

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeen G. Kelly.

American Electric Power Company, Inc.) Docket No. IN02-10-001
American Electric Power Service Corporation)
AEP Energy Services, Inc.)

ORDER APPROVING STIPULATION AND CONSENT AGREEMENT AND
REQUIRING PAYMENT OF CIVIL PENALTY

(Issued January 26, 2005)

1. The Commission approves the attached Stipulation and Consent Agreement (Agreement) between the Office of Market Oversight and Investigations (OMOI), and American Electric Power Company, Inc. (AEP), and two of its subsidiaries, AEP Energy Services, Inc. (Energy Services) and American Electric Power Service Corporation (Service Corp) (collectively, the AEP Parties). This order is in the public interest because it resolves alleged violations relating to affiliate preferences with a settlement that assesses significant civil penalties and that requires the AEP Parties and their natural gas transportation and storage affiliates to follow a detailed four-year Compliance Plan.

2. The Agreement resolves all issues relating to a non-public, formal investigation in Docket No. IN02-10-000 and an accompanying non-public, preliminary investigation (collectively, Investigations) conducted by OMOI under Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2004). The Investigations concerned, among other things, compliance with provisions of the Commission's regulations issued pursuant to the Natural Gas Policy Act of 1978 (NGPA), 15 U.S.C. §§ 3301 *et seq.* (2000). The investigation period for the Investigations was January 1, 1999 through January 25, 2005, the date of execution of the Agreement. The alleged violations relate to preferences that intrastate natural gas pipelines, owned by AEP during most of the investigation period, provided to their affiliated marketer Energy Services with respect to gas transportation and operation of storage facilities. The AEP Parties neither admit nor deny any violations of the Commission's NGPA regulations.

3. The facts stipulated in the Agreement concern storage and transportation services that two intrastate natural gas pipelines provided pursuant to section 311 of the NGPA, 15 U.S.C. § 3371. One such pipeline, Jefferson Island Storage & Hub, LLC (JISH), provided storage service at its storage facility located in Vermilion Parish in southern Louisiana. In April 1999, JISH filed an Operating Statement with the Commission. Under section 284.123(e) of the Commission's regulations, 18 C.F.R. § 284.123(e) (2004), JISH's Operating Statement was to describe how JISH engaged in providing NGPA section 311 services. In July 2001, JISH entered into a separate Asset Management Agreement (AMA) with Energy Services. The AMA, which JISH did not file with the Commission, granted Energy Services the exclusive rights to manage all gas injections into and gas withdrawals from JISH, and allotted Energy Services all uncontracted storage capacity at JISH. Among the matters addressed in the Investigations was Energy Services' use of the authority it received in the AMA and whether, after JISH and Energy Services entered into the AMA, JISH's operations were consistent with its Operating Statement. AEP sold JISH effective October 1, 2004, and Energy Services terminated the AMA effective October 1, 2004.

4. Another matter addressed in the Investigations related to transportation services that Louisiana Intrastate Gas Company (LIG), an AEP-affiliated intrastate gas pipeline during the investigation period until April 2004, gave to Energy Services and LIG Chemical Company (LIG Chemical), another gas marketer then affiliated with AEP. OMOI examined whether LIG, during the period July 2001 through March 2004, accorded transportation of natural gas for LIG Chemical a standing priority over transportation of gas for non-affiliated customers, or permitted LIG Chemical to ship under this same priority natural gas that Energy Services traded on LIG.

5. The Agreement consists of six major components that are summarized below:

A. AEP shall pay a civil penalty pursuant to the NGPA in the principal amount of \$21,000,000.

B. The AEP Parties and AEP's natural gas pipeline and storage affiliates (collectively, the AEP Companies) shall be subject to a Compliance Plan, incorporated into the Agreement as an Appendix. The Compliance Plan, which shall remain in effect for four years, recognizes that AEP maintains existing plans for legal and regulatory compliance for operations of AEP Companies. These operations are subject to the statutes administered by the Commission and the Commission's rules, regulations and orders that are addressed in the plans listed in the Compliance Plan (collectively, Commission Requirements). OMOI has reviewed the existing compliance and implementation plans, and at OMOI's

request, AEP has added certain enhancements. In addition, the settlement provides that OMOI will continue to monitor AEP's existing plans of compliance for Commission Requirements to determine the plans' effectiveness. AEP will provide any proposed changes to its existing plans relating to Commission Requirements to OMOI for approval.

