



American Electric Power
801 Pennsylvania Avenue N.W.
Suite 320
Washington DC 20004
AEP.com

June 5, 2009

Honorable Kimberly D Bose
Secretary
Federal Energy Regulatory Commission
888 First St., N.E.
Washington D.C. 20426

**Monique Rowtham-
Kennedy**
Senior Counsel -
Regulatory Services
(202) 383-3436
(202) 383-3459 (F)

Re: American Electric Power Service Corporation
Docket No. ER09-____-000

Dear Secretary Bose:

I. Introduction.

American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company and Wheeling Power Company (collectively "AEP") hereby files, pursuant to Section 205 of the Federal Power Act, 16 U.S.C. S 824d, proposed amendments to the Transmission Agreement by and among such companies and with AEPSC as Agent dated as of April 1, 1984 as amended ("Transmission Agreement").

II. Background.

AEP is a multi-state electric utility holding company system, whose operating companies provide electric service to approximately five million customers in parts of eleven states. Prior to 2000, when AEP merged with the former Central and South West System, AEP consisted of seven electric utility operating companies. The five largest companies operate generation, transmission and distribution facilities and are parties to the Transmission Agreement. The two smaller companies – Kingsport Power Company ("Kingsport") and Wheeling Power Company ("Wheeling") operate only transmission and distribution facilities. These seven AEP operating companies provide electric service to customers in parts of seven states – Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia. AEPSC provides management and professional services at cost to these companies and others in the AEP System.

AEP was a registered holding company system under the Public Utility Holding Company Act of 1935 (PUHCA 1935) which, until its repeal in 2005, required such systems to be planned and operated on an integrated basis, *i.e.*, as a single system. Integrated planning and operation of the AEP System has been carried out under a number of “pooling” agreements under which the AEP operating companies pool or combine their power supply and delivery facilities to achieve the benefits of an integrated system. The first such agreement was the Interconnection Agreement entered into in 1951 by the generation, transmission and distribution operating companies (Members), the same companies that are parties to the Transmission Agreement. AEPSC acts as Agent under the agreement. The Interconnection Agreement provides for the integrated planning and operation of the Members’ power supply facilities and provides for allocation among the Members of the generation-related costs and benefits of integrated planning and operation.¹

A. Origin of the Transmission Agreement

AEP has developed an extensive transmission system which serves as the medium for integrating the power supply resources of the Member companies. The East Zone system stretches from the southeastern shores of Lake Michigan through northern Indiana and Ohio to the mountains of Kentucky, Tennessee, Virginia, and West Virginia. AEP pioneered extra-high-voltage (EHV) transmission operating at voltages of 345 kV and 765 kV as a means of achieving the advantages of large scale system integration. The ability to site generation at its most advantageous locations and move power to widely separated load areas via high voltage and EHV transmission has situated AEP for many decades as an efficient low-cost electric energy producer. The integrated operation of the system, also enabled by the strong transmission system, allows the lowest cost power at any given time to be dispatched to serve the combined load obligations of the members.

The AEP Interconnection Agreement provides for sharing the costs of the Members’ generating facilities, and provides that each Member’s transmission facilities shall be made available to the others to enable system integration, including the centralized dispatch and shared use of generation. The Interconnection Agreement does not, however, provide for a sharing of the cost of transmission facilities, which are owned by the members providing service in the state or service area where such facilities are located. In the early 1980s, the addition of some major 765-kV facilities caused a significant imbalance in transmission investment among the Members. To achieve a

¹ CSW was also a registered holding company under PUHCA 1935 and had its own generation and transmission pooling agreements. These agreements as well as the pre-merger AEP pooling agreements, have been retained since the merger, and the two formerly separate systems are integrated pursuant to two “bridge” agreements called the System Integration Agreement (“SIA”) and the System Transmission Integration Agreement (“STIA”). The former CSW is now sometimes referred to as the AEP West Zone and the pre-merger AEP as the East Zone. The amendments proposed in this filing do not substantively affect the former CSW pooling agreements or the two bridge agreements. Upon acceptance for filing of the proposed amendments, AEP will file conforming changes to the STIA reflecting the addition of Kingsport and Wheeling as parties to the Transmission Agreement.

