

National Landscape

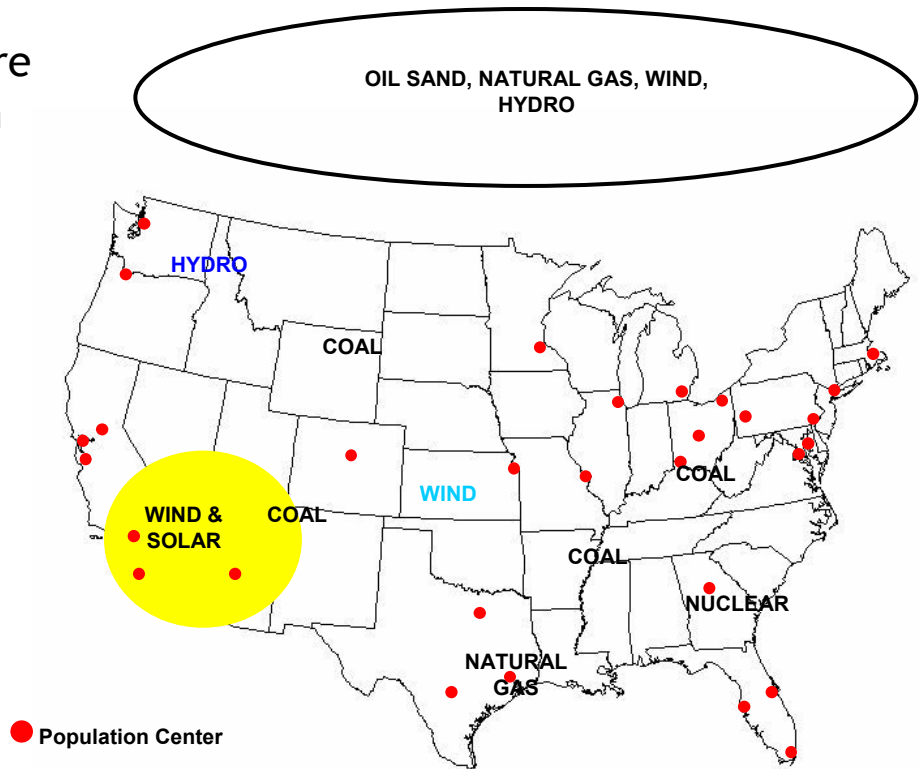
- ❑ United States is currently facing an energy crisis requiring creative energy solutions
- ❑ Our ability to deliver reliable, clean, cost-efficient electricity is becoming increasingly challenged
 - Surpluses of energy are dwindling while load continues to grow rapidly
 - Construction costs and raw material prices are on the rise
 - New generation required to replace aging and inefficient fleet
 - Transmission infrastructure is becoming overloaded, adding congestion losses and reliability concerns
- ❑ Current transmission grid was not built to support competitive regional markets and is not adequate to meet future demand growth and integrate potential renewable generation resources
 - Over-reliance on single fuel type results in reliability and economic consequences
 - Renewables are becoming increasingly economically viable
- ❑ Increasing focus on renewable sources of energy due to concerns about the negative environmental impact of burning fossil fuels
- ❑ These issues can be managed through strategic expansion of the transmission grid, including development of a national EHV transmission system
- ❑ In order to realize this expansion, we must address and develop effective transmission policies for regional planning, cost allocation, and cost recovery and incentives

Resources on Wires

Accessing America's Resources

- ❑ Optimal use of renewable and fossil fuels are constrained due to insufficient transmission infrastructure

- ❑ Investment in a 765kV transmission system extending coast to coast will enable the US to use its resources when and where it may be needed in the future
 - Remove barriers to using various fuels
 - Lowers system losses
 - Broader sharing of reserves
 - Adds to energy security, reduces environmental impact and ultimately allows continued growth of the US



A 765 overlay would provide for connection of up to 400 GW of wind, improve the US supply portfolio, provide for environmental sustainability and cultivate an opportunity for growth

AEP's EHV Transmission Vision

Not All Transmission Solutions Are Created Equal...

- ❑ Extra-high voltage (EHV), high-capacity, highly efficient interstate transmission system provides unique benefits that sets it apart from lower voltage solutions:
 - Increases transmission performance and reliability for large geographic regions, across multiple states and regions
 - Enhances reliability, operational performance, reduces congestion and decreases costs to consumers
 - Integrates large-scale renewable generation in remote areas and facilitates efficient movement of energy to load centers
 - Provides long-term system benefits and avoids reliance on “Just in time” transmission planning

AEP's Vision for an Interstate Transmission System would establish EHV as the backbone of the US Transmission System

Issues Shaping Transmission Policy

- ❑ Currently, Federal and State government entities share jurisdiction over all transmission lines, which can create significant regulatory hurdles, particularly with siting and cost allocation
- ❑ Clear delineation between state and federal jurisdiction will help foster EHV investment and its associated benefits
- ❑ Siting
 - What role should FERC play as a siting backstop authority?
 - What benefit will states and RTOs receive from federal EHV siting authority?
 - How receptive will state's and RTO's be to reduced authority?
- ❑ Cost Allocation - "Who should pay?"
 - How do you balance the needs of the nation with the impact on individual ratepayers?
 - How can costs be equitably spread over regions versus the zones they serve?
 - How should costs be allocated throughout an RTO and between different RTOs?
 - What other innovate ratemaking mechanisms are possible?
 - Will states accept an OATT pass-through similar to Ohio?