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February 4, 2011

RECEIVED
FEB 04 2011
PUBLIC SERVICE
COMMISSION

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: Application of AEP Kentucky Transmission Company, Inc. for a Certificate of Public Convenience and Necessity Pursuant to KRS 278.020 to Provide Wholesale Transmission Service in the Commonwealth

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of the application of AEP Kentucky Transmission Company, Inc. ("KYTCo"), including supporting testimony, for a certificate of public convenience and necessity pursuant to KRS 278.020(1) to provide wholesale transmission service in the Commonwealth. A copy of this letter and the application is being served on counsel for the Attorney General and Kentucky Industrial Utility Customers, Inc.

KYTCo also is filing with its Application a motion for an informal conference to address a procedural schedule for this proceeding, and to address any general questions any intervenors or the Staff might have concerning the application or the proposed operation of KYTCo.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

MRO
Enclosures
cc: Michael L. Kurtz
Dennis G. Howard, II

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

APPLICATION OF AEP KENTUCKY TRANSMISSION COMPANY, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO OPERATE AS A TRANSMISSION ONLY PUBLIC UTILITY	))))))	**P.S.C. Case No. 2011-00___**

APPLICATION

AEP Kentucky Transmission Company, Inc. ("KYTCo" or "KY Transco"), pursuant to KRS 278.020(1) and 807 KAR 5:001, Sections 8 and 9 applies to the Public Service Commission of Kentucky ("Commission") for a Certificate of Public Convenience and Necessity authorizing it to operate as a transmission only utility within the Commonwealth. In support of this application, KY Transco states:

APPLICANT

1. KYTCo is a corporation organized October 2, 2009; it exists under the laws of the Commonwealth of Kentucky with its principal office located at 1 Riverside Plaza, Columbus, Ohio 43215. A certified copy of KYTCo's Articles of Incorporation and all amendments thereto is attached as **EXHIBIT 1**. KYTCo will plan, construct own, operate, manage and control plant and equipment within the Commonwealth of Kentucky for the transmission of electricity at wholesale to its customers, including Kentucky Power Company ("Kentucky Power").

2. KYTCo is a wholly-owned subsidiary of AEP Transmission Company, LLC, which in turn is a wholly-owned subsidiary of AEP Transmission Holding, LLC. AEP Transmission Holding, LLC is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"). Attached as **EXHIBIT 2** is a diagram that depicts the ownership of

KYTCo and the six other transmission subsidiaries of AEP (the six transmission subsidiaries of AEP and KYTCo collectively are referred to as "AEP Transcos.") KYTCo, the other AEP Transcos, AEP Transmission Company, LLC, and AEP Transmission Holding, LLC are under common ownership with and hence are affiliates of Kentucky Power within the meaning of KRS 278.010(18).

3. KYTCo will not provide retail transmission service directly to consumers within Kentucky. KYTCo will not be a retail electric supplier as the term is defined at KRS 278.010(4), and hence is not subject to the provisions of the KRS 278.016 to KRS 278.018.

4. KY Transco is a member of PJM Interconnection, LLC ("PJM"), a regional transmission organization, KYTCo's transmission service will be subject to regulatory oversight by the Federal Energy Regulatory Commission ("FERC") and this Commission. KYTCo's proposed operations subject it to Commission regulation as a utility within the meaning of KRS 278.010(3) because it will own, control, operate and manage facilities to be used for the transmission of electricity to the public for compensation.

OTHER ENTITIES

5. Kentucky Power is an electric utility organized as a corporation under the law of the Commonwealth of Kentucky in 1919, and it is engaged in the generation, purchase, transmission, distribution and sale of electric power. Its post office address is 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190. Kentucky Power serves approximately 175,000 customers in the following 20 Kentucky counties: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to

other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility within the meaning of KRS 278.010(3).

6. AEP is a New York corporation having an address of 1 Riverside Plaza, Columbus, Ohio 43215. AEP, directly or indirectly, owns all of the outstanding common stock of the following electric utility operating subsidiaries: AEP Ohio, AEP Texas, Appalachian Power, Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company. AEP also is involved in various competitive ventures in the United States and worldwide. AEP's utility operating subsidiaries are engaged primarily in the generation, transmission, distribution and sale of electricity to residential and commercial customers in portions of Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. AEP's 39,000-mile transmission network is the nation's largest electricity transmission system and its 38,000 megawatts of electricity generating capacity ranks among the nation's leaders. AEP is not a utility within the meaning of KRS 278.010(3).

7. American Electric Power Service Corporation ("AEPSC") is a New York corporation and a wholly-owned subsidiary of AEP. AEPSC provides administrative, legal, engineering, and other services for the AEP operating companies. AEPSC's principal place of business is located at 1 Riverside Plaza, Columbus, Ohio 43215. AEPSC is under common ownership with, and hence an affiliate of, Kentucky Power and KYTCo within the meaning of KRS 278.010(18). AEPSC is not a utility within the meaning of KRS 278.010(3).

BASES FOR ESTABLISHING KYTCO AS A TRANSMISSION-ONLY UTILITY WITHIN THE AEP SYSTEM

8. The transmission facilities of the AEP system primarily are owned by AEP operating companies such as Kentucky Power. These facilities are used to provide transmission service within AEP's eleven state operating territory. Although owned by the seven AEP operating companies, the AEP transmission system is planned, constructed and operated on a system-wide, integrated basis through the coordinated efforts of the AEP Transmission Department of AEPSC ("AEP Transmission,") which is responsible for managing the entire AEP transmission system. To accomplish its responsibilities, AEP Transmission utilizes the services of employees of AEPSC, the AEP operating companies, and contractors.

9. AEP's operating companies, including Kentucky Power, face a number of challenges common to the electric industry. These challenges include: (1) significant pressure to maintain credit ratings; (2) capital spending requirements in all areas of its business that extend into the next decade; (3) a sustained level of investment in AEP's transmission system to continue to meet the needs of customers; (4) substantial additional transmission investment as mandated by North American Electric Reliability Corporation ("NERC"); and (5) potential difficulties enhancing system reliability should spending on infrastructure become constrained. The establishment of KYTCo is being undertaken to address these challenges through investments in transmission facilities.

OPERATION OF KYTCO

KY Transco Facilities and Operations.

10. KY Transco will develop and own new transmission assets within the Commonwealth of Kentucky. KYTCo will not acquire any existing Kentucky Power transmission assets that are in service.

11. KYTCo's transmission assets will be physically connected to existing transmission facilities owned by Kentucky Power, other AEP operating companies, other AEP Transcos and unaffiliated third parties. KY Transco's transmission assets will be planned, constructed and managed as a part of a unified, integrated transmission system just as Kentucky Power's transmission assets have and will continue to be.

12. All operations of KYTCo will be undertaken by employees of AEPSC and Kentucky Power, through service agreements similar to those implemented in the past between AEPSC and Kentucky Power. Kentucky Power's customers will continue to receive one consolidated electric bill and their services will be provided by the same AEP employees presently performing the services.

(a) KY Transco joined PJM effective January 12, 2010. Following the grant of the approval sought herein, there will be no change in the overall planning, operation and maintenance of the KYTCo and Kentucky Power transmission systems within the Commonwealth. The transmission facilities of AEP transmission system, Kentucky Power and KYTCo will continue to be planned and operated in accordance with the approved regional planning process, and representation and interaction with PJM will continue in the same manner, utilizing the same personnel, as they are planned and operated today.

(b) Following the grant of the approval sought herein, the services provided today with respect to Kentucky Power transmission projects and facilities by AEPSC and Kentucky Power personnel will be provided by the same personnel to KY Transco. KYTCo will continue to rely upon and receive the necessary and appropriate managerial, technical, engineering, financing, regulatory, accounting, strategic, human resources, information technology, business logistics, and transmission service capabilities and experience of Kentucky Power and AEPSC.

(c) There will be no duplication of personnel or services, overhead and other operating costs, and as a result such expenses are not expected to increase as a result of the formation and operation of KYTCo.

(d) KYTCo will comply with all applicable requirements of Kentucky law regarding the planning, construction, maintenance and operation of electric transmission facilities.

(e) Following the grant of the approval sought herein, KYTCo will use the same standards and analyses that would be used by Kentucky Power in planning, constructing and operating transmission facilities to be owned and operated by it. The transmission assets of KYTCo will be operated as a seamless part of the AEP transmission system.

(f) In the early years of its operation, KY Transco will be able to rely upon the financial resources of its ultimate parent AEP to supply, or cause to be supplied, capital. As reported in its 2009 annual report, AEP had revenues, assets, and common shareholder equity of $13.489 billion, $48.348 billion, and $13.14 billion as of December 31, 2009.

13. It is not anticipated that KYTCo will develop, own and operate all future Kentucky-based transmission assets. Rather, only certain new transmission assets (regardless of voltage class) in Kentucky will be developed and owned by KY Transco. To ensure that the assets of KYTCo are of a sufficient scope, and are sufficiently physically distinguishable from the transmission assets owned by Kentucky Power, AEPSC has developed an AEPTCo Project Selection Guideline ("PSG") for determining which transmission facilities will be developed by AEP Transcos, including KYTCo, and which transmission facilities will be developed by the

operating companies, including Kentucky Power. The PSG will be used to provide a clear physical demarcation between potential transmission assets of Kentucky Power and potential KYTCo transmission assets. Such determinations will be made on a case-by-case basis and subject to approval by AEP Transmission management. Finally, the PSG will be reviewed periodically and may be amended from time to time. A copy of the PSG is attached as **EXHIBIT 3**.

Regulatory Jurisdiction.

14. Following the grant of the necessary certificate, KYTCo will be regulated by both the FERC and the Public Service Commission of Kentucky. Kentucky Power will remain a public utility and will be subject to the jurisdiction of this Commission to the same extent as it was prior to the formation and operation of KYTCo.

15. The Commission will retain the same authority over Kentucky Power's operations, the siting of transmission facilities, and Kentucky Power's rates and service it now exercises. The Commission's jurisdiction over the retail recovery by Kentucky Power of PJM-Related transmission charges will not change. KYTCo will comply fully with the requirements of KRS 278.020 in connection with the construction of transmission assets.

16. FERC will exercise the same authority over wholesale transmission rates as it currently does. The cost of the transmission service provided by KYTCo to Kentucky Power will be billed by PJM to Kentucky Power in a fashion similar to the manner in which Kentucky Power's transmission costs are presently billed.

<u>Basis For Requested Approval</u>

A. The Establishment and Operation of KYTCo, As Well As The Transmission Projects To Be Undertaken By KYTCo, Will Address A Public Need And Demand.

17. Vertically-integrated investor-owned utilities are facing a challenging and uncertain environment. In particular, Kentucky Power is facing significant pressure to maintain its credit ratings on the one hand, while on the other, capital spending needs are projected to be significant for at least the next decade across all areas of the utility business. In addition to significant investments in environmental compliance facilities, Kentucky Power's transmission system will require a sustained level of investment to meet customer needs. In addition, over the next decade, significant additional transmission investment is expected to be mandated by the North American Electric Reliability Corporation and PJM. The decisions to undertake the majority of new transmission investments facing Kentucky Power are no longer within the exclusive control of Kentucky Power and AEP Transmission, as many such investments are mandated by NERC and PJM.

18. These additional transmission facilities will add to the long-term reliability and stability of the Kentucky Power system and hence the service received by its customers. These investments can range from simple modifications, such as adding sectionalizing circuit breakers to a transmission line (thus reducing customer exposure to outages), to complex additions of new high-voltage lines and substations. In addition, it is anticipated that significant improvements to the existing Kentucky Power transmission system will be required as it ages. Over the past four years (2007-2010) Kentucky Power's capital spending has averaged $17.525 million or 22.2% of the KYPCo's total capital spending. Among the transmission projects being evaluated by AEP

Transmission, KYTCo, and Kentucky Power for Kentucky in the next three years are the $40 million Soft Shell-Bonnyman project in the Hazard, Kentucky area.

19. Transmission projects typically are multi-year endeavors, and often, the majority of the spending on such projects takes place in the latter part of the project's planning and construction. The financing of this needed investment will increase pressure on Kentucky Power's credit ratings, and hence the availability and cost of financing the required transmission investment. Moreover, absent KYTCo, the capital demands of these projects would limit the availability, and perhaps increase the cost, of capital for other needed investments by Kentucky Power in environmental and distribution projects.

B. The Formation And Operation Of KYTCo Will Further The Public Convenience.

20. Through KYTCo, a company focused solely upon making transmission investments, AEP Transmission will be able to pursue certain transmission-only projects without being limited by the funding available to Kentucky Power. KY Transco will construct only those transmission facilities that, absent the grant of the authority sought herein, Kentucky Power would have constructed. The formation and operation of KY Transco does not represent a change in the business model of AEP Transmission in Kentucky.

21. It also is anticipated that KYTCo will provide greater financial transparency for shareholders, lenders, and credit rating agencies with respect to transmission financing and its operational results. A transparent structure is desired by certain investors because it is easier to understand and analyze than a business that operates transmission, generation and distribution assets. As such, a transmission-only company may attract a greater supply of funding sources for transmission investments.

22. AEPTCo, representing the combined financial strength of its seven subsidiary Transcos, including KYTCo, is expected to establish itself as a stand-alone business with the necessary credit ratings coupled with strong, stable cash flows. These are anticipated to result in increased access to capital at perhaps a lower cost than would be available to an integrated operating company.

23. By relieving transmission-related capital demands on Kentucky Power, KYTCo will provide Kentucky Power with greater control of its annual capital expenditures and in turn will enable Kentucky Power to manage its credit ratios and credit ratings in an improved fashion. This in turn is expected to provide Kentucky Power with improved and broader access to capital, and reduce the risk of credit downgrades, in both weak and strong capital markets. Any long-term financing benefits, in the form of lower cost of debt, will benefit Kentucky Power's customers.

24. By focusing its capital expenditures on investments other than transmission, it is anticipated that Kentucky Power will be able to strengthen further its distribution infrastructure, thereby increasing the reliability of the service it provides.

C. The Formation And Operation Of KYTCo Will Not Adversely Affect Kentucky Power Or Its Ratepayers.

25. The formation and operation of KYTCo will not result in the wasteful duplication of personnel, services or facilities. All operations of KYTCo will be undertaken by AEPSC and Kentucky Power personnel through service agreements similar to those implemented in the past between AEPSC and Kentucky Power, or, where more appropriate, through third-party unaffiliated contractors. KY Transco will have no employees and hence personnel services, overhead, and other operating costs are not expected to increase as a result of the formation and

operation of KYTCo. KYTCo will have the technical and managerial abilities to provide reasonable service in the Commonwealth.

26. KY Transco will have the financial resources and abilities to provide reasonable service in the Commonwealth.

27. Kentucky Power's capital structure will not be altered by the formation of KYTCo and its Board of Directors intends to maintain its balanced capital structure going forward. The formation of KYTCo is expected to enhance Kentucky Power's ability to benefit from AEP's policy of attaining and maintaining strong stand-alone credit ratings for all of its operating companies, including the management and operation of Kentucky Power to minimize costs and optimize cash flow, and to make equity capital available to fund total capital requirements as necessary.

28. The formation of KYTCo will not affect the technical and managerial expertise of Kentucky Power. Although KY Transco will utilize the employees of Kentucky Power and AEPSC in its operations, Kentucky Power will continue to have access to sufficient employee resources to provide reasonable service.

