

ORIGINAL

**RESOLUTION OF THE BOARD OF DIRECTORS
of
VALLEY ELECTRIC MEMBERSHIP CORPORATION
November 17, 2009**

WHEREAS:

Valley Electric Membership Corporation (“VEMCO”) is a Louisiana Electric Cooperative formed pursuant to Louisiana Revised Statutes 12:401, et seq. VEMCO serves approximately 33,000 members in northwest Louisiana including Natchitoches, Winn, Grant, Sabine, Red River, DeSoto, Caddo and Vernon Parishes.

Prior to April 1, 2009, Vemco purchased its wholesale electric power from Louisiana Generating, LLC (“La Gen”), which is the owner of certain coal fired generating plants located in New Roads, Louisiana pursuant to the terms of a Power Supply and Service Agreement by and between VEMCO and La Gen effective as of July 1, 2002, the (“Vemco/La Gen PSSA”). Effective April 1, 2009, VEMCO acquired its wholesale electric power from CLECO Power, LLC pursuant to a Power Supply and Service Agreement which was approved by the Louisiana Public Service Commission on July 15, 2009 (the “Vemco/Cleco Power PSSA”). The cost of wholesale power under the terms of the Vemco/Cleco Power PSSA was considerably higher than that which VEMCO paid under the prior PSSA with La Gen.

As a result of the termination of the Vemco/La Gen PSSA, VEMCO’s cost of wholesale power under the terms of the Vemco/Cleco Power PSSA increased materially and the cost of wholesale power is reasonably expected to continue to increase over the ten (10) year term of VEMCO’s current PSSA.

Anticipating the extraordinary and instantaneous increase in the cost of wholesale power, VEMCO’s board of directors began to exercise that due diligence reasonable and necessary to minimize the increase in retail cost of electricity to its members while at the same time providing reliable service and preserving the value of the cooperative for the benefit of its members. To provide guidance and establish priorities in this process and to meet the Board’s fiduciary duties to VEMCO’s members as well as other affected constituencies, on March 20, 2009, VEMCO’s Board adopted a Policy Statement Regarding Strategic Alliances, Mergers, and/or Acquisitions.



Prior to the termination of the Vemco/La Gen PSSA, VEMCO engaged the services of advisors to assist it in achieving the goals of minimizing the retail costs to VEMCO's members, providing reliable service and maximizing the value of the members' capital credits. To assist in gathering information and data to assist in the decision making process, VEMCO's Board of Directors engaged Brooks-Harbour, Consulting Engineers, Chaffe & Associates, Investment Bankers and Heard, McElroy and Vestal, Certified Public Accountants.

Over a period of months, VEMCO's board of directors received data and information relating to various alternatives to minimize the retail costs to VEMCO's members, providing reliable service and maximizing the value of the members' capital credits. The data and information included various analyses of strategic planning options to include to remain an independent retail distributor of electricity under the terms of the Vemco/Cleco Power PSSA, the sale of substantially all of VEMCO's assets to another rural electric cooperative, the sale of substantially all of VEMCO's assets to an IOU, or to recommend a voluntary dissolution of the cooperative pursuant to LSA R.S. 12:418.

Requests for Proposals were submitted on behalf of VEMCO to five (5) public utilities to include one rural electric cooperative and four investor owned utilities. Two (2) serious responses were received which were in substantial compliance with VEMCO's March 20, 2009 Policy Regarding Strategic Alliances, Mergers and Acquisitions. One was submitted from Utility "A" (name to remain confidential) and one from Southwestern Electric Power Company ("SWEPCO").

The responses to the Requests for Proposals were fully considered and analyzed by the advisors to the board.

Following considerable discussion and consultation conducted during numerous meetings of the board, on November 10, 2009, VEMCO's Board of Directors received a comparative analysis of the two proposals from Utility A and SWEPCO. The economic advantages derived for the benefit of VEMCO's members, employees, creditors and other affected constituencies from SWEPCO vs. VEMCO remaining a stand alone rural electric cooperative exceeded \$100,000,000. Further, the proposal received from SWEPCO provided much greater economic benefit than that received from Utility A.

