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June 21, 2011

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HAND DELIVERED

RECEIVED
JUN 21 2011
PUBLIC SERVICE COMMISSION

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

RE: Case No. 2011-00042

Dear Mr. Derouen:

In accordance with the Commission's Order dated June 10, 2011, please find enclosed the original and ten copies of the Supplemental Testimony of Lisa M. Barton and the Testimony of Gregory G. Pauley in the above proceeding.

Copies of the testimony are being served on parties of record along with a copy of this letter.

Very truly yours,

Mark R. Overstreet

MRO
cc: David F. Boehm
Lawrence Cook

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. 2011-00042

DIRECT TESTIMONY AND EXHIBITS OF

GREGORY G. PAULEY

AND

SUPPLEMENTAL TESTIMONY OF LISA M BARTON

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

June 21, 2011

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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. 2011-00042

SUPPLEMENTAL TESTIMONY OF

LISA M. BARTON

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

June 21, 2011

SUPPLEMENTAL TESTIMONY OF LISA M. BARTON, ON BEHALF OF KENTUCKY POWER COMPANY AND AEP KENTUCKY TRANSMISSION COMPANY, INC BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I previously filed pre-filed Direct Testimony and exhibits filed on February 4, 2011.

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

A. The purpose of my testimony is to address issues raised by the Commission in its order on June 10, 2011 in this case. I will address the impact that recent Memorandums of Understanding (MOU) between AEP, Pioneer Transmission LLC (Pioneer) and the Tennessee Valley Authority (TVA) will have on AEP Kentucky Transmission Company (KY Transco).

Q. PLEASE DESCRIBE THE MOU BETWEEN AEP AND TVA.

A. TVA and AEP have entered into a non-binding MOU to undertake transmission planning studies to identify beneficial transmission enhancements along the interface of the PJM Interconnection (PJM) and the TVA transmission system. These studies are performed routinely by companies for needed enhancements within their individual systems and are routinely performed by RTO's within the RTO's larger system. AEP and TVA's respective systems abut in Kentucky. The purpose of this study is to identify possible transmission enhancements between the PJM and TVA systems which will benefit both regions. By looking at the combined systems, the companies intend to ascertain whether there are synergetic transmission solutions that should be pursued. At this time, no specific projects have been identified for construction.

Q. WHAT IS BEING PROPOSED BY THE MOU AND DOES THE COMMISSION NEED TO TAKE ANY ACTION REGARDING THE MOU?

A. The study set forth in the MOU was limited to identifying transmission enhancements to the TVA transmission system and its interface with PJM. The MOU only reflects the shared intent to jointly study regional transmission needs. Because a specific project has not been identified there is no need for the Commission to act. If at some later point in time, the parties were to determine that a line or investment was necessary, RTO approval of the project by PJM, along with an application to the Commission to site the line, would be pursued by the entity that would be building the project. Because there are no specific projects determined as being recommended for construction, it has not been determined which AEP entity, if any, would own the future facilities. Regardless of the entity that ultimately constructs the project, there is no direct impact on either KPCo or KY Transco.

Q. HOW WILL KENTUCKY POWER COMPANY (KPCO) AND KY TRANSCO BE AFFECTED BY THE MOU BETWEEN AEP AND TVA?

The MOU does not impact KPCo or KY Transco. As stated in my direct testimony, the intent of KY Transco is to construct transmission projects that KPCo would have otherwise constructed within KPCo's service territory. Under current PJM planning protocols, projects can be proposed by transmission companies for consideration by the RTO.

Q. IF THE PARTIES IDENTIFY A PROJECT AS BEING NEEDED, WHO WILL CONSTRUCT THE LINE?

Because no specific project has been identified it is premature to know with certainty which entity would be responsible for building the line. Based on our understanding of current Kentucky law, if a new entity were formed to construct the line, it would need to be before this Commission to secure public utility status. If the line were to be built by KPCo, KY Transco or a new public utility, the entity would also need to secure siting approval for the line, in the same manner that KPCo does today.

Q. WHAT IS PIONEER LLC?

Pioneer (Pioneer LLC) is a joint venture between Duke Energy and AEP. It is a limited liability company that is jointly owned between AEP and DUKE which has proposed to develop a 240-mile 765kV line from Rockport station, near Evansville, IN to Greentown station, near Kokomo, IN. Prior to constructing the line, i) PJM will need to determine that the project is needed to meet regional reliability and system needs and ii) Pioneer will seek certification to be a public utility in the state of Indiana.

Q. PLEASE DESCRIBE THE MOU BETWEEN PIONEER AND TVA.

A. TVA, AEP and Duke have engaged in transmission planning studies between the AEP 765kV system in Indiana and the TVA system. These studies have demonstrated that there would be significant reliability benefits associated with this project. The MOU between Pioneer and TVA reflects intent by the parties to jointly develop transmission facilities that would be located along the TVA electrical transmission interface. The referenced project is a 55-mile 765-kilovolt (kV) extra-high transmission line connecting AEP's Rockport station, located east of Evansville, IN, with TVA's Paradise Fossil Plant in Drakesboro, KY. The proposed project would also include the construction of a new 765kV substation at the Paradise Fossil Plant.

