

**SECURITIES AND EXCHANGE
COMMISSION**

[Release No. 35-26656]

**Filing Under the Public Utility Holding
Company Act of 1935, as amended
("Act")**

January 29, 1997.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated thereunder. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendments thereto is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by February 24, 1997, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After said date, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

American Electric Power Company, Inc., et al. (70-8991)

Notice of Proposal to Amend Articles of Incorporation and Authorize Registered Holding Company to Acquire Preferred Stock of Utility Subsidiaries; Order Authorizing Solicitation of Proxies

American Electric Power Company, Inc. ("AEP"), 1 Riverside Plaza, Columbus, Ohio 43215, a registered holding company, and its wholly-owned public utility subsidiaries, Appalachian Power Company ("APCo"), 40 Franklin Road, Roanoke, Virginia 24022, Indiana Michigan Power Company ("I&M"), One Summit Square, Fort Wayne, Indiana 46801, and Ohio Power Company ("OPCo"), 301 Cleveland Avenue, S.W., Canton, Ohio 44702, have filed an application-declaration under sections 6(a), 7, 9(a), 10 and 12(b)-(e) of the Act

and rules 43, 44, 51, 54, 62 and 65 thereunder.¹

APCo

APCo has outstanding 13,499,500 shares of common stock, no par value per share ("APCo Common Stock"), all of which are held by AEP. APCo's outstanding preferred stock consists of 2,198,150 shares of cumulative preferred stock, no par value per share ("APCo Preferred Stock"), issued in five series² (each, an "APCo Series"), all of which are publicly held. APCo Common Stock and APCo Preferred Stock of each APCo Series are entitled to one vote per share. No other class of APCo equity securities is outstanding.

APCo's restated articles of incorporation ("APCo Articles") currently provide that, so long as any shares of APCo's cumulative preferred stock in any series are outstanding, without the consent of the holders of a majority of the total number of votes which holders of the outstanding shares of APCo Preferred Stock of all APCo Series are entitled to cast, APCo shall not issue or assume any evidence of indebtedness, secured or unsecured (other than for purposes of refunding or renewing outstanding evidences of indebtedness or redeeming or otherwise retiring all outstanding shares of APCo Preferred Stock and other than first mortgage bonds and certain secured indebtedness) if, immediately after such issue or assumption, (a) the total principal amount of all such indebtedness issued or assumed by APCo and then outstanding would exceed 20% of the aggregate of (1) the total principal amount of all then-outstanding bonds or other secured debt of APCo (other than certain bonds issued under a mortgage) and (2) the stated capital and surplus of APCo as stated in APCo's books, or (b) the total principal amount of all unsecured debt would exceed 20% of the aggregate of (1) the total principal amount of all then-outstanding bonds or other secured debt of APCo and (2) the stated capital and surplus of APCo as stated on APCo's books, or (c) the total outstanding principal amount of all secured debt of maturities of less than ten years would exceed 10% of the

aggregate of (1) the total principal amount of all then-outstanding bonds or other secured debt of APCo and (2) the stated capital and surplus of APCo as stated on APCo's books ("APCo Restricted Provisions").

APCo proposes to solicit proxies from the holders of outstanding shares of APCo Common Stock and APCo Preferred Stock ("APCo Proxy Solicitation") for use at a special meeting of its stockholders ("APCo Special Meeting") to consider a proposed amendment to APCo's Articles that would eliminate in its entirety the APCo Restriction Provision ("APCo Proposed Amendment") from the APCo Articles. Approval of the APCo Proposed Amendment requires the affirmative vote at the APCo Special Meeting of the holders of not less than two-thirds of the total number of the then-outstanding shares of (1) the APCo Preferred Stock of all APCo Series, voting together as one class, and (2) the APCo Common Stock. AEP will vote its shares of APCo Common Stock in favor of the APCo Proposed Amendment.

