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BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

FILED

**IN THE MATTER OF THE APPLICATION)
OF SOUTHWESTERN ELECTRIC POWER)
COMPANY FOR AUTHORITY TO)
CONSTRUCT A NATURAL GAS-FIRED)
COMBINED CYCLE INTERMEDIATE)
GENERATING FACILITY IN THE STATE)
OF LOUISIANA)**

DOCKET NO. 06-120-U

AMENDED APPLICATION

Southwestern Electric Power Company (hereinafter "SWEPCO" or the "Company"),
for its Amended Application states:

DESCRIPTION OF COMPANY

1. SWEPCO is a corporation organized and existing under the laws of the State of Delaware, and is duly authorized to do business in the States of Arkansas, Texas, Louisiana and Oklahoma. In the States of Arkansas, Texas, and Louisiana, SWEPCO engages in a general electric utility business of generating, transmitting, distributing and selling, at wholesale and retail, electric power and energy to customers in its service areas. SWEPCO owns transmission facilities in the State of Oklahoma, and provides wholesale energy sales in that state pursuant to contract. SWEPCO's principal office is at 428 Travis Street, Shreveport, Louisiana. SWEPCO is a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP).

JURISDICTION AND APPLICABLE LAW

2. SWEPCO is a public utility within the meaning of Ark. Code Ann. § 23-1-101, and is, therefore, subject to the jurisdiction of this Commission. In this Amended Application SWEPCO sets forth its proposal to construct generating facilities in the State

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of Louisiana, which requires approval of this Commission pursuant to Ark. Code Ann. § 23-18-104 (2007 Supp.). The various documents and other information that are required by this Commission's *Rules of Practice and Procedure* in connection with applications of this nature are presently available in the files of this Commission or are being submitted as Exhibits to this Amended Application.

PROPOSED FACILITIES

3. SWEPCO proposes to build a natural gas-fired combined cycle intermediate generating facility that will supplement baseload generation. The intermediate facility generally will be deployed after baseload generation, which runs nearly all of the time, and before peaking generation, which is operated in response to short periods of high demand that often occur on weekdays during the summer.

4. The intermediate facility will consist of two combustion turbine generators, two heat recovery steam generators, one steam turbine generator, associated plant equipment, and interconnection facilities for natural gas, water and electric transmission. The intermediate combined cycle unit presented by this Amended Application is expected to generate 508 MW of summer rated capacity. The intermediate generating facility is more fully described in the supplemental direct testimony of Mr. Frank Pifer which accompanies this Amended Application.

5. The intermediate unit will be located at SWEPCO's existing Arsenal Hill power plant site in Shreveport, Louisiana. This location has been a generation site since the 1920s. The existing power plant on the site, Arsenal Hill Unit 5, is a 110 MW steam turbine built in 1960, and is the last remaining unit of a multi-unit power plant. The Arsenal Hill site was among the site options having both low cost and low development risk. Because the site currently is a power plant location, and existing facilities for interconnection of natural gas supply and electric

transmission are in place, the site is a desirable location for the addition of a combined cycle plant. In addition, the proximity to Twelve Mile/Cross Bayou provides a ready source of water to satisfy the water needs of a combined cycle plant. Also, the combined cycle unit can share operations and maintenance staff with the existing Arsenal Hill Unit 5 plant, as well as make use of the existing spray pond.

6. Although the combined cycle generating facility can technically be maintained indefinitely, SWEPCO has assumed a 30 year facility life based on industry trends. Advances in technology and future costs of fuel will likely determine the economic life of the facility.

NEED FOR THE FACILITIES

7. In Docket No. 06-024-U, SWEPCO sought a declaration of need to acquire new power supply resources as a predicate to the filing of required applications for regulatory approval. In that docket, SWEPCO presented evidence in support of its need to acquire new peaking, intermediate and baseload resources to meet increases in customer demand and to maintain its required capacity reserve margin. On June 8, 2006, the Commission issued Order No. 3 in Docket No. 06-024-U in which it found that SWEPCO had demonstrated a need for the additional power supply resources.

8. In this filing SWEPCO seeks to implement the long-term intermediate portion of the resource acquisition plan presented in Docket No. 06-024-U. As described in that docket, SWEPCO issued a market-based, competitive solicitation for power resources via a request for proposals (RFP). The RFP included a solicitation for up to 500 MW of long-term intermediate resources to be available by the summer of 2010. Based on an evaluation under the criteria in the RFP, along with the oversight of an independent monitor, the intermediate resource described in SWEPCO's original application was selected.

PURPOSE OF AMENDING APPLICATION

9. The cost of new power plant equipment, material, and labor increased substantially after the original proposal was submitted. Competition for gray market equipment intensified and, ultimately, gray market equipment selected for the original project proposal became unavailable. The equipment ultimately purchased was selected after an extensive search of available equipment on the gray market that offered the best value to SWEPCO's customers. This process resulted in a slightly different set of equipment and specifications which increased summer rated capacity from 454 MW to 508 MW. The increase in estimated cost described below is the result of increased capacity and price escalations.

