February 26, 2007

Nancy M. Morris
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Subject: **File number S7-11-06**

Dear Ms. Morris:

American Electric Power Company, Inc. (AEP) appreciates the opportunity to comment on the Commission's Proposed interpretation; Proposed rule soliciting public comment on Management's Report on internal control over financial reporting ("ICFR"). AEP, a Columbus, Ohio based energy company, is one of the largest investor-owned utilities operating in the United States, with revenues of over $12 billion and more than 20,000 employees. We provide energy to approximately 5 million customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia.

## Executive Summary

We would like to thank the SEC for issuing guidance directly to management on how to perform its assessment of ICFR. This principle-based guidance is a much needed improvement from following the more prescriptive PCAOB Auditing Standard No. 2 by default. We appreciate that this guidance will focus management in its assessment on risks to prevent and detect material misstatements while reducing our work in lower risk areas. Our primary concern is that the proposed PCAOB guidance and related inspection program does not send a consistent and equally strong message to external auditors to focus their work on risks of material misstatements which would allow them to reduce work in lower risk areas. If the message to management and external auditors is not consistent, then improvements in the efficiency and effectiveness of assessments of ICFR will not be optimized. The SEC should modify the proposed PCAOB guidance to align it with its own guidance issued for public companies.

In addition, we would like to strongly reiterate that we think the SEC should reconsider the applicability of the Section 404 provisions to wholly owned subsidiaries that are non-accelerated filers and are SEC registrants for debt related purposes only. Application of Section 404 will result in extensive documentation and testing for systems and processes that would otherwise not be material to the parent company and is not cost beneficial.

Thank you for the opportunity to comment.

**1. Will the proposed interpretive guidance be helpful to management in completing its annual evaluation process? Does the proposed guidance allow for management to conduct an efficient and effective evaluation? If not, why not?**

The proposed guidance allows management to exercise judgment, and utilize the knowledge obtained from the day-to-day operation of the business, to determine the areas within the Company that have the most risk for material misstatements. Once these areas have been identified, management can test controls that will provide reasonable assurance that a material misstatement will not occur in the financial statements. The proposed guidance does not provide a "check the box" structure, which tends to focus too much attention on items that cannot cause a material misstatement instead of focusing on ones that can. Allowing management to conduct their evaluation of internal controls over financial reporting in this manner will provide for a much more efficient and effective evaluation. Making the guidance interpretive provides management with a structure to follow, without being too prescriptive, which was a major criticism of Auditing Standard No. 2. Controls and processes are essential in operating a successful business. However, not all controls and processes carry equal weight. The proposed guidance allows management to evaluate the Company's controls and processes, and focus the majority of their attention on the items that may be material to the financial statements and that pose the greatest risk.

**2. Are there particular areas within the proposed interpretive guidance where further clarification is needed? If yes, what clarification is necessary?**

The proposed interpretive guidance would be more helpful if it included a clearer definition of entity-level controls. The discussion of direct and indirect entity-level controls is helpful, but the example given for a direct entity-level control is somewhat confusing. Rather, we consider physical inventory controls to be more aligned with the inventory cycle than a control that has an entity wide impact. We would suggest examples such as:

- Balance sheet reviews and income statement reviews, which involve year on year comparisons and variance explanations;
- Account reconciliations and related analyses, which compare the general ledger to subsidiary ledgers;
- Budget to actual variance analyses, which identify and explain significant variances.

These examples or others provided by the SEC in the final guidance would allow management to more effectively leverage the proposed guidance in the consideration of entity-level controls.

**3. Are there aspects of management's annual evaluation process that have not been addressed by the proposed interpretive guidance that commenters believe should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?**

We believe Section 404 requirements should be modified to exempt wholly owned subsidiaries that are non-accelerated filers. The legislation in its current form levies onerous and unnecessary compliance requirements on wholly owned subsidiary registrants that exist for debt related purposes only. It results in requiring substantial work on the part of management and the external auditor to document and test processes and systems that are not significant to the parent company, and would not be in scope except for the reduced level of materiality required for these subsidiary companies.