If the APCo Proposed Amendment is adopted, APCo would make a special cash payment of \$1.00 per share ("APCo Cash Payment") to each holder of APCo Preferred Stock who voted (in person by ballot or by proxy) his shares of APCo Preferred Stock (each, an "APCo Share") in favor of the APCo Proposed Amendment at the APCo Special Meeting (except that no APCo Cash Payment will be made with respect to any APCo Share validity tendered pursuant to the concurrent tender offer described below). APCo will disburse APCo Cash Payments out of its general funds following adoption of the APCo Proposed Amendment.

Concurrently with the APCo Proxy Solicitation, and subject to the terms and conditions stated in an Offer to Purchase and Proxy Statement and accompanying Letter of Transmittal (together, "APCo Offer Documents"), AEP proposes to make a cash tender offer ("APCo Tender Offer") to acquire any and all outstanding shares of APCo Preferred Stock and each APCo Series, at cash purchase prices which AEP anticipates will include a market premium for each APCo Series (each, an "APCo Purchase Price"). The APCo Tender Offer consists of separate offers for each of the five APCo Series, with the offer for each APCo Series being independent of the offer for any other APCo Series. The applicable APCo Purchase Price and the other terms and conditions of the APCo Tender Offer apply equally to all holders of APCo Preferred Stock of each APCo Series ("APCo Preferred Stockholders").

¹ APCo, I&M and OPCo are sometimes referred to herein individually as a "Subsidiary" or collectively as "Subsidiaries."

² The five series of APCo Preferred Stock consist of a 4½% series, of which 298,150 shares are outstanding ("4½% Series"); a 5.90% series, of which 500,000 shares are outstanding ("5.90% Series"); a 5.92% series, of which 600,000 shares are outstanding ("5.92% Series"); a 6.85% series, of which 300,000 shares are outstanding ("6.85% Series"); and a 7.80% series, of which 500,000 shares are outstanding ("7.80% Series").

AEP anticipates that the APCo Tender Offer will expire on February 28, 1997, the date of the APCo Special Meeting ("APCo Expiration Date"), unless otherwise extended. The APCo Tender Offer is not conditioned upon any minimum number of shares of APCo Preferred Stock being tendered. APCo Preferred Stockholders who wish to tender their APCo Preferred Stock pursuant to the APCo Tender Offer are not required to vote in favor of the APCo Proposed Amendment; however, one of the conditions of the APCo Tender Offer requires that the APCo Amendment be approved and adopted at the APCo Special Meeting.

I&M

I&M has outstanding 1,400,000 shares of common stock, par value \$100 per share ("I&M Common Stock"), all of which are held by AEP. I&M's outstanding preferred stock consists of 1,569,767 shares of cumulative preferred stock, par value \$100 per share ("I&M Preferred Stock"), issued in seven series³ (each, an "I&M Series"), all of which are publicly held. I&M Common Stock and I&M Preferred Stock of each I&M Series are entitled to one vote per share. No other class of I&M equity securities is outstanding.

I&M's amended articles of acceptance ("I&M Articles") currently provide that, so long as any shares of I&M's cumulative preferred stock of any series are outstanding, without the consent of the holders entitled to cast a majority of the total number of votes which holders of the outstanding shares of I&M Preferred Stock of all I&M Series are entitled to cast, I&M shall not issue or assume any unsecured debt securities (other than for purposes of the reacquisition, redemption or other retirement of any evidences of indebtedness previously issued or assumed by I&M or the reacquisition, redemption or other retirement of all outstanding shares of I&M Preferred Stock) if, immediately after such issue or assumption, the total principal amount of all unsecured debt securities (other than the principal amount of all long-term unsecured debt securities not in excess of 10% of the capitalization of

I&M⁴) issued or assumed by I&M and then outstanding would exceed 10% of the capitalization of I&M ("I&M Restriction Provision").

