

The Regulatory Model and Public Policy Direction



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President***



***Powering the Future 2011
Amelia Island, Florida
October 10, 2011***

AEP - Background



Coal/Lignite
65%



Gas/Oil
23%

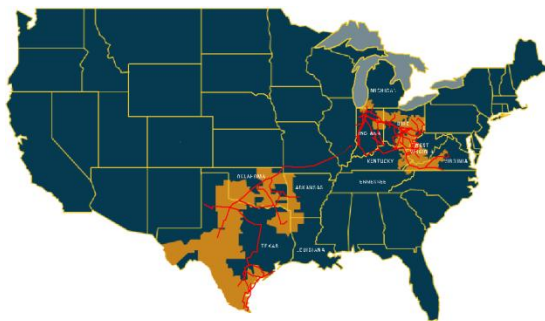


Nuclear
5%



**Pumped Storage/
Hydro/Wind**
7%

AEP's Generation Fleet
~40,000 MW Capacity



5.2 million customers in 11 states

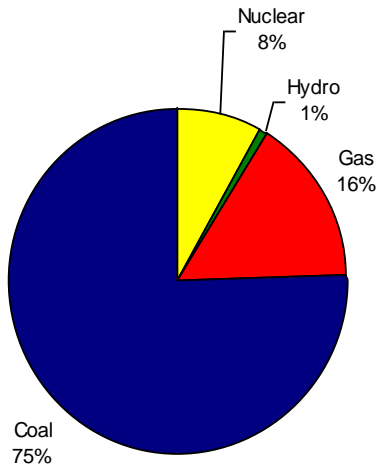
<u>Asset</u>	<u>Size</u>	<u>Industry Rank</u>
Domestic Generation	~40,000 MW	# 2
Transmission	~39,000 miles	# 1
Distribution	~214,000 miles	# 1

Overview

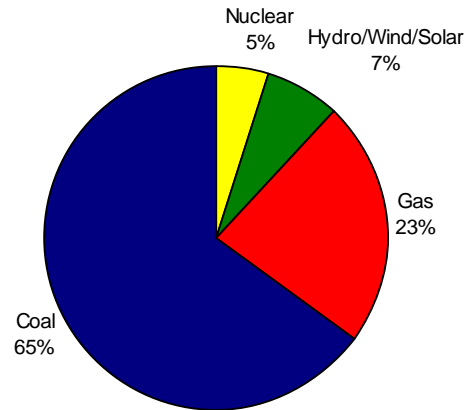
- ***AEP Strategic Initiatives***
- ***Regulatory Support***
 - ***Historical regulatory models are not sufficient to support today's policy driven initiatives***
- ***Collaboration is needed to succeed in today's environment***

