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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	)	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	)	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

DIRECT TESTIMONY OF KEVIN M. MURRAY
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO

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July 25, 2011 **Attorneys for Industrial Energy Users-Ohio**

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I. INTRODUCTION

Q1. Please state your name and business address.

A1. My name is Kevin M. Murray. My business address is 21 East State Street, 17th Floor, Columbus, Ohio 43215-4228.

Q2. By whom are you employed and in what position?

A2. I am a Technical Specialist for McNees Wallace & Nurick LLC ("McNees") and the Executive Director of the Industrial Energy Users-Ohio ("IEU-Ohio"). I am providing testimony on behalf of IEU-Ohio.

Q3. Please describe your educational background.

A3. I graduated from the University of Cincinnati in 1982 with a Bachelor of Science degree in Metallurgical Engineering.

Q4. Please describe your professional experience.

A4. I have been employed by McNees for 14 years where I focus on helping IEU-Ohio members address issues that affect the price and availability of utility services. I have also been actively involved, on behalf of commercial and industrial customers, in the formation of regional transmission operators ("RTOs") and the organization of regional electricity markets from both the supply-side and demand-side perspective. I serve as an end-use customer sector representative on the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO") Advisory Committee and I have been actively involved in MISO working groups that focus on various issues since 1999. Prior to joining McNees, I was employed by the law firm of Kegler, Brown, Hill & Ritter ("KBH&R") in a similar capacity. Prior to joining KBH&R, I spent 12 years with The Timken Company, a specialty steel and roller bearing manufacturer. While at The Timken Company, I worked within a group that focused on meeting the electricity and natural gas requirements for facilities in the United States. I also spent several years in supervisory positions within The Timken Company's steelmaking operations.

Q5. Have you previously testified before the Public Utilities Commission of Ohio ("Commission")?

A5. Yes. The proceedings before the Commission in which I have submitted testimony are identified in Exhibit KMM-1.

Q6. What is the purpose of your testimony?

A6. The purpose of my testimony is to evaluate whether the proposed electric security plan ("ESP") for Ohio Power Company ("OPCo") and Columbus Southern Power Company ("CSP") (collectively "AEP-Ohio" or "Companies") is more favorable in the aggregate than the expected results under a market rate offer ("MRO"). I conclude that OPCo and CSP cannot demonstrate the ESP is more favorable in the aggregate for either company than the results under an MRO. Therefore, I recommend the Commission disapprove the application. I also recommend the Commission reject the Companies' proposed provider of last resort ("POLR") charges as the proposed charges are not related to any costs the Companies will incur to satisfy their standard service offer ("SSO") obligations and carry whatever risks may be associated therewith.

II. EVALUATION OF THE ESP

Q7. Why is an evaluation of the ESP versus MRO results necessary?

A7. I have been advised by counsel that in order to approve an ESP for an electric distribution utility ("EDU"), the Commission must find that the ESP, as approved, including its pricing and all other terms and conditions, including deferrals and future recovery of deferrals, is more favorable in the aggregate than an MRO.

Q8. Has AEP-Ohio performed this evaluation for OPCo or CSP?

A8. No. In her direct testimony, AEP-Ohio witness Laura J. Thomas performs a comparison of the results under an MRO, using competitive benchmark prices developed by AEP-Ohio, to an ESP for AEP-Ohio. The results of this comparison are summarized on Exhibit LJT-2. AEP-Ohio did not perform a comparison of rates under an MRO versus an ESP individually for OPCo and CSP, the EDUs. Because the comparison offered by Ms. Thomas is not focused on the EDUs, it cannot be relied upon to test the proposed ESP against the MRO.

Q9. Have you identified any other flaws in the analysis performed by Ms. Thomas?

A9. Yes. Even assuming Ms. Thomas' analysis focused on the EDUs, I have identified a number of flaws in the analysis performed by Ms. Thomas. The methodology utilized by Ms. Thomas for her analysis relies upon an administratively-determined market price estimate, rather than the actual results from recent auctions in Ohio to establish SSO generation prices for other EDUs. Under these circumstances, I view the use of an administratively-determined price to be inferior.

Additionally, the methodology used by Ms. Thomas to develop the administratively-determined competitive benchmark price is flawed. The assumed capacity costs reflected in the competitive benchmark price in her analysis reflect AEP-Ohio's initial comments filed on January 7, 2011 in Case No. 10-2929-EL-UNC. This does not reflect the capacity costs that a competitive retail electric service ("CRES") provider currently pays to OPCo or CSP when serving ultimate customers, or the capacity cost that a wholesale supplier bidding to provide generation would incur. As a result, the competitive benchmark prices in Ms. Thomas' analysis are too high.

Further, Ms. Thomas also fails to recognize that OPCo's and CSP's current ESP includes distribution rate riders (gridSMART and the Enhanced Service Reliability Rider) approved pursuant to the single issue ratemaking provision of Section 4928.143(B)(2)(h), Ohio Revised Code. I have been advised by counsel that an MRO does not permit the inclusion of similar charges. Therefore, Ms. Thomas' portrayal of the MRO alternative overstates the MRO results.

Finally, as part of its application, AEP-Ohio has proposed a number of placeholder riders for which rates have not been identified and the value of these riders is unknown. Ms. Thomas assumes zero cost for these riders in her ESP versus MRO analysis. I have been advised by counsel that OPCo and CSP could not include these placeholder riders under an MRO. Therefore, some recognition of the billing impact of these placeholder riders must be undertaken to reflect the cost of the ESP and to compare the ESP to the MRO.

Q10. Do you recommend that the Commission rely upon Ms. Thomas' competitive benchmark analysis?

A10. No. It is not appropriate or necessary for the Commission to rely upon administratively-developed estimates of competitive power prices when real results are readily available and more reliable. On August 25, 2010, the Commission approved an ESP for Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively "FirstEnergy") in Case No. 10-388-EL-SSO. The ESP is for a three-year term beginning June 1, 2011 and continuing through May 31, 2014. A key feature of the ESP is that all of the generation supply required to provide the SSO to

FirstEnergy's retail customers is obtained through a competitive bidding process ("CBP"). The auction schedule, including the number of tranches secured in each auction and the associated delivery periods, is shown on Exhibit KMM-2. Two of the scheduled auctions have been completed to date, securing tranches associated with all three years of FirstEnergy's ESP. It would be unreasonable to use Ms. Thomas' administratively estimated prices in view of the CBP information that is readily available.

Q11. Are there other reasons to conclude that these auction results more accurately reflect competitive market prices than the administratively-determined estimates relied upon by Ms. Thomas?

A11. Yes. American Electric Power Service Corporation ("AEPSC") actively participated in both auctions summarized on Exhibit KMM-2 and was a winning bidder in each. As detailed in the post auction reports that have been docketed in Case No. 10-1284-EL-UNC, AEPSC was a winning bidder for 12 tranches in the October 2010 auction, consisting of 4 tranches in the June 2011 to May 2012 delivery period, 6 tranches in the June 2011 to May 2013 delivery period, and 2 tranches in the June 2011 to May 2014 delivery period. In the auction conducted in January 2011, AEPSC was a winning bidder for 12 tranches, consisting of 7 tranches in the June 2011 to May 2012 delivery period, 3 tranches in the June 2011 to May 2013 delivery period, and 2 tranches in the June 2011 to May 2014 delivery period. Thus, the auction results not only represent real world transactions, but market prices that are acceptable to American Electric Power Company.

Q12. Are there other indicators to support a conclusion that the auction results to secure generation supply for FirstEnergy's SSO are reflective of prevailing market prices and that the administratively-determined estimates relied upon by Ms. Thomas are improper?

A12. Yes. The competitive benchmark prices relied upon by Ms. Thomas are higher than actual generation supply offers from CRES providers for similar delivery periods. I frequently assist commercial and industrial companies in obtaining generation supply quotations from CRES providers. In recent months, the prices I have observed covering deliveries during the January 2012 through May 2014 delivery period have ranged from approximately 4.75 cents per kilowatt-hour ("kWh") to 5.5 cents per kWh for commercial and industrial customers, depending upon a customer's size and load factor. Additionally, the competitive benchmark prices relied upon by Ms. Thomas are higher than publicly-available generation supply offers from AEP Retail Energy, a CRES provider and affiliate of OPCo and CSP. For example, soon after AEP-Ohio submitted its application in this proceeding, my employer, a commercial customer served under CSP Rate GS2, received an unsolicited offer from AEP Retail Energy for a 36-month term at prices significantly lower than the competitive benchmark prices relied upon by Ms. Thomas. A copy of the solicitation is attached as Exhibit KMM-3 to my testimony. Further, AEP Retail Energy has had an open offer for several months soliciting residential customers served by Duke Energy Ohio. Details of the offer are posted on AEP Retail Energy's website at: https://aepretailenergy.com/residential/get-started/duke-energy (last accessed

July 22, 2011). As shown on Exhibit KMM-4, AEP Retail Energy is offering a price of 5.89 cents per kWh through the end of 2011, again significantly lower than the residential competitive benchmark prices relied upon by Ms. Thomas.

Q13. What are the results of the competitive bids conducted to obtain SSO generation supply for FirstEnergy?

A13. In the October 2010 auction, 17 tranches for the June 2011 to May 2012 delivery period were cleared at a price of $54.55 per megawatt hour ("MWh"), 17 tranches for the June 2011 to May 2013 delivery period were cleared at a price of $54.10 per MWh, and 16 tranches for the June 2011 to May 2014 delivery period were cleared at a price of $56.58 per MWh. A report detailing the results of the October 2010 auction was docketed on November 15, 2010 in Case No. 10-1284-EL-UNC.

In the January 2011 auction, 17 tranches for the June 2011 to May 2012 delivery period were cleared at a price of $56.13 per MWh, 17 tranches for the June 2011 to May 2013 delivery period were cleared at a price of $54.92 per MWh, and 16 tranches for the June 2011 to May 2014 delivery period were cleared at a price of $57.47 per MWh. A report detailing the results of the January 2011 auction was docketed on February 17, 2011 in Case No. 10-1284-EL-UNC.

Q14. Are there any other aspects of the auction results that the Commission should take into consideration?

A14. Yes. PJM Interconnection, LLC ("PJM") requires load-serving entities ("LSE"), other than those electing a fixed resource requirement ("FRR"), to obtain capacity though periodic auctions under PJM's reliability pricing model ("RPM"). The initial auction, called the base residual auction, is conducted three years in advance of the delivery year. It is followed by up to three incremental auctions conducted closer to the delivery year.

When FirstEnergy made the commitment to join PJM, the base residual auctions for the 2011-2012 and 2012-2013 delivery years had already occurred. Thus, it was necessary to establish a transition mechanism for FirstEnergy. The FRR option allows LSEs to submit a plan to PJM that identifies their load and the capacity resources dedicated to serve the load and provide adequate capacity reserves. An approved FRR plan allows an LSE to forego PJM's base residual auction.

The transition plan developed for FirstEnergy established a two-year FRR to allow FirstEnergy to synchronize with PJM's normal RPM cycle. FirstEnergy would be required to obtain the necessary capacity resources for the 2011-2012 and 2012-2013 delivery years and include those capacity resources in an FRR plan submitted to PJM prior to each delivery year. The transition plan provided that FirstEnergy would participate in the base residual auction for the 2013-2014 delivery year. The base residual auction for the 2013-2014 delivery year ("RTO locational deliverability area" or "RTO LDA") cleared at a price of $27.73 per MW-day.