I&M proposes to solicit proxies from the holders of outstanding shares of I&M Common Stock and I&M Preferred Stock ("I&M Proxy Solicitation") for use at a special meeting of its stockholders ("I&M Special Meeting") to consider a proposed amendment to I&M Articles that would eliminate in its entirety the I&M Restriction Provision ("I&M Proposed Amendment") from the I&M Articles. Approval of the I&M Proposed Amendment requires the affirmative vote at the I&M Special Meeting of the holders of not less than two-thirds of the total number of the then-outstanding shares of (1) the I&M Preferred Stock of all I&M Series, voting together as one class, and (2) the I&M Common Stock. AEP will vote its shares of I&M Common Stock in favor of the I&M Proposed Amendment.

If the I&M Proposed Amendment is adopted, I&M would make a special cash payment of \$1.00 per share ("I&M Cash Payment") to each holder of I&M Preferred Stock who voted (in person by ballot or by proxy) his shares of I&M Preferred Stock (each, an "I&M Share") in favor of the I&M Proposed Amendment at the I&M Special Meeting (except that no I&M Cash Payment will be made with respect to any I&M Share validly tendered pursuant to the concurrent tender offer described below). I&M will disburse I&M Cash Payments out of its general funds following adoption of the I&M Proposed Amendment.

Concurrently with the I&M Proxy Solicitation, and subject to the terms and conditions stated in an Offer to Purchase and Proxy Statement and accompanying letter of Transmittal (together, "I&M Offer Documents"), AEP proposes to make a cash tender offer ("I&M Tender Offer") to acquire any and all outstanding shares of I&M Preferred Stock of each I&M Series, at cash purchase prices which AEP anticipates will include a market premium for each I&M Series (each, an "I&M Purchase Price"). The I&M Tender Offer consists of separate offers for each of the seven I&M Series, with the offer for each I&M Series being independent of the offer for any other I&M Series. The applicable I&M Purchase Price and the other terms and conditions of the I&M Tender Offer

apply equally to all holders of I&M Preferred Stock of each I&M Series (I&M Preferred Stockholders").

AEP anticipates that the I&M Tender Offer will expire on February 28, 1997, the date of the I&M Special Meeting ("I&M Expiration Date"), unless otherwise extended. The I&M Tender Offer is not conditioned upon any minimum number of shares of I&M Preferred Stock being tendered. I&M Preferred Stockholders who wish to tender their I&M Preferred Stock pursuant to the I&M Tender Offer are not required to vote in favor of the I&M Proposed Amendment; however, one of the conditions of the I&M Tender Offer requires that the I&M Proposed Amendment be approved and adopted at the I&M Special Meeting.

OPCo

OPCo has outstanding 27,952,473 shares of common stock, no par value per share ("OPCo Common Stock"), all of which are held by AEP. OPCo's outstanding preferred stock consists of 1,484,316 shares of cumulative preferred stock, par value \$100 per share ("OPCo Preferred Stock"), issued in seven series⁵ (each, an "OPCo Series"), all of which are publicly held. OPCo Common Stock and OPCo Preferred Stock of each OPCo Series are entitled to one vote per share. No other class of OPCo equity securities is outstanding.

OPCo's amended articles of incorporation ("OPCo Articles") currently provide that, so long as any shares of OPCo's cumulative preferred stock are outstanding, without the consent of the holders of a majority of the total number of votes which holders of the outstanding shares of OPCo Preferred Stock of all series are entitled to cast, OPCo shall not issue or assume any unsecured debt securities (other than for purposes of the reacquisition, redemption or other retirement of any evidences of indebtedness previously issued or assumed by OPCo or the reacquisition, redemption or other retirement of all outstanding shares of OPCo Preferred Stock) if, immediately after such issue or assumption, the total principal amount of all unsecured debt securities (other than the principal

³The seven Series of I&M Preferred Stock consist of a 4 1/8% series, of which 119,767 shares are outstanding ("4 1/8% Series"); a 4.12% series, of which 40,000 shares are outstanding ("4.12% Series"); a 4.56% series, of which 60,000 shares are outstanding ("4.56% Series"); a 5.90% series, of which 400,000 shares are outstanding ("5.90 Series"); 6 1/4% series, of which 300,000 shares are outstanding ("6 1/4% Series"); a 6 7/8% series, of which 300,000 shares are outstanding ("6 7/8% Series"); and a 6.30% series, of which 350,000 shares are outstanding ("6.30% Series").