C. While in effect, the Compliance Plan also requires AEP to enhance its existing plans by, among other things: (1) developing a written policy for compliance with Commission Requirements, including compliance with NGPA section 311 and its implementing regulations; (2) requiring yearly training in compliance with applicable Commission Requirements for all relevant AEP personnel who act in a non-clerical capacity with respect to an activity subject to a Commission Requirement; and (3) prohibiting any relevant person from acting in a non-clerical capacity with respect to any activity subject to a Commission Requirement for which the person has not received this training.

D. Pursuant to the Compliance Plan, AEP shall designate a Compliance Officer who shall be responsible for implementing the enhancements required by the Compliance Plan, including: (1) acting as liaison with Commission staff for compliance issues of AEP Companies; (2) submitting training materials on Commission Requirements for OMOI approval; and (3) reporting to OMOI on calls to AEP's internal Hotline that allege non-compliance with any Commission requirement.

E. Within one year after a Commission order that approves the Agreement without modification becomes final, AEP shall submit to OMOI a non-public Compliance Report that states in detail the steps AEP has taken to implement the prospective measures set forth in the Compliance Plan. AEP also shall submit to OMOI a Compliance Report for each subsequent 12-month period in which the Compliance Plan is in effect. Commission staff reserves its right to audit and investigate the AEP Parties' compliance with the prospective measures set forth in the Compliance Plan.

F. Should any activity conducted pursuant to the Agreement or the Compliance Plan indicate that AEP or any of its affiliates has engaged in any material violation of any Commission Requirement, AEP shall have a good faith obligation to notify OMOI of such violation with reasonable promptness. AEP is also required to describe in the applicable Compliance Report each such violation and any remedy or sanction for it that AEP implemented after consultation with OMOI.

5. The Agreement does not address or resolve issues pending in any other docketed matter.

The Commission finds:

The Agreement provides an equitable resolution of this matter and is in the public interest.

The Commission orders:

(A) The attached Stipulation and Consent Agreement is approved in its entirety without modification and is incorporated into this order.

(B) The non-public, formal investigation in Docket No. IN02-10-000 and the accompanying non-public, preliminary investigation are terminated with prejudice.

(C) The Commission's approval of the attached Stipulation and Consent Agreement does not constitute approval of, or precedent regarding, any principle or issue in this matter.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Company, Inc.) Docket No. IN02-10-001
American Electric Power Service Corporation)
AEP Energy Services, Inc.)

Stipulation and Consent Agreement

I. Introduction

The Office of Market Oversight and Investigations (OMOI), American Electric Power Company, Inc. (AEP), and two of its subsidiaries, AEP Energy Services, Inc. (Energy Services) and American Electric Power Service Corporation (Service Corp), enter into this Stipulation and Consent Agreement (Agreement) to resolve all issues within the scope of the non-public, formal investigation in Docket No. IN02-10-000 and an accompanying non-public, preliminary investigation (collectively, Investigations) conducted by OMOI under Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2004). The Investigations concerned, among other things, compliance with the Natural Gas Policy Act of 1978 (NGPA), 15 U.S.C. §§ 3301 *et seq.* (2000), and provisions of the Commission's regulations and orders. The investigation period for the Investigations was January 1, 1999 through the date of execution of this Agreement.

II. Stipulation

OMOI and AEP, Energy Services and Service Corp (collectively, the AEP Parties) stipulate and agree to the following:

- A. AEP is a holding company, headquartered in Columbus, Ohio, whose corporate organization is regulated by the U.S. Securities and Exchange Commission pursuant to the Public Utility Holding Company Act of 1935. During the investigation period, Service Corp provided services such as legal and accounting, to other AEP subsidiaries.

- B. During the investigation period, Energy Services engaged in, among other activities, commodity transactions (also known as "physical" or "cash" transactions) and financial transactions relating to natural gas.

