

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28037; 70-10313)

American Electric Power Company, Inc., et al.

**Order Modifying Previous Order Allowing Acquisition of Nonutility Business;
Reservation of Jurisdiction**

September 27, 2005

American Electric Power Company, Inc. ("AEP"), a registered holding company, and its wholly owned indirect nonutility subsidiary AEP Credit, Inc. ("AEP Credit"), both in Columbus, Ohio, have filed an application ("Application") with the Securities and Exchange Commission ("Commission") under sections 9(a) and 10 of the Public Utility Holding Company Act of 1935, as amended ("Act") and rule 54 under the Act. On August 31, 2005, the Commission issued a notice of the Application (Holding Co. Act Release No. 28024). No requests for hearing have been received.

I. Background

By order dated June 14, 2000 (Holding Company Act Release No. 27186), the Commission authorized AEP to acquire all of the issued and outstanding common stock of Central and South West Corporation ("CSW"), a registered holding company, and all of its subsidiaries, including CSW Credit, Inc. ("CSW Credit"). On August 21, 2000, CSW Credit was renamed AEP Credit, and continued to operate under various grants of authority, some of which are described below.

A. Prior Orders

By order dated July 19, 1985 (Holding Company Act Release No. 23767, "Original Order"), the Commission authorized AEP Utilities, Inc. ("AEP Utilities"), formerly known as Central and South West Corporation, to organize a special-purpose

entity, CSW Credit, to factor the accounts receivable of AEP's public-utility company subsidiaries. The Commission also authorized CSW Credit to issue debt securities to finance its accounts receivable purchases and AEP Utilities to make equity investments in CSW Credit. See Original Order.

By order dated July 31, 1986, (Holding Company Act Release No. 24157, "1986 Order"), the Commission authorized, among other things, CSW Credit to expand the scope of the activities to include the factoring receivables of non-associate utilities. As a condition of the 1986 Order, CSW Credit was required to limit its acquisition of utility receivables from non-associate utilities ("Non-Associate Limit"). Later, as a condition of granting CSW Credit temporary relief from the Non-Associate Limit, the Commission imposed upon the company a quarterly reporting requirement ("Rule 24 Reporting Requirement"). See Holding Co. Act Release No. 26684 (March 11, 1997).

The Commission required that CSW Credit maintain the percentage of its debt to equity at not less than 5% debt and 95% equity ("Debt-Equity Requirement"). See Holding Company Act Release No. 25138 (August 30, 1990).

Most recently, the Commission authorized AEP Credit to continue to factor the accounts receivable of associate and non-associate utility companies, subject to certain conditions, through September 30, 2005.

B. AEP Credit's Current Operations

AEP Credit has entered into agreements to purchase accounts receivable from the following public-utility company subsidiaries of AEP: Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, Public Service

Company of Oklahoma, Southwestern Electric Company, and Wheeling Power Company (collectively, “Operating Companies”). AEP Credit no longer purchases accounts receivable from non-associate public-utility companies.

Purchases of accounts receivable are at a discount, based on AEP Credit’s cost of funds and collection history.¹ AEP Credit will purchase accounts receivable daily, weekly or at some other period that is agreed to by Credit and each Operating Company. Then, AEP Credit sells the accounts receivable to third party financial institutions. AEP and AEP Credit (together, “Applicants”) state that transactions between AEP Credit and the Operating Companies comply with the “at cost” rules under the Act and, consequently, there is no cross-subsidization.

AEP Credit has entered into agency agreements with each of the Operating Companies. Those agreements provide that the Operating Companies act as a collection agent for the receipt of customer payments and collection and remit these payments to AEP Credit. The amount of the receivables bought by AEP Credit varies from month to month, based on the electric usage by the Operating Company’s customers.

¹ Currently, there are two components of the discount calculation: (1) a financing cost component; and (2) a bad debt component. The financing cost component (“Carrying Charge”) is based on AEP Credit’s actual weighted average cost of funds. It includes the actual cost of amounts borrowed from the external markets (currently bank conduits), a return on equity contribution from Credit’s parent and actual costs of any amounts borrowed through the subordinated loan from AEP. Credit’s actual cost of equity is the State authorized return on common equity of each individual Operating Company. AEP Credit’s interest charges to the Operating Companies used in the Carrying Charge have always been and are anticipated to be less than the “prime rate of interest,” as that term is normally used. The bad debt component is based on AEP Credit’s actual bad debt charge-offs for the receivable pool. It is calculated as a rolling average of the actual historical charge-off statistics for the receivable pools of each Operating Company.

