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APPALACHIAN POWER
A unit of American Electric Power

May 4, 2012

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Mr. Barry Helms
Interim Town Manager
Town of Christiansburg
100 East Main Street
Christiansburg, VA 24073

Dear Mr. Helms:

At Appalachian Power, we are committed to keeping our customers and stakeholders informed as we manage the many changes facing the electric utility industry. As such, I'd like to tell you what we expect this year to hold for our business, and how it might impact you, your business and your community.

The most significant issues that continue to affect our company are related to power generation. Recently, Appalachian Power filed a request with the Virginia State Corporation Commission (SCC), for an adjustment to its fuel factor. The fuel factor is aimed at a dollar-for-dollar recovery of the cost of fuel for power plants and power purchases. If approved, the impact of the fuel factor change will be an overall 9 percent increase and will be effective mid-year. The exact amount can vary by tariff. While we will make additional filings in 2012 for items such as transmission costs and renewable energy, we do not anticipate further rate changes this year.

There are significant changes on the horizon in Appalachian's power generation fleet. The company has invested more than $2 billion to keep its larger coal-fueled power plants in compliance with U.S. Environmental Protection Agency (EPA) regulations. Now, new EPA regulations will force the premature closing of our mid-sized coal-fired plants. In simple terms, the cost to make these units compliant with the new EPA regulations far outweighs the benefit the plants provide to our customers. In 2015, Appalachian Power intends to shut down all four of its mid-sized coal-fired generating units in Virginia and West Virginia.

While we will shut down the coal-fired generators at our Clinch River Plant in Russell County, Va., we to plan to continue to generate electricity at that site. We have begun taking steps to convert two units of the Clinch River Plant from coal-burning to natural-gas burning. This will further enhance our fuel diversity and provide a low-cost solution for adding much-needed capacity.

We have begun finalizing plans for replacing the lost capacity and growing the Appalachian generating fleet. Currently, Appalachian Power doesn't own enough power generation to completely serve the needs of our customers, and we buy power from our sister American Electric Power companies to meet our customers' needs. We're proposing changes to this arrangement that will include a rebalancing of the companies' generation resources to allow Appalachian to meet its customers' requirements, but these will require both state and federal regulatory approvals before they can take place.

We plan to transfer ownership of two plants from AEP Ohio Power to Appalachian Power. These coal-fired plants have already installed all necessary environmental controls to meet current and some anticipated environmental regulations, so we expect these transfers to have little or no impact on customers' rates. They will provide inexpensive, reliable power for another 30 years or more.

Another plus for customers came in late January when the new 580-megawatt natural gas-fired Dresden Power Plant came on line. The Dresden Plant provides power for Appalachian's customers in Virginia, West Virginia and Tennessee, and with natural gas at record-low prices, Dresden is proving to be a cost-effective way to serve customers.

As Appalachian faces capital outlays aimed at securing power for its customers, the best way to mitigate rate impacts is to grow the economy, and in particular to attract industrial customers who help shoulder the costs of the infrastructure. To this end, Appalachian recently reinstated its in-house economic development function to help grow the economy in the communities we serve. John Smolak joined Appalachian Power in Roanoke in March and leads that effort across our service area. He is an economic development veteran with experience and success in bringing employers to both Virginia and West Virginia.

Two developments in West Virginia will positively impact Virginia customers as well. First, Appalachian proposes to merge Wheeling Power into Appalachian Power. If approved by regulators, this merger will bring new customers to the company in an area that is benefiting from shale gas development. Second, Appalachian is working with Century Aluminum to support the restart of its Ravenswood facility. Century potentially could once again be one of our largest customers. Both of these developments are very positive for all customers, because they help spread fixed costs among a larger base.

Lastly, while much of our efforts will be focused on generating electricity and keeping costs low, getting electricity to you is of utmost importance. In that regard, we will soon propose a four-year pilot program in Virginia to help quantify efficiency and effectiveness of cycle-trimming our power line rights of way. Tree trimming is one the most significant aspects of our distribution business, both in terms of its effect on reliability and cost, and we are eager to find even better ways to manage our programs.

As we work through all these issues this year, we pledge to be candid in our communications, and to look for innovative solutions to meeting the needs of our customers, now and in the future.

Sincerely,

Charles Patton