- C. During most of the period covered by the Investigations, AEP's affiliates included Jefferson Island Storage and Hub, LLC (JISH), Louisiana Intrastate Gas Company (LIG), and LIG Chemical Company (LIG Chemical). AEP sold LIG and LIG Chemical

effective April 1, 2004. AEP sold JISH effective October 1, 2004. AEP, Energy Services, and Service Corp thus no longer own or control the assets that are central to this Agreement, and JISH, LIG, and LIG Chemical are not parties to this Agreement. However, until AEP sold JISH, LIG and LIG Chemical, Energy Services shared a number of corporate officers and directors with these entities.

D. During the period it was an AEP affiliate, JISH was an intrastate natural gas pipeline that operated a natural gas storage facility, comprised of two salt caverns and injection/withdrawal wells, located in Vermilion Parish, Louisiana. JISH's storage facility consisted of two salt dome gas storage caverns with approximately 10 billion cubic feet (Bcf) total storage capacity, which contained both "cushion" gas, necessary to maintain cavern pressures for the operational and structural integrity of the storage facility, and what is referred to as "working capacity" available for storage services.

E. During the period it was an AEP affiliate, JISH performed storage services pursuant to NGPA section 311, 15 U.S.C. § 3371, and Part 284, Subpart C of the Commission's regulations, 18 C.F.R. Part 284, Subpart C. JISH held Commission authority to provide section 311 firm storage services at market-based rates. JISH also provided natural gas transportation services under NGPA section 311 on two pipeline laterals that extend several miles from the storage facility and that interconnect with nine interstate and intrastate gas pipelines.

F. On April 30, 1999, JISH filed with the Commission an Operating Statement in accordance with section 284.123(e) of the Commission's regulations, 18 C.F.R. § 284.123(e) (2004), which requires each intrastate natural gas pipeline offering section 311 services to file with the Commission a statement that describes how the pipeline will engage in these services.

G. On July 1, 2001, JISH executed an Asset Management Agreement (AMA) with Energy Services. The AMA was to terminate on June 30, 2011, although section 4.4 of the AMA provided that either party could terminate it on two business days' notice if AEP were to divest either JISH or Energy Services. The AMA designated Energy Services as JISH's Asset Manager and granted Energy Services exclusive authority to manage all of JISH's injections and withdrawals. The AMA also granted Energy Services the exclusive right to all unsubscribed storage capacity of the facility. Preliminary Statement 4 of the AMA provided that "[s]ubject to the terms and conditions hereof, [JISH] is willing to grant such exclusive rights to Asset Manager, and to operate the Jefferson Storage Facility in accordance with Asset Manager's nominations and other directions."

H. During the period it was an AEP affiliate, JISH did not file either the AMA or an amendment to its Operating Statement with FERC to reflect JISH's actual operations since July 2001.

I. During the period it was an AEP affiliate, LIG was a Louisiana intrastate natural gas pipeline that interconnected with JISH. LIG served sales and transportation markets within the state of Louisiana, and provided transportation services under NGPA section 311 and Part 284, Subpart C of the Commission's regulations. LIG's subsidiary LIG Chemical was LIG's affiliated gas marketing company and a transportation customer of LIG.

III. Applicable Regulations

A. Section 284.123(e) of the Commission's regulations provides, in pertinent part: "[i]f the pipeline changes its operations or rate election under [Subpart C], it must amend the [operating] statement and file such amendments not later than 30 days after commencement of the change in operations or the change in rate election."

B. Section 284.7(b)(1) of the Commission's regulations, 18 C.F.R. § 284.7(b)(1), provides: "An interstate pipeline or intrastate pipeline that offers transportation service on a firm basis under subpart B, C or G must provide such service without undue discrimination, or preference, including undue discrimination or preference in the quality of service provided, the duration of service, the categories, prices, or volumes of natural gas to be transported, customer classification, or undue discrimination or preference of any kind."