29. KYTCo will operate as a transmission-only utility is in accordance with the law, for a proper purpose, and in the public interest.

<u>OTHER AGREEMENTS</u>

30. In connection with its operations, KYTCo will enter into the AEP System Amended and Restated Utility Money Pool Agreement and Amendment to provide access to a short term cash management tool. The money pool loans are not issued to pay or refund in whole or part any prior financing, nor are they a renewal of such prior financing. The

membership in the Money Pool will provide KYTCo the option to borrow on a short term basis when its short-term borrowing needs require, and invest surplus cash when such is available.

31. To avoid wasteful duplication of facilities and services, and to ensure KYTCo has the requisite technical and managerial expertise, all services performed by, or on behalf of, KYTCo, will be performed by employees of Kentucky Power and AEPSC. The services will be provided pursuant to the terms of service agreements between KYTCo and Kentucky Power and KYTCo and AEPSC respectively. The service agreements are modeled on the existing service agreement between Kentucky Power and AEPSC. In addition, Kentucky Power and KYTCo will execute a joint license agreement permitting each to occupy and use the real property and facilities of the other..

Testimony and Exhibits

32. The testimony of the following witnesses is filed in support of this Application:

(a) Ranie K. Wohnhas, Managing Director, Regulatory and Finance, Kentucky Power Company;

(b) Lisa M. Barton, Senior Vice President, AEP Transmission Company, LLC; and

(c) Jerald R. Boteler, Director, Corporate Finance, American Electric Power Service Corporation.

33. The following exhibits are filed in support of this Application:

(a) A certified copy of the Articles of Incorporation and all amendments thereto of AEP Kentucky Transmission Company, Inc. – **EXHIBIT 1**;

(b) Diagram depicting the ownership of AEP Kentucky Transmission Company, Inc. and the six other transmission subsidiaries of American Electric Power Company, Inc. – **EXHIBIT 2**; and

(c) American Power Transmission Company Project Selection Guidelines – **EXHIBIT 3**.

Communications

34. KYTCo respectfully requests that all communications involving this proceeding be directed to:

Mark R. Overstreet
R. Benjamin Crittenden
Stites & Harbison, PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634

Other

35. KYTCo respectfully requests that the Commission enter its final order in this matter granting the relief requested no later than June, 15 2011.

Wherefore, KYTCo respectfully requests that the Commission issue an Order:

1. Granting KYTCo's Application for a Certificate of Public Convenience and Necessity to operate as a transmission only utility in the Commonwealth of Kentucky; and

2. Granting KYTCo such further relief as may be appropriate.

This 4th day of February, 2011.

Respectfully submitted,

Mark R. Overstreet
R. Benjamin Crittenden
Stites & Harbison, PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634

COUNSEL FOR AEP KENTUCKY
TRANSMISSION COMPANY, INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by first class mail, postage prepaid, upon the following parties of record, this 4th day of February, 2011.

Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Dennis G. Howard II
Assistant Attorney General
Office for Rate Intervention
P. O. Box 2000
Frankfort, KY 40602-2000

Mark R. Overstreet

COMMONWEALTH OF KENTUCKY

UNITED WE STAND DIVIDED WE FALL

Elaine N. Walker
Secretary of State

Certificate

I, Elaine N. Walker, Secretary of State for the Commonwealth of Kentucky, do hereby certify that the foregoing writing has been carefully compared by me with the original thereof, now in my official custody as Secretary of State and remaining on file in my office, and found to be a true and correct copy of

ARTICLES OF INCORPORATION OF

J&B KENTUCKY NEWCO, INC. FILED OCTOBER 2, 2009;

ARTICLES OF AMENDMENT CHANGING THE NAME TO AEP KENTUCKY TRANSMISSION COMPANY, INC. FILED NOVEMBER 4, 2009.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 2nd day of February, 2011.

COMMONWEALTH OF KENTUCKY
OFFICE OF SECRETARY OF STATE

Elaine N. Walker

Elaine N. Walker
Secretary of State
Commonwealth of Kentucky
emcnulty/0744976 - Certificate ID: 109555

0744976.09	bschell ADD

Trey Grayson, Secretary of State
Received and Filed:
10/2/2009 12:14 PM
Fee Receipt: $50.00

Kentucky Office of the Secretary of State
TREY GRAYSON

Division of Corporations Business Filings PO Box 718 Frankfort, KY 40602 (502) 564-3490 www.sos.ky.gov	Articles of Incorporation **Profit Corporation**	PAI

Pursuant to KRS Chapter 271B, the undersigned applies to qualify and for that purpose submits the following statements:

Article I: The name of the corporation is J&B Kentucky Newco, Inc..

Article II: The number of shares the corporation is authorized to issue is 100.

Article III: The street address of the corporation's initial registered office in Kentucky is

Street Address (No Post Office Box Numbers)	City	State	Zip Code
4169 Westport Road	Louisville	Kentucky	40207

and the name of the initial registered agent at that office is C T Corporation System.

Article IV: The mailing address of the corporation's principal office is

Street Address or Post Office Box Number	City	State	Zip Code
1 Riverside Plaza	Columbus	OH	43215

Article V: The name and mailing address of the incorporator is as follows:

Name	Street Address or Post Office Box Number	City	State	Zip Code
Jeffrey D. Cross	1 Riverside Plaza	Columbus	OH	43215
Name	Street Address or Post Office Box Number	City	State	Zip Code
Name	Street Address or Post Office Box Number	City	State	Zip Code

I/We declare under penalty of perjury under the laws of the state of Kentucky that the foregoing is true and correct.

Signature of Incorporator	Printed Name & Title	Date
[signature]	Jeffrey D. Cross, Incorporator	October 1, 2009

I, C T Corporation System, consent to serve as the registered agent on behalf of the corporation.
Print Name of Registered Agent

Signature of Registered Agent	Printed Name & Title	Date
By: C T Corporation System [signature]	Renee Cruz, Asst. Secretary	10-1-09

(02/09)) KY001 - 09/03/2009 C T System Online

0744976.09 dcornish AMD

Trey Grayson, Secretary of State
Received and Filed:
11/4/2009 1:00 PM
Fee Receipt: $40.00

COMMONWEALTH OF KENTUCKY
TREY GRAYSON, SECRETARY OF STATE

Division of Corporations
Business Filings
PO Box 718
Frankfort, KY 40602
(502) 564-3490
www.sos.ky.gov

Articles of Amendment
(Domestic Profit Corporation)

AMD

Pursuant to the provisions of KRS 271B, the undersigned applies to amend articles of incorporation, and for that purpose, submits the following statements:

1. Name of the corporation on record with the Office of the Secretary of State is

J&B Kentucky Newco, Inc.

(The name must be identical to the name on record with the Secretary of State.)

2. The text of each amendment adopted: The name of the company is changed to AEP Kentucky Transmission Company, Inc.

The purpose stated is amended as: to transmit, sell and distribute electricity to the public, either directly or through the sale of electric energy to other utilities, within and without the state of Kentucky, and to transact any or all lawful business for which corporations may be incorporated under Kentucky Law.

3. If the amendment provides for an exchange, reclassification, or cancellation of issued shares, provisions for implementing the amendment, if not contained in the amendment itself, are as follows:

4. The date of adoption of each amendment was as follows: October 29, 2009

5. Check the option that applies (check only one option):
   - [ ] The amendment(s) was (were) duly adopted by the incorporators prior to issuance of shares.
   - [ ] The amendment(s) was (were) duly adopted by the board of directors prior to issuance of shares.
   - [ ] The amendment(s) was (were) duly adopted by the Incorporators or board of director without shareholder action as shareholder action was not required.
   - [x] If the amendment(s) was (were) duly adopted by the shareholders, the:
     a) 100 Number of outstanding shares.
     b) ____Number of votes entitled to be cast by each voting group entitled to vote separately on the amendment
     c) ____Number of votes of each voting group indisputably represented at the meeting.
     d) ____The total number of votes in favor of the amendment.
     e) ____The number of votes against the amendment.
     f) ____The number of votes cast for the amendment by each voting group was sufficient.

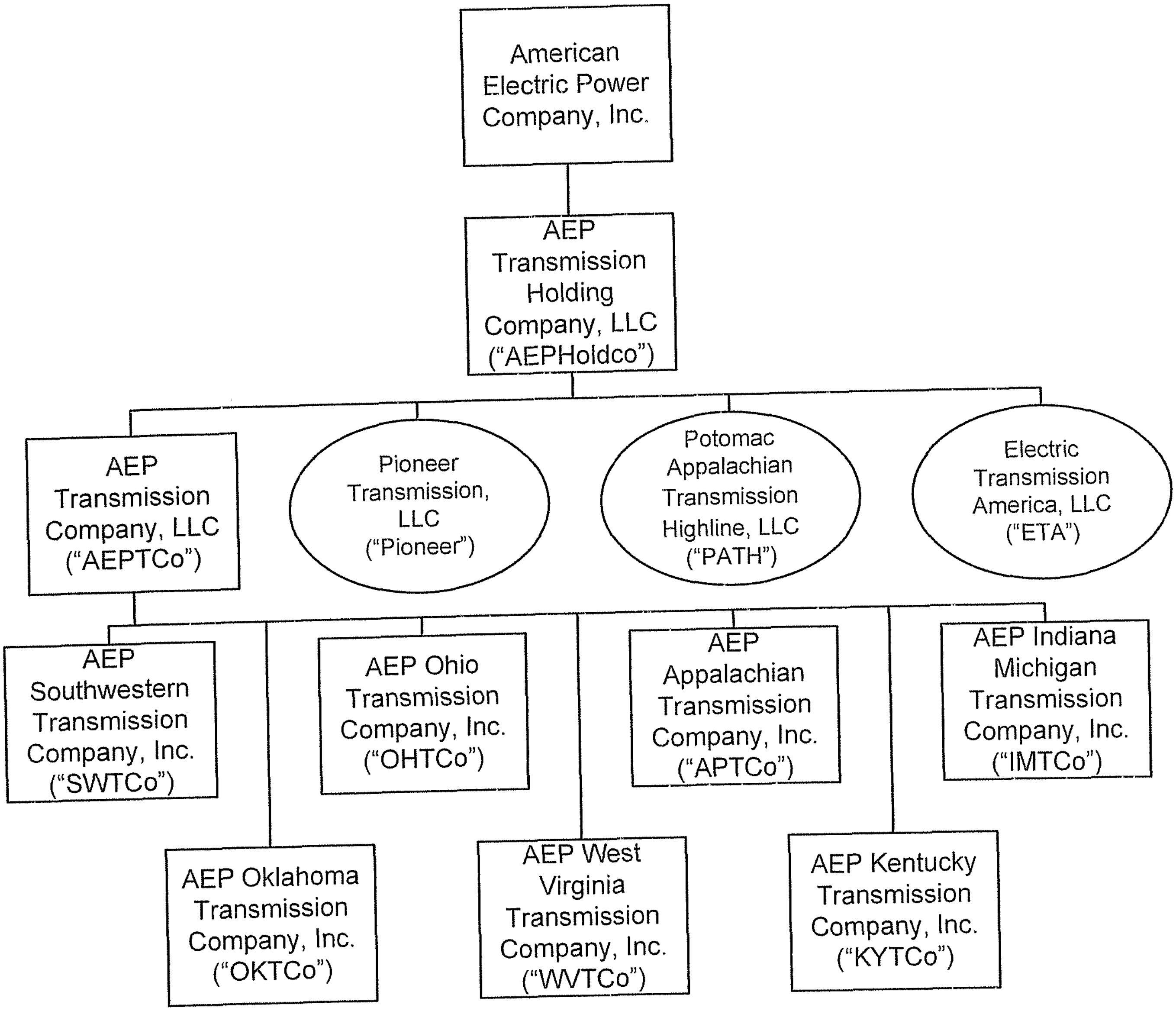
6. This application will be effective upon filing, unless a delayed effective date and/or time is provided. The effective date or the delayed effective cannot be prior to the date the application is filed. The date and/or time is____________.
(Delayed effective date and/or time)

I declare under penalty of perjury under the laws of Kentucky that the forgoing is true and correct.

Signature of Officer or Chairman of the Board	Printed Name	Title	Date
[signature]	Jeffrey D. Cross	Vice President	November 3, 2009

(09/09)
KY005 - 09/14/2009 C T System Online

AEPTCo CORPORATE STRUCTURE



*Highlighted companies represent AEPTCo and AEPTCo subsidiary companies.

AMERICAN ELECTRIC POWER

AEP Transmission LLC (AEPTCo)

Project Selection Guideline

November 19, 2009

REVISION HISTORY

Rev.	Description of Change(s)	Prepared or Revised By	Date	Approved
1				
2				

Note: This document has been prepared by, and is the property of, American Electric Power Company, Inc. This document may be modified by AEP.

DOCUMENT CONTROL

Preparation

ACTION	NAME(S)	TITLE
Prepared by:	Kamran Ali Richard Reinaker	Engineer II Sr. Engineer
Reviewed by:	Mohammed Ahmed	Manager, ETP
Reviewed by:	Teresa A. Gallup	Manager, SWTP
Reviewed by:	Ali Al-Fayez	Manager, TAP
Approved by:	Bernie Pasternack	Managing Director, TASP

Review Cycle

Quarterly	Semi-annual	Annual	As Needed X

Release

VERSION	DATE RELEASED	FILE NAME	CHANGE NOTICE	REMARKS

Distribution List

NAME(S)	DEPARTMENT	TITLE

TABLE OF CONTENTS

1.0 PURPOSE

This document provides guidance to AEP Transmission personnel in determining how capital will be allocated between the AEP operating companies ("OPCO") and AEP Transmission Company subsidiaries ("AEPTCo subsidiaries") regarding the construction of new transmission assets. These guidelines are to be used by employees within the AEP Transmission business unit in determining what Projects or Project Components should be developed by the AEPTCo subsidiaries. All personnel participating in the planning, identification and approvals of new AEP Transmission assets must be familiar with and utilize these guidelines.

2.0 ROLES & RESPONSIBILITIES

There are several groups involved with identifying AEP Transmission system needs. The following highlights the roles and responsibilities of the Transmission departments responsible for evaluating system needs:

2.1 Transmission Planning (TP)

- Identify transmission system needs.
- Propose projects and system upgrades.
- Provide recommendations to TAP with respect to development of project or system upgrade.
- Provide detailed information with respect to the need for the given project or system upgrade including Regional Transmission Organization identified projects.

2.2 Transmission Asset Engineering (TAE)

- Identify asset replacement / rehab needs for transmission assets.
- Propose projects and system upgrades.
- Provide recommendations to TAP with respect to development of project or system upgrade.
- Provide detailed information with respect to the need for the given project or system upgrade.

2.3 Transmission Asset Performance (TAP)

- Collect lists of project and system upgrade information from TP and TAE groups.
- Review the detail provided by TP and TAE, and determines whether the project or upgrade meets the requirements of this guideline.
- Prepare documentation necessary for financial approvals and prepare budget projections as requested by Transmission Budgeting Planning &Analysis (TBP&A) group.

3.0 PROJECT SELECTION PROCESS

For the purposes of this document the following definitions apply:

"Assets" are defined as electric equipment, lines, stations that are designated as Transmission pursuant to FERC Form 1 general ledger account.