AEP, an accelerated filer, has 10 wholly owned subsidiaries that are registrants. These wholly owned subsidiaries, which are not accelerated filers, are exempt from needing audit committees at the subsidiary levels under SEC Release No. 33-8220; 34-47654 ("Standards Relating to Listed Company Audit Committees"). It is appropriate to draw a parallel between the above SEC position and the position that Section 404 management assessments and independent audit attestations at the wholly owned subsidiary registrant level are unnecessary. Performing management assessments and independent auditor attestations for each non-accelerated registrant is not cost-beneficial to AEP, our shareholders, or the general investing community. Specifically, we recommend that the SEC remove Section 404 compliance requirements for registrants that meet the following criteria:

- The registrant is a subsidiary whose common stock is wholly owned by the parent company;
- The registrant meets the SEC audit committee exemption;
- The parent company successfully complies with Section 404 standards and Section 302 standards.

**4. Do the topics addressed in the existing staff guidance (May 2005 Staff Guidance and Frequently Asked Questions (revised October 6, 2004)) continue to be relevant or should such guidance be retracted? If yes, which topics should be kept or retracted?**

The topics that have been previously addressed in the existing staff guidance remain relevant, even with the issuance of the proposed guidance. Certain topics were identified by management, and brought to the staff's attention, via the roundtable discussion held May 2005. Identification of these issues was the first step in helping management move toward the concept of reasonable versus absolute assurance and an efficient and effective assessment of internal controls over financial reporting for areas that possess the greatest risk of a material misstatement. While the proposed guidance provides management guidelines to complete their assessment, the previously issued guidance remains relevant and supports the process outlined in the proposed guidance.

**5. Will the proposed guidance require unnecessary changes to evaluation processes that companies have already established? If yes, please describe?**

We do not believe that the proposed guidance will require unnecessary changes to management's evaluation process. The guidance is a major step toward improving the effectiveness and efficiency of management's evaluation of internal controls over financial reporting.

**6. Considering the PCAOB's proposed new auditing standards, An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements and Considering and Using the Work of Others In an Audit, are there any areas of incompatibility that limit the effectiveness or efficiency of an evaluation conducted in accordance with the proposed guidance? If so, what are those areas and how would you propose to resolve the incompatibility?**

**Realization of efficiencies and cost effectiveness**

We believe that the SEC issued this interpretive guidance to provide management with the opportunity to perform more cost effective and efficient assessments of ICFR. Management will have the opportunity to exercise judgment and utilize the specialized knowledge of their business in the completion of their evaluation. The proposed changes to the PCAOB guidance require public accounting firms to continue to follow a more prescriptive approach versus the principles based approach provided by the SEC. This discrepancy may result in one of the following scenarios:

- Public companies will comply with the SEC interpretive guidance, which will make management's assessment of ICFR more cost effective and efficient, while external auditors will follow the more prescriptive guidance provided by the PCAOB. In this situation, management may experience reduced internal costs by relying on things such as self-assessments and on-going monitoring, but external auditor costs may rise since they will be required to perform a more detailed audit than management because of the guidance provided by the PCAOB.

- Public companies will not follow the interpretive guidance provided by the SEC since they will be compelled by their external auditor to follow the PCAOB guidance. This may result in lower external audit fees, but internal costs will not decrease because of the additional work that will need to be performed by management so the external auditor can rely on management's work. The use of evaluation tools such as self-assessments and on-going monitoring may not be used since the external auditor cannot rely on them as sufficient testing evidence. In addition, the external auditor may identify key controls not identified by management. These controls will subsequently be documented and tested by management, which will reduce the internal cost benefit. The efficiencies outlined in the SEC interpretive guidance related to self-assessment, on-going monitoring and use of the knowledge of day-to-day operation of the business are not clearly defined in the PCAOB guidance.