⁴"Capitalization" means an amount equal to the sum of (i) the total principal amount of all bonds or other secured debt securities issued or assumed by I&M outstanding at the time of determination and (ii) the aggregate of the stated capital of all classes of I&M stock outstanding at the time of determination and surplus of I&M at such time.

⁵The seven series of OPCo Preferred Stock consist of a 4 1/2% series, of which 202,403 shares are outstanding ("4 1/2% Series"); a 4.08% series, of which 42,575 shares are outstanding ("4.08% Series"); a 4.20% series, of which 51,975 shares are outstanding ("4.20% Series"); a 4.40% series, of which 88,363 shares are outstanding ("4.40% Series"); a 5.90% series, of which 404,000 shares are outstanding ("5.90% Series"); a 6.02% series, of which 395,000 shares are outstanding ("6.02% Series"); and a 6.35% series, of which 300,000 shares are outstanding ("6.35% Series").

amount of all long-term unsecured debt securities not in excess of 10% of the capitalization of OPCo⁶) issued or assumed by OPCo and then outstanding would exceed 10% of the capitalization of OPCo ("OPCo Restriction Provision").

OPCo proposes to solicit proxies from the holders of outstanding shares of OPCo Common Stock and OPCo Preferred Stock ("OPCo Proxy Solicitation") for use at a special meeting of its stockholders ("OPCo Special Meeting") to consider a proposed amendment to OPCo's Articles that would eliminate in its entirety the OPCo Restriction Provision ("OPCo Proposed Amendment") from the OPCo Articles. Approval of the OPCo Proposed Amendment requires the affirmative vote at the OPCo Special Meeting of the holders of not less than two-thirds of the total number of the then-outstanding shares of (1) the OPCo Preferred Stock of all OPCo Series, voting together as one class, and (2) the OPCo Common Stock. AEP will vote its shares of OPCo Common Stock in favor of the OPCo Proposed Amendment.

If the OPCo Proposed Amendment is adopted, OPCo would make a special cash payment of \$1.00 per share ("OPCo Cash Payment") to each holder of OPCo Preferred Stock who voted (in person by ballot or by proxy) his shares of OPCo Preferred Stock (each, an "OPCo Share") in favor of the OPCo Proposed Amendment at the OPCo Special Meeting (except that no OPCo Cash Payment will be made with respect to any OPCo Share validly tendered pursuant to the concurrent tender offer described below). OPCo will disburse OPCo Cash Payments out of its general funds following adoption of the OPCo Proposed Amendment.

Concurrently with the OPCo Proxy Solicitation, and subject to the terms and conditions stated in an Offer to Purchase and Proxy Statement and accompanying Letter of Transmittal (together, "OPCo Offer Documents"), AEP proposes to make a cash tender offer ("OPCo Tender Offer") to acquire any and all outstanding shares of OPCo Preferred Stock of each OPCo Series, at cash purchase prices which AEP anticipates will include a market premium for each OPCo Series (each, an "OPCo Purchase Price"). The OPCo Tender Offer consists of separate offers for each of the seven OPCo Series, with the offer for each OPCo Series being

independent of the offer for any other OPCo Series. The applicable OPCo Purchase Price and the other terms and conditions of the OPCo Tender Offer apply equally to all holders of OPCo Preferred Stock of each OPCo Series ("OPCo Preferred Stockholders").

