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FILED  
SECRETARY OF THE  
COMMISSION  
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FEDERAL ENERGY  
REGULATORY COMMISSION

August 4, 2010

Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E., Room 1A  
Washington, D.C. 20426

Monique Rowtham-  
Kennedy  
Senior Counsel –  
Regulatory Services  
(202) 383-3436  
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Re: **American Electric Power Service Corporation,**  
FERC Docket No. ER09-1279-000

Dear Secretary Bose:

Pursuant to Rule 602 of the Federal Energy Regulatory Commission’s (the “Commission”) Rules of Practice and Procedure, 18 C.F.R. §385.602 (2008), American Electric Power Service Corporation (“AEPSC”) on behalf of its affiliates, Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company (collectively “AEP” or the “AEP East Companies”), and the following Settling Parties: Public Utilities Commission of Ohio, East Tennessee Energy Consumers, Hoosier Energy Rural Electric Cooperative and the Office of the Ohio Consumers’ Counsel, and , (individually, a “Settling Party,” and, collectively, the “Settling Parties”) submit an original and fourteen copies of an Offer of Settlement intended to resolve without need for evidentiary procedures all issues set for hearing in the captioned proceedings. In addition, this Settlement is supported or not opposed by all parties who have intervened in this proceeding except Steel Dynamics, Inc. and Kentucky Public Service Commission who take no position with respect to the Settlement.<sup>1</sup>

This Offer of Settlement includes the following documents:

1. Explanatory Statement (Appendix A);

<sup>1</sup> In addition to the Settling Parties, the non-opposing parties are Consumer Advocate Division of the Public Service Commission of West Virginia, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, Public Service Commission of West Virginia, Indiana Utility Regulatory Commission, Indiana Office of Utility Consumer Counsel, and the West Virginia Energy Users Group.

Kimberly D. Bose, Secretary  
August 4, 2010  
Page 2

2. Settlement Agreement (Appendix B), and several attachments described below;
3. Draft Order Approving Settlement Agreement (Appendix C), and
4. Service List (Appendix D).

The attachments to the Settlement Agreement, Appendix B, include the following:

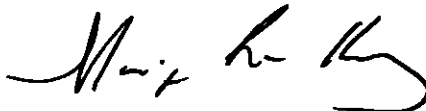
1. Attachment A, Settlement Terms and Conditions;
2. Attachment B-1, Revised Rate Schedule language (Blacklined);
3. Attachment B-2, Revised Rate Schedule language (Clean);

All parties in this proceeding and the Commission's Trial Staff have had the opportunity to review and comment on the Offer of Settlement. The Settling Parties expect this Offer of Settlement to be unopposed.

AEP requests that the appropriate number of copies of this filing be transmitted to Presiding Administrative Law Judge David Coffman in accordance with Commission Rule 602(b)(2)(i). In accordance with Rule 602(d), copies of this filing have been served on all participants in this proceeding and on all affected state commissions.

The Settling Parties request that, once the comment period specified in Rule 602(f) has passed, Judge Coffman certify the Settlement Agreement to the Commission, as required by Rule 602(g)(1), as expeditiously as possible.

Respectfully submitted



Monique Rowtham-Kennedy  
Senior Counsel  
American Electric Power Service Corporation

Enclosures

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service  
Corporation

)  
)

Docket No. ER09-1279-000

**EXPLANATORY STATEMENT  
IN SUPPORT OF SETTLEMENT AGREEMENT**

Pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2008), American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company (collectively "AEP" or the "AEP East Companies") and the following Settling Parties: Public Utilities Commission of Ohio, East Tennessee Energy Consumers, Hoosier Energy Rural Electric Cooperative, and the Office of the Ohio Consumers' Counsel (individually, a "Settling Party," and, collectively, the "Settling Parties") hereby submit this Explanatory Statement in support of the concurrently filed Settlement Agreement, which is intended to resolve all issues in this proceeding. In addition, this Settlement is supported or not opposed by all parties who have intervened in this proceeding, except Steel Dynamics, Inc., and Kentucky Public Service Commission, which take no position with respect to the Settlement.<sup>1</sup>

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<sup>1</sup> In addition to the Settling Parties, the non-opposing parties are Consumer Advocate Division of the Public Service Commission of West Virginia, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, Public Service Commission of West Virginia, Indiana Utility Regulatory Commission, Indiana Office of Utility Consumer Counsel, and the West Virginia Energy Users Group.

## I. INTRODUCTION

AEP is a multi-state electric utility holding company system, providing electric service to approximately five million customers in parts of eleven states. AEP represented in its filing in this case that the AEP System is planned and operated on an integrated basis pursuant to various agreements under which the AEP operating companies pool or combine their individual systems to achieve the benefits of integrated operation. This proceeding involves proposed amendments to one such agreement -- the Transmission Agreement entered into in 1984 among five of the AEP East Companies-- Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company and Ohio Power Company and administered by AEPSC, as Agent. As approved by the Commission,<sup>2</sup> the Agreement shares the costs of the Members' investments in Extra-High-Voltage (EHV) and high-voltage facilities operated at 138 kilovolts (138 kV) and above.

On June 5, 2009 AEP filed with the Commission proposed amendments to the Transmission Agreement. The proposed amendments, if approved, would effect a comprehensive reallocation of transmission-related costs and revenues among the AEP East Companies including two new Members, Kingsport Power Company and Wheeling Power Company.<sup>3</sup> AEP represented in its filing that the proposed amendments recognize that, pursuant to the PJM Open Access Transmission Tariff ("PJM OATT"), the AEP East Companies, including Kingsport and Wheeling, and other load serving entities in the

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

<sup>3</sup> Kingsport and Wheeling are relatively small operating companies that own no generating facilities but do own transmission facilities.

AEP zone of PJM now receive network transmission service from and share the cost of the AEP East Companies' transmission facilities, including those operated at voltages below 138 kV. The proposed amendment also would change the primary transmission cost allocation methodology under the Transmission Agreement from the current Member Load Ratio ("MLR") basis to a 12-month coincident peak (12-CP) basis. The proposed amendments specify that the allocation of OATT-based transmission and related costs and revenues will include all seven of the AEP East Companies, including Kinsport and Wheeling.

Motions to intervene in this proceedings were filed by the following entities: Public Utilities Commission of Ohio, Public Service Commission of West Virginia, West Virginia Energy Users Group, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, East Tennessee Energy Consumers, Indiana Utility Regulatory Commission ("IURC"), Steel Dynamics, Inc. ("Steel Dynamics"), Consumer Advocate Division of the Public Service Commission of West Virginia (W.Va. Consumer Advocate"), Hoosier Energy Rural Electric Cooperative, Indiana Office of Utility Consumer Counsel ("IOUCC"), Ohio Consumers' Counsel, and the Kentucky Public Service Commission.

IURC, Steel Dynamics, W. Va Consumer Advocate and IOUCC protested AEP's filing, and AEP answered their protests. On August 3, 2009 the Commission issued an order accepting AEP's proposed amendments to the Transmission Agreement for filing, subject to hearing and settlement judge procedures. The Commission suspended the proposed amendments for a nominal period, making them effective (subject to refund), on the first day of the month after a final Commission order in this proceeding, as

requested by AEP. *Order Accepting and Suspending Proposed Transmission Agreement and Establishing Hearing and Settlement Judge Procedures*, 128 FERC ¶ 61,123 (2009).

On August 7, 2009, pursuant to an order of Chief Judge Wagner, the Honorable David Coffman was appointed Settlement Judge. The Chief Judge's August 7, 2009 order also scheduled a settlement conference to convene on August 20, 2009. Settlement negotiations (including informal information gathering and numerous conferences, meetings and telephone conversations) continued since then. The Commission's Trial Staff participated actively in the discussions. Judge Coffman submitted periodic reports to the Commission on the progress of the settlement discussions. Ultimately, the settlement discussions produced the Settlement Agreement submitted in this Docket.

## **II. SUMMARY OF SETTLEMENT AGREEMENT**

The substantive terms of the Settlement Agreement are set forth in three Attachments to the Settlement Agreement, as follows:

- A. Settlement Terms and Conditions (Attachment A-1);
- B. Revised Rate Schedule language, in Blacklined format, (B-1) that will be incorporated in Transmission Agreement;
- C. Revised Rate Schedule language in clean format (B-2);

The following is a summary of each of the Attachments:

### **A. Settlement Terms and Conditions**

The Settlement Terms and Conditions set forth the methodology for implementation of the Revised Transmission Agreement. The Terms and Conditions include a three year phase in of the impacts of the Revised Transmission Agreement for all AEP East Companies, except for Indiana Michigan Power Company, for which the

impacts of the Revised Transmission Agreement will be phased in over a four year period. The phase in periods would commence on the date of the Commission order approving the Settlement and would end no later than July 31, 2013 for all AEP East Companies except Indiana Michigan Power Company and no later than July 31, 2014 for Indiana Michigan Power Company. The Settlement Terms and Conditions also sets forth the credits and charges to the AEP East Companies to reflect the phased in impacts of the Transmission Agreement pursuant to the terms of the Settlement Agreement. It also provides that all Settling Parties reserve their filing rights under the Federal Power Act, except that a section 206 filing by a Settling Party under the Federal Power Act challenging the terms of the Revised Transmission Agreement or of the Settlement Agreement will render the Settlement Agreement void, and would be subject to the "public interest" standard of review adopted in the *Sierra-Mobile* line of cases.

#### **B. Revised Tariff Sheets**

Resolution of the issues as set forth in Attachment A requires certain changes to the Transmission Agreement. Attachments B-1 and B-2 provide the Revised Rate Schedule language, that the Settling Parties have agreed is necessary to implement the Settlement Agreement. Accordingly, these attachments will be incorporated in the Transmission Agreement following Commission approval of the Settlement Agreement.

### **III. PROCEDURAL ASPECTS OF SETTLEMENT AGREEMENT**

The remaining provisions of the Settlement Agreement address procedural aspects of the Settlement Agreement including implementation, non-severability, rights reserved, waiver and amendment, and the scope of review. Specifically, the standard of review for modifications to the Settlement Agreement that are proposed by any Settling Party will

be the “public interest” standard adopted in the *Sierra-Mobile* line of cases. The standard of review for modifications to the Settlement Agreement proposed by any non-party to the Settlement Agreement and the Commission acting *sua sponte*, after it is approved by the Commission, will be the most stringent standard permitted by law.

#### **IV. RESPONSES TO REQUIRED QUESTIONS**

By order dated October 23, 2003, the Chief Administrative Law Judge requires that five questions be answered as part of every Explanatory Statement submitted in support of a proposed settlement. The questions and specific responses thereto applicable to this Settlement Agreement are as follows:

**1. What are the issues underlying the settlement and what are the major implications?**

The issue raised in this proceeding that underlies the Settlement Agreement is whether the proposed amendments to the Transmission Agreement are just and reasonable.

**2. Whether any of the issues raise policy implications.**

The resolution of the underlying issue does not raise any policy implications.

**3. Whether other pending cases may be affected.**

No other pending cases are affected.

**4. Whether the settlement involves issues of first impression, or if there are any previous reversals on the issues involved?**

There are no issues of first impression presented in this proceeding or resolved by the Settlement Agreement. There are no previous reversals with respect to the Transmission Agreement at issue in this proceeding.



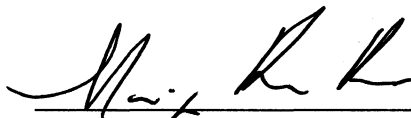
**5. Whether the proceeding is subject to the just and reasonable standard or whether there is *Mobile-Sierra* language making it the standard, *i.e.*, the applicable standards of review.**

This proceeding on AEP's rate filing is subject to the just and reasonable standard. Section 6.7 of the Settlement Agreement states that, except as specified, a unilateral request by a Settling Party to modify any provision of the Settlement Agreement would be subject to the "public interest" standard adopted in the *Sierra-Mobile* line of cases. As for a unilateral modification request by a non-Settling Party or a proceeding in which the Commission acting *sua sponte* seeks to modify the Settlement Agreement, the standard of review shall be the most stringent standard permitted by applicable law.

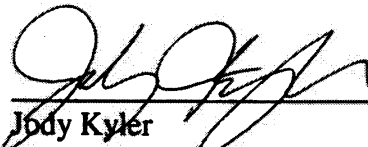
**V. CONCLUSION**

As discussed above, the attached Settlement Agreement resolves all issues in the captioned proceeding, and the Settling Parties urge the Commission to accept the Settlement Agreement without condition or modification. The Settling Parties in this proceeding have authorized counsel for AEP to make this filing on their behalf.

Respectfully submitted,



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Assistant Attorney General  
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Ohio Attorney General's Office  
180 East Broad St.  
Columbus, Ohio

Counsel for the Ohio Public Utilities Commission

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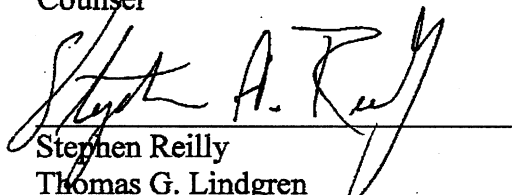
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Counsel for Hoosier Energy Rural Electric  
Cooperative

August 4, 2010

**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing Settlement filed by American Electric Power Service Corporation was served upon the parties to this proceeding this 4th day of August 2010.



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American Electric Power Service Corporation  
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UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service Corporation ) Docket No. ER09-1279-000  
Corporation )

**SETTLEMENT AGREEMENT**

Pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. §385.602 (2008), American Electric Power Service Corporation (“AEPSC”), on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company (collectively “AEP” or the “AEP East Companies”) and the following Settling Parties: Public Utilities Commission of Ohio, East Tennessee Energy Consumers, Hoosier Energy Rural Electric Cooperative and the Office of the Ohio Consumers’ Counsel (individually, a “Settling Party,” and, collectively, the “Settling Parties”) hereby submit this Settlement Agreement to resolve all issues between and among them in this docket. In addition, this Settlement is supported or not opposed by all parties who have intervened in this proceeding, except Steel Dynamics, Inc. and Kentucky Public Service Commission who take no position with respect to the Settlement.<sup>1</sup>

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<sup>1</sup> In addition to the Settling Parties, the non-opposing parties are Consumer Advocate Division of the Public Service Commission of West Virginia, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, , Public Service Commission of West Virginia, Indiana Utility Regulatory Commission, Indiana Office of Utility Consumer Counsel, and the West Virginia Energy Users Group.