more equitable distribution of those investments among the Members, AEP filed the Transmission Agreement, proposing that the cost of ownership and operation of the Members' EHV facilities would be shared on the basis of their relative peak loads. The matter was litigated at FERC, with affected state regulatory commissions, other customer representatives and the FERC Trial Staff offering their opinions on the proposal. Ultimately, the Commission, in Opinion No. 311, issued in 1988, approved the proposed Agreement with a few changes, the most notable being the inclusion of 138-kV facilities among the facilities whose costs are shared under the Agreement.²

B. Description of the Existing Agreement

Under the AEP transmission Agreement, as approved by the Commission, each Member's investment in bulk transmission facilities is compared to its Member Load Ratio (MLR) share of the total of all the members' investments. MLR is a demand-related allocation factor used in both the Transmission Agreement and the Interconnection Agreement. Specifically, it is the ratio of a Member's non-coincident peak load in the past twelve months to the sum of the individual Members' non-coincident peak loads for the same period. Those Members whose bulk transmission investment is deficit relative to their MLR share of the total system investment make monthly settlement payments that are distributed by the Agent to those whose investments are surplus relative to their MLR share. The payments are determined by multiplying the Surplus Members' investment surplus by a carrying charge reflecting the Member's ownership and operation costs, including a Commission-approved return on equity of 12.84%. The investment levels are updated yearly, except that additions to a Member's investment exceeding \$10 million are recognized the month after they occur. I&M and KPCO have been surplus Members and the two Ohio companies – CSP and OPCO – have been deficit Members from the beginning. APCO has been a surplus member since 2006, after completion of the Wyoming-Jacksons Ferry 765 kV transmission line

C. Reasons for Amending the Agreement

The background of the proposed changes is described in direct testimony being filed herewith by J. Craig Baker, Senior Vice President – Regulatory Services for AEPSC. Mr. Baker explains that the proposed changes are driven by fundamental changes that have occurred in the electric utility industry and its regulatory framework in recent years. The most important changes have been open-access transmission under Order No. 888 and its progeny, and the Commission's policy encouraging utilities' participation in RTOs. In accordance with the commission's RTO policy, AEP, in 2004, placed its East Zone transmission facilities under the functional control of PJM Interconnection, L.L.C. ("PJM"). A number of aspects of AEP's having a single-system rate and participating in PJM have led to a re-examination of the method of allocating transmission costs among

² *American Electric Power Service Corp.*, Opinion No. 311, 44 FERC ¶ 61, 206 (1987) *reh denied*, Opinion No. 311-A, 45 FERC ¶ 61, 382 (1988).

the AEP operating companies under the Transmission Agreement. Prior to joining PJM, AEP provided transmission service to itself and others pursuant to its own Open Access Transmission Tariff (OATT). Since joining PJM, AEP's status has changed from being a Transmission Provider under its OATT to being a Transmission Customer under PJM's OATT. As load-serving entities in PJM, the AEP east companies must purchase Network Integration Transmission Service (NITS) from PJM to serve their native loads. AEP must also purchase from PJM the ancillary services and other services that it needs to serve its native load customers, and, as a Transmission Owner within PJM, AEP receives compensation from PJM for AEP's costs associated with allowing its transmission facilities to be used for regional OATT service.

As a NITS customer, AEP pays PJM for its load share of zonal transmission service. The allocation method used by PJM to determine AEP's load ratio share of costs, is similar in concept to the MLR allocation used in the Transmission Agreement, in that it also relies on annual peak demands, but it differs from the MLR method in that PJM uses a single coincident peak (1-CP) method to allocate among LSE's in AEP's zone, whereas the MLR reflects the Members' non-coincident annual peak demands.