"Upgrades" are defined as modifications to existing Transmission Assets.

"Facility" is defined as an entire substation or line between two stations.

"Component" refers to a section or sections of line between two stations and new equipment within a station.

"Project" is defined as a combination of Facilities and Components needed to meet a given system need and included together for financial approval. A Project may include both OPCO and/or AEPTCo assets.

This document has been developed to assist AEP Transmission personnel in determining what Facilities and/or Components should be developed by an AEPTCo subsidiary. Any Facilities or Components that do not meet these guidelines would be developed to the respective AEP Operating Company.

This process recognizes that there may be a need for variances between states, due to state statutory requirements or regulatory precedents. Accordingly, discretion must be exercised by TAP in making such determinations. Known state specific considerations are identified in Appendix A.

3.1 AEPTCo Ownership Eligibility

The following general principles would apply for eligibility as AEPTCo assets:

- Assets that provide a Transmission function (assigned to a Transmission FERC Form 1 general ledger account number) may be eligible for inclusion in an AEPTCo subsidiary if such assets meet the criteria specified in these PSG. No facilities that are classified as Distribution or Generation can be developed by AEPTCo.
    - Transmission Assets designed and operated at voltages of 23 kV or higher in the PJM region and 69 kV or higher in the SPP region are considered Transmission assets. (Currently AEPTCo has no plan to own Texas SPP transmission assets).
    - For a power transformer to qualify as an AEPTCo asset, both primary and secondary transformer voltages must meet the above voltage criteria and the transformer must

provide a Transmission function. This restriction does not apply to auxiliary or station service transformers in a station.

- AEPTCo will build/own only those facilities (Transmission Facilities) that may be recovered from Transmission Service Customers through the RTO's FERC-approved OATT, either through a rate of general applicability or by direct assignment to transmission customers.

- Transmission assets within a Distribution station that are part of a network qualify as AEPTCo assets.

3.2 AEPTCo Project Categories

Projects and components that may be developed by an AEPTCo company are categorized as follows:

3.2.1 Greenfield

Greenfield facilities are defined as new transmission assets that do not require replacement or modification of existing facilities or components.

- Development of new transmission Facilities.

- Transmission assets within a new Distribution or Generation station that is part of the transmission network. This would require a clear demarcation between Transmission and Distribution or Generation assets at the facility.

- New property or rights-of-way acquired for new transmission facilities.

3.2.2 Facility Additions

Facility additions are defined as new transmission components installed at existing AEP Operating Company-owned Transmission or Distribution facilities.

- New Transmission equipment additions such as circuit breakers, transformers, shunt or series reactors, capacitor banks, etc. and ancillary equipment directly related to the new Transmission equipment additions.

- May include the retirement of certain existing AEP Operating Company Transmission components, as necessary, to allow for the installation of the new AEPTCo facilities.

- The addition of new AEPTCo line facilities on existing AEP Operating Company towers/poles (e.g. conductors/insulators being installed on vacant tower position).

3.2.3 Facility Replacement

Facility Upgrades are defined as the replacement of an entire existing AEP Operating Company-owned facilities with new AEPTCo-owned facilities.

- Complete replacement of an AEP Operating Company-owned transmission line facility or transmission station facility with a new AEPTCo-owned station or line facility. Retirement of the AEP Operating Company facility is required.

- AEPTCo at cost may lease or purchase the rights-of-way and property easements from the affected AEP Operating Company (consistent with state legal/regulatory requirements).

3.2.4 Component Replacement

Component replacement is defined as an apportioned replacement of an existing AEP Operating Company-owned Transmission facility or replacement of component(s) within a Transmission facility.

- Major Extra High Voltage (EHV) equipment replacements may be included in AEPTCo.

- All component replacement projects must be evaluated on a case-by-case basis.

3.2.5 Spare/Mobile Equipment

Spare/mobile equipment is defined as purchases of major Transmission equipment as capitalized spares or mobiles.

- Mobile transformers must have Transmission operating voltages at the high and low side for this category.

- Major spare equipment such as transformers and circuit breakers may be purchased to support existing AEPTCo assets.

3.3 Other Considerations

- All assets owned by AEPTCo subsidiaries must be clearly distinguishable from assets owned by AEP Operating Companies.

- Components developed by AEPTCo are intended to be large projects that are readily identifiable and discernable to AEP Service employees and personnel.

- A project should be greater than $500,000 to be considered for development by an AEPTCo subsidiary. Exceptions to this assumption must be approved by TAP.

- Reimbursable projects or projects involving contributions in aid of construction (CIAC) should follow the guideline for determination of AEPTCo versus AEP Operating Company ownership.

- Projects that have not yet been place in service but have been previously approved through the AEP financial approval process may be considered for AEPTCo on a case-by-case basis. This provision is transitional and shall self terminate after January 01, 2011.

- Projects or components that require upgrades to AEPTCo facilities or are directly interconnected to AEPTCo facilities shall be developed by AEPTCo.

3.4 Records Management

- Accounting procedures will comply with all regulatory, GAAP, and FERC Uniform System of Accounts standards.

- Internal controls will be designed to meet AEP standards.

- Assets owned by applicable AEPTCo subsidiary or AEP Operating Company do not change the applicable RTO definition of Transmission or Distribution.

- FERC accounting designations distinguishing Transmission and Distribution equipment must be adhered to in all situations.

3.5 Financial Authorization & Documentation

- Authorization for funding must utilize the same process for both AEPTCo and Operating Company assets.

- TAP shall prepare and route all projects for financial approval, clearly specifying which assets will be owned and operated by AEPTCo. Individual project approvals may include approvals of both Operating Company and AEPTCo assets, as long as all work associated with the project is clearly discernable between the Operating Company and AEPTCo.

3.6 Related Procedures & Guidelines

- Not applicable.

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF AEP KENTUCKY	)	
TRANSMISSION COMPANY, INC.	)	
FOR A CERTIFICATE OF PUBLIC	)	CASE NO. 2011-____
CONVENIENCE AND NECESSITY TO	)	
OPERATE AS A TRANSMISSION ONLY	)	
PUBLIC UTILITY		

DIRECT TESTIMONY AND EXHIBITS OF

LISA M. BARTON, JERALD R. BOTELER, JR AND RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

February 04, 2011

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF AEP KENTUCKY TRANSMISSION COMPANY, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO OPERATE AS A TRANSMISSION ONLY PUBLIC UTILITY	)))))	CASE NO. 2011-____

DIRECT TESTIMONY AND EXHIBITS OF

LISA M. BARTON

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

February 04, 2011

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND ADDRESS.

A. My name is Lisa M. Barton. I am employed by American Electric Power Service Corporation (AEPSC), one of several subsidiaries of American Electric Power Company, Inc. (AEP). My business address is 700 Morrison Road, Gahanna, OH 43230-6642. I am currently Senior Vice President Transmission Strategy and Business Development for AEPSC, and I am an officer of several AEP affiliates.

II. BACKGROUND

Q. CAN YOU PLEASE IDENTIFY THE AEP AFFILIATES FOR WHICH YOU ARE AN OFFICER?

A. Currently, I am Senior Vice President of AEP Transmission Company, LLC (AEPTCo), which is a wholly-owned subsidiary of AEP Transmission Holding Company, LLC (AEPHoldco). I am also Senior Vice President of each of the AEPTCo subsidiary companies (Including AEP Kentucky Transmission Company) and President of Electric Transmission America, LLC (ETA), which is a joint venture between AEPHoldco, a wholly-owned subsidiary of AEP, and MidAmerican Energy Holdings Company (MEHC) America Transco, LLC, a wholly-owned subsidiary of MEHC. In addition, I am a member of the Board of Managers of both the Prairie Wind and Tallgrass joint ventures, which are ventures with ETA.

Q. PLEASE REVIEW YOUR TRAINING, EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS, AND BUSINESS EXPERIENCE.

A. I earned a bachelor's degree in electrical engineering in 1987 from Worcester Polytechnic Institute in Worcester, MA and a Juris Doctorate degree in 1993 from Suffolk University Law School in Boston, MA. I am a member of both the New Hampshire and Massachusetts state bars.

Prior to joining AEP, I was manager of Transmission Regulations and Compliance for Northeast Utilities Service Corporation. I have over twenty years experience in the energy field. Throughout my tenure in the industry, I have held various positions in the areas of engineering, rates and regulatory affairs, marketing, compliance, and legal and energy consulting for Northeast Utilities Service Corporation, its subsidiary Public Service Company of New Hampshire, Ransmeier and Spellman LLC, and Strategic Energy LLC.

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?

A. As Senior Vice President of Transmission Strategy and Business Development for AEPSC, I am responsible for transmission planning within the Regional Transmission Organizations (RTOs) of Southwest Power Pool (SPP), PJM Interconnection, LLC (PJM), and the Electric Reliability Council of Texas (ERCOT); developing and executing transmission strategy and business plans for AEP's operating companies; budgeting and financial analysis over the AEP transmission organization; extra-high voltage (EHV) transmission development; and oversight of AEP's transmission joint ventures and the interface with its corporate partners.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I support the application of Kentucky Power Company (KPCo or Company) and AEP Kentucky Transmission Company, Inc. (KY Transco or KYTCo) in this case. I provide an overview of the AEPTCo corporate structure, discuss the business rationale and benefits associated with creation of KY Transco, describe various services to be provided by AEP affiliates to KY Transco, discuss the selection process for transmission projects to be owned by KY Transco, and discuss KY Transco's membership in PJM.

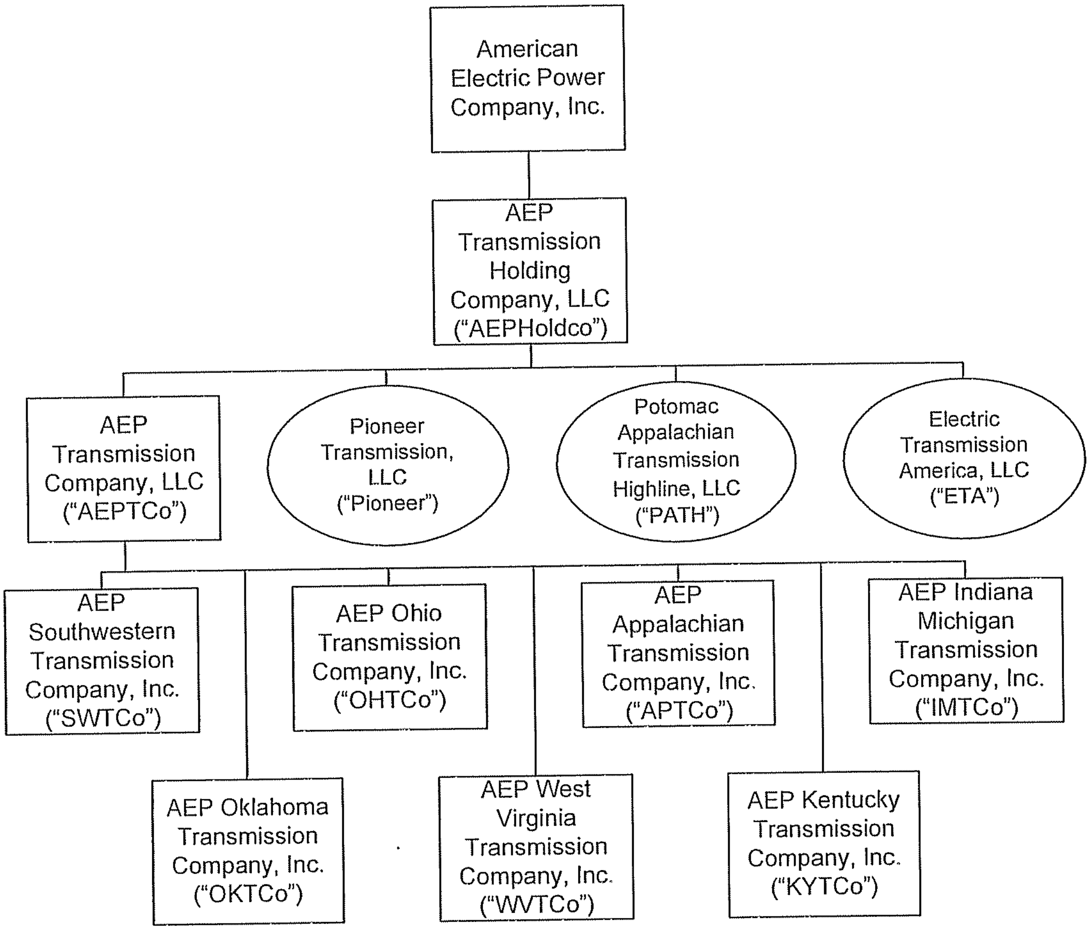
Q. ARE YOU SPONSORING ANY PORTIONS OF THE APPLICATION OR EXHIBITS?

A. Yes. I am sponsoring the body of the Application as well as Exhibit LMB-1, AEP Transmission Company Project Selection Guidelines.

Q. PLEASE DESCRIBE THE AEPTCO CORPORATE STRUCTURE.

A. As described below, AEPHoldco is a wholly-owned subsidiary of AEP. AEPTCo is a wholly-owned transmission subsidiary of AEPHoldco. In addition to AEPTCo, AEPHoldco also holds AEP's share of non-Texas transmission joint ventures including Potomac-Appalachian Transmission Highline, LLC (PATH), Pioneer Transmission, LLC (Pioneer), and ETA. AEPTCo in turn serves as a holding company for seven transmission-only public utilities, one of which is KY Transco. Table 1 below illustrates the corporate structure of the AEPTCo and the seven transmission-only public utilities.

Table 1 – AEPTCo CORPORATE STRUCTURE



*Highlighted companies represent AEPTCo and the AEPTCo subsidiary companies.

Q. HAS AEP FORMED OTHER WHOLLY-OWNED TRANSMISSION COMPANIES IN THE OTHER STATES WHERE IT HAS OPERATING COMPANIES?

A. Yes. AEP has formed a total of seven wholly-owned subsidiaries, which will do business in ten of the eleven states in AEP's service territory. Transcos in Michigan and Oklahoma have already begun conducting business. On December 29, 2010, the Public Utilities Commission of Ohio (PUCO) approved Ohio Transco's application to be an electric utility. WV Transco has filed for approval with the Public Service Commission on West Virginia. On April 26, 2010, an application was filed regarding AEP Appalachian Transmission Company (VA Transco) in Virginia. That application was withdrawn pending FERC approval of the AEP Transco settlement in Docket No. ER10-355-000. AEP is not presently contemplating the formation of a new Transco subsidiary within the ERCOT region since AEP already has a transmission-only company, ETT, operating in ERCOT. ETT is a joint venture of MEHC and AEP subsidiaries.

Q. WHY DID AEP FORM KY TRANSCO?

A. AEP Formed KY Transco to provide an alternative vehicle for financing certain transmission investments that KPCo would have otherwise made if it had unlimited options for the allocation of its constrained capital. KY Transco will operate in the same manner as KPCo and will make the same types of investments in the transmission system that KPCo would have made had AEP not formed KY Transco.

Vertically-integrated investor-owned utilities are facing a challenging and uncertain environment. As more fully detailed in the testimony of Company witnesses Boteler and Wohnhas, KPCo is facing significant pressure to maintain its credit ratings at a time when capital spending needs are significant across all areas of the utility business and are projected to persist over the next decade. In particular, KPCo's transmission system is expected to require a sustained level of investment to meet customers' needs and North American Electric Reliability Corporation (NERC) requirements as well as PJM requirements.