## ARTICLE I

### INTRODUCTION

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

AEP represented in its filing in this case that the AEP System is planned and operated on an integrated basis pursuant to various agreements under which the AEP operating companies pool or combine their individual systems to achieve the benefits of integrated operation. This proceeding involves proposed amendments to one such agreement -- the Transmission Agreement entered into in 1984 among five of the AEP East Companies- Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company and Ohio Power



Company, and administered by AEPSC, as Agent. As approved by the Commission,<sup>2</sup> the Agreement provides for the sharing of the costs of the Members' investments in Extra-High-Voltage (EHV) and high-voltage facilities operated at 138 kilovolts (138 kV) and above.

On June 5, 2009 AEP filed with the Commission proposed amendments to the Transmission Agreement. The proposed amendments to the Transmission Agreement, if approved, would effect a comprehensive reallocation of transmission-related costs and revenues among the AEP East Companies including two new Members, Kingsport Power Company and Wheeling Power Company. AEP represented in the filing that the proposed amendments recognized that, pursuant to the PJM Open Access Transmission Tariff ("PJM OATT"), the AEP East Companies, including Kingsport and Wheeling, and other load serving entities in the AEP zone of PJM now share the cost of all the AEP East Companies transmission facilities, including those operated at voltages below 138 kV. The proposed amendments also would change the primary transmission cost allocation methodology under the Transmission Agreement from the current Member Load Ratio ("MLR") basis to a 12-month coincident peak (12-CP) basis. The proposed amendments specify that the allocation of OATT-based transmission and related costs and revenues will include all seven of the AEP East Companies, including Kingsport and Wheeling. Motions to intervene in this proceedings were filed by the following entities: Public Utilities Commission of Ohio, Public Service Commission of West Virginia, West Virginia Energy Users Group, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, East Tennessee Energy Consumers, Indiana Utility

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

Regulatory Commission (“IURC”), Steel Dynamics, Inc. (“Steel Dynamics”), Consumer Advocate Division of the Public Service Commission of West Virginia (W.Va. Consumer Advocate”), Hoosier Energy Rural Electric Cooperative, Indiana Office of Utility Consumer Counsel (“IOUCC”), Ohio Consumers’ Counsel, and the Kentucky Public Service Commission.

IURC, Steel Dynamics, W. Va. Consumer Advocate and IOUCC protested AEP’s filing, and AEP answered their protests. On August 3, 2009 the Commission issued an order accepting AEP’s proposed amendments to the Transmission Agreement for filing, subject to hearing and settlement judge procedures. The Commission suspended the proposed amendments for a nominal period, making them effective (subject to refund), on the first day of the month after a final Commission order in this proceeding, as requested by AEP. *Order Accepting and Suspending Proposed Transmission Agreement and Establishing Hearing and Settlement Judge Procedures*, 128 FERC ¶ 61,123 (2009).

On August 7, 2009, pursuant to an order of Chief Judge Wagner, the Honorable David Coffman was appointed Settlement Judge. The Chief Judge's August 7, 2009 order also scheduled a settlement conference to convene on August 20, 2009. Settlement negotiations (including informal information gathering and numerous conferences, meetings and telephone conversations) continued since then. The Commission’s Trial Staff participated actively in the discussions. Judge Coffman submitted periodic reports to the Commission on the progress of the settlement discussions. Ultimately, the settlement discussions produced this Settlement Agreement.

**ARTICLE II  
SCOPE OF SETTLEMENT AGREEMENT**

The Settling Parties hereby settle and resolve all issues between them arising from AEP's submittals in Docket No. ER09-1279-000, on the terms set forth in the following Article III and Attachments A, B-1 and B-2. Attachments A, B-1 and B-2 are incorporated by reference in and made a part of this Settlement Agreement, and all references herein to the Settlement Agreement shall be deemed to encompass the listed Attachments.

**ARTICLE III  
TERMS OF THE SETTLEMENT AGREEMENT**

3.1 The Settlement Terms and Conditions set forth in Attachment A describe the agreement of the Settling Parties regarding the implementation of the Revised Transmission Agreement.

3.2 Revised provisions for the Transmission Agreement are set forth in Attachment B-1 (Blacklined) and B-2 (Clean) to this Settlement Agreement. The provisions submitted herewith shall be substituted for the tariff pages accepted for filing, subject to refund, in the Commission's August 3, 2009 Order in this Docket. The Settling Parties request that the Commission accept the Rate Schedule pages set forth in Attachment B-2 for filing without suspension, investigation, change or condition.

**ARTICLE IV  
IMPLEMENTATION**

4.1 This Settlement Agreement shall be binding as among the Settling Parties upon the execution hereof. The revised tariff sheets and other provisions set forth in the Attachments hereto shall become effective on the date the Commission specifies as the

effective date for the agreed-upon rates and charges in its order approving or accepting the Settlement Agreement. The Settling Parties shall request that the Commission permit the agreed-upon rates and charges to become effective on the first day of the month after a final Commission order in this proceeding.

4.2 This Settlement Agreement shall be null and void and shall not become effective unless: (i) the Commission approves it without condition or modification as a complete settlement of the issues described herein, or (ii) the Settling Parties are willing to accept all such conditions and modifications as the Commission may require. Any Settling Party that does not notify the other Settling Parties, within 15 days of a Commission order imposing any condition or modification to the Settlement Agreement, that it may or will seek rehearing or reconsideration of the order shall be deemed to have waived all objections thereto.

#### **ARTICLE V NON-SEVERABILITY**

5.1 This Settlement Agreement and its Attachments establish rights and obligations that are interrelated and interdependent. No Settling Party shall be deemed to have agreed to any term of the Settlement Agreement in isolation from any other term. For these reasons, the provisions of this Settlement Agreement are not severable.

#### **ARTICLE VI RESERVATIONS**

6.1 The provisions of this Settlement Agreement are intended to govern only the specific matters addressed herein. No Settling Party waives any claim or right that it may have with respect to matters not addressed in this Settlement Agreement.

6.2 No Settling Party shall be bound or prejudiced by this Settlement Agreement unless it is approved and made effective pursuant to its terms.

6.3 Nothing in this Settlement Agreement shall constitute an admission by any Settling Party of the correctness or applicability of any claim, defense, rule, or interpretation of law, allegation of fact, principle, or method of ratemaking or cost-of-service determination. The Settlement Agreement is made upon the explicit understanding that it constitutes a negotiated agreement with respect to the rates, terms, and conditions at issue in these proceedings. The Settling Parties shall not be deemed to have conceded the applicability of any principle, or any method of ratemaking or cost-of-service determination, rate design or rate schedule, or terms and conditions of service; or the application of any rule or interpretation of law that may underlie, or be thought to underlie, this Settlement Agreement. The Settlement Terms and Conditions contained in Attachment A are principles that the Settling Parties shall be deemed to have accepted solely for purposes of resolving the issues in this docket, and their inclusion as part of this Settlement Agreement shall not (i) constitute an admission by any Settling Party of the correctness of any principle therein, or (ii) establish any precedent binding on a Settling Party in any other proceeding. In any further negotiation or proceedings whatsoever (other than a proceeding involving the honoring, enforcement or construction hereof, as applicable as set forth herein), the Settling Parties shall not be bound or prejudiced by this Settlement Agreement.

6.4 The Commission's approval of this Settlement Agreement shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding. Nothing herein shall be deemed to constitute or establish a "settled practice" as the Court interpreted that term in *Public Service Comm'n of New York v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).

6.5 This Settlement Agreement is expressly contingent upon the following further conditions: (i) all Settling Parties shall provide reasonable cooperation in seeking the Commission's acceptance and approval hereof; (ii) no Settling Party shall seek or request additional terms or conditions of settlement beyond those contained herein; and (iii) the Commission approves or accepts this Settlement Agreement without modification. If the Commission requires any modification(s) of this Settlement Agreement and if such modification(s) is (are) not fulfilled, then: (i) this Settlement Agreement shall not be binding on any Settling Party; (ii) the Settling Parties shall not be obligated to negotiate further, other than to discuss in good faith whether the modification(s) required by the Commission is (are) acceptable to them; (iii) all Settling Parties shall be deemed to have reserved all of their respective rights and remedies with respect to the issues in this proceeding; and (iv) this Settlement Agreement shall not be part of the record in any subsequent proceedings, and all discussions and negotiations related hereto shall be privileged.

6.6 The titles and headings of the various articles of this Settlement Agreement: (i) are for reference and convenience purposes only; (ii) are not to be construed or taken into account in interpreting the Settlement Agreement; and (iii) do not qualify, modify, or explain the effects of the Settlement Agreement.


6.7 This Settlement Agreement may be amended only by a written instrument duly executed by all Settling Parties. The standard of review for any modification to this Settlement Agreement sought by a Settling Party that is not agreed to by all other Settling Parties shall be the "public interest" standard adopted in the *Sierra-Mobile* line of cases

A Settling Party or Settling Parties seeking to modify the Settlement Agreement in any respect shall bear the applicable burden under the FPA.

6.8 The standard of review for any modifications to this Settlement Agreement requested by an intervenor or other interested entity that is not a Settling Party or that is sought in a proceeding initiated by the Commission acting *sua sponte* will be the most stringent standard permissible under applicable law. For purposes of the application of sections 6.7 and 6.8, all parties who have formally represented in writing, by their respective authorized representative, that they did not object to the Agreement shall be treated as "Settling Parties."

6.9 This Settlement Agreement is submitted pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.602 (2008). Unless and until the Settlement Agreement becomes effective pursuant to its terms, the Settlement Agreement shall be privileged and of no effect and shall not be admissible in evidence or in any way described or discussed in any proceeding before any court or regulatory body (except in comments on the Settlement Agreement in this proceeding).

American Electric Power Service Corporation as agent for Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company

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Counsel for the Office of the Ohio Consumers' Counsel

By: \_\_\_\_\_  
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Counsel for the Ohio Public Utilities Commission



American Electric Power Service Corporation as agent for Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company

By: \_\_\_\_\_

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By: \_\_\_\_\_

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Columbus, Ohio

Counsel for the Ohio Public Utilities Commission

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Counsel for East Tennessee Energy Consumers

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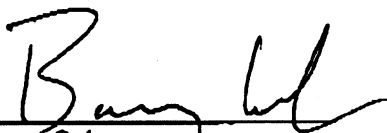
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Counsel for Hoosier Energy Rural Electric Cooperative

By: \_\_\_\_\_

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(202) 296-0166 fax

Counsel for Hoosier Energy Rural Electric Cooperative

The following undersigned entities are not parties to the Settlement Agreement, however the undersigned indicate by their signature below that they do not object to this Settlement Agreement:

Public Service Commission of West Virginia,

By: 

Richard E. Hitt, General Counsel  
Public Service Commission of West Virginia  
Post Office Box 812  
Charleston, West Virginia 25323  
Phone: (304) 340-0450  
Fax: (304) 340-0840  
e-mail: rhitt@psc.state.wv.us

West Virginia Energy Users Group,

By: \_\_\_\_\_

Robert A. Weishaar, Jr.  
McNees Wallace & Nurick LLC  
777 North Capitol Street, N.E.  
Suite 401  
Washington, DC 20002-4292  
Office: 202.898.5700  
Cell: 202.409.4170  
FAX: 717.260.1765  
[rweishaa@mwn.com](mailto:rweishaa@mwn.com)

Indiana Office of Utility Consumer Counsel,

By: \_\_\_\_\_

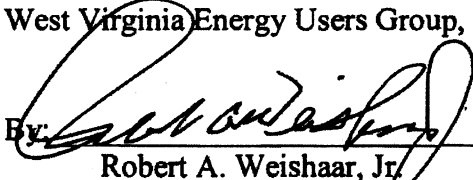
Robert G. Mork  
Deputy Consumer Counselor for Federal Affairs  
Indiana Attorney No. 19146-49  
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR  
115 West Washington Street, Suite 1500 South  
Indianapolis, Indiana 46204  
phone: (317) 233-3234  
facsimile: (317) 232-5923  
[rmork@oucc.IN.gov](mailto:rmork@oucc.IN.gov)

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Public Service Commission of West Virginia  
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Charleston, West Virginia 25323  
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Fax: (304) 340-0840  
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West Virginia Energy Users Group,

By:  \_\_\_\_\_  
Robert A. Weishaar, Jr.  
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Indiana Office of Utility Consumer Counsel,

By: \_\_\_\_\_  
Robert G. Mork  
Deputy Consumer Counselor for Federal Affairs  
Indiana Attorney No. 19146-49  
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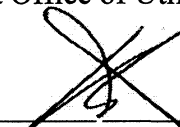
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Indiana Utility Regulatory Commission - *Does not oppose or object to Settlement.*  
*in FERC Docket No. ER09-1279*

By:   
Beth Kroger Roads Legal Counsel, RTO/FERC Issues  
Scott R. Storms GENERAL COUNSEL  
Indiana Utility Regulatory Commission  
101 W. Washington Street, Suite 1500 E  
Indianapolis, Indiana 46024  
Phone: 317-232-2092



**ATTACHMENT A**

**American Electric Power Service Corporation  
Docket No. ER09-1279-000**

**Transmission Agreement Settlement  
For**

**Appalachian Power Company, Columbus Southern Power Company, Indiana  
Michigan Power Company, Kentucky Power Company, Kingsport Power Company,  
Ohio Power Company, and Wheeling Power Company  
(collectively "AEP" or "the AEP East Companies")**

**Settlement Terms and Conditions**

The following terms and conditions are a part of the Settlement Agreement being filed August 4, 2010 in Docket No. ER09-1279 ("the Settlement"):

1. AEP's proposal as originally filed in the captioned docket and accepted and suspended subject to hearing and settlement judge procedures pursuant to *American Elec. Power Serv. Corp.*, 128 FERC ¶ 61,123 (2009) (hereinafter referred to as the "Revised Transmission Agreement") will be implemented upon approval of the Settlement, subject to the terms and conditions contained herein.
2. Impacts of the Revised Transmission Agreement will for retail rate making purposes be moderated as described in paragraphs 3 and 4 below, for a three (3) year period commencing on the date of the Commission order approving the Settlement and ending no later than July 31, 2013 for all of the AEP East Companies except Indiana Michigan Power Company.
3. Credits will be applied to Ohio Power Company, Columbus Southern Power Company and Appalachian Power Company -West Virginia to reduce impacts of the Revised Transmission Agreement by 75% in year 1, by 50% in year 2 and by 25% in year 3.
4. Charges will be applied to Kentucky Power Company, Kingsport Power Company and Wheeling Power Company to reduce the decrease in transmission cost allocation under the Revised Transmission Agreement by 75% in year 1, by 50% in year 2 and by 25% in year 3.
5. Impacts of the Revised Transmission Agreement on Indiana Michigan Power Company will be phased in over a four year period commencing

on the date of the Commission order approving the Settlement and ending no later than July 1, 2014.

