

FILE



A unit of American Electric Power

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JOSEPH HAMROCK
President & Chief Operating Officer

July 31, 2008

The Honorable Chairman Alan R. Schriber
The Honorable Commissioner Ronda Hartman Fergus
The Honorable Commissioner Valerie A. Lemmie
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 Applications of Columbus
Southern Power Company and Ohio Power Company,
Case Nos. 08-917-EL-UNC and 08-918-EL-UNC**
SSO SSO

Dear Chairman and Commissioners:

On behalf of the thousands of men and women of AEP Ohio I am pleased to present our proposed Electric Security Plan (ESP) for your consideration. For over a century the people of AEP have been honored to serve our state and the local communities where we live and work. As we enter our second century we recognize and share the opportunities and challenges that face Ohioans, and we are committed to continuing our tradition of service and support through continued partnership with state and local leaders.

The world we anticipate for Ohio in the coming decade and beyond is certainly different than anything we have experienced in our history. In recognition of this changing landscape in the energy sector, the Governor and Legislative leaders enacted new legislation that recognized both the threats and opportunities that lie ahead. We believe that the new framework enabled by S.B. 221 provides opportunity for a balanced and progressive approach to seizing new opportunities for Ohioans while managing the inherent risks in this dynamic global marketplace.

AEP Ohio's ESP is designed to strike such a balance, as summarized in the attached Executive Summary of our proposed plan. We propose new initiatives that will transform customer service, reliability, energy efficiency, and overall environmental performance while expanding the opportunities for customers to make important choices regarding their energy consumption and supply. We are proposing to expand our partnerships with state and local leaders to increase economic development efforts, particularly in the advanced energy sectors that are of critical importance to Ohio and the nation.

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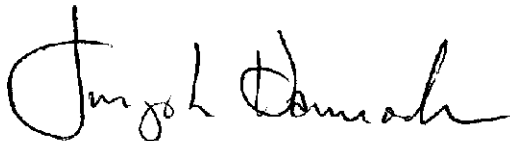
Innovation requires investment, and during this time of unprecedented escalation of fuel prices, it might be tempting to defer the investments needed to modernize and revitalize Ohio's aging energy infrastructure. Recognizing that Ohioans are absorbing increasing costs in many other aspects of their lives, and Ohio's businesses are competing in an increasingly competitive global economy, we propose a three-year rate plan that moderates the impacts of the recent significant escalation of the underlying cost of providing electric service while enabling new investments to ensure innovation and progress. The tools provided by Ohio's new ESP framework promote such a balanced approach.

Fuel and other commodity prices have more than doubled in very recent times, and for AEP to remain viable we must recover these costs. Under a market option, increases would be much more dramatic – as we have seen in other states. Our proposed ESP will limit the impact on customers to approximately fifteen percent per year. By phasing in and deferring some of the costs associated with the large recent increases in fuel and other commodity costs we will provide stability and predictability for our customers.

As we navigate the changing landscape that the future holds for Ohio, we recognize that many stakeholders have a strong interest in the outcomes and the paths to be chosen for Ohioans. We are proposing a collaborative approach to the design, development and monitoring of the advanced programs incorporated in our plan for energy efficiency, demand-side management, and advanced technologies and customer programs. We are eager to work with others to shape our collective future because we recognize that the best ideas and the best opportunity for progress will come from a process that welcomes diverse interests and perspectives.

The people of AEP Ohio look forward to working together with you and our partners across Ohio to implement this plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph Hamrock". The signature is fluid and cursive, with the first name "Joseph" and last name "Hamrock" clearly distinguishable.

Joseph Hamrock
President and Chief Operating Officer
AEP Ohio

cc: Steven D. Lesser, Chief of Staff, Public Utilities Commission of Ohio

attachment

Executive Summary of AEP Ohio's Electric Security Plan

Overview of the Filing

Senate Bill 221 requires electric distribution utilities to file an ESP to establish standard service offer pricing beginning January 1, 2009. Utilities have the option to file a market rate offer or MRO as well. AEP Ohio will file an ESP that will cover an initial three-year period (2009 – 2011). The following is an overview of the key components in AEP Ohio's ESP filing.

Energy Efficiency and Demand Response

AEP Ohio recognizes the importance of implementing energy efficiency and demand response programs to allow customers even more options to control their energy usage. To determine what programs would be most effective for AEP Ohio customers, the company is conducting a Market Potential Study (MPS) for its service territory and is proposing the development of a collaborative group consisting of vested partners and facilitated by Battelle, an international science and technology enterprise that explores emerging areas of science and supports community and education programs to promote an enhanced quality of life for communities.

