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The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

October 9, 2002

Re: **COLUMBUS SOUTHERN POWER COMPANY**

Gentlemen:

02-2628-EL-AIS

Enclosed on behalf of Columbus Southern Power Company are one executed and five conformed copies of an Application for authority to issue and sell promissory notes and enter into interest rate management agreements.

An additional copy of the Application is also enclosed. Please indicate by file-stamp the Commission's receipt and return the extra copy so marked to the undersigned.

Very truly yours,

David C. House

DCH/mms

Enclosures

c: Shahid Mahmud

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Before
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of :
the application of :
COLUMBUS SOUTHERN POWER COMPANY :
for authority to issue and sell :
promissory notes and :
enter into interest rate :
management agreements :
.....

2628
Case No. 02-____-EL-AIS

APPLICATION AND STATEMENT

TO THE HONORABLE

THE PUBLIC UTILITIES COMMISSION OF OHIO:

Your Applicant, Columbus Southern Power Company, respectfully shows:

FIRST: Applicant is an Ohio corporation engaged in the business of supplying to consumers within the State of Ohio electricity for light, heat and power purposes and is a public utility as defined by the Ohio Revised Code.

SECOND: Applicant's authorized and outstanding capital stock as of June 30, 2002 was as follows:

(1) 24,000,000 shares of Common Stock without par value authorized, of which there were 16,410,426 shares issued and outstanding;

(2) 2,500,000 Cumulative Preferred Shares (par value \$100) authorized, of which there were issued and outstanding a 7% Series consisting of 100,000 shares; and

(3) 7,000,000 Cumulative Preferred Shares (par value \$25) authorized, of which there were none issued and outstanding.

THIRD: The outstanding funded debt of Applicant as of June 30, 2002 consisted of the following issues, all issued pursuant to former orders of your Honorable Commission:

1. First Mortgage Bonds, 8.70% Series due 2022	\$ 2,000,000
2. First Mortgage Bonds, 8.55% Series due 2022	\$ 15,000,000
3. First Mortgage Bonds, 8.40% Series due 2022	\$ 13,000,000
4. First Mortgage Bonds, 8.40% Series due 2022	\$ 14,000,000
5. First Mortgage Bonds, 7.25% Series due 2002	\$ 14,000,000
6. First Mortgage Bonds, 7.15% Series due 2002	\$ 6,500,000
7. First Mortgage Bonds, 7.90% Series due 2023	\$ 40,000,000
8. First Mortgage Bonds, 6.80% Series due 2003	\$ 13,000,000
9. First Mortgage Bonds, 6.60% Series due 2003	\$ 25,000,000
10. First Mortgage Bonds, 7.75% Series due 2023	\$ 33,000,000
11. First Mortgage Bonds, 6.10% Series due 2003	\$ 5,000,000
12. First Mortgage Bonds, 6.55% Series due 2004	\$ 26,500,000
13. First Mortgage Bonds, 6.75% Series due 2004	\$ 26,000,000
14. First Mortgage Bonds, 7.60% Series due 2024	\$ 11,000,000

Other Long-Term Debt (including capital leases)	\$822,629,000
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Applicant had no short-term debt outstanding at June 30, 2002.

FOURTH: Attached hereto as Exhibit A are financial statements, including a balance sheet and statements of income and retained earnings of the Applicant as of June 30, 2002.

FIFTH: To provide Applicant with necessary capital for the purposes set forth herein, Applicant proposes, with the consent and approval of your Honorable Commission, to issue and sell, through October 31, 2003, secured or unsecured promissory notes ("Notes") in the aggregate principal amount of up to \$500,000,000. The Notes may be issued in the form of either First Mortgage Bonds, Senior or Subordinated Debentures (including Junior Subordinated Debentures) or other promissory notes. In addition, Applicant proposes to issue one or more unsecured promissory notes ("AEP Notes") to its parent American Electric Power Company, Inc. ("AEP"), provided that the aggregate amount of Notes and AEP Notes issued will not exceed \$500,000,000. The Notes and

the AEP Notes will be issued in accordance with the transition plans for Applicant approved by this Commission in Case No. 99-1729-EL-ETP.