Q. WHAT IS NEEDED FOR THIS PROJECT TO MOVE FORWARD?

Prior to beginning construction on this line, Pioneer would need i) PJM to determine that the project is needed to meet regional transmission reliability and system needs; ii) Pioneer would need to seek certification by this Commission to become a public utility in the state; and iii) Pioneer would need to secure this Commission's approval to site the line.

Q. HOW DOES THIS MOU AND THE RELATED PROJECT AFFECT KPCO AND KY TRANSCO?

A. The MOU between Pioneer and TVA was signed to develop a specific transmission project in Kentucky and Indiana connecting AEP's Rockport Station to TVA's Paradise Fossil Plant. At this time it is contemplated that all related facilities would be owned by Pioneer and TVA. The project is not anticipated to have ownership by either by KPCo or KY Transco.

Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

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. 2011-00042
County of Franklin)

Subscribed and sworn to before me, a Notary Public, by Lisa M. Barton this 15th day of June 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

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.	))))))	**CASE NO. 2011-00042**

DIRECT TESTIMONY AND EXHIBITS OF

GREGORY G. PAULEY

ON BEHALF OF KENTUCKY POWER COMPANY

AND AEP KENTUCKY TRANSMISSION COMPANY, INC.

June 21, 2011

**TESTIMONY OF
GREGORY G. PAULEY, 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 Gregory G. Pauley. My position is President and Chief Operating Officer, 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 Bachelors degree from Harding University in May 1973. I also graduated from management development programs at The Ohio State University and Virginia Polytechnic Institute and State University. I currently serve as President and COO of Kentucky Power (2010). From 2006-10 I was Director – Public Policy for AEP working on policy issues impacting the utility industry on a national level. Prior to that I served as Kentucky Power's Governmental/Environmental Affairs manager from 2001-2006. I have also held positions at other AEP operating units in community affairs, manager of distribution services, human resources and accounting at various operations and generation facilities.

Q. WHAT ARE YOUR RESPONSIBILITIES AS PRESIDENT AND CHIEF OPERATING OFFICER?

A. I am responsible for the safe, efficient and profitable operation of Kentucky Power; oversight of customer services, community affairs and economic development activities; guiding public policies in the legislative, regulatory and administrative arenas; and administering all phases of the business.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No.

III. PURPOSE OF TESTIMONY

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

A. I am testifying on behalf of KPCo to address some of the concerns presented in the Commission's order dated June 10, 2011. I recognize that this proceeding involves an application by KY Transco and not KPCo, but I believe it is important that the Commission and parties hear from a Kentucky Power official as the statements referred to by the Commission used KPCo as an example. I will discuss:

- Media articles that discuss statements made by AEP officials regarding AEP's consideration of the "monetizing" of assets, for example, KPCo; and
- What impact should the possibility of a sale of Kentucky Power assets have on KY Transco's pending application to be granted public utility status within the Commonwealth.

Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE MEDIA ARTICLE REPORTING ON A SPEECH BY MICHAEL G. MORRIS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN ELECTRIC POWER COMPANY, INC., THAT WAS FOOTNOTED IN THE COMMISSION'S ORDER DATED JUNE 10, 2011.

A. Mr. Morris, in his speech at the Sanford Bernstein's Strategic Decisions Conference in New York City was explaining that AEP continually evaluates the earnings history of all of its assets. (A brief report of Mr. Morris' speech appeared at pages 4, 6, and 7 of the June 6, 2011 edition of *Electric Utility Week*. A copy of the article is attached to my testimony as Exhibit GGP-1.) That evaluation includes allocation of future capital dollars based upon current earnings in order to maximize our investments. Mr. Morris used Kentucky Power Company as an example of an asset that has had a recent history of under earning but based upon proposed Environmental Protection Agency (EPA) rules to comply with various environmental issues needs large capital dollar investments to comply. This type of evaluation is common and is done for many of our assets. It is an on-going internal process in which all successful businesses must engage.

Q. HAVE THERE BEEN ADDITIONAL MEDIA ARTICLES DISCUSSING THESE SAME ISSUES?

A. Yes. There was an article on Bloomberg.com on June 13, 2011 in which Nick Akins, President AEP addressed the comments made by Mr. Morris. Also a follow-up article is shown on snl.com in which Pat Hemlepp, spokesman for AEP clarifies comments presented in the Bloomberg article, specifically that Kentucky

Power Company is not "on the auction block." (Copies of the articles are attached to my testimony as Exhibits GGP-2 and GGP-3, respectively.)