IV. Conclusions of OMOI's Investigation

As a result of the Investigations, OMOI has made conclusions, summarized below, which the AEP Parties neither admit nor deny:

A. After the execution of the AMA, JISH's actual operations were inconsistent with JISH's Operating Statement. Thus, during the period August 1, 2001 through September 30, 2004, JISH violated section 284.123(e). Section 25.1 of JISH's Operating Statement provided that JISH offered its section 311 storage service through storage agreements that listed maximum storage quantities. Under sections 25.5 through 25.8 of the Operating Statement, a storage customer's use of pipeline interconnects with JISH was limited by defined primary and alternate receipt and delivery points as specified in storage agreements. The Operating Statement did not authorize JISH's use of cushion gas for delivery to storage customers. The Operating Statement did not provide for park and loan service, under which JISH would allow a storage customer to withdraw more gas

from storage than it had on account in inventory, or no-notice service, under which a storage customer could withdraw from or inject gas into JISH's storage facility without advance notice. Nor did the Operating Statement grant any storage customer the right to borrow cushion gas from JISH or gas from other storage customers of JISH.

B. During the period from July 1, 2001 through September 30, 2004, Energy Services, as JISH's Asset Manager, received services pursuant to the explicit provisions of the AMA which JISH did not make available to JISH's other storage customers. Under AMA section 2.1, JISH adjusted Energy Services' nominations and schedules for injections and withdrawals "within any day to the extent required to accommodate changes in market demand, the availability of flowing Natural Gas for injection into storage or operational limitations affecting the pipeline facilities interconnected with [JISH]." Pursuant to AMA section 2.1(d), JISH rendered receipts and deliveries in excess of Energy Services' maximum daily injection and withdrawal quantities on a best-efforts basis "when required to allow Asset Manager full utilization of its Maximum Storage Quantity." Pursuant to the AMA, JISH did not limit Energy Services to any specific receipt or delivery points. By providing to Energy Services these services granted by the AMA, during the period July 1, 2001 through September 30, 2004, JISH violated section 284.7(b)(1).

C. During the period from July 1, 2001 through September 30, 2004, Energy Services received services, not explicitly set forth in the AMA, which JISH did not make available to JISH's other storage customers. Such services included Energy Services being allowed to withdraw cushion gas and to use other customers' gas stored at JISH without notice to these customers. By providing Energy Services with these services that were superior to services JISH provided to other storage customers as set forth in the Operating Statement, during the period July 1, 2001 through September 30, 2004, JISH violated section 284.7(b)(1).

D. As JISH's Asset Manager, Energy Services received updated information almost daily from JISH on nominations for injections and withdrawals submitted by other storage customers of JISH. Such information was not available to any other JISH customer and was not publicly available. By granting Energy Services exclusive access to non-public information concerning activities of JISH's other storage customers that was not provided to any other storage customer, during the period July 1, 2001 through September 30, 2004, JISH violated section 284.7(b)(1).

E. LIG had no asset management agreement with Energy Services, but in practice, with respect to gas transportation, Energy Services controlled LIG and LIG Chemical. While Energy Services bought and sold gas on LIG, Energy Services was not listed as a LIG transportation customer. Nevertheless, Energy Services used LIG Chemical to

satisfy its requirements for transportation of gas on LIG. For purposes of gas transportation, LIG treated LIG Chemical as if it were the same entity as LIG. By according NGPA section 311 transportation of natural gas for LIG Chemical a standing priority over transportation of gas for non-affiliated customers, and by permitting LIG Chemical to ship under this same priority natural gas that Energy Services traded on LIG, during the period July 1, 2001 through March 30, 2004, LIG violated section 284.7(b)(1).

V. Agreed-Upon Resolution

For purposes of settling any and all civil and administrative disputes, and in lieu of any other penalty or remedy that the Commission might assess or determine concerning any of the matters in the Investigations, AEP, Energy Services and Service Corp agree that:

A. AEP shall pay a civil penalty in the principal amount of \$21,000,000 as follows:

1. Within 30 days of the date on which a Commission order approving this Agreement without modification becomes final (Effective Date), AEP shall pay \$21,000,000, either by delivering a certified check made payable to the Federal Energy Regulatory Commission to Federal Energy Regulatory Commission, Lockbox 93938, Chicago, Illinois 60673, or by completing an electronic wire transfer to an appropriate Commission account.
2. Neither AEP nor any of its affiliates shall recover any amount of the civil penalty through any rate for any service subject to the jurisdiction of the Commission.