Since the AEP east companies are both LSEs and transmission owners in PJM, they now receive comprehensive statements from PJM for transmission and related services used and supplied. AEP's proposal in this case provides for an allocation of all transmission-related items on those PJM statements to the AEP east operating companies. Unlike the existing Transmission Agreement, the proposed amended Transmission Agreement would allocate costs and revenues associated with all transmission facilities, not just investments in Bulk Transmission facilities, e.g., EHV stations and lines operated at 138 kV and above. Moreover, unlike the existing Transmission Agreement, the proposed amended Agreement would include Kingsport and Wheeling, which own transmission facilities and are PJM members, in the allocation. Thus, the proposed amendments will effect a comprehensive allocation of transmission related costs and revenues among the AEP operating companies that own transmission facilities.

Also, in the next several years, the AEP east companies expect to be charged significant amounts of money by PJM for a share of the cost of major transmission projects whose costs are socialized to all PJM LSEs. In Opinion No. 494,³ the Commission held that the cost of new transmission facilities operated at 500 kV and above and approved as part of PJM's regional transmission expansion planning (RTEP) process would be shared by all LSE's in the region. PJM has already approved several billion dollars worth of regional projects. The Commission's rationale in ordering such socialization is that the new 500-kV and above facilities are "backbone" facilities that benefit the entire region, so all LSEs and their customers in the region should share the cost of such facilities. PJM allocates the costs of new regional projects among the zones based on a sum of non-coincident demands method similar to the MLR, and then

³ *PJM Interconnection, L.L.C.*, Opinion No. 494, 119 FERC ¶ 61, 063 (2007) *order on reh'g*, Opinion No. 494-A, 122 FERC ¶ 61, 082 (2008).

allocates the costs among the LSEs in each zone using the 1CP method. AEP expects to be charged approximately 15% of the cost of such projects. The proposed amendments to the Transmission Agreement provide a contractual framework for the allocation of those costs among the companies on the same basis as other transmission related costs.

Another important change in circumstances leading to a reexamination of the terms and conditions of the Transmission Agreement has been legislation in some of the states in AEP's East Zone that has changed the nature of electric regulation in those states. Three of AEP's East Zone states have adopted electric utility restructuring and customer choice. As part of electric restructuring, the retail rates of the companies in those states have been unbundled. In Ohio, the FERC OATT rate is used to set the retail transmission charge. Because of FERC policies requiring transmission service to be provided by integrated utility systems at a single rate⁴ the cost of service used to develop charges for regional service in the AEP zone is the cost of all transmission facilities owned by the East Zone companies. It is, therefore, an average rate. In the remaining states, other than Ohio, that have retained bundled rates for electric service, the transmission component of those rates is based on the cost of owning, operating and maintaining the transmission facilities owned by the individual operating company, increased or decreased by net payments or receipts from non-affiliates and charges and payments under the existing Transmission Agreement. For various reasons, the transmission component of retail rates can be above or below the system average OATT rate. The use of an average AEP transmission cost of service in some states and individual company cost of service in others can cause under collection of transmission costs. The cost and revenue allocations under the proposed revisions to the Transmission Agreement will provide a reasonable basis for each state to set rates that will reduce or eliminate the differences in per kW costs of transmission among the companies, and alleviate the cost under collection problem.

III. Description of the Proposed Amendments

The proposed amendments are described in detail in direct testimony filed herewith by Dennis W. Bethel – Managing Director – Regulated Tariffs for AEPSC. As Mr. Bethel points out, the major proposed change to the Agreement is the modification of Articles 5 (Definitions of Factors Associated With Settlements) and 6 (Settlements) which implement the MLR-based cost sharing of facilities operated at 138 kV and above described earlier. The proposed new Articles 5 and 6 would implement the allocation of costs and revenues in the Transmission Accounts under the Uniform System of Accounts. The items to be allocated are set forth in Proposed Appendix I. All the proposed changes are shown in Exhibit AEP-202, black-lined version of the amended Transmission Agreement. The proposed changes are reflected in the enclosed clean format version of

⁴ See, e.g. *Southern Company Services, Inc.*, 55 FERC ¶ 61,173, *reh'g denied*, 57 FERC ¶61,093 (1991), *aff'd sub nom Alabama Power Co. v. FERC*, 933 F.2d 1557 (D.C. Cir. 1993).

the revised agreement (Attachment A), that includes the header and footer designations consistent with Order 614.