Q. WHAT IS YOUR UNDERSTANDING OF THE COMMENTS BY AEP OFFICIALS THAT WERE REPORTED IN THESE ARTICLES?

A. As I indicated above, and as it has in the past, AEP regularly evaluates the status of its assets, as well as where it may best deploy its limited capital resources, so as to best serve the needs of its subsidiaries, customers and AEP's shareholders. Second, Kentucky Power is moving forward as a viable and productive asset of AEP. The 2010 rate adjustment allowed Kentucky Power to address concerns with its financial metrics, while providing badly needed revenue to improve distribution system reliability. For example, as previously reported to the Commission, Kentucky Power actually spent slightly more on distribution system vegetation management in the second half of 2010 than required under the Commission's order. In addition, Kentucky Power intends to avail itself, when appropriate, of all statutory means including the environmental surcharge and general rate adjustments, to ensure timely expense recovery, as well as recovery of and on its invested capital. Third, AEP, like many other investor owned utilities, is confronted with major decisions that impact operations, shareholders and our consumers. These issues are local as well as national and impact the lives of many people. Many of these issues center around the same concerns voiced by Kentucky state and federal elected officials regarding the proposed Environmental Protection Agency ambient air quality standards. Finally, in light of the projected cost of complying with the proposed standards, as well as other demands, it is even more essential that AEP and Kentucky Power evaluate, as part of an ongoing process, the changing economic and regulatory environment, and the impact of such changes. Thus, while the financial demands on Kentucky Power and its customers may be increasing substantially in the future, the comments reflect the process that AEP and Kentucky Power have long employed.

Q. HAS AEP MADE THE DETERMINATION TO SELL KENTUCKY POWER?

A. No. As I said earlier, AEP regularly evaluates the performance of its assets and considers whether it may want to sell any of those assets. Kentucky Power, along with other assets, is part of that evaluation process.

Q. ARE YOU COMMITTING THAT AEP WILL NOT SELL KENTUCKY POWER?

A. No. It is important that AEP regularly evaluate the performance of all its assets for the benefit of its customers and stakeholders.

Q. WHAT WAS INTENDED BY MR. AKINS' STATEMENT AS REPORTED IN THE JUNE 13, 2011 *BLOOMBERG* ARTICLE, AND MR. HEMLEPP'S STATEMENTS IN RESPONSE TO THAT ARTICLE CONCERNING AEP'S EFFORTS IN "WORKING WITH REGULATORY AGENCIES" AND REGULATORS.

A. The terms "regulatory agencies" and regulators were imprecise. A more complete description of the short hand employed would have been all stakeholders to the regulatory process. As the Commission and the parties to this proceeding are well aware, Kentucky Power long has made, and continues to make, a concerted effort to keep all stakeholders apprised of developments. For example, Kentucky Power regularly serves the Attorney General and Kentucky Industrial Utility Customers, Inc., with copies of regulatory filings even when they are not formal parties to cases. Kentucky Power in accordance with the Commission's regulations also requests informal conferences to make presentations regarding regulatory and business developments. Again, such requests are served on all parties to any ongoing proceeding, and typically to the Attorney General and Kentucky Industrial Utility Customers, Inc. even when they are not parties. There has not been, and will not be, any prohibited *ex parte* contact between Kentucky Power or AEP and the Commission.

Q. WHAT WAS INTENDED BY THE PHRASE "WORK WITH"?

A. Only that, in addition to the presentations described above, Kentucky Power endeavors through its formal regulatory filings to "make its case". It is the practice of Kentucky Power Company to work with the Commission and all parties to collectively work toward the mutual benefit of the Commonwealth.

Q. SHOULD ANY OF THESE EVALUATIONS OF KENTUCKY POWER HAVE AN IMPACT ON KY TRANSCO'S APPLICATION FOR PUBLIC UTILITY STATUS IN THE COMMONWEALTH?

A. No. We regularly look at improving the reliability of our transmission and distribution grid and authorizing the KY Transco to own and construct transmission facilities to serve Kentucky Power's customers will provide a financial benefit to the retail customers, investors and shareholders in the long run.

Q. MORE SPECIFICALLY, PLEASE ADDRESS THE COMMISSION'S CONCERN, AS EXPRESSED IN ITS JUNE 10, 2011 ORDER IN THIS PROCEEDING, WHETHER IN LIGHT OF THE NEWS REPORTS AND STATEMENTS YOU ADDRESS ABOVE "IT IS APPROPRIATE FOR THE COMMISSION TO AUTHORIZE KY TRANSCO TO OWN AND CONSTRUCT TRANSMISSION FACILITIES THAT ARE NEEDED TO SERVE KENTUCKY'S POWER'S CUSTOMERS IF KY TRANSCO AND KENTUCKY POWER DO NOT REMAIN UNDER COMMON OWNERSHIP."

