

## **SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 35-27968; 70-10253)**

**American Electric Power Company, Inc. and  
AEP Texas Central Company**

**Order Authorizing Sale of Interests in Nuclear Generating Units**

**May 16, 2005**

American Electric Power Company, Inc., (“AEP”), a registered holding company, and AEP Texas Central Company (“TCC”), an indirect public utility subsidiary of AEP, both located in Columbus, Ohio (together “Declarants”), have filed with the Securities and Exchange Commission (“Commission”) a declaration (“Declaration”) under section 12(d) of the Public Utility Holding Company Act of 1935, as amended (“Act”) and rules 44 and 54 under the Act. The Commission issued a notice of the filing of the Declaration on December 14, 2004 (Holding Co. Act Release No. 27924).

Declarants request authority for TCC to sell its interest in two co-owned 1,250 MW nuclear generating units situated in Matagorda County, Texas (“STP”) to non-affiliated third parties.

AEP currently holds vertically-integrated electric utility companies with retail utility operations in eleven states - Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.<sup>1</sup> TCC

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<sup>1</sup> AEP subsidiaries with retail utility operations include, in addition to TCC, Appalachian Power Company (“APCo”), Columbus Southern Power Company (“CSPCo”), Indiana Michigan Power Company (“I&M”), Kentucky Power Company (“KPCo”), Kingsport Power Company (“KgPCo”), Ohio Power Company (“OPCo”), Public Service Company of Oklahoma (“PSO”), Southwestern Electric Power Company (“SWEPCo”) and AEP Texas North Company (formerly West Texas Utilities Company) (“TNC”) and Wheeling Power Company (“WPCo”) (TNC, WPCo and collectively with APCo, CSPCo, KPCo, OPCo, TCC, PSO and SWEPCo, the “Utility Subsidiaries”).

is a wholly owned indirect subsidiary of AEP, engaged in the transmission and distribution of electricity in its service territory located in southern Texas and in the generation and sale of electricity in the region of the Electric Reliability Council of Texas (“ERCOT”). The entire service territory of TCC is located in ERCOT.

The Texas electric restructuring law (the “Texas Act”), signed into law in 1999, required, among other things, that utilities legally separate into a retail electric provider, a power generation company, and a transmission and distribution utility. The Texas Act provides each affected utility an opportunity to recover its generation related regulatory assets and stranded costs resulting from the legal separation of the transmission and distribution utility from the generation facilities and the related introduction of retail electric competition. Regulatory assets consist of the Texas jurisdictional amount of generation-related regulatory assets and liabilities in the audited financial statements as of December 31, 1998. Stranded costs consist of the positive excess of the net regulated book value of generation assets over the market value of those assets, taking specified factors into account, as ultimately determined by the Public Utility Commission of Texas.

TCC is selling all of its generation assets in order to determine the assets’ fair market value for purposes of calculating TCC’s stranded costs pursuant to the Texas Act. The divestiture of TCC’s assets is being achieved through a series of sales to different purchasers. On July 2, 2004, TCC completed the sale of 3,813 MW of generating assets to a joint venture of Sempra Energy Partners and Carlyle/Riverstone Global Energy and Power Fund. TCC’s sale of its interest in a 690 Megawatt generation facility located in

Wilbarger County, Texas is the subject of a separate application to the Commission which was noticed on December 14, 2004.<sup>2</sup>

TCC executed a contract for the sale of its 25.2% undivided interest (which corresponds to approximately 630 MW) in STP to Cameco South Texas Project LP, a Texas limited partnership and subsidiary of Cameco Corporation (“Cameco”) for approximately \$330 million on February 27, 2004. Pursuant to an earlier agreement (the “STP Agreement”), the other owners of STP have a right of first refusal to purchase the TCC interest in STP. The STP Agreement provides that the interest in STP will be divided *pro-rata* among the exercising owners when two or more owners exercise their right to purchase TCC’s undivided STP interest.

On May 28, 2004, in accordance with the STP Agreement, two of the other owners of STP, the City of San Antonio, acting through the City Public Service Board of San Antonio (“San Antonio”) and Texas Genco, L.P., a Texas limited partnership (“Texas Genco”) exercised their rights of first refusal to purchase the entire share of the TCC interest in STP according to the terms and conditions (including the purchase price) stated in the agreement with Cameco. On September 3, 2004, TCC entered into a purchase and sale agreement with San Antonio and Texas Genco under which, subject to certain regulatory approvals, San Antonio and Texas Genco will purchase the entire TCC interest in STP. In accordance with the sale, TCC also intends to assign, transfer or otherwise sever all rights, obligations and other interest in STP Nuclear Operating Company, a nonprofit Texas corporation that operates STP under a contract.

