Therefore, no change in the existing fuel clause has been made. Under the new statute, the Company will submit fuel statistics for the most recent six month period to be used for estimating fuel charges for the subsequent six month period.

Ohio law and regulations require refunds of amounts collected through the fuel clause 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. Deferred income taxes have been provided since 1975 for operations regulated by FERC. Effective May 12, 1978, the Company began providing deferred taxes on the additional depreciation resulting from the difference between straight-line and accelerated tax depreciation for property placed in service after January 1, 1977 pursuant to a rate order of the PUCO. Coincident with the PUCO rate order and the adoption of a net-of-tax allowance for funds rate, the Company began recording the tax benefits associated with borrowed funds used to finance construction in Other Income rather than as a reduction in Federal income taxes.

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. The plan conforms to the Employee Retirement Income Security Act of 1974.

Pension costs for the years ended December 31, 1980, 1979 and 1978 were approximately \$13,020,000, \$10,655,000 and \$9,285,000 respectively. These amounts cover the costs of currently accruing benefits together with principal and interest on unfunded prior-service costs. The unfunded prior-service costs, approximately \$72,328,500 at January 1, 1980, the date of the most recent actuarial study, are being amortized over various periods not to exceed 40 years. The increases in pension costs have resulted from normal growth and experience, changes in actuarial assumptions and plan improvements. 1980 pension costs also increased due to a supplemental early retirement program.

At January 1, 1980, the date of the latest actuarial valuation, the actuarial present value of vested accrued benefits was \$79,679,200 and the actuarial present value of nonvested accrued benefits was \$2,973,800. The value of net assets, using market value for marketable securities, available for benefits at January 1, 1980 was \$70,721,300. The assumed rate of return used in determining the actuarial present value of accrued benefits was 7½%.

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 \$1,043,447. The nonrecurring cumulative effect of the accounting change applicable to years prior to January 1, 1980 is shown separately in the Consolidated Statement of Income for 1980. Pro forma amounts are shown in the Consolidated Statements of Income to disclose the amount of earnings applicable to common stock that would have been reported for 1980, 1979 and 1978 if the new method of accounting for revenues had been in effect in prior years.

3. Federal Income Taxes:

The details of Federal income taxes are as follows:

	Year Ended December 31,		
	1980	1979	1978
	(In Thousands)		
Charged (Credited) to Operating Expenses:			
Current Federal Income Taxes (Net)	$10,754	$12,043	$ 5,166
Deferred Federal Income Taxes (Net)	2,875	4,509	2,248
Deferred Investment Tax Credits (Net)	14,629	5,768	(6,253)
Total	28,258	22,320	1,161
Credited to Other Income and Deductions	(7,905)	(7,969)	(2,851)
Charged to Nonrecurring Cumulative Effect of Accounting Change(a)	5,501	—	—
Total Federal Income Taxes	$25,854	$14,351	$ (1,690)

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

The Company's effective Federal income tax rates were less than the statutory rates for the years 1980, 1979 and 1978. The following is a reconciliation of the differences between the amount of Federal income taxes computed by multiplying pre-tax book income by the statutory rate and the amount of Federal income tax expense reported in the Consolidated Statements of Income.

	Year Ended December 31,		
	1980	1979	1978
	(In Thousands)		
Consolidated Net Income — before preferred and preference stock dividend requirements	$68,952	$59,977	$39,827
Federal Income Taxes	25,854	14,351	(1,690)
Pre-Tax Book Income	$94,806	$74,328	$38,137
Federal Income Tax on Pre-Tax Book Income at Statutory Rate of 46% in 1980 and 1979 and 48% in 1978	$43,611	$34,191	$18,306
Increase (Decrease) in Federal Income Taxes Resulting From:			
Excess of Tax over Book Depreciation	(8,346)	(9,524)	(10,374)
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on Books but Deducted for Tax Purposes (Not shown below)	(9,990)	(11,471)	(12,030)
Unbilled Revenues	(6,390)	—	—
Other	(3,013)	(2,092)	740
Federal Income Tax on Current Year Taxable Income (Separate Return Basis)	15,872	11,104	(3,358)
Adjustment due to System Consolidation	2,046	—	—
Current Year Investment Tax Credit	(12,805)	(7,831)	5,174
Currently Payable	5,113	3,273	1,816
Adjustments of Prior-Year Accruals (Net)	(1,564)	801	499
Adjustments for Tax Losses (a):			
Federal Income Taxes	(2,332)	—	—
Investment Tax Credit	1,632	—	—
Current Federal Income Taxes (Net)	2,849	4,074	2,315
Deferred Federal Income Taxes (Net of Amortization) Resulting from the Following Timing Differences:			
Depreciation (Liberalized and Asset Depreciation Range)	6,689	4,740	2,480
Unbilled Revenues	6,390	—	—
Accelerated Amortization of Emergency Facilities (Amortization of prior year provisions)	(230)	(231)	(232)
Investment Tax Credit Applicable to Deferred Federal Income Taxes on Certain Timing Differences	(4,473)	—	—
Deferred Federal Income Taxes (Net)	8,376	4,509	2,248
Deferred Investment Tax Credit (Net)	14,629	5,768	(6,253)
Total Federal Income Taxes	$25,854	$14,351	$ (1,690)