Because FirstEnergy's Ohio EDUs do not own generating assets, two integration auctions were conducted to obtain capacity resources for the 2011-2012 and

2012-2013 delivery years. The 2011-2012 FRR integration auction cleared 12,583.2 MW of unforced capacity in the RTO at a resource clearing price of $108.89 per MW-day. The 2012-2013 FRR integration auction cleared 13,038.7 MW of unforced capacity in the RTO at a resource clearing price of $20.46 per MW-day. Bidders in the auctions to obtain SSO generation supply for FirstEnergy were required to rely upon capacity secured in the two integration auctions and reflect this in their offer prices for the 2011-2012 and 2012-2013 delivery periods. Bidders in the auctions to obtain SSO generation supply for FirstEnergy will rely upon capacity secured through PJM's base residual auction for the 2013-2014 delivery period.

These capacity clearing prices from the FirstEnergy auctions are very similar to the prevailing capacity prices in the base residual auction for the unconstrained region of PJM for the same delivery year, which were $110.00 per MW-day for the 2011-2012 delivery year and $16.46 per MW-day for the 2012-2013 delivery year. Thus, the transitional FRR integration auctions conducted for FirstEnergy are representative of market conditions and pricing outcomes in the unconstrained region of PJM, which includes AEP-Ohio. The capacity prices resulting from these auctions are significantly below the assumed capacity prices reflected in Ms. Thomas' analysis. Accordingly, it is my opinion that Ms. Thomas' analysis significantly overstates the capacity component prices.

Q15. Have you derived market price estimates for the term of AEP-Ohio's ESP based upon the results of the competitive bids conducted to obtain SSO generation supply for FirstEnergy?

A15. Yes. Based upon the results of the recent auctions to solicit SSO generation supply for FirstEnergy, I selected a price of $57.47 per MWh as an appropriate market price estimate, which is the clearing price for 16 tranches for the June 2011 to May 2014 delivery period. I elected to use only the results of the January auction since the auction was conducted the day before AEP-Ohio's application was submitted in this proceeding. These tranches secured during the auction are for the delivery of power during a term similar to AEP-Ohio's proposed ESP. To be conservative, I took the highest clearing price from the January auction, although the other lower-priced tranches secured during this auction also are for the delivery of power during a time period that coincides with AEP-Ohio's proposed ESP. The price is also conservative in that it reflects the obligation to deliver energy for 36 months, rather than the 29 month period associated with AEP-Ohio's proposed ESP. Thus, the prices from the January auction reflect bidders' obligations to deliver energy for three summer periods, whereas AEP-Ohio's proposed ESP only spans two summers.

Q16. Did the CBP used to secure generation supply for FirstEnergy's SSO load require winning bidders to supply alternative energy resources or credits?

A16. No. FirstEnergy plans to conduct a separate request for proposals to obtain renewable energy credits to satisfy its statutory obligations.

Q17. Did you make any adjustments to your market price estimate?

A17. Yes. Because the auction to obtain generation supply for FirstEnergy's SSO load did not include the requirement for winning bidders to supply alternative energy resources or credits, I adjusted the market price upwards to reflect the cost of the alternative energy requirement in the competitive benchmark price reflected in the testimony of Ms. Thomas. This requires an upward adjustment of $.54 per MWh in 2012 and $.79 per MWh in the January 2013 through May 2014 period.

Q18. Do you agree that it is not necessary to consider POLR charges in the ESP versus MRO comparison?

A18. No. Ms. Thomas states that POLR charges would be the same under an ESP and an MRO, which is incorrect and inconsistent with the Companies' position in the prior ESP approved in Case Nos. 08-917-EL-SSO *et al.* Ms. Thomas recognizes that under an MRO the POLR risk is transferred to winning bidders and the Companies only bear POLR risk for the portion of the load not supplied through the competitive bid. If a POLR charge is approved, which I do not recommend, it is necessary to reduce the POLR rate the Companies are permitted to charge under the MRO scenario to reflect the transfer of risk to the competitive bidder. This is consistent with the testimony of AEP-Ohio witness J. Craig Baker in the previous ESP proceeding.

It is also important to note that when considering POLR charges in the ESP versus MRO comparison, the proposed POLR rates are placeholders. As indicated in both the direct and supplemental testimony of Ms. Thomas, the Companies have proposed a POLR methodology or formula and are requesting Commission approval to establish the actual POLR rates once an order is issued approving the ESP that is acceptable to OPCo and CSP.

Q19. Are there any other factors that are necessary to consider in the comparison of the expected results of an MRO versus AEP-Ohio's proposed ESP?

A19. Yes. OPCo and CSP have two distribution riders that were approved as part of their current ESPs. These riders are the gridSMART Rider (specific to CSP) and the Enhanced Service Reliability Rider (applicable to CSP and OPCo). Based upon discussions with counsel, it is my understanding that these riders were approved pursuant to Section 4928.143(B)(2)(h), Ohio Revised Code. I have been advised by counsel that the single issue distribution ratemaking provision of Section 4928.143(B)(2)(h), Ohio Revised Code, is not available under an MRO and that, under an MRO, the SSO price is a proportional blend of the bid price and the generation service price for the remaining SSO load. Therefore, the ESP versus MRO comparison must recognize the elimination of the gridSMART Rider and the Enhanced Service Reliability Rider under an MRO. There are three additional placeholder riders In AEP-Ohio's proposed ESP that are distribution related and would not be, based upon the same reasoning, includable in an MRO. They are the Distribution Investment Rider, the Plug In Electric Vehicle Tariff and the Storm Damage Recovery Mechanism. The ESP versus MRO comparison must recognize the elimination of these riders for the purpose of specifying the cost of the MRO alternative.

Q20. Does the ESP versus MRO comparison performed by Ms. Thomas recognize the costs associated with the proposed Generation Resource Rider?

A20. No. The Companies have proposed the Generation Resource Rider as a non-bypassable charge to recover the costs of new generation facilities. The Companies initially did not identify any costs to recover through the Generation Resource Rider but indicated this rider was expected to be used to recover costs associated with the Turning Point Solar facility, pending further negotiations between the Companies and the project developer and subsequent approval by the Commission. On July 1, 2011, AEP-Ohio filed supplemental testimony indicating it had reached definitive agreements with the Turning Point Solar project developer. AEP-Ohio witness Phillip J. Nelson provided supplemental testimony that includes the projected revenue requirement for the project. AEP-Ohio witness David M. Roush provided supplemental testimony that includes the estimated rate in 2013 for the Generation Resource Rider. However, Ms. Thomas does not address or recognize the costs associated with the Generation Resource Rider in her ESP versus MRO analysis.

A21. Is it necessary to recognize the costs associated with the Generation Resource Rider in the ESP versus MRO comparison?

A21. Yes. AEP-Ohio has been vague about the basis for the proposed Generation Resource Rider. However, I have been advised by counsel that an ESP permits, under certain circumstances and provided statutory criteria are met, for a non-bypassable charge to recover the costs associated with new generating facilities to be approved by the Commission as an element of an ESP. However, there is no similar provision that allows such a non-bypassable charge under an MRO.

A22. Did you perform a comparison of the expected results of an MRO versus AEP-Ohio's proposed ESP using these estimated market prices and the adjustments you have described in your testimony?

A22. Yes. I analyzed two scenarios for both OPCo and CSP. I elected to analyze two scenarios due to events that have occurred subsequent to the submission of AEP-Ohio's application in this proceeding. On April 19, 2011, the Ohio Supreme Court issued a decision on two appeals of AEP-Ohio's current ESP. The Court reversed the Commission's decision allowing AEP-Ohio to recover 2001-2008 environmental carrying costs and declared that the Commission incorrectly concluded that the POLR charge is cost-based. In response, on May 4, 2011, the Commission issued an Entry directing AEP-Ohio to file proposed tariffs by May 11, 2011 removing 2001-2008 environmental carrying costs and POLR charges from the current ESP rates. On May 25, 2011, the Commission issued an Entry reversing its May 4 Entry and instead directed AEP-Ohio to maintain its existing rates but collect POLR and environmental carrying costs subject to refund. The Commission also adopted a procedural schedule to consider the Ohio Supreme Court's remand. Because the outcome of the remand proceeding was not known prior to the submission of my direct testimony, I considered two scenarios to bookend a range of possible outcomes.

In the first scenario, I made no adjustment to the current or proposed ESP prices to address environmental carrying costs and I included the effects of the current and proposed POLR charges. I made the additional adjustments discussed previously in my testimony. The results of that comparison are shown on Exhibit

KMM-5 on line 32. After making appropriate adjustments, over the proposed 29-month term, OPCo's proposed ESP is less favorable than an MRO by $3.01 per MWh or $188 million over the term of the proposed ESP and CSP's proposed ESP is less favorable than an MRO option by $5.69 per MWh or $238 million over the term of the proposed ESP.

In the second scenario, I adjusted the current and proposed ESP prices down to remove 2001-2008 environmental carrying costs embedded in current base generation rates as a result of the Commission's May 4, 2011 Entry in Case Nos. 08-917-EL-SSO *et al.,* and also removed 2011 environmental compliance costs. I eliminated the effects of the current and proposed POLR charges. I made the additional adjustments discussed previously in my testimony. The results of that comparison are shown on Exhibit KMM-6 on line 34. After making appropriate adjustments, over the proposed 29-month term, OPCo's proposed ESP is less favorable than an MRO by $1.03 per MWh or $64 million over the term of the proposed ESP and CSP's proposed ESP is less favorable than an MRO option by $5.89 per MWh or $247 million over the term of the proposed ESP.

Q23. Are there any other factors that the Commission should consider regarding the ESP versus MRO comparison?

A23. Yes. AEP-Ohio has proposed a number of placeholder riders for which specific rates have not been proposed at this time. These include the Distribution Investment Rider, the Generation NERC Compliance Cost Recovery Rider, the Facility Closure Cost Recovery Rider, the Carbon Capture and Sequestration Rider, and the Storm Damage Recovery Mechanism. AEP-Ohio may also seek recovery of costs associated with termination of the AEP Pool. In her analysis, Ms. Thomas ignores these riders and provisions and treats them as if they have zero cost under the proposed ESP. Even if a preliminary ESP versus MRO comparison was shown to be equal (which is not the case in this proceeding), the additional cost to consumers of these placeholder riders would require the Commission to conclude that the ESP is not more favorable in the aggregate than the MRO.

III. PROPOSED POLR CHARGES

Q24. What is your understanding of the generation supply responsibilities of EDUs like OPCo and CSP?

A24. Based on my participation in the electric transition plan proceedings related to the implementation of Ohio's electric restructuring legislation, it is my understanding that EDUs have an obligation to provide an SSO with all competitive retail electric services necessary to maintain service to consumers, including a firm supply of electric generation service, and that this obligation was created as part of Amended Substitute Senate Bill 3 ("Am. Sub. SB 3") enacted in 1999.

Q25. What methodology did AEP-Ohio utilize to support OPCo's and CSP's proposed POLR charges?