The Notes will mature in not less than 9 months and not more than 50 years. The interest rate of the Notes may be fixed or variable and will be sold by (i) competitive bidding, (ii) through negotiation with underwriters or agents, or (iii) by direct placement with a commercial bank or other institutional investor. Any fixed rate Note will be sold by the Applicant at a yield to maturity which shall not exceed by more than 4.0% the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing. Any variable rate Note will be sold by the Applicant at a yield to maturity which shall not exceed by more than 4.0% the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing, and the initial interest rate on any variable rate Note will not exceed 10% per annum. The commission payable to agents or underwriters will not exceed 3.5% of the principal amount of the Notes sold. Applicant will agree to specific redemption provisions, if any, including redemption premiums, at the time of the pricing. The interest rates and maturity dates of any AEP Notes would be designed to parallel the cost of the capital of AEP in accordance with the Public Utility Holding Company Act of 1935, as amended. In addition, the interest rate and maturity parameters governing the Notes would apply to the AEP Notes.

In connection with the sale of unsecured Notes, Applicant may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to maintain a specified financial condition; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with pension plans. Applicant will not agree to any covenant more restrictive than those

currently existing under the Indenture, dated as of September 1, 1997, unless such unsecured Notes are callable (including, without limitation, with a provision for a make-whole call premium) by Applicant on or prior to December 31, 2005. In addition, Applicant may permit the holder of the Notes to require Applicant to prepay them after certain specified events, including an ownership change.

Applicant may have the right to defer payment of interest on the Junior Subordinated Debentures for up to five years. However, Applicant may not declare and pay dividends on its outstanding stock if payments under the Junior Subordinated Debentures are deferred. The payment of principal, premium and interest on Junior Subordinated Debentures will be subordinated in right of payment to the prior payment in full of senior indebtedness.

SIXTH: The First Mortgage Bonds will be issued under and secured by the Indenture of Mortgage and Deed of Trust, dated as of September 1, 1940, as supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures. A copy of the most recent Supplemental Indenture for First Mortgage Bonds utilized by the Applicant is attached as Exhibit B. It is proposed that a similar form of Supplemental Indenture be used for one or more series of the First Mortgage Bonds (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters). Applicant will issue First Mortgage Bonds only if such First Mortgage Bonds are callable (including, without limitation, with a provision for a make-whole call premium) by Applicant on or prior to December 31, 2005.

The Junior Subordinated Debentures will be issued under an Indenture, dated as of September 1, 1995, as supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures. A copy of the most recent Supplemental Indenture for Junior Subordinated Debentures utilized by the Applicant is attached as Exhibit C. It is proposed

that a similar form of Supplemental Indenture be used for one or more series of the Junior Subordinated Debentures (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The unsecured Notes (other than Junior Subordinated Debentures) will be issued under an Indenture dated as of September 1, 1997, as supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures or Company Orders. A copy of the most recent Company Order utilized by the Applicant is attached hereto as Exhibit D. It is proposed that a similar form of Company Order or a Supplemental Indenture be used for one or more series of the unsecured Notes other than Junior Subordinated Debentures (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters). The unsecured Notes may be assignable by Applicant to the post-corporate separation wires company. Any such assignment would be in lieu of the wires company issuing securities the proceeds of which would be transferred to Applicant to redeem indebtedness incurred prior to corporate separation as currently contemplated in Applicant's corporate separation proceedings. Applicant believes any such assignment would be consistent with applicable limitations on affiliate transactions.

* * *

SEVENTH: Applicant proposes, with the consent and approval of your Honorable Commission, to utilize interest rate management techniques and enter into Interest Rate Management Agreements. Such authority will allow Applicant sufficient alternatives and flexibility when striving to reduce its effective interest cost and manage interest cost on financings.

A. Interest Rate Management Agreements

The Interest Rate Management Agreements will be products commonly used in

today's capital markets, consisting of "interest rate swaps", "caps", "collars", "floors", "options", or hedging products such as "forwards" or "futures", or similar products, the purpose of which is to manage and minimize interest costs. Applicant expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and may be for underlying fixed or variable obligations of Applicant. Applicant will not agree to any covenant more restrictive than those contained in the underlying obligation unless such Interest Rate Management Agreement either expires by its terms or is unwindable on or prior to December 31, 2005.

B. Pricing Parameters

Applicant proposes that the pricing parameters for Interest Rate Management Agreements be governed by the parameters contained herein. Fees and commissions in connection with any Interest Rate Management Agreement will be in addition to the above parameters and will not exceed 1.00% of the amount of the underlying obligation involved.

C. Accounting

Applicant proposes to account for these transactions in accordance with generally accepted accounting principles.

D. Commission Authorization

Since market opportunities for these interest rate management alternatives are transitory, Applicant must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, Applicant seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time Applicant reaches agreement with respect to the terms of such transactions.