AEP anticipates that the OPCo Tender Offer will expire on February 28, 1997, the date of the OPCo Special meeting ("OPCo Expiration Date"), unless otherwise extended. The OPCo Tender Offer is not conditioned upon any minimum number of shares of OPCo Preferred Stock being tendered. OPCo Preferred Stockholders who wish to tender their OPCo Preferred Stock pursuant to the OPCo Tender Offer are not required to vote in favor of the OPCo Proposed Amendment; however, one of the conditions of the OPCo Tender Offer requires that the OPCo Proposed Amendment be approved and adopted at the OPCo Special Meeting.

In addition, OPCo proposes to solicit proxies to amend the OPCo Articles to clarify the authority of the OPCo Board of Directors to purchase or acquire cumulative preferred stock of OPCo ("OPCo Second Proposed Amendment"). The affirmative vote of the holders of at least a majority of the outstanding shares of OPCo's common stock and cumulative preferred stock, the common stock and preferred stock voting together as one class, is required to approve the OPCo Second Proposed Amendment.

Tenders of APCo Shares, I&M Shares and OPCo Shares (collectively, "Shares") made pursuant to the APCo Tender Offer, I&M Tender Offer and OPCo Tender Offer, respectively (individually, "Tender Offer" and collectively, "Tender Offers"), may be withdrawn at any time prior to the APCo Expiration Date, I&M Expiration Date and the OPCo Expiration Date, respectively (individually and collectively, "Expiration Date"). Thereafter, such tenders are irrevocable, subject to certain exceptions identified in the APCo Offer Documents, I&M Offer Documents and OPCo Offer Documents (individually and collectively, "Offer Documents"). AEP states that its obligations to proceed with the Tender Offers and to accept for payment and to pay for any Shares tendered will be made in accordance with rule 51 under the Act and are subject to various conditions enumerated in the Offer Documents, including the receipt of a Commission order under the Act authorizing the proposed transactions and the adoption of the APCo Proposed Amendment, I&M Proposed Amendment and the OPCo Proposed Amendment (individually,

"Proposed Amendment" and collectively, "Proposed Amendments") at the APCo Special Meeting, I&M Special Meeting and OPCo Special Meeting, respectively (individually and collectively, "Special Meeting").

Applicants undertake to comply with all requirements of the Securities Exchange Act of 1934 ("Exchange Act") and rules and regulations thereunder in connection with the APCo Proxy Solicitation I&M Proxy Solicitation and OPCo Proxy Solicitation, as applicable (individually, "Proxy Solicitation" and collectively, "Proxy Solicitations"), the proxy solicitation in connection with the OPCo Second Proposed Amendment and the Tender Offers, except to the extent applicants rely on exemptions from the requirements of Rule 13e-3 and Regulation 14A of the Exchange Act, and acknowledge that any authorization granted under the Act is conditioned upon such compliance. Shares validly tendered will be held by AEP until the Expiration Date (or returned in the event a Tender Offer is terminated). Subject to the terms and conditions of the Tender Offers, as promptly as practicable after the Expiration Date, AEP will accept for payment (and thereby purchase) and pay for Shares validly tendered and not withdrawn. AEP intends to use its general funds and/or incur short-term indebtedness in an amount sufficient to pay the APCo Purchase Price, I&M Purchase Price and OPCo Purchase Price (individually and collectively, "Purchase Price") for all tendered Shares. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Salomon Brothers Inc. will act as dealer managers for AEP in connection with the Tender Offers.⁷

⁷ AEP has agreed to pay the dealer managers a fee of \$.50 per share for any Shares tendered, accepted for payment and paid for pursuant to the Tender Offers, the Subsidiaries have agreed to pay the dealer managers a fee of \$.50 per share for any Shares that are not tendered pursuant to the Tender Offers but which vote in favor of the Proposed Amendment, and AEP has agreed to reimburse the dealer managers for their reasonable out-of-pocket expenses, including attorneys' fees.