Using the MPS recommendations, AEP Ohio will work cooperatively with this group to develop a suite of cost effective programs that cover all customer classes, including low income customers.

Because of timing of this filing, the expected targets to be met through SB 221 and the fact that the results of the MPS will not be provided until later this year, AEP Ohio is moving forward with familiar EE and DR programs we consider good and appropriate programs for our customers. These programs include the following:

- **Residential Standard Offer Program, Small Commercial and Industrial Standard Offer Program and Commercial and Industrial Standard Offer Program:** These programs provide incentives for the installation of a wide range of measures that reduce customer energy usage.
- **Targeted Energy Efficient Weatherization Program:** This program is designed to facilitate the installation of a wide range of cost effective weatherization upgrades and other measures in homes where customers total annual household incomes are at or below 125 to 200 percent of the federal poverty guidelines.
- **Low Income Weatherization Program:** Similar to the Targeted Energy Efficient Weatherization Program, this program targets customers with total annual household incomes at or below 125 percent of federal poverty guidelines and are eligible for energy assistance.
- **Residential and Small Commercial Compact Fluorescent Lighting Program:** The program is designed to promote use of compact fluorescent lights in homes and small commercial businesses.

- **Commercial and Industrial Lighting Program:** This program provides financial incentives for the installation of new, high-efficiency lighting systems that will reduce energy and cost.
- **State & Municipal Light Emitting Diode (LED) Program:** This program provides incentives for the installation of new LED traffic signals in either a new or replacement intersection.
- **Energy Star® New Homes Program:** This incentive-based program is designed to improve residential new construction practices.
- **Energy Star® Home Appliance Program:** The program provides financial incentives for the purchase of certain new appliances with an Energy Star rating that reduce customer energy costs and usage for residential and small commercial customers.
- **Renewable Energy Technology Program:** The program provides residential and commercial customers financial incentives for the installation of solar and wind equipment that reduces customer non-renewable energy costs and usage.
- **Industrial Process Partners Program:** This program is open to large industrial and government customers and is designed to support market transformation through a partnering approach. A customer that commits to improving energy efficiency by at least 5 percent becomes a company partner and gains access to financial support and assistance to identify and implement electricity savings.

In addition, AEP Ohio recognizes that S.B. 221 also allows committed capabilities of mercantile customers to be integrated into an electric distribution utility's DR and EE programs, subject to certain conditions, and the Companies are eager to work with those customers and other stakeholders to explore these options.

Renewable Energy

AEP Ohio recognizes customers' desire for clean, renewable energy. Already, the company offers customers its Green Pricing Option program, which enables customers to buy Renewable Energy Certificates (RECs) that represent power purchases of wind, solar and landfill gas. We propose to replace that program with Green Tariff Offerings during the ESP period. In addition, the companies have issued a request for proposals (RFP) seeking long-term purchases of up to 300 megawatts (MW) of renewable energy resources. This action continues the companies' commitment to adding renewable energy sources to our generation portfolio and will help ensure that AEP Ohio will have renewable energy resources in place consistent with Ohio's new advanced energy policies. The amount incorporated into our portfolio would depend on cost impacts and PUCO approval.

gridSMART Phase 1

AEP Ohio's gridSMART effort is a multi-year initiative that includes a suite of customer programs and advanced technology initiatives that will move the company into a new era of energy delivery and customer service. AEP Ohio is proposing a phased-in approach to implementing specific gridSMART components in Ohio. These components include Automated Meter Infrastructure (AMI), Home Area Networks (HAN) and Distribution

Automation (DA). Separately, these components offer specific company and customer benefits. However, when combined, these components showcase advanced technologies that can provide customers more flexibility and greater control over their energy usage using real-time energy and pricing information. In addition, the proposed gridSMART initiative can automate meter reading and improve meter reading accuracy, improve the safety of AEP Ohio employees, help reduce outage events and duration, and increase restoration efficiencies.

Phase 1 of this initiative will be installed over a three-year period in the northeast area of central Ohio. The proposed area includes approximately 100 square miles located primarily in urban residential communities, including parts of Columbus, Gahanna, New Albany, Bexley, Whitehall, Reynoldsburg, Westerville and Blacklick. These areas include approximately 105,000 customers and 70 distribution circuits.

This section of AEP Ohio's service territory was selected primarily because it is best suitable for distribution automation, has a significant amount of both 13kV and 34.5kV circuits, is a high-growth area with future plans for new distribution and transmission stations, has diverse income levels, includes a good blend of industrial, commercial and residential customers, and has a large amount of connect and disconnect orders related to customer requests and credit issues.