B. AEP and its affiliates shall comply with the prospective measures that are set forth in the Compliance Plan in Appendix A. The Compliance Plan shall remain in effect for four years from the Effective Date.

C. Within one year after the Effective Date, AEP shall submit to OMOI in Docket No. IN02-10-000 a non-public Compliance Report that states in detail the steps AEP has taken to implement the prospective measures set forth in the Compliance Plan. By the Effective Date's calendar date in each subsequent year, AEP shall submit to OMOI a Compliance Report for the prior 12-month period in which the Compliance Plan was in effect. Commission staff reserves its right to audit and investigate AEP and its affiliates' compliance with the prospective measures set forth in the Compliance Plan.

D. Should any activity conducted pursuant to this Agreement or the Compliance Plan indicate that AEP or any of its affiliates has engaged in any material violation of NGPA section 311 or any rule, regulation, or statutory requirement administered by the Commission, AEP's Chief Compliance Officer shall have a good faith obligation to provide OMOI staff with reasonably prompt notification of such violation after learning of it. AEP shall describe in the applicable Compliance Report each such violation and any remedy or sanction for it that AEP implemented after consultation with OMOI.

E. During the period in which the Compliance Plan is in effect, each entity that is subject to the Compliance Plan shall report to OMOI, upon written request, such information on business activities relating to natural gas or electricity as OMOI deems to be appropriate and as consistent with law and any applicable confidentiality obligations. These reports shall be governed by section 1b.9 and 1b.20 of the Commission's regulations, 18 C.F.R. §§ 1b.9 and 1b.20 (2004).

F. Failure to make a timely civil penalty payment or otherwise comply with any provision of this Part shall violate a final order of the Commission issued pursuant to the NGPA and the Natural Gas Act (NGA), 15 U.S.C. §§ 717 et. seq., and may subject any AEP Party to additional action under the enforcement and penalty provisions of the NGPA, the NGA, or both. Moreover, if payment is not made on time, interest shall accrue under the Commission's regulations at 18 C.F.R. § 154.501(d) (2004) from the date such payment is due.

G. By agreeing to this resolution, neither AEP nor any of its affiliates admit that any of the Conclusions of OMOI's investigation or other matters set forth herein constitute a violation of any statute, regulation, Commission rule, order, or other legal obligation. This Agreement and any Commission order approving this Agreement shall not be deemed or construed as an admission or as evidence of wrongdoing or violation of any statutory, regulatory, or other legal duty of any kind.

VI. Terms

A. OMOI and the AEP Parties agree that they enter into the Agreement voluntarily and that other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of OMOI or any AEP Party has been made to induce any other party to enter into the Agreement.

B. By this Agreement, OMOI and the AEP Parties evidence their intention to settle only the matters referred to in paragraph VI.C. below that are within the Commission's jurisdiction and statutory authority to settle.

Stipulation and Consent Agreement
American Electric Power Company, Inc. et al.,
Docket No. IN02-10-001

- 7 -

C. On the date the Commission approves this Agreement without modification, this Agreement shall resolve as to AEP and its affiliates, their agents, officers, directors and employees, both past and present (including both LIG and LIG Chemical prior to April 1, 2004 and JISH prior to October 1, 2004), and the Commission shall release and be forever barred from bringing against AEP and its affiliates, their agents, officers, directors, or employees, both past and present, any and all administrative or civil claims or matters asserting any claims, liabilities, causes of action, demands, rights, alleged entitlements, obligations, known or unknown, asserted or not asserted, vested or unvested, without limitation, arising out of, related to, or connected with the matters within the scope of the Investigations. The intent of the parties to this Agreement is that a final Commission order approving the Agreement without modification shall terminate the Investigations with prejudice. This Agreement shall not bar Commission action in the event the Commission determines that any AEP Party has failed to comply with any provision of Part V of this Agreement.

D. Each undersigned representative of a Party affirms that he or she has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his or her knowledge, information and belief, and that he or she understands that the Agreement is entered into in express reliance on those representations.