- 6. Credits to Indiana Michigan will reduce impacts of the Revised Transmission Agreement by 80% in year 1, 60% in year 2, 40% in year 3 and 20% in year 4.
- 7. All parties to the Settlement reserve their respective rights under sections 205, 206 and 306 of the Federal Power act, however, the Settlement will be voided if a filing is made under 206 challenging the Revised Transmission Agreement or this Settlement. In addition, while the Settlement is in effect, AEP will not modify Appendix I of the Revised Transmission Agreement unless such 206 filing is made by a non-AEP settling party.
- 8. AEP shall not seek recovery of any shortfall of revenues resulting from the application of the terms and conditions of this Settlement Agreement in any Ohio state regulatory proceeding, except as provided for in the Settlement.
- 9. The Transmission Agreement will be modified as provided in Attachment B.
- 10. The credits and charges pursuant to paragraphs 3, 4 and 6 above shall be as follows:

	Year 1	Year 2	Year 3	Year 4
(Dollars in Millions)				
APCo WV	(6.9)	(4.6)	(2.3)	0
CSP	(2.4)	(1.6)	(0.8)	0
I&M	(24.1)	(18.1)	(12.1)	(6.0)
KPCo	3.1	2.1	1.1	0
KgPCo	3.0	2.0	1.0	0
OPCo	(10.9)	(7.3)	(3.6)	0
WPCo	1.9	1.2	0.6	0

ATTACHMENT B -1  
(Marked Version)

**TRANSMISSION AGREEMENT**

**By and among**

**APPALACHIAN POWER COMPANY**

**COLUMBUS SOUTHERN POWER COMPANY**

**INDIANA MICHIGAN POWER COMPANY**

**KENTUCKY POWER COMPANY**

**KINGSPORT POWER COMPANY**

**OHIO POWER COMPANY**

**WHEELING POWER COMPANY**

**and with**

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

**AS AGENT**

**DATED APRIL 1984, AS AMENDED**

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

Effective: first day of the month after  
the Commission issues a final,  
non-appealable order accepting the  
Agreement for filing

Issued On: August 4, 2010

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Senior Vice President, Regulatory Services

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Issued On: August 4, 2010

0.1 THIS AGREEMENT, made and entered into as of the 1st day of April, 1984, and as subsequently amended, by and among APPALACHIAN POWER COMPANY (Appalachian Company), a Virginia corporation, COLUMBUS AND SOUTHERN POWER COMPANY (Columbus Company), an Ohio corporation, INDIANA MICHIGAN POWER COMPANY (Indiana Company), an Indiana corporation, KENTUCKY POWER COMPANY (Kentucky Company), a Kentucky corporation, OHIO POWER COMPANY (Ohio Company), an Ohio corporation, KINGSPORT POWER COMPANY (Tennessee Company), a Tennessee corporation, and WHEELING POWER COMPANY (Wheeling Company), a West Virginia corporation, said companies (herein sometimes called 'Members' when referred to collectively and 'Member' when referred to individually) being affiliated companies of the integrated public utility electric system known as the American Electric Power SYSTEM (AEP System), and AMERICAN ELECTRIC POWER SERVICE CORPORATION (Agent), a New York corporation, being a service company engaged solely in the business of furnishing essential services to the aforesaid companies and to other affiliated companies.

W I T N E S S E T H,

T H A T:

0.2 WHEREAS, the Members own and operate electric facilities in the states herein indicated, (i) Appalachian Company in Virginia, West Virginia, and Tennessee (ii) Columbus Company in Ohio, (iii) Indiana Company in Indiana and Michigan, (iv) Kentucky Company in Kentucky, (v) Tennessee Company in Tennessee, (vi) Ohio Company in Ohio and West Virginia, and (vii) Wheeling Company in West Virginia; and

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0.3 WHEREAS, certain of the Members have entered into an interconnection agreement, dated July 6, 1951, with modification thereto, which provides for certain understandings, conditions, and procedures designed to achieve the full benefits and advantages available through the coordinated operation of their electric power supply facilities; and

0.4 WHEREAS, The Members' electric facilities are now and for many years have been interconnected through their respective transmission facilities at a number of points, forming an integrated transmission network; and

0.5 WHEREAS, the Members have achieved benefits through the coordinated planning and development of a fully integrated Transmission System; and

0.6 WHEREAS, the members believe that an agreement which provides for the equitable sharing among the Members of the costs incurred by the Members in connection with the ownership, operation, and maintenance of their respective portions of the Transmission System would enhance equity among the Members for the continued development of a reliable and economic Transmission System; and

0.7 WHEREAS, effective October 1, 2004 the Members joined the PJM Interconnection, LLC ("PJM"), and placed their respective transmission facilities under the functional control of PJM, a regional transmission operator or "RTO"; and

0.8 WHEREAS, PJM provides transmission service, pursuant to the PJM Open Access Transmission Tariff ("OATT"), to the Members and others who require transmission service over the Transmission System; and

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0.9 WHEREAS, the Members believe that benefits and advantages could be best realized if this Agreement were administered by a single clearing agent; and

0.10 WHEREAS, the Members believe that the Agent designated herein for such purpose is qualified to perform such services;

0.11 NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto hereby agree as follows:

## ARTICLE 1

### DESCRIPTION OF TRANSMISSION SYSTEM

1.1 The Transmission System covered by this Agreement shall include all the transmission facilities, from time to time, owned by the Members that are included in the costs of service used to determine rates for transmission service under the PJM OATT, ~~including without limitation, (i) All Member transmission lines; (ii) all facilities such as transformers, buses, switchgear, and associated facilities located at Member transmission substations, and (iii) any other transmission lines and associated substation facilities at any voltage designated by the Transmission Committee as having been, installed or leased for the mutual benefit of all Members and/or others who receive transmission service from PJM or a successor RTO or other successor transmission service provider or~~ successor open access transmission tariff.

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Senior Vice President, Regulatory Services

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## ARTICLE 2

## OPERATION

2.1 Each member shall maintain its respective portion of the Bulk Transmission System, together with all associated facilities and appurtenances, in a suitable condition of repair at all times in order that said system will operate in a reliable and satisfactory manner.

## ARTICLE 3

## TRANSMISSION COMMITTEE

3.1 The Members shall appoint representatives to serve on a Transmission Committee. Such representatives shall have authority to act for the Members in the administration of all matters pertaining to this Agreement.

3.2 Each Member shall designate in writing, delivered to the other Members and Agent, the person who is to act as its representative on said Committee and the person or persons who may serve as alternate whenever such representative is unavailable to act. Agent shall designate in writing delivered to the Members the person who is to act as its representative on said Committee and the person or persons who may serve as alternate whenever such representative is unavailable to act. Such person designated by Agent shall act as chairman of the Transmissions Committee and shall be known as the "Transmission Manager".

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Senior Vice President, Regulatory Services

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## ARTICLE 4

## AGENTS RESPONSIBILITIES

4.1 For the purpose of carrying out the provisions of this Agreement the Members hereby delegate to Agent, and Agent hereby accepts, the responsibility of administration of this Agreement, and in furtherance thereof Agent hereby agrees:

4.11 To arrange for and conduct such meetings of the Transmission Committee as may be required to insure the effective and efficient carrying out of all matters of procedure essential to the complete performance of the provisions of this Agreement.

4.12 To carry out settlements under this Agreement. Settlements by the Members shall be made for each calendar month through General Ledger accounts (hereby designated and hereinafter called the "TRANSMISSION ACCOUNTS") to be administered by Agent. For the purposes of This Agreement, Transmission Accounts shall be consistent with the accounts listed in the FERC Uniform System of Accounts, and shall include such accounts and sub-accounts as are necessary and proper, directed by the Transmission Committee, and consistent with applicable regulatory requirements.

## ARTICLE 5

## SETTLEMENTS

5.1 As provided in this Article, following the end of each month, the Members shall effect settlements through the TRANSMISSION ACCOUNTS. Generally, Settlements hereunder will involve the allocation among the Members of transmission-related costs and revenues as incurred and accrued under the PJM OATT,

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or successor open access transmission tariff among the Members,  
and the recording of same in the Transmission Accounts of the  
Members, as specified in Appendix I consistent with the  
Settlement Agreement approved in FERC Docket No. ER09-1279-000.

5.2 All amounts to be allocated among the Members hereunder shall, to the extent practicable, be included in Settlements for the month in which such cost or revenue is realized or accrued. If necessary in order to implement such timely Settlement, the Agent shall be authorized to effect Settlements on an estimated basis and make such adjustment as is needed in subsequent Settlements that will conform the Settlements to the terms of this Agreement.

5.3 For such time as Member Tennessee Company and/or  
Wheeling Company (Buyer) purchase power from Members Appalachian  
Company and Ohio Company (Seller), respectively, under  
agreements that provide for transmission service and related  
charges to Buyer from Seller (Purchased Power Agreements or  
"PPAs"), Seller will be allocated or assigned the costs as  
described on Appendix I, numbers seven (7) through fifteen (15),  
that would otherwise have been allocated or assigned to Buyer  
under this Agreement. The total amount of such allocated or  
assigned costs will be passed through to Buyer by Seller as the  
transmission service and related charges provided for in their  
PPAs. Such transmission and related costs will be the only  
transmission charges passed through to Buyer under any such PPA.  
When any such PPA expires or is otherwise modified or

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superseded, the provisions of the PPA that provide for transmission service and related charges to Buyer from Seller will be discontinued and Tennessee Company and/or Wheeling Company will receive directly, by allocation or direct assignment, the transmission and related costs pursuant to this agreement, as described on Appendix I, numbers seven (7) through fifteen (15). At such time, Seller shall no longer be allocated or assigned costs which are properly allocable or assignable to Buyer under this Agreement. Further, from the effective date of this Agreement as modified in FERC Docket No. ER09-1279, all the Members, including Tennessee Company and Wheeling Company, will receive direct allocation of revenues as provided herein and described on Appendix I, numbers one (1) though six (6).

## ARTICLE 6

## TAXES

6.1 If at any time during the duration of this Agreement there should be levied and/or assessed by any governmental authority against any Member any tax related to the receipt of Settlements calculated pursuant to this Agreement (such as sales, excise or similar taxes), such tax expense incurred by such Member that would not have been incurred were the Settlements hereunder not being made, such Member shall be entitled, to the extent permitted by the applicable regulatory authority(ies) to include such tax in its transmission revenue requirement under the PJM or successor OATT when transmission revenue requirements of the Members are next updated, and thereby receive an appropriate level of reimbursement (through

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Appalachian Power Company  
First Revised Rate Schedule FERC No. 34

Original Sheet No. 12

cost sharing) for such additional taxes by Members and others receiving service from the Transmission System.

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## ARTICLE 7

## Allocation Principles

7.1 All items of cost and revenue included in Settlements hereunder shall be related to the provision of or receipt of transmission service or a related ("ancillary") service by one or more Members ~~on behalf of one or more of the Members~~. The allocation methods used to share such costs and revenues, as specified in Appendix I, shall be made pursuant to direction by the Transmission Committee.

7.2 The Transmission Committee may at any time during the Term of This Agreement, upon the recommendation of the Agent or any Member, review any item of cost or revenue, in order to determine whether such item is transmission-related, and whether it should be included in Settlements hereunder. Further, whenever the Transmission Committee determines that any change is needed in Appendix I to add or delete any item of cost or revenue, or to change the allocation or accounting basis of any item, the Transmission Committee shall authorize and direct the Agent ~~when and how~~ to effect such change in Appendix I and in monthly Settlements among the Members and to make any filing with the applicable regulatory authority(ies) to implement such change pursuant to the PJM OATT or any successor open access transmission tariff.

~~7.3 Allocations of costs shall, to the extent practicable, be based on measurable cost indicators that will effect a sharing of costs among the Members consistent with the use of such service, and will be sufficiently stable, over time, so as~~

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~~not to cause undue or objectionable variability in the costs of the Members.~~

~~7.4 Allocations of revenues shall, to the extent practicable, be based on measurable indicators of the cost incurred by each Member in providing the service that gave rise to the revenue~~

## ARTICLE 8

### MODIFICATION

8.1 Any Member, or the Agent, by written notice given to the other Members and Agent, may call for a reconsideration of the terms and conditions herein provided. If such reconsideration is called for, the Members shall take into account any changed conditions, any results from the application of said terms and conditions, and any other facts that might cause said terms and conditions to result in an inequitable sharing of costs and benefits under this Agreement. Any modification in terms and conditions agreed to by the Members following such reconsideration shall become effective the first day of the month following authorization of such reconsideration by appropriate regulatory authority.

## ARTICLE 9

### EFFECTIVE DATE AND TERM OF THIS AGREEMENT

9.1 This Agreement shall become effective and shall become a binding obligation of the Parties on the date specified in an Order in such proceeding as this Agreement shall have been filed with, and accepted for filing by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act as a rate schedule.

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

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9.2 This Agreement shall continue in effect for four years from the effective date of the final order in Docket No. ER09-1279-000 ~~for an initial period from the Effective Date to December 31, 1990, and thereafter~~ for successive periods of one year each until terminated as provided under subsection 9.3 below.

9.3 Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this Agreement at the expiration ~~of said initial period or at the expiration of any successive period of one year~~ such notice period.

## ARTICLE 10

### REGULATORY AUTHORITIES

10.1 The Members recognize that this Agreement, and any tariff or rate schedule which shall embody or supersede this Agreement or any part thereof, are in certain respects subject to the jurisdiction of the FERC under the Federal Power Act, and are also subject to such lawful action as any regulatory authority having jurisdiction shall hereafter take with respect thereto. The performance of any obligation of the Members shall be subject to the receipt from time to time as required of such authorizations, approvals or actions of regulatory authorities having jurisdiction as shall be required by law.