The gridSMART Phase 1 initiative not only introduces new technology to help transform customer service, it also facilitates AEP Ohio's ability to meet peak demand reduction targets outlined in SB 221.

Distribution Reliability Enhancement

Continued focus on current level of distribution reliability improvement programs can take the reliability of a distribution system only so far. Eventually, equipment wears out and fails. To reach a higher level of reliability, AEP Ohio has developed a long-term Enhanced Service Reliability Plan (Plan) focusing on incremental reliability initiatives to address AEP Ohio's aging infrastructure and customers' demand for increased quality of service.

The primary focus of the Plan is to enhance AEP Ohio's distribution infrastructure to meet customers' increasing expectations. The Plan, therefore, focuses on the leading outage causes (both momentary and sustained) to significantly enhance the overall "customer experience." The Plan consists of the following components:

- Incremental vegetation management (right of way clearing), including tree trimming and brush control through the use of herbicides;
- The expansion of AEP Ohio's current level of reliability base programs, derived from an enhanced Overhead Line Inspection Program approach. Components of this objective include:
 - Cutout Replacement Program
 - Arrester Replacement Program

- Recloser Replacement Program
- 34.5 kV Protection Program
- Fault Indicator Program
- Targeted distribution automation that not only will provide enhanced reliability, but lay the foundation for future gridSMART initiatives; and
- Targeted underground residential distribution cable replacement and rejuvenation

Economic Development

A key component of AEP Ohio's ESP filing is a "Partnership with Ohio" \$75 million shareholder contribution (\$25 million per year for three years) to support programs benefiting low-income customers, economic development, energy efficiency and installation of renewable energy systems.

Programs to benefit low-income customers include a weatherization program to help qualifying customers whose incomes do not exceed 200 percent of federal poverty guidelines and a voluntary fund to assist low-income customers who have difficulty paying their electric bills.

Economic development assistance available under this proposal provides financial assistance to new and existing industries for expansion projects that create new jobs, retain existing jobs and generate new investment within the AEP Ohio service territory. Included in the total are funding for a program for local economic development organizations (LEDO) to apply for cash grants, and a grant program for industrial customers to fund operational studies that will enhance manufacturing productivity.

The company proposes to designate funds for energy efficiency and renewable energy education effort to reach out to schools and all customer classes. In addition, funds are proposed for grants to support cutting edge energy efficiency technology installations among residential and small commercial customers, builders, heating and cooling contractors and architectural and engineering firms.

AEP Ohio's proposal also includes grants that support installation of renewable energy equipment in facilities among all customer classes including those that meet Leadership in Energy and Environmental Design (LEED)-certified building requirements.

Phase-In Approach

AEP Ohio understands the potential impact this filing will have on its customers. Therefore, the company proposes a rate plan that results in an annual increase of approximately 15 percent on customers' total bills. Future expenses would be deferred as a regulatory asset. This approach helps maintain the stability and predictability of customer bills.

Fuel and Environmental

AEP Ohio seeks to recover changes in fuel and environmental expenses relative to levels reflected in current rates.

Costs related to electricity production have increased significantly. For example, Central Appalachian Coal prices have increased nearly 300 percent since January 2003. Natural gas prices have increased 138 percent since January 2003. Ohio coal costs have increased approximately 74 percent. Coal alone accounts for 90 percent of AEP Ohio's generation production capability.

Provider of Last Resort

The bill encourages customers to shop for their generation supply. However, AEP Ohio is statutorily obligated to stand ready to serve those customers who do not choose to switch, those who switch and later choose to return to the Standard Service Offer and those who switch and then return because their supplier defaults on its supply agreement. There are costs to AEP Ohio associated with this service. Therefore, the ESP will include a Provider of Last Resort (POLR) charge.

Other Issues

MRO Comparison

AEP Ohio will establish in the filing an estimate as to what market rate offer prices would be for 2009, 2010 and 2011 based in part on projected market prices during those years. AEP Ohio recommends this estimate to be used for comparative purposes by the PUCO when considering the company's ESP in aggregate.

Corporate Separation

AEP Ohio has been permitted by the PUCO to functionally separate its competitive function (generation) from its noncompetitive functions (transmission and distribution). S. B. 221 continues to require the ultimate legal separation of these functions. Therefore, AEP Ohio is requesting authority to pursue the legal separation of these functions and, related to that request, authority to transfer some of its generating assets to one or more affiliated companies.

Earnings Test

In this filing AEP Ohio is proposing standards by which "comparable" companies will be chosen and by which "significantly excessive" will be determined to support the earnings test requirement of SB221.