Ohio Valley Electric Corporation and Subsidiary Company

Consolidated Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ohio Valley Electric Corporation:

We have audited the accompanying consolidated financial statements of Ohio Valley Electric Corporation and its subsidiary company, Indiana-Kentucky Electric Corporation (the "Companies"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Companies' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Companies as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 13, 2016

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
ELECTRIC PLANT:		
At original cost	$ 2,714,054,292	$ 2,706,385,652
Less—accumulated provisions for depreciation	1,292,775,251	1,245,490,373
	1,421,279,041	1,460,895,279
Construction in progress	29,848,655	15,329,947
Total electric plant	1,451,127,696	1,476,225,226
CURRENT ASSETS:		
Cash and cash equivalents	19,292,573	43,453,966
Accounts receivable	24,192,150	40,001,960
Fuel in storage	81,362,765	44,335,429
Materials and supplies	33,060,141	34,499,713
Property taxes applicable to future years	2,850,000	2,780,000
Prepaid expenses and other	2,112,757	2,208,613
Total current assets	162,870,386	167,279,681
REGULATORY ASSETS:		
Unrecognized postemployment benefits	2,526,541	1,437,151
Pension benefits	27,889,880	32,475,646
Income taxes billable to customers	805,988	1,036,268
Total regulatory assets	31,222,409	34,949,065
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	11,204,694	12,258,005
Long-term investments	119,760,106	122,502,773
Other	70,658	120,877
Total deferred charges and other	131,035,458	134,881,655
TOTAL	$ 1,776,255,949	$ 1,813,335,627

(Continued)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2015 AND 2014

CAPITALIZATION AND LIABILITIES	2015	2014
CAPITALIZATION:		
Common stock, $100 par value—authorized, 300,000 shares; outstanding, 100,000 shares in 2015 and 2014	$ 10,000,000	$ 10,000,000
Long-term debt	1,179,259,089	1,274,895,961
Line of credit borrowings	45,000,000	20,000,000
Retained earnings	7,866,994	7,031,723
Total capitalization	1,242,126,083	1,311,927,684
CURRENT LIABILITIES:		
Current portion of long-term debt	295,659,471	243,000,194
Accounts payable	38,614,644	54,104,896
Accrued other taxes	9,564,756	9,410,141
Regulatory liabilities	17,522,792	14,065,394
Accrued interest and other	21,954,895	23,614,552
Total current liabilities	383,316,558	344,195,177
COMMITMENTS AND CONTINGENCIES (Notes 3, 11, 12)		
REGULATORY LIABILITIES:		
Postretirement benefits	44,780,419	33,650,545
Decommissioning and demolition	11,219,680	14,102,619
Total regulatory liabilities	56,000,099	47,753,164
OTHER LIABILITIES:		
Pension liability	27,889,880	32,475,646
Asset retirement obligations	31,249,839	29,547,185
Postretirement benefits obligation	32,235,745	44,875,752
Postemployment benefits obligation	2,526,541	1,437,151
Other noncurrent liabilities	911,204	1,123,868
Total other liabilities	94,813,209	109,459,602
TOTAL	$ 1,776,255,949	$ 1,813,335,627

See notes to consolidated financial statements. (Concluded)

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES—Sales of electric energy to:		
Department of Energy	$ 10,249,126	$ 11,758,386
Sponsoring Companies	555,079,943	644,415,791
Total operating revenues	565,329,069	656,174,177
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	246,581,580	315,460,920
Purchased power	9,550,459	11,180,650
Other operation	78,772,695	92,885,913
Maintenance	92,750,351	90,766,181
Depreciation	53,502,810	65,179,764
Taxes—other than income taxes	11,358,562	12,094,519
Income taxes	286,972	331,834
Total operating expenses	492,803,429	587,899,781
OPERATING INCOME	72,525,640	68,274,396
OTHER INCOME	1,508,078	9,888,500
INCOME BEFORE INTEREST CHARGES	74,033,718	78,162,896
INTEREST CHARGES:		
Amortization of debt expense	4,434,468	5,075,785
Interest expense	68,763,979	72,533,622
Total interest charges	73,198,447	77,609,407
NET INCOME	835,271	553,489
RETAINED EARNINGS—Beginning of year	7,031,723	6,478,234
RETAINED EARNINGS—End of year	$ 7,866,994	$ 7,031,723

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 835,271	$ 553,489
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	53,502,810	65,179,764
Amortization of debt expense	4,434,468	5,075,785
Deferred taxes/refundable taxes	230,280	3,328,233
(Gain) on marketable securities	3,149,486	(5,202,492)
Changes in assets and liabilities:		
Accounts receivable	15,809,810	(4,669,307)
Fuel in storage	(37,027,336)	(1,315,035)
Materials and supplies	1,439,572	(1,935,278)
Property taxes applicable to future years	(70,000)	(77,095)
Prepaid expenses and other	95,856	35,800
Other regulatory assets	3,496,376	(22,920,343)
Other noncurrent assets	50,219	429,958
Accounts payable	(16,588,072)	6,483,713
Accrued taxes	154,615	347,328
Accrued interest and other	(1,659,657)	(4,530,912)
Other liabilities	(13,905,092)	33,845,581
Other regulatory liabilities	11,704,333	(22,564,912)
Net cash provided by operating activities	25,652,939	52,064,277
INVESTING ACTIVITIES:		
Electric plant additions	(27,307,460)	(24,015,385)
Proceeds from sale of LT investments	15,948,823	18,435,960
Purchases of long-term investments	(16,355,642)	(18,629,572)
Net cash used in investing activities	(27,714,279)	(24,208,997)
FINANCING ACTIVITIES:		
Loan maintenance costs	(3,358,557)	(3,909,981)
Repayment of Senior 2006 Notes	(17,503,483)	(16,525,607)
Repayment of Senior 2007 Notes	(12,384,167)	(11,680,666)
Repayment of Senior 2008 Notes	(13,112,545)	(12,290,107)
Proceeds from line of credit	102,000,000	40,000,000
Payments on line of credit	(77,000,000)	(50,000,000)
Principal payments under capital leases	(741,301)	(752,663)
Net cash provided by financing activities	(22,100,053)	(55,159,024)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,161,393)	(27,303,744)
CASH AND CASH EQUIVALENTS—Beginning of year	43,453,966	70,757,710
CASH AND CASH EQUIVALENTS—End of year	$ 19,292,573	$ 43,453,966
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 69,326,390	$ 74,387,920
Income taxes paid (received)—net	$ 56,692	$ 1,905,645
Noncash electric plant additions included in accounts payable at December 31	$ 4,285,322	$ 3,187,502

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements—The consolidated financial statements include the accounts of Ohio Valley Electric Corporation (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (IKEC), collectively, the Companies. All intercompany transactions have been eliminated in consolidation.

Organization—The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and two affiliates of generation and transmission rural electric cooperatives. These entities or their affiliates comprise the Sponsoring Companies. The Sponsoring Companies purchase power from OVEC according to the terms of the Inter-Company Power Agreement (ICPA), which has a current termination date of June 30, 2040. Approximately 26% of the Companies' employees are covered by a collective bargaining agreement that expires August 31, 2017.

Prior to 2004, OVEC's primary commercial customer was the U.S. Department of Energy (DOE). The contract to provide OVEC-generated power to the DOE was terminated in 2003 and all obligations were settled at that time. Currently, OVEC has an agreement to arrange for the purchase of power (Arranged Power), under the direction of the DOE, for resale directly to the DOE. The agreement with the DOE expires on October 31, 2016. All purchase costs are billable by OVEC to the DOE.