10.2 Subject to the terms of the Settlement in Docket NO. ER09-1279-000, ~~it~~ is expressly understood that any Member under this Agreement, as it may hereafter from time to time be modified and supplemented by the Members, shall be entitled, at any time and from time to time, unilaterally to make application

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to the FERC for a change in rates, charges, classification of service, or any rule, regulation or contract relating thereto, or to make any change in or supersede in whole or in part any provision of this Agreement, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder.

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ARTICLE 11

ASSIGNMENT

11.1 This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the respective parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their respective corporate names and on their behalf by their proper officers thereunto daily authorized as of the day and year first above written.

**Next Page is Signature Page**

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

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the Commission issues  
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order accepting the  
Agreement for filing

Issued On: August 4, 2010

**Transmission Agreement Among:**

AMERICAN ELECTRIC POWER  
SERVICE CORPORATION,

By: \_\_\_\_\_

~~Michael Heyeck~~  
Senior Vice President

KENTUCKY POWER COMPANY,

By: \_\_\_\_\_

~~Timothy C. Mosher~~  
President and Chief Operating  
Officer

APPALACHIAN POWER COMPANY,

By: \_\_\_\_\_

~~Dana E. Walde~~  
President and Chief Operating  
Officer

KINGSPORT POWER COMPANY,

By: \_\_\_\_\_

~~Dana E. Walde~~  
President and Chief Operating  
Officer

COLUMBUS SOUTHERN POWER  
COMPANY,

By: \_\_\_\_\_

~~Joseph Hamrock~~  
President and Chief Operating  
Officer

OHIO POWER COMPANY, and

By: \_\_\_\_\_

~~Brian X. Tierney~~  
Vice President

INDIANA MICHIGAN POWER  
COMPANY,

By: \_\_\_\_\_

~~Helen J. Murray~~  
President and Chief Operating  
Officer

WHEELING POWER COMPANY

By: \_\_\_\_\_

~~Dana E. Walde~~  
President

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Issued On: August 4, 2010

Appalachian Power Company  
First Revised Rate Schedule FERC No. 34

Original Sheet No. 19

**Dated as of:** \_\_\_\_\_

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Issued On: August 4, 2010

Appalachian Power Company  
20  
First Revised Rate Schedule FERC No. 34

Original Sheet No.

Appendix I

**AEP Transmission Agreement  
Allocation of Transmission Related Costs and Revenues**

#	<u>Item</u>	<u>FERC Account*</u>	<u>PJM Billing Basis</u>	<u>AEP Allocation Basis</u>
<b>AEP as Transmission Owner (Revenues)</b>				
1	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	NSPL	ARR S1A
2	NITS (AEP LSE)	456.1	NSPL	ATRR
3	NITS (Non-Affiliates)	456.1	NSPL	ATRR
4	Grandfathered PTP (NCEMC)	456.0	Contract	ATRR
5	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	ARR EC
6	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	ARR SC
<b>AEP as LSE (Expenses)</b>				
7	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	MWh	MWh
8	NITS Charges (for AEP Retail Load)	456.1	NSPL	12CP
9	NITS Charges for AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
10	NITS Reimbursement from AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
11	<del>Schedule 1A Charge for AEP FR Customers</del>	<del>447.0</del>	<del>NSPL</del>	<del>DA</del>
12	<del>Schedule 1A Reimbursement from AEP FR Customers</del>	<del>447.0</del>	<del>NSPL</del>	<del>DA</del>
11	Firm Point-to-Point Credits (for AEP Retail Load)	456.1	NSPL	12CP
12	Non-Firm Point-to-Point Credits (AEP Retail Load)	456.1	NSPL	12CP
13	Transmission Enhancement (Schedule 12)	565.0	NSPL	12CP
14	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	12CP
15	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	12CP

<b>NSPL</b>	PJM Network Service Peak Load
<b>Contract</b>	Pre-OATT FERC Rate Schedules
<b>ARR S1A</b>	Annual Revenue Requirement - Schedule 1A
<b>ATRR</b>	Annual Transmission Revenue Requirement
<b>ARR EC</b>	Annual Revenue Requirement - Expansion Cost Recovery
<b>ARR SC</b>	Annual Revenue Requirement - Startup Cost Recovery
<b>12CP</b>	Average of 12 coincident peaks through 10/31 of prior year
<b>DA</b>	Directly Assigned to Operating Company

\* Note: Should the net amount in 456.1 for any Member be negative, e.g. more expense than revenue, the net expense will be recorded in 565.0.

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Appalachian Power Company

Original Sheet No.

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First Revised Rate Schedule FERC No. 34

1/ Includes all transmission-related LSE expenses (NITS, Schedule 1A, Point-to-Point Credits, Schedule 12, ECRC, SCRC) which are directly assigned to Operating Company for AEP FR Customers.

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ATTACHMENT B -2  
(Unmarked Version)

**TRANSMISSION AGREEMENT**

**By and among**

**APPALACHIAN POWER COMPANY**

**COLUMBUS SOUTHERN POWER COMPANY**

**INDIANA MICHIGAN POWER COMPANY**

**KENTUCKY POWER COMPANY**

**KINGSPORT POWER COMPANY**

**OHIO POWER COMPANY**

**WHEELING POWER COMPANY**

**and with**

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

**AS AGENT**

**DATED APRIL 1984, AS AMENDED**

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

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final, non-appealable order  
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for filing

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Issued On: August 4, 2010

0.1 THIS AGREEMENT, made and entered into as of the 1st day of April, 1984, and as subsequently amended, by and among APPALACHIAN POWER COMPANY (Appalachian Company), a Virginia corporation, COLUMBUS AND SOUTHERN POWER COMPANY (Columbus Company), an Ohio corporation, INDIANA MICHIGAN POWER COMPANY (Indiana Company), an Indiana corporation, KENTUCKY POWER COMPANY (Kentucky Company), a Kentucky corporation, OHIO POWER COMPANY (Ohio Company), an Ohio corporation, KINGSPORT POWER COMPANY (Tennessee Company), a Tennessee corporation, and WHEELING POWER COMPANY (Wheeling Company), a West Virginia corporation, said companies (herein sometimes called 'Members' when referred to collectively and 'Member' when referred to individually) being affiliated companies of the integrated public utility electric system known as the American Electric Power SYSTEM (AEP System), and AMERICAN ELECTRIC POWER SERVICE CORPORATION (Agent), a New York corporation, being a service company engaged solely in the business of furnishing essential services to the aforesaid companies and to other affiliated companies.

W I T N E S S E T H,

T H A T:

0.2 WHEREAS, the Members own and operate electric facilities in the states herein indicated, (i) Appalachian Company in Virginia, West Virginia, and Tennessee (ii) Columbus Company in Ohio, (iii) Indiana Company in Indiana and Michigan, (iv) Kentucky Company in Kentucky, (v) Tennessee Company in Tennessee, (vi) Ohio Company in Ohio and West Virginia, and (vii) Wheeling Company in West Virginia; and

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0.3 WHEREAS, certain of the Members have entered into an interconnection agreement, dated July 6, 1951, with modification thereto, which provides for certain understandings, conditions, and procedures designed to achieve the full benefits and advantages available through the coordinated operation of their electric power supply facilities; and

0.4 WHEREAS, The Members' electric facilities are now and for many years have been interconnected through their respective transmission facilities at a number of points, forming an integrated transmission network; and

0.5 WHEREAS, the Members have achieved benefits through the coordinated planning and development of a fully integrated Transmission System; and

0.6 WHEREAS, the members believe that an agreement which provides for the equitable sharing among the Members of the costs incurred by the Members in connection with the ownership, operation, and maintenance of their respective portions of the Transmission System would enhance equity among the Members for the continued development of a reliable and economic Transmission System; and

0.7 WHEREAS, effective October 1, 2004 the Members joined the PJM Interconnection, LLC ("PJM"), and placed their respective transmission facilities under the functional control of PJM, a regional transmission operator or "RTO"; and

0.8 WHEREAS, PJM provides transmission service, pursuant to the PJM Open Access Transmission Tariff ("OATT"), to the Members and others who require transmission service over the Transmission System; and

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0.9 WHEREAS, the Members believe that benefits and advantages could be best realized if this Agreement were administered by a single clearing agent; and

0.10 WHEREAS, the Members believe that the Agent designated herein for such purpose is qualified to perform such services;

0.11 NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto hereby agree as follows:

#### ARTICLE 1

##### DESCRIPTION OF TRANSMISSION SYSTEM

1.1 The Transmission System covered by this Agreement shall include all the transmission facilities, from time to time, owned by the Members that are included in the costs of service used to determine rates for transmission service under the PJM OATT, or successor open access transmission tariff.

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ARTICLE 2

OPERATION

2.1 Each member shall maintain its respective portion of the Bulk Transmission System, together with all associated facilities and appurtenances, in a suitable condition of repair at all times in order that said system will operate in a reliable and satisfactory manner.

ARTICLE 3

TRANSMISSION COMMITTEE

3.1 The Members shall appoint representatives to serve on a Transmission Committee. Such representatives shall have authority to act for the Members in the administration of all matters pertaining to this Agreement.

3.2 Each Member shall designate in writing, delivered to the other Members and Agent, the person who is to act as its representative on said Committee and the person or persons who may serve as alternate whenever such representative is unavailable to act. Agent shall designate in writing delivered to the Members the person who is to act as its representative on said Committee and the person or persons who may serve as alternate whenever such representative is unavailable to act. Such person designated by Agent shall act as chairman of the Transmissions Committee and shall be known as the "Transmission Manager".

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## ARTICLE 4

## AGENTS RESPONSIBILITIES

4.1 For the purpose of carrying out the provisions of this Agreement the Members hereby delegate to Agent, and Agent hereby accepts, the responsibility of administration of this Agreement, and in furtherance thereof Agent hereby agrees:

4.11 To arrange for and conduct such meetings of the Transmission Committee as may be required to insure the effective and efficient carrying out of all matters of procedure essential to the complete performance of the provisions of this Agreement.

4.12 To carry out settlements under this Agreement. Settlements by the Members shall be made for each calendar month through General Ledger accounts (hereby designated and hereinafter called the "TRANSMISSION ACCOUNTS") to be administered by Agent. For the purposes of This Agreement, Transmission Accounts shall be consistent with the accounts listed in the FERC Uniform System of Accounts, and shall include such accounts and sub-accounts as are necessary and proper, directed by the Transmission Committee, and consistent with applicable regulatory requirements.

## ARTICLE 5

## SETTLEMENTS

5.1 As provided in this Article, following the end of each month, the Members shall effect settlements through the TRANSMISSION ACCOUNTS. Generally, Settlements hereunder will involve the allocation among the Members of transmission-related costs and revenues as incurred and accrued under the PJM OATT,

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or successor open access transmission tariff, and the recording of same in the Transmission Accounts of the Members, as specified in Appendix I consistent with the Settlement Agreement approved in FERC Docket No. ER09-1279-000.

5.2 All amounts to be allocated among the Members hereunder shall, to the extent practicable, be included in Settlements for the month in which such cost or revenue is realized or accrued. If necessary in order to implement such timely Settlement, the Agent shall be authorized to effect Settlements on an estimated basis and make such adjustment as is needed in subsequent Settlements that will conform the Settlements to the terms of this Agreement.

5.3 For such time as Member Tennessee Company and/or Wheeling Company (Buyer) purchase power from Members Appalachian Company and Ohio Company (Seller), respectively, under agreements that provide for transmission service and related charges to Buyer from Seller (Purchased Power Agreements or "PPAs"), Seller will be allocated or assigned the costs as described on Appendix I, numbers seven (7) through fifteen (15), that would otherwise have been allocated or assigned to Buyer under this Agreement. The total amount of such allocated or assigned costs will be passed through to Buyer by Seller as the transmission service and related charges provided for in their PPAs. Such transmission and related costs will be the only transmission charges passed through to Buyer under any such PPA. When any such PPA expires or is otherwise modified or superseded, the provisions of the PPA that provide for

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transmission service and related charges to Buyer from Seller will be discontinued and Tennessee Company and/or Wheeling Company will receive directly, by allocation or direct assignment, the transmission and related costs pursuant to this agreement, as described on Appendix I, numbers seven (7) through fifteen (15). At such time, Seller shall no longer be allocated or assigned costs which are properly allocable or assignable to Buyer under this Agreement. Further, from the effective date of this Agreement as modified in FERC Docket No. ER09-1279, all the Members, including Tennessee Company and Wheeling Company, will receive direct allocation of revenues as provided herein and described on Appendix I, numbers one (1) through six (6).

ARTICLE 6

TAXES

6.1 If at any time during the duration of this Agreement there should be levied and/or assessed by any governmental authority against any Member any tax related to the receipt of Settlements calculated pursuant to this Agreement (such as sales, excise or similar taxes), such tax expense incurred by such Member that would not have been incurred were the Settlements hereunder not being made, such Member shall be entitled, to the extent permitted by the applicable regulatory authority(ies) to include such tax in its transmission revenue requirement under the PJM or successor OATT when transmission revenue requirements of the Members are next updated, and thereby receive an appropriate level of reimbursement (through cost sharing) for such additional taxes by Members and others receiving service from the Transmission System.

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## ARTICLE 7

## Allocation Principles

7.1 All items of cost and revenue included in Settlements hereunder shall be related to the provision of or receipt of transmission service or a related ("ancillary") service by one or more Members. The allocation methods used to share such costs and revenues, as specified in Appendix I, shall be made pursuant to direction by the Transmission Committee.

7.2 The Transmission Committee may at any time during the Term of This Agreement, upon the recommendation of the Agent or any Member, review any item of cost or revenue, in order to determine whether such item is transmission-related, and whether it should be included in Settlements hereunder. Further, whenever the Transmission Committee determines that any change is needed in Appendix I to add or delete any item of cost or revenue, or to change the allocation or accounting basis of any item, the Transmission Committee shall authorize and direct the Agent to effect such change in Appendix I and in monthly Settlements among the Members and to make any filing with the applicable regulatory authority(ies) to implement such change pursuant to the PJM OATT or any successor open access transmission tariff.