A25. Ms. Thomas testifies that the cost of the Companies' POLR obligation was determined by the Black options pricing model that can calculate the value of options on forward contracts. This is substantially similar to the methodology

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utilized by the Companies to establish the POLR charges approved by the Commission's Opinion and Order issued on March 18, 2009 (for example, beginning at page 39) in Case Nos. 08-917-EL-SSO, *et al.* As a result of appeals taken by IEU-Ohio and the Office of the Ohio Consumers' Counsel ("OCC") of the Commission's March 18, 2009 Opinion and Order in Case Nos. 08-917-EL-SSO, *et al.*, the Ohio Supreme Court recently ruled that there was no evidence to support the position that the Companies' POLR charge in Case Nos. 08-917-EL-SSO, *et al.* was related to any costs the Companies will incur and "does not reveal 'the cost to the Companies to be the POLR and carry the risks associated therewith'".

Q26. Does the testimony that the Companies have filed in this proceeding reveal the cost incurred by the Companies to be the POLR and carry whatever risks may be associated therewith?

A26. No. The Companies have not demonstrated they incur any costs associated with POLR. Instead, the Companies continue to propose a POLR charge that they claim is supported by their specification and application of the so-called Black model as a means to establish a distribution-related charge. The model is based on the optionality that customers have relative to the generation supply service available from an EDU as a result of Ohio law. As indicated previously, this optionality existed prior to the Companies' current and proposed ESPs. Because the Black model relied upon by the Companies relies upon several incorrect assumptions and also does not reflect any actual costs incurred by the Companies, it is not an appropriate methodology to identify the costs incurred by the Companies to satisfy their SSO obligation or to properly establish POLR charges. Therefore, the Commission should reject the proposed POLR charges.

Additionally, the POLR risk that the Companies continue to point to as a result of the potential for customer switching to a CRES provider and subsequently returning to the SSO can be mitigated by proactively encouraging customers to waive POLR charges and elect to receive SSO service upon any return to the Companies at a market-based price during the remaining term of the ESP.

Q27. Does fulfilling their SSO obligation create risks for EDUs?

A27. The SSO obligation may, depending on the terms of the applicable ESP or MRO, create financial risks for the EDU. However, the SSO obligation does not impose a risk on EDUs with regard to the obligation to physically provide generation supply.

Q28. Why does the SSO obligation not impose a risk on EDUs with regard to the obligation to provide generation supply?

A28. All Ohio EDUs are members of RTOs that are subject to regulation by the Federal Energy Regulatory Commission ("FERC"). The Companies are members of PJM and are obligated to follow PJM's FERC-approved tariff. PJM operates a regional electricity market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. Within PJM's market, the physical risks of electricity supply are managed by PJM. It is my understanding, based on discussions with counsel and my involvement in regulatory proceedings, that the responsibilities of an RTO to ensure reliable operation of the transmission system are recognized in Section 4928.12, Ohio Revised Code.

Q29. How does PJM manage physical supply and risks of electricity supply?

A29. On an annual basis (three years in advance of a delivery year), PJM conducts periodic auctions or requires the submission of resource plans to identify capacity resources deemed sufficient to meet forecast demand, including any required reserve margins. On a day-ahead basis, and in real-time, PJM requires the capacity resources to submit offers to PJM and these offers reflect the prices at which the resources are willing to make themselves available to PJM to be dispatched in accordance with PJM's directions. PJM dispatches resources based upon the least cost set of offer prices to meet actual load that materializes within the PJM footprint and without regard to things like retail service areas. Thus, the dispatching of generation to meet the load of the Companies' customers is managed by PJM. PJM's role in assuming and managing the physical supply risk was discussed extensively during the cross-examination of the AEP-Ohio witness Baker during the initial evidentiary hearing conducted in the previous ESP case (Case Nos. 08-917-EL-SSO, *et al.*). At pages 58-60 of Transcript Volume XI, AEP-Ohio witness Baker acknowledged that PJM dispatches generation resources within its footprint to satisfy demand within the footprint irrespective of who owns the generation resources.

Q30. Do CSP and OPCo have any financial risks regarding the generation supply responsibility that is part of the SSO function?

A30. It depends on the structure of the SSO that OPCo and CSP elect to accept as part of an ESP. The Companies' proposed ESP contains an SSO that includes compensation for generation supply that occurs through fixed rates as well as rates that vary periodically, like the fuel adjustment clause or "FAC", in accordance with specified costs. If the actual cost of providing the SSO generation supply service is below the revenue collected through the SSO charges, the EDUs generate profit. If the reverse is true, a loss occurs. To the extent the EDUs' SSO prices are fixed (rather than variable as a function of specified costs), the EDUs assume a financial risk that the fixed cost component may provide inadequate compensation.

Q31. You indicated earlier that OPCo and CSP have not presented information that reveals the cost to the Companies to be the POLR and carry any risks associated therewith. Is it possible to identify the Companies' actual POLR cost and establish a charge based on the actual cost?

A31. Yes. There are several ways any such actual POLR costs could be measured, quantified and properly reflected in charges. One option is to bid out the SSO supply obligation through a competitive solicitation. This would transfer the entire default generation supply responsibility (including anything that might be called POLR risk) to winning bidders and the costs of the POLR obligation would be reflected in the winning bid price. This approach could also provide an opportunity to make the entire generation supply price bypassable, allow customers to make better "apples to apples" comparisons for purposes of evaluating shopping opportunities and be less demanding from an administrative standpoint.

Another option would be to directly measure the Companies' actual incremental costs of satisfying the POLR function. EDUs are not required to use their generation to provide the SSO and, as explained previously, the actual generation resources dispatched to serve Ohio customers in the Companies' service areas are controlled by PJM. Thus, since PJM has assumed responsibility for dispatching generation to serve load, it would be possible to track the actual costs (purchased power) incurred to provide service to the customer that took generation supply service from a CRES provider and subsequently returned to SSO. The prudently-incurred cost of purchased power is recoverable through the Companies' FAC.

Q32. Do the Companies incur costs when a customer leaves the SSO and elects to receive generation supply service from a CRES provider?

A32. No. The Companies do not incur any actual out-of-pocket costs when a customer elects to receive service from a CRES provider. The Companies may see a decline in the amount of revenue that they can bill and collect in this circumstance.

Q33. Have the Companies identified whether they have experienced lost revenues during the term of the ESP?

A33. No. In an interrogatory, the Companies were asked to identify any actual loss experienced over the term of the ESP. As shown on Exhibit KMM-7, the Companies have not quantified any actual losses.

Q34. You previously indicated that the Companies have not presented information that reveals the cost to the Companies to be the POLR and carry any risks associated therewith. What about the information presented by Ms. Thomas?

A34. Ms. Thomas continues to advocate the use of the Black model to establish POLR charges based upon option values, notwithstanding the fact that the Companies have not and do not intend to actually purchase any options. The other witnesses presented by the Companies rely on various theories that they say could be used to legitimize a separate charge for POLR but they, too, do not identify any actual incurred costs. Therefore, the Companies continue to propose a POLR charge that is subjectively and administratively determined. At best, it is a non-cost based charge proposal. At worst, it is an arbitrary proposal.

Q35. Are the methods relied upon by the Companies to support their proposed POLR charge reliable for purposes of establishing a POLR charge?

A35. No. As an initial matter, the Companies have again proposed POLR charges without making any attempt to show that they need additional compensation for the POLR and any associated risks beyond the compensation provided by their rates, including the components that provide the Companies with compensation for providing generating supply. As previously noted, the Companies have had an obligation to provide an SSO since the implementation of Am. Sub. SB 3.

Customers have had the ability to switch to a CRES provider both on an individual basis and through community aggregation programs since 2001. Thus, business and financial risks related to the possibility of customer migration to a CRES provider and the possibility of a shopping customer returning to the SSO existed prior to the establishment of the ESP and were reflected in the rates that the Companies accepted as part of the rate stabilization process that predated the ESP opportunity. Because the Black model, as applied by the Companies, relies upon several incorrect assumptions and also does not reflect any actual costs incurred by the Companies, it is not an appropriate methodology for purposes of developing administratively-determined POLR charges.

Q36. In utilizing the Black model, what assumptions did the Companies make regarding a customer's ability to switch to a CRES provider?

A36. The Companies assumed that 100% of their customers are eligible to elect to receive service from a CRES provider.

Q37. Is that assumption correct?

A37. No. When Amended Substitute Senate Bill 221 (":Am. Sub. SB 221") was enacted, a policy determination was made that customers served under the percentage of income payment plan ("PIPP"), which was superseded by the universal service fund ("USF"), would not be eligible to directly contract for service from a CRES provider. The Commission prohibited CRES providers from enrolling PIPP customers. It is my understanding that this requirement is embodied in Rule 4901:1-21-06, Ohio Administrative Code, and that Section 4928.54, Ohio Revised Code, authorizes the Ohio Department of Development

("ODOD") to aggregate PIPP customers for the purpose of securing competitive retail electric generation service for PIPP customers. However, ODOD has never utilized this authority. Thus, the Companies' assumption that 100% of their customers are eligible to elect to receive service from a CRES provider ignores the reality that ODOD controls if and when PIPP customers might move away from SSO service and the fact that ODOD has never exercised this control.

Q38. How many USF customers exist?

A38. As of May 31, 2011, there are 54,567 OPCo USF customers and 50,519 CSP USF customers.

Q39. Are there other inaccurate switching assumptions made by the Companies?

A39. Yes. The Black model relied upon initially by the Companies' witness Baker included an assumption that customers would switch immediately to a CRES provider whenever market prices fell below the price to compare ("PTC") and, conversely, immediately return to SSO service when market prices rose above the PTC. Ms. Thomas refers to this as the unconstrained switching model.

In her testimony, Ms. Thomas discusses using the Black model to calculate option values but she indicates that the Companies are now recognizing switching rules that are in effect. Ms. Thomas refers to this as the constrained switching model. The switching rules discussed by Ms. Thomas include minimum stay requirements that apply to customers that switch to a CRES provider and subsequently return to SSO generation rates. Ms. Thomas indicates that reflecting these switching rules, which places restrictions on a customer's ability to migrate to a CRES provider, results in lower option values.

Q40. Do the switching rules which the Companies have recognized in the constrained option model cover all the rules that affect switching?

A40. No. Although the constrained model may appear to be an improvement over the unconstrained model, the constrained model still omits switching rules, thereby rendering the model defective. For OPCo and CSP customers served under rate schedules GS2, GS3 and GS4, the rate schedule terms and conditions require customers to provide a minimum notice of 90 days before they may switch to a CRES provider. The assumptions in the constrained option model fail to pick up this hard limitation on switching. Instead, the constrained model assumes immediate switching whenever market prices fall below the PTC. Additionally, the Black model relied upon by the Companies does not recognize customer inertia, customer loyalty irrespective of price, and other non-price factors that customers consider in making supplier choices. The Black model does not recognize the time it takes to review and sign CRES supply contracts as well as the time business customers require to obtain management approvals necessary to enter into a contract with a CRES provider. The Black model does not recognize the timing differences between a drop in wholesale market prices and when any such wholesale price declines may be reflected in the prices offered from CRES providers and many other real world factors that are always going to cause actual switching to lag the customers' recognition that prices available from CRES providers are better than the PTC.

Q41. What do you mean by customer inertia?

A41. The Companies' application of the Black model works off of an assumption that customers are perfectly economically rational and switch immediately to a CRES provider from SSO rates or conversely back to SSO rates from a CRES provider when market prices are below or above the PTC, respectively. In reality, customers are not 100% economically rational for a variety of reasons. Some customers may not be knowledgeable about their ability to choose a CRES provider. Some customers may stick with their incumbent utility out of brand loyalty.