Since its inception, the Transmission Agreement has had one purpose, to effect a sharing of the AEP East Companies' ("Members") costs of owning and operating Bulk Transmission facilities, defined in Opinion No. 311, *supra*, to include transmission lines operating at 138 kV or higher and all facilities, without regard to voltage, at transmission stations that contain at least some EHV facilities.

The scope of the changes to the Transmission Agreement proposed by the Members is consistent with the significance of the changes in the provision and regulation of transmission service in the twenty years since the Commission's Order approving it as discussed by witness Baker. The proposed changes recognize that, pursuant to the PJM Open Access Transmission Tariff ("OATT", or "PJM OATT"), the Members, and other Load Serving Entities ("LSEs") in the AEP Zone of PJM, now share the cost of the AEP East Companies' transmission facilities of all voltages, including those operated at voltages below 138 kV. Further, while the Transmission Agreement included only the five largest AEP East Companies, all seven of them own and operate transmission facilities that are used by PJM to provide service, and the costs of all those facilities is reflected in the rates charged under the PJM OATT. The proposed changes also recognize that, as a result of open access and RTO participation, the Members now are obligated to provide certain transmission related services, and to purchase such services and additional RTO supplied services. Accordingly, the proposed Transmission Agreement changes address the allocation of OATT-based transmission and related costs and revenues among all seven of the AEP East Companies.

Mr. Bethel also presents Exhibit AEP-203, showing the effects of the proposed amendments on each of the East Zone operating companies' transmission costs and rates, and Exhibits AEP – 204 through 210. These Exhibits detail the cost impacts of the proposed changes in the Transmission Agreement, and compare AEP's proposed allocation method – 12-CP-- with two others that AEP considered but chose not to propose 1-CP and MLR. The Exhibits show that AEP's proposed method will produce more stable costs and rates for AEP customers, over the long-term, compared to the other methods.⁵

⁵ AEP's proposal to adopt the 12-CP methodology is not barred by the Commission's order in *American Elec. Power et al.*, 103 FERC ¶61,008 (2003) at par 47-48. This order required AEP to adopt the 1-CP methodology for transmission ratemaking to be consistent with the manner in which PJM allocates FTRs. As noted in this filing, the proposed allocations will not affect transmission rates or FIR allocations under the OATT.

IV. No Effect on Wholesale Customers

Further as Mr. Bethel indicates in his testimony, the proposed changes will have no impact on wholesale transmission rates.⁶ While the proposed Transmission Agreement will change the transmission costs and revenues allocated to each of the AEP East Companies individually, the total costs included in the OATT will remain unchanged.

V. Proposed Effective Date

Article 9 of the Transmission Agreement provides that any modification in the terms and conditions of the Agreement agreed to by the Members shall become effective the first day of the month following authorization by the appropriate regulatory authority. In accordance with this provision, AEP requests that the proposed changes not become effective until the first day of the month after the Commission issues a final, non-appealable order accepting the Agreement for filing. In other words, AEP requests that if the instant filing is set for settlement or hearing, the effective date be delayed until resolution of such settlement or hearing.