## ARTICLE 8

## MODIFICATION

8.1 Any Member, or the Agent, by written notice given to the other Members and Agent, may call for a reconsideration of the terms and conditions herein provided. If such

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reconsideration is called for, the Members shall take into account any changed conditions, any results from the application of said terms and conditions, and any other facts that might cause said terms and conditions to result in an inequitable sharing of costs and benefits under this Agreement. Any modification in terms and conditions agreed to by the Members following such reconsideration shall become effective the first day of the month following authorization of such reconsideration by appropriate regulatory authority.

## ARTICLE 9

### EFFECTIVE DATE AND TERM OF THIS AGREEMENT

9.1 This Agreement shall become effective and shall become a binding obligation of the Parties on the date specified in an Order in such proceeding as this Agreement shall have been filed with, and accepted for filing by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act as a rate schedule.

9.2 This Agreement shall continue in effect for four years from the effective date of the final order in Docket No. ER09-1279-000 for successive periods of one year each until terminated as provided under subsection 9.3 below.

9.3 Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this Agreement at the expiration of such notice period.

## ARTICLE 10

### REGULATORY AUTHORITIES

10.1 The Members recognize that this Agreement, and any tariff or rate schedule which shall embody or supersede this

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Agreement or any part thereof, are in certain respects subject to the jurisdiction of the FERC under the Federal Power Act, and are also subject to such lawful action as any regulatory authority having jurisdiction shall hereafter take with respect thereto. The performance of any obligation of the Members shall be subject to the receipt from time to time as required of such authorizations, approvals or actions of regulatory authorities having jurisdiction as shall be required by law.

10.2 Subject to the terms of the Settlement in Docket NO. ER09-1279-000, it is expressly understood that any Member under this Agreement, as it may hereafter from time to time be modified and supplemented by the Members, shall be entitled, at any time and from time to time, unilaterally to make application to the FERC for a change in rates, charges, classification of service, or any rule, regulation or contract relating thereto, or to make any change in or supersede in whole or in part any provision of this Agreement, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder.

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ARTICLE 11  
ASSIGNMENT

11.1 This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the respective parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their respective corporate names and on their behalf by their proper officers thereunto daily authorized as of the day and year first above written.

**Next Page is Signature Page**

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**Transmission Agreement Among:**

AMERICAN ELECTRIC POWER  
SERVICE CORPORATION,

By: \_\_\_\_\_

Senior Vice President

KINGSPORT POWER COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

APPALACHIAN POWER COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

OHIO POWER COMPANY, and

By: \_\_\_\_\_

Vice President

COLUMBUS SOUTHERN POWER  
COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

WHEELING POWER COMPANY

By: \_\_\_\_\_

President

INDIANA MICHIGAN POWER  
COMPANY,

By: \_\_\_\_\_

KENTUCKY POWER COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

**Dated as of:**

\_\_\_\_\_  
Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

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Appalachian Power Company  
36  
First Revised Rate Schedule FERC No. 34

Original Sheet No.

Appendix I

**AEP Transmission Agreement**  
**Allocation of Transmission Related Costs and Revenues**

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2	NITS (AEP LSE)	456.1	NSPL	ATRR
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5	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	ARR EC
6	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	ARR SC

**AEP as LSE (Expenses)**

7	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	MWh	MWh
8	NITS Charges (for AEP Retail Load)	456.1	NSPL	12CP
9	NITS Charges for AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
10	NITS Reimbursement from AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
11	Firm Point-to-Point Credits (for AEP Retail Load)	456.1	NSPL	12CP
12	Non-Firm Point-to-Point Credits (AEP Retail Load)	456.1	NSPL	12CP
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15	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	12CP

<b>NSPL</b>	PJM Network Service Peak Load
<b>Contract</b>	Pre-OATT FERC Rate Schedules
<b>ARR S1A</b>	Annual Revenue Requirement - Schedule 1A
<b>ATRR</b>	Annual Transmission Revenue Requirement
<b>ARR EC</b>	Annual Revenue Requirement - Expansion Cost Recovery
<b>ARR SC</b>	Annual Revenue Requirement - Startup Cost Recovery
<b>12CP</b>	Average of 12 coincident peaks through 10/31 of prior year
<b>DA</b>	Directly Assigned to Operating Company

\* Note: Should the net amount in 456.1 for any Member be negative, e.g. more expense than revenue, the net expense will be recorded in 565.0.

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August 4, 2010

Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E., Room 1A  
Washington, D.C. 20426

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

Re: **American Electric Power Service Corporation,**  
FERC Docket No. ER09-1279-000

Dear Secretary Bose:

Pursuant to Rule 602 of the Federal Energy Regulatory Commission's (the "Commission") Rules of Practice and Procedure, 18 C.F.R. §385.602 (2008), American Electric Power Service Corporation ("AEPSC") on behalf of its affiliates, Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company (collectively "AEP" or the "AEP East Companies"), and the following Settling Parties: Public Utilities Commission of Ohio, East Tennessee Energy Consumers, Hoosier Energy Rural Electric Cooperative and the Office of the Ohio Consumers' Counsel, and , (individually, a "Settling Party," and, collectively, the "Settling Parties") submit an original and fourteen copies of an Offer of Settlement intended to resolve without need for evidentiary procedures all issues set for hearing in the captioned proceedings. In addition, this Settlement is supported or not opposed by all parties who have intervened in this proceeding except Steel Dynamics, Inc. and Kentucky Public Service Commission who take no position with respect to the Settlement.<sup>1</sup>

This Offer of Settlement includes the following documents:

1. Explanatory Statement (Appendix A);
2. Settlement Agreement (Appendix B), and several attachments described below;
3. Draft Order Approving Settlement Agreement (Appendix C), and

<sup>1</sup> In addition to the Settling Parties, the non-opposing parties are Consumer Advocate Division of the Public Service Commission of West Virginia, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, Public Service Commission of West Virginia, Indiana Utility Regulatory Commission, Indiana Office of Utility Consumer Counsel, and the West Virginia Energy Users Group.

4. Service List (Appendix D).

The attachments to the Settlement Agreement, Appendix B, include the following:

1. Attachment A, Settlement Terms and Conditions;
2. Attachment B-1, Revised Rate Schedule language (Blacklined);
3. Attachment B-2, Revised Rate Schedule language (Clean);

All parties in this proceeding and the Commission's Trial Staff have had the opportunity to review and comment on the Offer of Settlement. The Settling Parties expect this Offer of Settlement to be unopposed.

AEP requests that the appropriate number of copies of this filing be transmitted to Presiding Administrative Law Judge David Coffman in accordance with Commission Rule 602(b)(2)(i). In accordance with Rule 602(d), copies of this filing have been served on all participants in this proceeding and on all affected state commissions.

The Settling Parties request that, once the comment period specified in Rule 602(f) has passed, Judge Coffman certify the Settlement Agreement to the Commission, as required by Rule 602(g)(1), as expeditiously as possible.

Respectfully submitted

Monique Rowtham-Kennedy  
Senior Counsel  
American Electric Power Service Corporation

Enclosures

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service Corporation ) Docket No. ER09-1279-000  
Corporation )

**EXPLANATORY STATEMENT  
IN SUPPORT OF SETTLEMENT AGREEMENT**

Pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2008), American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company (collectively "AEP" or the "AEP East Companies") and the following Settling Parties: Public Utilities Commission of Ohio, East Tennessee Energy Consumers, Hoosier Energy Rural Electric Cooperative, and the Office of the Ohio Consumers' Counsel (individually, a "Settling Party," and, collectively, the "Settling Parties") hereby submit this Explanatory Statement in support of the concurrently filed Settlement Agreement, which is intended to resolve all issues in this proceeding. In addition, this Settlement is supported or not opposed by all parties who have intervened in this proceeding, except Steel Dynamics, Inc., and Kentucky Public Service Commission, which take no position with respect to the Settlement.<sup>1</sup>

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<sup>1</sup> In addition to the Settling Parties, the non-opposing parties are Consumer Advocate Division of the Public Service Commission of West Virginia, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, Public Service Commission of West Virginia, Indiana Utility Regulatory Commission, Indiana Office of Utility Consumer Counsel, and the West Virginia Energy Users Group.

## I. INTRODUCTION

AEP is a multi-state electric utility holding company system, providing electric service to approximately five million customers in parts of eleven states. AEP represented in its filing in this case that the AEP System is planned and operated on an integrated basis pursuant to various agreements under which the AEP operating companies pool or combine their individual systems to achieve the benefits of integrated operation. This proceeding involves proposed amendments to one such agreement -- the Transmission Agreement entered into in 1984 among five of the AEP East Companies-- Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company and Ohio Power Company and administered by AEPSC, as Agent. As approved by the Commission,<sup>2</sup> the Agreement shares the costs of the Members' investments in Extra-High-Voltage (EHV) and high-voltage facilities operated at 138 kilovolts (138 kV) and above.

On June 5, 2009 AEP filed with the Commission proposed amendments to the Transmission Agreement. The proposed amendments, if approved, would effect a comprehensive reallocation of transmission-related costs and revenues among the AEP East Companies including two new Members, Kingsport Power Company and Wheeling Power Company.<sup>3</sup> AEP represented in its filing that the proposed amendments recognize that, pursuant to the PJM Open Access Transmission Tariff ("PJM OATT"), the AEP East Companies, including Kingsport and Wheeling, and other load serving entities in the

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

<sup>3</sup> Kingsport and Wheeling are relatively small operating companies that own no generating facilities but do own transmission facilities.



AEP zone of PJM now receive network transmission service from and share the cost of the AEP East Companies' transmission facilities, including those operated at voltages below 138 kV. The proposed amendment also would change the primary transmission cost allocation methodology under the Transmission Agreement from the current Member Load Ratio ("MLR") basis to a 12-month coincident peak (12-CP) basis. The proposed amendments specify that the allocation of OATT-based transmission and related costs and revenues will include all seven of the AEP East Companies, including Kinsport and Wheeling.

Motions to intervene in this proceedings were filed by the following entities: Public Utilities Commission of Ohio, Public Service Commission of West Virginia, West Virginia Energy Users Group, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, East Tennessee Energy Consumers, Indiana Utility Regulatory Commission ("IURC"), Steel Dynamics, Inc. ("Steel Dynamics"), Consumer Advocate Division of the Public Service Commission of West Virginia (W.Va. Consumer Advocate"), Hoosier Energy Rural Electric Cooperative, Indiana Office of Utility Consumer Counsel ("IOUCC"), Ohio Consumers' Counsel, and the Kentucky Public Service Commission.

IURC, Steel Dynamics, W. Va Consumer Advocate and IOUCC protested AEP's filing, and AEP answered their protests. On August 3, 2009 the Commission issued an order accepting AEP's proposed amendments to the Transmission Agreement for filing, subject to hearing and settlement judge procedures. The Commission suspended the proposed amendments for a nominal period, making them effective (subject to refund), on the first day of the month after a final Commission order in this proceeding, as

requested by AEP. *Order Accepting and Suspending Proposed Transmission Agreement and Establishing Hearing and Settlement Judge Procedures*, 128 FERC ¶ 61,123 (2009).

On August 7, 2009, pursuant to an order of Chief Judge Wagner, the Honorable David Coffman was appointed Settlement Judge. The Chief Judge's August 7, 2009 order also scheduled a settlement conference to convene on August 20, 2009. Settlement negotiations (including informal information gathering and numerous conferences, meetings and telephone conversations) continued since then. The Commission's Trial Staff participated actively in the discussions. Judge Coffman submitted periodic reports to the Commission on the progress of the settlement discussions. Ultimately, the settlement discussions produced the Settlement Agreement submitted in this Docket.

**II. SUMMARY OF SETTLEMENT AGREEMENT**

The substantive terms of the Settlement Agreement are set forth in three Attachments to the Settlement Agreement, as follows:

- A. Settlement Terms and Conditions (Attachment A-1);
- B. Revised Rate Schedule language, in Blacklined format, (B-1) that will be incorporated in Transmission Agreement;
- C. Revised Rate Schedule language in clean format (B-2);

The following is a summary of each of the Attachments:

**A. Settlement Terms and Conditions**

The Settlement Terms and Conditions set forth the methodology for implementation of the Revised Transmission Agreement. The Terms and Conditions include a three year phase in of the impacts of the Revised Transmission Agreement for all AEP East Companies, except for Indiana Michigan Power Company, for which the

impacts of the Revised Transmission Agreement will be phased in over a four year period. The phase in periods would commence on the date of the Commission order approving the Settlement and would end no later than July 31, 2013 for all AEP East Companies except Indiana Michigan Power Company and no later than July 31, 2014 for Indiana Michigan Power Company. The Settlement Terms and Conditions also sets forth the credits and charges to the AEP East Companies to reflect the phased in impacts of the Transmission Agreement pursuant to the terms of the Settlement Agreement. It also provides that all Settling Parties reserve their filing rights under the Federal Power Act, except that a section 206 filing by a Settling Party under the Federal Power Act challenging the terms of the Revised Transmission Agreement or of the Settlement Agreement will render the Settlement Agreement void, and would be subject to the “public interest” standard of review adopted in the *Sierra-Mobile* line of cases.

#### **B. Revised Tariff Sheets**

Resolution of the issues as set forth in Attachment A requires certain changes to the Transmission Agreement. Attachments B-1 and B-2 provide the Revised Rate Schedule language, that the Settling Parties have agreed is necessary to implement the Settlement Agreement. Accordingly, these attachments will be incorporated in the Transmission Agreement following Commission approval of the Settlement Agreement.

### **III. PROCEDURAL ASPECTS OF SETTLEMENT AGREEMENT**

The remaining provisions of the Settlement Agreement address procedural aspects of the Settlement Agreement including implementation, non-severability, rights reserved, waiver and amendment, and the scope of review. Specifically, the standard of review for modifications to the Settlement Agreement that are proposed by any Settling Party will

be the “public interest” standard adopted in the *Sierra-Mobile* line of cases. The standard of review for modifications to the Settlement Agreement proposed by any non-party to the Settlement Agreement and the Commission acting *sua sponte*, after it is approved by the Commission, will be the most stringent standard permitted by law.