In addition, AEP has agreed to pay soliciting brokers and dealers a separate fee of (i) \$1.50 per share for any Shares of the APCo 4½% Series, the I&M 4⅞% Series, 4.12% Series and 4.56% Series, and the OPCo 4½% Series, 4.08% Series, 4.20% Series and 4.40% Series, tendered, accepted for payment and paid for pursuant to the Tender Offers (except that for transactions with beneficial owners equal to or exceeding 5,000 Shares, AEP will pay a solicitation fee of \$1.00 per share for Shares of such Series), and (ii) \$.50 per share for the remaining Shares of the APCo Series, I&M Series and OPCo Series. The Subsidiaries will pay a separate fee of \$.50 per share for any of their Shares of the APCo 4½% Series, the I&M 4⅞% Series, 4.12% Series and 4.56% Series, and the OPCo 4½% Series, 4.08% Series, 4.20% Series and 4.40%

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⁶ "Capitalization" means an amount equal to the sum of (i) the total principal amount of all bonds or other secured debt securities issued or assumed by OPCo outstanding at the time of determination and (ii) the aggregate of the stated capital of all classes of OPCo stock outstanding at the time of determination and surplus of OPCo at such time.

If a Proposed Amendment is adopted at a Subsidiary's Special Meeting, promptly after consummation of the Tender Offer the Subsidiary will purchase the Shares sold to AEP pursuant to the Tender offer at the relevant Purchase Price plus expenses incurred in the Tender Offer, and the Subsidiary will retire and cancel such Shares.

If a Proposed Amendment is adopted not at the Special Meeting, AEP may elect, but is not obligated, to waive adoption of the Proposed Amendment as a condition to its obligation to proceed with the Tender Offer, subject to applicable law. In that case, as promptly as practicable after AEP's waiver of such condition and its purchase of Shares validly tendered pursuant to the Tender Offers, the affected Subsidiary anticipates that it would call another special meeting of its common and preferred stockholders to solicit proxies (to secure the requisite two-thirds affirmative vote of stockholders to amend the APCo Articles, I&M Articles and OPCo Articles (individually and collectively, "Articles"), as the case may be, to eliminate the APCo Restriction Provision, I&M Restriction Provision and OPCo Restriction Provision (collectively, "Restriction Provisions"), as the case may be. At each such meeting, AEP would vote any Shares acquired by it pursuant to the Tender Offer or otherwise⁸ (as well as all of its shares of Common Stock of the affected Subsidiaries) in favor of the Proposed Amendment. If a Proposed Amendment is adopted at that meeting and in any event within one year from the Expiration Date (including any potential extension thereto pursuant to a Tender Offer), AEP will promptly after such meeting or at the expiration of such one-year period, as applicable, sell the Shares to the Subsidiary at the applicable Purchase Price plus expenses

Series that are not tendered pursuant to the Tender Offers but which are voted in favor of the Proposed Amendment.

AEP proposes to pay First Chicago Trust Company of New York, in its capacity as a depository for the Tender Offers, a fee estimated at approximately \$50,000.

⁸ Following the Expiration Date and the completion of the purchase of Shares pursuant to a Tender Offer, AEP may determine to purchase additional Shares on the open market, in privately negotiated transactions, through one or more tender offers or otherwise. AEP states that it will not undertake any such transactions without receipt of any required Commission authorizations under the Act. Likewise, in the event the additional special meeting is necessary, the affected Subsidiary would not undertake any proxy solicitation to amend its Articles prior to receipt of any required Commission authorizations under the Act.

paid therefor pursuant to the Tender Offer, and the Subsidiary will retire and cancel such Shares.