We can see examples of customer inertia in the electricity industry throughout Ohio today. For example, switching rates for residential customers in many EDUs' service areas remain low even though the generation rates they are paying under current SSO rates are above prices available from CRES providers, including AEP Retail Energy, the CRES provider affiliated with the Companies. If the Companies' assumption regarding the timing of customer switching had any connection with reality, there would be much higher shopping percentages today throughout the state of Ohio.

Q42. Are there other real world factors that render the assumption about the timing of customer switching defective?

A42. Yes. As mentioned briefly above, switching to a CRES provider involves the execution of contracts and there are time consuming tasks associated with the review and execution of contracts. Customers that switch to a CRES provider often sign contracts with a term of one or more years. The contracts may have provisions that provide for a penalty or cancellation fee for early termination. Thus, the customer's decision to consider returning to SSO rates is not limited to comparing only the PTC to market prices. The customer may not have the contractual ability to return to SSO service at a given point in time or the return may trigger a penalty or cancellation fee. This is true whether the customer is obtaining service directly through a CRES provider or is shopping as a result of participation in a community aggregation program. Therefore, the assumption that all customers immediately return to SSO service when market prices exceed SSO rates is unrealistic and its use in the Black model renders the model fundamentally defective.

Q43. What option value did the Companies estimate using the Black model?

A43. The Companies' application of the Black model assumes that the option value is equal to the value of a put option exercisable for the sale of an MWh of power at the ESP strike price.

Q44. Does the value of a put option as described in the Companies' application of the Black model accurately reveal the Companies' POLR cost or risk?

A44. No. As previously explained, since the Companies did not elect to actually purchase any options, they did not incur any costs. Additionally, put options do not reliably or accurately reflect the Companies' financial risks from customer switching.

For example, if a customer switches to a CRES provider during the ESP and remains with the CRES provider for the remainder of the ESP, the Companies lose the opportunity to provide the customer generation supply at the SSO rate. A put option equivalent in volume to the customer's load, if exercised, hedges or protects the Companies against this risk because it would provide the Companies with the option to continue to sell the equivalent amount of power at the SSO rate, rather than subjecting them to a no sale or a sale at a presumably lower price consequence.

The put option structure embedded in the Companies' application of the Black model necessarily and administratively overstates the Companies' actual risk because it fails to recognize that the entire SSO rate revenue is not at risk when a customer elects to obtain generation supply from a CRES provider. As discussed below, because the Companies are operating under the FRR option under PJM's RPM, the Companies will receive capacity revenues regardless of whether a customer elects to obtain service under the SSO rate or from a CRES provider. Further, even if customer switching to a CRES provider results in no sale by the Companies, the variable costs that are reflected in the SSO rate will be avoided. Thus, the Companies' modeling assumption that treats the entire SSO rate revenue as being at risk as a result of customer switching corrupts any results produced by the model.

Q45. How do the Companies receive capacity revenue under PJM's FRR option even when a customer switches to a CRES provider?

A45. PJM's RPM includes a mandatory centrally cleared auction market for capacity resources that is intended to ensure that sufficient capacity resources exist to meet forecasted demand, consistent with reliability objectives established by

PJM. PJM conducts a base residual auction three years in advance of each delivery year, which runs from June 1 through the following May 31. Within binding zones, a single clearing price is established for capacity resources and that price is paid to capacity resources that clear in the auction. Up to three incremental auctions are held subsequent to the base residual auction but prior to the delivery year. LSEs, such as the Companies, and any CRES providers are charged for capacity resources in an amount deemed by PJM to be adequate to meet their individual forecasted peak load requirements calculated in accordance with PJM's requirements. To accommodate retail load switching in states with "customer choice" like Ohio, PJM's market model supports the daily reassignment of capacity obligations between LSEs with the price for capacity set equal to the prevailing price from the RPM auction.

An option under PJM's RPM is the FRR alternative. Under the FRR alternative, an investor-owned utility, electric cooperative or public power entity may submit a resource plan to PJM prior to the base residual auction for the delivery year. The resource plan identifies the capacity resources the entity will make available to meet forecasted peak demand in the FRR service area. The entity electing the FRR plan assumes the obligation to obtain sufficient capacity resources to meet all demand in the FRR service area, including load growth. The Companies elected the FRR option prior to the ESP and they continue to operate under the FRR option for purposes of meeting the resource adequacy obligations which they agreed to satisfy when they agreed to participate in PJM.

To accommodate retail load switching in states with competitive generation supply where the FRR option has been elected, PJM Interconnection, LCC, Rate Schedule, FERC No. 44, Schedule 8.1, D8 and D9, provides:

> In a state regulatory jurisdiction that has implemented retail choice, the FRR Entity must include in its FRR Capacity Plan all load, including expected load growth, in the FRR Service Area, notwithstanding the loss of any such load to or among alternative retail LSEs. In the case of load reflected in the FRR Capacity Plan that switches to an alternative retail LSE, where the state regulatory jurisdiction requires switching customers or the LSE to compensate the FRR Entity for its FRR capacity obligations, such state compensation mechanism will prevail. In the absence of a state compensation mechanism, the applicable alternative retail LSE shall compensate the FRR Entity at the capacity price in the unconstrained portions of the PJM Region, as determined in accordance with Attachment DD to the PJM Tariff, provided that the FRR Entity may, at any time, make a filing with FERC under Sections 205 of the Federal Power Act proposing to change the basis for compensation to a method based on the FRR Entity's cost or such other basis shown to be just and reasonable, and a retail LSE may at any time exercise its rights under Section 206 of the FPA.
>
> Notwithstanding the foregoing, in lieu of providing the compensation described above, such alternative retail LSE may, for any Delivery Year subsequent to those addressed in the FRR Entity's then-current FRR Capacity Plan, provide to the FRR Entity Capacity Resources sufficient to meet the capacity obligation described in paragraph D.2 for the switched load. Such Capacity Resources shall meet all requirements applicable to Capacity Resources pursuant to this Agreement and the PJM Operating Agreement, all requirements applicable to resources committed to an FRR Capacity Plan under this Agreement, and shall be committed to service to the switched load under the FRR Capacity Plan of such FRR Entity. The alternative retail LSE shall provide the FRR Entity all information needed to fulfill these requirements and permit the resource to be included in the FRR Capacity Plan. The alternative retail LSE, rather than the FRR Entity, shall be responsible for any performance charges or compliance penalties related to the performance of the resources committed by such LSE to the switched load. For any Delivery Year, or portion thereof, the foregoing obligations apply to the alternative retail LSE serving the load during such time period. PJM shall manage the transfer

> accounting associated with such compensation and shall administer the collection and payment of amounts pursuant to the compensation mechanism.

Thus, unless a CRES provider elected to opt out of the Companies' FRR plan by designating the CRES provider's own capacity resources, the Companies will continue to receive capacity revenues from any CRES provider serving customers located in the Companies' service areas even when the customer is receiving generation service from the CRES provider. To date, no CRES provider operating in the Companies' service areas has elected to opt out of the FRR plan. Thus, the put option valuation assumption that has the Companies losing all SSO revenue when a customer switches to a CRES provider is erroneous and the results of the Black model are thereby corrupt.

I should note as well that the Companies have filed a complaint at the FERC in Docket No. EL11-32-000 challenging the reasonableness of this provision in PJM's tariff. Through the complaint, the Companies are seeking to significantly increase the capacity-related price and revenue they would obtain from CRES providers providing generation supply within their service areas.

A46. Ms. Thomas states that because approximately 98% of customers that have switched to a CRES continue to pay POLR charges, this demonstrates that customers recognize the benefit of paying POLR charges. Do you agree?

A46. No. Ms. Thomas' testimony appears to be a conclusion based upon customer behavior rather than a conclusion based upon surveys or feedback from customers. There are several other reasons why customers that have switched to a CRES provider may be continuing to pay POLR charges.

First, the customer may be ignorant that the customer has the option to elect to waive POLR charges, unless they have actually read the relevant language in AEP-Ohio's tariffs. The tariff schedules themselves do not specify what action the customer must take in order to elect to waive the POLR charges.

Second, AEP-Ohio has tried to suggest to customers that the decision to waive POLR charges is permanent. In other words, if the customer elects to waive POLR charges the only option to return to SSO service is at market-based rates in perpetuity, not just during the remaining term of the ESP. This type of communication will likely intimidate some customers that might otherwise be willing to make a decision limited to the term of the ESP.

Lastly, in my experience, the POLR charges tend to be sticky even in circumstances in which the customer affirmatively elects to waive the POLR charges. There are several IEU-Ohio members that have requested, in writing, waiver of the POLR charges in conjunction with their election to switch to a CRES provider. However, subsequent to their switch to a CRES provider, the customers continue to be invoiced for POLR charges. Removing the POLR charges and correcting invoices requires customers to formally dispute invoices. In the event the Commission approves a POLR charge, which I do not recommend, the Commission should direct AEP-Ohio to provide a standard form, with language reviewed and approved by the Commission Staff, to be used by customers electing to waive POLR charges. The Commission should direct AEP-Ohio to proactively communicate information regarding waiver of POLR charges to customers.

Q47. Are there any other factors the Commission should consider regarding the Companies' proposed POLR charges?

A47. Yes. As is the case today, any perceived POLR risk that the Companies may have can be mitigated by the Companies proactively encouraging customers to waive POLR charges and elect to receive SSO service, upon any return to the Companies, at a market-based price during the remaining term of the ESP.

Q48. What are your conclusions regarding the proposed POLR charges?

A48. The Commission should reject the proposed POLR charges.

Q49. Do you have any other recommendations to the Commission on AEP-Ohio's proposed electric security plan?

A49. Yes. Many of the new placeholder riders AEP-Ohio has proposed in its ESP are designated as non-bypassable riders. Many of these riders are also associated with generation-related costs. These include the Facility Closure Cost Recovery Rider, Generation Resource Rider, the Alternative Energy Rider, the Generation NERC Compliance Cost Recovery Rider and the Carbon Capture and Sequestration Rider. Because generation service is a competitive service in Ohio, permitting AEP-Ohio to recover generation related costs through non-bypassable charges is contrary to Ohio's policy to encourage competition for generation service. The non-bypassable charges also provide an anticompetitive subsidy to AEP Ohio's generation business. The Commission should not permit AEP Ohio to recover generation-related revenue through any non-bypassable costs.

IV. CONCLUSION

Q50. What are your conclusions regarding AEP-Ohio's proposed ESP?

A50. AEP-Ohio cannot demonstrate that its proposed ESP is more favorable than an MRO. Therefore, the Commission should not approve the proposed ESP. Additionally, the Commission should reject the Company's proposed POLR charges and require any rates or riders designed to collect generation-related revenues to be fully bypassable.

Q51. Does this conclude your testimony?

A51. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Kevin M. Murray on Behalf of Industrial Energy Users-Ohio* was served upon the following parties of record this 25th day of July 2011, *via* electronic transmission, hand-delivery or first class mail, postage prepaid.

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ATTORNEY EXAMINERS

Exhibit KMM-1

Exhibit KMM-1

In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan, and the Sale or Transfer of Certain Generating Assets, Case No. 08-917-EL-SSO and In the Matter of the Application of Ohio Power Company for Approval of its Electric Security Plan; and an Amendment to its Corporate Separation Plan, Case No. 08-918-EL-SSO (remand phase).