A. Please allow me to comment on the predicate to the question before addressing the question. KY Transco will construct transmission projects that would have been built by KPCo in the absence of KY Transco. These include projects that are extensions of Kentucky Power's system, projects ordered by PJM, and limited upgrades and replacements to KPCo's existing transmission facilities. The transmission system in Kentucky, including that now owned by Kentucky Power, as well as assets to be constructed by KY Transco, serve the needs not only of consumers within the Commonwealth of Kentucky, but also consumers of power throughout the PJM system. Thus, it is important to keep in mind that it is not completely accurate to describe transmission assets, whether owned by KPCo or KY Transco, as "needed to serve Kentucky Power customers."

Q. WITH THAT CLARIFICATION, PLEASE ADDRESS THE COMMISSION'S QUESTION.

A. Yes, it is appropriate that KY Transco be authorized to own and construct transmission assets that otherwise would be built by KPCo in the absence of KY Transco. As I believe the previously filed testimony of Ms. Barton, Mr. Boteler, and Mr, Wohnhas make clear, KY Transco is a means of financing necessary transmission facilities at what KY Transco and Kentucky Power believe ultimately will be a lower cost to Kentucky Power's customers. Those savings will exist whether Kentucky Power and KY Transco are under common ownership or not and result from the factors described at pages 3-7 of the testimony of Witness Jerald R. Boteler, Jr. Moreover, in the event Kentucky Power and KY Transco are no longer under common ownership, the transmission facilities to be owned and built by Kentucky Transco will remain available to provide service to consumers within the Commonwealth and the PJM system. Finally, in the event AEP were to seek authority from this Commission to divest Kentucky Power, the Commission will have an opportunity to weigh the effect of such a transaction on Kentucky Power's customers and KY Transco, as well as whether the transaction complied with the laws of the Commonwealth.

Q. SHOULD "KENTUCKY TRANSCO, EITHER AS AN AFFILIATE OF KENTUCKY POWER OR AS A NON-AFFILIATE ... BE AUTHORIZED TO OPERATE AS A UTILITY AND THEREBY ACQUIRE THE RIGHT OF EMINENT DOMAIN TO CONSTRUCT TRANSMISSION FACILITIES THAT MAY NOT BE NEEDED TO SERVE KENTUCKY POWER'S CUSTOMER'S"?

A. Yes. As I previously described, KY Transco will own assets that otherwise would be built by Kentucky Power and that are needed to serve the needs of not only KPCo customers, but of consumers throughout the Commonwealth and the PJM system. Second, if KY Transco is accorded utility status, the Commission will enjoy regulatory authority with respect to KY Transco it would not otherwise have over a non-utility. For example, KRS 278.020(5), KRS 278.020(6) and KRS 278.218 are applicable to assets owned by utilities over which the Commission exercises jurisdiction. A non-utility would not appear to be subject to the Commission's jurisdiction with respect to those provisions. Equally important, to the extent KY Transco is able to exercise eminent domain; it will be able to construct transmission facilities without the delay and added expense that could be borne in the absence of such authority.

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

A. Yes.

AFFIDAVIT

Gregory G. Pauley. upon being first 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.

Greg G Pauley

Gregory G. Pauley

Commonwealth of Kentucky	)	
	)	Case No. 2011-00042
County of Franklin	)	

Sworn before me and subscribed in my presence by Gregory G. Pauley, this the 17th day of June, 2011.

Judy K. Rosquist

Notary Public

My Commission Expires: January 23, 2013

EXHIBITS

The companies are still investigating whether the acquisition will require approval of states other than Vermont. CVPS has small holdings in Connecticut, Maine, New Hampshire and New York. These include minority interests in Millstone-3, a Connecticut nuclear plant, and Wyman-4, a Maine oil-fired plant.

Fortis and CVPS both expressed confidence that the acquisition would win regulatory approval. The key agency is the PSB, Reilly observed. Susan Hudson, PSB clerk, said that the board cannot determine the specific criteria it will use to evaluate the deal until it sees CVPS' petition. The utility has yet to set a date for the filing.

Vermont Governor Peter Shumlin, a Democrat, said that his administration would examine the deal carefully. "In a utility acquisition such as this, it is critical that the transaction serve the best interests of Vermont's ratepayers and job creators."

He added that "while CVPS's board has cited benefits of retained management and control, I will examine this transaction for strong value to the customers in furtherance of our state's priorities. I will also insist on a continuation of the extraordinary corporate ethic we expect here in Vermont "

Reilly said that the deal is similar in many ways to Gaz Metro's acquisition of Green Mountain Power, Vermont's second-largest utility. The PSB approved the $187 million deal in 2007, after 10 months of review. Because this is the second such deal to come before the board, approval could go more quickly, Reilly said.

Other recent moves by Canadian energy company into New England include the April 30 announcement by Nova Scotia-based Emera that it plans to buy 49% of Boston-based wind developer First Wind, through a partnership with Algonquin Power and Utilities, which is based in Ontario. In Maine, Emera owns Maine Public Service and Bangor Hydro-Electric.