(a) Prior to the acquisition of the Company by AEP on May 9, 1980, the Company was not subject to regulations under the Public Utility Holding Company Act of 1935 and computed Federal income taxes on a separate Company basis. The AEP System allocates Federal income taxes currently payable in accordance with Securities and Exchange Commission (SEC) regulations, which require that the benefit of tax losses be allocated to the AEP System companies with taxable income. The benefits of tax losses, without affecting taxes payable, are reallocated to the AEP System companies giving rise to such losses, as it is expected that these losses would be usable in subsequent years to reduce taxes payable of the loss companies through the application of the SEC allocation.

The Company will file a separate Federal income tax return for the pre-acquisition period. From the date of acquisition the Company will join in filing a consolidated Federal income tax return with its affiliated companies in the AEP System.

Unused AEP System investment tax credits at December 31, 1980 aggregated approximately $267,000,000, of which approximately $13,000,000 may be carried forward through 1984, $92,300,000 through 1985, $56,800,000 through 1986 and $104,900,000 through 1987. As required by the Internal Revenue Code, approximately $37,300,000 of these amounts, generated by the Company prior to its acquisition, must be utilized by it. Of the AEP System investment tax credit carryforwards, inclusive of the Company's credit, approximately $29,000,000 has been applied as a reduction of deferred income taxes prior to December 31, 1980 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. The Revenue Agents' Report has not yet been received.

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 costs associated with such facilities are included in the Consolidated Statements of Income and the amounts reflected in the accompanying Consolidated Balance Sheets under utility plant include such costs as follows:

		Company's Share December 31,			
		1980		1979	
	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	$ 9,620	$ 25	$ 9,486	$ 4
Conesville Generating Station (Unit No. 4)	43.5	57,918	756	58,006	72
J. M. Stuart Generating Station	26.0	123,649	4,493	119,968	2,602
Wm. H. Zimmer Nuclear Power Station (Unit No. 1)	28.5	—	262,323(a)	—	220,705(a)
		$191,187	$267,597	$187,460	$223,383
Transmission	(b)	$ 53,371	$ 940	$ 52,893	$ 1,507

(a) Includes $19,050,000 and $16,060,000 at December 31, 1980 and 1979, respectively, for Zimmer Unit No. 1 nuclear fuel.
(b) Varying percentages of ownership.

At December 31, 1980 and 1979, the accumulated provision for depreciation with respect to the Company's share of jointly owned facilities amounted to $50,058,000 and $43,631,000, respectively.

5. Coal Operation:

Simco owns coal mining equipment and participates in a joint venture with Peabody Coal Company for the mining of coal owned by the Company and primarily used in its Conesville Generating Station. The Company can give no assurance that environmental regulations will not limit or prevent the use of its coal.

Coal property and related assets (net) consist of:

	December 31,	
	1980	1979
	(In Thousands)	
Coal lands and rights owned by the Company, less depletion	$ 9,234	$ 9,168
Coal mining equipment owned by Simco	25,035	27,002
Less: Reserve for Depreciation	12,163	13,336
	12,872	13,666
Other assets of Simco less liabilities (excluding term loan described in Note 10)	1,768	1,434
	$23,874	$24,268

Operating results from coal operations before interest charges paid on the term loan described in Note 10 for the twelve months ended December 31, 1980, 1979, and 1978, respectively, were:

	Year Ended December 31, 1980	1979	1978
	(In Thousands)		
Simco revenues	$4,419	$4,631	$2,835
Simco net income before interest charges	$2,163	$1,972	$ 350
The Company's net income from its other investment in coal operation	878	728	635
Total net income from coal operations before interest charges	$3,041	$2,700	$ 985

The percentage of the amount provided for depreciation for the year to average balances of related depreciable property and depletion provided for coal lands and rights per ton of coal mined are as detailed below:

	Year Ended December 31, 1980	1979	1978
Coal mining equipment	5.0%	5.9%	7.1%
Depletion (cents per ton)	13.5¢	13.5¢	13.5¢

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

The changes in common stock outstanding during the three years ended December 31, 1980 are detailed below:

	Common Stock Issued		
Year	Number of Shares	Stated Value	Premiums Net of Expense on Capital Stock
		(In Thousands)	
1980	64,475	$161	$1,150
1979	197,975	495	4,033
1978	139,388	348	3,107

The changes in common stock shown above resulted exclusively from issuances through the Company's dividend reinvestment and employees' stock purchase plans. As a result of the acquisition of the Company by AEP, 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 as a result of the tender offer during the second quarter of 1980.

The Company received from its parent a cash capital contribution of $30,000,000 in 1980 which was credited to Other Paid-in Capital.

7. 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 indenture, debenture indenture, and charter provisions. Approximately $67,726,000 were so restricted at December 31, 1980.

