

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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) Case No. 10-245-EL-UNC
a Public Utility Within the Meaning of)
Sections 4905.03(A)(4) and 4905.02,)
Revised Code.)

In the Matter of the Joint Application of)
AEP Ohio Transmission Company, Inc.,)
Columbus Southern Power Company, and)
Ohio Power Company for Approval of) Case No. 10-246-EL-UNC
Proposed Transfers, to the Extent Required))
by Section 4905.48(B), Revised Code.)

In the Matter of the Application of AEP)
Ohio Transmission Company, Inc. for) Case No. 10-247-EL-AIS
Authority to Issue Short-Term Notes and)
Evidences of Indebtedness.)

FINDING AND ORDER

The Commission finds:

- (1) On March 2, 2010, and as amended on March 3, 2010, Columbus Southern Power Company (CSP) and Ohio Power Company (OP) (jointly, AEP-Ohio) and AEP Ohio Transmission Company (OHTCo) (collectively, Applicants), filed a joint application (Joint Application) in these proceedings.
- (2) In the Joint Application, Applicants seek a determination that OHTCo's operations will render it an electric light company and a public utility within the meaning of Sections 4905.03(A)(3) and 4905.02, Revised Code. Alternatively, OHTCo requests that, if the Commission concludes OHTCo is not an electric light company and not a public utility subject to the Commission's jurisdiction, the Commission issue an order expressing that conclusion. Further, Applicants request the Commission to declare that Section 4905.48(B), Revised Code,

does not apply to OHTCo, or to the extent the Commission determines that OHTCo is a "public utility" and that Section 4905.48(B), Revised Code, is applicable, Applicants request Commission approval of the transfer of assets, as listed in Exhibit C of the Joint Application that are not yet electric plant in service from AEP-Ohio to OHTCo. Finally, Applicants seek Commission authority for OHTCo to participate in the AEP System Utility Money Pool ("Money Pool") and to make short-term borrowings up to \$50 million from the Money Pool from time to time through April 30, 2011, as described in the Joint Application.

(3) In their Joint Application, the Applicants state the following:

- (a) OHTCo is an Ohio corporation organized for the purposes of planning, constructing, owning, and operating transmission assets in Ohio. OHTCo is a wholly owned subsidiary of AEP Transmission Company, LLC (AEPTCo). AEPTCo is a subsidiary of AEP Transmission Holding Company, LLC, which is a wholly owned subsidiary of American Electric Power Company, Inc. CSP and OP are also wholly owned subsidiaries of American Electric Power Company, Inc., and, consequently, are affiliates of OHTCo.
- (b) OHTCo transmission assets will be physically connected to existing transmission facilities owned by AEP-Ohio. OHTCo will provide wholesale transmission service to AEP-Ohio and other wholesale customers within the state and not provide retail transmission services directly to consumers in Ohio.
- (c) OHTCo will develop and own new transmission assets within the state of Ohio. OHTCo will not acquire from AEP-Ohio those assets that are currently in-service and owned by AEP-Ohio. The new transmission facilities to be developed by OHTCo will be interconnected to existing AEP-Ohio facilities within the PJM Interconnection, LLC, (PJM) territory.

- (d) On December 1, 2009, each of AEPTCo subsidiary companies, including OHTCo, which have joined PJM, filed an application with the Federal Energy Regulatory Commission (FERC), under FERC Docket No. ERI0-355-000, to establish a revenue requirement to be included in PJM's FERC-approved Open Access Transmission Tariff (OATT). The rates filed by AEPTCo for OHTCo are designed to recover the collective cost of service associated with the facilities owned by OHTCo in the AEP Zone within PJM. Based on the FERC application, PJM, on behalf of OHTCo, would charge AEP-Ohio, and other wholesale customers, rates for transmission services based on the OATT. AEP-Ohio would continue to recover from its retail customers through its transmission cost recovery rider only that portion of OHTCo's costs for its transmission services that AEP-Ohio uses to provide retail electric services to their end-use customers.
- (e) OHTCo will rely on its ultimate parent, American Electric Power Company, Inc., for financial resources. This will improve AEP-Ohio's credit ratios and access to the capital markets by freeing AEP-Ohio of the debt obligation needed to support new transmission facilities.
- (f) The long-term reliability and stability of the transmission system for Ohio customers will be increased with the formation of OHTCo.
- (g) OHTCo is not an "electric utility" within the meaning of Section 4928.01(A)(11), Revised Code, because it neither has a certified territory nor is engaged in the business of supplying noncompetitive retail electric services. Consequently, Section 4928.17, Revised Code, does not require OHTCo to have its own corporate separation plan approved by the Commission.