Rate Regulation—The proceeds from the sale of power to the Sponsoring Companies are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, as well as earn a return on equity before federal income taxes. In addition, the proceeds from power sales are designed to cover debt amortization and interest expense associated with financings. The Companies have continued and expect to continue to operate pursuant to the cost plus rate of return recovery provisions at least to June 30, 2040, the date of termination of the ICPA. However, during 2014, the Companies began reducing their billings under the ICPA in order to effectively forego recovery of the equity return and to pass only incurred costs on to customers through the ICPA billings.

The accounting guidance for Regulated Operations provides that rate-regulated utilities account for and report assets and liabilities consistent with the economic effect of the way in which rates are established, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. The Companies follow the accounting and reporting requirements in accordance with the guidance for Regulated Operations. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the accompanying consolidated balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2015 and 2014, were as follows:

	2015	2014
Regulatory assets:		
Other assets:		
Unrecognized postemployment benefits	$ 2,526,541	$ 1,437,151
Pension benefits	27,889,880	32,475,646
Postretirement benefits	805,988	1,036,268
Total	31,222,409	34,949,065
Total regulatory assets	$ 31,222,409	$ 34,949,065
Regulatory liabilities:		
Current liabilities:		
Deferred credit—EPA emission allowance proceeds	$ 103,091	$ 226,507
Deferred revenue—advances for construction	15,416,432	11,374,950
Other deferred revenue	-	351,534
Deferred credit—advance collection of interest	2,003,269	2,112,403
Total	17,522,792	14,065,394
Other liabilities:		
Post retirement benefits	44,780,419	33,650,545
Decommissioning and demolition	11,219,680	14,102,619
Total	56,000,099	47,753,164
Total regulatory liabilities	$ 73,522,891	$ 61,818,558

Regulatory Assets—Regulatory assets consist primarily of pension benefit costs, postemployment benefit costs and income taxes billable to customers. The Company's current billing policy for pension and postemployment benefit costs is to bill its actual plan funding. Income taxes billable to customers are recovered over a long-term basis.

Regulatory Liabilities—The regulatory liabilities classified as current in the accompanying consolidated balance sheet as of December 31, 2015, consist primarily of interest expense collected from customers in advance of expense recognition and customer billings for construction in progress. These amounts will be credited to customer bills during 2016. Other regulatory liabilities consist primarily of postretirement benefit costs and decommissioning and demolition costs that have been billed to customers in excess of cumulative expense recognition.

In 2003, the DOE terminated the DOE Power Agreement with OVEC, entitling the Sponsoring Companies to 100% of OVEC's generating capacity under the terms of the ICPA. Under the terms of the DOE Power Agreement, OVEC was entitled to receive a "termination payment" from the DOE to recover unbilled costs upon termination of the agreement. The termination payment included unbilled postretirement benefit costs. In 2003, OVEC recorded a settlement payment of $97 million for the DOE obligation related to postretirement benefit costs. The regulatory liability for postretirement benefits recorded at December 31, 2015 and December 31, 2014, represents amounts collected in historical billings in excess of the Generally Accepted Accounting Principles (GAAP) net periodic benefit costs,

including the DOE termination payment and incremental unfunded plan obligations recognized in the balance sheets but not yet recognizable in GAAP net periodic benefit costs. The Companies' ratemaking policy will recover postretirement benefits in an amount equal to estimated benefit accrual cost plus amortization of unfunded liabilities, if any. As a result, related regulatory liabilities are being credited to customer bills on a long-term basis.

Cash and Cash Equivalents—Cash and cash equivalents primarily consist of cash and money market funds and their carrying value approximates fair value. For purposes of these statements, the Companies consider temporary cash investments to be cash equivalents since they are readily convertible into cash and have original maturities of less than three months.

Electric Plant—Property additions and replacements are charged to utility plant accounts. Depreciation expense is recorded at the time property additions and replacements are billed to customers or at the date the property is placed in service if the in-service date occurs subsequent to the customer billing. Customer billings for construction in progress are recorded as deferred revenue-advances for construction. These amounts are closed to revenue at the time the related property is placed in service. Depreciation expense and accumulated depreciation are recorded when financed property additions and replacements are recovered over a period of years through customer debt retirement billing. All depreciable property will be fully billed and depreciated prior to the expiration of the ICPA. Repairs of property are charged to maintenance expense.

Fuel in Storage, Emission Allowances, and Materials and Supplies—The Companies maintain coal, reagent, and oil inventories for use in the generation of electricity for regulatory compliance purposes due to the generation of electricity. These inventories are valued at average cost, less reserves for obsolescence. Materials and supplies consist primarily of replacement parts necessary to maintain the generating facilities and are valued at average cost.

Long-Term Investments—Long-term investments consist of marketable securities that are held for the purpose of funding postretirement benefits and decommissioning and demolition costs. These securities have been classified as trading securities in accordance with the provisions of the accounting guidance for Investments—Debt and Equity Securities. Trading securities reflected in Long-Term Investments are carried at fair value with the unrealized gain or loss, reported in Other Income (Expense). The cost of securities sold is based on the specific identification cost method. The fair value of most investment securities is determined by reference to currently available market prices. Where quoted market prices are not available, we use the market price of similar types of securities that are traded in the market to estimate fair value. See Fair Value Measurements in Note 10. Due to tax limitations, the amounts held in the postretirement benefits portfolio have not yet been transferred to the Voluntary Employee Beneficiary Association (VEBA) trusts (see Note 8). Long-term investments primarily consist of municipal bonds, money market mutual fund investments, and mutual funds. Net unrealized gains (losses) recognized during 2015 and 2014 on securities still held at the balance sheet date were $(3,066,260) and $5,093,925, respectively.

Fair Value Measurements of Assets and Liabilities—The accounting guidance for Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Where observable inputs are available, pricing may be completed using comparable securities, dealer values, and general market conditions to determine fair value. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and other observable inputs for the asset or liability.

Unamortized Debt Expense—Unamortized debt expense relates to loan origination costs incurred to secure financing. These costs are being amortized using the effective yield method over the life of the related loans.

Asset Retirement Obligations and Asset Retirement Costs—The Companies recognize the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. The initial recognition of this liability is accompanied by a corresponding increase in depreciable electric plant. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to electric plant) and for accretion of the liability due to the passage of time.

These asset retirement obligations are primarily related to obligations associated with future asbestos abatement at certain generating stations and certain plant closure costs.

Balance—January 1, 2014	$ 22,230,109
Accretion	1,466,117
Liabilities settled	(35,122)
Revision to cash flows	5,886,081
Balance—December 31, 2014	29,547,185
Accretion	1,719,945
Liabilities settled	(17,291)
Balance—December 31, 2015	$ 31,249,839

During 2014 the Companies completed an updated study to estimate the asset retirement costs described above. The revised estimated costs are recorded in the accompanying balance sheets.

The Companies do not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. The Companies have asset retirement obligations associated with transmission assets at certain generating stations. However, the retirement date for these assets cannot be determined; therefore, the fair value of the associated liability currently cannot be estimated and no amounts are recognized in the consolidated financial statements herein.

Income Taxes—The Companies use the liability method of accounting for income taxes. Under the liability method, the Companies provide deferred income taxes for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence. The Companies account for uncertain tax positions in accordance with the accounting guidance for Income Taxes.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—In May 2014, the FASB issued an accounting standards update which amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an

amount that an entity expects to be entitled to in exchange for goods or services. The amendment sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations, and recognizing the revenue upon satisfaction of performance obligations. This amendment is effective for the Companies beginning January 1, 2017. At this time, the Companies have not yet determined the impact of this amendment to the Companies' financial statements.

In August 2014, the FASB issued guidance that requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year from the date the financial statements are issued. The new guidance is effective for reporting periods beginning after December 15, 2016. The new guidance is effective for the Companies beginning January 1, 2017. The Companies are currently evaluating the impact that the new accounting standard will have on the financial statements.

