

**FILE**

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**BEFORE**  
**THE PUBLIC UTILITIES COMMISSION OF OHIO** RECEIVED-DOCKETING DIV  
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In the Matter of the Application of AEP Ohio )  
Transmission Company, Inc., for Confirmation )  
That Its Operations Will Render It an Electric )  
Light Company and a Public Utility Within the )  
Meaning of Sections 4905.03(A)(4) and )  
4905.02, Revised Code. )

**PUCO**  
Case No. 10-245-EL-UNC

In the Matter of the Joint Application of AEP )  
Ohio Transmission Company, Inc., and )  
Columbus Southern Power Company and )  
Ohio Power Company for Approval of )  
Proposed Transfers, To the Extent Required )  
by Section 4905.48(B), Revised Code. )

Case No. 10-246-EL-UNC

In the Matter of the Application of AEP Ohio )  
Transmission Company, Inc. for Authority to )  
Issue Short-Term Notes and Other Evidences )  
of Indebtedness. )

Case No. 10-247-EL-AIS

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**INITIAL COMMENTS OF INDUSTRIAL ENERGY USERS-OHIO**

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April 30, 2010

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THE PUBLIC UTILITIES COMMISSION OF OHIO**

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**INITIAL COMMENTS**

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**I. INTRODUCTION AND BACKGROUND**

On March 2, 2010, AEP Ohio Transmission Company, Inc. ("OHTCo"), Columbus Southern Power Company ("CSP") and Ohio Power Company ("OP") (collectively, "Companies") filed an Application related to the formation of OHTCo. On March 3, 2010, the Companies filed an Amended Application that corrected document production errors.<sup>1</sup> In accordance with the Attorney Examiner's April 1, 2010 Entry, Industrial Energy Users-Ohio ("IEU-Ohio") hereby respectfully submits its Initial

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<sup>1</sup> Citations to the Application herein reference the Amended Application filed on March 3, 2010 unless otherwise specifically noted.

Comments on the Companies' Application for the consideration of the Public Utilities Commission of Ohio ("Commission").

Specifically, the Companies propose to create a new transmission corporation (OHTCo) to provide wholesale transmission services to the AEP East Operating Companies, including CSP and OP.<sup>2</sup> The Companies propose to split new and existing transmission facilities between OHTCo, CSP and OP based upon a predetermined criteria in its "Project Selection Guidelines."<sup>3</sup> CSP and OP will be required to continue services including but not limited to "consultation, analysis, advise and perform services in connection with matters relating to the operation, inspection, maintenance, and emergency restoration of OHTCO's electric transmission assets in the state of Ohio."<sup>4</sup> OHTCo will also rely on AEP Service Corporation ("AEPSC") and AEP Transmission Company, LLC ("AEPTCo") for operational, technical and managerial resources.<sup>5</sup> It will rely on its parent, American Electric Power, Inc. ("AEP"), to supply capital.<sup>6</sup> Based upon these descriptions, OHTCo will rely on its affiliated companies to perform almost all of its corporate functions. It would seem that OHTCo's only function is to simply be an accounting depository for assets and costs.

## II. COMMENTS

### A. The Companies have not explained how the transmission corporation structure will facilitate capital formation.

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<sup>2</sup> Application at 1.

<sup>3</sup> *Id.* at 3.

<sup>4</sup> *Id.* at 4.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 5.

The Companies explain that they believe moving to the transmission corporation structure will facilitate capital formation for the more substantial transmission projects that the operating companies may be required to undertake under the Southwest Power Pool ("SPP") and PJM Interconnection, Inc. ("PJM") transmission planning processes.<sup>7</sup> They claim that taking a transmission-only entity to Wall Street for capital investment in transmission is superior to taking the existing operating companies to Wall Street for a transmission-only project because it will provide transparency desired by certain investors, resulting in better access to capital markets for new transmission projects. However, it is difficult to understand how the transmission corporation model does better with Wall Street. The investment community looks through the business units to the parent, which owns all the equity, particularly when assessing an entity that performs few services for itself and does not otherwise appear to provide lower risks for investors.

**B. The Companies have not explained how the transmission corporation structure will ease pressure from transmission investments on OP's and CSP's credit ratings.**

Additionally, the Companies claim that vertically integrated utility companies are facing challenging and uncertain environments and that financing the needed investments in transmission facilities is increasing the pressure on OP's and CSP's credit ratings.<sup>8</sup> However, it is difficult to understand (and the Companies have not explained) how the transmission facilities are the drivers of increased pressure on OP's and CSP's credit ratings when there is little uncertainty of transmission investments given that transmission rates are adjusted annually by the Federal Energy Regulatory

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<sup>7</sup> *Id.* at 7-8.