In addition to being in accordance with the terms of the Agreement AEP submits that such a delayed effective date is appropriate for other reasons. As explained by Mr. Baker in his accompanying direct testimony, AEP's pooling Agreements, including the proposed amended transmission Agreement, are meant to govern integrated planning and operations over the long term. Therefore, while AEP is concerned with getting the amendments in place as soon as possible, it is also concerned with achieving a result that is acceptable to state regulators and other stakeholders, or at least has been found by the Commission to be just and reasonable with respect to such stakeholders. Second, the proposed changes will result in some changes in the level of transmission-related costs historically experienced by some of the operating companies. A delayed effective date will allow the affected members and stakeholders to adapt to the new system. Finally, a delayed effective date will obviate the need to impose refunds or surcharges, which would entail administrative costs and potential issues associated with retail rate recovery.

AEP requests waiver of the notice provisions in the Commission's regulations, and any other regulation as necessary to allow the delayed effective date sought herein. A similar proposal was accepted by the Commission in connection with a filing in 2006 of amendments to AEP's System Integration Agreement, the pooling agreement between AEP's east and West Zones.

⁶ See Exhibit AEP-200 p. 9.

VI. State Commission Review

In recognition of the serious interest that the state commissions that regulate AEP's retail rates in its East Zone have in the proposed filing, AEP has provided advance notice of the planned filing to all seven state commissions. AEP met with those that requested such meetings to present and explain the proposed amendments, including the financial effects. AEP has endeavored to explain the reasons behind its proposal, assure that the state commissions fully understand the proposal and minimize any concerns the commissions may have.

VII. Compliance with the Requirements of 18 C.F.R. § 35.13

In compliance with the requirements of 18 C.F.R. § 35.13, AEP states the following:

A. List of Documents Enclosed – Section 35.13(b)(1)

The following documents are being submitted with this filing:

1. this letter of transmittal;
2. Attachment A, the revised Transmission Agreement with Order 714 compliant designations.
3. Testimony of J. Craig Baker (Exhibit AEP-100) and Dennis W. Bethel (Exhibit AEP-200);
4. Exhibits AEP 201-210 (including a blacklined version of the Transmission Agreement in AEP-202).
5. Workpapers supporting certain Exhibits;
6. Certificate of Service and List of Person Served;
7. Attestation of J. C. Baker; and

B. Proposed Effective Date – Section 35.13 (b)(2)

See Section IV, above

C. Names and Addresses of Persons to Whom a Copy of the Rate Schedule Change Has Been Mailed – Section 35.13(b)(3)

A copy of this filing has been served upon the state commissions of Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia, and the consumer advocates in those states. In addition, AEP has also posted this filing on its website at <http://www.aep.com/go/FERCRateScheduleFilings> and will provide a complete copy of this filing, on paper or CD, to any person who requests a copy

D. Brief Description of the Rate Schedule Change – Section 35.13(b)(4)

Please refer to Sections I, II and III of this transmittal letter for a brief description of the proposed rates.

E. Statement of the Reasons for the Rate Schedule Change – Section 35.13(b)(5)

Please refer to Section I of this transmittal letter for a statement of the reasons for the proposed rates.

F. Statement Regarding Whether AEP has Obtained the Requisite Agreement(s) to the Rate Schedule Change or Filing of Rate Schedule – Section 35.13(b)(6)

AEP has obtained the approval of the proposed amendments as required by the existing Agreement.

G. Statement Regarding Inclusion of Any Expenses or Costs in Cost of Service Statements that have been Alleged or Adjudged Illegal, Duplicative, or Unnecessary that are Demonstrably the Project of Discriminatory Employment Practices – Section 35.13(b)(7)

None of the costs or expenses underlying the cost of service have been alleged or adjudged to be illegal, duplicative, or unnecessary demonstrably due to discriminatory employment practices.

H. Cost of Service Information and Revenue Comparisons – Sections 35.13 (c) and (d)

Exhibit AEP-203 shows the effect on each of the AEP East operating companies of the proposed amendments, using the cost of service underlying the transmission formula rates accepted for filing by the Commission in Docket No. ER-08-1329-000.⁷

VIII. Order No. 714

AEP has elected to designate the amended Transmission Agreement in accordance with the Order No. 714 in which the Commission determined:

⁷ *American Electric Power Service Corporation*, Order Accepting and Suspending Formula Rate Subject to Refund and Establishing Refund and Settlement Judge Procedures, 124 FERC ¶61,306 (2009).