E. The Agreement binds AEP, Energy Services, Service Corp and any other affiliated entities that are or become subject to the Compliance Plan, and their agents, officers, directors, employees, successors and assigns. The Agreement does not and will not bind or apply to any entity or asset that has been, or in the future is sold, transferred or otherwise alienated such that it no longer is an affiliate of AEP, Energy Services, or Service Corp. For purposes of this Agreement, the term "affiliate" has the meaning given to it in 18 C.F.R. § 358.3 (2004).

F. The Agreement does not affect any other docketed matter before the Commission.

G. In connection with the payment of the civil penalty provided for in section V.A, the AEP Parties agree that the Commission's order approving the Agreement without modification shall be a final and unappealable order assessing a civil penalty under section 504 of the NGPA, 15 U.S.C. § 3414 (2000). With regard to such civil penalty, the AEP Parties waive: a Notice of Proposed Penalty under section 504(b)(6)(E) of the NGPA, 15 U.S.C.A. § 3414(b)(6)(E); hearings pursuant to the applicable provisions of the NGPA; the filing of proposed findings of fact and conclusions of law; an Initial Decision by an Administrative Law judge pursuant to the Commission's Rules of Practice and Procedure; and post-hearing procedures pursuant to the Commission's Rules of Practice and Procedure.

Stipulation and Consent Agreement
American Electric Power Company, Inc. et al.,
Docket No. IN02-10-001

H. The AEP Parties waive judicial review by any court of any Commission order approving the Agreement without modification.

I. Appendix A, referenced in paragraph V. B. of the Agreement and attached hereto, is expressly made part of, and incorporated in, the Agreement.

J. If the Commission does not issue an order approving the Agreement without modification, that becomes final, the Agreement shall be null and void, unless otherwise agreed in writing by OMOI and the AEP Parties.

K. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity, and accepts the Agreement on the entity's behalf.

Agreed to and accepted:

Robert E. Pease,
Deputy Director,
Enforcement and Investigations
Office of Market Oversight and Investigations

Date:

Name: Coulter R. Boyle, III
Title: Senior Vice President,
American Electric Power Company, Inc.

Date:

Name: Coulter R. Boyle, III
Title: President
AEP Energy Services, Inc.

Date:

Name: Coulter R. Boyle, III
Title: Senior Vice President,
American Electric Power Service Corporation

Date:

APPENDIX A

COMPLIANCE PLAN FOR AMERICAN ELECTRIC POWER COMPANY, INC. AND ITS NATURAL GAS MARKETING, PIPELINE AND STORAGE AFFILIATES

This Appendix to the Stipulation and Consent Agreement in Docket No. IN02-10-001 (“Appendix”) sets forth enhancements to the existing plans of compliance of American Electric Power Company, Inc. (AEP), AEP Energy Services, Inc. (“Energy Services”), American Electric Power Service Corporation (Service Corp.), and AEP’s natural gas pipeline and storage affiliates (hereinafter collectively referred to as “AEP Companies”), that respond to issues arising from a non-public, formal investigation in Docket No. IN02-10-000 and a non-public, preliminary investigation conducted by the Office of Market Oversight and Investigations (“OMOI”). AEP has provided to OMOI its existing plans of compliance and implementation that include legal and regulatory policies, procedures and training for all operations of AEP Companies, including those operations regulated by the Federal Energy Regulatory Commission (“the Commission” and “FERC”).

I. Existing Plans of Compliance Measures to be Maintained

A. AEP’s existing plans of legal and regulatory compliance and implementation include, but are not limited to, policies, procedures and training with respect to the following:

- (1) **Standards of Conduct:** The existing implementation plan provides policies and procedures with respect to the rules adopted in FERC Order Nos. 2004 et al. and the applicability of those rules to the interaction among employees within AEP Companies.
- (2) **Energy Trading and Sales:** The existing plan of compliance, incorporated in the Code of Conduct provisions of AEP’s Commercial Operations Risk Policy (“CORP”), provides policies and procedures with respect to trading of physical and financial derivative commodity contracts, including, among others, natural gas and electric power contracts, including standards embodied in the Commission’s Market Behavior Rules (as established in FERC Orders issued November 17, 2003 in FERC Docket Nos. EL01-118-000, EL01-118-001 and RM03-10-000). The Code of Conduct provisions referred to herein currently are contained in Section 6 of AEP’s CORP, as approved by the AEP

Risk Executive Committee January 18, 2005, and only those provisions of the CORP (whether contained in Section 6 or moved elsewhere) are subject to this Compliance Plan.