<sup>8</sup> *Id.* at 6.

Commission ("FERC") (at the utility's election) and FERC has been allowing an incentivized return on equity for new investment.

In fact, it appears that the Companies are attempting to use FERC approval to push the revenue requirement to the retail jurisdiction more quickly than might otherwise be the case. For example, AEP President, Chairman and Chief Executive Officer Michael Morris said in November 2009 that FERC would regulate the transmission-only company's rates, offering transparency that should appeal to investors.<sup>9</sup> AEP Executive Vice President and Chief Financial Officer, Brian Tierney said in February 2010 that financing and funding FERC-regulated projects through the new transmission company will allow AEP to "bring dollars to bear quicker" by reducing the regulatory lag.<sup>10</sup> Given the fact that transmission related costs are passed through to Ohio customers, it does not appear that in reality there would be a reduction in regulatory lag but this appears to be the reasoning AEP and the Companies are offering.

**C. The transmission corporation structure complicates an already complex corporate structure.**

Transmission investment is already socialized through the FERC-approved Transmission Equalization Agreement and transmission-related costs flow to each operating company in accordance with this FERC-approved agreement. Like generation, transmission investment and revenue are pooled for the benefit of the AEP East operating companies, including OP and CSP, not individual operating companies. The maze of AEP pooling arrangements and other subsidiary arrangements already

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<sup>9</sup> AEP News Release, "AEP Sets 2010 Ongoing Earnings Guidance, Capital Expenditures Budget Formation of a Transmission Company Planned as Part of Grid Strategy," (November 1, 2009), available online at: <http://test22.aep.com/investors/newsreleases/?id=1576> (last visited April 30, 2010). A copy of the press release is attached hereto as Attachment 1.

<sup>10</sup> "AEP's Regulated CapEx to Stay Depressed Until 2013, but Transmission Could Help" SNL Energy Power Daily, Volume 8, Issue 22 (February 3, 2010). A copy of the article is attached hereto as Attachment 2.

makes it extremely difficult, if not impossible, to track costs through the AEP system. The addition of another layer of complexity does nothing to improve an already complicated process and, in fact, further complication of its corporate structure adds to the complexity of verifying the accuracy of the cost that Ohio customers pay.

Despite the unexplained claimed benefits to this proposal, including that CSP and OP will be relieved of debt associated with new transmission projects making new debt available for other projects, it appears that AEP and the Companies are building a structure that will make it harder for retail jurisdictions to go after prudence disallowances, such as contemplated under the significantly excessive earnings test ("SEET") currently being contemplated by the Commission. As noted above, the transmission investment is currently pooled among the AEP operating companies, including OP and CSP. With the Supreme Court's recent position on the *Mobile-Sierra* doctrine<sup>11</sup> and contracts between the operating companies and the transmission corporations, AEP may be able to wall off the state regulators ability to get in the way of the cash flow generation that AEP covets.

### III. RECOMMENDATION AND CONCLUSION

It is difficult to assess if there are benefits to customers on the Companies' proposal. It appears to only complicate an already complex corporate structure and is a solution in search of a problem. IEU-Ohio recommends that the Commission require the Companies to come forward with a cost/benefit analysis that shows that Ohio retail customers will get lower rates and better service if the Application is approved and the

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<sup>11</sup> *NRG Power Marketing, LLC v. Maine Public Utilities Com'n*, 130 S.Ct. 693 (2010). Under this Court's *Mobile-Sierra* doctrine, FERC must presume that a rate set by "a freely negotiated wholesale-energy contract" meets the statutory "just and reasonable" requirement. *Morgan Stanley Capital Group Inc. v. Public Util. Dist. No. 1 of Snohomish Cty.*, 128 S.Ct. 2733 (2008). "The presumption may be overcome only if FERC concludes that the contract seriously harms the public interest." *Ibid.*

transfer occurs. Further, the Commission should seek outside assistance if necessary to evaluate the Companies' proposal and cost/benefit analysis and make recommendations to ensure that Ohio customers are better off.

Unless and until the Companies can fully explain and justify their proposal, the Commission should not approve it as there does not appear to be any good reason to do so.

Respectfully submitted,



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## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Initial Comments of Industrial Energy Users-Ohio* was served upon the following parties of record this 30<sup>th</sup> day of April, 2010, via first class mail, postage prepaid.