Liberty Energy Utilities, a regulated subsidiary of Canada's Algonquin Power & Utilities, late last year announced plans to acquire two New Hampshire utilities from National Grid for $285 million: Granite State Electric and EnergyNorth.

Profits improving under alternative regulation plan

CVPS 2010 net income of $20.86 million was up only 2.3% from 2009 but was the highest since the record $23.4 million in 2004, and was the sixth straight annual increase. First-quarter net soared 102.7% to $8.3 million, reflecting the 7.46% rate hike effective January 1. Finances have benefitted from the three-year alternative regulation plan the PSB approved in 2008.

In July 2010 CVPS filed for approval of a modified plan for the three years 2011-13 (*PSB Docket 7336*).

CVPS debt is rated only by Moody's Investors Service, which May 31 affirmed ratings with a stable outlook. After the company unsuccessfully sought an upgrade to investment grade from Standard & Poor's Ratings for a few years, it turned to Moody's, which December 9, 2009, assigned the utility a Baa3 issuer rating, the lowest investment grade.

The next day, S&P withdrew its ratings at the company's request. It had had a BB+ corporate credit rating on CVPS (S&P's highest speculative grade) since the June 10, 2005, downgrade from BBB-. S&P and Platts are units of The McGraw-Hill Companies.

CVPS had benefitted from improving relations with the PSB and ratepayer advocate Department of Public Service, as shown by the three-year alternative regulation plan approved in 2008, which improved certainty and timeliness of cost recovery, Moody's said at that time.

S&P kept its outlook stable on Fortis (issuer rating A-).

"Although this is Fortis' first foray into the US, the acquisition is consistent with S&P's understanding of management's growth strategy and track record of financing acquisitions with bought deals. We believe the acquisition provides modest regulatory and geographical diversification benefits to the company's existing portfolio of regulated utilities," said Associate Director Gavin MacFarlane and Director Nicole Martin, in Toronto.

"CVPS will account for about 7% of Fortis's assets post-acquisition and provide an approximately proportional contribution to Fortis's earnings," they said.

Fitch Ratings withdrew ratings on CVPS December 6, 2006.

Moody's cited the supportive Vermont regulatory and political environment and strong CVPS credit metrics which are expected to weaken in the intermediate term, and weak liquidity and uncertainty as to the state acquisition approval process.

"Although a definitive financing strategy has yet to be articulated, our rating affirmation assumes that CVPS's leverage and dividend policies will not will not be adversely impacted by the proposed acquisition," added Analyst Ryan Wobbrock. Moody's also assumed that the utility's primary credit facility would be renewed by its expiration in November.

"Prospectively, Moody's views Fortis as a net credit benefit for CVPS. Fortis has an established, credit-friendly acquisition track record [and] brings scale and scope to CVPS, which should help with capital investment allocation, operating cost reductions and accessing capital markets," he continued. "In prior acquisitions of regulated utilities in Canada, Fortis has been successful in establishing and maintaining positive relationships with utility regulators."

CVPS has two deals awaiting PSB approval

Meanwhile, CVPS has two deals awaiting PSB approval. It agreed in April of last year to buy the generation, transmission and distribution assets of Vermont Marble, at a price of $28.3 million for the four hydropower plants and $1 million for the T&D assets. Last October it agreed to buy the 319-customer Readsboro Electric Department for $400,000.

The company expects PSB rulings in both cases by the end of the second quarter, it said in the Q1 Form 10-Q filed with the Securities and Exchange Commission.

— *Paul Carlsen, Lisa Wood*

AEP may sell 'underearning' subsidiaries; CEO hints Kentucky Power on the block

American Electric Power may consider selling some underperforming assets, including subsidiaries that fail to earn a reasonable return on investments, Michael Morris, the company's

(continued on page 6)

NEWS BRIEFS

sion regarding license renewal, the staff will supplement the SER, as necessary, considering any relevant new information from the seismic studies, operating experience" and annual updates of the license renewal application, the NRC said. Development of a draft license renewal environmental impact statement "has been put on hold" pending additional information "that may have an impact on it," Dricks added. An NRC licensing board is reviewing four contentions filed in opposition to license renewal by long-time plant opponents San Luis Obispo Mothers for Peace. It is up to the board to decide whether to hold hearings on the contentions before the seismic study is completed or to await further information, Dricks said.