In addition to these new transmission projects that are mandated or are required for compliance, KPCo recognizes that various improvements to and replacements of existing facilities will be required in the future. KPCo's inability to make all improvements to the system when capital is tightly constrained can result in projects which are not of immediate necessity being deferred. The operation of KY Transco will alleviate many of these capital constraints.

Additionally, the operation of KY Transco will have an indirect benefit on the reliability of the generation and distribution systems. The decisions to undertake the majority of new transmission investments are no longer within the exclusive control of local utilities, as they are mandated by NERC and various Regional Transmission Organizations (RTOs). Without KY Transco, the capital demands of these mandated transmission projects may limit the amount of available capital for other needed investments by KPCo to benefit customers, including generation and distribution projects. KY Transco, a company focused only on making transmission investments, will be able to pursue certain transmission-only projects in Kentucky without being limited by the funding levels available to KPCo. This will provide long-term benefits to Kentucky customers by relieving KPCo of the burden of incurring debt and equity for those projects, and preserving debt issuance capacity for other needs.

Q. PLEASE DESCRIBE WHO OWNS THE AEP TRANSMISSION SYSTEM FACILITIES TODAY.

A. Today, AEP transmission facilities are primarily owned by AEP's operating companies, which provide electric service within AEP's eleven-state territory.

KPCo currently owns over 1,200 circuit miles of transmission lines within the AEP transmission system.

Q. HOW IS THE AEP TRANSMISSION SYSTEM PLANNED AND OPERATED TODAY?

A. Although the transmission facilities are currently owned by the individual AEP operating companies, the entire AEP transmission system is planned and operated on an integrated basis through the coordinated efforts of the AEP Transmission Department (AEPTransmission), a business unit of AEPSC. To accomplish its responsibilities, AEPTransmission utilizes a combination of services provided by AEP operating company employees, AEPSC employees, and contractors.

AEPTransmission works closely with neighboring utilities, other interconnected entities, and the RTOs to plan and operate the transmission grid. Much of the coordination is handled with and through the respective RTOs to align to the transmission planning and operational requirements set out in each RTO's protocols and operating criteria, and further defined through NERC requirements. Administratively, the AEP transmission system is divided into two zones: the East Zone and the West Zone.

Q. PLEASE ELABORATE ON THE TYPES OF TRANSMISSION INVESTMENTS THAT WILL UPGRADE AND IMPROVE THE TRANSMISSION GRID, SPECIFICALLY AS IT RELATES TO THE STATE OF KENTUCKY.

A. There are a number of coalescing factors influencing the need for transmission investment. Generally, improvements can be grouped into three main categories:

(1) upgrades required to maintain system reliability and meet customer demand, (2) upgrades required to interconnect generation resources, and (3) upgrades required to relieve transmission congestion and enhance market efficiency. Some of these factors compel similar or complimentary solutions, while others require enhancements unique to the particular need.

Each of these project categories is driving the need for transmission investment. AEPTransmission's goal is to develop projects that address all of these issues as efficiently as possible. Collectively, these investments will result in a more robust and reliable transmission grid in Kentucky.

Q. PLEASE DESCRIBE THE NEED TO INVEST IN THE TRANSMISSION SYSTEM TO MAINTAIN RELIABILITY?

A. Maintaining system reliability and complying with NERC, PJM, and AEP's transmission standards are the primary concerns of transmission planning. Investments in transmission projects must be made today in order to meet future reliability demands which are affected by many factors including changes to generation, demand increases, and transfers of electricity across the regional network. These investments can range from simple modifications, such as adding sectionalizing circuit breakers to a transmission line (thus reducing customer exposure to outages), to complex additions of new high-voltage lines and substations. An example of a major AEP project currently being planned is a new 138 kV transmission line which will serve approximately 300 MW of load in the Hazard, Kentucky area.

KPCo is under the jurisdiction of the PJM RTO, which contains several large generating units. Consequently, the reliability of Kentucky's transmission grid is critical to the region and can be influenced by the frequent changes and variations that occur on the system. KPCo's transmission system is unique, as most generation resources are located large distances away from its load centers. In addition, the state's terrain is rugged and heavily forested which can create reliability challenges and can significantly impact the design of transmission enhancements.

AEPTransmission's planners meet regularly with transmission operators, such as PJM, to address concerns experienced in real-time operations. Improvements that increase the ability to monitor the system, sectionalize lines automatically, and reduce the geographic extent of customer outages all translate into increased reliability and reduced risk of problems in managing the system.

Demand increases can also strain the transmission system, particularly in rural areas where large loads did not previously exist. Even though AEP has seen demand slow somewhat with the recent economic downturn, overall load continues to increase. We have seen a number new industrial and commercial customers request electric service from AEP's transmission system. These requests require new and upgraded transmission facilities, including new lines, sectionalizing equipment, substations, and meters. In addition, these projects must be completed in short time frames to ensure customers are operating according to schedule.

Q. PLEASE DESCRIBE THE IMPACT THAT NEW GENERATION HAS ON THE KENTUCKY TRANSMISSION SYSTEM.

A. Kentucky is home to resources that encourage generation development – particularly coal and natural gas - in certain parts of the state. Generation developers have targeted Kentucky for these reasons, and a robust transmission system is necessary to connect and deliver these resources. There is often a lack of sufficient existing transmission infrastructure to handle the increased loads associated with new generation. This is of concern particularly in the more remote areas of the state. AEP is evaluating several projects driven by generation connections, including increases to existing units. These projects may impact KPCo's transmission system, with subsequent upgrades required as a result.

Q. PLEASE DESCRIBE THE EFFECT THAT WHOLESALE POWER MARKETS HAVE ON THE TRANSMISSION SYSTEM IN KENTUCKY.

A. A more recent change to traditional transmission planning processes is the incorporation of economic market efficiency analyses. These processes seek to relieve transmission constraints that cause congestion, thus increasing the cost of delivered electricity to customers. In Kentucky, the areas in the north eastern portion of the state have been shown to be congested in PJM area studies. Many times, projects driven by reliability needs also serve to reduce congestion. However, as electricity markets become more competitive, the drive to mitigate congestion has grown and projects designed specifically for this purpose are now being proposed by the RTOs.

Q. PLEASE DESCRIBE THE AEP EAST ZONE TRANSMISSION SYSTEM.

A. The AEP East Zone transmission system principally consists of the facilities owned by the seven eastern AEP operating companies. The East Zone includes nearly 15,000 miles of transmission circuitry operating at or above 138 kV, including approximately 3,800 miles of 345 kV transmission lines, and over 2,100 miles of 765 kV transmission lines within the states of Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia, and West Virginia, which allow AEP operating companies to economically and reliably deliver electric power to serve approximately 24,000 MW of customer demand.

The East Zone operating companies are members of Reliability*First* Corporation (RFC), a regional reliability organization of the NERC, and the PJM RTO. The East Zone is centrally located within the Eastern Interconnection.

Q. HOW WILL THE CREATION OF KY TRANSCO AFFECT THE OWNERSHIP AND OPERATION OF THE AEP TRANSMISSION SYSTEM IN THE STATE OF KENTUCKY?

A. KY Transco will develop, construct, own, and operate certain new transmission facilities interconnected to existing transmission facilities owned by KPCo, other AEP electric utility operating companies, other AEPTCo subsidiaries, and unaffiliated third parties within the PJM footprint. The creation of KY Transco will result in much of the new transmission investment in Kentucky being owned by the KY Transco instead of by KPCo. There will be no change in the planning, operation, and maintenance of the transmission system since the services provided to KY Transco will be through the same service providers and will be administered in the same manner that these services are being provided today. As KPCo does today, KY Transco will be able to rely on the necessary and appropriate managerial, technical, engineering, financial, and transmission system expertise of KPCo, AEPTransmission and AEPSC to ensure seamless operation of transmission services across both KPCo and KY Transco.

Services required by KY Transco will be provided primarily by AEPSC and KPCo. AEPSC cost control measures will apply to KY Transco as they have historically applied to KPCo. The services provided to KY Transco by AEPSC and KPCo will be provided on an at-cost basis, in the same manner in which affiliate services are provided to other AEP operating companies today. Because the service costs and their allocation are similar, KY Transco will achieve the same cost-effectiveness that KPCo has achieved for years.

Services provided by AEPSC and KPCo will be pursuant to affiliate agreements that address the types of services that will be provided, the allocation methodology for services billing procedures, and terms of payment for services provided. The form of each service agreement was modeled on the long-standing agreements that currently exist in the AEP System.

Q. WILL KY TRANSCO HAVE THE FINANCIAL VIABILITY TO PROVIDE TRANSMISSION SERVICE AND FACILITIES IN KENTUCKY?

A. Yes. As discussed by Company witness Boteler, in its early years KY Transco will be able to rely on the financial resources of its ultimate parent, AEP, to obtain the necessary capital to meet its obligations as a Transmission Owner in

Kentucky. As AEPTCo establishes an asset base, it will be able to access the capital markets and will secure the necessary capital required in conjunction with its affiliated Transcos.

Q. SPECIFICALLY, WHAT TYPES OF ASSETS WILL KY TRANSCO OWN?

A. It is proposed that KY Transco will develop and own only new transmission assets within the Commonwealth of Kentucky. KPCo will retain ownership of all transmission assets currently in service. If a decision is made in the future to transfer any of KPCo's transmission assets to KY Transco, prior approvals will be sought from the appropriate regulatory agencies including this Commission and the Federal Energy Regulatory Commission (FERC).

Certain new transmission assets in Kentucky will be developed and owned by KY Transco. In order to ensure that the assets managed by KY Transco are of sufficient scope and are sufficiently physically discernable from transmission assets owned by KPCo, AEPSC has developed an AEPTCo Project Selection Guideline (PSG), Exhibit LMB - 1, for use in determining which facilities will be developed by the AEP Transmission Companies and which will be developed by the AEP operating companies. The PSG will be used by AEPTransmission personnel to designate projects and include a clear physical demarcation between potential assets of the AEP Transmission Companies and assets of the AEP operating companies. It is expected that the KY Transco projects would include the more significant transmission projects and, thus, be subject to the KY Transco financing and potential financing benefits described by Company witness Boteler.

Projects that qualify to be owned by the AEP Transmission Companies will be subject to case-by-case evaluation. In addition, the PSG may be reviewed and amended from time to time.

Q. PLEASE DESCRIBE HOW KY TRANSCO WILL PLAN AND CONSTRUCT ITS TRANSMISSION SYSTEM IN CONJUNCTION WITH PJM.

A. The AEP transmission system will continue to be planned by AEPTransmission and PJM in a manner that is consistent with the approved regional planning processes in place today. Consistent with such RTO processes and procedures, AEPTransmission will develop, propose and construct system expansion and modification plans, and conduct system studies in order to reliably serve customer needs. Since AEP internal transmission planning, monitoring, and cost control measures will continue much the same as today, the external interactions and established communications with PJM will also continue much the same as today.

Q. WILL KY TRANSCO AND KPCO INTERACT DIFFERENTLY WITH RESPECT TO TRANSMISSION PLANNING IN PJM?

A. No. AEPTransmission will participate on behalf of KY Transco in PJM's open, transparent planning processes, just as AEPTransmission does today on behalf of KPCo, thus ensuring that AEP has a consistent voice within the PJM processes. The goal of a single internal planning process is to meet the specific, long-term needs of the AEP System while maintaining the reliability and transmission service needs of the PJM system. Further, KY Transco will not have any advantages over any participant in the PJM planning processes. The PJM planning process ensures transparency and coordination through existing stakeholder processes. Generator interconnection, facility planning, transmission service needs, and impacts on the transmission system of AEP will be reviewed and evaluated as they are today under the PJM RTO requirements and processes.

Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes it does.

AFFIDAVIT

Lisa M. Barton, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to her at a hearing before the Public Service Commission of Kentucky, she would give the answers recorded following each of said questions and that said answers are true.

Lisa M. Barton

State of Ohio)
) Case No.
County of Franklin)

Subscribed and sworn to before me, a Notary Public, by Lisa M. Barton this 1st day of February 2011.

Robin S. Smith
Notary Public

My Commission Expires November 2, 2013

NOTARIAL SEAL STATE OF OHIO

ROBIN S. SMITH
NOTARY PUBLIC
IN AND FOR THE STATE OF OHIO
MY COMMISSION EXPIRES
NOVEMBER 2, 2013

EXHIBIT 1

AEP Transmission LLC (AEPTCo)

Project Selection Guideline

November 19, 2009

REVISION HISTORY

Rev.	Description of Change(s)	Prepared or Revised By	Date	Approved
1				
2				

Note: This document has been prepared by, and is the property of, American Electric Power Company, Inc. This document may be modified by AEP.

DOCUMENT CONTROL

Preparation

ACTION	NAME(S)	TITLE
Prepared by:	Kamran Ali Richard Reinaker	Engineer II Sr. Engineer
Reviewed by:	Mohammed Ahmed	Manager, ETP
Reviewed by:	Teresa A. Gallup	Manager, SWTP
Reviewed by:	Ali Al-Fayez	Manager, TAP
Approved by:	Bernie Pasternack	Managing Director, TASP

Review Cycle

Quarterly	Semi-annual	**Annual**	**As Needed** **X**

Release

VERSION	DATE RELEASED	FILE NAME	CHANGE NOTICE	REMARKS

Distribution List

NAME(S)	DEPARTMENT	TITLE

TABLE OF CONTENTS

1.0 PURPOSE

This document provides guidance to AEP Transmission personnel in determining how capital will be allocated between the AEP operating companies ("OPCO") and AEP Transmission Company subsidiaries ("AEPTCo subsidiaries") regarding the construction of new transmission assets. These guidelines are to be used by employees within the AEP Transmission business unit in determining what Projects or Project Components should be developed by the AEPTCo subsidiaries. All personnel participating in the planning, identification and approvals of new AEP Transmission assets must be familiar with and utilize these guidelines.

2.0 ROLES & RESPONSIBILITIES

There are several groups involved with identifying AEP Transmission system needs. The following highlights the roles and responsibilities of the Transmission departments responsible for evaluating system needs:

2.1 Transmission Planning (TP)

- Identify transmission system needs.
- Propose projects and system upgrades.
- Provide recommendations to TAP with respect to development of project or system upgrade.
- Provide detailed information with respect to the need for the given project or system upgrade including Regional Transmission Organization identified projects.

2.2 Transmission Asset Engineering (TAE)

- Identify asset replacement / rehab needs for transmission assets.
- Propose projects and system upgrades.
- Provide recommendations to TAP with respect to development of project or system upgrade.
- Provide detailed information with respect to the need for the given project or system upgrade.

2.3 Transmission Asset Performance (TAP)

- Collect lists of project and system upgrade information from TP and TAE groups.
- Review the detail provided by TP and TAE, and determines whether the project or upgrade meets the requirements of this guideline.
- Prepare documentation necessary for financial approvals and prepare budget projections as requested by Transmission Budgeting Planning &Analysis (TBP&A) group.

3.0 PROJECT SELECTION PROCESS

For the purposes of this document the following definitions apply:

"Assets" are defined as electric equipment, lines, stations that are designated as Transmission pursuant to FERC Form 1 general ledger account.

