FILE

AEP OHIO

A unit of American Electric Power

850 Tech Center Drive
Gahanna, Ohio 43230
(614) 716-1000

JOSEPH HAMROCK
President & Chief Operating Officer

2

June 6, 2011

The Honorable Chairman Todd A. Snitchler
The Honorable Commissioner Paul A. Centolella
The Honorable Commissioner Cheryl Roberto
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215-3793

RE: *In the Matter of the Application of AEP Ohio*, Case No. 08-917-EL-SSO and 08-918-EL-SSO

Dear Chairman and Commissioners:

The matters presented for your consideration in this filing are of critical importance to AEP Ohio and all Ohioans. For more than three years since the initiation and passage of SB 221, electric utility investors and customers in Ohio have faced greater uncertainty than perhaps any other State in the nation.

While the entire electricity industry in the United States faces ongoing environmental regulatory uncertainty, AEP Ohio and other Ohio utilities are experiencing a greatly compounded form of this risk due to the lingering challenges to recover the cost of compliance with those regulations. This proceeding offers an opportunity to reaffirm the Commission's previous decision to authorize rates that are appropriate to compensate AEP Ohio for the cost of environmental investments made in the past. If the recovery of these costs is not upheld, the future of such investments in Ohio will be significantly altered, likely leading to a precipitous decline in Ohio-based investment in power generation to serve Ohioans. AEP Ohio believes that SB 221 clearly provides for recovery of environmental investments, and we are hopeful that you will recognize those provisions and the importance of upholding the Commissions' original intent of allowing such recovery. The testimony of Company witness Nelson supports continuation of the environmental carrying cost reflected in AEP Ohio's non-fuel generation rates.

AEP Ohio also faces significant risk as the provider of last resort (POLR) for its customers in Ohio's competitive retail market for electricity service. AEP Ohio has the privilege and obligation to serve nearly 1.5 million customers who can all come and go freely based on market conditions and other factors that influence their choice of supplier. Clearly, customers have a valuable option to switch suppliers freely, while the company faces extraordinary risk. To compensate the company for this risk, and to ensure that customers paid a fair price for the option to freely switch to and from the Companies' SSO, the Commission previously approved a POLR compensation mechanism that is now being reconsidered. The cost of that risk to the company seems to be at the core of this discussion. Those who invest in AEP Ohio face risk, since the returns over the life of their investments are susceptible to customers' switching behaviors. With these investments spanning years or even decades, the accounting notion of transaction costs that appear on the books of an entity in a given period may not be adequate to explain or model the risks faced by investors. AEP Ohio presents the testimony of three additional witnesses in this filing to explain and validate the appropriate methods for valuing the unique risks associated with its POLR obligation: Laura Thomas, Dr. Chantale LaCasse and Dr. Anil Makhija. I am hopeful that you will recognize the importance of fairly compensating AEP Ohio for these risks by upholding POLR rates previously approved by this Commission.

Two of the most significant issues underpinning AEP Ohio's business are presented again for your consideration in this filing. The investment community continues to struggle to understand and effectively model the electric utility regulatory environment in Ohio, and two issues are at the heart of this struggle… the two very issues that are once again pending before this Commission. As we consider the significant investments anticipated in the near future to comply with known and anticipated environmental regulations, we must have a clear understanding of the opportunity to recover those investments, and we must also have a clear understanding of the opportunity to be compensated for the risk associated with customers ability to switch to and from the Companies' SSO. By deciding to sustain the recovery of environmental investments and compensate for the POLR risk associated with customer switching rights under SB 221, the path can be paved for a balanced investment climate in Ohio that is fair to customers and investors. Deciding to diminish or eliminate either of these critical mechanisms will create an unsustainable framework with intolerable risks for investors, ultimately leading to greatly diminished investment in Ohio and risk for customers as the State would shift to even greater reliance on imported electricity supplies.

AEP Ohio is responsible for more than $2.5 billion in annual economic activity in Ohio, and along with its Ohio-based parent company, AEP, provides substantial support for economic development and philanthropic activities.

The weight of the decisions pending in this case on remand by the Ohio Supreme Court are important not only for the remaining term of AEP Ohio's current ESP, but also for the future of investment in Ohio and the associated predictable electricity rates.

Respectfully,

Joe Hamrock

Joseph Hamrock
President and Chief Operating Officer
AEP Ohio

cc: Eric D. Weldele, Chief of Staff, Public Utilities Commission of Ohio