8. Reacquisition of Cumulative Preferred Stock and Issuance of Cumulative Preference Stock:

During the period March 31, 1980 through April 22, 1980, the Company offered its holders of cumulative preferred stock (except the 9.50% Series) the option of (a) tendering their shares for cash, (b) tendering their shares in exchange for shares of cumulative preference stock, $15.25 Series, or (c) retaining their preferred shares. The tender offer was made in connection with the acquisition of the Company by AEP.

As a result of the tender offer, 1,737,822 shares of cumulative preferred stock were reacquired. Of the total shares reacquired, 769,983 shares were exchanged for 548,342 shares of cumulative preference stock at a stated value of $54,834,200 and cash payments amounting to approximately $66,966,000 were made to shareholders who tendered the remaining 967,839 preferred shares. No cumulative preference shares were outstanding prior to the tender offer.

9. Cumulative Preferred Stock:

At December 31, 1980, authorized shares of cumulative preferred stock were as follows:

Par Value	Shares Authorized
$100	1,500,000
25	5,000,000

The cumulative preferred stock is callable at the option of the Company at the prices indicated plus accrued dividends. The involuntary liquidation preference is par value.

A. Cumulative Preferred Stock Not Subject to Mandatory Redemption:

Series	Current Call Price	Redemption Restricted Prior to	Par Value	Shares Outstanding December 31, 1980	Shares Outstanding December 31, 1979	Amount December 31, 1980 (In Thousands)	Amount December 31, 1979 (In Thousands)
4¼%	$110	—	$100	7,942	103,591	$ 794	$10,359
4.65%	101	—	100	4,852	89,950	485	8,995
10%	106.75	—	100	20,967	180,000	2,097	18,000
7.52%	108	—	100	8,393	160,000	839	16,000
8.52%	108	—	100	9,258	200,000	926	20,000
$2.42	31.07	11-2-81	25	126,503	1,000,000	3,163	25,000
						$8,304	$98,354

B. Cumulative Preferred Stock Subject to Mandatory Redemption:

Series	Current Call Price	Redemption Restricted Prior to	Par Value	Shares Outstanding December 31, 1980	Shares Outstanding December 31, 1979	Amount December 31, 1980 (In Thousands)	Amount December 31, 1979 (In Thousands)
10.52%(a)	$107.25	—	$100	17,804	200,000	$ 1,780	$20,000
9.50%(b)	120	5-1-84	100	400,000(d)	400,000	40,000	40,000
$3.45(c)	28.45	11-1-85	25	2,000,000(d)	—	50,000	—
						$91,780	$60,000

(a) 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.

(b) 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.

(c) 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.

(d) The shares of the 9.50% Series and the $3.45 Series were issued in 1978 and 1980, respectively.

(e) The minimum sinking fund provisions of the series subject to mandatory redemption aggregate $1,600,000 for 1984 and $4,100,000 for 1985.

(f) 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 any excess being charged to retained earnings.

10. 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, 1980	December 31, 1979
	(In Thousands)	
First Mortgage Bonds	$609,903	$538,937
Debentures	20,714	20,866
Othe: Long-term Debt:		
Term Loans	22,960	26,920
Other, including Simco Note	1,145	3,051
Total	$654,722	$589,774

First mortgage bonds outstanding were as follows:

Series	Due	December 31, 1980	December 31, 1979
		(In Thousands)	
2.80%	1980 — March 1	$ —	$ 7,500
7⅝%	1980 — November 1	—	50,000
3¼%	1981 — September 1	9,000	9,000
9¼%	1982 — June 1	50,00C	50,000
11%	1983 — January 1	30,000	30,000
3⅝%	1983 — November 1	7,590	7,665
3¼%	1984 — October 1	7,698	7,698
9½%	1984 — November 1	60,000	60,000
7⅝%	1985 — July 1	45,000	45,000
3¾%	1986 — April 1	9,480	9,480
4½%	1987 — Marcn 1	15,789	15,789
4⅛%	1988 — January 1	13,860	13,860
13⅝%	1990 — October 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 Debt Premium and Discount (Net)		269	228
		618,903	596,437
Less Portion Due Within One Year		9,000	57,500
Total		$609,903	$538,937

(a) Issued by the Company in October, 1980.

The aggregate amount of scheduled maturities and sinking fund requirements for all long-term debt outstanding at December 31, 1980 is $16,725,300 for 1981, $5a,926,100 for 1982, $46,207,400 for 1983, $81,313,900 for 1984 and $58,813,900 for 1985. The portion of the sinking fund requirements which may be satisfied by bonding property additions is $1,860,000 for each of the five years ended December 31, 1985.

In 1976, Simco, one of the Company's subsidiaries, borrowed $10,000,000 from a bank. The Company has guaranteed this note, which is payable by Simco in twenty-four consecutive quarterly installments and may be prepaid without penalty at any time. At December 31, 1980, the balance of the note outstanding was $2,083,400. Interest on this note, which is based on the bank's prime rate plus 1¼%, is included under Interest Charges in the Consolidated Statements of Income.