In April 2015, the FASB issued ASC Update No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. Update No. 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Update No. 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those reporting periods. Early adoption is permitted for financial statements that have not been previously issued. The Companies have chosen not to adopt Update No. 2015-03 as of December 31, 2015 but will adopt the update as of December 31, 2016 as required by the FASB. The Companies do not expect this impact to be material to the financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which amends rules regarding the classification of current and noncurrent deferred tax liabilities and assets. Specifically, this amendment requires that, for a particular tax-paying component of an entity and within a particular tax jurisdiction, all deferred tax liabilities and assets shall be offset and presented as a single noncurrent amount. The Company retrospectively adopted the amended standard effective December 31, 2015. The adoption of this standard resulted in a prior period adjustment due to a change in accounting principle. The Consolidated Balance Sheet for the period ended December 31, 2014 has been restated to reflect this change in accounting principle and reclass of $4,237,801 of "Deferred tax assets" from current to noncurrent. This reclass results in a balance of $0 for deferred income taxes net. Adoption of ASU 2015-17 did not effect income (loss) from continuing operations, income (loss) from discontinued operations, or retained earnings in the presented periods.

Subsequent Events—In preparing the accompanying financial statements and disclosures, the Companies reviewed subsequent events through April 13, 2016, which is the date the consolidated financial statements were issued.

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2015 and 2014 included the sale of all generated power to them, the purchase of Arranged Power from them and other utility systems in order to meet the Department of Energy's power requirements, contract barging services, railcar services, and minor transactions for services and materials. The Companies have Power Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, Kentucky Utilities Company, Ohio Edison Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies; and Transmission Service Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, The Toledo Edison Company, Ohio Edison Company, Kentucky Utilities Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies.

At December 31, 2015 and 2014, balances due from the Sponsoring Companies are as follows:

	2015	2014
Accounts receivable	$ 19,061,773	$ 34,842,796

During 2015 and 2014, American Electric Power accounted for approximately 43% of operating revenues from Sponsoring Companies and Buckeye Power accounted for 18%. No other Sponsoring Company accounted for more than 10%.

American Electric Power Company, Inc. and subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2015. The following is a summary of the principal services received from the American Electric Power Service Corporation as authorized by the Companies' Boards of Directors:

	2015	2014
General services	$ 3,292,439	$ 3,009,076
Specific projects	2,258,624	2,732,041
Total	$ 5,551,063	$ 5,741,117

General services consist of regular recurring operation and maintenance services. Specific projects primarily represent nonrecurring plant construction projects and engineering studies, which are approved by the Companies' Boards of Directors. The services are provided in accordance with the service agreement dated December 15, 1956, between the Companies and the American Electric Power Service Corporation.

3. COAL SUPPLY

The Companies have coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2016 through 2021. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have approximately 100% of their 2016 coal requirements under contract. These contracts are based on rates in effect at the time of purchase.

4. ELECTRIC PLANT

Electric plant at December 31, 2015 and 2014, consists of the following:

	2015	2014
Steam production plant	$ 2,623,003,141	$ 2,615,435,925
Transmission plant	78,044,293	77,990,925
General plant	12,980,294	12,932,238
Intangible	26,564	26,564
	2,714,054,292	2,706,385,652
Less accumulated depreciation	1,292,775,251	1,245,490,373
	1,421,279,041	1,460,895,279
Construction in progress	29,848,655	15,329,947
Total electric plant	$ 1,451,127,696	$ 1,476,225,226

All property additions and replacements are fully depreciated on the date the property is placed in service, unless the addition or replacement relates to a financed project. As the Companies' policy is to bill in accordance with the principal billings of the debt agreements, all financed projects are being depreciated in amounts equal to the principal payments on outstanding debt.

5. BORROWING ARRANGEMENTS AND NOTES

OVEC has an unsecured bank revolving line of credit agreement with a borrowing limit of $200 million as of December 31, 2015 and December 31, 2014. The $200 million line of credit has an expiration date of November 14, 2019. At December 31, 2015 and 2014, OVEC had borrowed $45 million and $20 million, respectively, under this line of credit. Interest expense related to line of credit borrowings was $414,105 in 2015 and $212,497 in 2014. During 2015 and 2014, OVEC incurred annual commitment fees of $505,526 and $782,455, respectively, based on the borrowing limits of the line of credit.

6. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2015 and 2014:

	Interest Rate	2015	2014
Senior 2006 Notes:			
2006A due February 15, 2026	5.80 %	$ 245,132,192	$ 261,689,554
2006B due June 15, 2040	6.40	58,583,884	59,530,005
Senior 2007 Notes:			
2007A-A due February 15, 2026	5.90	110,522,644	118,269,553
2007A-B due February 15, 2026	5.90	28,055,674	30,022,192
2007A-C due February 15, 2026	5.90	27,834,043	29,785,026
2007B-A due June 15, 2040	6.50	29,262,260	29,740,287
2007B-B due June 15, 2040	6.50	7,369,412	7,489,798
2007B-C due June 15, 2040	6.50	7,428,091	7,549,435
Senior 2008 Notes:			
2008A due February 15, 2026	5.92	34,492,978	36,907,905
2008B due February 15, 2026	6.71	69,698,688	74,433,137
2008C due February 15, 2026	6.71	71,449,681	76,117,755
2008D due June 15, 2040	6.91	42,439,930	43,081,900
2008E due June 15, 2040	6.91	43,177,347	43,830,471
Series 2009 Bonds:			
2009A due February 1, 2026	0.12	25,000,000	25,000,000
2009B due February 1, 2026	0.12	25,000,000	25,000,000
2009C due February 1, 2026	0.12	25,000,000	25,000,000
2009D due February 1, 2026	0.12	25,000,000	25,000,000
2009E due October 1, 2019	5.63	100,000,000	100,000,000
Series 2010 Bonds:			
2010A due February 1, 2040	1.58	50,000,000	50,000,000
2010B due February 1, 2040	1.58	50,000,000	50,000,000
Series 2012 Bonds:			
2012A due June 1, 2032	5.00	76,800,000	76,800,000
2012A due June 1, 2039	5.00	123,200,000	123,200,000
2012B due June 1, 2040	0.24	50,000,000	50,000,000
2012C due June 1, 2040	0.12	50,000,000	50,000,000
Series 2013 Notes:			
2013A due February 15, 2018	1.83	100,000,000	100,000,000
Total debt		1,475,446,824	1,518,447,018
Total premiums and discounts (net)		(528,264)	(550,863)
Total debt net of premiums and discounts		1,474,918,560	1,517,896,155
Current portion of long-term debt		295,659,471	243,000,194
Total long-term debt		$ 1,179,259,089	$ 1,274,895,961

All of the OVEC amortizing unsecured senior notes have maturities scheduled for February 15, 2026, or June 15, 2040, as noted in the previous table.

During 2009, OVEC issued a series of four $25 million variable rate non-amortizing tax exempt pollution control bonds (2009A, B, C, and D Bonds) and $100 million fixed rate non-amortizing tax exempt pollution control bonds (2009E Bonds). The variable rates listed above reflect the interest rate in effect at December 31, 2015.

The 2009 Series A, B, C, and D Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring August 12, 2016, and August 21, 2016, issued for the benefit of the owners of the bonds. The interest rate on the bonds are adjusted weekly, and bondholders may require repurchase of the bonds at the time of such interest rate adjustments. OVEC has entered into an agreement to provide for the remarketing of the bonds if such repurchase is required. The 2009A, B, C, and D Series Bonds are current, as they are redeemable at the election of the holders at any time.