These sales are on a non-recourse basis to the Operating Companies. The Operating Companies are not required to sell their accounts receivable to AEP Credit for any specified period of time; an Operating Company may terminate its relationship with AEP Credit on 30 days notice.

AEP Credit funds its purchases of the receivables using funds it obtains under a receivables purchase agreement (“RPA”). Under the RPA, AEP Credit sells a certain undivided ownership interest in the accounts receivable on a revolving basis to a group of financial institutions, mentioned above. The RPA also provides that American Electric Power Service Corporation (“AEP Service”), a service company subsidiary of AEP, administers the collections received by AEP Credit and reports information regarding the receivables and collections to the agent of the financial institutions. AEP Service is reimbursed for all costs and expenses it incurs in connection with the services it provides under the agreement.

In addition to the funds obtained under the RPA, AEP Credit obtains funds to purchase receivables through equity contributions by AEP and a subordinated revolving loan by AEP.

Sales of the accounts receivable by the Operating Companies qualify for treatment as true sales of assets under Financial Accounting Standards Board Statement No. 140 (rather than as a loan secured by the receivables). AEP Credit is intended to be bankruptcy remote to isolate the receivables from the creditors of the Operating Companies.

Applicants state that the factoring program allows the Operating Companies to reduce their working capital needs by accelerating the receipt of cash from the collection

of customer accounts receivable thereby reducing the dependence of the Operating Companies upon more costly sources of working capital. AEP Credit, as a special-purpose financing entity, can borrow money more cheaply than the Operating Companies can individually. Through the use of AEP Credit, the Operating Companies are able to consolidate their accounts receivable into a larger pool and eliminate duplicate administrative costs in administering the program.

II. Requested Authority

Applicants request: (1) authority for AEP to retain AEP Credit, whose business consists solely of factoring the accounts receivable of associate public-utility companies; (2) that the Commission eliminate the Rule 24 Reporting Requirement;² and (3) that the Commission eliminate the Debt-Equity Requirement.

III. Conclusion

The proposed transaction is subject to rule 54, which provides that, in determining whether to approve the issue or sale of any securities for purposes other than the acquisition of any “exempt wholesale generator” (“EWG”) or “foreign utility company” (“FUCO”) or other transactions unrelated to EWGs or FUCOs, the Commission shall not consider the effect of the capitalization or earnings of subsidiaries of a registered holding company that are EWGs or FUCOs if the requirements of rule 53(a), (b) and (c) are satisfied. AEP states that, for purposes of rule 54, the conditions specified in rule 53(a) are satisfied and that none of the adverse conditions specified in rule 53(b) exist. As a

² Applicants state that the Commission has not imposed the Rule 24 Requirement, or comparable requirements, on other companies it has authorized to engage in factoring. See, e.g., Metropolitan Edison Co., Holding Co Act Release No. 27820 (March 24, 2004); Alliant Energy Corp., Holding Co. Act Release No. 27368 (March 20, 2001).

result, in determining whether to approve the proposed transactions, the Commission will not consider the effect on the AEP system of the capitalization or earnings of any AEP subsidiary that is an “exempt wholesale generator” or “foreign utility company,” as those terms are defined in sections 32 and 33 of the Act, respectively.

The fees, commissions and expenses incurred or to be incurred in connection with the preparation and filing of this Application/Declaration are estimated not to exceed \$2,000. In 2000, the Virginia State Corporation Commission approved factoring by Appalachian Power Company in Virginia. The West Virginia Public Service Commission has jurisdiction over affiliate transactions for Appalachian Power Company and Wheeling Power Company in West Virginia. Applicants request that the Commission reserve jurisdiction over authority of AEP Credit to factor in West Virginia pending completion of the record. They state that, except as described above, no state or federal Commission, other than this Commission, has jurisdiction over the proposals.

Due notice of the Application has been given in the manner prescribed by rule 23, and no hearing has been requested of or ordered by the Commission. Based on the facts in the record, it is found that, except as to those matters over which jurisdiction is reserved, 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 Application is granted immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

IT IS FURTHER ORDERED, that jurisdiction is reserved, pending completion of the record, over factoring by AEP Credit in West Virginia.

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

Jonathan G. Katz
Secretary