The Company had unused short-term bank lines of credit of approximately $187,000,000 and $104,066,000 at December 31, 1980 and 1979, respectively. Available lines of credit are subject to withdrawal at the banks' option and approximately $181,000,000 of such lines at December 31, 1980 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, in certain instances, 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 both used and available lines of credit.

The Company has a line of credit which extends until October 1982 with a major leasing company under which $30,000,000 was borrowed at December 31, 1980. There are no compensating balance requirements but the short-term notes payable are secured by the Company's coal and oil inventories.

The Company also has a loan agreement with various banks, in connection with the repurchase of preferred shares, under which $15,956,000 was outstanding at December 31, 1980.

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.

11. Supplementary Income Statement Information Related-Party Transactions:

Operating Revenues — Electric shown in the Consolidated Statement of Income for 1980 includes approximately $3,757,000 representing sales of energy to an affiliated company within the AEP System subsequent to May 9, 1980.

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

	Year Ended December 31,		
	1980	1979	1978
		(In Thousands)	
Purchased Power (a) (b)	$ 459	$ 430	$10,981
Interchange Power (Net) (a)	(606)	(2,215)	7,779
	$ (147)	$ (1,785)	$18,760
Taxes Other Than Federal Income Taxes:			
Real and Personal Property Taxes	$20,711	$20,654	$17,852
State Excise on Gross Receipts	16,283	14,323	12,156
Social Security Taxes — Federal and State	3,351	2,764	2,377
Other	454	452	378
	$40,799	$38,193	$32,763
Depreciation and Depletion applicable to coal operations included in Other Income and Deductions	$ 1,414	$ 1,994	$ 2,668

(a) Purchased power and interchange power for 1980 include $227,200 and $280,700, respectively, representing transactions with an affiliated company within the AEP System subsequent to May 9, 1980.

(b) Includes power purchased from Ohio Valley Electric Corporation of approximately $(366,000) in 1980, $87,000 in 1979 and $910,000 in 1978.

The Company and its subsidiaries have 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.

12. Commitments and Contingencies:

The Company estimates that its construction program for the year 1981 will require expenditures of approximately $134,939,000. 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, construction associated with two generating units at the Poston Station was suspended and approximately $35,312,000 of related costs were transferred from Construction Work In Progress to Other Work in Progress as shown in the Consolidated Balance Sheets under Deferred Debits. Construction on the project will resume provided American Municipal Power-Ohio, Inc. comprised of certain Ohio municipal electric utilities, elects to purchase the generating units pursuant to a coordination agreement made in connection with the acquisition of the Company by AEP.

The Company's facilities are subject to laws and regulations with respect to air and water quality and other environmental matters. Strict application of proposed and existing environmental regulations and compliance timetables may adversely impact the Company's fuel procurement policies and place limitations on using coal mined from Company-owned coal property. Regulations could also delay the commercial operation of facilities under construction, require extensive modification or curtail the use of existing coal-fired generating facilities as well as affect expansion plans for coal-fired generating 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 and fixed costs, including amortization of long-term debt capital (balance approximately $4,000,000 as of December 31, 1980) over a period ending in 1981 and to provide an annual return on its equity capital. The Company is entitled to receive from OVEC, and is obligated to pay for, 4.3% of the power not required by DOE.

13. Coal Mining Operations:

Simco owns a two-thirds interest in a joint venture which mines coal from Company owned coal lands. The joint venture has experienced various regulatory and operational problems in the reclamation of such coal lands which has resulted in a reclamation reserve deficiency for Simco at December 31, 1980 in the range of $1,000,000 to $1,500,000. The Company implemented a plan in 1979 designed to increase prospectively the reserve to an adequate level through the price charged for coal mined in the future. It is the Company's opinion that such amounts will be ultimately recoverable through the fuel adjustment clause.

14. Leases:

The Company, as part of its operations, leases property, plant and equipment under leases ranging in length up 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 greatest part of the rentals is under leases having purchase options or having renewal options for substantially all of the economic lives of the properties.

Rentals are analyzed as follows:

	Year Ended December 31,		
	1980	1979	1978
		(In Thousands)	
Operating Expenses	$3,783	$3,147	$3,170
Clearing and Miscellaneous Accounts (a)	5,567	3,195	1,826
Total	$9,350	$6,342	$4,996

(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, under the Company's noncancellable operating leases consisted of the following at December 31, 1980:

	Operating Leases
	(In Thousands)
1981	$ 3,604
1982	4,075
1983	4,423
1984	4,423
1985	4,423
Later Years	49,076
Total Future Minimum Lease Payments	$70,024

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

	December 31,	
	1980	1979
	(In Thousands)	
Generating Facilities	$13,447	$13,433
Environmental Facilities	10,467	10,467
General Equipment	9,832	6,029
Other	37	37
Gross Properties Under Capitalizable Leases	33,783	29,966
Less Accumulated Provision for Amortization	10,562	8,227
Net Properties Under Capitalizable Leases	$23,221	$21,739
Obligations Under Capitalizable Leases (a)	$30,398	$23,304

(a) Including an estimated $2,250,000 and $2,239,000, respectively, due within one year.

Had capitalizable leases been capitalized, any additional net expenses would have been insignificant. The pro forma data do 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.