REVISED COST ESTIMATE AND PROPOSED METHOD OF FINANCING

10. The revised capital cost of the proposed combined cycle facility is estimated to be approximately \$384 million. This estimate includes a \$10.9 million contingency fund. The estimated amount of allowance for funds used during construction (AFUDC) is approximately \$55.2 million, for an overall total cost of \$439.2 million. It is also anticipated that an additional \$1.3 million will be required to upgrade the existing substation for generator interconnection. This upgrade was not included in the scope of the RFP for the plant. This brings the effective cost of the facility, exclusive of AFUDC, to \$385.3 million. Approximately 90 percent of the revised project's estimated cost is now based on the actual price of purchased equipment or is covered by firm price contracts. The cost of equipment and facilities procured by AEPSC for the project will be charged directly to SWEPCO at cost, with no markup for profit.

11. In addition, since the original application was filed in this docket, the Southwest Power Pool (SPP) is nearing completion of its most recent Aggregate Study (Version 11) of the transmission service request SWEPCO submitted in connection with the intermediate facility.

The interconnection costs to connect the facility to the electric grid are estimated to be \$6.2 million. The total upgrades to the AEP SPP control area and third-party systems are estimated to be \$59.95 million, as outlined in Version 11 of the SPP Aggregate Study.

12. The cost of the facilities will be financed with (1) short-term borrowings and long-term debt, and (2) retained earnings through dividend reductions. During construction, funding will be provided through the AEP System corporate borrowing program which is funded by the issuance of commercial paper and is backed by bank lines of credit to meet short-term borrowing needs. The corporate borrowing program includes a Utility Money Pool which funds the AEP utility subsidiaries (including SWEPCO). Once construction is completed, unsecured senior notes (“the Notes”) will be used to repay SWEPCO’s Utility Money Pool borrowings. SWEPCO will issue the Notes under the current indenture that is in place with The Bank of New York, or a very similar indenture. The terms of the Notes will be no less than one year and no greater than 50 years under terms agreed upon at the time of the transaction. Given the estimated cost of the proposed facility there will be a negative, but manageable, effect on SWEPCO’s financial position.

ESTIMATED EFFECT ON RATES

13. The incremental effect of adding the intermediate facility and required transmission related upgrades to SWEPCO’s rate base will be an increase in base rates of approximately \$4.35 per month for an Arkansas residential customer using 1000 kWh per month, offset by a reduction in fuel and purchased power costs of approximately \$1.33 per month, resulting in a net impact of approximately \$3.02 per month for an Arkansas residential customer using 1000 kWh per month. See supplemental direct testimony of Mr. Donald R. Moncrief for a detailed discussion of the cost and rate impact of the proposed intermediate facility.

WITNESSES

14. SWEPCO's original application was filed September 1, 2006, and included the supporting direct testimony of six witnesses. Included with this Amended Application is the supporting supplemental direct testimony of five witnesses. These witnesses, and the subjects they address, are as follows:

Paul A. Chodak, III--Mr. Chodak is SWEPCO's President and Chief Operating Officer. His supplemental direct testimony presents SWEPCO's request for Commission approval to construct the combined-cycle natural gas generation facility in Shreveport Louisiana, and addresses the reasons for the recent updates in projected capital investment.

Thomas P. Brice--Mr. Brice is Director, Business Operations Support for SWEPCO. His supplemental direct testimony summarizes the revised construction cost and increased capacity associated with the Arsenal Hill Power Plant proposal that was selected to satisfy the long-term intermediate capacity needs identified in Docket No. 06-024-U. He will provide an updated price and economic evaluation based on the revised construction cost estimate and increased capacity for the Arsenal Hill Plant proposal, and describe the reasons why the Arsenal Hill Plant proposal remains the best selection to satisfy SWEPCO's long-term intermediate capacity needs

Frank Pifer—Mr. Pifer is Project Director in the New Generation Projects group for American Electric Power Service Corporation. He serves as Project Director for the intermediate resource project. His supplemental direct testimony will update the Commission on the scope, performance, schedule, and cost of the intermediate combined cycle facility proposed at Arsenal Hill in Shreveport, Louisiana.

Donald Moncrief--Mr. Moncrief is Director, Regulated Pricing and Analysis for AEPSC. His supplemental direct testimony will address the probable impact on SWEPCO's costs and resulting rates in its Arkansas jurisdiction of the intermediate unit at Arsenal Hill Power Plant under both the original and revised cost proposals.

Judah Rose- Mr. Rose is Managing Director of ICF International. Mr. Rose will discuss SWEPCO's capacity expansion plan, which includes the Arsenal Hill Plant, and the importance of a diversified generation portfolio. He also will discuss current market prices for natural gas fired combined-cycle generation facilities.

In addition, Mr. Wayne Oliver, the Independent Monitor with responsibility for ensuring a competitive, fair and unbiased bidding process, has prepared a report about the overall RFP process, including the intermediate resources. That report is included as an exhibit to the testimony of Thomas P. Brice.

OFFICIAL SERVICE LIST

15. Pursuant to Rule 2.03 of the Commission's *Rules of Practice and Procedure*, SWEPCO requests the following individuals be shown on the Official Service List:

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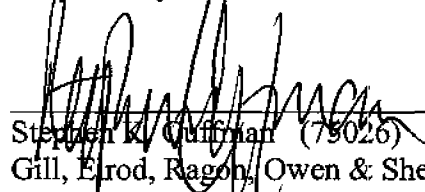
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WHEREFORE, SWEPCO respectfully requests that this Commission issue an order granting it authority to construct the facilities herein described; and that SWEPCO have such other and further relief as may be necessary or appropriate for the purposes shown in the foregoing Amended Application.

Respectfully submitted,



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