...**PJM Interconnection** began operational control last week of the transmission systems of municipal utility **Cleveland Public Power** and **FirstEnergy's** transmission affiliate **American Transmission Systems**. Several FirstEnergy utilities transferred their assets from the **Midwest Independent Transmission System Operator** to PJM with a June 1 effective date, meaning all FirstEnergy utilities are now in PJM. FirstEnergy utilities that joined PJM are **Toledo Edison, Ohio Edison, Penn Power** and **Cleveland Electric Illuminating**, PJM said. With the additional assets, PJM said it now includes 180,400 MW of generating capacity and 61,200 miles of transmission lines, up from the 167,362 MW and 56,750 miles of lines prior to June 1. The grid operator's peak demand rose to 158,448 MW from 144,644 MW. In 1993, PJM had a peak demand of 46,429 MW, with a generating capacity of 55,575 MW and about 6,800 miles of transmission lines.

... The **Electric Reliability Council of Texas** will have a comfortable 17.5% reserve margin this summer and next, but delays in three fossil-fired projects totaling 3,280 MW will accelerate margin declines in subsequent years. The May 31 "Report on the Capacity, Demand, and Reserves in the ERCOT Region" projects demand to peak at 63,898 MW this summer, some 1,900 MW less that the 65,776-MW record it set last August 23. ERCOT's summer reserve margin is projected to remain above the minimum target of 13.75% through 2013. Since December, more than 1,000 MW of generating capacity has either come online, returned to service or is poised to begin commercial operation, the grid operator said. Even so, the reserve margin drops below the minimum of 13.75% beginning in 2014 and stays below, based on currently committed generation plans. The reliability council said that four fossil fuel-fired units totaling 3,280 MW that previously had been scheduled to come online in 2014-16 have been delayed four to 12 months. Potential resources not considered "operational" include more than 2,300 MW of older gas-fired capacity now "mothballed" that could be brought back into service. Other resources not added into the reserve margin calculation include proposed units that have begun the final study phase of the transmission interconnection process. Planned units in the final phase total 8,200 MW for 2012 and increase to more than 19,681 MW by 2020, ERCOT said. Summer 2011 resources include 1,484 MW of contractually committed demand response and emergency interruptible load operators can dispatch on command . "ERCOT continues to lead the nation with the most installed wind generation capacity at 9,452 MW," it noted. But its methodology counts only 8.7% of that — about 1.1% of ERCOT's "dependable capacity at peak." Most comes from gas (64.2%) and coal (26%) plants.

...**Idaho Power** is asking state regulators to approve an $83 million, or 9.9%, annual rate increase, the utility said last week. It is seeking an effective date of January 1, 2012. Idaho Power is sensitive to burdening customers with higher rates during difficult economic times, but its current rates do not allow fair and timely recovery of costs, the utility said in a statement. "Since Idaho Power's last general rate case in 2008, the company has continued to grow," and "we have invested over $450 million in infrastructure necessary to continue providing safe and reliable electric service to our customers," said Vice President of Regulatory Affairs Greg Said.

(continued from page 4)
chairman and CEO, said last week.

Speaking at Sanford Bernstein's Strategic Decisions Conference in New York City on Wednesday, Morris said his Columbus, Ohio-based company continues to forecast overall earnings growth of 5-7% annually in the next several years. As part of its financial strategy, AEP may "monetize" some assets, Morris said, mentioning the company's Kentucky Power subsidiary as an example. He did not elaborate except to say, "You'll see us take some of those moves in the near future."

Reached later for comment, AEP spokesman Patrick Hemlepp said the company has been evaluating such a divestiture possibility "for quite a while. We've been focused on capital allocation and looking at the jurisdictions and their assets," a reference to AEP's seven operating units — AEP Ohio, AEP Texas, Appalachian Power, Indiana Michigan Power, Public Service Company of Oklahoma, Southwestern Electric Power and Kentucky Power — that do business in 11 states.

"Where we can manage them adequately through the regulatory process, we will continue to do so," Hemlepp said. "But in jurisdictions that underearn, we would consider selling them to someone whose portfolio fits them better than ours."

While AEP is not publicly identifying any potential sale candidates, Kentucky Power, an Ashland-based utility that serves about 175,000 customers in eastern Kentucky, "has been underearning in Kentucky for several years," he said. PSO also has had earnings issues as well. "If we have a utility underearning, we would consider selling them to someone and moving on," Hemlepp added.

AEP Ohio is comprised of Ohio Power and Columbus Southern Power. The two utilities, which serve about 1.5 million customers combined, are in the process of merging, and a final Ohio Public Utilities Commission order is expected later this year.

AEP has been linked as a possible merger partner with Entergy. Hemlepp said the company does not comment on "rumors or speculation." He neither confirmed nor denied a recent *Financial Times'* report that AEP has hired Lazard to locate a merger partner.

"We have a variety of financial advisors who are under contract with us for different things at different times," he said. "We are constantly working with banks on a number of things."

In other remarks at the conference, Morris, whose company is the largest user of coal in the country, said he doubts a "carbon regime" will be enacted in the US in the next five years.