15. Unaudited Quarterly Financial Information:

The following consolidated 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 (b)
		(In Thousands)	
1980 (a) —			
Mar. 31	$124,185	$26,258	$23,402
Jun. 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
Jun. 30	101,294	19,644	12,242
Sept. 30	117,545	29,073	21,724
Dec. 31	107,744	21,459	13,640

(a) The 1980 quarterly results shown above have been restated to reflect the change in accounting, adopted in 1980, to record unbilled revenues.

(b) Net income for the quarter ended March 31, 1980 includes $6,457,000 which represents the nonrecurring cumulative effect of the accounting change. Net income, as reported prior to the accounting change, amounted to $17,083,000, $11,507,000 and $20,502,000 for the quarters ended March 31, June 30 and September 30, 1980, respectively. If the Company had recorded unbilled revenues in 1979, net income would have been $10,726,000, $13,216,000, $21,874,000 and $13,889,000, respectively, for the quarters ended March 31, June 30, September 30 and December 31, 1979.

16. Unaudited Information on Inflation and Changing Prices:

The supplementary information in the statements below is presented in compliance with the requirements of Statement No. 33 issued by 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 1980 Consumers 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.

Consolidated Statement of Income
Adjusted for Effects of Changing Prices
Year Ended December 31, 1980

	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	$ 501,093	$ 501,093	$ 501,093
Operating Expenses:			
Operation:			
Fuel for Electric Generation	151,018	151,018	151,018
Purchased and Interchange Power (Net)	(147)	(147)	(147)
Other	82,400	82,400	82,400
Maintenance	49,516	49,516	49,516
Depreciation (a)	41,705	81,847	83,846
Taxes Other Than Federal Income Taxes	40,799	40,799	40,799
Federal Income Taxes	28,258	28,258	28,258
Total Operating Expense	393,549	433,691	435,690
Operating Income	107,544	67,402	65,403
Other Income and Deductions (a)	19,725	18,358	18,391
Net Interest Charges	(64,774)	(64,774)	(64,774)
Nonrecurring Cumulative Effect of Accounting Change (Net of taxes)	6,457	6,457	6,457
Preferred and Preference Stock Dividend Requirements	(14,723)	(14,723)	(14,723)
Consolidated Net Income (b)	$ 54,229	$ 12,720	$ 10,754
Increase in Specific Prices (current costs) of Property, Plant and Equipment Held During the Year (c)			$ 179,169
Reduction To Net Recoverable Cost (d)		$(113,909)	(3,637)
Effect of Increase in General Price Level			(287,124)
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost			(111,592)
Gain from Decline in Purchasing Power of Net Amounts Owed (e)		95,038	95,038
Net		$ (18,871)	$ (16,554)

(a) As prescribed by the FASB, the items in the Consolidated 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 income (loss) from operations on a Constant Dollar basis and Current Cost basis would have been $(101,189,000) and $7,117,000, respectively.

(c) At December 31, 1980, Current Cost of property, plant and equipment, net of accumulated depreciation and depletion was $2,515,832,000 while historical cost or net cost recoverable through depreciation was $1,335,364,000.

(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 Consolidated Statement of Income Adjusted for Effects of Changing Prices, the reduction to net recoverable cost 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 the Effects of Changing Prices
(Dollar Amounts Are Expressed in Terms of Average 1980 Dollars)

	Year Ended December 31,				
	1980	1979	1978	1977	1976
	(In Thousands Except Index Data)				
Operating Revenues	$501,093	$491,151	$476,076	$440,525	$405,441
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	$ 12,720	$ 31,399			
Net Assets at year-end at net recoverable cost	$450,683	$567,135			
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	$ 10,754	$ 20,951			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$111,592	$142,965			
Net assets at year-end at net recoverable cost	$450,683	$567,135			
General financial data					
Gain from decline in purchasing power of net amounts owed	$ 95,038	$106,444			
Average consumer price index	246.8	217.5	195.4	181.5	170.5