In the matter of the application of Columbus Southern Power for approval of its program portfolio plan and request for expedited consideration, PUCO Case No. 09-1089-EL-POR.

In the matter of the application of Ohio Power Company for approval of its program portfolio plan and request for expedited consideration, PUCO Case No. 09-1090-EL-POR.

In the matter of the application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for approval of a market rate offer to conduct a competitive bidding process for standard service offer electric generation supply, accounting modifications associated with reconciliation mechanism, and tariffs for generation service, PUCO Case No. 09-906-EL-SSO.

In the matter of the application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for authority to establish a standard service offer pursuant to R.C. 4928.143 in the form of an electric security plan, PUCO Case No. 08-935-EL-SSO.

In the matter of the application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for approval of a market rate offer to conduct a competitive bidding process for standard service offer electric generation supply, accounting modifications associated with reconciliation mechanism, and tariffs for generation service, PUCO Case No. 08-936-EL-SSO.

In the matter of the application of Columbus Southern Power Company for approval of its Electric Security Plan; an amendment to its Corporate Separation Plan; and the sale or transfer of certain generating assets, PUCO Case Nos. 08-917-EL-SSO.

In the matter of the application of Ohio Power Company for approval of its Electric Security Plan; and an amendment to its Corporate Separation Plan, PUCO Case No. 08-918-EL-SSO.

In the matter of the application of Duke Energy Ohio for approval of an Electric Security Plan, PUCO Case No. 08-920-EL-SSO.

In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan, PUCO Case No. 08-1094-EL-SSO.

Exhibit KMM-2

Exhibit KMM- 2

Competitive Bid Auction Schedule Approved in Case 10-388-EI-SSO

Procurement Date	Tranches Procured	Delivery Periods 11-Jun	12-Jun	13-Jun	14-Jun
Oct-10	17	12 month June 2011 to May 2012			
	17	24 month June 2011 to May 2013			
	16	36 month June 2011 to May 2014			
Jan-11	17	12 month June 2011 to May 2012			
	17	24 month June 2011 to May 2013			
	16	36 month June 2011 to May 2014			
Oct-11	17		2 year June 2012 to May 2014		
Jan-12	17		2 year June 2012 to May 2014		
Oct-12	17			1 year June 2013 to May 2014	
Jan-13	17			1 year June 2013 to May 2014	

Exhibit KMM-3

AEP RETAIL ENERGY

Start Saving on Your Electricity Costs.

Limited time offer.
Must enroll by March 25, 2011.

***********AUTO**5-DIGIT 43215
C-03966 T23 P1
McNees Wallace & Nurick
21 E State St Unit 17D
Columbus OH 43215-4281

Dear Energy Decision Maker:

AEP Retail Energy is now offering new pricing on electric generation and transmission costs for a **36-month term**. You can now enroll in our Fixed Plan and start saving on electricity costs for your business.

AEP Retail Energy is a certified retail electric service provider and a non-regulated subsidiary of American Electric Power (AEP). We can help your business save money.

Pricing.

- **7.07 cents per kWh** if under 250,000 kWh per year, plus a $5 per meter monthly fee[1]
- **6.79 cents per kWh** if between 250,000–500,000 kWh per year, plus a $5 per meter monthly fee[1]
- **6.29 cents per kWh** if between 500,000 – 700,000 kWh per year, or on tariff code 240, plus a $5 per meter monthly fee[1]

It's easy to switch. You can either E-Mail, Fax or Mail the enclosed Enrollment Form and a complete copy of your most recent electric bill. The savings will begin as soon as AEP Retail Energy and the local utility company accept your enrollment request. Don't miss your chance to save!

Instructions.

Step 1:	Step 2:	Step 3:	Step 4:
Fill out the enclosed Enrollment Form.	Attach a copy of your COMPLETE and most recent electric bill per account.	Make a copy for your records.	Send in Enrollment Form and copy of electric bill by: • **E-Mail** to RetailEnroll@AEP.com • **Fax** to AEP Retail Enrollments at 1-(866)-872-4099 • **Mail** to P.O. Box 1415, Columbus, OH 43216

Start saving money with AEP Retail Energy today!

Sincerely,

Courtney Mehan
Manager of Marketing & Sales

[1] Some customers may be required to install an interval meter depending on peak demand. Offer expires 3/25/2011. For more information, call (866) 823-6738; write to. AEP Retail Energy, P.O. Box 1415, Columbus, OH 43216, or visit AEPRetailEnergy.com. AEP Retail Energy is a competitive retail electric service provider. While it is an affiliate of Columbus Southern Power Company and Ohio Power Company (AEP Ohio), AEP Retail Energy is not soliciting on behalf of and is not an agent for AEP Ohio. AEP Ohio customers do not need to purchase any competitive retail electric service from AEP Retail Energy to receive or to continue to receive noncompetitive retail electric service from AEP Ohio.

AEP11.01.28-DM

ID# 442539

AEP RETAIL ENERGY

American Electric Power Service Area

Small Commercial Terms & Conditions ENROLLMENT FORM

Limited time offer. Must enroll before March 25, 2011.

☑ Yes, I would like to save my company money on electricity.

Please enroll my organization to receive electricity from AEP Retail Energy, a non-regulated subsidiary of American Electric Power, where my company may begin saving money on its Electric Bill (based on credit and eligibility).The **36-month term** will begin as soon as AEP Retail Energy and the local utility company accept your enrollment request.

Pricing.

- **7.07 cents per kWh** if under 250,000 kWh per year, plus a $5 per meter monthly fee[1]
- **6.79 cents per kWh** if between 250,000–500,000 kWh per year, plus a $5 per meter monthly fee[1]
- **6.29 cents per kWh** if between 500,000 – 700,000 kWh per year, or on tariff code 240, plus a $5 per meter monthly fee[1]

I agree to the Terms and Conditions[†] included in this packet. I acknowledge that I am an authorized representative of the company and I have the authority to make decisions on behalf of the company regarding its electric generation supplier. AEP Retail Energy has my permission to obtain my electric usage data including historical payment information.

Signature: ______________________ **Date:** __________

Business Account Holder Name (please print): ______________________

Company Information (used for credit review).

Contact Name: ______________ Title: ______________

Legal Company Name: ______________________

Legal Address: ______________________

Billing Address (if different than above): ______________________

Phone Number: (   ) ______ - ______ Fax number: (   ) ______ - ______

Federal Tax ID #: ______________ E-Mail: ______________

Account Information — MUST include a COMPLETE copy of your most recent utility electric bill per account.

Service Delivery Identifier Number (SDIN). The 17 digit number located above "Generation Service" on page 1 of utility bill.

______________________ (Service Address) ______________ (County)

______________ (City) ______ (State) ______ (Zip) ______ (Tariff Code)

Instructions.

Step 1: Fill out the enclosed Enrollment Form.

Step 2: Attach a copy of your COMPLETE and most recent electric bill per account.

Step 3: Make a copy for your records.

Step 4: Send in Enrollment Form and copy of electric bill by:
- **E-Mail** to RetailEnroll@AEP.com
- **Fax** to AEP Retail Enrollments at 1-(866)-872-4099
- **Mail** to P.O. Box 1415, Columbus, OH 43216

PLEASE KEEP A COPY FOR YOUR RECORDS.

[1] Some customers may be required to install an interval meter depending on peak demand. For more information, call (866) 823-6738; write to: AEP Retail Energy, P.O. Box 1415, Columbus, OH 43216, or visit AEPRetailEnergy.com.

[†] Terms and Conditions Version 11.01.12-SC-CON

PLEASE INCLUDE IF ADDITIONAL ACCOUNTS.

Service Delivery Identifier Number (SDIN). The 17 digit number located above "Generation Service" on page 1 of utility bill.

(Service Address) (County)

(City) (State) (Zip) (Tariff Code)

Service Delivery Identifier Number (SDIN). The 17 digit number located above "Generation Service" on page 1 of utility bill.

(Service Address) (County)

(City) (State) (Zip) (Tariff Code)

Service Delivery Identifier Number (SDIN). The 17 digit number located above "Generation Service" on page 1 of utility bill.

(Service Address) (County)

(City) (State) (Zip) (Tariff Code)

Service Delivery Identifier Number (SDIN). The 17 digit number located above "Generation Service" on page 1 of utility bill.

(Service Address) (County)

(City) (State) (Zip) (Tariff Code)

Service Delivery Identifier Number (SDIN). The 17 digit number located above "Generation Service" on page 1 of utility bill.

(Service Address) (County)

(City) (State) (Zip) (Tariff Code)

MUST include a COMPLETE copy of your most recent utility electric bill per account.

AEP Retail Energy is a competitive retail electric service provider. While it is an affiliate of Columbus Southern Power Company and Ohio Power Company (AEP Ohio), AEP Retail Energy is not soliciting on behalf of and is not an agent for AEP Ohio. AEP Ohio customers do not need to purchase any competitive retail electric service from AEP Retail Energy to receive or to continue to receive noncompetitive retail electric service from AEP Ohio.

PLEASE KEEP A COPY FOR YOUR RECORDS.

AEP RETAIL ENERGY℠

TERMS & CONDITIONS

AEP Retail Energy, P.O. Box 1415, Columbus, OH 43216. For more information, call (866) 823-6738 or visit www.AEPRetailEnergy.com

CONDITIONS. These Terms and Conditions together with the enrollment information are your agreement for electric generation service with AEP Retail Energy Partners LLC ("AEP Retail Energy"). Please keep a copy of this Agreement for your records. AEP Retail Energy is certified by the Public Utilities Commission of Ohio ("PUCO") to offer and supply electric generation services in Ohio. As a Competitive Retail Electric Service ("CRES") provider, AEP Retail Energy will supply the electric generation and provide transmission services to your Electric Distribution Utility ("EDU") based on your usage. Your EDU then distributes or delivers the electricity to you. The PUCO regulates distribution prices and services. Your distribution service will remain with your current EDU.

DEFINITIONS.
"Competitive Retail Electric Service Provider" or "CRES" provider means, as defined by the Chapter 4901:1-21 of the Substantive Rules as applicable to electric service providers, a person that sells electric energy to retail customers in Ohio.
"Generation Service" means the production of electricity.
"Transmission Service" means moving high voltage electricity from a generation facility to the distribution lines of an EDU.
"Distribution Service" means the Physical delivery of electricity to customers by the EDU.

RIGHT OF RESCISSION. Once you have been enrolled to receive generation service from AEP Retail Energy, your EDU will send you a confirmation letter. You will have the right to rescind your enrollment within seven (7) calendar days following the postmark date of the confirmation letter by following the instructions contained in the letter. The Right of Rescission only applies when a customer switches to a generation supplier and not on renewal enrollments. Your EDU will not send a confirmation notice upon any renewal of this Agreement.

TERMS AND CONDITIONS OF SERVICE.