The applicants believe that regulatory, legislative, technological and market developments are likely to lead to a more competitive environment within the extremely capital-intensive electric utility industry. The applicants further content that elimination of the Restrictions Provisions will produce competitive advantages, financing flexibility and cost benefits that outweigh the one-time costs of the Tender Offers and the Proxy Solicitations,⁹ and will be in the best long-term competitive interests of their customers and shareholders.¹⁰ Moreover, the applicants represent that the Proposed Amendments will allow the Subsidiaries to issue a greater amount of unsecured debt and also allow the Subsidiaries to issue a greater amount of total debt.¹¹

To finance its proposed purchase of Shares pursuant to the Tender Offers, AEP plans to use general funds and/or incur short-term debt in an amount sufficient to pay the Purchase Price for all tendered Shares, an amount not expected to exceed \$540 million.

⁹ The Subsidiaries have engaged Morrow & Co., Inc. to act as information agent in connection with the Proxy Solicitations and the solicitation of proxies in connection with the OPCo Second Proposed Amendment for a fee and reimbursement of reasonable out-of-pocket expenses expected not to exceed approximately \$27,500.

¹⁰ The applicants state that the proposed acquisition by AEP of Shares pursuant to the Tender Offers will benefit AEP's utility system customers and shareholders through the lowering of the Subsidiaries' cost of capital through the anticipated reduction in the aggregate amount payable of APCo Preferred Stock, I&M Preferred Stock and OPCo Preferred Stock (collectively, "Preferred Stock") dividends and additional cost savings associated with the redemption and replacement of a portion of the Subsidiaries' high-coupon debt with lower cost short-term debt. Moreover, the applicants maintain that tendering APCo Preferred Stockholders, I&M Preferred Stockholders and OPCo Preferred Stockholders, who do not vote in favor of adopting the Proposed Amendments, will benefit by having the option to sell their Preferred Stock at prices that AEP expects will be a premium to the market price and without the usual transaction costs associated with a sale.

¹¹ The Subsidiaries state that they will be at a competitive disadvantage if the Restriction Provisions are not eliminated, citing the industry's new competitors (*i.e.*, power marketers, exempt wholesale generators, independent power producers and owners of cogeneration facilities) that generally are not subject to the type of financing restrictions the Articles impose upon the Subsidiaries. The applicants also point out that some potential utility competitors and other AEP public utility subsidiaries have no comparable provision restricting the use of unsecured debt. Under the Restriction Provisions, APCo, I&M and OPCo have available only approximately \$230 million, \$172 million and \$212 million, respectively, of unsecured debt capacity, based on capitalization as of September 30, 1996.

Specifically, AEP requests authorization to issue up to \$400 million in short-term debt through the issuance and sale of notes to banks and commercial paper.¹² The additional \$400 million of short-term borrowing authority shall decrease by the amount paid to AEP by the Subsidiaries for the repurchase of Shares therefrom, and would expire no later than February 28, 1998.

AEP proposes to issue and sell notes with maturities not in excess of 270 days from date of issuance and bearing a maximum effective annual interest cost not to exceed 125% of the prime commercial rate in effect from time to time. Commercial paper issued by AEP will be in the form of promissory notes in denominations of not less than \$50,000 with maturities not in excess of 270 days from date of issuance.

The applicants also request authorization to deviate from the preferred stock provisions of the *Statement of Policy Regarding Preferred Stock Subject to the Public Utility Holding Company Act of 1935*, HCAR No. 13106 (Feb. 16, 1956), to the extent applicable with respect to the Proposed Amendments.

It appears to the Commission that the application-declaration, to the extent that it relates to the proposed Proxy Solicitations and the solicitation of proxies in connection with the OPCo Second Proposed Amendment should be granted and permitted to become effective forthwith pursuant to rule 62(d).

It is ordered, that the application-declaration, to the extent that it relates to the proposed Proxy Solicitations and the solicitation of proxies in connection with the OPCo Second Proposed Amendment be, and it hereby is, permitted to become effective forthwith, pursuant to rule 62 and 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.
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¹² In connection with its proposed purchase of the Shares, AEP anticipates that it also may use existing financing authorization. See Holding Co. Act Release No. 26424 (Dec. 8, 1995) (authorizing AEP to issue short-term debt up to \$150 million for general corporate purposes through December 31, 2000).