**IV. RESPONSES TO REQUIRED QUESTIONS**

By order dated October 23, 2003, the Chief Administrative Law Judge requires that five questions be answered as part of every Explanatory Statement submitted in support of a proposed settlement. The questions and specific responses thereto applicable to this Settlement Agreement are as follows:

- 1. What are the issues underlying the settlement and what are the major implications?**

The issue raised in this proceeding that underlies the Settlement Agreement is whether the proposed amendments to the Transmission Agreement are just and reasonable.

- 2. Whether any of the issues raise policy implications.**

The resolution of the underlying issue does not raise any policy implications.

- 3. Whether other pending cases may be affected.**

No other pending cases are affected.

- 4. Whether the settlement involves issues of first impression, or if there are any previous reversals on the issues involved?**

There are no issues of first impression presented in this proceeding or resolved by the Settlement Agreement. There are no previous reversals with respect to the Transmission Agreement at issue in this proceeding.

**5. Whether the proceeding is subject to the just and reasonable standard or whether there is *Mobile-Sierra* language making it the standard, *i.e.*, the applicable standards of review.**

This proceeding on AEP's rate filing is subject to the just and reasonable standard. Section 6.7 of the Settlement Agreement states that, except as specified, a unilateral request by a Settling Party to modify any provision of the Settlement Agreement would be subject to the "public interest" standard adopted in the *Sierra-Mobile* line of cases. As for a unilateral modification request by a non-Settling Party or a proceeding in which the Commission acting *sua sponte* seeks to modify the Settlement Agreement, the standard of review shall be the most stringent standard permitted by applicable law.

**V. CONCLUSION**

As discussed above, the attached Settlement Agreement resolves all issues in the captioned proceeding, and the Settling Parties urge the Commission to accept the Settlement Agreement without condition or modification. The Settling Parties in this proceeding have authorized counsel for AEP to make this filing on their behalf.

Respectfully submitted,

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(202) 296-0166 fax

Counsel for Hoosier Energy Rural Electric  
Cooperative

August 4, 2010

**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing Settlement filed by American Electric Power Service Corporation was served upon the parties to this proceeding this 4th day of August 2010.

---

Monique Rowtham-Kennedy  
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Washington, D.C. 20004-2684  
Telephone: 202-383-3436  
Fax: 202-383-3459



UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service Corporation ) Docket No. ER09-1279-000  
Corporation )

**SETTLEMENT AGREEMENT**

Pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. §385.602 (2008), American Electric Power Service Corporation (“AEPSC”), on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company (collectively “AEP” or the “AEP East Companies”) and the following Settling Parties: Public Utilities Commission of Ohio, East Tennessee Energy Consumers, Hoosier Energy Rural Electric Cooperative and the Office of the Ohio Consumers’ Counsel (individually, a “Settling Party,” and, collectively, the “Settling Parties”) hereby submit this Settlement Agreement to resolve all issues between and among them in this docket. In addition, this Settlement is supported or not opposed by all parties who have intervened in this proceeding, except Steel Dynamics, Inc. and Kentucky Public Service Commission who take no position with respect to the Settlement.<sup>1</sup>

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<sup>1</sup> In addition to the Settling Parties, the non-opposing parties are Consumer Advocate Division of the Public Service Commission of West Virginia, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, , Public Service Commission of West Virginia, Indiana Utility Regulatory Commission, Indiana Office of Utility Consumer Counsel, and the West Virginia Energy Users Group.

## ARTICLE I

### INTRODUCTION

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

AEP represented in its filing in this case that the AEP System is planned and operated on an integrated basis pursuant to various agreements under which the AEP operating companies pool or combine their individual systems to achieve the benefits of integrated operation. This proceeding involves proposed amendments to one such agreement -- the Transmission Agreement entered into in 1984 among five of the AEP East Companies- Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company and Ohio Power

Company, and administered by AEPSC, as Agent. As approved by the Commission,<sup>2</sup> the Agreement provides for the sharing of the costs of the Members' investments in Extra-High-Voltage (EHV) and high-voltage facilities operated at 138 kilovolts (138 kV) and above.

On June 5, 2009 AEP filed with the Commission proposed amendments to the Transmission Agreement. The proposed amendments to the Transmission Agreement, if approved, would effect a comprehensive reallocation of transmission-related costs and revenues among the AEP East Companies including two new Members, Kingsport Power Company and Wheeling Power Company. AEP represented in the filing that the proposed amendments recognized that, pursuant to the PJM Open Access Transmission Tariff ("PJM OATT"), the AEP East Companies, including Kingsport and Wheeling, and other load serving entities in the AEP zone of PJM now share the cost of all the AEP East Companies transmission facilities, including those operated at voltages below 138 kV. The proposed amendments also would change the primary transmission cost allocation methodology under the Transmission Agreement from the current Member Load Ratio ("MLR") basis to a 12-month coincident peak (12-CP) basis. The proposed amendments specify that the allocation of OATT-based transmission and related costs and revenues will include all seven of the AEP East Companies, including Kingsport and Wheeling. Motions to intervene in this proceedings were filed by the following entities: Public Utilities Commission of Ohio, Public Service Commission of West Virginia, West Virginia Energy Users Group, Virginia State Corporation Commission, Old Dominion Committee for Fair Utility Rates, East Tennessee Energy Consumers, Indiana Utility

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

Regulatory Commission (“IURC”), Steel Dynamics, Inc. (“Steel Dynamics”), Consumer Advocate Division of the Public Service Commission of West Virginia (W.Va. Consumer Advocate”), Hoosier Energy Rural Electric Cooperative, Indiana Office of Utility Consumer Counsel (“IOUCC”), Ohio Consumers’ Counsel, and the Kentucky Public Service Commission.

IURC, Steel Dynamics, W. Va. Consumer Advocate and IOUCC protested AEP’s filing, and AEP answered their protests. On August 3, 2009 the Commission issued an order accepting AEP’s proposed amendments to the Transmission Agreement for filing, subject to hearing and settlement judge procedures. The Commission suspended the proposed amendments for a nominal period, making them effective (subject to refund), on the first day of the month after a final Commission order in this proceeding, as requested by AEP. *Order Accepting and Suspending Proposed Transmission Agreement and Establishing Hearing and Settlement Judge Procedures*, 128 FERC ¶ 61,123 (2009).

On August 7, 2009, pursuant to an order of Chief Judge Wagner, the Honorable David Coffman was appointed Settlement Judge. The Chief Judge's August 7, 2009 order also scheduled a settlement conference to convene on August 20, 2009. Settlement negotiations (including informal information gathering and numerous conferences, meetings and telephone conversations) continued since then. The Commission’s Trial Staff participated actively in the discussions. Judge Coffman submitted periodic reports to the Commission on the progress of the settlement discussions. Ultimately, the settlement discussions produced this Settlement Agreement.

**ARTICLE II  
SCOPE OF SETTLEMENT AGREEMENT**

The Settling Parties hereby settle and resolve all issues between them arising from AEP's submittals in Docket No. ER09-1279-000, on the terms set forth in the following Article III and Attachments A, B-1 and B-2. Attachments A, B-1 and B-2 are incorporated by reference in and made a part of this Settlement Agreement, and all references herein to the Settlement Agreement shall be deemed to encompass the listed Attachments.

**ARTICLE III  
TERMS OF THE SETTLEMENT AGREEMENT**

3.1 The Settlement Terms and Conditions set forth in Attachment A describe the agreement of the Settling Parties regarding the implementation of the Revised Transmission Agreement.

3.2 Revised provisions for the Transmission Agreement are set forth in Attachment B-1 (Blacklined) and B-2 (Clean) to this Settlement Agreement. The provisions submitted herewith shall be substituted for the tariff pages accepted for filing, subject to refund, in the Commission's August 3, 2009 Order in this Docket. The Settling Parties request that the Commission accept the Rate Schedule pages set forth in Attachment B-2 for filing without suspension, investigation, change or condition.

**ARTICLE IV  
IMPLEMENTATION**

4.1 This Settlement Agreement shall be binding as among the Settling Parties upon the execution hereof. The revised tariff sheets and other provisions set forth in the Attachments hereto shall become effective on the date the Commission specifies as the

effective date for the agreed-upon rates and charges in its order approving or accepting the Settlement Agreement. The Settling Parties shall request that the Commission permit the agreed-upon rates and charges to become effective on the first day of the month after a final Commission order in this proceeding.

4.2 This Settlement Agreement shall be null and void and shall not become effective unless: (i) the Commission approves it without condition or modification as a complete settlement of the issues described herein, or (ii) the Settling Parties are willing to accept all such conditions and modifications as the Commission may require. Any Settling Party that does not notify the other Settling Parties, within 15 days of a Commission order imposing any condition or modification to the Settlement Agreement, that it may or will seek rehearing or reconsideration of the order shall be deemed to have waived all objections thereto.

**ARTICLE V  
NON-SEVERABILITY**

5.1 This Settlement Agreement and its Attachments establish rights and obligations that are interrelated and interdependent. No Settling Party shall be deemed to have agreed to any term of the Settlement Agreement in isolation from any other term. For these reasons, the provisions of this Settlement Agreement are not severable.

**ARTICLE VI  
RESERVATIONS**

6.1 The provisions of this Settlement Agreement are intended to govern only the specific matters addressed herein. No Settling Party waives any claim or right that it may have with respect to matters not addressed in this Settlement Agreement.

6.2 No Settling Party shall be bound or prejudiced by this Settlement Agreement unless it is approved and made effective pursuant to its terms.

6.3 Nothing in this Settlement Agreement shall constitute an admission by any Settling Party of the correctness or applicability of any claim, defense, rule, or interpretation of law, allegation of fact, principle, or method of ratemaking or cost-of-service determination. The Settlement Agreement is made upon the explicit understanding that it constitutes a negotiated agreement with respect to the rates, terms, and conditions at issue in these proceedings. The Settling Parties shall not be deemed to have conceded the applicability of any principle, or any method of ratemaking or cost-of-service determination, rate design or rate schedule, or terms and conditions of service; or the application of any rule or interpretation of law that may underlie, or be thought to underlie, this Settlement Agreement. The Settlement Terms and Conditions contained in Attachment A are principles that the Settling Parties shall be deemed to have accepted solely for purposes of resolving the issues in this docket, and their inclusion as part of this Settlement Agreement shall not (i) constitute an admission by any Settling Party of the correctness of any principle therein, or (ii) establish any precedent binding on a Settling Party in any other proceeding. In any further negotiation or proceedings whatsoever (other than a proceeding involving the honoring, enforcement or construction hereof, as applicable as set forth herein), the Settling Parties shall not be bound or prejudiced by this Settlement Agreement.

6.4 The Commission's approval of this Settlement Agreement shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding. Nothing herein shall be deemed to constitute or establish a "settled practice" as the Court interpreted that term in *Public Service Comm'n of New York v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).

6.5 This Settlement Agreement is expressly contingent upon the following further conditions: (i) all Settling Parties shall provide reasonable cooperation in seeking the Commission's acceptance and approval hereof; (ii) no Settling Party shall seek or request additional terms or conditions of settlement beyond those contained herein; and (iii) the Commission approves or accepts this Settlement Agreement without modification. If the Commission requires any modification(s) of this Settlement Agreement and if such modification(s) is (are) not fulfilled, then: (i) this Settlement Agreement shall not be binding on any Settling Party; (ii) the Settling Parties shall not be obligated to negotiate further, other than to discuss in good faith whether the modification(s) required by the Commission is (are) acceptable to them; (iii) all Settling Parties shall be deemed to have reserved all of their respective rights and remedies with respect to the issues in this proceeding; and (iv) this Settlement Agreement shall not be part of the record in any subsequent proceedings, and all discussions and negotiations related hereto shall be privileged.

6.6 The titles and headings of the various articles of this Settlement Agreement: (i) are for reference and convenience purposes only; (ii) are not to be construed or taken into account in interpreting the Settlement Agreement; and (iii) do not qualify, modify, or explain the effects of the Settlement Agreement.

6.7 This Settlement Agreement may be amended only by a written instrument duly executed by all Settling Parties. The standard of review for any modification to this Settlement Agreement sought by a Settling Party that is not agreed to by all other Settling Parties shall be the "public interest" standard adopted in the *Sierra-Mobile* line of cases



A Settling Party or Settling Parties seeking to modify the Settlement Agreement in any respect shall bear the applicable burden under the FPA.

6.8 The standard of review for any modifications to this Settlement Agreement requested by an intervenor or other interested entity that is not a Settling Party or that is sought in a proceeding initiated by the Commission acting *sua sponte* will be the most stringent standard permissible under applicable law. For purposes of the application of sections 6.7 and 6.8, all parties who have formally represented in writing, by their respective authorized representative, that they did not object to the Agreement shall be treated as "Settling Parties."

6.9 This Settlement Agreement is submitted pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.602 (2008). Unless and until the Settlement Agreement becomes effective pursuant to its terms, the Settlement Agreement shall be privileged and of no effect and shall not be admissible in evidence or in any way described or discussed in any proceeding before any court or regulatory body (except in comments on the Settlement Agreement in this proceeding).

American Electric Power Service  
Corporation as agent for  
Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan  
Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power  
Company, and Wheeling Power Company

By: \_\_\_\_\_

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Counsel for the Ohio Public Utilities Commission

By: \_\_\_\_\_

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(202) 296-0166 fax

Counsel for Hoosier Energy Rural Electric Cooperative

The following undersigned entities are not parties to the Settlement Agreement, however the undersigned indicate by their signature below that they do not object to this Settlement Agreement:

Public Service Commission of West Virginia,

By: \_\_\_\_\_

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West Virginia Energy Users Group,

By: \_\_\_\_\_

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Indiana Utility Regulatory Commission

By: \_\_\_\_\_

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## ATTACHMENT A

### American Electric Power Service Corporation Docket No. ER09-1279-000

#### Transmission Agreement Settlement For

**Appalachian Power Company, Columbus Southern Power Company, Indiana  
Michigan Power Company, Kentucky Power Company, Kingsport Power Company,  
Ohio Power Company, and Wheeling Power Company  
(collectively "AEP" or "the AEP East Companies")**

#### Settlement Terms and Conditions

The following terms and conditions are a part of the Settlement Agreement being filed August 4, 2010 in Docket No. ER09-1279 ("the Settlement"):

1. AEP's proposal as originally filed in the captioned docket and accepted and suspended subject to hearing and settlement judge procedures pursuant to *American Elec. Power Serv. Corp.*, 128 FERC ¶ 61,123 (2009) (hereinafter referred to as the "Revised Transmission Agreement") will be implemented upon approval of the Settlement, subject to the terms and conditions contained herein.
2. Impacts of the Revised Transmission Agreement will for retail rate making purposes be moderated as described in paragraphs 3 and 4 below, for a three (3) year period commencing on the date of the Commission order approving the Settlement and ending no later than July 31, 2013 for all of the AEP East Companies except Indiana Michigan Power Company.
3. Credits will be applied to Ohio Power Company, Columbus Southern Power Company and Appalachian Power Company - West Virginia to reduce impacts of the Revised Transmission Agreement by 75% in year 1, by 50% in year 2 and by 25% in year 3.
4. Charges will be applied to Kentucky Power Company, Kingsport Power Company and Wheeling Power Company to reduce the decrease in transmission cost allocation under the Revised Transmission Agreement by 75% in year 1, by 50% in year 2 and by 25% in year 3.
5. Impacts of the Revised Transmission Agreement on Indiana Michigan Power Company will be phased in over a four year period commencing

on the date of the Commission order approving the Settlement and ending no later than July 1, 2014.