- (3) **Trade Data Reporting:** As provided in FERC's Order issued July 29, 2003 in Docket No. PA03-1-000, et al., AEP has adopted a clear code of conduct for trade data reporting. All trade data reporting is done by an entity (the risk oversight group) that does not have a financial interest in the published index.

B. During the period in which this Appendix is in effect:

- (1) OMOI will review the above plans to evaluate their effectiveness in achieving compliance with statutes administered by the Commission and the Commission's rules, regulations and orders addressed in those plans. For purposes of this Agreement, "Commission Requirements" will mean the statutes administered by the Commission and the Commission's rules, regulations and orders addressed in the above plans, as well as in the enhancements discussed below;
- (2) AEP will cooperate in OMOI's review of the above plans;
- (3) AEP will provide any proposed changes to the above plans with respect to any Commission Requirement to OMOI staff for OMOI approval, which approval shall not be unreasonably withheld; and
- (4) AEP will notify OMOI if it discontinues or substantially reduces the above plans in any area other than one relating to a Commission Requirement.

II. Enhancements to be Added to Existing Plan of Compliance

AEP Companies will implement the following enhancements to its existing plan of compliance, hereinafter referred to herein as "the Compliance Plan Enhancements." The Compliance Plan Enhancements will apply to AEP Companies and to any successor companies owned or controlled by AEP, and the enhancements will remain in effect for four years following the Effective Date). During the four-year term, AEP may request that these enhancements be modified.

A. Compliance Officer

No later than 60 days following the Effective Date, AEP shall designate a

Compliance Officer (hereinafter referred to as the “Compliance Officer”). The Compliance Officer shall be responsible for implementing the terms and conditions of the Compliance Plan Enhancements, which are designed to assure compliance with Commission Requirements, including, but not limited to section 311 of the National Gas Policy Act of 1978, 15 U.S.C. § 3371 (“Section 311”), and the Commission’s regulations thereunder. The Compliance Officer and his or her staff, as appropriate, shall be the contact for Commission staff for compliance issues of AEP Companies. In the event the Compliance Officer resigns or is dismissed from his or her position, AEP shall appoint a new Compliance Officer within thirty (30) days and shall provide notice of his or her identity to Commission staff.

B. Training

1. AEP Companies shall provide training designed to assure compliance with applicable Commission Requirements including, but not limited to, Section 311, at least annually to all relevant personnel of AEP who act in a non-clerical capacity with respect to any activity subject to a Commission Requirement. Such training will be mandatory for all such personnel. After 180 days following the Effective Date, no relevant person who acts in a non-clerical capacity and who has not received the annual training required under this Compliance Plan may engage in any activity subject to a Commission Requirement for which that person has not received training.
2. AEP Companies shall have the right to modify the training materials to reflect changes in Commission policy and other relevant developments and to make non-material changes to the presentation of the policy, as long as the materials continue to reasonably comport with the terms of the Compliance Plan Enhancements set forth herein. In addition, AEP Companies may vary the scope of the training materials related to Compliance Plan Enhancements, depending on the specific job function of the personnel trained so long as such variations are appropriate to the given job function. AEP Companies may combine such training with other types of employee training and may provide training and training materials via e-mail or the Intranet with a process to certify participation by persons who receive training.