AEP Generation Transformation

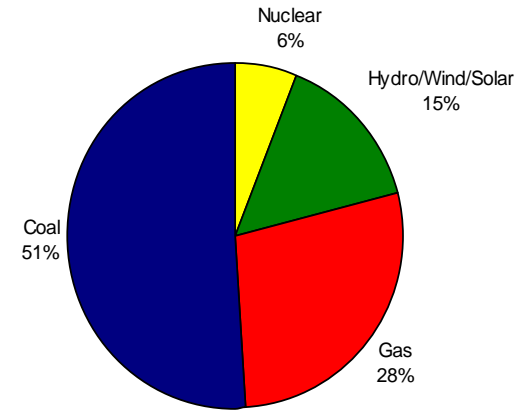
1990 Capacity by Fuel
37 GW



2010 Capacity by Fuel
40 GW



2020 Capacity by Fuel
38 GW



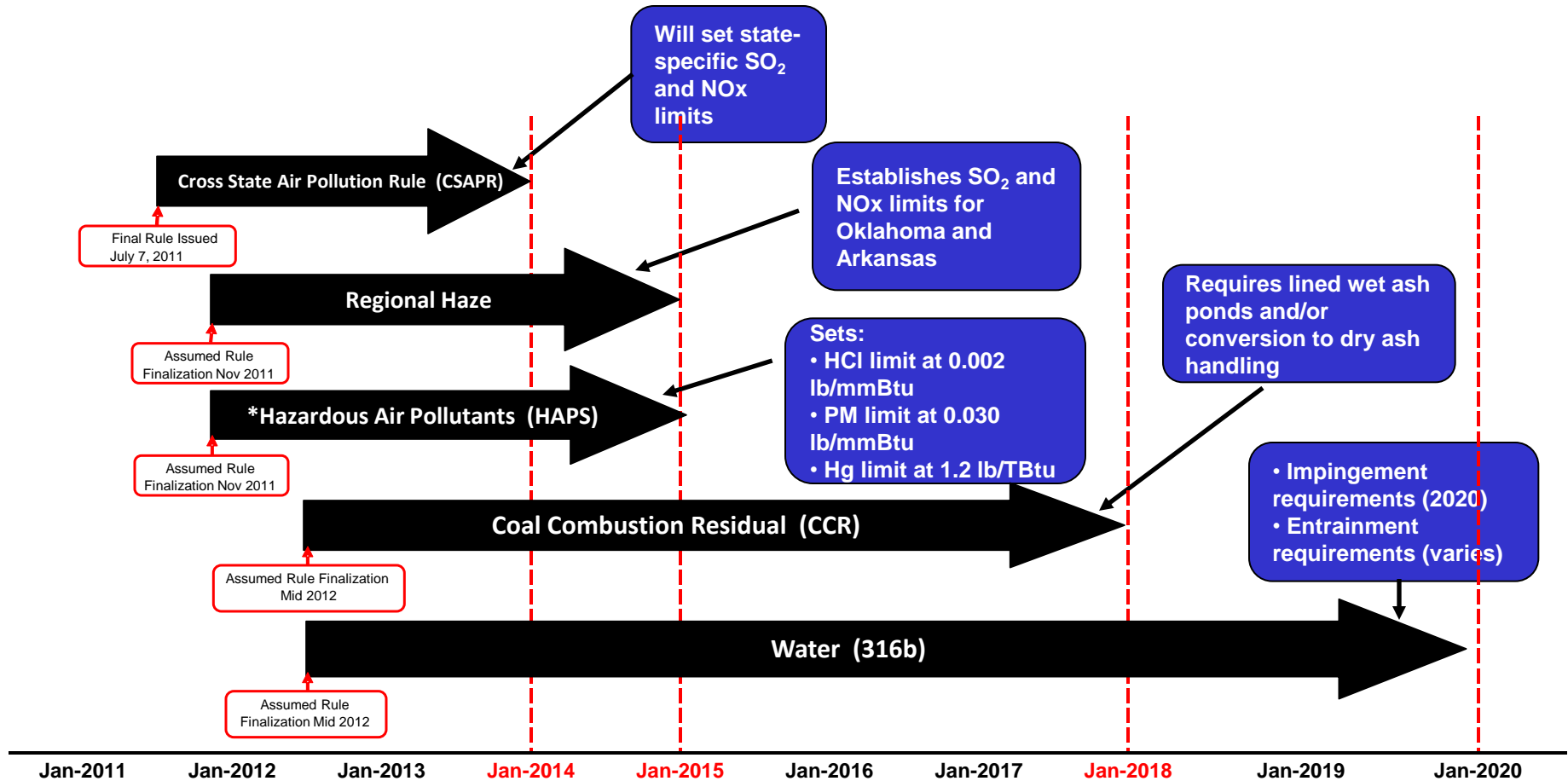
Total System NOx & SO2 (actual through 2010 and forecasted based on proposed EPA regulations)



❑ **\$7.2 billion capital invested from 1990-2010 to reduce emissions approximately 1.7 million tons or by about 75%**

❑ **~\$6-\$8 billion additional capital from 2012-2020 for further reductions of approximately 0.4 million tons**