In December 2010, OVEC established a borrowing facility under which OVEC borrowed, in 2011, $100 million remarketable variable rate bonds due February 1, 2040. In June 2011, the $100 million variable rate bonds were issued as two $50 million non-amortizing pollution control revenue bonds (Series 2010A and 2010B) with initial interest periods of three years and five years, respectively. The Series 2010A bond was remarketed in June 2014 for another three-year interest period that extends to June 29, 2017. The Series 2010B bond has an initial five-year interest period that extends through June 29, 2016. As such, the Series 2010B bond is classified as current at December 31, 2015.

During 2012, OVEC issued $200 million fixed rate tax-exempt midwestern disaster relief revenue bonds (2012A Bonds) and two series of $50 million variable rate tax-exempt midwestern disaster relief revenue bonds (2012B and 2012C Bonds). The 2012A, 2012B, and 2012C Bonds will begin amortizing June 1, 2027, to their respective maturity dates. The variable rates listed above reflect the interest rate in effect at December 31, 2015.

The 2012B and 2012C Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring June 28, 2017, and June 28, 2018, issued for the benefit of the owners of the bonds. The interest rates on the bonds are adjusted weekly, and bondholders may require repurchase of the bonds at the time of such interest rate adjustments. OVEC has entered into agreements to provide for the remarketing of the bonds if such repurchase is required. The 2012B and 2012C Bonds are current, as they are redeemable at the election of the holders at any time.

In 2013, OVEC issued $100 million 2013A variable rate non-amortizing unsecured senior notes (2013A Notes) to refinance and retire a 2009 series of notes. The 2013A Notes mature on February 15, 2018.

The annual maturities of long-term debt as of December 31, 2015, are as follows:

2016	$ 295,659,471
2017	98,483,907
2018	151,483,806
2019	154,670,115
2020	58,054,470
2021–2041	717,095,055
Total	$ 1,475,446,824

Note that the 2016 current maturities of long-term debt include $250 million of remarketable variable-rate bonds. The Companies expect cash maturities of only $45,659,471 to the extent the remarketing agents are successful in their ongoing efforts to remarket the bonds through the contractual maturity dates in February 2026 and June 2040.

7. INCOME TAXES

OVEC and IKEC file a consolidated federal income tax return. The effective tax rate varied from the statutory federal income tax rate due to differences between the book and tax treatment of various transactions as follows:

	2015	2014
Income tax expense at 35% statutory rate	$ 372,943	$ 309,862
State income taxes—net of federal benefit	56,692	203,769
Temporary differences flowed through to customer bills	(149,935)	(200,141)
Permanent differences and other	7,272	18,344
Income tax provision	$ 286,972	$ 331,834

Components of the income tax provision were as follows:

	2015	2014
Current income tax (benefit)/expense federal	$ 230,280	$ -
Current income tax (benefit)/expense state	56,692	313,490
Deferred income tax expense/(benefit) federal	-	18,344
Total income tax provision	$ 286,972	$ 331,834

OVEC and IKEC record deferred tax assets and liabilities based on differences between book and tax basis of assets and liabilities measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are adjusted for changes in tax rates.

To the extent that the Companies have not reflected credits in customer billings for deferred tax assets, they have recorded a regulatory liability representing income taxes refundable to customers under the applicable agreements among the parties. The regulatory liability was $0 at December 31, 2015 and 2014.

Deferred income tax assets (liabilities) at December 31, 2015 and 2014, consisted of the following:

	2015	2014
Deferred tax assets:		
Deferred revenue—advances for construction	$ 5,397,379	$ 4,108,103
AMT credit carryforwards	12,030,465	12,030,465
Federal net operating loss carryforwards	88,071,534	68,603,277
Postretirement benefit obligation	11,285,916	15,721,185
Pension liability	8,457,343	9,835,656
Postemployment benefit obligation	884,556	503,473
Asset retirement obligations	10,940,744	10,351,175
Miscellaneous accruals	2,701,010	2,705,995
Regulatory liability—other	171,113	30,927
Regulatory liability—asset retirement costs	3,928,073	4,951,051
Regulatory liability—postretirement benefits	12,515,434	10,587,096
Regulatory liability—income taxes refundable to customers	15,393,198	15,575,898
Total deferred tax assets	171,776,765	155,004,301
Deferred tax liabilities:		
Prepaid expenses	(626,595)	(660,931)
Electric plant	(112,357,167)	(92,761,349)
Unrealized gain/loss on marketable securities	(4,220,517)	(5,281,413)
Regulatory asset—pension benefits	(9,764,404)	(11,377,094)
Regulatory asset—unrecognized postemployment benefits	(884,556)	(503,473)
Total deferred tax liabilities	(127,853,239)	(110,584,260)
Valuation allowance	(43,923,526)	(44,420,041)
Deferred income tax assets	$ -	$ -

As discussed in Note 1, OVEC indefinitely changed its billing practices in 2014 to effectively suspend billings for its authorized equity return. As a result, the Companies' long-term expectation is that taxable income will be breakeven for the foreseeable future. Accordingly, the Companies have recorded a valuation allowance as of December 31, 2015.

The accounting guidance for Income Taxes addresses the determination of whether the tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Companies have not identified any uncertain tax positions as of December 31, 2015 and 2014, and accordingly, no liabilities for uncertain tax positions have been recognized.

The Companies file income tax returns with the Internal Revenue Service and the states of Ohio, Indiana, and the Commonwealth of Kentucky. The Companies are no longer subject to federal tax examinations for tax years 2011 and earlier. The Companies are no longer subject to State of Indiana tax examinations for tax years 2011 and earlier. The Companies are no longer subject to Ohio and the Commonwealth of Kentucky examinations for tax years 2010 and earlier. The Companies have $251,632,954 of Federal Net Operating Loss carryovers that begin to expire in 2031.

8. PENSION PLAN, OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Companies have a noncontributory qualified defined benefit pension plan (the Pension Plan) covering substantially all of their employees. The benefits are based on years of service and each employee's highest consecutive 36-month compensation period. Employees are vested in the Pension Plan after five years of service with the Companies.

Funding for the Pension Plan is based on actuarially determined contributions, the maximum of which is generally the amount deductible for income tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

In addition to the Pension Plan, the Companies provide certain health care and life insurance benefits (Other Postretirement Benefits) for retired employees. Substantially all of the Companies' employees become eligible for these benefits if they reach retirement age while working for the Companies. These and similar benefits for active employees are provided through employer funding and insurance policies. In December 2004, the Companies established Voluntary Employee Beneficiary Association (VEBA) trusts. In January 2011, the Companies established an IRC Section 401(h) account under the Pension Plan.

The full cost of the pension benefits and other postretirement benefits has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 55% and 45% split between OVEC and IKEC, respectively, as of December 31, 2015, and approximately a 56% and 44% split between OVEC and IKEC, respectively, as of December 31, 2014.

The Pension Plan's assets as of December 31, 2015, consist of investments in equity and debt securities. All of the trust funds' investments for the pension and postemployment benefit plans are diversified and managed in compliance with all laws and regulations. Management regularly reviews the actual asset allocation and periodically rebalances the investments to targeted allocation when appropriate. The investments are reported at fair value under the Fair Value Measurements and Disclosures accounting guidance.

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies, and target asset allocations by plan. Benefit plan assets are reviewed on a formal basis each quarter by the OVEC/IKEC Qualified Plan Trust Committee.

The investment philosophies for the benefit plans support the allocation of assets to minimize risks and optimize net returns.

Investment strategies include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs, and tax liabilities to maximize investment earnings.
- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style neutral to limit volatility compared to applicable benchmarks.