- (h) The Commission's jurisdiction over the rates, terms, and conditions of electric service provided by AEP-Ohio is not affected by the establishment of OHTCo.
- (4) By entry issued April 1, 2010, a comment period of April 30, 2010, and May 17, 2010, was established for initial and reply comments, respectively. Initial comments were filed by the Ohio Consumers' Council (OCC), Ohio Partners for Affordable Energy (OPAE) and Industrial Energy Users-Ohio (IEU-Ohio). Reply comments were filed by the Applicants.
- (5) In its comments, OCC states that if the Commission approves the proposed transfer of transmission assets from AEP-Ohio to OHTCo, the Commission ruling should explicitly state the following three items of clarification: (a) the Commission's ruling in these cases is not determinative or binding of any future requests by AEP-Ohio or OHTCo to transfer transmission assets from one company to another; (b) the Commission is not foreclosed in future cases from considering any issues for protecting customers of AEP-Ohio, including issues related to rates, collection of costs from customers, and reliability of service; and (c) the Commission is not giving antitrust protection to AEP-Ohio or OHTCo under state action principles.

In its reply comments, Applicants agree that OCC's proposed recommendations are fair and reasonable clarifications of the amended application and do not oppose including them in the Commission's order.

- (6) OPAE, in its comments, states that it seeks to ensure that there will be no adverse impact and that there will be some benefit to Ohio's residential customers as a result of any transfer of transmission assets from AEP-Ohio to OHTCo and of any participation by the OHTCo in the AEP Money Pool.

In their reply comments, Applicants state that, to the extent the projects that AEP-Ohio seeks to transfer to OHTCo are not yet in service and the construction work in progress balance existing on the date of transfer will be paid by OHTCo, this should resolve OPAE's concern about avoiding an adverse impact related to the proposed asset transfers.

As to OP&E's statement about obtaining consumers benefit related to the proposed asset transfers, Applicants submit that there are procedures and protocols in place to ensure that ratepayers only pay for these assets once, and that the costs for a given project would only be collected once based on the formula rate reconciliation process - either the AEP-Ohio's formula rates or the OHTCo's formula rates. Applicants believe that the benefits to Ohio customers of transmission projects under the proposed transmission corporation structure will be the same regardless of whether a particular project is funded by the AEP-Ohio or OHTCo.

Regarding OP&E's concern about OHTCo's participation in the AEP Money Pool, Applicants state that the AEP Money Pool was established to minimize short-term borrowing costs and cash flow needs among participating AEP affiliates. The Money Pool arrangement is equitable and does not convey a preference on any AEP affiliate participant. Applicants further state that the Commission already understands the workings of the Money Pool and has approved CSP's and OP's participation in it. Thus, Applicants conclude that OP&E's concerns about the Money Pool are unwarranted.

- (7) In its comments, IEU-Ohio states that the Applicants have not explained how the proposed transmission corporation structure will facilitate capital formation. In addition, IEU-Ohio argues that it is unclear as to how the proposed transmission corporate structure will ease pressure from transmission investments on AEP-Ohio's credit ratings. Moreover, IEU-Ohio claims that the transmission corporation structure complicates an already complex corporate structure and that it will be harder for retail jurisdictions to pursue prudence disallowances under mechanisms such as the significantly excessive earnings test (SEET).

In its reply, Applicants contend that the creation of the new AEP transmission companies will actually simplify the corporate structure rather than make it more complex. Applicants refer to an independent analysis attached to its reply comments (The Transco White Paper), which concluded that capital formation ability will likely be improved over time using the proposed transmission corporation structure and,

from a credit perspective, a transmission-only entity is expected in the long run to receive a better pricing of debt.

