

ATTACHMENT R¹

Transmission Planning Process

I. Introduction

This document was developed by American Electric Power Service Corporation 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 (“The AEP East Zone”) and Public Service Company of Oklahoma and Southwestern Electric Power Company (“AEP West Zone”) as an addendum to the *Strawman Proposals for Compliance with the Nine Planning Principals in the Final Rule* (FERC Order 890) submitted by PJM Interconnection, LLC and Southwest Power Pool Regional Transmission Organizations (RTOs). It describes how The AEP East companies and the AEP West companies participate in the regional transmission planning processes of PJM and SPP and describes AEP’s local transmission planning process and how AEP meets the nine planning principles of FERC Order 890.

a. AEP East Zone : PJM Interconnection, LLC (PJM) RTO

As set forth in the preamble to this Tariff, as of October 1, 2004, PJM became the Transmission Provider for the AEP East Zone operating companies, which include Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company. As the transmission provider for the AEP East Zone operating companies, PJM offers certain transmission services under their Open Access Transmission Tariff (PJM OATT) filed with the Federal Energy Regulatory Commission (PJM Tariff), including transmission planning for all AEP transmission facilities within the PJM footprint, pursuant to the PJM Operating Agreement (“PJM OA”). As such no new transmission service, including the transmission planning function for the AEP East Zone will be provided under this OATT.

All AEP East Zone transmission planning, including local planning, is carried out under the provisions of Schedule 6 of the PJM OA. This PJM planning process is a coordinated, open and transparent planning process which satisfies the following nine principles, as defined in the Final Rule in Docket No. RM05-25-000: coordination, openness, transparency, information exchange, comparability, dispute resolution, regional participation, economic planning studies, and cost allocation for new projects. The PJM OATT also provides a mechanism for the recovery and allocation of planning costs consistent with the Final Rule in Docket No. RM05-25-000.

Schedule 6 of the PJM OA can be located on the PJM website at

<http://www.pjm.com/documents/downloads/agreements/oa.pdf>

The AEP OATT can be found on the AEP website at:

<http://www.aep.com/about/codeofconduct/OASIS/default.asp>

¹ Attachment R to the AEP OATT is the equivalent of the Attachment K required by FERC Order 890.

b. AEP West Zone - Southwest Power Pool (SPP) RTO

The transmission planning function for the AEP West Zone transmission system is performed under the SPP OATT.

Public Service Company of Oklahoma (PSO) and Southwestern Electric Power Company (SWEPCO) (collectively AEP West Zone) are members of the Southwest Power Pool (SPP). As the Transmission Provider for the SPP footprint, SPP offers certain transmission services under its Open Access Transmission Tariff filed with the FERC (SPP OATT). New transmission service on the AEP West Zone is provided under the SPP OATT, as such no new transmission service within the AEP West Zone has been provided under the AEP OATT since February 1, 2000. The SPP OATT also includes a transmission planning process provided under Attachment O. SPP facilitates an annual SPP transmission expansion planning process, which results in a 10-year SPP transmission expansion plan (STEP), that AEP participates in fully, on behalf of both PSO and SWEPCO and the respective load connected to their respective transmission systems. AEP West Zone planning criteria conforms to NERC Planning Standards and SPP Criteria as required by Attachment O of the SPP OATT for use in the SPP transmission expansion planning (SPP planning) process.

SPP is revising its Attachment O of the SPP OATT to describe more fully the SPP planning process and to meet the requirements as defined in the Final Rule in Docket No. RM05-25-000. The SPP planning process is a coordinated, open and transparent planning process which satisfies the following nine principles, as defined in the Final Rule in Docket No. RM05-25-000: coordination, openness, transparency, information exchange, comparability, dispute resolution, regional participation, economic planning studies, and cost allocation for new projects. Schedules 7-11 of the SPP OATT provide a mechanism for the recovery and allocation of transmission costs consistent with the Final Rule in Docket No. RM05-25-000.