The target asset allocation for each portfolio is as follows:

Pension Plan Assets	Target
Domestic equity	15 %
International and global equity	15 %
Fixed income	70 %

VEBA Plan Assets	Target
Domestic equity	20 %
International and global equity	20 %
Fixed income	57 %
Cash	3 %

Each benefit plan contains various investment limitations. These limitations are described in the investment policy statement and detailed in customized investment guidelines. These investment guidelines require appropriate portfolio diversification and define security concentration limits. Each investment manager's portfolio is compared to an appropriate diversified benchmark index.

Equity investment limitations:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of each investment manager's equity portfolio.
- Individual securities must be less than 15% of each manager's equity portfolio.
- No investment in excess of 5% of an outstanding class of any company.
- No securities may be bought or sold on margin or other use of leverage.

Fixed Income Limitations—As of December 31, 2015, the Pension Plan fixed income allocation consists of managed accounts composed of U.S. Government, corporate, and municipal obligations. The VEBA benefit plans' fixed income allocation is composed of a variety of fixed income securities and mutual funds. Investment limitations for these fixed income funds are defined by manager prospectus.

Cash Limitations—Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments, including money market mutual funds, certificates of deposit, treasury bills, and other types of investment-grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity.

Projected Pension Plan and Other Postretirement Benefits obligations and funded status as of December 31, 2015 and 2014, are as follows:

	Pension Plan		Other Postretirement Benefits	
	2015	2014	2015	2014
Change in projected benefit obligation:				
Projected benefit obligation—beginning of year	$222,823,889	$179,046,962	$171,774,437	$162,744,143
Service cost	6,989,504	5,652,257	5,327,376	5,887,965
Interest cost	9,407,555	9,156,641	7,254,699	8,358,022
Plan participants' contributions	-	-	1,205,258	1,108,208
Benefits paid	(7,946,163)	(8,355,638)	(4,725,510)	(4,938,909)
Net actuarial (gain)/loss	(20,959,580)	40,681,544	(21,661,260)	21,209,006
Medicare subsidy	-	-	-	150,041
Plan amendments	-	(3,274,589)	-	(22,744,039)
Expenses paid from assets	(84,802)	(83,288)	-	-
Projected benefit obligation—end of year	210,230,403	222,823,889	159,175,000	171,774,437
Change in fair value of plan assets:				
Fair value of plan assets—beginning of year	190,348,243	170,504,669	126,898,685	120,570,742
Actual return on plan assets	(5,110,088)	21,682,500	(1,050,162)	5,275,212
Expenses paid from assets	(84,802)	(83,288)	-	-
Employer contributions	5,133,333	6,600,000	4,610,984	4,733,391
Plan participants' contributions	-	-	1,205,258	1,108,208
Medicare subsidy	-	-	-	150,041
Benefits paid	(7,946,163)	(8,355,638)	(4,725,510)	(4,938,909)
Fair value of plan assets—end of year	182,340,523	190,348,243	126,939,255	126,898,685
(Underfunded) status—end of year	$ (27,889,880)	$ (32,475,646)	$ (32,235,745)	$ (44,875,752)

See Note 1 for information regarding regulatory assets related to the Pension Plan and Other Postretirement Benefits plan. During 2014, the Companies amended their Other Postretirement Benefits plan to require additional employee cost sharing for certain groups of employees resulting in a $22,744,039 reduction in PBO for 2014, as detailed in the above table.

On December 8, 2003, the President of the United States of America signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit to retirees as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is actuarially equivalent to the benefit provided by Medicare. The Companies believe that the coverage for prescription drugs is at least actuarially equivalent to the benefits provided by Medicare for most current retirees because the benefits for that group substantially exceed the benefits provided by Medicare, thereby allowing the Companies to qualify for the subsidy. The Companies' employer contributions for Other Postretirement Benefits in the previous table are net of subsidies received of $0 and $150,041 for 2015 and 2014, respectively. The Companies have accounted for the subsidy as a reduction of the benefit obligation detailed in the previous table. In June 2013, the Companies converted the prescription drug program for retirees over the age of 65 to a group-based company sponsored Medicare Part D program, or Employer Group Waiver Plan (EGWP). Beginning in June 2013, the Companies use the Part D subsidies delivered through the EGWP each year to reduce net company retiree medical costs. Accordingly, the Companies no longer receive subsidies directly from the Medicare program and no subsidies have been included in the benefit obligation.

The accumulated benefit obligation for the Pension Plan was $186,842,491 and $195,776,660 at December 31, 2015 and 2014, respectively.

Components of Net Periodic Benefit Cost—The Companies record the expected cost of Other Postretirement Benefits over the service period during which such benefits are earned.

Pension expense is recognized as amounts are contributed to the Pension Plan and billed to customers. The accumulated difference between recorded pension expense and the yearly net periodic pension expense, as calculated under the accounting guidance for Compensation—Retirement Benefits, is billable as a cost of operations under the ICPA when contributed to the pension fund. This accumulated difference has been recorded as a regulatory asset in the accompanying consolidated balance sheets.

	Pension Plan		Other Postretirement Benefits	
	2015	2014	2015	2014
Service cost	$ 6,989,504	$ 5,652,257	$ 5,327,376	$ 5,887,965
Interest cost	9,407,555	9,156,641	7,254,699	8,358,022
Expected return on plan assets	(11,363,279)	(10,233,418)	(6,857,348)	(6,482,601)
Amortization of prior service cost	(416,565)	(180,575)	(1,763,901)	24,041
Recognized actuarial loss	882,076	-	(12,653)	(234,171)
Total benefit cost	$ 5,499,291	$ 4,394,905	$ 3,948,173	$ 7,553,256
Pension and other postretirement benefits expense recognized in the consolidated statements of income and retained earnings and billed to Sponsoring Companies under the ICPA	$ 5,133,333	$ 6,600,000	$ -	$ -

The following table presents the classification of Pension Plan assets within the fair value hierarchy at December 31, 2015 and 2014:

	Fair Value Measurements at Reporting Date Using		
2015	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic equity mutual funds	$ 14,335,609	$ -	$ -
Common stock—domestic	7,055,019	-	-
International and global equity mutual funds	22,176,739	-	-
International and global private investment fund (equities)	-	11,242,644	-
Cash equivalents	4,504,117	-	-
U.S. Treasury securities	-	6,685,068	-
Corporate debt securities	-	107,733,562	-
Municipal debt securities	-	8,607,765	-
Total fair value	$ 48,071,484	$ 134,269,039	$ -
2014			
Domestic equity mutual funds	$ 14,850,107	$ -	$ -
Common stock—domestic	7,600,351	-	-
International and global equity mutual funds	20,792,451	-	-
International and global private investment fund (equities)	-	11,078,646	-
Cash equivalents	4,451,721	-	-
U.S. Treasury securities	-	6,264,602	-
Corporate debt securities	-	116,102,015	-
Municipal debt securities	-	9,208,350	-
Total fair value	$ 47,694,630	$ 142,653,613	$ -

The following table presents the classification of VEBA and 401(h) account assets within the fair value hierarchy at December 31, 2015 and 2014:

	Fair Value Measurements at Reporting Data Using		
2015	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic equity mutual funds	$ 41,553,682	$ -	$ -
International and global equity mutual funds	20,442,372	-	-
International and global private investment fund	-	6,651,177	-
Fixed income mutual funds	39,627,128	-	-
Fixed income securities	-	18,407,810	-
Cash equivalents	257,086	-	-
Total fair value	$ 101,880,268	$ 25,058,987	$ -
2014			
Domestic equity mutual funds	$ 41,122,698	$ -	$ -
International and global equity mutual funds	20,812,612	-	-
International and global private investment fund	-	6,731,149	-
Fixed income mutual funds	38,452,331	-	-
Fixed income securities	-	17,426,355	-
Cash equivalents	2,353,540	-	-
Total fair value	$ 102,741,181	$ 24,157,504	$ -

The private investment fund detailed in the above tables is redeemable at the election of the holder upon no more than 30 days' notice and, as such, this fund has been classified as a Level 2 fair value measure.