AEP and others are working on federal legislation that would delay utility compliance deadlines with several Environmental Protection Agency pollution control regulations, including the Clean Air Transport Rule as well as standards for mercury emissions and air toxics, until 2020. Current timetables for utilities to meet the new rules over the next two or three years are simply unrealistic, he said.

"Overall, we've done 28 major environmental additions to our generation fleet. They take 40 to 50 months to do them appropriately ... we will be tripping over ourselves to do it in 36 months," he said.

AEP expects to retire about 5,500 MW of older, smaller coal units later this decade and retrofit its larger, newer coal facilities to keep them operating.

The company owns about 38,000 MW of generation capacity and serves more than 5 million customers.

— Bob Matyi

Constellation offers value, Exelon says, even with merger costs escalating

The cost to acquire Constellation Energy Group has climbed, but the company provides a "valuable channel" for Exelon to market its generation, Exelon said in a presentation last week about the $7.9 billion deal.

Exelon said that the cost to achieve the merger increased to $650 million from $500 million, and it revised synergy savings figures to $310 million from $260 million. The revisions were due to greater accessibility of data since the merger announcement of April 28, Exelon said.

The addition of Constellation's competitive retail and wholesale customers will transform Exelon to a company with about 165 million MWh of energy sales annually, up from the 59 million MWh/year it has now, Exelon said in the presentation as part of a filing with the Securities and Exchange Commission.

The presentation will be used during a series of meetings with investors regarding the proposed combination of the two companies, Exelon said.

Exelon proposed the $7.9 billion merger in an all-stock transaction. The combined company would be the nation's largest energy supplier with customers in 44 states, the District of Columbia and Canada. Exelon owns 26,339 MW, 17,047 MW of which is nuclear. Constellation owns 11,430 MW, including 1,921 MW of nuclear generation. The market value of the combined company would be $34 billion with an enterprise value of $52 billion, which includes net debt, the SEC filing said.

"We continue to think this is a good deal for both companies," Paul Fremont, an analyst with Jefferies, said Wednesday. There are tangible savings and strategic benefits and Constellation's customers will be better off with a likely stronger company post-merger, he said in an interview.

Constellation also adds a mix of clean generation to Exelon's generation portfolio and increases the geographic diversity of its generation fleet, Exelon said.

For Constellation, the merger helps match generation with customer load in key competitive markets, according to the presentation. The merger also creates a balance sheet strong enough to pursue its strategy of growing its competitive retail business.

The companies have made all the necessary filings for regulatory approval of the merger. They plan to mail proxy materials to shareholders in June and hope to have shareholder approvals during the third quarter. The companies expect to close the transaction during the first quarter of 2012.

— Mary Powers

Connecticut bows out of NU-NStar merger, leaving only Massachusetts to review deal

Connecticut 's attorney general said last week he would neither support nor oppose the $4.2 billion merger of Connecticut-based Northeast Utilities and Massachusetts-based NStar, following news that Connecticut regulators will not review the deal.

The state Department of Public Utility Control ruled June 1 that it has no legal authority over the deal, which would cre-

Bloomberg

AEP May Sell Kentucky Power Unit Facing Environmental Costs

By Mark Chediak - Jun 13, 2011

American Electric Power Co. may sell its Kentucky Power utility if state regulators don't approve a customer rate increase to help pay for added environmental costs.

It may make more sense to sell the utility if regulators balk at allowing American Electric to recover costs of upgrading or replacing a coal-fired power plant, President Nicholas Akins said in an interview today at an Edison Electric Institute meeting in Colorado Springs, Colorado.

It would cost $470 million to build a natural-gas fired plant to replace Kentucky Power's 1,078 megawatt Big Sandy coal facility, scheduled to be retired by 2015, said Pat Hemlepp, a spokesman for the Columbus, Ohio-based company. The utility said last week it plans to shutter the plant in order to comply with a series of clean-air regulations proposed by the U.S. Environmental Protection Agency.

Kentucky Power "is a small company and it's a sizable investment," said Akins, who became president last year and is expected to take over as chief executive officer when Michael Morris retires in November. "When you make those kinds of investments, you want to make sure you can recover it and get an attractive return on equity."

Other states may face similar pressure from generation companies seeking to recoup their compliance costs if proposed federal rules are passed to curb carbon and other emissions from coal -fired power plants, said Hugh Wynne, utilities analyst for Sanford C. Bernstein & Co. in New York who has a neutral rating on the shares and doesn't own any.

Raising Rates

"It's a question that a lot of regulators are going to face," Wynne said. "Are they willing to raise electricity rates to pay for the upgrades to the fleet required by the new environmental regulations? Or do they say, 'It's not worth it. Shut these plants and go buy power from somebody else.'"

American Electric has yet to ask Kentucky regulators for a rate increase because the federal environmental rules have not yet been completed, Hemlepp said. The state may be hesitant to grant a large rate increase because Kentucky Power's customers have been hit hard by the recession, Akins said.