Operating Statistics

	1980	1979	1978	1977	1976
OPERATING STATISTICS					
Electric Operating Revenues (In Thousands):					
From Kilowatt-hour Sales:					
Residential:					
Without Electric Heating	**$156,464**	$134,915	$121,883(a)	$111,470	$101,100
With Electric Heating	**46,682**	37,037	33,459(a)	24,801	18,046
Total Residential	**203,146**	171,952	155,342	136,271	119,146
Commercial	**155,287**	131,773	111,717	100,226	87,701
Industrial	**87,519**	80,057	69,802	60,019	53,191
Sales for Resale:					
Municipalities	**19,023**	15,931	15,168	10,747	9,029
Other Electric Utilities	**15,333**	16,655	11,183	4,582	365
Total Sales for Resale	**34,356**	32,586	26,351	15,329	9,394
Miscellaneous	**16,816**	12,688	10,016	9,130	8,541
Total from Kilowatt-hour Sales	**497,124**	429,056	373,228	320,975	277,973
Other Operating Revenues	**3,969**	3,786	3,698	2,993	2,123
Total Electric Operating Revenues	**$501,093**	$432,842	$376,926	$323,968	$280,096
Sources and Sales of Energy (In Millions of Kilowatt-hours):					
Sources:					
Net Generated — Steam:					
Fossil Fuel	**10,540**	10,495	9,427	9,670	8,647
Purchased	**108**	3	306	55	195
Net Interchange	**(66)**	(115)	98	(173)	9
Total Sources	**10,582**	10,383	9,831	9,552	8,851
Less: Losses, Company Use, Etc.	**719**	699	739	687	735
Net Sources	**9,863**	9,684	9,092	8,865	8,116
Sales:					
Residential:					
Without Electric Heating	**2,468**	2,349	2,300(a)	2,433	2,309
With Electric Heating	**968**	873	855(a)	676	550
Total Residential	**3,436**	3,222	3,155	3,109	2,859
Commercial	**2,902**	2,742	2,584	2,684	2,527
Industrial	**2,045**	2,131	2,042	2,045	1,965
Sales for Resale:					
Municipalities	**589**	559	520	498	439
Other Electric Utilities	**518**	678	484	216	17
Total Sales for Resale	**1,107**	1,237	1,004	714	456
Miscellaneous	**373**	352	307	313	309
Total Sales	**9,863**	9,684	9,092	8,865	8,116

	1980	1979	1978	1977	1976
AVERAGE COST OF FUEL CONSUMED:					
Cents per Million Btu:					
Coal	**129.38**	119.66	115.89	95.61	92.07
Fuel Oil	**386.03**	310.99	285.17	251.30	225.78
Gas	**284.10**	233.97	228.83	178.19	154.52
Overall	**131.24**	121.66	120.88	97.97	95.23
Cents per Kilowatt-hour Generated:					
Coal	**1.41**	1.28	1.24	1.03	0.98
Fuel Oil	**5.55**	4.21	3.92	3.45	3.06
Gas	**4.42**	3.89	4.20	3.86	2.43
Overall	**1.43**	1.31	1.30	1.06	1.02
RESIDENTIAL SERVICE — AVERAGES:					
Annual KWH Use per Customer:					
Total	**8,270**	7,896	7,876	7,883	7,362
With Electric Heating	**19,930**	20,471	20,425(a)	22,079	21,895
Annual Electric Bill:					
Total	**$489.03**	$421.36	$387.82	$345.51	$306.79
With Electric Heating	**$960.93**	$868.16	$799.36(a)	$810.05	$718.30
Price per KWH (Cents):					
Total	**5.91**	5.34	4.92	4.38	4.17
With Electric Heating	**4.82**	4.24	3.91(a)	3.67	3.28
NUMBER OF ELECTRIC CUSTOMERS — Year-End:					
Residential:					
Without Electric Heating	**366,277**	366,068	364,319	364,194	360,345
With Electric Heating	**51,115**	45,948	39,204	33,806	32,127
Total Residential	**417,392**	412,016	403,523	398,000	392,472
Commercial	**39,906**	41,461	40,708	40,018	39,293
Industrial	**2,400**	2,487	2,505	2,563	2,634
Sales for Resale:					
Municipalities	**4**	4	4	4	4
Other Electric Utilities	**5**	4	4	3	2
Total Sales for Resale	**9**	8	8	7	6
Miscellaneous	**1,324**	1,318	1,169	1,130	1,085
Total Electric Customers	**461,031**	457,290	447,913	441,718	435,490

(a) Estimated

Price Range of Common, Cumulative Preference and Cumulative Preferred Stock

By Quarters (1980 and 1979)

	1980 — Quarters				1979 — Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Common Stock (1)								
(No Par Value)								
Dividends Paid Per Share	$ .58	$ .58	$ .58	$ .58	$ .58	$ .58	$ .58	$ .39 (2)
Market ice – $ Per Share								
(NY - igh	22⅝	25¼	25⅜	24¼	24⅝	25	26⅛	24
Low	19⅛	19⅞	21¾	19¼	20⅞	21	22⅝	20⅛
Cumulative Prej.rence Stock (3)								
(No Par Value)								
$15.25 Series (Old Money Issue)								
Dividends Paid Per Share	—	—	$3.4736	$3.8125	—	—	—	—
Market Price — $ Per Share								
(NYSE) — High	—	115	113	105	—	—	—	—
— Low	—	110	110¾	104	—	—	—	—
$15.25 Series (New Money Issue)								
Dividends Paid Per Share	—	—	$3.4736	$3.8!25	—	—	—	—
Market Price — $ Per Share								
(NYSE) — High	—	119¾	114	111	—	—	—	—
— Low	—	100	109½	104	—	—	—	—
Cumulative Preferred Stock								
($100 Par Value)								
4¼% Series								
Dividends Paid Per Share	$1.06	$1.06	$1.06	$1.07	$1.06	$1.06	$1.06	$1.07
Market Price -- $Per Share								
(OTC)								
Ask (High/Low)	93⅓/93⅓	110/110	35/35	31/31	39½/39½	40½/40½	46/46	49/49
Bid (High/Low)	56/56	90/90	30/30	25/25	38/38	39/39	40½/40½	48/48
4.65% Series								
Dividends Paid Per Share	$1.16	$1.16	$1.16	$1.17	$1.16	$1.16	$1.16	$1.17
Market Price — $ Per Share								
(OTC)								
Ask (High/Low)	85/85	101/101	38/38	35/35	43¾/43¾	42/42	49/49	52/52
Bid (High/Low)	80/80	85/85	33½/33½	28/28	42/42	41/41	41/41	51/51
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	71/71	70/70	76/76	78/78
Bid (High/Low)	74/74	53½/53½	55/55	48/48	70/70	70/70	70/70	76/76