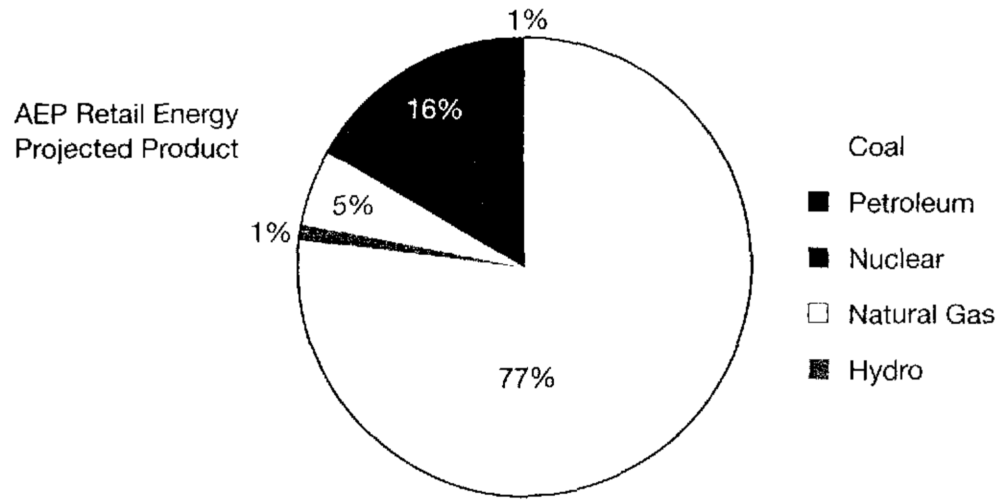
1. **Eligibility.** Commercial: Small commercial customer accounts with an annual usage of less than 700,000 kWh are eligible for this offer from AEP Retail Energy. AEP Retail Energy reserves the right to refuse enrollment to any commercial customer with an outstanding electric bill balance.
2. **Basic Service Prices.** During the term of this Contract, you agree to pay AEP Retail Energy a fixed price for all applicable combined electric Transmission, Generation and Generation Related Charges as specified in the enrollment notification including any applicable taxes, if any. Fixed Price: For the billing months listed on the enrollment notification, all kilowatt-hour ("kWh") of *electric energy metered by the EDU shall be billed at the rate per* kWh specified in the enrollment notification, plus a $5 per meter monthly fee. In addition to AEP Retail Energy's charges, you will be charged by your EDU for distribution and various other charges. In addition to the fixed price described above, AEP Retail Energy will charge you for any and all fees, costs, and obligations for transmission services imposed by a Regional Transmission Organization ("RTO"), such as PJM Interconnection, LLC or an Independent System Operator (ISO), such as the Midwest Independent Transmission System Operator (MISO) or any successor organizations (collectively, referred to as the RTO), that are not otherwise reimbursed to AEP Retail Energy, regardless of whether such charges are greater than, less than, or equal to the charges you currently pay for these services ("RTO/Transmission and Ancillary Services Charges"). AEP Retail Energy will pass through to you RTO/Transmission and Ancillary Services Charges directly charged to AEP Retail Energy for providing electricity to you. In addition, you may be required to pay any additional or increased fees or charges that are beyond AEP Retail Energy's reasonable control including, but not limited to, fees for switching, disconnecting, reconnecting or maintaining electric service or equipment, or transmission or transmission-related charges, that are imposed by law, rule, regulation or tariff, or Commission rule or order. These charges or fees will be passed through to you and added to your price. To the extent that your EDU is seeking regulatory authority to include Transmission Service charges in its regulated rates, AEP Retail Energy's price does not include such charges. In the event that your EDU does not receive regulatory approval to include Transmission Service Charges in its regulated rates, AEP Retail Energy reserves the right to re-price the Fixed Price to include such Transmission Service Charges.
3. **Length of Agreement.** Your service from AEP Retail Energy will commence with the next available meter reading following the seven (7) day rescission period, and after the acceptance of the enrollment request by AEP Retail Energy (at its discretion and consistent with Paragraph 7 below), and after processing of the enrollment by your EDU, and will continue for the term as specified on the Enrollment Form in the offer materials from AEP Retail Energy, ending on the meter read for the last month of service.
4. **Billing.** You will be dual billed by AEP Retail Energy and your EDU separately for your charges on a monthly billing cycle. For all partial Billing Cycle Months the charges for such partial Billing Cycle Month (if applicable) shall be prorated based on the number of calendar days where AEP Retail Energy provided service to Customer during a Billing Cycle Month divided by the number of calendar days in the normal Billing Cycle Month. AEP Retail Energy does not offer budget billing. If you do not pay your bill by the due date, AEP Retail Energy may cancel this Agreement after giving you a minimum of fourteen (14) days *written notice. Upon cancellation you will be returned to your EDU as a customer. You will* remain responsible to pay AEP Retail Energy for any electricity used before this Agreement is cancelled as well as any late payment charges. AEP Retail Energy reserves the right to convert you from dual billing to consolidated billing if such a conversion will facilitate more timely billing, collections, and/or payment. Further, your failure to pay EDU charges may result in your electric service being disconnected in accordance with the EDU tariff.
5. **Penalties, Fees and Exceptions.** Your EDU may charge a switching fee to the customer. If you do not pay the full amount owed to AEP Retail Energy by the due date of the bill, AEP Retail Energy may charge a late payment fee up to one and one-half (1.5%) percent of the outstanding balance per month, or the maximum legally allowed interest rate, whichever is lower until such payment is received by AEP Retail Energy. AEP Retail Energy reserves the right to demand adequate assurances from you in the form of prepayment, a deposit, or other form of credit support in the event you fail to make payments in accordance with the terms herein.
6. **Cancellation/Termination Provisions.** If this Agreement is not rescinded during the rescission period, enrollment will be sent to your EDU. You may terminate this Agreement, without penalty, if you move outside AEP Retail Energy's service area or into an area where AEP Retail Energy charges a different price, by providing AEP Retail Energy with a thirty (30) day written notice. If you terminate this Agreement for any other reason, except as expressly provided herein, there will be an Early Termination fee equal to one and a half (1.5) cents per kWh multiplied by the expected monthly average usage multiplied by the remaining number of months not to be less than six months. Upon termination with AEP Retail Energy and return to standard offer service with your EDU, you may not be served under the same rates, terms, and conditions that apply to other EDU customers.
7. **Customer Consent and Information Release Authorization.** By choosing to accept this offer from AEP Retail Energy you understand and agree to the terms and conditions of this Agreement with AEP Retail Energy. You authorize AEP Retail Energy to obtain information from the EDU that includes, but is not limited to: billing history, payment history, historical and future electricity usage, meter readings, and characteristics of electricity service. AEP Retail Energy reserves the right to determine if your credit standing is satisfactory before accepting your enrollment request. This Agreement shall be considered executed by AEP Retail Energy following acceptance of your enrollment request by AEP Retail Energy, the end of the 7 day rescission period and subsequent acceptance of the enrollment by your EDU.
8. **Contract Expiration.** At the end of its term, this Agreement will expire, or at AEP Retail Energy's option, renew for a term that shall not exceed the initial term. AEP Retail Energy will provide you with written notice at least forty-five (45) calendar days prior to the expiration of this Agreement. The notice shall include any changes to the Agreement's terms and conditions, the specified rate for the extension term, and instructions on how to accept the new terms and conditions, if any. If you do not accept the new terms and conditions, AEP Retail Energy will return you to your EDU.
9. **Dispute Procedures.** Contact AEP Retail Energy with any questions concerning the terms of service by phone at 1-866-823-6738 (toll-free) M-F 8AM – 5PM EST or in writing at AEP Retail Energy, P.O. BOX 1415 Columbus, OH 43216. Our web address is www.AEPRetailEnergy.com. If your complaint is not resolved after you have called your electric supplier and/or your electric utility, or for general utility information, residential and business customers may contact the Public Utilities Commission of Ohio for assistance at 1-800-686-7826 (toll free) or TTY at 1-800-686-1570 (toll free) from 8:00 am to 5:00 pm weekdays or at www.PUCO.ohio.gov
10. **Miscellaneous.** You have the right to request from AEP Retail Energy, twice within a 12 month period, up to 24 months of payment history, without charge. AEP Retail Energy is prohibited from disclosing your social security number and/or account number(s) without your affirmative written consent except for AEP Retail Energy's collections and reporting, participating in programs funded by the universal service fund pursuant to section 4928.54 of the Revised Code, or assigning your contract to another CRES provider. AEP Retail Energy's *environmental disclosure statement is available for viewing on our website at www.*AEPRetailEnergy.com. You agree that AEP Retail Energy will make the required quarterly updates to the statement electronically on our website. We will also provide the information upon request. AEP Retail Energy may assign its rights to another CRES, including any successor, in accordance with the rules and regulations of the PUCO. AEP Retail Energy assumes no responsibility or liability for the following items that are the responsibility of the EDU: operation and maintenance of the EDU's electrical system, any interruption of service, termination of service, or deterioration of the EDU's service. In the event of a power outage, you should contact your local EDU. You are responsible for providing AEP Retail Energy with accurate account information. If said information is incorrect, AEP Retail Energy reserves the right to re-price the applicable account(s). AEP Retail Energy reserves the right to re-price any account(s) or return you to the EDU if your rate code or meter type is changed and/or the account is no longer eligible for this program. You authorize, but do not obligate AEP Retail Energy to exercise your government aggregation opt-out rights.
11. **Warranty and Force Majeure.** AEP Retail Energy warrants title and the right to all electricity sold hereunder. THE WARRANTIES SET FORTH IN THIS PARAGRAPH ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER WARRANTIES, WHETHER STATUTORY, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR ARISING OUT OF ANY COURSE OF DEALING OR USAGE OF TRADE. If AEP Retail Energy is unable to perform its obligations in whole or in part due to an event of Force Majeure as defined herein, then the obligations of the affected customer shall be suspended to the extent made necessary by such event. The term "Force Majeure" means any cause not within the control of AEP Retail Energy, including, but not limited to, acts of God, acts of a governmental authority; civil disorder; the failure of the EDU or RTO to receive, transport, or deliver, or otherwise perform.
12. **REMEDIES.** UNLESS OTHERWISE EXPRESSLY PROVIDED HEREIN, ANY LIABILITY UNDER THIS AGREEMENT WILL BE LIMITED TO DIRECT, ACTUAL DAMAGES AS THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY OR ITS AFFILIATES FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, INCLUDING LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, WHETHER IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISIONS OR OTHERWISE IN CONNECTION WITH THIS AGREEMENT. THE LIMITATIONS IMPOSED ON REMEDIES AND DAMAGE MEASUREMENT WILL BE WITHOUT REGARD TO CAUSE, INCLUDING NEGLIGENCE OF ANY PARTY, WHETHER SOLE, JOINT, CON*CURRENT, ACTIVE OR PASSIVE; PROVIDED NO SUCH LIMITATION SHALL APPLY TO* DAMAGES RESULTING FROM THE WILLFUL MISCONDUCT OF ANY PARTY.
13. **Customer Liability and Indemnification of AEP Retail Energy.** You assume full responsibility for Power furnished to you at the Delivery Point(s) and on your side of the Delivery Point(s), and agree to and shall indemnify, defend, and hold harmless AEP Retail Energy, its parent company and all of its affiliates, and all of their respective managers, members, officers, directors, shareholders, associates, employees, servants, and agents (hereinafter collectively referred to as "AEP Retail Energy Group"), from and against all claims, losses, expenses, damages, demands, judgments, causes of action, and suits of any kind (hereinafter collectively referred to "Claims"), including Claims for personal injury, death, or damages to property occurring at the delivery point(s) or on your side of the delivery point and upon the premise(s), arising out of or related to the electricity and/or customer's performance under the Agreement.
14. **Assignment.** You may not assign this Agreement or its rights hereunder without the prior written consent of AEP Retail Energy, which consent shall not be unreasonably withheld. AEP Retail Energy may assign this Agreement without consent.
15. **Choice of Law.** This Agreement shall be construed and enforced in accordance with the laws of the State of Ohio without giving effect to any conflicts of law principles which otherwise might be applicable.