Pension Plan and Other Postretirement Benefit Assumptions—Actuarial assumptions used to determine benefit obligations at December 31, 2015 and 2014, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2015	2014	2015		2014	
			Medical	Life	Medical	Life
Discount rate	4.82 %	4.28 %	4.80 %	4.80 %	4.33 %	4.33 %
Rate of compensation increase	3.00	3.00	N/A	3.00	N/A	3.00

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2015 and 2014, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2015	2014	2015		2014	
			Medical	Life	Medical	Life
Discount rate	4.28 %	5.15 %	4.33 %	4.33 %	5.20 %	5.20 %
Expected long-term return on plan assets	6.00	6.00	5.29	6.00	5.29	6.00
Rate of compensation increase	3.00	3.00	N/A	3.00	N/A	3.00

In selecting the expected long-term rate of return on assets, the Companies considered the average rate of earnings expected on the funds invested to provide for plan benefits. This included considering the Pension Plan and VEBA trusts' asset allocation, and the expected returns likely to be earned over the life of the Pension Plan and the VEBAs.

Assumed health care cost trend rates at December 31, 2015 and 2014, were as follows:

	2015	2014
Health care trend rate assumed for next year—participants under 65	7.00 %	7.00 %
Health care trend rate assumed for next year—participants over 65	7.00	7.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)—participants under 65	5.00	5.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)—participants over 65	5.00	5.00
Year that the rate reaches the ultimate trend rate	2022	2019

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost	$ 2,820,342	$ (2,139,607)
Effect on postretirement benefit obligation	27,069,926	(21,282,230)

Pension Plan and Other Postretirement Benefit Assets—The asset allocation for the Pension Plan and VEBA trusts at December 31, 2015 and 2014, by asset category was as follows:

	Pension Plan		VEBA Trusts	
	2015	2014	2015	2014
Asset category:				
Equity securities	30 %	29 %	38 %	39 %
Debt securities	70	71	62	61

Pension Plan and Other Postretirement Benefit Contributions—The Companies expect to contribute $6,166,667 to their Pension Plan and $5,940,840 to their Other Postretirement Benefits plan in 2016.

Estimated Future Benefit Payments—The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending December 31	Pension Plan	Other Postretirement Benefits
2016	$ 7,598,597	$ 6,240,840
2017	7,790,709	6,647,737
2018	8,594,884	7,105,006
2019	9,555,110	7,612,676
2020	10,391,642	8,148,167
Five years thereafter	64,626,595	49,017,152

Postemployment Benefits—The Companies follow the accounting guidance in FASB ASC 712, Compensation—Non-Retirement Postemployment Benefits, and accrue the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Such benefits include, but are not limited to, salary continuations, supplemental unemployment, severance, disability (including workers' compensation), job training, counseling, and continuation of benefits, such as health care and life insurance coverage. The cost of such benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 36% and 64% split between OVEC and IKEC, respectively, as of December 31, 2015, and approximately a 27% and 73% split between OVEC and IKEC, respectively, as of December 31, 2014. The liability is offset with a corresponding regulatory asset and represents unrecognized postemployment benefits billable in the future to customers. The accrued cost of such benefits was $2,526,541 and $1,437,151 at December 31, 2015 and 2014, respectively.

Defined Contribution Plan—The Companies have a trustee-defined contribution supplemental pension and savings plan that includes 401(k) features and is available to employees who have met eligibility requirements. The Companies' contributions to the savings plan equal 100% of the first 1% and 50% of the next 5% of employee-participants' contributions. Benefits to participating employees are based solely upon amounts contributed to the participants' accounts and investment earnings. By its nature, the plan is fully funded at all times. The employer contributions for 2015 and 2014 were $2,047,129 and $1,939,829, respectively.

9. ENVIRONMENTAL MATTERS

Title IV of the 1990 Clean Air Act Amendments (CAAAs) required the Companies to reduce sulfur dioxide (SO_2) emissions in two phases: Phase I in 1995 and Phase II in 2000. The Companies selected a fuel switching strategy to comply with the emission reduction requirements. The Companies also purchased additional SO_2 allowances. Historically, the cost of these purchased allowances has been inventoried and included on an average cost basis in the cost of fuel consumed when used.

Title IV of the 1990 CAAAs also required the Companies to comply with a nitrogen oxides (NO_x) emission rate limit of 0.84 lb/mmBtu in 2000. The Companies installed overfire air systems on all eleven units at the plants to comply with this limit. The total capital cost of the eleven overfire air systems was approximately $8.2 million.

During 2002 and 2003, Ohio and Indiana finalized respective NO_x State Implementation Plan (SIP) Call regulations that required further significant NO_x emission reductions for coal-burning power plants during the ozone control period. The Companies installed selective catalytic reduction (SCR) systems on ten of their eleven units to comply with these rules. The total capital cost of the ten SCR systems was approximately $355 million.

On March 10, 2005, the United States Environmental Protection Agency (the U.S. EPA) issued the Clean Air Interstate Rule (CAIR) that required further significant reductions of SO_2 and NO_x emissions from coal-burning power plants. On March 15, 2005, the U.S. EPA also issued the Clean Air Mercury Rule (CAMR) that required significant mercury emission reductions for coal-burning power plants. These emission reductions were required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO_2; and 2010 and 2018 for mercury. Ohio and Indiana subsequently finalized their respective versions of CAIR and CAMR. In response, the Companies determined that it would be necessary to install flue gas desulfurization (FGD) systems at both plants to comply with these new rules. Following completion of the necessary engineering and permitting, construction was started on the new FGD systems.

In February 2008, the D.C. Circuit Court of Appeals issued a decision which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the maximum achievable control technologies (MACT) provision of Section 112(d) of the Clean Air Act. A group of electric utilities and the U.S. EPA requested a rehearing of the decision, which was denied by the Court. Following those denials, both the group of electric utilities and the U.S. EPA requested that the U.S. Supreme Court hear the case. However, in February 2009, the U.S. EPA withdrew its request and the group of utilities' request was denied. These actions left the original court decision in place, which vacated the federal CAMR and remanded the rule to the U.S. EPA with a determination that the rule be rewritten under the MACT provision of Section 112(d) of the Clean Air Act. The U.S. EPA has subsequently written a replacement rule for the regulation of coal-fired utility emissions of mercury and other hazardous air pollutants. This replacement rule was published in the Federal Register on February 16, 2012, and it is referred to as the Mercury and Air Toxics Standards (or MATS) rule. The rule became final on April 16, 2012, and OVEC-IKEC had to demonstrate compliance with MATS emission limits on April 16, 2015. In June of 2015, the U.S. Supreme Court issued a ruling on outstanding MATS litigation that the U.S. EPA had failed to take costs into consideration when they made a determination that it was appropriate and necessary to regulate mercury emissions from steam electric utilities; however, the rule remains in effect and it was remanded back to the D.C. Circuit Court for further action. That Court sent the rule back to the U.S. EPA to remedy the flaws identified in the Supreme Court decision. A final determination on whether the U.S. EPA has adequately considered costs as part of the rulemaking process is still pending. Regardless of that outcome, MATS is now in effect, and the controls OVEC-IKEC has installed have proven to be adequate to meet the emissions requirements outlined in the MATS rule.