"Upgrades" are defined as modifications to existing Transmission Assets.

"Facility" is defined as an entire substation or line between two stations.

"Component" refers to a section or sections of line between two stations and new equipment within a station.

"Project" is defined as a combination of Facilities and Components needed to meet a given system need and included together for financial approval. A Project may include both OPCO and/or AEPTCo assets.

This document has been developed to assist AEP Transmission personnel in determining what Facilities and/or Components should be developed by an AEPTCo subsidiary. Any Facilities or Components that do not meet these guidelines would be developed to the respective AEP Operating Company.

This process recognizes that there may be a need for variances between states, due to state statutory requirements or regulatory precedents. Accordingly, discretion must be exercised by TAP in making such determinations. Known state specific considerations are identified in Appendix A.

3.1 AEPTCo Ownership Eligibility

The following general principles would apply for eligibility as AEPTCo assets:

- Assets that provide a Transmission function (assigned to a Transmission FERC Form 1 general ledger account number) may be eligible for inclusion in an AEPTCo subsidiary if such assets meet the criteria specified in these PSG. No facilities that are classified as Distribution or Generation can be developed by AEPTCo.
  - Transmission Assets designed and operated at voltages of 23 kV or higher in the PJM region and 69 kV or higher in the SPP region are considered Transmission assets. (Currently AEPTCo has no plan to own Texas SPP transmission assets).
  - For a power transformer to qualify as an AEPTCo asset, both primary and secondary transformer voltages must meet the above voltage criteria and the transformer must

provide a Transmission function. This restriction does not apply to auxiliary or station service transformers in a station.

- AEPTCo will build/own only those facilities (Transmission Facilities) that may be recovered from Transmission Service Customers through the RTO's FERC-approved OATT, either through a rate of general applicability or by direct assignment to transmission customers.

- Transmission assets within a Distribution station that are part of a network qualify as AEPTCo assets.

3.2 AEPTCo Project Categories

Projects and components that may be developed by an AEPTCo company are categorized as follows:

3.2.1 Greenfield

Greenfield facilities are defined as new transmission assets that do not require replacement or modification of existing facilities or components.

- Development of new transmission Facilities.

- Transmission assets within a new Distribution or Generation station that is part of the transmission network. This would require a clear demarcation between Transmission and Distribution or Generation assets at the facility.

- New property or rights-of-way acquired for new transmission facilities.

3.2.2 Facility Additions

Facility additions are defined as new transmission components installed at existing AEP Operating Company-owned Transmission or Distribution facilities.

- New Transmission equipment additions such as circuit breakers, transformers, shunt or series reactors, capacitor banks, etc. and ancillary equipment directly related to the new Transmission equipment additions.

- May include the retirement of certain existing AEP Operating Company Transmission components, as necessary, to allow for the installation of the new AEPTCo facilities.

- The addition of new AEPTCo line facilities on existing AEP Operating Company towers/poles (e.g. conductors/insulators being installed on vacant tower position).

3.2.3 Facility Replacement

Facility Upgrades are defined as the replacement of an entire existing AEP Operating Company-owned facilities with new AEPTCo-owned facilities.

- Complete replacement of an AEP Operating Company-owned transmission line facility or transmission station facility with a new AEPTCo-owned station or line facility. Retirement of the AEP Operating Company facility is required.
- AEPTCo at cost may lease or purchase the rights-of-way and property easements from the affected AEP Operating Company (consistent with state legal/regulatory requirements).

3.2.4 Component Replacement

Component replacement is defined as an apportioned replacement of an existing AEP Operating Company-owned Transmission facility or replacement of component(s) within a Transmission facility.

- Major Extra High Voltage (EHV) equipment replacements may be included in AEPTCo.
- All component replacement projects must be evaluated on a case-by-case basis.

3.2.5 Spare/Mobile Equipment

Spare/mobile equipment is defined as purchases of major Transmission equipment as capitalized spares or mobiles.

- Mobile transformers must have Transmission operating voltages at the high and low side for this category.
- Major spare equipment such as transformers and circuit breakers may be purchased to support existing AEPTCo assets.

3.3 Other Considerations

- All assets owned by AEPTCo subsidiaries must be clearly distinguishable from assets owned by AEP Operating Companies.
- Components developed by AEPTCo are intended to be large projects that are readily identifiable and discernable to AEP Service employees and personnel.
- A project should be greater than $500,000 to be considered for development by an AEPTCo subsidiary. Exceptions to this assumption must be approved by TAP.

- Reimbursable projects or projects involving contributions in aid of construction (CIAC) should follow the guideline for determination of AEPTCo versus AEP Operating Company ownership.

- Projects that have not yet been place in service but have been previously approved through the AEP financial approval process may be considered for AEPTCo on a case-by-case basis. This provision is transitional and shall self terminate after January 01, 2011.

- Projects or components that require upgrades to AEPTCo facilities or are directly interconnected to AEPTCo facilities shall be developed by AEPTCo.

3.4 Records Management

- Accounting procedures will comply with all regulatory, GAAP, and FERC Uniform System of Accounts standards.

- Internal controls will be designed to meet AEP standards.

- Assets owned by applicable AEPTCo subsidiary or AEP Operating Company do not change the applicable RTO definition of Transmission or Distribution.

- FERC accounting designations distinguishing Transmission and Distribution equipment must be adhered to in all situations.

3.5 Financial Authorization & Documentation

- Authorization for funding must utilize the same process for both AEPTCo and Operating Company assets.

- TAP shall prepare and route all projects for financial approval, clearly specifying which assets will be owned and operated by AEPTCo. Individual project approvals may include approvals of both Operating Company and AEPTCo assets, as long as all work associated with the project is clearly discernable between the Operating Company and AEPTCo.

3.6 Related Procedures & Guidelines

- Not applicable.

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF AEP KENTUCKY TRANSMISSION COMPANY, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO OPERATE AS A TRANSMISSION ONLY PUBLIC UTILITY	)))))	CASE NO. 2011-____

DIRECT TESTIMONY AND EXHIBITS OF

JERALD R. BOTELER, JR

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

February 04, 2011

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A: My name is Jerald R. Boteler, Jr. My business address is 1 Riverside Plaza, Columbus, Ohio 42315. My current position is Director, Corporate Finance, American Electric Power Service Corporation ("AEPSC"), a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"). Kentucky Power Company ("KPCo" or "Company") and AEP Kentucky Transmission Company, Inc. ("KY Transco") are also direct or indirect subsidiaries of AEP.

II. BACKGROUND

Q: PLEASE REVIEW YOUR EDUCATIONAL BACKGROUND AND YOUR WORK EXPERIENCE.

A: I graduated from Millsaps College in Jackson, Mississippi in 1979, where I received a Bachelor's of Business Administration Degree in Finance, and from the Cox School at Southern Methodist University in Dallas, Texas in 1982, where I received a Master's Degree in Business Administration with a concentration in Finance. From 1983 to 1985, I was employed by InterFirst Bank, N.A. in Fort Worth, Texas in various commercial bank credit analysis and review positions. In 1985 I was employed by Oryx Energy, Inc. as a Financial Analyst and worked in various positions on the treasury staff of that company from 1985 until 1996, rising to Assistant Manager, Corporate Finance and Credit. In February 1996, I was hired by Central and South West Corporation (subsequently acquired by AEP in 2000), first as a Senior Financial Consultant, then as Manager of Project Finance and Director of Project Finance. My responsibilities included raising capital through negotiation of financing agreements for various gas-fired electric generating projects. In July 2001, I joined AEPSC as Director, Wholesale Finance, supporting financing activity for the unregulated companies of the AEP System. In July 2003, I was named Director, Corporate Finance of AEPSC. In that capacity, I was responsible for capital markets activity for several of the regulated utilities, establishing dividend recommendations and capitalization targets, and assisting in the management of liquidity for the overall AEP System. In May 2007, I was named to the same position for AEP and became responsible for parent company financing and banking activities, as well as financing activities for AEP's transmission ventures and all leasing activity for the AEP System companies, including utility subsidiaries.

Q: WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR, CORPORATE FINANCE OF AEPSC?

A: I am responsible for planning and executing the corporate finance and capital-raising programs of AEP, its non-regulated subsidiaries, and transmission ventures involving the AEP system's non-operating companies. My responsibilities also include preparing recommendations for the payment of dividends by those companies, establishing capitalization targets, interest rate hedging, and supporting the relationships of those companies with the rating agencies, partners and public and private investors.

Q: HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY PROCEEDINGS?

A: Yes. I have filed testimony with the Indiana Utility Regulatory Commission in Cause No. 43682, the Virginia State Corporation Commission in Case No. PUE-2010-00038, and the West Virginia Public Service Commission in Case No. 10-0577-E-PC.

III. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A: The purpose of my testimony is to support certain aspects of the Application of KY Transco. Specifically, I will testify as to the primary financial reasons behind the formation of KY Transco as a vehicle to make incremental additions to the existing Companies' transmission system.

Q: FROM A FINANCIAL PERSPECTIVE, WHAT ARE THE KEY DRIVERS UNDERLYING AEP'S FORMATION OF KY TRANSCO?

A: Vertically-integrated investor-owned utilities are facing a challenging and uncertain environment. KPCo is facing significant pressure to maintain its credit ratings while, on the other hand, its projected capital spending needs are significant across all areas of its utility business, including transmission, and are projected to extend over the next decade. Although KPCo currently holds investment grade credit ratings at all three of the major credit rating agencies, the Company faces headwinds to those ratings given its relatively weak cash flow metrics and current leverage position. Attached as Exhibit JRB – 1 is the most recent Moody's credit report on KPCo, published on January 14, 2011. On page 2 of their report, Moody's states, "KYPCo's key financial credit metrics are somewhat weak for its Baa2 senior unsecured rating category." Moody's goes on further to state,

> *"KYPCo's cumulative long-term capital investment program is large given its size. Although the company has temporarily delayed some of the investment programs in 2009, 2010 and likely 2011, we expect the program to resume to its full force in the next few years. KYPCo received approximately $30 million in equity contributions from its parent AEP in April 2009. However, we expect increasing up-stream dividends in the next few years and free cash flow to return to negative over the intermediate and long term horizon. While we generally view investments in rate base positively, we would be concerned if KYPCo's spending plans result in a persistent negative free cash flow position that will be primarily funded with internal or external debt.*

Should this situation materialize, KYPCo's financial profile could become stressed given its Baa2-rating category."

As described in the direct testimony of Company witness Wohnhas, the annual transmission construction budget for KPCo was approximately 22 percent of its normalized capital expenditure budget for the period 2007-2010. Looking ahead, if these transmission system additions were instead constructed and financed through KY Transco, they would not result in adverse effects on the financial condition and credit rating metrics of KPCo , which would help to alleviate some of the approaching financial pressure on the Company.

Q: **WILL KY TRANSCO RECEIVE FINANCIAL SUPPORT FROM AEP IN CARRYING OUT ITS OPERATIONS?**

A: Yes. In the same manner that KY Transco will rely on AEPSC and AEP Transmission for operational/technical and managerial resources, KY Transco will also be able to rely on the financial resources of its ultimate parent, AEP, and its ability to supply, or cause to be supplied, capital. As evidenced in its 2009 annual report, AEP had revenues, assets, and common shareholders' equity of over $13 billion, $48 billion, and $13 billion, respectively, at the end of 2009.

Throughout AEP's history, AEP has repeatedly shown a willingness to support its subsidiaries with contributions of equity and/or debt capital as needed. As recently as 2009, AEP contributed $1.14 billion of equity capital to its subsidiaries to support credit quality and help subsidiaries meet their financial obligations. In addition, AEP has also consistently supported its new transmission joint ventures since their formation with various industry partners. Since 2007, AEP has contributed nearly $100 million of equity to Electric Transmission Texas, LLC, its 50/50 transmission-only joint venture in

Texas with MidAmerican Energy.

Q: HOW DOES THE FORMATION OF KY TRANSCO HELP TO RELIEVE FINANCIAL PRESSURES ON KPCO?

A: Without KY Transco, the transmission projects that KPCo is required to undertake limit the amount of capital available for other needed investments by KPCo, including generation, transmission in support of aging infrastructure, and distribution projects. As a stand-alone transmission company, KY Transco will be able to provide support for the capital program needed for future transmission because KY Transco is not burdened by a large legacy debt load, as in KPCo's case. KY Transco is a company designed to focus only on making transmission investments, and will be able to pursue certain transmission-only projects without being limited by the funding level available within KPCo. This will provide long-term benefits to Kentucky customers by relieving KPCo of the need to raise equity and debt associated with those projects, and preserving debt issuance capacity for KPCo's other system needs.

Q: DOES THE FORMATION OF KY TRANSCO PRESENT OTHER SIGNIFICANT FINANCING ADVANTAGES?

A: Yes. Submitted as Exhibit JRB - 2, is a white paper ("Transco White Paper") titled "AEP Transco: The Investor's Perspective", prepared by Julie M. Cannell, a former securities analyst and portfolio manager specializing in the electric utility industry. The report provides an encouraging view of the Transco structure from the perspective of the investment community. As stated on page 4 of the Transco White Paper,

> *"Generally, investors believe that the new Transco enhances, or holds the potential for enhancing, the overall AEP investment opportunity. This is true for several reasons. First and foremost, the new Transco serves as a vehicle for making direct investment in transmission, thereby giving this business greater visibility."*

KY Transco, and the other state transmission-only subsidiaries (collectively with the KY Transco, "Transcos") of AEP Transmission Company, LLC ("AEPTCo"), would be solely in the business of planning, constructing, owning, operating and maintaining new transmission assets. This transmission-only business will be a straightforward, transparent business, meaning that investors should be able to easily understand and assess it for investment purposes. The transparency comes from managing one type of electrical asset as opposed to operating three types of major electrical assets regulated by multiple state and federal agencies. Because certain investors seek fixed-income investments with these attributes, it provides a wider access to capital and another source of external funding for utility projects. Access to capital is also relatively easier for businesses with stronger credit profiles and ratings. AEPTCo, representing the combined financial strength of its seven subsidiary Transcos including KY Transco, will need to establish itself as a stand-alone business with the necessary credit ratios and strong, stable cash flows. Over a period of time as a single-line business, AEPTCo should be able to develop a strong credit profile as it builds new transmission assets and places them into service. Similarly, by freeing KPCo of the equity and debt capital-raising burden needed to support capital-intensive new transmission facilities, KY Transco will provide KPCo with greater control of its annual expenditures, which in turn should enable KPCo to better manage its credit ratios. As stated on page 3 of the Transco White Paper,

> *"Investors have embraced the notion of the new Transco. In their view, the entity provides the vehicle for showcasing an appealing business and will provide a clear, direct way to invest in it. Importantly, the Transco is not considered to pose a deterrent to the credit quality or risk levels of existing AEP entities. In short, this new company is viewed as a positive move for AEP and its subsidiaries."*

This strategy should help KPCo obtain improved and broader access to debt capital over time, in both weak and strong capital markets. Any long-term financing benefits, in the form of lower cost of debt, will ultimately benefit customers.

Q: PLEASE DISCUSS THE ADDITION OF KY TRANSCO AS A PARTICIPANT TO THE AEP SYSTEM AMENDED AND RESTATED UTILITY MONEY POOL AGREEMENT.