After due deliberations held and judgment rendered, it being in the best interest of the members of Valley Electric Membership Corporation that the Board of Directors recommend a voluntary dissolution of the corporation to its members to include the disposition

of substantially all VEMCO's property and assets in accordance with the provisions of LSA-R.S. 12:418, accordingly:

Upon motion by Mr. McCracken, seconded by Mrs. Brown the following motion was considered for adoption:

BE IT RESOLVED, that the Board of Directors of Valley Electric Membership Corporation, in special session assembled does hereby recommend that the cooperative be dissolved voluntarily pursuant to the provisions of LSA-R.S. 12:418; and,

BE IT FURTHER RESOLVED that a plan of dissolution be submitted to the members of the cooperative at a special meeting the notice of which shall set forth the proposition; and,

BE IT FURTHER RESOLVED that the Board of Directors of Valley Electric Membership Corporation does hereby acknowledge, ratify and approve for submission to the members of the cooperative all of the terms and provisions of the Letter of Intent to Implement a Voluntary Dissolution of Valley Electric Membership Corporation and the Purchase of Its Assets by Southwestern Electric Power Company, an exact copy of which is attached hereto and made a part hereof as Exhibit "1"; and,

BE IT FURTHER RESOLVED that the plan of dissolution of the cooperative to be submitted to the members to include particularly, but not exclusively the authorization of the Board of Directors to convey and dispose of substantially all of the Property and assets of the cooperative in accordance with the terms of Exhibit "1" and further in accordance with the terms and provisions of LSA-R.S. 12:418.

The above and forgoing having been put to a vote of the members of VEMCO's Board of Directors and the vote having been recorded as follows, to-wit:

Name:	Vote:
<u>Walter Meshell Jr</u>	<u>YES</u>
<u>Kevin McCracken</u>	<u>yes</u>
<u>John Lassit</u>	<u>YES</u>
<u>Charlotte Brown</u>	<u>yes</u>
<u>Leon Campbell</u>	<u>yes</u>
<u>Jersey Lambert</u>	<u>yes</u>
<u>Madison Nash</u>	<u>YES</u>

Natchitoches, Louisiana this 17th day of November, 2009

John P. Smith
President

Charlotte Brown
Secretary

CERTIFICATION

I hereby certify that I am the Secretary of Valley Electric Membership Corporation ("VEMCO") and as such the custodian of its records. The above and forgoing is a true and correct copy of a resolution of the Board of Directors of VEMCO adopted at a meeting of the board on November 17, 2009 which is in full force and effect.

Natchitoches, Louisiana this 17th day of November, 2009.

Charlotte Brown
Secretary

**LETTER OF INTENT TO IMPLEMENT A VOLUNTARY DISSOLUTION OF
VALLEY ELECTRIC MEMBERSHIP CORPORATION AND THE PURCHASE OF ITS
ASSETS BY SOUTHWESTERN ELECTRIC POWER COMPANY**

This letter of intent will serve to evidence the mutual understandings reached to date among Southwestern Electric Power Company ("SWEPCO") and Valley Electric Membership Corporation ("VEMCO"), concerning the terms and conditions of a transaction (the "Transaction") pursuant to which VEMCO will implement a voluntary dissolution and pursuant thereto, SWEPCO will purchase substantially all of the assets of VEMCO, which voluntary dissolution was approved by VEMCO's Board of Directors on November 17, 2009.

VEMCO and SWEPCO have agreed upon the following:

1. Assets to be Acquired.

Subject to additional due diligence, SWEPCO expects to acquire all of the assumable assets of VEMCO (the "Assets"), as more fully described on Exhibit "A" attached hereto and made a part hereof.

2. Liabilities Assumed.

Subject to additional due diligence, SWEPCO will assume the known liabilities (including customer deposits) of VEMCO directly associated with the ownership, use or operation of the Assets prior to Closing, excluding any liabilities related to Short-term Notes Payable, Current Maturities of Long-term Debt, Long-term Debt, liability for amounts payable to the National Rural Electric Cooperative Association Retirement Security Plan and Long-term Notes Payable related to equipment loans (the "Assumed Liabilities").