"We are going to work with the regulatory agencies there," Akins said. "That doesn't stop us from thinking that this is one we should consider for a possible divestiture."

American Electric's Kentucky Power unit reported net income of $16.9 million for the first three months of this year, up 78 percent from $9.49 million a year earlier. The unit had revenue of $196.1 million, according to a filing with the Securities and Exchange Commission.

Likely Buyers

Kentucky Power delivers electricity to 176,000 homes and businesses, Hemlepp said. It had total assets worth $1.57 billion as of March 31, according to the filing.

Wynne, who rated shares of American Electric "market perform," said the likeliest buyers for Kentucky Power would be PPL Corp., and Duke Energy Corp., which own power companies in Kentucky. "If AEP's right, and there is no way to recover this cost, there may be no buyers," Wynne added.

PPL executives aren't pursuing additional deals after acquiring Kentucky-based Louisville Gas and Electric Company and Central Networks, the second-largest electricity distribution company in the United Kingdom, said George Lewis, spokesman for the Allentown, Pennsylvania-based utility. "Our executives made it very clear that our focus is going to shift to operating the Kentucky and U.K. acquisitions."

A spokesman for Duke Energy, based in Charlotte, N.C., declined comment.

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UPDATE: AEP: Kentucky Power does not have 'for sale' sign

By Amy Poszywak

Seeking to clarify earlier news reports that American Electric Power Co. Inc. may be placing its Kentucky Power Co. subsidiary on the auction block, spokesman Pat Hemlepp said June 14 that the option to sell the utility would be considered only if other attempts to turn its profitability around were unsuccessful.

Hemlepp said AEP President Nicholas Akins told a reporter in an interview June 13 at the Edison Electric Institute's annual convention that AEP is examining all of its assets and that any assets under-returning in the regulatory environment without a foreseeable solution for improvement would "obviously" be looked at as potential items for divesting if they would be a better fit in another company's portfolio. When asked specifically about Kentucky Power, Akins said the utility has been under-earning as of late, which is something AEP has experienced with a number of its utilities over the years and has been working with regulators to get those situations turned around, "and that would likely be the case in Kentucky," according to Hemlepp.

The significant environmental investment AEP is facing in Kentucky, the costs associated with it and the difficulty that could occur in obtaining recovery for those costs were mentioned as obstacles in the state, Hemlepp said, referring to the utility's 1,078-MW Big Sandy coal facility, which the company included in a list of plants it expects to retire if the U.S. Environmental Protection Agency's proposed series of clean air regulations are finalized. Unit 1 at Big Sandy would be rebuilt as a 640-MW natural gas plant by the end of 2015.

"But at this time, there's nothing on the market, we're not marketing any asset, we haven't put a for sale sign up any place," Hemlepp said. "[Akins] used [Kentucky Power] just as an example of an asset that was currently underperforming, but our president down in Kentucky is at work with regulators to try and address that situation."

Sanford C. Bernstein & Co. LLC analyst Hugh Wynne, who had named PPL Corp. and Duke Energy Corp. as the most likely buyers of Kentucky Power if it goes up for sale, on June 14 refuted the notion that an acquisition by either of those two companies would raise power market concerns among regulators.

"I think [Kentucky Power] is a smallish company with a limited amount of generation operating in a regulated state, so my first instinct would be that the small scale of the generating plant could be absorbed into the competitive PJM market without creating a fuss," Wynne said. "If you look at the scale of the consolidation that went on between FirstEnergy and Allegheny in a similar region, that would put this to shame."

An acquisition by Duke or PPL would not be an issue in terms of retail pricing either, Wynne said. A larger concern regarding the ability of either company to carry out an acquisition of that type comes from both companies' pre-occupation with other deals.

As far as other potential buyers — after Duke and PPL — Wynne mentioned FirstEnergy Corp. as being a secondary company that might have interest in the asset. Dominion Resources Inc., which has a small amount of gas service in Kentucky, would rank after those three, though Wynne said the purchase would not quite fit Dominion's bill.

"Dominion kind of prides itself on operating a rapidly growing regulated utility in a very attractive regulatory environment," he said. "And what we're talking about here is somewhat of a distressed asset in a challenging regulatory environment."

Dominion, if it were attempting to clone itself in another state, would be more likely to go after South Carolina utility SCANA Corp. or a similar company, Wynne said, adding, however, that he would not rule out interest from Dominion entirely.

"They did express interest in Duke," he said. "I'm sure that [Dominion Chairman, President and CEO] Tom Farrell would just as soon not be left behind as something like the fifth-largest utility in the country, so I don't think you could rule them out."

AEP on June 9 issued a plan to comply with the EPA regulations that would shut down 25% of its coal generation and make retrofits to many plants that are not shuttered. Absent changes in EPA deadlines, AEP will retire nearly 6,000 MW of coal-fired generation and upgrade or install new environmental controls on an additional 10,100 MW of generation.