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<sup>2</sup> Holding Co. Act Release No. 27924

The proposed transactions are subject to the requirements of rules 53 and 54. AEP states that it currently meets all of the conditions of rule 53(a), except for clause (1). As of December 31, 2004, AEP's "aggregate investment," as defined in rule 53(a)(1), in exempt wholesale generators ("EWGs") or foreign utility companies ("FUCOs"), as defined in sections 32 and 33 of the Act, respectively, was approximately \$222 million, or about 12% of AEP's "consolidated retained earnings," also as defined in rule 53(a)(1), for the four quarters ended December 31, 2004 (\$1.809 billion). By order dated June 14, 2000 (Holding Co. Act Release No. 27186), the Commission authorized AEP to invest up to 100% of its consolidated retained earnings, with consolidated retained earnings to be calculated on the basis of the combined consolidated retained earnings of AEP and Central and Southwest Corporation ("Rule 53(c) Order").

AEP states that it has complied and will continue to comply with the record-keeping requirements of rule 53(a)(2), the limitation under rule 53(a)(3) on the use of operating company personnel to render services to EWGs and FUCOs, and the requirements of rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in rule 53(b)(1) or (3) has occurred or is continuing. The circumstances described in rule 53(b)(2) have occurred. As a result of the recording of a loss with respect to impairment charges, AEP's consolidated retained earnings declined for the period ending December 31, 2004. The average consolidated retained earnings of AEP for the four quarterly periods ended December 31, 2004, was \$1.809 billion, or a decrease of approximately 14% from the company's average consolidated retained earnings for the four quarterly periods ended December 31, 2003, of \$2.099 billion. In addition, AEP's

“aggregate investment” in EWGs and FUCOs as of December 31, 2004, exceeded 2% of the total capital invested in utility operations.

In the fourth quarter of 2003 AEP recorded pre-tax impairments of assets (including goodwill) and investments totaling \$1.4 billion that reflected downturns in energy trading markets, projected long-term decreases in electricity prices, and other factors. The impairments consisted of \$650 million related to asset impairments, \$70 million related to investment value and other impairment losses, and \$711 million related to discontinued operations. Of the discontinued operations, \$577 million was attributable to the impairment of the fixed-asset carrying value of AEP’s two coal-fired generation plants in the United Kingdom (“U.K. Generation”). AEP recorded a pre-tax impairment of \$70 million on certain qualifying facilities as defined under the Public Utility Regulatory Policies Act of 1978, as amended in the third quarter of 2003.

Declarants maintain that AEP meets the requirements of rule 53(c). Declarants further state that the proposed transaction in addition to the effect of the capitalization and earnings of AEP’s EWGs and FUCOs, would not have a material adverse effect on the financial integrity of the AEP system, or an adverse impact on AEP’s Utility Subsidiaries, their customers, or the ability of state commissions to protect such public utility customers.

As of December 31, 1999, the most recent period for which financial statement information was evaluated in the Rule 53(c) Order, AEP’s consolidated capitalization (including CSW on a *pro forma* basis) consisted of 37.3% common and preferred equity, 61.3% debt and \$335 million principal amount of certain subsidiary obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior

subordinated debentures of such subsidiaries (“Trust Preferred Securities”) representing 1.4%. As of December 31, 2004, AEP’s consolidated capitalization consisted of 58.9% debt, 41.1% common and preferred equity (consisting of common stock representing 40.8% and \$61 million principal amount of preferred stock representing 0.3%).

The ratio of common equity to total capitalization, net of securitization debt, of each of the Utility Subsidiaries, except for TCC, will continue to be maintained at not less than 30%. TCC will maintain a common equity ratio to total capitalization of 25% for so long as securitization bonds are outstanding, as authorized by the Commission in a financing order issued July 1, 2004.<sup>3</sup> In addition, each of the Utility Subsidiaries is subject to regulation by one or more state commissions that are able to protect utility customers within their respective states.

Fees and expenses to be incurred in connection with the proposed transaction are \$13.8 million. On February 25, 2005, the Federal Energy Regulatory Commission approved the proposed transaction. The Nuclear Regulatory Commission approved the sale in an order dated April 4, 2005. The necessary approvals of the Public Utility Commission of Texas was secured through orders dated May 11, 2005. Declarants have also complied with the notification and review requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Declarants maintain that, aside from the regulatory bodies already mentioned, no other state or federal commission, other than this Commission, has jurisdiction over the proposed transactions.

Due notice of the filing of the Declaration has been given in the manner prescribed by rule 23 under the Act, and no hearing has been requested of or ordered by

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<sup>3</sup> Holding Co. Act Release No. 27872.

the Commission. Based on the facts in the record, the Commission finds that the applicable standards of the Act are satisfied and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and rules under the Act, that the Declaration be permitted to become effective immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland  
Deputy Secretary