6. Credits to Indiana Michigan will reduce impacts of the Revised Transmission Agreement by 80% in year 1, 60% in year 2, 40% in year 3 and 20% in year 4.
7. All parties to the Settlement reserve their respective rights under sections 205, 206 and 306 of the Federal Power act, however, the Settlement will be voided if a filing is made under 206 challenging the Revised Transmission Agreement or this Settlement. In addition, while the Settlement is in effect, AEP will not modify Appendix I of the Revised Transmission Agreement unless such 206 filing is made by a non-AEP settling party.
8. AEP shall not seek recovery of any shortfall of revenues resulting from the application of the terms and conditions of this Settlement Agreement in any Ohio state regulatory proceeding, except as provided for in the Settlement.
9. The Transmission Agreement will be modified as provided in Attachment B.
10. The credits and charges pursuant to paragraphs 3, 4 and 6 above shall be as follows:

	Year 1	Year 2	Year 3	Year 4
(Dollars in Millions)				
APCo WV	(6.9)	(4.6)	(2.3)	0
CSP	(2.4)	(1.6)	(0.8)	0
I&M	(24.1)	(18.1)	(12.1)	(6.0)
KPCo	3.1	2.1	1.1	0
KgPCo	3.0	2.0	1.0	0
OPCo	(10.9)	(7.3)	(3.6)	0
WPCo	1.9	1.2	0.6	0

ATTACHMENT B -1  
(Marked Version)

**TRANSMISSION AGREEMENT**

**By and among**

**APPALACHIAN POWER COMPANY**  
**COLUMBUS SOUTHERN POWER COMPANY**  
**INDIANA MICHIGAN POWER COMPANY**  
**KENTUCKY POWER COMPANY**  
**KINGSPORT POWER COMPANY**  
**OHIO POWER COMPANY**  
**WHEELING POWER COMPANY**

**and with**

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

**AS AGENT**

**DATED APRIL 1984, AS AMENDED**

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

Effective: first day of the month after  
the Commission issues a final,  
non-appealable order accepting the  
Agreement for filing

Issued On: August 4, 2010



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Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

Effective: first day of the month after  
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a final, non-appealable  
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Agreement for filing

Issued On: August 4, 2010

0.1 THIS AGREEMENT, made and entered into as of the 1st day of April, 1984, and as subsequently amended, by and among APPALACHIAN POWER COMPANY (Appalachian Company), a Virginia corporation, COLUMBUS AND SOUTHERN POWER COMPANY (Columbus Company), an Ohio corporation, INDIANA MICHIGAN POWER COMPANY (Indiana Company), an Indiana corporation, KENTUCKY POWER COMPANY (Kentucky Company), a Kentucky corporation, OHIO POWER COMPANY (Ohio Company), an Ohio corporation, KINGSPORT POWER COMPANY (Tennessee Company), a Tennessee corporation, and WHEELING POWER COMPANY (Wheeling Company), a West Virginia corporation, said companies (herein sometimes called 'Members' when referred to collectively and 'Member' when referred to individually) being affiliated companies of the integrated public utility electric system known as the American Electric Power SYSTEM (AEP System), and AMERICAN ELECTRIC POWER SERVICE CORPORATION (Agent), a New York corporation, being a service company engaged solely in the business of furnishing essential services to the aforesaid companies and to other affiliated companies.

W I T N E S S E T H,

T H A T:

0.2 WHEREAS, the Members own and operate electric facilities in the states herein indicated, (i) Appalachian Company in Virginia, West Virginia, and Tennessee (ii) Columbus Company in Ohio, (iii) Indiana Company in Indiana and Michigan, (iv) Kentucky Company in Kentucky, (v) Tennessee Company in Tennessee, (vi) Ohio Company in Ohio and West Virginia, and (vii) Wheeling Company in West Virginia; and

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0.3 WHEREAS, certain of the Members have entered into an interconnection agreement, dated July 6, 1951, with modification thereto, which provides for certain understandings, conditions, and procedures designed to achieve the full benefits and advantages available through the coordinated operation of their electric power supply facilities; and

0.4 WHEREAS, The Members' electric facilities are now and for many years have been interconnected through their respective transmission facilities at a number of points, forming an integrated transmission network; and

0.5 WHEREAS, the Members have achieved benefits through the coordinated planning and development of a fully integrated Transmission System; and

0.6 WHEREAS, the members believe that an agreement which provides for the equitable sharing among the Members of the costs incurred by the Members in connection with the ownership, operation, and maintenance of their respective portions of the Transmission System would enhance equity among the Members for the continued development of a reliable and economic Transmission System; and

0.7 WHEREAS, effective October 1, 2004 the Members joined the PJM Interconnection, LLC ("PJM"), and placed their respective transmission facilities under the functional control of PJM, a regional transmission operator or "RTO"; and

0.8 WHEREAS, PJM provides transmission service, pursuant to the PJM Open Access Transmission Tariff ("OATT"), to the Members and others who require transmission service over the Transmission System; and

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0.9 WHEREAS, the Members believe that benefits and advantages could be best realized if this Agreement were administered by a single clearing agent; and

0.10 WHEREAS, the Members believe that the Agent designated herein for such purpose is qualified to perform such services;

0.11 NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto hereby agree as follows:

## ARTICLE 1

### DESCRIPTION OF TRANSMISSION SYSTEM

1.1 The Transmission System covered by this Agreement shall include all the transmission facilities, from time to time, owned by the Members that are included in the costs of service used to determine rates for transmission service under the PJM OATT, ~~including without limitation, (i) All Member transmission lines; (ii) all facilities such as transformers, buses, switchgear, and associated facilities located at Member transmission substations, and (iii) any other transmission lines and associated substation facilities at any voltage designated by the Transmission Committee as having been, installed or leased for the mutual benefit of all Members and/or others who receive transmission service from PJM or a successor RTO or other successor transmission service provider~~ or successor open access transmission tariff.

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## ARTICLE 2

## OPERATION

2.1 Each member shall maintain its respective portion of the Bulk Transmission System, together with all associated facilities and appurtenances, in a suitable condition of repair at all times in order that said system will operate in a reliable and satisfactory manner.

## ARTICLE 3

## TRANSMISSION COMMITTEE

3.1 The Members shall appoint representatives to serve on a Transmission Committee. Such representatives shall have authority to act for the Members in the administration of all matters pertaining to this Agreement.

3.2 Each Member shall designate in writing, delivered to the other Members and Agent, the person who is to act as its representative on said Committee and the person or persons who may serve as alternate whenever such representative is unavailable to act. Agent shall designate in writing delivered to the Members the person who is to act as its representative on said Committee and the person or persons who may serve as alternate whenever such representative is unavailable to act. Such person designated by Agent shall act as chairman of the Transmissions Committee and shall be known as the "Transmission Manager".

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AGENTS RESPONSIBILITIES

4.1 For the purpose of carrying out the provisions of this Agreement the Members hereby delegate to Agent, and Agent hereby accepts, the responsibility of administration of this Agreement, and in furtherance thereof Agent hereby agrees:

4.11 To arrange for and conduct such meetings of the Transmission Committee as may be required to insure the effective and efficient carrying out of all matters of procedure essential to the complete performance of the provisions of this Agreement.

4.12 To carry out settlements under this Agreement. Settlements by the Members shall be made for each calendar month through General Ledger accounts (hereby designated and hereinafter called the "TRANSMISSION ACCOUNTS") to be administered by Agent. For the purposes of This Agreement, Transmission Accounts shall be consistent with the accounts listed in the FERC Uniform System of Accounts, and shall include such accounts and sub-accounts as are necessary and proper, directed by the Transmission Committee, and consistent with applicable regulatory requirements.

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SETTLEMENTS

5.1 As provided in this Article, following the end of each month, the Members shall effect settlements through the TRANSMISSION ACCOUNTS. Generally, Settlements hereunder will involve the allocation among the Members of transmission-related costs and revenues as incurred and accrued under the PJM OATT,

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or successor open access transmission tariff among the Members,  
and the recording of same in the Transmission Accounts of the  
Members, as specified in Appendix I consistent with the  
Settlement Agreement approved in FERC Docket No. ER09-1279-000.

5.2 All amounts to be allocated among the Members hereunder shall, to the extent practicable, be included in Settlements for the month in which such cost or revenue is realized or accrued. If necessary in order to implement such timely Settlement, the Agent shall be authorized to effect Settlements on an estimated basis and make such adjustment as is needed in subsequent Settlements that will conform the Settlements to the terms of this Agreement.

5.3 For such time as Member Tennessee Company and/or  
Wheeling Company (Buyer) purchase power from Members Appalachian  
Company and Ohio Company (Seller), respectively, under  
agreements that provide for transmission service and related  
charges to Buyer from Seller (Purchased Power Agreements or  
"PPAs"), Seller will be allocated or assigned the costs as  
described on Appendix I, numbers seven (7) through fifteen (15),  
that would otherwise have been allocated or assigned to Buyer  
under this Agreement. The total amount of such allocated or  
assigned costs will be passed through to Buyer by Seller as the  
transmission service and related charges provided for in their  
PPAs. Such transmission and related costs will be the only  
transmission charges passed through to Buyer under any such PPA.  
When any such PPA expires or is otherwise modified or

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superseded, the provisions of the PPA that provide for transmission service and related charges to Buyer from Seller will be discontinued and Tennessee Company and/or Wheeling Company will receive directly, by allocation or direct assignment, the transmission and related costs pursuant to this agreement, as described on Appendix I, numbers seven (7) through fifteen (15). At such time, Seller shall no longer be allocated or assigned costs which are properly allocable or assignable to Buyer under this Agreement. Further, from the effective date of this Agreement as modified in FERC Docket No. ER09-1279, all the Members, including Tennessee Company and Wheeling Company, will receive direct allocation of revenues as provided herein and described on Appendix I, numbers one (1) through six (6).

## ARTICLE 6

## TAXES

6.1 If at any time during the duration of this Agreement there should be levied and/or assessed by any governmental authority against any Member any tax related to the receipt of Settlements calculated pursuant to this Agreement (such as sales, excise or similar taxes), such tax expense incurred by such Member that would not have been incurred were the Settlements hereunder not being made, such Member shall be entitled, to the extent permitted by the applicable regulatory authority(ies) to include such tax in its transmission revenue requirement under the PJM or successor OATT when transmission revenue requirements of the Members are next updated, and thereby receive an appropriate level of reimbursement (through

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Appalachian Power Company  
First Revised Rate Schedule FERC No. 34

Original Sheet No. 12

cost sharing) for such additional taxes by Members and others receiving service from the Transmission System.

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## ARTICLE 7

## Allocation Principles

7.1 All items of cost and revenue included in Settlements hereunder shall be related to the provision of or receipt of transmission service or a related ("ancillary") service by one or more Members ~~on behalf of one or more of the Members~~. The allocation methods used to share such costs and revenues, as specified in Appendix I, shall be made pursuant to direction by the Transmission Committee.

7.2 The Transmission Committee may at any time during the Term of This Agreement, upon the recommendation of the Agent or any Member, review any item of cost or revenue, in order to determine whether such item is transmission-related, and whether it should be included in Settlements hereunder. Further, whenever the Transmission Committee determines that any change is needed in Appendix I to add or delete any item of cost or revenue, or to change the allocation or accounting basis of any item, the Transmission Committee shall authorize and direct the Agent ~~when and how~~ to effect such change in Appendix I and in monthly Settlements among the Members and to make any filing with the applicable regulatory authority(ies) to implement such change pursuant to the PJM OATT or any successor open access transmission tariff.

~~7.3 Allocations of costs shall, to the extent practicable, be based on measurable cost indicators that will effect a sharing of costs among the Members consistent with the use of such service, and will be sufficiently stable, over time, so as~~

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~~not to cause undue or objectionable variability in the costs of the Members.~~

~~7.4 Allocations of revenues shall, to the extent practicable, be based on measurable indicators of the cost incurred by each Member in providing the service that gave rise to the revenue~~

## ARTICLE 8

### MODIFICATION

8.1 Any Member, or the Agent, by written notice given to the other Members and Agent, may call for a reconsideration of the terms and conditions herein provided. If such reconsideration is called for, the Members shall take into account any changed conditions, any results from the application of said terms and conditions, and any other facts that might cause said terms and conditions to result in an inequitable sharing of costs and benefits under this Agreement. Any modification in terms and conditions agreed to by the Members following such reconsideration shall become effective the first day of the month following authorization of such reconsideration by appropriate regulatory authority.

## ARTICLE 9

### EFFECTIVE DATE AND TERM OF THIS AGREEMENT

9.1 This Agreement shall become effective and shall become a binding obligation of the Parties on the date specified in an Order in such proceeding as this Agreement shall have been filed with, and accepted for filing by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act as a rate schedule.

Issued By: Richard E. Munczinski  
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9.2 This Agreement shall continue in effect for four years from the effective date of the final order in Docket No. ER09-1279-000 ~~for an initial period from the Effective Date to December 31, 1990, and thereafter~~ for successive periods of one year each until terminated as provided under subsection 9.3 below.

9.3 Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this Agreement at the expiration ~~of said initial period or at the expiration of any successive period of one year~~ such notice period.