A: The operation of the Money Pool is designed to match, on a daily basis, the available cash and borrowing requirements of each participant, thereby minimizing the need for borrowings from external sources. In order to obtain the benefits enjoyed by the Company and its affiliates on the AEP System, the amendment will allow KY Transco to participate in the AEP Utility Money Pool along with the existing participants and the other AEP Transcos. Except for the addition of KY Transco and the other new participants, the terms and conditions applicable to the operation of the AEP Utility Money Pool will be unchanged.

Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A: Yes.

AFFIDAVIT

Jerald R. Boteler, Jr., upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

Jerald R. Boteler, Jr.

Jerald R. Boteler, Jr.

State of Ohio)
) Case No.
County of Franklin)

Subscribed and sworn to before me, a Notary Public, by Jerald R. Boteler, Jr. this 1st day of February 2011.

Pauline A Lutz

Notary Public

My Commission Expires

NOTARIAL SEAL STATE OF OHIO

PAULINE A LUTZ
NOTARY PUBLIC
STATE OF OHIO
MY COMM. EXP. 9-12-11

EXHIBIT 1

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Credit Opinion: Kentucky Power Company

Global Credit Research - 14 Jan 2011

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Contacts

Analyst	Phone
James Hempstead/New York	212.553.4318
William L. Hess/New York	212.553.3837

Key Indicators

[1]Kentucky Power Company

	LTM 3Q 10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	3.0x	3.9x	2.4x	3.6x
(CFO Pre-W/C) / Debt	12.7%	17.6%	8.8%	15.8%
(CFO Pre-W/C - Dividends) / Debt	9.4%	14.5%	6.7%	13.6%
Debt / Book Capitalization	45.9%	46.3%	50.3%	46.0%

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Constructive regulatory environment viewed positively

Key financial metrics are weak but expected to stabilize

100% coal generation constrains rating and requires prudent management of increasingly stringent environmental mandates

Recessionary pressures relieved by recovery in coal industry

Corporate Profile

Kentucky Power Company (KYPCo, Baa2 senior unsecured) is a vertically integrated electric utility company and is a wholly owned subsidiary of American Electric Power Company (AEP, Baa2 senior unsecured). KYPCo's approximately $1 billion rate base is under the jurisdiction of the Kentucky Public Service Commission (KY PSC). KYPCo owns approximately 1.1GW of 100% coal fired generating capacity.

Recent Developments

In June 2010, KYPSC issued an order approving KYPCo's $64 million rate case settlement agreement which also include $23 million of deferred storm restoration expenses over five years. The residential per-kilowatt-hour charge will increase from 7.19 cents to 8.59 cents. This order concluded a base rate case filed in December, 2009 when KYPCo requested a $123.6 million (24.3%) electric rate increase premised upon an 11.75% ROE on a year-end rate base valued at $1.012 billion for a test year ended Sept. 30, 2009. New rates became effective July 2010.

SUMMARY RATING RATIONALE

KYPCo's Baa2 issuer rating primarily reflects the reasonably constructive relationship with the KPSC, and the potential rating constraints as a result of its coal-dependent generation profile and relatively weak financial metrics. The ratings also considers the signs of recovery for KYPCo's primary industrial customer group amid the economic stress within the region it operates.

DETAILED RATING CONSIDERATIONS

CONSTRUCTIVE REGULATORY ENVIRONMENT A CREDIT POSITIVE

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit stability, a material credit positive. KYPCo is primarily regulated by the Kentucky Public Service Commission (KYPSC) which we consider a constructive jurisdiction. KYPCo has a rate base of approximately $1 billion and an authorized return on equity of 10.5%, which was established in June 2010. KYPCo currently has a monthly fuel clause tracker, and environmental surcharge rider, among other recovery mechanisms (i.e., demand side management and system sales riders).

MAINTAINING STABLE FINANCIAL CREDIT METRICS KEY TO RATING

KYPCo's key financial credit metrics are somewhat weak for its Baa2 senior unsecured rating category. For the last 5 year, 3 year and twelve month period ended September 2010, KYPCo's ratio of cash from operations pre working capital adjustments (CFO pre-w/c) to debt averaged about 14.4%, 14.1% and 12.7%, respectively. The ratio of CFO pre-w/c interest coverage averaged 3.4x, 3.3x and 3.0x, respectively for the same periods. In the near to intermediate term, we expect the financial metrics to stabilize or slightly improve as a result of the return of the industrial load (discussed below) and reduced capital spending.

CAPITAL EXPENDITURE PROGRAM COULD PRESSURE RATINGS OVER THE LONG TERM

KYPCo's cumulative long-term capital investment program is large given its size. Although the company has temporarily delayed some of the investment programs in 2009, 2010 and likely 2011, we expect the program to resume to its full force in the next few years. KYPCo received approximately $30 million in equity contributions from its parent AEP in April 2009. However, we expect increasing up-stream dividends in the next few years and free cash flow to return to negative over the intermediate and long term horizon. While we generally view investments in rate base positively, we would be concerned if KYPCo's spending plans result in a persistent negative free cash flow position that will be primarily funded with internal or external debt. Should this situation materialize, KYPCo's financial profile could become stressed given its Baa2-rating category.

INDUSTRIAL LOAD EXPECTED TO BENEFIT FROM COAL INDUSTRY RECOVERY

Among KYPCo's top ten industrial customers, 6 are involved in coal mining and production. According to Moody's coal industry outlook report, strong coal demand in Asia draw on U.S. supplies and maintain reasonable profit margin for U.S. coal producers, offsetting subdued U.S. demand. We expect the recovery in the coal industry to stablize in the next several years thereby likely improving KYPCo's financial results.

100% COAL GENERATING ASSETS VULENERABLE TO SIGNIFICANT ENVIRONMENTAL MANDATES

We observe the potential for significant environmental regulations or legislation, especially related to carbon dioxide emissions, as a material risk affecting KYPCo's 100% coal-fired generating assets. The timing of compliance requirements could be expedited by the EPA's rule making process. Nevertheless, in the near to intermediate term, we expect the costs associated with any new rule-making regarding emissions to generally be recovered through rates (either through existing fuel clause pass-through mechanisms or other incremental rate riders).

Liquidity

KYPCo participates in the AEP Utility Money Pool, which provides access to the parent company's liquidity .

AEP has two separate credit facilities that total approximately $3.0 billion. One is a $1.5 billion facility expiring June 2013 (entered in June 2010) replacing the original $1.5 billion expiring in March 2011. The other is an amended $1.454 billion facility expiring in April 2012. These facilities contain a debt to capitalization limit of 67.5%. AEP asserts that it remains in compliance. There is a $600 million and $750 million letter of credit capacity on the 2013 facility and the 2012 facility, respectively, and a $500 million accordion feature and a one-year extension option on each facility. There are no material adverse change restrictions on drawings, no litigation representation provision at the time of borrowing and a definition adjustment to exclude one of AEP's subsidiaries, AEP Texas Central, as a "significant subsidiary" to prevent cross-acceleration in the event of a default. On June 28, 2010, AEP reduced its separate three year $627 million LC facility to $478 million due in April 2011 which has similar terms as the two primary facilities mentioned above. In total, AEP has committed credit facilities of $3.432billion.

As of September 30, 2010, the credit facilities had $713 million utilized in supporting issued commercial paper and roughly $602 million of LC's posted, leaving approximately $2.2 billion of capacity available. Combined with $1billion of cash on hand, total liquidity amounted to $3.2billion

AEP has approximately $616 million and $565 million of long term debt that will mature in 2011 and 2012 respectively. AEP has announced that it will spend approximately $2.6 billion in capital expenditures in 2011 and $2.9 billion in 2012. We estimate that approximately $800 to $900 million in dividends per year will be distributed in the next two years.

KYPCo has access to up to $250 million in the AEP Utility Money Pool. As of September 30, 2010, there were no borrowings under the money pool by KYPCo.

Over the twelve months ended September 2010, KYPCo generated approximately $130 million of cash from operations, invested approximately $53 million in capital expenditures, made $21 million upstream dividend payment, resulting in approximately $56 million of positive free cash flow. KYPCo has no debt maturities until September 2017 when $325 million senior notes are due. We expect KYPCo to remain cash flow positive in 2011 as the capital expenditure continues to be modest.

Rating Outlook

The stable rating outlook for KYPCo is primarily based on our expectation that the company will continue to maintain a reasonably constructive relationship with the KYPSC, be prudent in meeting its infrastructure spending plans, attain reasonably good recovery on a timely basis and improve its key financial credit metrics that justify the rating.

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term horizon, primarily due to our expectation that KYCo's financial profile will not be in a position to exhibit the improvements necessary to justify a Baa1-rating category. This is partly due to our understanding of KYCo's longer term capital investment and financing plans. However, KYCo could be considered for a ratings upgrade if it were to achieve key financial credit metrics, including a ratio of CFO pre w/c plus interest divided by interest of approximately 5x and CFO pre w/c to debt of approximately 20% on a sustainable basis.

What Could Change the Rating - Down

Ratings could be downgraded if the regulatory environment took a more adversarial tone, its capital expenditure program requires substantial amount of debt financing or if the key financial credit metrics exhibit a prolonged deterioration. These metrics would include a ratio of CFO pre w/c plus interest divided by interest of below 3.0x or CFO pre w/c to debt closer to the low-teens over an extended period.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)						X
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Grid Implied Senior Unsecured Rating				Baa2		
b) Actual Senior Unsecured Rating				Baa2		

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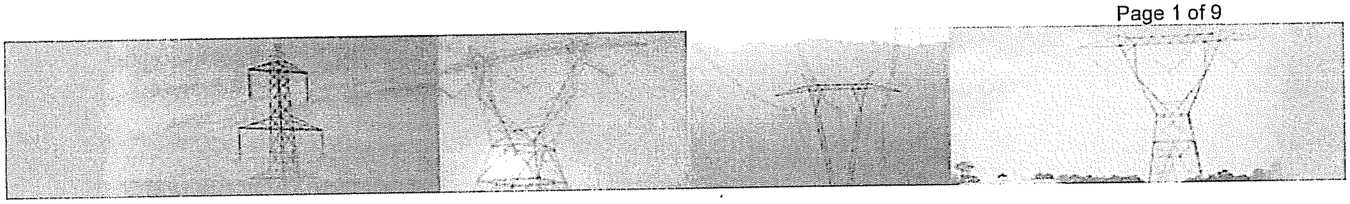
EXHIBIT 2



AEP TRANSCO:
THE INVESTOR'S PERSPECTIVE

Prepared by:
Julie M. Cannell
J.M. Cannell, Inc.

Prepared for:
American Electric Power Company

March 2010

Julie Cannell Julie Cannell is president of J.M. Cannell, Inc. (www.jmcannell.com), a firm providing regulatory expert witness testimony from an investor perspective, strategic analysis, and other specialized services to the electric utility industry. Prior to forming her firm in 1997, Ms. Cannell spent two decades as a securities analyst and portfolio manager specializing in the electric utility industry at investment manager Lord, Abbett & Company. Ms. Cannell has been invited by American Electric Power to provide her assessment, gained through a series of interviews she conducted with investors and credit rating agencies, of AEP's decision to form a series of wholly owned transmission companies to support new transmission development. AEP has commissioned Ms. Cannell to prepare the attached white paper to summarize the opinions shared in those interviews.

AEP TRANSCO: The Investor's Perspective

American Electric Power ("AEP") unveiled plans in November 2009 to form a wholly-owned transmission company ("Transco"), in which certain future transmission assets would be domiciled and through which those investments would be funded. Given the important role that capital will play in supporting AEP's transmission expansion, this paper explores investors' views of the Transco concept. This perspective is largely based on recent conversations with a dozen analysts at major investment and credit rating firms.

Investors have embraced the notion of the new Transco. In their view, the entity provides the vehicle for showcasing an appealing business and will provide a clear, direct way to invest in it. Importantly, the Transco is not considered to pose a deterrent to the credit quality or risk levels of existing AEP entities. In short, this new company is viewed as a positive move for AEP and its subsidiaries.

The AEP Investment Case

Understanding how investors perceive AEP's plans to create a wholly-owned Transco is important. Transmission, like many electric utility investments, is particularly capital-intensive and it is well recognized as a sector that is in need of capital investment. As the need mounts for expansion and upgrading of existing infrastructure, along with expansion to meet inherent system growth and tie in burgeoning renewable resources to the transmission grid, investors will be asked to fund a large amount of the significant required capital outlays.

AEP is a very large utility holding company. While its business model is straightforward, with all aspects involving the generation, distribution, or transmission of power, the company's geography presents a challenge for investors. Because AEP is organized into eleven electric utility operating companies that provide services to customers in eleven states, the company's investors must understand the fundamentals of each of these companies and, importantly, each of the separate regulatory jurisdictions in which they function. Additionally, knowledge of FERC regulation of interstate transmission is necessary.

The formation of a wholly-owned Transco raises the question of how the investment case for the company—already less than simple—will be affected. Will the move make AEP more attractive as an investment or less? Will the story become simpler or more complex? This issue is particularly relevant to fixed income investors, who can potentially own the debt securities of all the subsidiary companies.

The investment community is well aware of the need not only to expand the transmission grid but also to upgrade existing infrastructure. Generally, investors believe that the new Transco enhances, or holds the potential for enhancing, the overall AEP investment opportunity. This is true for several reasons. First and foremost, the new Transco serves as a vehicle for making direct investment in transmission, thereby giving this business greater visibility. A separate and easier evaluation of the earnings, assets, and EBITDA of this business line will be able to be assessed. Because AEP is such a large company and transmission has heretofore been bundled into the total utility business, a number of analysts feel that AEP's transmission holdings have—and by extension, the parent company itself has—been undervalued, a situation that potentially can be corrected in the future.

Another favorable valuation aspect investors see as part of the Transco formation is that the transmission rates of Transco at wholesale will fall under FERC regulation. This is perceived as advantageous because transmission ratemaking will be unified under a single regulating entity, thus lending to simplicity and transparency in analysis. Additionally, FERC's current ratemaking practice incorporates a formula rate mechanism, which provides a clear path for revenue recovery. For these reasons and others, FERC regulation could also translate into a higher implied credit rating benefit, according to one credit rating agency. The future potential to attract third party equity investment in Transco also holds appeal.

A related issue to whether the investment case for AEP is enhanced by formation of the Transco is whether AEP becomes simpler or more complex to understand. Here, investors are mixed in their views. Investors like that transmission prospectively will become a separate reporting entity, which will be easier to understand, track, and value on a regular basis. The magnitude of future transmission spending makes investors particularly enthusiastic about the prospect of being able to see the business in a simplified, unbundled form. Some investors did express concern about the fact that the new Transco organization will present more "boxes" for investors to analyze and comprehend could suggest more complexity in the AEP story. Overall, there were more positive comments than concerns related to the question of Transco's effect on AEP's complexity.

The Transco's Impact on AEP's Existing Operating Companies

Creating the new Transco within the AEP family of companies raises the question of what impact the investment community believes this will have on the existing corporate entities. To understand the Transco formation in relation to the current utility subsidiaries first requires a look at the challenges and issues these companies currently face.