With respect to IEU-Ohio's question as to how the proposed transmission corporate structure will ease pressure from transmission investments on CSP's and OP's credit ratings, Applicants contend that transmission investments mandated by the North American Electric Reliability Corporation (NERC) and PJM (including the timing of required investments) constrain AEP Ohio's capital requirements and increase pressure on AEP Ohio's credit ratings. The pertinent conclusions and investor observations in the Transco White Paper demonstrate the beneficial impact on AEP-Ohio balance sheets, credit quality, and credit ratings anticipated as a result of the proposed transmission corporation structure.

Regarding IEU-Ohio's comment that the proposed transmission corporation structure introduces additional complexity to AEP's corporate structure, Applicants state that the Transco White Paper concluded that most investors consider the structure to be simpler and, to the extent additional issues are present, there are benefits that justify any additional complexity. Applicants contend that IEU's reference to the SEET docket is misguided as the statute establishing the SEET does not involve prudence disallowances and has nothing whatever to do with transmission cost recovery. Applicants claim that IEU will continue to have the same opportunity to intervene and participate in Ohio retail rate proceedings and FERC wholesale rate proceedings.

- (8) Based on the information contained in the Joint Application as well as the comments filed in this proceeding, the Commission finds that the Joint Application should be approved.

With respect to the concerns raised by OP&E, the Commission does not believe there will be any adverse impacts to Ohio's residential customers resulting from the transfer of transmission assets from AEP-Ohio to OHTCo because OHTCo will not acquire from AEP-Ohio those assets that are currently in-service and owned by AEP-Ohio. Moreover, OHTCo's proposed participation in the Money Pool mirrors the current provisions of AEP-Ohio's participation in the Money Pool. The Commission has not observed any negative impacts from AEP-

Ohio's participation in the Money Pool, and there is no evidence in this proceeding that any negative impacts will arise from the participation of OHTCo.

Further, the Commission agrees with the Joint Applicants that establishing OHTCo as an alternative vehicle to raise capital for new transmission investments helps AEP-Ohio by reducing its need to raise capital for transmission expansion. The Commission notes that there are many transmission-only companies operating around the country which are comparable to the proposed AEPTCo. For example, FirstEnergy Corp.'s American Transmission Systems Inc. (ATSI) subsidiary is a comparable transmission-only entity. ATSI was formed by separating transmission assets in Ohio into a new wholly owned subsidiary company. Moreover, American Transmission Company (ATC) and Independent Transmission Company (ITC) were formed by moving transmission assets into newly formed separate independent companies. ATC and ITC are similar to AEPTCo in that they are transmission-only companies, but a key difference is that AEPTCo is a wholly owned subsidiary of American Electric Power Company, Inc., and not an independent entity. Therefore, the Commission finds that the creation of a transmission company does not create complexity sufficient to warrant the denial of AEP's request.

Further, the Commission finds that the Joint Application demonstrates that OHTCo will be supplying electric transmission service for electricity delivered in this state. Accordingly, the Commission finds that OHTCo's operations will render it an electric light company and a public utility within the meaning of Sections 4905.03(A)(3) and 4905.02, Revised Code. In addition, the Commission finds that the proposed transfer of assets, as listed in Exhibit C of the Joint Application, that are not yet electric plant in service from AEP-Ohio to OHTCo should be approved.

- (9) The Commission also notes that the application filed in FERC Docket No. ER10-355-000, as discussed in the Joint Application, has culminated in a settlement that was filed at FERC on September 24, 2010. The settlement filing contains a description of the application, information regarding entities that intervened and a synopsis of FERC Order accepting the

rate subject to the outcome of hearing and settlement proceedings. The settlement was supported by nearly all of the wholesale customers and not opposed by the majority of state Commissions, including this Commission. On October 20, 2010, FERC granted a motion for authorization to implement the settlement rates on an interim basis. The settlement is now pending before FERC.