C. Duties of the Compliance Officer

1. The Compliance Officer shall develop a written policy for AEP Companies for compliance with Commission Requirements including, but not limited to, Section 311. The written policy may incorporate by reference in whole or in part one or more of the above plans of compliance. The written policy shall state, among other things, that AEP shall require yearly training as set forth in Item II. B.1. above. The policy shall also state that appropriate disciplinary measures will be imposed, up to and including termination, for personnel who violate the policy.
2. The Compliance Officer shall submit the written policy for compliance with Commission Requirements to OMOI within 60 days after the Effective Date.
3. No later than 180 days after the Effective Date, as part of the training program described in Item II. B.1. above, the Compliance Officer shall commence a training program for all persons who act in a non-clerical capacity in selling, marketing or providing natural gas transportation or storage services on behalf of any of the AEP Companies subject to the Commission's jurisdiction pursuant to Section 311 or in selling or marketing natural gas or related financial products that may be related to such transportation or storage services. That program shall include, but shall not be limited to:
 - (a) an explanation of the scope of the Commission's jurisdiction over the rendering of Section 311 transportation and storage services;
 - (b) an explanation of the obligation to provide Section 311 transportation and storage services only under rates, terms and conditions pursuant to, and consistent with, an Operating Statement that has been filed with the Commission pursuant to 18 C.F.R. § 284.123(e);
 - (c) an explanation of the obligations pursuant to 18 C.F.R. § 284.126 to file Annual Reports identifying relevant Section 311 transportation transactions and Semi-Annual Storage Reports identifying relevant Section 311 storage transactions;

(d) an explanation of the requirement under 18 C.F.R. §§ 284.7(b) and 284.9(b) to provide interstate transportation and storage services without undue discrimination or preferences of any kind (including a discussion of relevant FERC precedent);

(e) an explanation of the requirements of the Commission's Market Behavior Rule relating to sales of natural gas, 18 C.F.R. § 284.403;

(f) An explanation that, after 180 days following the Effective Date, no person providing services on behalf of any of the AEP Companies who acts in a non-clerical capacity with respect to any activity subject to a Commission Requirement, and who has not received the annual training required under the Compliance Plan Enhancements, shall engage in an activity subject to a Commission Requirement for which that person has not received training;

(g) an explanation of the Hotline described in part III of this Appendix; and

(h) an explanation of any other topic deemed necessary or appropriate by the Compliance Officer to carry out his or her obligations under this Appendix.

4. The Compliance Officer, within 90 days after the Effective Date, shall submit the training materials described in Item II.B.3. above to OMOI for approval.

5. Within 120 days after the Effective Date, the Compliance Officer shall:

(a) compile a list of all persons providing services on behalf of any of the AEP Companies who act in a non-clerical capacity with respect to any activity subject to a Commission Requirement;

(b) notify all such persons of the time and place for the training required by this Appendix; and

(c) provide an electronic or hard copy of the written policies relating to the Compliance Plan Enhancements to each such person

at the time the person is notified of the time and place for the training required by this Appendix.

6. The Compliance Officer shall also:
 - (a) maintain all documentation of certifications of attendance and materials used in the training required by this Appendix for a period of four years;
 - (b) notify AEP Companies' HR Department of any person who did not participate in the training required by this Appendix;
 - (c) no later than the end of each calendar year, determine which personnel required to receive the training provided for by this Appendix have not received the training; and
 - (d) ensure retention, for a period of four years, of audits, complaints, and compliance training materials to the extent they relate to AEP Companies' Compliance Plan Enhancements provided in this Appendix and any disciplinary actions relating to violations of the same.

III. Hotline

AEP's Hotline for anonymous disclosure of complaints and concerns by any person shall be available for use for reporting by any person any violations of law, rules, regulations, policies or internal procedures relating to Commission Requirements. Within 30 days after the end of each calendar quarter, the Compliance Officer will provide a report to OMOI, describing the content and resolution of any calls to the Hotline that quarter that allege non-compliance with any Commission Requirement including, but not limited to Section 311 or regulations thereunder.

IV. Document Retention

Within 90 days of the Effective Date, AEP shall establish a record retention policy for documents related to Section 311 transactions. All documents shall be kept in either electronic or hard copy and in a manner that, upon receipt of a Commission staff request, permits reasonably prompt access for Commission staff review. Notwithstanding any otherwise-applicable document retention requirement that has a shorter duration, each document

shall be retained until four years following the last day of performance of the related Section 311 transportation or storage transaction.