In July 2008, the D.C. Circuit Court of Appeals issued a decision that vacated the federal CAIR and remanded the rule to the U.S. EPA. In September 2008, the U.S. EPA, a group of electric utilities and other parties filed petitions for rehearing. In December 2008, the D.C. Circuit Court of Appeals granted the U.S. EPA's petition and remanded the rule to the U.S. EPA without vacatur, allowing the federal CAIR to remain in effect while a new rule was developed and promulgated. Following the remand, the U.S. EPA promulgated a replacement rule to CAIR. This new rule is called the Cross-State Air Pollution Rule (CSAPR) and it was issued on July 6, 2011, and it was scheduled to go into effect on January 1, 2012. However, on December 30, 2011, the D.C. Circuit Court issued an indefinite *stay* of the CSAPR rule until the Court considered the numerous state, trade association, and industry petitions filed to have the rule either stayed or reviewed. The Court also instructed the U.S. EPA to keep CAIR in place while they considered the numerous petitions. On August 21, 2012, in a 2-1 decision, the D.C. Circuit Court vacated the CSAPR rule and ordered the U.S. EPA to keep CAIR in effect until a CSAPR replacement

rule is promulgated. The U.S. EPA and other parties filed a petition seeking rehearing before the entire D.C. Circuit Court on October 5, 2012. That petition was denied by the D.C. Circuit Court on January 24, 2013; however, the U.S. Solicitor General petitioned the U.S. Supreme Court to review the D.C. Circuit Court's decision on CSAPR in March of 2013, and the Supreme Court granted that petition in June of 2013. Oral arguments were presented before the Supreme Court in December of 2013. On April 29, 2014, the U.S. Supreme Court issued a decision reversing the D.C. Circuit Court's 2013 CSAPR vacatur and remanded the CSAPR rule back to that Court for further deliberation. On October 23, 2014, the D.C. Circuit Court issued a motion lifting the stay on the CSAPR rules and then U.S. EPA issued a ministerial rule on November 21, 2014 that allowed CSAPR to become effective on January 1, 2015. On July 28, 2015, the U.S. Supreme Court remanded portions of the CSAPR rule back to the D.C. Circuit Court for additional review and subsequent action by the U.S. EPA. The remaining issues included overstated ozone season budgets for nine states, including Ohio. As a result, on November 16, 2015, the U.S. EPA proposed a CSAPR update rule that incorporated the 2008 ozone National Ambient Air Quality Standards (NAAQS) to update these states' allocation budgets to address interstate transport, as well as addressing some of the other remaining issues from the original CSAPR. OVEC-IKEC is currently evaluating the proposed rule and compliance options.

With the Kyger Creek FGD and the Clifty Creek FGD systems now fully operational, and with the 10 SCR systems operational at both plants, management did not need to purchase additional SO_2 allowances in 2015; however, there was a need to purchase a limited quantity of NO_x Ozone Season allowances in 2015. Depending on a variety of operational and economic factors, management may also elect to strategically purchase CSAPR NO_x allowances in 2016 and beyond.

Now that all FGD systems are fully operational, OVEC-IKEC continues to expect to have adequate SO_2 allowances available without having to rely on market purchases to comply with the CSAPR rules in their current form; however, the purchase of additional NO_x allowances, the installation of additional NO_x controls, or changes in unit dispatch criteria may be necessary for Clifty Creek Unit 6 as well as other OVEC-IKEC units under the current CSAPR regulations as well as any future NO_x regulations. For example, the U.S. EPA has proposed a CSAPR Update rule that could go into effect during the 2017 Ozone Season, and OVEC-IKEC is currently evaluating the implications of that rule from a market, control and unit dispatch standpoint should it go into effect in its current form.

On November 6, 2009, the Companies received a Section 114 Information Request from the U.S. EPA. The stated purpose of the information request was for the U.S. EPA to obtain the necessary information to determine if the Kyger Creek and Clifty Creek plants have been operating in compliance with the Federal Clean Air Act. Attorneys for the Companies subsequently contacted the U.S. EPA and established a schedule for submission of the requested information. Based on this schedule, all requested information was submitted to the U.S. EPA by March 8, 2010.

In late December 2011, OVEC-IKEC received a letter dated December 21, 2011, from the U.S. EPA requesting follow-up information. Specifically, the U.S. EPA asked for an update on the status of the FGD scrubber projects at both plants as well as additional information on any other new emissions controls that either have been installed or are planned for installation since the last submittal we filed on March 8, 2012. This information was prepared and filed with the U.S. EPA in late January 2012. In the fall of 2012, following an on-site visit, the U.S. EPA made an informal request that OVEC-IKEC provide the agency with a monthly email progress report on the Clifty Creek FGD project until both FGD systems are operational in 2013. As of this date, the only communication OVEC-IKEC has had with the U.S. EPA related to either the original Section 114 data submittal or the supplemental data filing made in 2011 are the monthly email progress reports. Those monthly email progress reports were discontinued once the second of the two FGD scrubbers at Clifty Creek was placed into service in May of 2013.

Coal Combustion Residual Rule

In 2010, the U.S. EPA published a proposed rule to regulate the disposal and beneficial re-use of coal combustion residuals (CCR), including fly ash and bottom ash generated at coal-fired electric generating units and also FGD gypsum generated at some coal-fired plants. The proposed rule contained two alternative proposals. One proposal would impose federal hazardous waste disposal and management standards on these materials and another would allow states to retain primary authority to regulate the beneficial re-use and disposal of these materials under state solid waste management standards, including minimum federal standards for disposal and management. Both proposals would impose stringent requirements for the construction of new coal ash landfills and existing unlined surface impoundments.

Various environmental organizations and industry groups filed a petition seeking to establish deadlines for a final rule. To comply with a court-ordered deadline, the U.S. EPA issued a prepublication copy of its final rule in December of 2014. The rule was published in the Federal Register in April of 2015 and became effective in October of 2015.

In the final rule, the U.S. EPA elected to regulate CCR as a non-hazardous solid waste and issued new minimum federal solid waste management standards. The rule applies to new and existing active CCR landfills and CCR surface impoundments at operating electric utility or independent power production facilities. The rule imposes new and additional construction and operating obligations, including location restrictions, liner criteria, structural integrity requirements for impoundments, operating criteria, and additional groundwater monitoring requirements. The rule does not apply to inactive CCR landfills and inactive surface impoundments at retired generating stations or the beneficial use of CCR. The rule is self-implementing so state action is not required. Because of this self-implementing feature, the rule contains extensive record keeping, notice, and internet posting requirements. OVEC-IKEC has been systematically implementing applicable provisions of the CCR rule; and based on initial engineering analysis and groundwater monitoring data results, we expect to be able to demonstrate compliance with the rules at both the landfills and surface impoundments at both plant locations.

In February 2014, the U.S. EPA completed a risk evaluation of the beneficial uses of coal fly ash in concrete and FGD gypsum in wallboard and concluded that the U.S. EPA supports these beneficial uses. Currently, approximately 5% of the coal ash and other residual products from our generating facilities are re-used in the production of cement and wallboard, as structural fill or soil amendments, as abrasives or road treatment materials, and for other beneficial uses.

NAAQS Compliance for SO_2

On June 22, 2010, the U.S. EPA revised the Clean Air Act by developing and publishing a new one-hour SO_2 NAAQS of 75 parts per billion, which replaced the previously existing 24-hour and annual standards, and became effective on August 23, 2010. States with areas failing to meet the new standard are required to develop State Implementation Plans (SIPs) to expeditiously attain and maintain the standard.

On August 15, 2013, the U.S. EPA published its initial non-attainment area designations for the new one-hour SO_2, which did not include the areas around Kyger Creek or Clifty Creek. However, the amended rule does establish that at a minimum sources that emit 2,000 tons SO_2 or more per year be characterized by their respective states using either modeling of actual source emissions or through appropriately sited ambient air quality monitors.