	1980 — Quarters				1979 — Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Cumulative Preferred Stock								
($100 Par Value)								
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	79/79	79/79	86/86	88/88
Bid (High/Low)	86/86	57/57	64/64	55/55	75/75	78/78	78/78	86/86
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	94/94	92/92	92/92	92/92
Bid (High/Low)	90/90	71/71	72½/72½	62/62	91/91	90/90	90/90	90/90
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	95/95	95/95	93/93	82/82
Bid (High/Low)	72½/72½	59/59	63/63	59/59	90/90	90/90	88/88	75/75
10.52% Series (4)								
Dividends Paid Per Share	$2.63	$2.63	$2.63	$2.63	$2.63	$2.63	$2.63	$2.63
Market Price — $ Per Share								
(NYSE) — High	104	115	90	79⅜	105	104	105	101¼
— Low	94	75	76½	70	99½	98	101¼	91
($25 Par Value)								
$2.42 Series								
Dividends Paid Per Share	$ .605	$ .605	$ .605	$ .605	$ .605	$ .605	$ .605	$ .605
Market Price — $ Per Share								
(NYSE) — High	28½	31.07	24	21	23¾	25	27	27
— Low	25¼	19½	17¼	16	22½	21¼	24½	24
$3.45 Series (5)								
Dividends Paid Per Share	—	—	—	$ .21	—	—	—	—
Market Price — $ Per Share (OTC)								
Ask (High/Low)	—	—	—	25¼/25¼	—	—	—	—
Bid (High/Low)	—	—	—	24¾/24¾	—	—	—	—

OTC — Over-the-Counter
NYSE — New York Stock Exchange

(1) As of December 31, 1980 American Electric Power Company, Inc. owned 100% of the Company's common stock.

(2) Reflects two-thirds dividend payment due to a change in dividend payment dates.

(3) Issued May 1980.

(4) Delisted from NYSE in 1980.

(5) Issued October 1980. Application to be made for listing on NYSE.

Note — The above quotations bid and asked represent prices between dealers and do not represent actual transactions.

Directors

JOHN E. ARTHUR

FRANK N. BIEN (a)

W. A. CARLILE, JR.

RICHARD E. DISBROW (a)

JOHN E. DOLAN (a)

ARTHUR G. GREEN

ROBERT J. GRUESER

JAMES F. KURTZ

BEN T. RAY

RALPH E. WALDO

W. S. WHITE, JR. (a)

Officers

W. S. WHITE, JR. (a) (f)
Chairman of the Board and Chief Executive Officer

ROBERT J. GRUESER (a)
Vice Chairman of the Board

BEN T. RAY (a)
President and Chief Operating Officer

JAMES P. FENSTERMAKER
Senior Vice President-Operations

FRED V. STINE
Senior Vice President-Customer Service

EVAN E. WILLIAMS
Senior Vice President-Administration

JOHN P. APEL (b)
Vice President-Environmental

FRANK N. BIEN (a) (f)
Vice President

RICHARD A. BURGERT
Vice President-Distribution and Service

PETER J. DEMARIA (a) (f)
Assistant Treasurer and Principal Accounting Officer

RICHARD E. DISBROW (a) (f)
Vice President

JOHN E. DOLAN (a) (f)
Vice President

A. JOSEPH DOWD (a) (f)
Vice President

JOHN M. EMERY
Vice President and Treasurer

RAYMOND A. HEIMANN
Vice President and Controller

JOHN H. INSKEEP
Vice President-Purchasing

W. ROBERT KELLEY (d)
Vice President-Electric Operations

GERALD P. MALONEY (a) (f)
Vice President and Principal Financial Officer

RICHARD M. MCMORROW
Vice President-Law and Risk Management

PHILIP R. MCNAUGHTON
Vice President-Employee Relations

EUGENE D. MEYERS (e)
Vice President-Administrative Services

ROBERT E. SISINGER
Vice President-Rates and Corporate Affairs

STANLEY P. TOMESEK
Vice President-Corporate Planning

WILLIS C. WELCH
Vice President-Land Management

MARGARET E. MCCAIN
Secretary and Assistant Treasurer

QUENTIN E. BOWERS
Assistant Controller and Assistant Secretary

RICHARD P. BOURGERIE (c) (f)
Assistant Secretary

JOHN R. BURTON (a) (f)
Assistant Secretary

JOHN F. DILORENZO, JR. (a) (f)
Assistant Secretary

WILLIAM E. OLSON (a) (f)
Assistant Secretary

WILLIAM J. PROCHASKA (c) (f)
Assistant Secretary

LEONARD V. ASSANTE (a) (f)
Assistant Treasurer

WILLIAM N. D'ONOFRIO (a) (f)
Assistant Treasurer

GERALD R. KNORR (a) (f)
Assistant Treasurer

WAYNE L. PIDOCK
Assistant Treasurer

(a) Elected July 23, 1980
(b) Resigned September 1, 1980
(c) Elected September 17, 1980
(d) Resigned November 1, 1980
(e) Resigned February 1, 1981
(f) Principal occupation is as an employee of American Electric Power Service Corporation of Columbus, Ohio.