3. Purchase Price.

The purchase price for the Assets will be equal to the Net Book Value (the original booked cost minus corresponding depreciation and amortization) of the Assets, including any regulatory asset approved by the LPSC for recovery of Valley's May 2009 storm operation and maintenance expenses, less Assumed Liabilities, with, plus an amount equal to i.) the liabilities of VEMCO to the National Rural Electric Cooperative Association Retirement Security Plan reported to SWEPCO, ii.) Valley's obligation to employees for accumulated sick leave, iii.) Reimbursable Transaction Costs, including compensation for Members with Negative Equity as approved by SWEPCO, all subject to adjustment based upon additional due diligence (the "Purchase Price) payable upon consummation of the Transaction (the "Closing"). The Source and Uses document of September 30, 2009 attached hereto as Exhibit "A" is illustrative of the assets to be acquired, the liabilities assumed, including the CLECO Power Purchase agreement of April, 2009 and the Net Book Value; thus establishing the format to determine the Purchase Price, subject to adjustment as set forth herein. The Purchase Price, which is illustrated on Exhibit "A", is to be established as of the date of Closing. That portion of



the Purchase Price to be determined as "Net Payment for Members' Equity" shall be paid in cash to VEMCO by SWEPCO.

4. Purchase and Sale Agreement.

A. Documents.

Detailed provisions for the Transaction will be set forth in a mutually agreeable Purchase and Sale Agreement (the "PSA"), to be entered into by SWEPCO and VEMCO as well as any other documents that are or become necessary or convenient for the purposes of the Transaction, all to be mutually agreeable to the parties.

B. Representations, Warranties, and Agreements.

The PSA will provide customary corporate representations, warranties and covenants by SWEPCO and mutually agreeable representations, warranties, covenants, and indemnities by VEMCO with respect to the Assets and the ownership and operation of the Assets prior to Closing, including, without limitation, regarding (i) environmental, health and safety matters, and (ii) the compliance of the Assets (and the ownership and operation thereof) with all applicable laws, including, without limitation, all environmental laws. The representations, warranties, covenants, and agreements of VEMCO will survive until Closing, including representations and warranties related to taxes. However, VEMCO agrees to purchase "tail insurance," under the terms and provisions of all its policies, providing liability or other comparable coverage. Subject to a review of all insurance policies and other due diligence by SWEPCO, the parties will negotiate any liabilities which may survive the closing to be addressed in the PSA. .

C. Conditions Precedent.

The Closing would be subject to the fulfillment of usual and customary conditions precedent, including, without limitation:

(i) the truthfulness and fulfillment in all material respects of all representations, warranties, covenants, and agreements on the date of Closing the Transaction (the "Closing Date");

(ii) lack of certain legal actions by or on behalf of third parties to enjoin, restrain, or otherwise prohibit consummation of the Transaction; and

(iii) the receipt of all consents of third parties;

(iv) approval of SWEPCO's and American Electric Power, Inc.'s Senior Management and/or Board of Directors.

(v) authorization of VEMCO's members at a duly held meeting in accordance with Louisiana law.

In addition, the Closing of the Transaction by SWEPCO will be subject to SWEPCO having obtained any governmental approvals or orders as determined necessary or prudent by SWEPCO, and including terms and conditions satisfactory to SWEPCO.

D. Indemnification.

SWEPCO and VEMCO will each indemnify the other for breaches of representations, warranties and covenants.

5. SWEPCO Rates and Service.

Upon Closing of the Transaction, and subject to regulatory approvals, SWEPCO will implement SWEPCO tariffs, rates and service in the former VEMCO territory, with SWEPCO recovering, as approved by the LPSC, the regulatory asset noted in Paragraph 3 hereinabove.