  
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Financial Releases

**AEP Sets 2010 Ongoing Earnings Guidance, Capital Expenditures Budget  
Formation of a transmission company planned as part of grid strategy**

All News Releases

Annual Reports / Proxies

COLUMBUS, Ohio, Nov. 1, 2009 – American Electric Power (NYSE: AEP) has set its ongoing earnings guidance range and capital expenditures budget for 2010. AEP will also form a transmission company as part of its strategy to pursue transmission investment opportunities in AEP's traditional footprint.

Presentations And Handouts

Conference Calls / Webcasts

AEP management will be discussing the company's financial outlook and strategic direction during meetings with investors at the annual Edison Electric Institute Financial Conference that begins today in Hollywood, Fla.

Calendar Of Events

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Analyst Coverage

AEP anticipates that 2010 ongoing earnings will be between \$2.80 and \$3.20 per share. Ongoing earnings guidance for 2009, which reflects last week's upside adjustment, remains at \$2.90 to \$3.05 per share. Ongoing earnings represent earnings from continuing operations, which exclude special or one-time items included in the earnings prepared in accordance with generally accepted accounting principles.

Shareholder Info / FAQs

Direct Stock Purchase

Transfer Agent

"Our earnings projections for 2010 are driven by new rate recovery activity underway in several jurisdictions across our service territories, an expected increase in off-system sales of electricity as that market improves after a weak year in 2009, and a general increase in retail load," said Michael G. Morris, AEP's chairman, president and chief executive officer.

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SEC Filings & Other Financial Statements

AEP projects that capital expenditures for utility operations will decrease to \$1.993 billion in 2010 from the estimated \$2.466 billion in 2009, reflecting AEP's conservative approach for near-term capital expenditures.

Corporate Governance

Current Regulatory Activity

FERC

AEP will form a transmission company, or Transco, to pursue new transmission opportunities within the company's existing 11-state footprint, a key component in a three-part national transmission strategy. AEP has existing and planned transmission projects in the Electric Reliability Council of Texas (ERCOT) through its Electric Transmission Texas joint venture with MidAmerican Energy Holdings Company. AEP is also pursuing transmission projects outside its footprint and outside ERCOT through joint ventures with numerous other companies, including Electric Transmission America, AEP's broader partnership with MidAmerican.

Transition Bonds

Investor Relations Contacts

"The Transco will be our vehicle for much of AEP's future on-system, wholly-owned transmission investment," Morris said. "These investments will include a wide range of on-system transmission improvements, things like greenfield projects, station additions and system upgrades. Pursuing these activities in a Transco, with formula rates adjusted annually by the Federal Energy Regulatory Commission (FERC), benefits customers by enhancing AEP's access to capital. This enables the company to undertake substantial new investment while relieving our operating company balance sheets of the burden of meeting those capital demands, thereby allowing them to put capital to work on distribution and generation needs."

AEP expects to invest \$118 million in Transco activities in 2010.

"We are seeking state utility status for the Transco in states where that designation is required, and we will join both PJM and Southwest Power Pool as a transmission owner," Morris said. "We plan to file a FERC tariff for the Transco later this year, with rates effective in mid-2010."

American Electric Power is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 38,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 39,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP's transmission system directly or indirectly serves about 10 percent of the electricity demand in the Eastern Interconnection, the interconnected transmission system that covers 38 eastern and central U.S. states and eastern Canada, and approximately 11 percent of the electricity demand in ERCOT, the transmission system that covers much of Texas. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas). AEP's headquarters are in Columbus, Ohio.

This report made by AEP and its Registrant Subsidiaries contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although AEP and each of its Registrant Subsidiaries believe that their expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are: electric load and customer growth; weather conditions, including storms; available sources and costs of, and transportation for, fuels and the creditworthiness and performance of fuel suppliers and transporters; availability of necessary generating capacity and the performance of AEP's generating plants, including AEP's ability to restore Indiana Michigan Power's Donald C. Cook Nuclear Plant Unit 1 in a timely manner; AEP's ability to recover regulatory assets and stranded costs in connection with deregulation; AEP's ability to recover increases in fuel and other energy costs through regulated or competitive electric rates; AEP's ability to build or acquire generating capacity, including the John W. Turk Jr. Plant, and transmission line facilities (including the ability to obtain any necessary regulatory approvals and permits) when needed at acceptable prices and terms and to recover those costs (including the costs of projects that are canceled) through applicable rate cases or competitive rates; new legislation, litigation and government regulation, including requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances that could impact the continued operations of AEP's plants; timing and resolution of pending and future rate cases, negotiations and other regulatory decisions (including rate or other recovery of new investments in generation, distribution and transmission service and environmental compliance); resolution of litigation (including the dispute with Bank of America); AEP's ability to constrain operation and maintenance costs, the economic climate and growth or contraction in AEP's service territory and changes in market demand and demographic patterns; inflationary or deflationary interest rate trends; volatility in the financial markets, particularly developments affecting the availability of capital on reasonable terms and developments impairing AEP's ability to finance new capital projects and refinance existing debt at attractive rates; the availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material; AEP's ability to develop and execute a strategy based on a view regarding prices of electricity, natural gas and other energy-related commodities; changes in the creditworthiness of the counterparties with whom AEP has contractual arrangements, including participants in the energy trading market; actions of rating agencies, including changes in the ratings of debt; volatility and changes in markets for electricity, natural gas, coal, nuclear fuel and other energy-related commodities; changes in utility regulation, including the implementation of the recently passed utility law in Ohio and the allocation of costs within regional transmission organizations, including PJM and SPP; accounting pronouncements periodically issued by accounting standard-setting bodies; the impact of volatility in the capital markets on the value of the investments held by AEP's pension, other postretirement benefit plans and nuclear decommissioning trust and the impact on future funding requirements; prices and demand for power that AEP generates and sells at wholesale; changes in technology, particularly with respect to new, developing or alternative source of generation; and other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes and other catastrophic events.