- (10) With respect to the Money Pool provisions contained in the Joint Application, OHTCo states that, except for the addition of OHTCo (and the other new transmission subsidiaries), the terms and conditions applicable to the operation of the AEP Utility Money Pool will remain unchanged. The existing parties to the AEP Utility Money Pool, along with OHTCo and the other new AEP transmission subsidiaries, propose to execute an amendment to the AEP Utility Money Pool Agreement and the Money Pool Agreement, copies of which are attached as Exhibits D and E to the Joint Application. OHTCo proposes to use the proceeds from the short-term borrowing under the Money Pool for interim financing of capital expenditure programs and its working capital needs, as described in the Joint Application.

Pursuant to the Commission Order in Case Nos. 10-345-EL-AIS and 10-346-EL-AIS dated May 5, 2010 (Prior Order), AEP-Ohio was authorized to participate in the Money Pool and borrow up to \$350 million for CSP and \$600 million for OP through May 31, 2011. To insulate AEP-Ohio from the financial risks associated with the non-regulated affiliated companies, this Commission in its Prior Order, imposed certain conditions on AEP-Ohio for its participation in the Money Pool.

To the extent the Prior Order authorized AEP-Ohio to participate in the Money Pool subject to certain conditions, the Commission is of the opinion that OHTCo's participation in the Money Pool should also be approved through May 31, 2011, subject to the same conditions as described below:

- (a) The aggregate amount to be loaned to the Money Pool by OHTCo should not exceed \$50 million at any one time and shall only be loaned to those Money Pool participants who are regulated public utilities or such utilities' subsidiaries.

- (b) If any regulatory agency having jurisdiction over one or more Participating Companies imposes any condition limiting the amount of short-term debt that may be loaned to any Participating Company in the Money Pool, OHTCo shall inform the Director of the Utilities Department of this Commission within 10 days.
 - (c) Loans to Participating Companies made through the Money Pool should be made only to those Participating Companies that have, or whose direct parent company has, investment grade or higher credit ratings on their senior secured or unsecured debt from at least one nationally recognized rating agency, or in the absence of such rating, investment grade or higher credit ratings on their corporate credit rating. In the event the credit rating of any Participating Company, or its parent company in the case of an unrated company, falls below investment grade, OHTCo shall inform the Director of the Utilities Department of this Commission in a timely manner.
 - (d) OHTCo should provide information to the Director of the Utilities Department of the Commission relating to its participation in the Money Pool on a quarterly basis.
- (11) On June 1, 2009, AEP-Ohio filed an application in Case No. 09-464-EL-UNC (Corporate Separation Case) for approval of its corporate separation plans, in accordance with Rule 4901:1-37-05(A), Ohio Administrative Code (O.A.C.). According to that application, the AEP-Ohio provides generation, transmission and distribution services, and the provision of such services are currently functionally separated, as approved by the Commission in previous cases. In its Opinion and Order dated June 2, 2010, in the Corporate Separation Case, this Commission found that AEP-Ohio has implemented its corporate separation plans and the plans are in compliance with Section 4928.17, Revised Code, and the rules in Chapter 4901:1-37, O.A.C., with limited exceptions delineated therein.

In June 2009, when AEP-Ohio filed its Corporate Separation Case, OHTCo had not been formed. Consequently, the corporate separation plan submitted by AEP-Ohio in its Corporate Separation Case did not reference the transmission structure described in this Joint Application. Accordingly, AEP-Ohio plans to reflect the existence of OHTCo in its corporate separation plans in a manner consistent with the Commission's decision in these cases. Therefore, AEP-Ohio should file an amended corporate separation plan in Case No. 09-464-EL-UNC within 45 days after the issuance of this Finding and Order to reflect the existence of OHTCo.

- (12) The Commission notes that approval of these cases should not be construed as determinative or binding of any future requests by AEP-Ohio or OHTCo to transfer transmission assets from one company to another.
- (13) Further, Commission approval of these cases should not be construed as limiting its consideration of issues for protecting customers of AEP-Ohio, including issues related to rates, collection of costs from customers, and reliability of service in future cases.
- (14) Finally, Commission approval of these cases does not constitute state action for the purpose of the antitrust laws. It is not the Commission's intent to insulate the Applicants or any party to a contract approved by this Finding and Order from the provisions of any state or federal law which prohibit the restraint of trade.