The SPP OATT, including Attachment O and details concerning the SPP planning process, can be found on the SPP website at:

http://www.spp.org/Publications/SPP_Tariff.pdf

or through the link on the AEP website at:

<http://www.aep.com/about/codeofconduct/OASIS/default.asp>

II. Order 890 Planning Principles

a. Coordination

AEP East Zone:

The AEP companies located in PJM participate in the PJM Regional Transmission Expansion Planning process through their participation in PJM committees pursuant to the Regional Transmission Expansion Planning Protocols found in Schedule 6 of the PJM OA. Section 1.5.5 of Schedule 6 addresses how PJM meets the Order 890 coordination requirement.

Section 1.4(d) of Schedule 6 provides that the Regional Transmission Expansion Plan shall (i) avoid unnecessary duplication of facilities; (ii) avoid the imposition of unreasonable costs on any Transmission Owner or any user of Transmission Facilities; (iii) take into account the legal and contractual rights and obligations of the Transmission Owners; (iv) provide, if appropriate, alternative means for meeting transmission needs in the PJM Region; (v) strive to maintain and, when appropriate, to enhance the economic and operational efficiency of wholesale electric service markets in the PJM region; (vi) provide for coordination with existing transmission systems and with appropriate interregional and local expansion plans; and (vii) strive for consistency in planning data and assumptions that may relieve transmission congestion across multiple regions.

AEP West Zone:

The AEP companies located in the SPP RTO participate in the SPP planning process that is open to all stakeholders. AEP participates in the SPP Transmission Working Group meetings and regional and sub-regional SPP planning summit meetings. These open meetings eliminate the potential for undue discrimination in the SPP planning process by allowing open communications between SPP, transmission owners, transmission providing neighbors, affected state authorities, including the SPP Regional State Committee (RSC), customers and other stakeholders. The SPP planning process meets the intent of the Commission Order with respect to meeting regularly with customers and other stakeholders and soliciting their input on transmission planning. The SPP planning process is also coordinated with neighboring systems via formal agreements SPP has with neighboring systems that address coordinated system planning and ad hoc planning studies.

b. Openness

AEP East Zone:

The AEP companies located in PJM meet the principle of openness through participating in the PJM Regional Transmission Expansion Planning Process. Schedule 6 of the PJM OA provides that the Planning Committee is open to all stakeholders, including electric utility regulatory agencies and consumer advocates with regulatory jurisdiction in the States within the PJM Region. The AEP companies also participate in the PJM Subregional RTEP Committee. The Subregional RTEP Committee facilitates the development and review of the Subregional RTEP Projects. The Subregional RTEP Committee refers the Subregional RTEP Projects to the PJM Transmission Expansion Advisory Committee (TEAC) for review, advice, and eventual recommendations to the PJM Board of Managers. The Subregional RTEP Committee schedules and facilitates a minimum of one Subregional RTEP Project meeting for each of the three PJM subregions, the Mid-Atlantic, West and South, per planning period, and as required, the Subregional RTEP Committee may facilitate additional meetings to incorporate smaller areas within the three subregions into the subregional planning process.

AEP West Zone:

The AEP companies located in the SPP RTO participate in the SPP planning processes open to all stakeholders. AEP participates in the SPP Transmission Working Group meetings and regional and sub-regional SPP planning summit meetings. These open meetings eliminate the potential for undue discrimination in the SPP planning process by allowing open communications between SPP, transmission owners, transmission providing neighbors, affected state authorities, including the SPP RSC, customers and other stakeholders. The SPP planning process meets the intent of the Commission Order with respect to meeting regularly with customers and other stakeholders and soliciting their input on transmission planning. The SPP planning process is also coordinated with neighboring systems via agreements between SPP and neighboring systems (e.g., SPP/MISO joint operating agreement) that address coordinated system planning and ad hoc planning studies.