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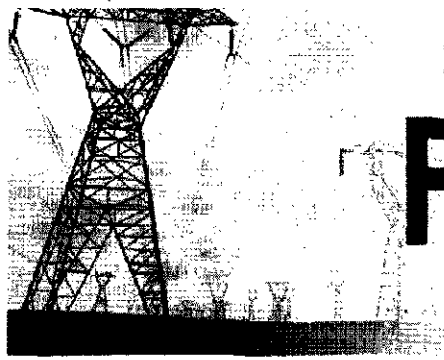
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# POWER DAILY™

Volume 8 Issue 22 Wednesday, February 3, 2010

## AEP's regulated CapEx to stay depressed until 2013, but transmission could help

by Jay Hodgkins

American Electric Power Co. Inc. is still looking toward unregulated transmission investment opportunities to essentially double the earnings growth it would otherwise expect from just its regulated utility companies, Executive Vice President and CFO Brian Tierney said at an energy conference hosted by Credit Suisse in Vail, Colo., on Feb. 2.

AEP expects to grow earnings 2% to 4% over the long term, but would rise to 4% to

8% growth if the company can execute on an expected level of transmission projects in its pipeline.

Foremost among those opportunities is AEP's Electric Transmission Texas LLC joint venture with MidAmerican Energy Holdings Co., which expects to construct about \$600 million of projects that will come in service in the ERCOT market sometime from 2010 to 2013. Tierney said the venture's investment

opportunities in ERCOT could grow to \$3 billion this decade.

AEP has also recently begun to pursue an unregulated Transco business that will seek to build unregulated projects within the geographical footprint of AEP's regulated utility service territories.

Tierney said the company will be able to put dollars to work in AEP's service territories that are separate from the transmission

Continued on p. 11

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**Power earnings roundup: Entergy, Wisconsin Energy see Q4'09 earnings surge**

**Report to Congress considers displacing coal-fired generation with existing natural gas**

**Georgia Power remains committed to nukes, natural gas in 2010 resource plan**

**Dynegy CEO: Expect 'more aggressive EPA' to take aim at unscrubbed generation**

**Utah cooperative sues PacifiCorp over emissions control upgrades**

**Study: More alternative energy will boost Pennsylvania economy**

To Market Story

To Market Report

## Michigan's alternative electricity suppliers see 50% increase in customers in '09

by Lynn Doan

The number of Michigan electricity customers served by alternative suppliers rose by nearly 50% from 2008 to 2009, marking a rebound for a competitive electricity market that has seen only declining sales in recent years, according to a report released by the Michigan Public Service Commission on Feb. 2.

CMS Energy Corp. subsidiary Consumers Energy Co. and DTE Energy Co. subsidiary Detroit Edison Co. are still the only two utilities in the state that offer electric choice

programs. Alternative electric suppliers have yet to offer services to customers of smaller jurisdictional utilities since full retail open access took effect Jan. 1, 2002. But the number of choice customers in both utilities' service territories surged in 2009, the PSC's annual "Status of Electric Competition in Michigan" report said, standing in stark contrast to the sharp drops in choice business during 2004 and 2005.

Consumers Energy's service territory saw an increase of about 139% in choice load to

Continued on p. 10

## Report: Co-firing biomass at coal power plants would cut greenhouse gases by 5%

by Lynn Doan

If all coal-fired power plants in the United States and Canada were to instead burn biomass 10% of the time, electricity generated from biomass would represent about 4% of power generation and reduce greenhouse gas emissions by 170 million metric tons annually, according to a study published by the *Journal of Environmental Science and Technology*.