EPA Regulations: More Time is Needed



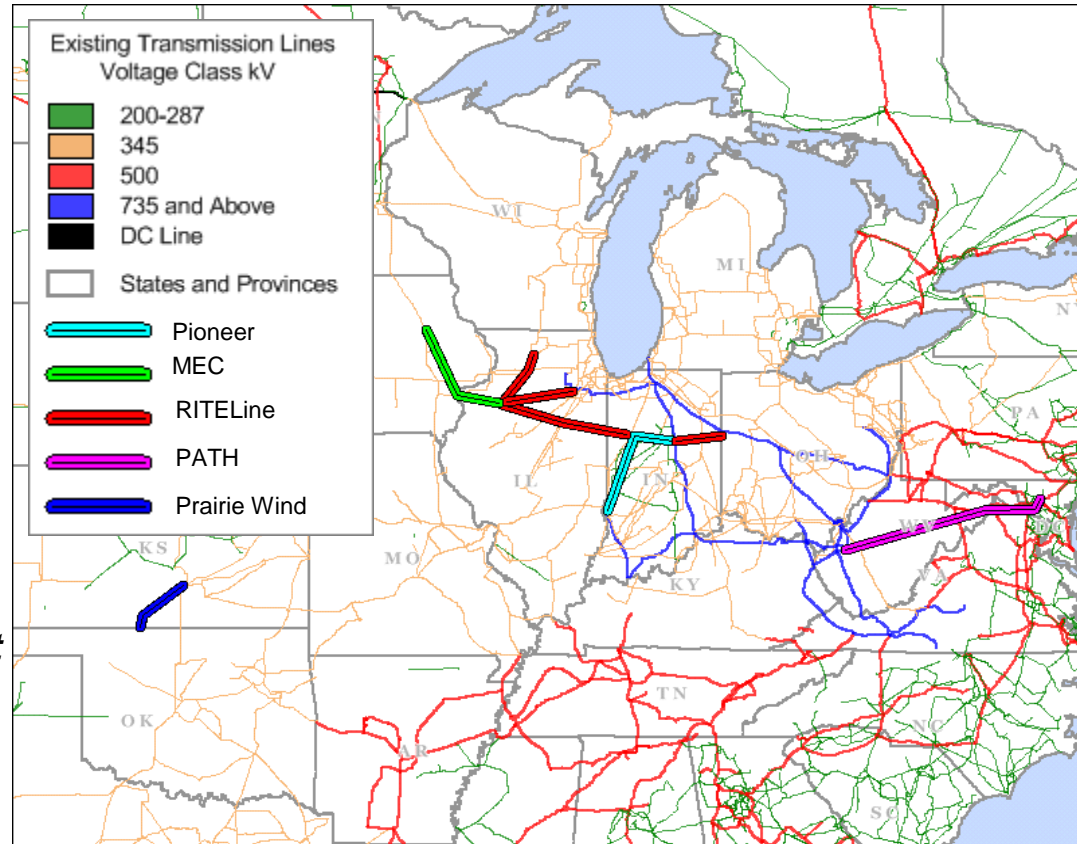
* Units that will be retrofit are eligible for a one year compliance extension from the EPA

Order 1000: Milestone for Transmission Development

Current/Proposed Transmission Projects*

FERC Order 1000 issued July 21st:

- **Enables multiple drivers (e.g. public policy) during planning process needed to justify development of EHV transmission lines**
- **AEP Supports Commission's decision to narrow but NOT fully eliminate ROFR's**
- **State Regulators need to recognize that non-incumbent developers allowed to build; and load serving entities to recover costs**
- **Significant deference to regions in developing processes around planning, cost allocation and participation of non-incumbents**



Proposed EHV Projects in line with reforms mandated by Order 1000

AEP's gridSMART™ Deployment

Indiana Michigan Power (Completed 2008)

- 10,000 AMI; Distribution Automation

AEP Service Territory

Public Service of Oklahoma (underway)

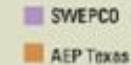
- \$8.75M low-interest loan from OK (ARRA)
- 15,000 AMI; Distribution Automation

AEP Texas (underway)

- ~1 million AMI meters; 4-year; \$270M

AEP Ohio (underway)

- DOE Smart Grid Demo Project (\$75M)
- Full Integrated Smart Grid Platform; 10,000 AMI



Regulatory Recovery of Utility Investments

- ***Multiple policy-driven initiatives need funding through electric rates***
 - ***Environmental retrofits, smart grid, transmission build-out***
- ***Our state regulators and legislators are facing a difficult environment:***
 - ***Consumer rate fatigue, struggling economy, Federal & State mandates***
- ***Investment needs to be preapproved***
 - ***Environmental retrofits, smart grid, transmission build-out (reliability and policy-driven expansions)***
- ***Regulatory Lag needs to be addressed***

Regulatory Recovery Methods

- ***Work closely with state and federal policymakers and commission to reduce regulatory lag and uncertainty***
- ***Move beyond traditional ratemaking methods***
 - ***Trackers/riders/regulatory adjustment clause***
 - ***Formula rates***
 - ***Accelerated cost recovery/depreciation***
 - ***Pre-approvals – CCNs, CPCNs, program filings***
 - ***Securitization***
 - ***Single issue cost recovery – new generation, reliability, environmental compliances***