We will no longer require utilities to follow the Order No. 614 preamble instructions to file multiple copies of a tariff. Instead, the joint filers will be permitted to designate one filer to submit a single tariff filing for inclusion in its database that reflects the joint tariff, along with the requisite certificates of concurrence. The non-designated joint filers would include in their tariff database a tariff section consisting of a single page or section that would provide the appropriate name of the tariff and the identity of the utility designated as the filer for the joint tariff.⁸

While Order No. 714 is not yet effective, the Commission has permitted utilities to follow the procedures outlined in Order No. 714 for designation of joint tariffs.⁹ For this reason, rather than including with this filing seven separate copies of the Transmission Agreement designated pursuant to Order No. 614, AEP has designated the Transmission Agreement as Appalachian Power Company Rate Schedule FERC No. 100 and has included certificates of concurrence for the remaining AEP East Companies as joint filers.

IX. Request For Waiver and Settlement Procedures

The proposed amendments, while affecting a reallocation of costs among the east operating companies, does not result in any increase in transmission or related revenues or revenue requirements beyond those already authorized by the Commission. For this reason, AEP believes that the instant filing qualifies for the abbreviated filing requirements allowed by 18 C.F.R. § 35.13 (a) (2) (iii) in cases not involving a rate increase. However, should the Commission believe that a rate increase is involved in this filing, AEP seeks waiver of the cost-of-service statements required by 18 C.F.R. § 35.13 (d). Since the proposal involves a reallocation, rather than an overall increase in costs, AEP believes that the information that will be most helpful to the Commission and stakeholders is a comparison of the financial effects, under a given existing cost of service, of changing the allocation of costs from the existing method to the proposed method. AEP submits that the before and after comparison and comparison of alternative allocation methods set forth in Exhibits AEP-203 through AEP-210 is far more meaningful than the type of cost of service analysis underlying a proposal to increase rates.

In the event any other waivers are required in connection with this filing, the Commission should grant waivers given the benefits of updating costs and rates under the proposed formula approach.

⁸ *Electronic Tariff Filings*, Order No. 714, FERC Stats. & Regs. ¶ 31,276 (2008).

⁹ *See Portland General Electric Company et al.*, 126 FERC ¶ 61,220 (2009).

Kimberly D. Bose, Secretary

June 5, 2009

Page 11

Further, to the extent this filing is contested by any party, AEP respectfully requests that the Commission hold any required hearing in abeyance pending the establishment of settlement procedures to resolve issues raised by such contesting party.

X. Communications

Communication regarding this matter should be directed to the following individuals:

Monique Rowtham-Kennedy
American Electric Power
Service Corporation
801 Pennsylvania Ave, N.W.
Suite 320
Washington, DC 20004
Telephone: (202) 383-3436
e-mail:mrowtham-kennedy@aep.com

Dennis W. Bethel
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215
Telephone: (614) 716-2764
Fax: (614) 716-2352
e-mail:dwbethel@aep.com

Please acknowledge receipt of this filing by date stamping the enclosed extra copy of this transmittal letter and returning it in the enclosed postage prepaid envelope. Any questions concerning this filing may be directed to me.

Respectfully submitted,



Monique Rowtham-Kennedy

CERTIFICATE OF SERVICE

I hereby certify that I have this day arranged for service of the foregoing documents on each party on the attached service list.

A handwritten signature in black ink, appearing to read 'Monique Rowtham-Kennedy', is written over a horizontal line.

Monique Rowtham-Kennedy
American Electric Power Service Corporation
801 Pennsylvania Avenue, N.W.
Suite 320
Washington, D.C. 20004-2684
Telephone: 202-383-3436
Fax: 202-383-3459

June 5, 2009