"Co-firing" coal and biomass, with wood pellets making up 10% of the fuel mix, would reduce greenhouse gas emissions

from the power generation sector by 5% in the United States and Canada, but it would require about 100 million dry metric tons of biomass a year — "a large amount but within inventory amounts," according to the report, "Life Cycle Emissions and Cost of Producing Electricity from Coal, Natural Gas, and Wood Pellets in Ontario, Canada."

The study, published in the January issue of the *Journal of Environmental Science and Technology*, was primarily focused on the potential for biomass at the Nanticoke and



policy for Michigan is achieved," the PSC said in a letter to the House attached to the report.

### COMPANIES REFERENCED IN THIS ARTICLE:

**CMS Energy Corp.**

**CMS**

**Consumers Energy Co.**

**Detroit Edison Co.**

**DTE Energy Co.**

**DTE**

Full filing

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### AEP *continued*

opportunities the regulated utilities already have. The projects will be financed and funded at the Transco level, which Tierney said will allow AEP to "bring dollars to bear quicker," and the projects will experience a reduced regulatory lag due to FERC setting annually adjusted formula rates.

Finally, Tierney said AEP is also involved in other transmission joint ventures, like the Electric Transmission America venture with MidAmerican. AEP has four FERC-approved projects valued at \$3.3 billion in markets other than ERCOT with estimated in-service dates of 2013 to 2015.

Tierney said estimated in-service dates for those projects have started to slip, but he assured attendees at the conference that AEP is confident the joint ventures have enough opportunities in the pipeline to start "putting dollars to work and metal in the ground" soon.

In AEP's regulated operations, Tierney said growth will be driven, as usual, by approved capital expenditures recovered in rates, but noted that AEP has slashed its CapEx from 2008 levels due to the economic collapse in its service territories.

AEP spent nearly \$4 billion per year on CapEx in 2007 and 2008, but essentially slashed that in half in 2009 and for 2010 and 2011. Tierney said AEP is dedicated to keeping CapEx spending as close to cash flow neutral as possible while the economic climate is still depressed.

With its goal of staying near cash flow neutral, AEP expects to spend \$2.04 billion on CapEx in 2010, with \$594 million slotted for distribution spending, \$253 million for spending on new generation and \$322 million for environmental spending. In 2011, AEP is predicting \$1.96 billion in CapEx, with \$627 million going to distribution spending, \$223 million for spending on new generation and \$234 million slotted for environmental spending.

Tierney said it's likely the economy will not fully recover until 2013, and it is then that AEP will consider ratcheting up its CapEx budget and going cash flow negative in order to push earnings growth.

On that longer-term front, Tierney said AEP expects CO2 regulation or legislation to be more of a positive than a negative, with the need to shut down some older coal-fired plants offset by opportuni-



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ties to invest in new environmental controls such as carbon capture and sequestration technology at more modern plants plus the opportunity to build new replacement generation.

AEP must also recover spending through rate relief in order to deliver on earnings growth from regulated CapEx, and Tierney said the company has already secured \$167 million of a projected \$320 million in rate increases for 2010. For 2011, AEP is projecting \$340 million in rate increases.

Tierney said AEP has traditionally generated larger annual rate increases, but that the recent reduced spending levels cut AEP's need to seek rate relief.

The company's ongoing earnings guidance for 2010 of \$2.80 to \$3.20 per share will be primarily driven by AEP's ability to secure the remainder of its expected rate relief and substantial load growth from 2009's depressed levels.

Rate relief is expected to push earnings up 45 cents per share in 2010 from 2009 levels and load growth is expected to have a positive impact of 29 cents per share, although 9 cents of that impact is predicted to come from a return to normal weather, Tierney said.

Tierney said AEP is predicting residential load to jump 1% in 2010 over 2009 levels, commercial load to grow 2.4% and industrial load to surge 5.3%. Overall, Tierney said AEP is expecting a 1.6% overall increase in load growth.

Off-system sales are also expected to surge from about 14,800 GWh in 2009 to nearly 24,000 GWh in 2010, but that increase will be mitigated by the fact AEP is predicting those sales to fall to \$13.70 per MWh from \$16.70 per MWh in 2010.

### COMPANIES REFERENCED IN THIS ARTICLE:

- American Electric Power Co. Inc. **AEP**
- Electric Transmission America
- Electric Transmission Texas LLC
- MidAmerican Energy Holdings Co.

Feb 02, 10 American Electric Power Co. Investor Presentation

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