PLEASE KEEP A COPY FOR YOUR RECORDS.

Environmental Disclosure – Quarterly Comparisons
AEP Retail Energy

Projected Data for the Period of January 1, 2011-December 31, 2011

Generation Resource Mix
A projection of the resources to be used to generate this product during this period.



Environmental Characteristics
A description of characteristics associated with each possible generation resource.

Biomass Power	Air Emissions and Solid Waste
Coal Power	Air Emissions and Solid Waste
Hydro Power	Wildlife Impacts
Natural Gas Power	Air Emissions and Solid Waste
Nuclear Power	Radioactive Waste
Oil Power	Air Emissions and Solid Waste
Other Sources	Unknown Impacts
Solar Power	No Significant Impacts
Unknown Purchased Resources	Unknown Impacts
Wind Power	Wildlife Impacts

Air Emissions
Product-specific projected and actual air emissions for this period compared to the regional average air emissions.

Projected 2011 pounds/MWH	
Sulfur Dioxide	8.2
Nitrogen Oxides	2.6
Carbon Dioxide	1,723

Radioactive Waste
Product-specific projected and actual radioactive waste for this period.

Type:	Quantity:	
High-level Radioactive Waste	unknown	LBs./1,000 kWh
Low-Level Radioactive Waste	unknown	$Ft.^3$/1,000 kWh

AEP Retail Energy purchases all of its electric energy from the wholesale market. The above generation resource mix is based on EIA reporting of regional generation sources. AEP Retail Energy does not have access to information regarding the radioactive waste produced by nuclear generation in the region.

With in-depth analysis, the environmental characteristics of any form of electric generation will reveal benefits as well as costs. For further information, contact AEP Retail Energy at AEPRetailEnergy.com or by phone at 1-866-823-6738.

Exhibit KMM-4

Savings of up to 25% off[1]

5.89 cents per kWh[2]

Fixed through December, 2011

'Experts in Electricity Savings'
New in your Neighborhood and Providing Savings of Up to 25% Off the Duke Energy utility rate.

Enrollment Consent

Yes, I want to enroll with AEP Retail Energy to save money on my electricity costs. Enroll my account in the fixed price of 5.89 cents per kWh through the end of the year

By signing this Enrollment Consent Form, I am authorizing AEP Retail Energy to be my electricity provider, obtain information about my account and process my enrollment with the local utility under the attached Terms and Conditions which I have read and agreed to.

I understand that I may contact AEP Retail Energy at 1-866-823-6738 or write to: AEP Retail Energy at PO Box 1415, Columbus, OH 43216, if I have additional questions. The advertised offer is available through 5/20/2011

I accept the offer Terms and Conditions

Please Complete the Form Below:

Required fields

Fill in your Duke Energy Ohio account number (10 Digits)

Promo Code How did you hear about us?

Service Address*

City* State* Zip Code*

OH

My Mailing Address is Different from my Service Address

Phone Number* Email

Signature of Account Holder* Date

Entering your full name in the field above will be considered your signature of approval and agreement to the terms of this promotion.

After you have enrolled with AEP Retail Energy, your electric utility company will be sending you a confirmation notice of the transfer of service, and you should contact the electric utility if you wish to rescind the contract. You will have seven calendar days to rescind if you change your mind from the post mark date on the confirmation notice. If you do decide to cancel, the electric utility should give you a cancellation number to confirm any cancellation of the contract during the cancellation period.

[1] Savings are based upon the estimated Duke Energy rate of 6.11 cents through 10.2 cents per kWh as of March 2011

[2] AEP Retail Energy price is exclusive of taxes, additional service and delivery charges from the electric utility. Early termination charges will apply. Limited time offer

Certain applicants may not be eligible based on Ohio's electricity choice regulations. Your savings will begin as soon as AEP Retail Energy and your local electric utility company accept the enrollment request.

AEP Retail Energy is a competitive retail electric service provider. While it is an affiliate of Columbus Southern Power Company and Ohio Power Company (AEP Ohio), AEP Retail Energy is not soliciting on behalf of and is not an agent for AEP Ohio. AEP Ohio customers do not need to purchase any competitive retail electric service from AEP Retail Energy to receive or to continue to receive non-competitive retail electric service from AEP Ohio

Contact Us | Email: OhioRetail@AEP.com Phone: (866)823-6738 Mail: AEP Retail Energy, P.O. Box 1415, Columbus, Ohio 43216

AEP RETAIL ENERGY

RESIDENTIAL TERMS & CONDITIONS

("Agreement")

INITIAL TERM	GENERATION SERVICE CHARGES	CANCELLATION FEE	CONTRACT RENEWAL
Through December 2011 billing cycle ("Initial Term")	5.69 cents per kWh for Generation and Transmission services for the Initial Term. Price excludes taxes, utility delivery charges and other utility charges and fees.	You may cancel within the 7- day rescission period without penalty. If you terminate after the rescission period there will be a $50 fee. **Section 6** for details	Your Agreement will automatically continue on a month-to-month basis. See **Section 8** for details.

CONDITIONS. These Terms and Conditions together with the Enrollment Consent Form are your Agreement for electric generation service with AEP Retail Energy Partners LLC ("AEP Retail Energy"). Please keep a copy of this Agreement for your records. AEP Retail Energy is certified by the Public Utilities Commission of Ohio ("PUCO") to offer and supply electric generation services in Ohio. As a Competitive Retail Electric Service ("CRES") provider, AEP Retail Energy will supply the electric generation and provide transmission services to your Electric Distribution Utility ("EDU") based on your usage. Your EDU then distributes or delivers the electricity to you. Your distribution service will remain with your current EDU, which is regulated by the PUCO.

DEFINITIONS. "Competitive Retail Electric Service Provider" or "CRES" provider means, as defined by Chapter 4901:1-21 of the Substantive Rules applicable to electric service providers, an entity that sells electric energy to retail customers in Ohio. "Generation Service" means the production of electricity. "Generation Related Charges" means those charges or costs associated with the production, procurement and supply of electricity. "Transmission Service" means moving high voltage electricity from a generation facility to the distribution lines of an EDU. "Distribution Service" means the physical delivery of electricity to customers by the EDU.

RIGHT OF RESCISSION. Once you have been enrolled to receive generation service from AEP Retail Energy, your EDU will send you a confirmation letter. You have the right to rescind your enrollment without penalty within seven (7) calendar days following the postmark date of the confirmation letter by contacting your EDU and following the instructions contained in the letter. The Right of Rescission only applies when you initially switch to AEP Retail Energy and not upon renewal. Your EDU will not send a confirmation notice upon any renewal of this Agreement.

TERMS AND CONDITIONS OF SERVICE

1 **Eligibility.** Residential customer accounts that are on rate code RS and are not enrolled in the Percentage of Income Plan Program (PIPP) are eligible for this offer from AEP Retail Energy. AEP Retail Energy reserves the right to refuse enrollment to any residential customer with an outstanding, unpaid electric bill.

2 **Basic Service Prices.** During the term of this Contract, you agree to pay AEP Retail Energy a fixed price for all applicable combined electric Transmission, Generation and Generation Related Charges as specified in the Enrollment Consent Form including any applicable taxes, if any ("Fixed Price"). For the billing months listed on the Enrollment Consent Form, all kilowatt-hours ("kWh") of electric energy metered by the EDU shall be billed at the rate per kWh specified in the Enrollment Consent Form. In addition to AEP Retail Energy's charges, you will be charged by your EDU for distribution and other service charges. In addition to the fixed price described above, AEP Retail Energy will charge you for any and all fees, costs, and obligations for transmission services imposed by a Regional Transmission Organization ("RTO"), such as PJM Interconnection, LLC, or an Independent System Operator (ISO), such as the Midwest Independent Transmission System Operator (MISO) or any successor organizations (collectively, referred to as the RTO), that are not otherwise reimbursed to AEP Retail Energy, regardless of whether such charges are greater than, less than, or equal to the charges Customer currently pays for these services ("RTO/Transmission and Ancillary Services Charges"). AEP Retail Energy will pass through to you any RTO/Transmission and Ancillary Services Charges, which may be variable, related to AEP Retail Energy's providing electricity to you and any additional or increased fees or charges that are beyond AEP Retail Energy's reasonable control. That could include, but not be limited to, fees for switching, disconnecting, reconnecting or maintaining electric service or equipment, or transmission or transmission-related charges, that are imposed by law, rule, regulation or tariff, or Commission rule or order. These charges or fees will be passed through to you and added to your price. The EDU has filed with the PUCO for the right to include Transmission Service charges in its regulated rates to customers directly, beginning on January 1, 2012. AEP Retail Energy has adjusted its Fixed Price to exclude Transmission Service charges beginning in 2012. In the event that the EDU's regulated rate is not approved to include Transmission Services charges, AEP Retail Energy reserves the right to re-price the Fixed Price to include Transmission Service charges.

3 **Length of Agreement.** Your service from AEP Retail Energy will begin with the next available meter-reading following: a) the seven (7) day rescission period; b) the acceptance of the enrollment request by AEP Retail Energy (at its discretion and consistent with Paragraph 7 below), and c) processing of the enrollment by your EDU, and will continue for the term as specified on the Enrollment Consent Form from AEP Retail Energy, ending on the meter read for the last month of service.

4 **Billing.** You will continue to receive a single bill from your EDU that will contain both your EDU and AEP Retail Energy charges. AEP Retail Energy does not offer budget billing. If you do not pay your bill by the due date, AEP Retail Energy may cancel this Agreement after giving you a minimum of fourteen (14) days written notice. Upon cancellation you will be returned to your EDU as a customer. You will remain responsible to pay AEP Retail Energy for any electricity used before this Agreement is cancelled as well as any late payment charges. Further, your failure to pay EDU charges may result in your electric service being disconnected in accordance with the EDU tariff.

5 **Penalties, Fees and Exceptions.** Your EDU may charge you a switching fee. If you do not pay the full amount owed to AEP Retail Energy by the due date of the bill, AEP Retail Energy may charge a late payment fee up to one and one-half (1.5%) percent of the outstanding balance per month, or the maximum legally allowed interest rate, whichever is lower until such payment is received by AEP Retail Energy.

6 **Cancellation/Termination Provisions.** If this Agreement is not rescinded during the rescission period, enrollment will be sent to your EDU. You may terminate this Agreement, without penalty, if you move outside AEP Retail Energy's service area or into an area where AEP Retail Energy charges a different price, by providing AEP Retail Energy with a thirty (30) day written notice prior to such move. There will be a charge if you terminate this Agreement for any other reason except as expressly provided herein. Should you cancel service with AEP Retail Energy and return to standard offer service with your EDU, you may not be served under the same rates, terms, and conditions that apply to other EDU customers.