## ARTICLE 10

### REGULATORY AUTHORITIES

10.1 The Members recognize that this Agreement, and any tariff or rate schedule which shall embody or supersede this Agreement or any part thereof, are in certain respects subject to the jurisdiction of the FERC under the Federal Power Act, and are also subject to such lawful action as any regulatory authority having jurisdiction shall hereafter take with respect thereto. The performance of any obligation of the Members shall be subject to the receipt from time to time as required of such authorizations, approvals or actions of regulatory authorities having jurisdiction as shall be required by law.

10.2 Subject to the terms of the Settlement in Docket NO. ER09-1279-000, ~~it~~ is expressly understood that any Member under this Agreement, as it may hereafter from time to time be modified and supplemented by the Members, shall be entitled, at any time and from time to time, unilaterally to make application

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to the FERC for a change in rates, charges, classification of service, or any rule, regulation or contract relating thereto, or to make any change in or supersede in whole or in part any provision of this Agreement, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder.

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ARTICLE 11

ASSIGNMENT

11.1 This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the respective parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their respective corporate names and on their behalf by their proper officers thereunto daily authorized as of the day and year first above written.

**Next Page is Signature Page**

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Senior Vice President, Regulatory Services

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Issued On: August 4, 2010

**Transmission Agreement Among:**

AMERICAN ELECTRIC POWER  
SERVICE CORPORATION,

By: \_\_\_\_\_

~~Michael Heyeck~~  
Senior Vice President

KENTUCKY POWER COMPANY,

By: \_\_\_\_\_

~~Timothy C. Mosher~~  
President and Chief Operating  
Officer

APPALACHIAN POWER COMPANY,

By: \_\_\_\_\_

~~Dana E. Walde~~  
President and Chief Operating  
Officer

KINGSPORT POWER COMPANY,

By: \_\_\_\_\_

~~Dana E. Walde~~  
President and Chief Operating  
Officer

COLUMBUS SOUTHERN POWER  
COMPANY,

By: \_\_\_\_\_

~~Joseph Hamrock~~  
President and Chief Operating  
Officer

OHIO POWER COMPANY, and

By: \_\_\_\_\_

~~Brian X. Tierney~~  
Vice President

INDIANA MICHIGAN POWER  
COMPANY,

By: \_\_\_\_\_

~~Helen J. Murray~~  
President and Chief Operating  
Officer

WHEELING POWER COMPANY

By: \_\_\_\_\_

~~Dana E. Walde~~  
President

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

Effective: first day of the month after  
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Appalachian Power Company  
First Revised Rate Schedule FERC No. 34

Original Sheet No. 19

**Dated as of:** \_\_\_\_\_

**Issued By:** Richard E. Munczinski  
Senior Vice President, Regulatory Services

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Appalachian Power Company  
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First Revised Rate Schedule FERC No. 34

Original Sheet No.

Appendix I

**AEP Transmission Agreement  
Allocation of Transmission Related Costs and Revenues**

#	<u>Item</u>	<u>FERC Account*</u>	<u>PJM Billing Basis</u>	<u>AEP Allocation Basis</u>
<b>AEP as Transmission Owner (Revenues)</b>				
1	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	NSPL	ARR S1A
2	NITS (AEP LSE)	456.1	NSPL	ATRR
3	NITS (Non-Affiliates)	456.1	NSPL	ATRR
4	Grandfathered PTP (NCEMC)	456.0	Contract	ATRR
5	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	ARR EC
6	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	ARR SC

**AEP as LSE (Expenses)**

7	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	MWh	MWh
8	NITS Charges (for AEP Retail Load)	456.1	NSPL	12CP
9	NITS Charges for AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
10	NITS Reimbursement from AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
11	<del>Schedule 1A Charge for AEP FR Customers</del>	447.0	<del>NSPL</del>	<del>DA</del>
12	<del>Schedule 1A Reimbursement from AEP FR Customers</del>	447.0	<del>NSPL</del>	<del>DA</del>
11	Firm Point-to-Point Credits (for AEP Retail Load)	456.1	NSPL	12CP
12	Non-Firm Point-to-Point Credits (AEP Retail Load)	456.1	NSPL	12CP
13	Transmission Enhancement (Schedule 12)	565.0	NSPL	12CP
14	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	12CP
15	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	12CP

NSPL	PJM Network Service Peak Load
Contract	Pre-OATT FERC Rate Schedules
ARR S1A	Annual Revenue Requirement - Schedule 1A
ATRR	Annual Transmission Revenue Requirement
ARR EC	Annual Revenue Requirement - Expansion Cost Recovery
ARR SC	Annual Revenue Requirement - Startup Cost Recovery
12CP	Average of 12 coincident peaks through 10/31 of prior year
DA	Directly Assigned to Operating Company

\* Note: Should the net amount in 456.1 for any Member be negative, e.g. more expense than revenue, the net expense will be recorded in 565.0.

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Appalachian Power Company

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First Revised Rate Schedule FERC No. 34

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1/ Includes all transmission-related LSE expenses (NITS, Schedule 1A, Point-to-Point Credits, Schedule 12, ECRC, SCRC) which are directly assigned to Operating Company for AEP FR Customers.

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ATTACHMENT B -2  
(Unmarked Version)

**TRANSMISSION AGREEMENT**

By and among

**APPALACHIAN POWER COMPANY**  
**COLUMBUS SOUTHERN POWER COMPANY**  
**INDIANA MICHIGAN POWER COMPANY**  
**KENTUCKY POWER COMPANY**  
**KINGSPORT POWER COMPANY**  
**OHIO POWER COMPANY**  
**WHEELING POWER COMPANY**

and with

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

**AS AGENT**

**DATED APRIL 1984, AS AMENDED**

Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

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or successor open access transmission tariff, and the recording of same in the Transmission Accounts of the Members, as specified in Appendix I consistent with the Settlement Agreement approved in FERC Docket No. ER09-1279-000.

5.2 All amounts to be allocated among the Members hereunder shall, to the extent practicable, be included in Settlements for the month in which such cost or revenue is realized or accrued. If necessary in order to implement such timely Settlement, the Agent shall be authorized to effect Settlements on an estimated basis and make such adjustment as is needed in subsequent Settlements that will conform the Settlements to the terms of this Agreement.

5.3 For such time as Member Tennessee Company and/or Wheeling Company (Buyer) purchase power from Members Appalachian Company and Ohio Company (Seller), respectively, under agreements that provide for transmission service and related charges to Buyer from Seller (Purchased Power Agreements or "PPAs"), Seller will be allocated or assigned the costs as described on Appendix I, numbers seven (7) through fifteen (15), that would otherwise have been allocated or assigned to Buyer under this Agreement. The total amount of such allocated or assigned costs will be passed through to Buyer by Seller as the transmission service and related charges provided for in their PPAs. Such transmission and related costs will be the only transmission charges passed through to Buyer under any such PPA. When any such PPA expires or is otherwise modified or superseded, the provisions of the PPA that provide for

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transmission service and related charges to Buyer from Seller will be discontinued and Tennessee Company and/or Wheeling Company will receive directly, by allocation or direct assignment, the transmission and related costs pursuant to this agreement, as described on Appendix I, numbers seven (7) through fifteen (15). At such time, Seller shall no longer be allocated or assigned costs which are properly allocable or assignable to Buyer under this Agreement. Further, from the effective date of this Agreement as modified in FERC Docket No. ER09-1279, all the Members, including Tennessee Company and Wheeling Company, will receive direct allocation of revenues as provided herein and described on Appendix I, numbers one (1) through six (6).

## ARTICLE 6

### TAXES

6.1 If at any time during the duration of this Agreement there should be levied and/or assessed by any governmental authority against any Member any tax related to the receipt of Settlements calculated pursuant to this Agreement (such as sales, excise or similar taxes), such tax expense incurred by such Member that would not have been incurred were the Settlements hereunder not being made, such Member shall be entitled, to the extent permitted by the applicable regulatory authority(ies) to include such tax in its transmission revenue requirement under the PJM or successor OATT when transmission revenue requirements of the Members are next updated, and thereby receive an appropriate level of reimbursement (through cost sharing) for such additional taxes by Members and others receiving service from the Transmission System.

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## ARTICLE 7

## Allocation Principles

7.1 All items of cost and revenue included in Settlements hereunder shall be related to the provision of or receipt of transmission service or a related ("ancillary") service by one or more Members. The allocation methods used to share such costs and revenues, as specified in Appendix I, shall be made pursuant to direction by the Transmission Committee.

7.2 The Transmission Committee may at any time during the Term of This Agreement, upon the recommendation of the Agent or any Member, review any item of cost or revenue, in order to determine whether such item is transmission-related, and whether it should be included in Settlements hereunder. Further, whenever the Transmission Committee determines that any change is needed in Appendix I to add or delete any item of cost or revenue, or to change the allocation or accounting basis of any item, the Transmission Committee shall authorize and direct the Agent to effect such change in Appendix I and in monthly Settlements among the Members and to make any filing with the applicable regulatory authority(ies) to implement such change pursuant to the PJM OATT or any successor open access transmission tariff.

## ARTICLE 8

## MODIFICATION

8.1 Any Member, or the Agent, by written notice given to the other Members and Agent, may call for a reconsideration of the terms and conditions herein provided. If such

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reconsideration is called for, the Members shall take into account any changed conditions, any results from the application of said terms and conditions, and any other facts that might cause said terms and conditions to result in an inequitable sharing of costs and benefits under this Agreement. Any modification in terms and conditions agreed to by the Members following such reconsideration shall become effective the first day of the month following authorization of such reconsideration by appropriate regulatory authority.

## ARTICLE 9

### EFFECTIVE DATE AND TERM OF THIS AGREEMENT

9.1 This Agreement shall become effective and shall become a binding obligation of the Parties on the date specified in an Order in such proceeding as this Agreement shall have been filed with, and accepted for filing by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act as a rate schedule.

9.2 This Agreement shall continue in effect for four years from the effective date of the final order in Docket No. ER09-1279-000 for successive periods of one year each until terminated as provided under subsection 9.3 below.

9.3 Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this Agreement at the expiration of such notice period.

## ARTICLE 10

### REGULATORY AUTHORITIES

10.1 The Members recognize that this Agreement, and any tariff or rate schedule which shall embody or supersede this

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Agreement or any part thereof, are in certain respects subject to the jurisdiction of the FERC under the Federal Power Act, and are also subject to such lawful action as any regulatory authority having jurisdiction shall hereafter take with respect thereto. The performance of any obligation of the Members shall be subject to the receipt from time to time as required of such authorizations, approvals or actions of regulatory authorities having jurisdiction as shall be required by law.

10.2 Subject to the terms of the Settlement in Docket NO. ER09-1279-000, it is expressly understood that any Member under this Agreement, as it may hereafter from time to time be modified and supplemented by the Members, shall be entitled, at any time and from time to time, unilaterally to make application to the FERC for a change in rates, charges, classification of service, or any rule, regulation or contract relating thereto, or to make any change in or supersede in whole or in part any provision of this Agreement, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder.

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ARTICLE 11

ASSIGNMENT

11.1 This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the respective parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their respective corporate names and on their behalf by their proper officers thereunto daily authorized as of the day and year first above written.

**Next Page is Signature Page**

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**Transmission Agreement Among:**

AMERICAN ELECTRIC POWER  
SERVICE CORPORATION,

By: \_\_\_\_\_

Senior Vice President

KINGSPORT POWER COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

APPALACHIAN POWER COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

OHIO POWER COMPANY, and

By: \_\_\_\_\_

Vice President

COLUMBUS SOUTHERN POWER  
COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

WHEELING POWER COMPANY

By: \_\_\_\_\_

President

INDIANA MICHIGAN POWER  
COMPANY,

By: \_\_\_\_\_

KENTUCKY POWER COMPANY,

By: \_\_\_\_\_

President and Chief Operating  
Officer

**Dated as of:**

\_\_\_\_\_  
Issued By: Richard E. Munczinski  
Senior Vice President, Regulatory Services

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Appalachian Power Company  
36  
First Revised Rate Schedule FERC No. 34

Original Sheet No.

## Appendix I

**AEP Transmission Agreement  
Allocation of Transmission Related Costs and Revenues**

#	<u>Item</u>	<u>FERC Account*</u>	<u>PJM Billing Basis</u>	<u>AEP Allocation Basis</u>
<b>AEP as Transmission Owner (Revenues)</b>				
1	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	NSPL	ARR S1A
2	NITS (AEP LSE)	456.1	NSPL	ATRR
3	NITS (Non-Affiliates)	456.1	NSPL	ATRR
4	Grandfathered PTP (NCEMC)	456.0	Contract	ATRR
5	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	ARR EC
6	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	ARR SC

**AEP as LSE (Expenses)**

7	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	MWh	MWh
8	NITS Charges (for AEP Retail Load)	456.1	NSPL	12CP
9	NITS Charges for AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
10	NITS Reimbursement from AEP FR Customers <sup>1/</sup>	447.0	NSPL	DA
11	Firm Point-to-Point Credits (for AEP Retail Load)	456.1	NSPL	12CP
12	Non-Firm Point-to-Point Credits (AEP Retail Load)	456.1	NSPL	12CP
13	Transmission Enhancement (Schedule 12)	565.0	NSPL	12CP
14	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	12CP
15	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	12CP

<b>NSPL</b>	PJM Network Service Peak Load
<b>Contract</b>	Pre-OATT FERC Rate Schedules
<b>ARR S1A</b>	Annual Revenue Requirement - Schedule 1A
<b>ATRR</b>	Annual Transmission Revenue Requirement
<b>ARR EC</b>	Annual Revenue Requirement - Expansion Cost Recovery
<b>ARR SC</b>	Annual Revenue Requirement - Startup Cost Recovery
<b>12CP</b>	Average of 12 coincident peaks through 10/31 of prior year
<b>DA</b>	Directly Assigned to Operating Company

\* Note: Should the net amount in 456.1 for any Member be negative, e.g. more expense than revenue, the net expense will be recorded in 565.0.

<sup>1/</sup> Includes all transmission-related LSE expenses (NITS, Schedule 1A, Point-to-Point Credits, Schedule 12, ECRC, SCRC) which are directly assigned to Operating Company for AEP FR Customers.

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