In addition, U.S. EPA entered into a settle agreement with Sierra Club/NRDC in the U.S. District Court for the Northern District of California requiring U.S. EPA to take certain actions, including completing area designation by July 2, 2016 for areas with either monitored violations based on 2013-15 air quality monitoring or sources not announced for retirement that emitted more than 16,000 tons SO_2 or more than 2,600 tons with a 0.45 SO_2/mmBtu emission rate in 2012.

Both Kyger Creek and Clifty Creek either directly or indirectly triggered one of these criteria and have been evaluated by our respective state regulatory agencies through modeling. The modeling results show both facilities are capable of meeting the new one-hour SO_2 limit using their current scrubber systems without any additional investment or modifications.

Steam Electric Effluent Limitations Guidelines (ELGs)

On September 30, 2015, the U.S. EPA signed a new final rule governing Effluent Limitations Guidelines (ELGs) for the wastewater discharges from steam electric power generating plants. The rule, which was formally published in the Federal Register on November 3, 2015, will affect future wastewater discharges from both the Kyger Creek and Clifty Creek Stations.

The rule will require OVEC-IKEC to modify the way it handles a number of wastewater processes at both power plants. Specifically, the new ELG standards will affect the following wastewater processes in three ways:

1. Kyger Creek will need to convert to dry fly ash handling by no later than December 31, 2023. The Clifty Creek Station already has a dry fly ash handling system in place, so this provision of the rule will not impact Clifty Creek's operations.

2. The new ELGs will prohibit the discharge of bottom ash sluice water from boiler slag/bottom ash wastewater treatment systems. For Clifty Creek and Kyger Creek, this will most likely mean conversion of each plant's boiler slag ponds to either a closed-loop sluicing system or a dry handling system for boiler slag. OVEC-IKEC plans to conduct a Phase I engineering study in 2016 to determine options and costs associated with retrofitting the plants' boiler slag treatment systems. These conversions will also need to be completed by no later than December 31, 2023.

3. The new ELG rules also establish new internal limitations for the FGD system wastewater discharges. Specifically, there will be new internal limits for arsenic, mercury, selenium, and nitrate/nitrite nitrogen from the FGD chlorides purge stream wastewater treatment plant at each plant. For both Clifty Creek and Kyger Creek Stations, we are expecting to be able to meet the mercury and arsenic limitations with the current wastewater treatment technology; however, we are expecting to add some form of biological treatment system on the back end of each Station's existing FGD wastewater treatment plant to meet the new nitrate/nitrite nitrogen and selenium limitations.

U.S. EPA is requiring compliance with these new limits "as soon as possible" after November 1, 2018, but no later than December 31, 2023. The new limits will be implemented through each Station's wastewater discharge permit which is typically renewed on a five-year basis. The final compliance dates will be facility-specific and negotiated with our state permit agencies based on the time needed to plan, secure funding, design, procure and install necessary control technologies. OVEC-IKEC has initiated the process of investigating various technologies to meet the compliance requirements of the ELG Rule and expects to have a Phase I cost estimate developed by December 2016.

316(b) Compliance

The 316(b) rule was published as a final rule in the Federal Register on August 15, 2014, and impacts facilities that use cooling water intakes structures designed to withdraw at least two million gallons per day from waters of the U.S. and who also have an NPDES permit. The rule requires such facilities to choose one of seven options specified by the rule to reduce impingement to fish and other aquatic organisms. Additionally, facilities that withdraw 125 million gallons or more per day must conduct entrainment studies to assist State permitting authorities in determining what site-specific controls are required to reduce the number of aquatic organisms entrained by each respective cooling water system.

OVEC-IKEC has already begun the required studies and expects to complete them in late 2016. Information gathered from the impingement, entrainment and hydrology studies will be evaluated and submitted to each plant's respective State agency for review.

Currently, OVEC-IKEC expects to be prepared to provide the results of the studies and our recommendations to the agencies in 2018 and begin retrofitting the cooling water systems at Clifty Creek and Kyger Creek in 2019 and 2020, respectively, upon Board approval. This strategy provides OVEC-IKEC with the appropriate amount of time to adequately evaluate the studies, work with the State agencies on the proper control technology, and install that control technology prior to the December 30, 2023 compliance date listed in the 316(b) rule.

10. FAIR VALUE MEASUREMENTS

The accounting guidance for Financial Instruments requires disclosure of the fair value of certain financial instruments. The estimates of fair value under this guidance require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed.

OVEC utilizes its trustee's external pricing service in its estimate of the fair value of the underlying investments held in the benefit plan trusts and investment portfolios. The Companies' management reviews and validates the prices utilized by the trustee to determine fair value. Equities and fixed income securities are classified as Level 1 holdings if they are actively traded on exchanges. In addition, mutual funds are classified as Level 1 holdings because they are actively traded at quoted market prices. Certain fixed income securities do not trade on an exchange and do not have an official closing price. Pricing vendors calculate bond valuations using financial models and matrices. Fixed income securities are typically classified as Level 2 holdings because their valuation inputs are based on observable market data. Observable inputs used for valuing fixed income securities are benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, and economic events. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments.

As of December 31, 2015 and 2014, the Companies held certain assets that are required to be measured at fair value on a recurring basis. These consist of investments recorded within long-term investments. The investments consist of money market mutual funds, equity mutual funds, and fixed income municipal securities. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and unrealized gains and losses are recorded in earnings.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Companies believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As cash and cash equivalents, current receivables, current payables, and line of credit borrowings are all short term in nature, their carrying amounts approximate fair value.

Long-Term Investments—Assets measured at fair value on a recurring basis at December 31, 2015 and 2014, were as follows:

	Fair Value Measurements at Reporting Date Using		
2015	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Equity mutual funds	$ 23,811,678	$ -	$ -
Fixed income municipal securities	-	90,587,635	-
Cash equivalents	5,360,793	-	-
Total fair value	$ 29,172,471	$ 90,587,635	$ -
2014			
Equity mutual funds	$ 25,372,238	$ -	$ -
Fixed income municipal securities	-	91,600,666	-
Cash equivalents	5,529,869	-	-
Total fair value	$ 30,902,107	$ 91,600,666	$ -

Long-Term Debt—The fair values of the senior notes and fixed rate bonds were estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. These fair values are not reflected in the balance sheets.

The fair values and recorded values of the senior notes and fixed and variable rate bonds as of December 31, 2015 and 2014, are as follows:

	2015		2014	
	Fair Value	Recorded Value	Fair Value	Recorded Value
Total	$ 1,626,945,340	$ 1,474,918,560	$ 1,702,226,733	$ 1,517,896,155

11. LEASES

OVEC had railcar lease agreements that extended to January 1, 2016. OVEC also has various other operating leases for the use of other property and equipment.

The amount in property under capital leases is $2,084,462 and $3,100,767 with accumulated depreciation of $812,724 and $1,441,030 as of December 31, 2015 and 2014, respectively.

Future minimum lease payments for capital and operating leases at December 31, 2015, are as follows:

Years Ending December 31	**Operating**	**Capital**
2016	$ 41,198	$ 442,521
2017	31,531	346,597
2018	19,123	210,140
2019	-	111,083
2020	-	78,024
Thereafter	-	352,346
Total future minimum lease payments	$ 91,852	1,540,711
Less estimated interest element		489,212
Estimated present value of future minimum lease payments		$ 1,051,499

The annual operating lease cost incurred was $834,815 and $1,079,950 for 2015 and 2014, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Companies are party to or may be affected by various matters under litigation. Management believes that the ultimate outcome of these matters will not have a significant adverse effect on either the Companies' future results of operation or financial position.

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