We encourage the SEC to approve changes to PCAOB guidance that will mirror the SEC guidance to more closely align evaluation procedures and allow management to take advantage of internal efficiencies.

**Basis for scoping assessments of Internal Control over Financial Reporting**

We appreciate the SEC recognizing that evaluations among companies will vary based on the circumstances of the company, including the size, complexity, and organizational structure of the company and its processes. The SEC guidance emphasizes that management's judgment of high risk areas that could produce a material misstatement should be a primary factor used to scope the audit, while the PCAOB guidance seems to be based more on quantitative factors.

**Sufficiency of testing evidence in lower risk areas**

The SEC guidance states that on-going monitoring activities, such as self-assessments, are acceptable testing methods in lower risk areas, while the PCAOB guidance requires direct testing of controls. The PCAOB guidance allows the external auditors to rely on the work of management, which will require the auditor and management to coordinate their efforts. We are concerned that management will not be able to exercise professional judgment and rely on their knowledge of the company to focus and perform the assessment but will instead be required to follow the more structured PCAOB guidance so that the auditors can rely on management's testing. Currently, in the absence of public company specific guidance from the SEC, for transactional areas that are lower risk (e.g. payroll), the Company is performing extensive testing so that the external auditor can rely on the testing and reduce their fees. With the issuance of the SEC interpretive guidance, management would like to rely on self-assessments and on-going monitoring for these lower risk areas. In addition, we believe that the external auditor should be able to rely on the self-assessments and on-going monitoring performed by management, instead of completing their own detailed testing of the lower risk areas.

**Potential disconnect between the spirit of SEC and PCAOB proposed guidance and the PCAOB inspection program**

There is an old saying "You can expect what you inspect." The external auditors historically have been very cautious in interpreting PCAOB guidance. We believe this is due in part to issues and feedback given to the external auditors as a result of the PCAOB inspection program. Generally, it seems the PCAOB inspections may drive the external auditors to do more work rather than reducing work in lower risk areas. We would encourage the SEC to review the PCAOB inspection program to ensure it reflects the spirit of the new proposed standards. If the inspection program reflects the intent of the new guidance, we believe the external auditors will interpret the guidance as it is meant to be and will then be more in alignment with the SEC guidance.

**7. Are there any definitions included in the proposed interpretive guidance that are confusing or inappropriate and how would you change the definitions so identified?**

We do not believe there are any definitions included in the proposed interpretive guidance that are confusing or inappropriate. We appreciate the Commission's clarification of the definitions of material weakness and significant deficiency. We believe that definitions in Exchange Act Section 13(b)(7) of "reasonable assurance" and "reasonable detail" will help us better focus our review on the most significant internal controls. We appreciate the comment stating that there is a range of judgments as well as methodologies on which the issuer may reasonably base its assessment.

**8. Will the guidance for disclosures about material weaknesses result in sufficient information to investors and if not, how would you change the guidance?**

The guidance provides an appropriate framework to properly disclose material weaknesses to investors.

**9. Should the guidance be issued as an interpretation or should it, or any part, be codified as a Commission rule?**

Issuing the proposed guidance as an interpretation versus a commission rule would better accommodate the diversity in companies and approaches, thus allowing greater flexibility in achieving the goals of Section 404. An interpretation would afford public companies of all sizes the opportunity to perform an efficient and effective assessment of the areas that possess the greatest risk of a material misstatement in the financial statements.

Thank you for the opportunity to comment on this Commission's Proposed guidance and for considering our recommendations. We believe there is significant opportunity to create a more efficient process for compliance with Section 404 requirements, without reducing the effectiveness of the process. The recommendations we have provided should assist in this effort.

Sincerely,

Richard A. Mueller

Richard A. Mueller
American Electric Power
Vice President--Audit Services