

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power)
Company for Authority to Assume the)
Obligations of JMG Funding, Limited Partnership,)
Under Loan Agreements, Refinance Certain) Case No. 08-498-EL-AIS
Obligations Related to those Loan Agreements,)
Enter into Loan Agreements in Connection with)
Such Refinancings, Enter into Guarantees, and to)
Enter into Interest Rate Management Agreements.)

FINDING AND ORDER

The Commission finds:

- (1) Applicant, Ohio Power Company, is a public utility as defined in Section 4905.02, Revised Code, and is subject to the jurisdiction of this Commission.
- (2) This Application is filed under the provisions of Sections 4905.40, and 4905.41, Revised Code.
- (3) Pursuant to Commission Order, dated December 19, 1993, in Case No. 93-793-EL-AIS, Applicant was authorized to enter into a lease agreement (the "Lease") with JMG Funding, Limited partnership ("JMG"), to lease certain solid waste disposal facilities (the "Project") at Applicant's Gavin Power Plant on a non-cancellable initial term of 15 years, with the option to renew/extend the lease term for an additional 19 years. On January 25, 1995, Applicant entered into the Lease and commenced making rental payment under the Lease in an amount sufficient to enable JMG to make the required payments to service the pollution control revenue refunding bonds (the "Bonds"). The initial Lease term expires in 2010.
- (4) The Bonds were issued under loan agreements (the "Loan Agreements") between JMG and the Ohio Air Quality Development Authority (the "Authority") and the proceeds were used to refinance a portion of the cost of the Project. JMG was created for the sole purpose of owning and financing the Project.

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business.
Technician 3 Date Processed 6-4-08

- (5) The Bonds were issued under the auction rate mode wherein an auction agent conducts auctions at certain periods to set the interest rate that the Bonds will bear for the next interest period, as described in the Application and Exhibits.

The Bonds were insured by a financial guaranty insurance policy issued by Financial Guaranty Insurance Company ("FGIC"), a municipal bond insurer. The Bonds were rated by credit rating agencies, such as Moody's Investors Service, Standard & Poors and Fitch Ratings, based on FGIC's credit rating.

- (6) Due to the recent subprime mortgage crisis, the rating agencies have downgraded FGIC's credit rating. This has lowered the credit ratings on the Bonds and decreased the number of interested purchasers of the Bonds. These factors have led to failed auctions where there are not enough qualifying bids to purchase the Bonds being auctioned, which has led to an increase in the interest rate on the Bonds.
- (7) To mitigate the increase in the interest rate on the Bonds as a result of downgrading of FGIC's credit rating, Applicant is now requesting authority through April 1, 2009, to assume the obligations under the existing Loan Agreements of JMG for four series of the Bonds in an aggregate principal amount of \$218 million, cause any or all of the Bonds to be redeemed with new refunding bonds (the "Refunding Bonds"), and enter into Interest Rate Management Agreements (the "Interest Agreements") as set forth in the Application and Exhibits.
- (8) The Refunding Bonds will mature in not more than 40 years, will have either a fixed or variable interest rate and may be provided some form of credit enhancement, as described in the Application and Exhibits. The proceeds from the Refunding Bonds will be used to refund JMG's obligation relating to the Bonds issued by the Authority.
- (9) Applicant is also requesting authorization to enter into Interest Agreements in order to provide Applicant with sufficient alternatives and flexibility when striving to reduce its effective interest cost and manage interest cost on financings, as described in the Application and Exhibits. In general, there will be no proceeds associated with the Interest Agreements since no new obligations are created in this connection.

- (10) The proposed guidelines or parameters set forth in the Application are intended to facilitate the issuance of the Refunding Bonds and the Interest Agreements (collectively the "Securities") on the best terms possible and at lowest cost. The authorization of the issuance of the Securities in no way relieves Applicant of its responsibility to negotiate and obtain the best terms available
- (11) The amount of the Refunding Bonds, the terms thereof, and the probable cost to Applicant, which are to be no less favorable than the terms as described in the Application and Exhibits, do not appear to be unjust or unreasonable.
- (12) Applicant states that the proposed issuance of the Securities will be in compliance with Applicant's electric transition plans as approved by the Commission in Case No. 99-1730-EL-ETP and its rate stabilization plan as approved by the Commission in Case No. 04-169-EL-UNC.
- (13) The effect of the issuance of the Securities on Applicant's revenue requirement will be considered in the determination of required revenue in rate proceedings in which all factors affecting rates will be taken into account according to law.
- (14) The Commission is of the opinion that approval in this proceeding should be subject to the following conditions:
 - (a) Applicant should seek Commission approval, at the appropriate time, prior to exercising the option to purchase the Scrubbers and/or terminate the Lease in the year 2010.
 - (b) Applicant should provide to the Commission details of how it intends to incorporate the Project in its electric security plan ("ESP"), when its ESP is filed with the Commission pursuant to the Ohio's Amended Substitute Senate Bill 221.
- (15) Based on the information contained in the Application and the Exhibits attached thereto, the purposes for which the Securities will be issued appear to be reasonably required by Applicant to meet its present and prospective obligations to provide utility