6. Due Diligence.

SWEPCO acknowledges that it has conducted some due diligence on VEMCO and the Assets to date. Nonetheless, VEMCO agrees that consummation of the Transaction shall be subject to certain additional due diligence review of VEMCO and the records, data, and information of VEMCO with respect thereto, all to occur during normal business hours. This additional due diligence review will include, but shall not be limited to the following:

(i) review of all information, including documents, motions and pleadings, related to any pending or threatened litigation involving or related to VEMCO or the Assets;

(ii) discussions with VEMCO employees, agents, representatives and other persons of knowledge;

(iii) site visits of VEMCO service centers and equipment locations; and

(iv) complete review of VEMCO books and records, including review of external auditor's work papers.

Discussions related to due diligence with VEMCO employees and all other agents, representatives and other persons of knowledge of VEMCO and the Assets (or the ownership or operation thereof), shall not occur until after this Letter of Intent has been entered into by the parties, except as otherwise agreed by the parties. Once the Letter of Intent has been entered into, SWEPCO may proceed with such other due diligence as it may reasonably request and VEMCO may consent to, such consent to be not unreasonably withheld, delayed or denied.

7. Employment Matters.

(i) SWEPCO recognizes the importance of VEMCO employees in providing reliable service and reasonable rates to VEMCO members. The PSA will include language that provides SWEPCO intends to offer employment to VEMCO employees for at least 60 months in accordance with VEMCO's Policy Statement Regarding Strategic Alliances, Mergers and/or Acquisitions at a rate of pay at least equal to their current rate of pay and a level of benefits (including: medical, dental, life, and retirement et al.) comparable to similarly situated employees of SWEPCO, all of which is specifically subject to the following:

(a) Covered Employees - SWEPCO has a Collective Bargaining Agreement (CBA) with IBEW Local Unions 329, 386 and 738, and VEMCO has a CBA with IBEW Local Union 194. SWEPCO shall set the initial terms and conditions of employment for those employees covered by IBEW Local 194 as those terms and conditions contained in the CBA currently in effect by and between the IBEW Local Unions 329, 386 and 738 with SWEPCO, including the attendant rights and obligations; provided, however, that nothing contained in Section 7 of the LOI shall be construed or interpreted so as to circumvent the legal obligation that may exist between SWEPCO and Local Union 194 to bargain with regard to VEMCO's covered employees.

(b) Non Covered Employees - Employees that are not represented by IBEW Local 194 will be retained by SWEPCO in comparable positions with comparable pay, subject to the general principles of at-will employment in Louisiana and subject to death, retirement or a determination that cause for termination exists. For purposes of this LOI, cause shall include the employee's refusal or failure to perform the employee's assigned duties and responsibilities in a satisfactory manner as reasonably determined by the employer; commission of an act of dishonesty or conduct that is injurious to the best interest and reputation of the employer as reasonably determined by the employer; insubordination; violation of any of the material terms and conditions of any written agreement or agreements that employee may from time to time have with the employer; violation of the employer's rules of conduct, policies, safety or procedures or commission of a crime which is a felony or involves an act of moral turpitude; or the disclosure, dissemination or misappropriation of confidential, proprietary or trade secret information.

(ii) SWEPCO will offer to engage the services of VEMCO's directors for a period of seventy-two (72) months in an advisory capacity, at the normal monthly rate and meeting per diem, so as to maintain high quality service in the former VEMCO service territory and to assist in the transition. SWEPCO shall likewise engage VEMCO's legal counsel on a retainer basis equal to that currently being paid by VEMCO, along with commensurate health insurance benefits for counsel and his spouse. SWEPCO will also retain the VEMCO advisory board and provide the meeting per diem for the advisory board members. SWEPCO reserves the right to terminate the services of those identified in this paragraph for cause, as set forth in paragraph (ii) above.

(iii) VEMCO shall make arrangements to fund or ensure that it has insurance contracts (medical, dental, life, et al) committing third parties to fund all claims for benefits incurred by any participant under any Benefit Plan that is sponsored, maintained or contributed to by VEMCO or any of VEMCO's affiliates for the benefit of its