It is therefore,

ORDERED, That the application of AEP-Ohio and OHTCo to transfer the assets that are not yet electric plant in service from AEP-Ohio to OHTCo, as listed in Exhibit C of the joint application, be approved subject to the conditions set forth herein. It is, further,

ORDERED, That the Commission's approval in these cases does not constitute state action for the purpose of the antitrust laws. It is further,

ORDERED, That OHTCo is authorized through May 31, 2011, to participate in the AEP System Money Pool and borrow up to \$50 million from the Money Pool, as described in the Application. It is, further,

ORDERED, That the funds provided by Applicant to the Money Pool and borrowed therefrom by the Participating Companies shall not exceed \$50 million for Applicant, at any one time through May 31, 2011, and shall only be loaned to those Money Pool Participants who are regulated public utilities or such utilities' subsidiaries. It is, further,

ORDERED, That, if any regulatory agency having jurisdiction over one or more Participating Companies imposes any condition limiting the amount of short-term debt that may be loaned to any Participating Company in the Money Pool, OHTCo shall inform the Director of the Utilities Department of this Commission within 10 days. It is, further,

ORDERED, That OHTCo's Loans to Participating Companies made through the Money Pool shall be made only to those Participating Companies that have, or whose direct parent company has, investment grade or higher credit ratings on their senior secured or unsecured debt from at least one nationally recognized rating agency, or in the absence of such rating, investment grade or higher credit ratings on their corporate credit rating. It is, further,

ORDERED, That, in the event the credit rating of any Participating Company, or its parent company in the case of an unrated company, falls below investment grade, OHTCo shall inform the Director of the Utilities Department of this Commission in a timely manner. It is, further,

ORDERED, That OHTCo shall provide information to the Director of the Utilities Department of the Commission details relating to its participation in the Money Pool, on a quarterly basis. It is, further,

ORDERED, That the net proceeds from the short-term borrowings under the Money Pool shall be applied by OHTCo for the purposes as set forth in this Order and otherwise pursuant to the provisions of Sections 4905.40 and 4905.401, Revised Code. It is, further,

ORDERED, That nothing in this Finding and Order shall be construed to imply any guaranty or obligation as to the short-term notes and other evidences of indebtedness of OHTCo, or the associated interest, on the part of the State of Ohio. It is, further,

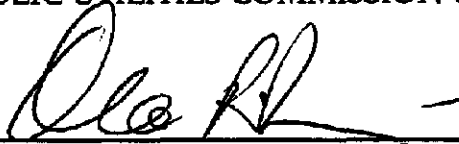
ORDERED, That AEP-Ohio file within 45 days of this Finding and Order a revised corporate separation plan in Case No. 09-464-EL-UNC reflecting the existence of OHTCo. It is, further,

ORDERED, That nothing in this Finding and Order shall be construed to imply any guaranty or obligation by this Commission to assure completion of any specific construction project of OHTCo. It is, further,

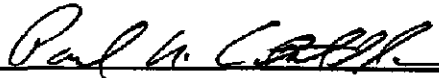
ORDERED, That nothing in this Finding and Order shall be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule or regulation of Applicants. It is, further,

ORDERED, That a copy of this Finding and Order be served upon all parties of record.

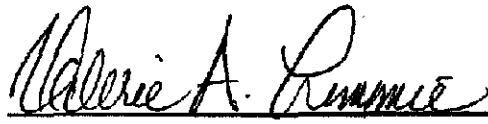
THE PUBLIC UTILITIES COMMISSION OF OHIO



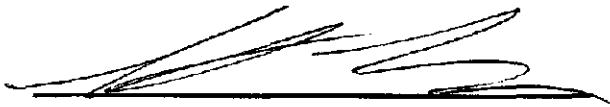
Alan R. Schriber, Chairman



Paul A. Centolella



Valerie A. Lemmie



Steven D. Lesser

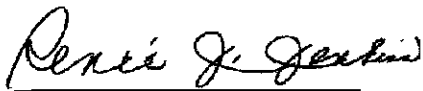


Cheryl L. Roberto

GAP/vrm

Entered in the Journal

DEC 29 2010



Renee J. Jenkins
Secretary