Current Challenges and Issues

Investors consider the AEP utility operating companies ("Opcos") to be very well run, efficient, and highly competitive. Despite their lean operations, these entities will be impacted by two key issues: state regulation and capital spending, particularly spending required for environmental and carbon compliance. These factors, significant in their own right, are also intertwined. Over the short-term, investors fear that persistent economic weakness—most notably in Ohio, West Virginia, western Virginia, Indiana, and Michigan—will present an obstacle to rate recovery for the resident Opcos. This will serve to exacerbate any regulatory lag already present in these and other geographic areas within the AEP system.

With their heavily coal-fired generating base, the Opcos will face mounting capital requirements, especially in relation to environmental compliance. Carbon legislation—whenever it is enacted—looms as another formidable challenge: the AEP companies are widely considered by the investment community to be among those utilities that will be most significantly impacted in the industry as a whole. Investors are concerned that this mandated spending, along with that associated with basic system needs, will serve to pressure further the ability to secure rate relief at sufficient levels and in a timely fashion from state regulators.

Transco Impact on Balance Sheets, Credit Quality, and Credit Ratings

Given the foregoing challenges, investors believe that housing future transmission spending in the separate Transco unit would have a neutral to slight positive impact on the Opcos' balance sheets, credit quality, and credit ratings. On the positive side of the ledger, investors point to a number of factors. First, future Opco capital expenditure needs would obviously decrease with the Transco formation. Because transmission funding levels would potentially be quite large, removing these dollars from the Opcos' balance sheets would be salutary, as cash flows from other sources won't decrease. The resulting "steady state" asset base should translate to credit stability, all other things being equal. Second, some investors associate transmission with a more aggressive type of growth. Shifting that spending to the new Transco thus provides a buffer between it and the spending connected with the Opcos' other businesses.

Analysts also pointed to several factors associated with the Transco formation that they believe would result in a neutral impact on Opco balance sheets, credit quality, and ratings. One is that AEP's subsidiary ratings already reflect the parent's recognition that its utility operating companies must live within their means. Another factor involves the magnitude of transmission investment relative to generation investment. Investors consider transmission spending, while large, still dwarfed by dollars that will be spent on generation. Already true today, that element will become even more pronounced as another big wave of environmental spending develops in the future. Having transmission capex outside of the Opcos will preserve more cash flow for those subsidiaries.

Transco Impact on Opco Risk Levels

A related issue to the new Transco's impact on Opco credit quality and ratings is how the unit's formation would serve to affect the subsidiaries' risk levels. In this regard, the majority of investors believe that Opco risk would largely be unchanged, though there was some minority opinion it could modestly decrease or even slightly increase.

The analysts' explanations as to why risk levels wouldn't be impacted by the new unit or could slightly decrease were several. For the near-term, this included projections ranging from little anticipated change in near-term Opco funding to a decline in such spending. Another key point in this regard is the slow pace at which transmission projects advance, translating into little alteration in near-term Opco capex activity. Further, AEP's central organizational approach is thought to result in no impact on Opco risk levels. As one credit rating agency noted, "We see the company and its finances in excruciating detail. AEP Treasury operations are very sophisticated in regard to budget management. Each Opco knows in minute detail where it will be spending."

While investors' central tendency was toward a neutral impact on Opco risk levels from the Transco formation, there was some opinion that the levels could decrease. The first factor here is that returns on assets in the corporation overall would be optimized due to the formulaic nature of FERC ratemaking in regard to transmission. Further, fewer capital spending requirements would lower the overall financial risk for OPCos that are burdened by competing needs for mandatory capital investments. Second, the higher growth transmission business—while appealing—carries with it near-term risks, including permitting, rising construction costs, and upfront cost recovery. With those risks now resident in the Transco, the Opcos' basic level of risk should remain steady or slightly decline. Finally, the new Transco would translate into more focus prospectively at the Opco level on distribution and generation, businesses that these subsidiaries manage very well.

Some concern was voiced by a minority of individuals that Opco risk could slightly rise. In the long-term, this could be attributable to event risk for bondholders, if AEP at some future time should elect to fully separate (i.e., spin off) all of the transmission assets. In that event, higher risk could evolve from removing potentially better returns and stable cash flows from the Opcos.

The Transco Itself

The formation of the AEP Transco is a significant event, with potential ramifications for AEP's existing operations, as heretofore explored. But not only should the new unit be considered in relation to its sister companies, it also bears examination on its own merits. Will this newest member of the AEP family provide an attractive stand-alone investment opportunity? And, in the final analysis, is creation of the Transco a positive move on the part of the parent?

Stand-Alone Investment Appeal

Investors overwhelmingly embrace the notion of having a new investable entity within AEP. There are a number of reasons for this, some of which were detailed previously. The Transco would contain new projects with rates governed at wholesale by FERC, which is perceived as affording consistent regulation based on formula-derived rates and affording consistent, predictable cash flows. Having FERC regulation over Transco's rates also serves to diversify the risk inherent in the 11 different state jurisdictions overseeing the Opcos. Additionally, the new unit would be a "pure-play" on the transmission business. From a credit perspective, a transmission-only entity is expected in the long run to receive better pricing of debt. From an equity perspective, however, one caveat was offered: the long-term nature of the projects would likely translate into some delay in incorporating enhanced equity valuations. Finally, unbundling a portion of the transmission business affords better understanding of the AEP story in general.

In the Final Analysis: A Good Thing

In the final analysis, investors applaud formation of the new Transco. Its creation is consistent with AEP's strategic objectives to support energy policies at the state and/or federal level, particularly those championing renewable resources. Additionally, the new unit would provide broader visibility to AEP's transmission investments as a whole. Increasing transparency to this segment of the AEP corporate model helps to facilitate more accurate valuations of the transmission business.

In forming this new company, AEP is demonstrating leadership and setting precedent for other utilities. AEP Transco will join the ranks of a small but growing group of transmission entities, including those wholly-owned by other utilities. The benefit of having an expanding universe of comparable companies, or "comps," is that it affords investors a greater comfort level with the stand-alone transmission concept. In turn, market access should become cheaper for the company. Investors point to the example of ITC Holdings, a publicly-traded Transco that has enjoyed a very low cost of capital, especially in the debt markets. They believe this advantageous pricing is a signal to the markets of the attractiveness of transmission as an investment opportunity.

Because of its expected ultimate size, the Transco is expected not only to have ready access to capital, but also be able to realize economies of scale in its projects. In the regulatory arena, as noted previously, consolidation of oversight under FERC is viewed favorably. One analyst observed that Commission Chair Welllinghoff has championed formation of stand-alone transmission companies, making AEP's move consistent with FERC policy.

Investors appear to have only one reservation—a caveat, really—regarding the new business unit, and it is one that already applies to transmission assets that are housed under an operating company. The key to realizing value here will be AEP's ability to secure needed approvals that may be required for some of the projects (including those for siting), and the capability then to execute on completing those projects. Despite this caveat, investors believe there is no downside to creating the separate entity.

An Investable Opportunity

Given the positive stance evidenced toward the standalone Transco, it is not surprising the concept holds considerable appeal to investors who would be able to invest in bonds that the Transco could offer in the future. Transmission as a business is attractive due to its stable cash flows, growth potential and relatively low financial risk once assets are in service. Also, regulation by FERC is viewed positively because investors understand the Commission's use of formula rates, filing requirements, and its overall regulatory process.

These salutary factors help explain the allure of transmission as an investment concept. The fact that there is only a limited number of pure-play transmission vehicles in existence at this time makes AEP Transco even more appealing to investors. From a debt perspective, better pricing should result because of the unbundled aspect and ease in understanding the business. Equity investors also should eventually realize higher returns on their investment as projects come to fruition and are then able to earn an authorized return. Equity holders would consider the opportunity to spin off a portion of the transmission business at some future point advantageous.

The Bottom Line

In sum, investors support AEP's creation of a wholly-owned Transco. Transmission as a business concept is appealing for many reasons. Locating it in a single entity within the AEP family of companies should help maximize its benefits without impairing the credit quality or raising the risk level of the existing Opcos. Of course, some of the promise of transmission lies in the ability to execute and secure the needed permits and siting approvals, so as to bring a project to completion. That proviso notwithstanding, having a separate entity to which investors can supply needed capital helps ensure that AEP will have the ability to build needed transmission in a timely manner.

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF AEP KENTUCKY	)	
TRANSMISSION COMPANY, INC.	)	
FOR A CERTIFICATE OF PUBLIC	)	CASE NO. 2011-____
CONVENIENCE AND NECESSITY TO	)	
OPERATE AS A TRANSMISSION ONLY	)	
PUBLIC UTILITY		

DIRECT TESTIMONY AND EXHIBITS OF

RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

February 04, 2011

DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
AND AEP KENTUCKY TRANSMISSION, INC.
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and Finance, Kentucky Power Company (Kentucky Power, KPCo or Company). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

II. BACKGROUND

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree with a major in accounting from Franklin University, Columbus, Ohio in December 1981. I began work with Columbus Southern Power in 1978 working in various customer services and accounting positions. In 1983, I transferred to Kentucky Power Company working in accounting, rates and customer services. I became the Billing and Collections Manager in 1995 overseeing all billing and collection activity for the Company. In 1998, I transferred to Appalachian Power Company working in rates. In 2001, I transferred to the AEP Service Corporation working as a Senior Rate Consultant. In July 2004, I transferred back to Kentucky Power Company and assumed the position of Manager, Business Operations Support and was promoted to Director in April 2006. I was promoted to my current position as Managing Director, Regulatory and Finance effective September 1, 2010.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR, REGULATORY AND FINANCE?

A. I am primarily responsible for managing the regulatory and financial strategy for KPCo, including planning and executing rate filings and rulemakings, and insuring that KPCo complies with the requirements of federal and state regulatory agencies. I am also responsible for managing the Company's financial operating plans including an operational interface with all other AEP organizations impacting KPCo results. This includes managing KPCo's financial areas to ensure that adequate resources such as debt, equity and cash are available to build, operate and maintain the electric system assets providing service to retail and wholesale customers.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I have testified before this Commission in fuel proceedings and the last two base rate case filings (2005-00341 and 2009-00459).

III. <u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am testifying on behalf of KPCo in support of the application filed with AEP Kentucky Transmission Company, Inc. ("KY Transco") to authorize KY Transco to own and operate transmission investments in the same manner as KPCo. I will discuss:

- KPCo's financial position today, and its anticipated capital needs in the future;
- The distinct roles of the Company's participation within PJM and how these roles will be affected by the formation of KY Transco; and
- The impact on Kentucky retail customers of KY Transco building and operating transmission assets.

Q. DOES KENTUCKY POWER COMPANY SUPPORT KY TRANSCO BUILDING, OWNING, AND OPERATING TRANSMISSION ASSETS?

A. Yes. As discussed in detail by Company witness Barton, KY Transco will provide benefits to the Company and their Kentucky retail customers, as well as to all Kentucky retail customers within the PJM footprint. Notably, KY Transco will decrease the transmission capital burdens on the Company, which will allow for more financial flexibility to make the necessary generation and distribution investments to maintain and enhance reliability.

The planning and operation of AEP's transmission system in Kentucky will continue to be performed in much the same way it is today, and the Company will continue to be responsible and accountable for the safe and reliable delivery of retail electric service in Kentucky. KY Transco will comply with all of the applicable requirements of Kentucky laws, regulations, and administrative orders regarding the approval of its transmission projects, including the requirements of KRS 278.020. KY Transco intends to use the same standards and analyses of projects that would be used by KPCo, treating the transmission systems in Kentucky, and other owners as the applicable existing systems. In addition, KY

Transco's participation in necessary transmission projects constructed pursuant to the PJM planning process will provide reliability benefits to transmission system users throughout the PJM footprint, including the Company's retail customers in Kentucky.

Q. PLEASE DISCUSS KPCO'S CURRENT FINANCIAL CONDITION.

A. As discussed in greater detail by Company witness Boteler, KPCo is facing significant pressure to maintain its credit ratings while, on the other hand, its projected capital spending needs are significant across all areas of its utility business, including transmission, and are projected to extend over the next decade. If these significant projected capital spending needs were to be constructed and financed through Kentucky Power, the increased debt burden could adversely affect its financial condition and credit profile.

Q. WHAT HAS BEEN THE COMPANY'S HISTORIC ANNUAL TRANSMISSION INVESTMENT LEVEL?

A. Over the last four years (2007-2010) our capital spend on transmission projects has been \$16.0M, \$26.5M, \$12.6M and \$15.0M respectively which is 20.4%, 20.5%, 19.7% and 28.2% respectively of the Company's total annual capital spend.

Q. WILL KY TRANSCO FINANCE ALL OF THE NEW TRANSMISSION INVESTMENT?

A. Not necessarily, although, as discussed by Company witness Barton, the intent is that KY Transco will construct most of the significant projects. The Company expects that it will continue to add transmission capital assets, but that those would be more minor in nature, primarily consisting of refurbishment or replacement of existing assets. The major difference between the Company and KY Transco financing these projects is that the Transco can devote all of its capital resources to the transmission function while the Company would have to allocate its scarce capital resources among the various functions of a vertically integrated utility.

Q. **HOW WILL KY TRANSCO'S FINANCING FOR THE REQUIRED TRANSMISSION CAPITAL AFFECT KPCO'S FINANCIAL SITUATION?**

A. By having KY Transco finance certain transmission investments that would have otherwise been built by KPCo, it will help alleviate some of the financial pressure on KPCo. The importance of keeping KPCo's credit rating at an investment grade should not be underestimated. Non-investment grade utility companies not only have limited access to capital, but they are required by investors to pay higher interest costs on the debt capital raised, thereby increasing the cost of debt service ultimately paid by customers, as discussed in the direct testimony of Company witness Boteler.

Q. **PLEASE DESCRIBE THE VARYING ROLES THE COMPANY FILLS AS A PARTICIPANT IN PJM?**

A. As a vertically integrated utility, KPCo currently has 3 distinct roles within PJM: Generator, Transmission Owner, and Load Serving Entity (LSE). There are various charges and credits that the Company will incur resulting from each role.

Q. WILL KPCO'S ROLE AS A GENERATOR BE AFFECTED BY THE FORMATION OF KY TRANSCO?

A. No. KPCo's participation as a generator will not change due to the formation of KY Transco.

Q. WILL KPCO'S ROLE AS A TRANSMISSION OWNER BE AFFECTED BY THE FORMATION OF KY TRANSCO?

A. Yes, but only to the extent that KY Transco investment will replace a portion of the Company's future transmission investments. The Company will continue to recover their transmission costs in PJM in the same manner as they do today.

Q. WILL KPCO'S ROLE AS LSE BE AFFECTED BY THE FORMATION OF KY TRANSCO?

A. No. As an LSE, the Company purchases wholesale transmission service from PJM. These charges are based upon the investments and expenses of all of the Transmission Owners within PJM and are allocated to each LSE according to the PJM OATT. These charges will continue to be incurred by the Company regardless of who invests in the PJM transmission system.

Q. DO YOU EXPECT THE CHARGES THE COMPANY INCURS FOR THE PROVISION OF TRANSMISSION SERVICE TO RETAIL CUSTOMERS TO CHANGE SIGNIFICANTLY DUE TO THE FORMATION OF KY TRANSCO?

A. No. Because the Company and KY Transco have similar formula rates, the incremental Kentucky LSE charges for wholesale transmission service received from PJM will not be significantly different for new transmission investments regardless of whether KPCo or KY Transco makes the investment.