service, and the Commission is satisfied that consent and authority should be granted, subject to the conditions set forth in Finding No. 14.

It is, therefore,

ORDERED, That Applicant, Ohio Power Company, is authorized through April 1, 2009, to assume the obligations of JMG Funding, Limited Partnership, for four series of pollution control revenue refunding bonds in aggregate principal amount of \$218 million, cause any or all of the Bonds to be redeemed with new Refunding Bonds, and enter into Interest Rate Management Agreements, as described in the Application and Exhibits. It is, further,

ORDERED, Applicant is authorized to provide credit enhancement for the Refunding Bonds, such as letter of credit or surety bond, or other insurance, as described in the Application and Exhibits. It is, further,

ORDERED, That the net proceeds from the Refunding Bonds shall be applied by Applicants for the purposes as set forth in this Order and otherwise pursuant to the provisions of Section 4905.40, Revised Code. It is, further,

ORDERED, That after the Securities authorized by this Order are issued, Applicants shall report to the Commission, as soon as practicable, the terms and full particulars regarding the Securities. It is, further,

ORDERED, That the authorization granted herein for the issuance of the Securities shall be in compliance with the Applicant's electric transition plan as approved by the Commission in Case No. 99-1730-EL-ETP and its rate stabilization plan as approved by the Commission in Case No. 04-169-EL-UNC. It is, further,

ORDERED, That Applicant shall seek Commission approval, at the appropriate time, prior to exercising the option to purchase the Scrubbers and/or terminate the Lease. It is, further,

ORDERED, That Applicant shall provide to the Commission details of how it intends to incorporate the Project in its electric security plan, when its ESP is filed with the Commission, pursuant to Amended Substitute Senate Bill 221. It is, further,

ORDERED, That the authorization granted by this Order shall not be construed as limiting the Commission's determination of the appropriateness of the Securities for future rate making treatment. It is, further,

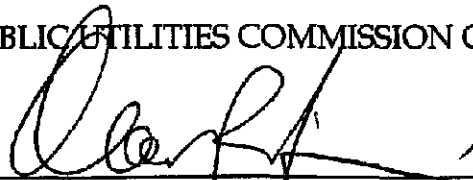
ORDERED, That the Applicant shall account for the Securities as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect. It is, further

ORDERED, That nothing in this Order shall be construed to imply any guaranty or obligation by the Commission as to the Securities or the interest thereon on the part of the State of Ohio. It is, further,

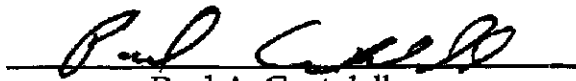
ORDERED, That nothing in this Order shall be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule or regulation of Applicant. It is, further,

ORDERED, That a copy of this Order be served upon all parties of record.

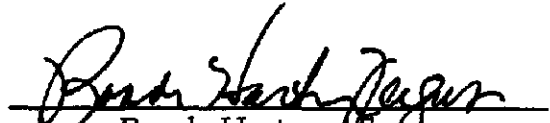
THE PUBLIC UTILITIES COMMISSION OF OHIO



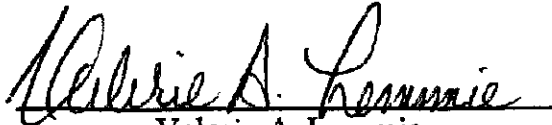
Alan R. Schriber, Chairman



Paul A. Centolella



Ronda Hartman Fergus



Valerie A. Lemmie



Cheryl L. Roberto

SUM:sm

Entered in the Journal

JUN 04 2008



Renee J. Jenkins
Secretary