The SPP planning process meets the requirement and intent that customers and other stakeholders have timely and meaningful input and participation into the development of the annual STEP. SPP has developed password protected access to provide and retrieve information in order to manage confidentiality and CEII concerns to provide stakeholder input and to access confidential data. SPP's planning process includes a password-protected eRoom, which was created for model and planning information. In order to obtain a password to access the eRoom, customers and other interested parties must execute a confidentiality agreement.

c. Transparency

AEP East Zone:

Section 1.5.6 of Schedule 6 of the PJM OA requires that the recommended RTEP plan be reviewed by the TEAC and must separately identify enhancements to the PJM subregions, incorporate recommendations from the Subregional RTEP Committee and separately identify enhancements that are supplemental projects. TEAC and Subregional RTEP Committee meeting materials are posted on the PJM website.

AEP West Zone:

The criteria, assumptions, data and methodology used in the regional SPP planning process are documented in a number of places, including, the stakeholder meeting materials, Attachment O of the SPP OATT, the SPP Criteria, Transmission Network Economic Modeling and Methods white paper, the STEP, password protected modeling and data information posted on the SPP website and other documentation.

As a transmission owner in the SPP RTO, the AEP companies located in the SPP RTO may develop company-specific planning criteria that, at a minimum, conform to the NERC Reliability Standards and SPP Criteria. As a transmission owner in the SPP, AEP must provide to SPP its company-specific planning criteria in order for the need for Zonal Reliability Upgrades to be assessed and included, as appropriate, in the STEP. The AEP West transmission

planning criteria are filed with the FERC in Form 715 reporting and are also posted on the AEP website at: <http://www.aep.com/about/codeofconduct/OASIS/default.asp>

The SPP planning process described above that AEP participates in meets the data transparency requirement by making the planning information available simultaneously to all affected parties through the planning summits, SPP Transmission Working Group meetings, the SPP website, and eRoom.

SPP requires transmission owners to provide construction in-service dates and updated costing information in a tracking report coordinated by the SPP for planned system upgrades to ensure that reliability projects are built in time to meet the system needs. On a quarterly basis, at a minimum, SPP reports on the status of the upgrades identified in the transmission plan to various groups within the SPP, including the Markets and Operations Policy Committee, the SPP RSC, and the SPP Board of Directors.

d. Information Exchange

AEP East Zone:

Section 1.5.4 of Schedule 6 of the PJM OA provides: for an initial assumptions meeting where information is exchanged among: (i) all Transmission Customers, as that term is defined in the PJM Tariff, and applicants for transmission service; (ii) any other entity proposing to provide Transmission Facilities to be integrated into the PJM Region; (iii) all Members; (iv) electric utility regulatory agencies and consumer advocates within the States in the PJM Region and (v) any other interested entities or persons. The purposes of the assumptions meeting are to: (a) establish the assumptions to be used in performing the evaluation and analysis of the potential enhancements and expansions to the Transmission Facilities, (b) incorporate regulatory initiatives as appropriate, including state regulatory agency initiated programs, and (c) provide an open forum to review the impacts of regulatory actions, projected changes in load growth, demand response resources, generating capacity, market efficiency and other trends in the industry. The final assumptions shall be determined by the Transmission Expansion Advisory Committee for both the Regional and Subregional RTEP Projects.

PJM is required to supply any information and data reasonably required by the Members, Transmission Customers and other impacted parties, including but not limited to electric utility regulatory agencies and consumer advocates with regulatory jurisdiction within the States in the PJM Region, utilized to perform the Regional Transmission Expansion Plan. Such information and data shall be provided pursuant to the appropriate protection of confidentiality provisions.

AEP West Zone:

The SPP planning process provides for information exchange between SPP, the transmission owner, network and point-to-point transmission customers, and other affected parties. In the SPP Aggregate Transmission Service Study process, customers provide information regarding specific requests for long-term firm transmission service, including network and point-to-point service requirements. Also, network customers are required to provide a new or updated Network Integration Transmission Service application each year with a ten year forecast of summer and winter load at each delivery point with a ten-year projection of network resources.

e. Comparability

AEP East Zone:

Schedule 6 of the PJM OA and comparability requirements in the PJM OATT ensure comparability in the PJM RTEP. Section 1.4 of Schedule 6 provides that the Regional Transmission Expansion Plan shall reflect transmission enhancements and expansions; load forecasts; expected demand response; and capacity forecasts, including generation additions and retirements, for at least the ensuing ten years. Further, the Regional Transmission Expansion Plan shall (i) avoid unnecessary duplication of facilities; (ii) avoid the imposition of unreasonable costs on any Transmission Owner or any user of Transmission Facilities; (iii) take into account the legal and contractual rights and obligations of the Transmission Owners; (iv) provide, if appropriate, alternative means for meeting transmission needs in the PJM Region; (v) strive to maintain and, when appropriate, to enhance the economic and operational efficiency of wholesale electric service markets in the PJM region; (vi) provide for coordination with existing transmission systems and with appropriate interregional and local expansion plans; and (vii) strive for consistency in planning data and assumptions that may relieve transmission congestion across multiple regions.

AEP West Zone:

The AEP companies located in the SPP RTO participate in the development of the studies performed to develop the STEP. Such plan includes analysis of several transactional scenarios to evaluate relevant operating conditions for all service sold within, out of, and across SPP to ensure comparability.

SPP also has an Aggregate Transmission Service Study process, set forth in the SPP OATT, for transmission service requests for both point-to-point and network service that is provided in a comparable manner for all long-term service requests evaluations and the need for upgrades to provide such service. SPP performs three Aggregate Transmission Service Studies a year by combining all long-term point-to-point and long-term designated network resource requests received during a specified period of time into a single study to conclude an optimal expansion of the transmission system that provides the necessary Available Transfer Capability to comparably accommodate all such requests.

The goal of the STEP is to meet the specific long-term service requests of transmission customers in the SPP footprint. SPP independently performs the regional planning studies based on regional planning criteria comprised of the NERC Reliability Standards and SPP Criteria.

Transmission owners may perform local planning studies using their own individual planning criteria; however, this local planning criterion must conform to the SPP Criteria and NERC Reliability Standards. AEP is required to submit to SPP its individual planning criteria and all studies prepared to assess the need for local reliability upgrades. SPP determines whether a better regional solution exists and whether or not the local reliability upgrade will be included in the STEP. AEP applies its local planning criteria comparably to all loads in its service territory.

f. Dispute Resolution

AEP East Zone:

The AEP companies located in the PJM Interconnection rely on the dispute resolution provision in Schedule 5 of the PJM OA.

AEP West Zone:

The AEP companies located in the SPP RTO rely on the dispute resolution provision in Section 12 of the SPP OATT.

g. Regional Participation

AEP East Zone:

The AEP companies located in the PJM Interconnection rely on PJM to perform regional coordination with systems interconnected to the PJM footprint. Schedule 6 of the PJM OA sets forth the formal coordination agreements PJM has with its neighboring systems.

AEP West Zone:

The AEP companies located in the SPP RTO rely on the SPP RTO to perform regional coordination with systems interconnected to the SPP footprint.

h. Economic Planning Studies

AEP East Zone:

Section 1.5.7 of Schedule 6 of the PJM OA provides for the development of economic planning studies.

AEP West Zone:

The AEP companies located in the SPP RTO rely on the SPP planning process whereby SPP identifies upgrades that have potential economic benefit to the SPP footprint. SPP also uses input from stakeholders to identify market needs for transmission upgrades and proposes potential economic upgrades, which are evaluated as part of the STEP. SPP performs a screening analysis to rank all proposed projects and to identify potential transmission upgrades most likely to produce positive net benefits to the SPP footprint. SPP does not require customers to submit transmission service requests in order to initiate economic planning studies.

i. Cost Allocation

AEP East Zone:

Cost allocation is addressed in the PJM OA and Schedule 12, and Attachment T of the PJM OATT.

AEP West Zone:

The AEP companies located in the SPP RTO rely on the SPP cost allocation process under the directive of the SPP RSC and its Cost Allocation Working Group, both of which encourage and provide for stakeholder participation. AEP participates in these meetings. The SPP RSC developed a Cost Allocation Plan that has been accepted by the Commission. The SPP RSC continually reviews such plan to address allocation of the costs of facilities that are not currently addressed in the plan, such as economic upgrades and other projects that may be beneficial to the region.