If Applicant utilizes Interest Rate Management Agreements, Applicant's annual long-term interest charges could change. The authorization of the Interest Rate Management Agreements consistent with the parameters herein in no way relieves Applicant of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize Applicant to agree to such terms and prices consistent with said parameters.

The authorization which Applicant requests herein to enter into Interest Rate Management Agreements is consistent with the authority granted by your Honorable Commission to Applicant in Case No. 01-2457-EL-AIS.

* * *

EIGHTH: The issuance of the Notes and the AEP Notes will be effected in compliance with all applicable indenture, charter and other standards relating to debt and equity securities and capitalization ratios of the Applicant.

NINTH: All proceeds realized from the sale of the Notes and the AEP Notes by the Applicant, together with any other funds which may become available to Applicant, will be used to pay at maturity or refund long-term debt and cumulative preferred stock, to repay short-term indebtedness used to pay at maturity or refund long-term debt and cumulative preferred stock, to fund its construction program and for working capital and other corporate purposes, including implementation of Applicant's corporate separation plan.

Applicant's First Mortgage Bonds, 6.10% Series due 2003 (\$5,000,000 principal amount outstanding) may be redeemed at their regular redemption price of 100.00%. Applicant's First Mortgage Bonds, 6.55% Series due 2004 (\$26,500,000 principal amount outstanding) may be redeemed at their regular redemption price of 100.00%. Applicant's First Mortgage Bonds, 6.60%

Series due 2003 (\$25,000,000 principal amount outstanding) may be redeemed at their regular redemption price of 100.00%. Applicant's First Mortgage Bonds, 6.75% Series due 2004 (\$26,000,000 principal amount outstanding), may be redeemed at their regular redemption price of 100.00%. Applicant's First Mortgage Bonds, 6.80% Series due 2003 (\$13,000,000 principal amount outstanding) may be redeemed at their regular redemption price of 100.00%. Applicant's First Mortgage Bonds, 7.90% due 2023 (\$40,000,000 principal amount outstanding) may be redeemed at their regular redemption price of 104.35% until May 1, 2003 and at 103.95% thereafter. Applicant's First Mortgage Bonds, 8.55% Series due 2022 (\$15,000,000 principal amount outstanding) may be redeemed at their regular redemption price of 104.28% until August 1, 2003 and at 103.85% thereafter. Applicant's First Mortgage Bonds, 8.70% Series due 2022 (\$2,000,000 principal amount outstanding) may be redeemed at their regular redemption price of 104.35% until July 1, 2003 and at 103.92% thereafter.

Applicant proposes to treat the corporate separation portion of incremental costs associated with any issuance of Notes, including reacquisition premiums, all related issuance expenses, and discounts or premiums on the Notes, as a regulatory asset associated with implementing restructuring and customer choice in Ohio subject to recovery and commensurate amortization in the next cost of service distribution base rate proceeding. Consistent with prior accounting, Applicant proposes to reclassify all existing unamortized costs associated with any long-term indebtedness redeemed or otherwise reacquired, including issuance expenses, discounts and premiums, to a new regulatory asset account to be amortized over the life of the new Notes. Applicant intends to utilize deferred tax accounting for the premium expense, in order to properly match the amortization of the expense and the related tax effect.

TENTH: The actual cost of the Notes and the AEP Notes will be determined at the time of the sale or sales thereof. The net effect on revenue requirements resulting from their issuance will be reflected in the determination of required revenue in rate proceedings in which all factors affecting rates are taken into account according to law.

WHEREFORE: Applicant prays for authority from your Honorable Commission (i) to issue secured or unsecured promissory notes (including AEP Notes) in the manner set forth herein in one or more new series, with a maturity of not less than 9 months and not more than 50 years in principal amounts of up to \$500,000,000, in one or more series, and to apply the proceeds of the sale thereof, all as proposed and described in this Application and (ii) to enter into Interest Rate Management Agreements within the parameters proposed and described in this Application.

Applicant prays for all other and further relief necessary and appropriate in the premises.

Respectfully submitted this 8th day of October, 2002.

COLUMBUS SOUTHERN POWER COMPANY

By _____
Treasurer

By _____
Secretary

STATE OF OHIO)
) SS:
COUNTY OF FRANKLIN)

Before me, a Notary Public in and for Franklin County in the State of Ohio, personally appeared A. A. Pena and Thomas S. Ashford, Treasurer and Secretary, respectively, of Columbus Southern Power Company, the Applicant in the foregoing application, and each being duly sworn says that the facts and allegations herein contained are true to the best of his knowledge and belief.



Notary Public

Dated: October 8, 2002

MARY M. SOLTESZ
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires 07-15-04