Q. IS A PORTION OF PJM SYSTEM TRANSMISSION COSTS ALLOCATED TO THE COMPANY?

A. Yes. Because the Company is a LSE within PJM, it is allocated a portion of transmission costs based on their usage of the transmission system.

Q. HOW DOES THE COMPANY RECOVER THESE PJM TRANSMISSION-RELATED COSTS?

A. Kentucky Power does not directly pass its PJM-OATT costs through to retail customers at this time. PJM-OATT costs (which in the future maybe partly derived from KY Transco) are netted against the OATT revenues received from both affiliated and non-affiliated LSEs through the recently modified Transmission Agreement and are included as a component of base rates.

Currently, other than the net transmission cost/revenue described above, the Company recovers the return on and of the Kentucky jurisdictional share of its transmission investment and associated expenses as a component of base rates. In the future, the Company believes that it would be appropriate to recover through a rider the costs it incurs under the PJM-OATT for the provision of transmission service to Kentucky retail customers from those customers. No such request is being made as part of this proceeding.

Q. WILL THE COMMISSION'S JURISDICTION OVER THE RETAIL RECOVERY OF PJM-RELATED TRANSMISSION CHARGES BE

DEPENDENT ON WHICH TRANSMISSION COMPANY INVESTS IN PJM?

A. No. KPCo will be charged its LSE costs for transmission service regardless of who invests in the transmission system. Recovery of these costs will be under the jurisdiction of this Commission regardless of which entity makes transmission investments in PJM.

Q. **PLEASE DISCUSS THE DIFFERENCES IN THE COMPANY'S RETAIL RATES RESULTING FROM AN INCREMENTAL INVESTMENT IN THE TRANSMISSION SYSTEM MADE BY THE COMPANY VERSUS THE SAME INCREMENTAL INVESTMENT MADE BY KY TRANSCO.**

A. I have prepared a pro forma analysis (Exhibit RKW-1) that evaluates the cost impact of $330 million of new AEP Zone transmission investment, $40 million of which is assumed to be made in Kentucky and the remainder in AEP's other service territories in PJM, and models how it would flow through the various ratemaking steps, and, ultimately, be charged to Kentucky retail customers. The pro forma evaluates two cases: in the "Transco Build Case", the $330M investment is spread between the five AEP Transco companies in PJM; in the "OpCo Build Case" this same $330 million investment in new transmission is made by the corresponding AEP operating companies. The results of the pro forma can be summarized as follows. In the OpCo Build Case, KPCo makes the new investments in Kentucky and there are two major components that currently determine the retail costs for ratepayers. The first is the Annual Transmission Revenue Requirement (ATRR) and represents the Company's recovery of and on its investment in transmission assets. The following table details the ATRR calculation in Kentucky for the hypothetical $40 million investment in Kentucky described in the pro-forma example. It uses KPCo's most recently approved ROE in Kentucky and current company data for capital structure and cost of debt. This calculation results in an ATRR of $6.587 million as shown in Table 1 below.

Table 1:

State Annual Transmission Revenue Requirement

Incremental Addition in Plant In Service - State Level	40,000,000
State Retail ROE	10.500%
Preferred Stock Rate	0.000%
Long-Term Debt Rate	6.460%
Short-Term Debt Rate	0.000%
Common Equity % Cap Structure	44.270%
Preferred Stock % Cap Structure	0.000%
Long-Term Debt % Cap Structure	55.730%
Short-Term Debt % Cap Structure	0.000%
Pre-Tax Cost of Capital (%)	8.249%
Pre-Tax Cost of Capital ($)	3,299,403
O&M	1,400,000
Depreciation Expense	680,000
FIT	1,001,183
State/Local Tax	206,593
Incremental Revenue Requirement on State Investment	6,587,180

The second component that determines the retail costs to rate payers is the net of the OATT revenue Kentucky Power receives and expense it incurs from PJM. Because KPCo is both a Transmission Owner and an LSE in PJM, KPCo receives both revenue (as a Transmission Owner) and incurs expense (as a LSE) from

PJM. Using the pro-forma analysis, a $40 million dollar KPCo transmission investment in PJM would yield OATT revenue to KPCo of approximately $6.863 million. In addition, using this example, the KPCo LSE would also be allocated $3,405 million of OATT transmission expense, which represents Kentucky Power's load share of the OATT transmission expense generated from the full $330 million of new investment in PJM. These amounts net to $3.459 million of revenue that KPCo would receive from PJM. In other words, KPCo is a net recipient of $3.459 million from PJM due to the incremental investment in the example provided in this discussion. This $3.459 million is then deducted from the $6.587 million ATRR for a net cost to KPCo retail customers of $3.129 million.

Q. PLEASE DISCUSS THE SAME $40 MILLION INVESTMENT BY KY TRANSCO.

A. The KY Transco build case is much more transparent. The KPCo LSE is simply charged its allocation of incremental OATT transmission expense, which is the approximate $3.432 million, calculated using the KY Transco formula rate. This expense would then be included as part of KPCo's total transmission expenses that are recovered from retail customers.

Table 2 below summarizes the two build scenarios and their respective impact on KPCo retail customers. Case 1 represents the current state in which KPCo makes $40 million of the total $330 million investment and recovers the costs through base rates. Case 2 represents this same investments made by the new Transco Companies, including $40 million made by KY Transco.

Table 2: Impact of Investment on KPCo's Retail Customers

Case	1*	2
Company Investment	KPCO	KY Transco
PJM Cost Recovery Rider	No	N/A
KY Stat Revenue Requirement	6,587,180	0
PJM OATT Revenue	6,863,372	
PJM OATT Expense	(3,404,804)	(3,431,714)
Net OATT Revenue/(Expense)	3,458,567	(3,431,714)
Total Cost to Retail Customers	3,128,613	3,431,714

* Case 1 is the current scenario

As Table 2 reflects, given the currently approved recovery methods, the annual transmission cost to retail customers would be slightly higher for the same capital investment if it was made by KY Transco than if it were made by KPCo. While this is an increase, there are reasons to believe this rate difference will diminish and possibly reverse over time. It is reasonable to expect that KY Transco's cost of debt will be lower over time when compared to KPCo because the single business model for KY Transco should produce a stronger credit rating, allowing it to achieve a lower cost of debt than KPCo.

Q. IS KENTUCKY POWER COMPANY FILING FOR A CHANGE IN THE RECOVERY METHOD OF OATT COSTS IN THIS PROCEEDING?

A. No. The Company is only trying to show all of the cost differences to retail customers using the differing recovery methods.

Q. PLEASE DESCRIBE THE DIFFERENCE IN COSTS TO KPCO'S RETAIL CUSTOMERS FOR THE SAME INCREMENTAL

INVESTMENT MADE BY KPCO AND KY TRANSCO IF THE DIRECT PASS THROUGH OF WHOLESALE TRANSMISSION CHARGES WERE IN AFFECT.

A. Table 3 below compares the cost to retail customers for the same two cases as discussed above if a direct pass through mechanism were in affect for KPCo. If the Company were allowed to recover the wholesale transmission charges it incurs for the provision of transmission service to their Kentucky retail customers, the difference in cost to those retail customers would nearly be eliminated. Additionally, under a pass through methodology any of the KY Transco cost of capital advantages resulting from the lower debt cost discussed above would flow directly to the customers. This comparison illustrates the fact that it is not the existence of the KY Transco that causes a difference in cost of transmission service, but rather the differing treatment of those costs in retail rate making proceedings.

Table 3: Impact of Investment Case on KPCo's Retail Customers

Case	3	4
Company Investment	KPCo	KY Transco
PJM Cost Recovery Rider	Yes	Yes
PJM OATT Expense	(3,404,804)	(3,431,714)
Total Cost to Retail Customers	3,404,804	3,431,714

Q. **PLEASE SUMMARIZE THE BENEFITS THAT YOU BELIEVE KY TRANSCO BRINGS TO THE COMPANY AND THEIR KENTUCKY CUSTOMERS.**

A. KY Transco will provide benefits to Kentucky Power and its Kentucky customers with little or no impact on retail rates or regulatory oversight. It is expected to have no impact on the way transmission projects are planned or built. The formation of KY Transco will assist in strengthening the financial health of Kentucky Power, in particular by removing the financial burden of constructing transmission upgrades that are needed to maintain and enhance reliability in Kentucky Power while relieving KPCo of the need to raise equity and debt associated with those projects, and preserving debt issuance capacity for KPCo's other system needs. The importance of keeping KPCo's credit rating at an investment grade should not be underestimated. Non-investment grade utility companies not only have limited access to capital, but they are required by investors to pay higher interest costs on the debt capital raised.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT

Ranie K Wohnhas, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

Ranie K. Wohnhas

Ranie K. Wohnhas

Commonwealth of Kentucky)
) Case No.
County of Franklin)

Subscribed and sworn to before me, a Notary Public, by Ranie K. Wohnhas this 3rd day of February 2011.

Judy K Rosquist

Notary Public

My Commission Expires January 23, 2013

OPERATING COMPANY BUILD CASE

		Opco Total	CSP	Ohio Power	I&M - IN	I&M - MI	APCo - VA	APCo - WV	KPCo	KgPCo	WPCo	Wholesale Customers
OATT FORMULA RATE (OpCo)	Incremental Addition in Plant In Service	330,000,000	75,000,000	75,000,000	50,000,000	10,000,000	40,000,000	40,000,000	40,000,000	0	0	
	ROE		11.49%	11.49%	11.49%	11.49%	11.49%	11.49%	11.49%	11.49%	11.49%	
	LTD Rate		5.77%	4.89%	6.28%	6.28%	5.90%	5.90%	6.46%	5.38%	5.25%	
	Equity % Cap Structure		47.71%	50.91%	49.80%	49.80%	44.76%	44.76%	44.01%	51.61%	64.62%	
	Debt % Cap Structure		52.29%	49.09%	50.20%	50.20%	55.24%	55.24%	55.99%	48.39%	35.38%	
	Pre-Tax Cost of Capital (%)	8.51%	8.50%	8.25%	8.87%	8.87%	8.40%	8.40%	8.67%	8.53%	9.28%	
	Pre-Tax Cost of Capital ($)	28,077,700	6,374,259	6,187,545	4,437,290	887,458	3,360,834	3,360,834	3,469,481	0	0	
	O&M	11,550,000	2,625,000	2,625,000	1,750,000	350,000	1,400,000	1,400,000	1,400,000	0	0	
	Formation Costs											
	Depreciation Rate		2.2%	2.2%	1.4%	1.4%	1.7%	1.7%	1.7%	2.5%	2.7%	
	Depreciation Expense	6,158,500	1,612,500	1,680,000	715,000	143,000	664,000	664,000	680,000	0	0	
	FIT	9,729,370	2,213,836	2,362,322	1,540,544	308,109	1,107,707	1,107,707	1,089,146	0	0	
	State/Local Tax	2,007,648	456,823	487,463	317,890	63,578	228,574	228,574	224,744	0	0	
	Incremental OATT Revenue Requirement	57,523,218	13,282,418	13,342,330	8,760,724	1,752,145	6,761,115	6,761,115	6,863,372	0	0	
PJM / AEP ALLOCATION AMENDED TA	Incremental OATT Transmission Revenue		13,282,418	13,342,330	8,760,724	1,752,145	6,761,115	6,761,115	6,863,372	0	0	
												1CP
	12 CP Load Share		16.5%	19.9%	10.1%	4.2%	14.4%	12.6%	5.9%	1.8%	1.4%	13.3%
	Allocation of Incremental OATT Transmission Expense		9,480,288	11,422,827	5,791,210	2,388,899	8,303,294	7,244,498	3,404,804	1,020,394	816,415	7,650,588
	Incremental Net OATT Revenue / (Expense)		3,802,130	1,919,503	2,969,514	(636,754)	(1,542,179)	(483,383)	3,458,567	(1,020,394)	(816,415)	
RETAIL RATES	Recovery Mechanism								base case			
	Incremental Addition in Plant In Service - State Level								40,000,000			
	State Retail ROE								10.500%			
	Preferred Stock Rate								0.000%			
	Long-Term Debt Rate								6.460%			
	Short-Term Debt Rate								0.000%			
	Common Equity % Cap Structure								44.270%			
	Preferred Stock % Cap Structure								0.000%			
	Long-Term Debt % Cap Structure								55.730%			
	Short-Term Debt % Cap Structure								0.000%			
	Pre-Tax Cost of Capital (%)								8.249%			
	Pre-Tax Cost of Capital ($)								3,299,403			
	O&M								1,400,000			
	Depreciation Expense								680,000			
	FIT								1,001,183			
	State/Local Tax								206,593			
	Incremental Revenue Requirement on State Investment								6,587,180			
	less: Incremental Net OATT Revenue / (Expense)								3,458,567			
	Incremental Cost to Retail Customers								3,128,613			

Kentucky Transmission Company
Pro Forma Analysis

AEP TRANSCO BUILD CASE

		Transco Total	Ohio Transco	IM Transco	App Transco	WV Transco	KY Transco					
OATT FORMULA RATE (Transco)	Incremental Addition in Plant In Service	330,000,000	150,000,000	60,000,000	40,000,000	40,000,000	40,000,000					
	ROE		11.49%	11.49%	11.49%	11.49%	11.49%					
	LTD Rate		5.35%	5.35%	5.35%	5.35%	5.35%					
	Equity % Cap Structure		50.00%	50.00%	50.00%	50.00%	50.00%					
	Debt % Cap Structure		50.00%	50.00%	50.00%	50.00%	50.00%					
	Pre-Tax Cost of Capital (%)	8.42%	8.42%	8.42%	8.42%	8.42%	8.42%					
	Pre-Tax Cost of Capital ($)	27,786,000	12,630,000	5,052,000	3,368,000	3,368,000	3,368,000					
	O&M	11,550,000	5,250,000	2,100,000	1,400,000	1,400,000	1,400,000					
	Formation Costs (years 1-4 only)	133,929	26,786	26,786	26,786	26,786	26,786					
	Depreciation Rate		2.2%	1.4%	1.7%	1.7%	1.7%					
	Depreciation Expense	6,193,000	3,315,000	858,000	668,000	672,000	680,000					
	FIT	10,208,423	4,640,192	1,856,077	1,237,385	1,237,385	1,237,385					
	State/Local Tax	2,106,500	957,500	383,000	255,333	255,333	255,333					
	Incremental OATT Revenue Requirement	57,977,852	26,819,478	10,275,863	6,955,504	6,959,504	6,967,504					
PJM / AEP ALLOCATION	Allocation of Incremental OATT Transmission Revenue		26,819,478	10,275,863	6,955,504	6,959,504	6,967,504					
			CSP	Ohio Power	I&M - IN	I&M - MI	APCo - VA	APCo - WV	KPCo	KgPCo	WPCo	1CP Wholesale Customers
	12 CP Load Share		16.5%	19.9%	10.1%	4.2%	14.4%	12.6%	5.9%	1.8%	1.4%	13.3%
	Allocation of Incremental OATT Transmission Expense		9,555,216	11,513,107	5,836,981	2,407,780	8,368,919	7,301,755	3,431,714	1,028,459	822,867	7,711,054
RETAIL RATES	Recovery Mechanism								base case			
	Incremental Expense in Next Rate Update								3,431,714			

Exhibit RKW - 1
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