The Company's Annual Report (Form 10-K) to the Securities and Exchange Commission will be available on or about March 31, 1981 to shareowners upon written request and at no cost. Please address such requests to:

Mr. R. A. Heimann
Vice President and Controller
Columbus and Southern Ohio
Electric Company
215 North Front 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

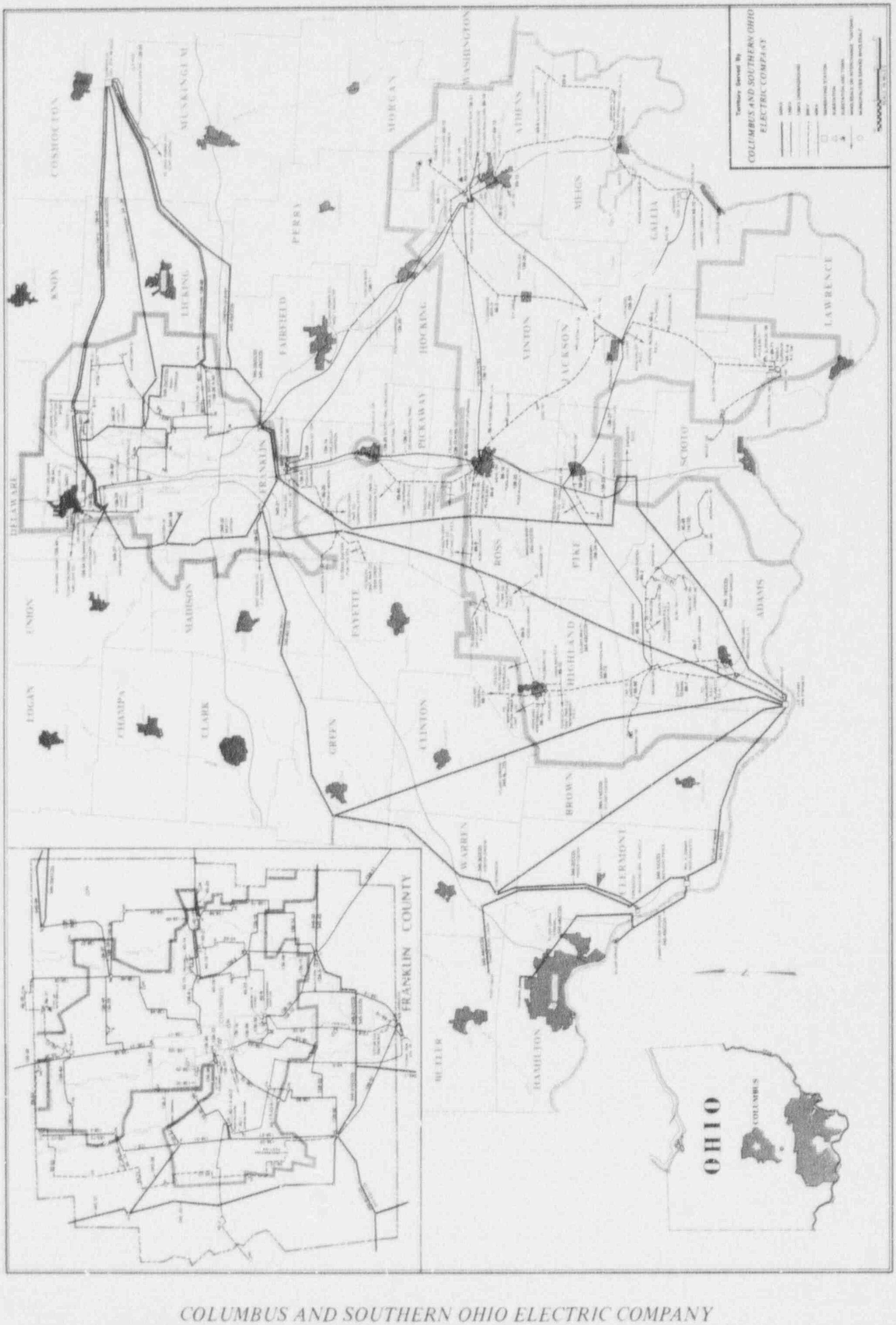
BancOhio National Bank
155 East Broad Street, Columbus, Ohio 43265

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 4-¼% Series.



COLUMBUS AND SOUTHERN OHIO ELECTRIC COMPANY