7 **Customer Consent and Information Release Authorization.** By accepting this offer from AEP Retail Energy, you understand and agree to the terms and conditions of this Agreement with AEP Retail Energy. You authorize AEP Retail Energy to obtain information from the EDU that includes, but is not limited to: billing history, payment history, historical and future electricity usage, meter-readings, and characteristics of electricity service. AEP Retail Energy reserves the right to determine if your credit standing is satisfactory before accepting your enrollment request. This Agreement shall be considered executed by AEP Retail Energy following: a) acceptance of your enrollment request by AEP Retail Energy, b) the end of the 7 day rescission period, and c) acceptance of enrollment by your EDU.

8 **Contract Renewal.** Upon expiration of the Initial Term, this Agreement will automatically renew on a month-to-month basis at a variable price per kWh, based upon the applicable RTO prevailing market and business conditions for electricity at the Duke Energy load zone or equivalent market delivery point, plus an adder of up to $0.05 per kWh. Your price will include generation and transmission charges, but will not include charges for EDU service (generally, delivery charges and other utility service fees) and taxes. You may obtain next month's variable price by calling an AEP Retail Energy Service Representative at the toll-free telephone number set forth in Section 16. Pricing is generally available on the 15th business day of each month for the next billing cycle.

9 **Dispute Procedures.** Contact AEP Retail Energy with any questions concerning the terms of service by phone at 1-866-823-6738 (toll-free) M-F 8AM – 5PM EST or in writing at AEP Retail Energy, PO BOX 1415, Columbus, OH 43216. Our web address is AEPRetailEnergy.com. If your complaint is not resolved after you have called AEP Retail Energy and/or your EDU, or for general utility information, residential and business customers may contact the Public Utilities Commission of Ohio for assistance at 1-800-686-7826 (toll free) or TTY at 1-800-686-1570 (toll free) from 8:00 AM - 5:00 PM EST weekdays or at www.PUCO.ohio.gov. Residential customers may also contact the Ohio Consumers' Counsel for assistance with complaints and utility issues at 1-877-742-5622 (toll free) from 8:00 AM - 5:00 PM EST weekdays, or www.pickocc.org.

10 **Miscellaneous.** You have the right to request from AEP Retail Energy, twice within a 12-month period, up to 24 months of payment history, without charge. AEP Retail Energy is prohibited from disclosing a Customer's social security number and/or account number(s) without the Customer's affirmative written consent except for AEP Retail Energy's collections and reporting, participating in programs funded by the universal service fund pursuant to section 4928.54 of the Revised Code, or assigning a Customer's contract to another CRES provider. AEP Retail Energy assumes no responsibility or liability for the following items that are the responsibility of the EDU: operation and maintenance of the EDU's electrical system, any interruption of service, termination of service, or deterioration of the EDU's service. In the event of a power outage, you should contact your local EDU. Customer is responsible for providing AEP Retail Energy with accurate account information. If said information is incorrect, AEP Retail Energy reserves the right to re-price the applicable account(s). AEP Retail Energy reserves the right to re-price any account(s) or return a Customer to the EDU if the Customer's rate code or meter type is changed and/or the account is no longer eligible for this program. Customer authorizes, but does not obligate AEP Retail Energy to exercise Customer's government aggregation opt-out rights. AEP Retail Energy's environmental disclosure statement is available for viewing on our website at AEPRetailEnergy.com. You agree that AEP Retail Energy will make the required quarterly updates to the statement electronically on our website. We will also provide the information to you upon request.

11 **Warranty and Force Majeure.** AEP Retail Energy warrants title and the right to all electricity sold hereunder. THE WARRANTIES SET FORTH IN THIS PARAGRAPH ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER WARRANTIES, WHETHER STATUTORY, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR ARISING OUT OF ANY COURSE OF DEALING OR USAGE OF TRADE. AEP Retail Energy will make commercially reasonable efforts to provide your electric service, but does not guarantee a continuous supply of electricity. Certain causes and events are out of the reasonable control of AEP Retail Energy and may result in interruptions in service. AEP Retail Energy is not liable for damages caused by acts of God, changes in laws, rules or regulations or other acts of any governmental authority (including the Commission or RTO), accidents, strikes, labor troubles, required maintenance work, inability to access the local distribution utility system, nonperformance by the EDU or any other cause beyond the control of AEP Retail Energy's reasonable control.

12 **REMEDIES.** UNLESS OTHERWISE EXPRESSLY PROVIDED HEREIN, ANY LIABILITY UNDER THIS AGREEMENT WILL BE LIMITED TO DIRECT, ACTUAL DAMAGES AS THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY OR ITS AFFILIATES FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, INCLUDING LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, WHETHER IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISIONS OR OTHERWISE IN CONNECTION WITH THIS AGREEMENT. THE LIMITATIONS IMPOSED ON REMEDIES AND DAMAGE MEASUREMENT WILL BE WITHOUT REGARD TO CAUSE, INCLUDING NEGLIGENCE OF ANY PARTY, WHETHER SOLE, JOINT, CONCURRENT, ACTIVE OR PASSIVE, PROVIDED NO SUCH LIMITATION SHALL APPLY TO DAMAGES RESULTING FROM THE WILLFUL MISCONDUCT OF ANY PARTY.

13 **Customer Liability and Indemnification of AEP Retail Energy.** Customer assumes full responsibility for Power furnished to Customer at the Delivery Point(s) and on Customer's side of the Delivery Point(s), and agrees to and shall indemnify, defend, and hold harmless AEP Retail Energy, its parent company and all of its affiliates, and all of their respective managers, members, officers, directors, shareholders, associates, employees, servants, and agents (hereinafter collectively referred to as "AEP Retail Energy Group"), from and against all claims, losses, expenses, damages, demands, judgments, causes of action, and suits of any kind (hereinafter collectively referred to "Claims"), including Claims for personal injury, death, or damages to property occurring at the delivery point(s) or on Customer's side of the delivery point and upon the premise(s), arising out of or related to the electricity and/or customer's performance under the Agreement.

14 **Assignment.** Customer shall not assign this Agreement or its rights hereunder without the prior written consent of AEP Retail Energy, which consent shall not be unreasonably withheld. AEP Retail Energy may, without the consent of Customer, assign this Agreement to another CRES provider, including any successor, in accordance with the rules and regulations of the PUCO.

15 **Choice of Law.** This Agreement shall be construed and enforced in accordance with the laws of the State of Ohio without giving effect to any conflicts of law principles which otherwise might be applicable.

16 **Contact Information.** AEP Retail Energy, PO Box 1415, Columbus, Ohio 43216. For more information, call (866)-823-6738 or visit AEPRetailEnergy.com.

PLEASE KEEP A COPY FOR YOUR RECORDS.

Environmental Disclosure – Quarterly Comparisons

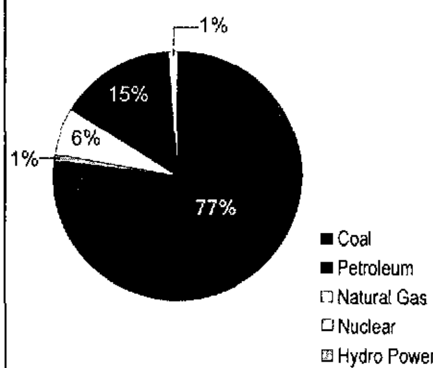
AEP Retail Energy

Projected Data for the 2010 Calendar Year

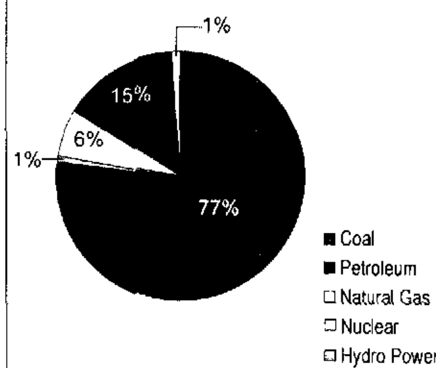
Actual Data for the Period 01/01/10 to 12/31/10.

Generation Resource Mix - A comparison between the sources of generation projected to be used to generate this product and the actual resources used during this period.

Projected



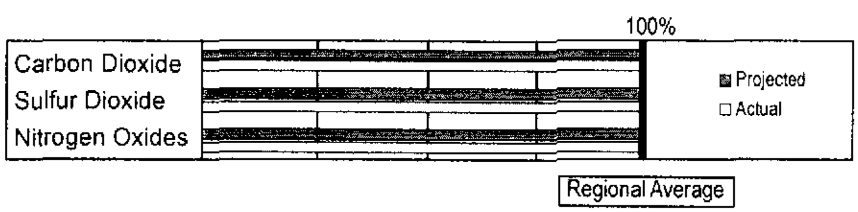
Actual



Environmental Characteristics - A description of the characteristics associated with each possible generation resource.

Biomass Power	Air Emissions and Solid Waste
Coal Power	Air Emissions and Solid Waste
Hydro Power	Wildlife Impacts
Natural Gas Power	Air Emissions and Solid Waste
Nuclear Power	Radioactive Waste
Oil Power	Air Emissions and Solid Waste
Other Sources	Unknown Impacts
Solar Power	No Significant Impacts
Unknown Purchased Resources	Unknown Impacts
Wind Power	Wildlife Impacts

Air Emissions - Product-specific projected and actual air emissions for this period compared to the regional average air emissions.



Radioactive Waste - Product-specific projected and actual radioactive waste for this period.

Type:	Quantity:	
High-level Radioactive Waste	unknown	LBs./1,000 kWh
Low-Level Radioactive Waste	unknown	Ft.^{3}/1,000 kWh

AEP Retail Energy purchases all of its electric energy from the wholesale market. The above generation resource mix is based on EIA reporting of regional generation sources. AEP Retail Energy does not have access to information regarding the radioactive waste produced by nuclear generation in the region.

With in-depth analysis, the environmental characteristics of any form of electric generation will reveal benefits as well as costs. For further information, contact AEP Retail Energy at 1-866-823-6738 or visit us online at AEPRetailEnergy.com.

Exhibit KMM-5

Exhibit KMM- 5

Ohio Power Company

ESP

	Generation Service Price	2012	Jan 2013 - May 2014	Wgt. Average
		Prices are $ per MWH		
1	Standard Offer Generation Service Rider (2012 Rates) (A)	21.34	23.57	22.65
2	Fuel Adjustment Clause Rider (2012 Estimate) (A)	32.75	32.75	32.75
3	Transmission Adjustment (A)	2.10	2.10	2.10
4	2012 Provider of Last Resort Charge (A)	2.84	2.84	2.84
5	Enhanced Service Reliability Rider (B)	0.71	0.71	0.71
6	gridSMART® Rider (B)	0.00	0.00	0.00
7	Environmental Investment Carrying Cost Rider (A)	0.85	0.85	0.85
8	Generation Resource Rider (C)	0.00	0.20	0.12
9	Alternative Energy Rider	Unknown	Unknown	Unknown
10	Distribution Investment Rider	Unknown	Unknown	Unknown
11	Generation NERC Compliance Cost Recovery Rider	Unknown	Unknown	Unknown
12	Facility Closure Cost Recovery Rider	Unknown	Unknown	Unknown
13	Carbon Capture and Sequestration Rider	Unknown	Unknown	Unknown
14	Plug-In Electric Vehicle Tariff / Costs	Unknown	Unknown	Unknown
15	Storm Damage Recovery Mechanism	Unknown	Unknown	Unknown
16	Pool Termination or Modification Provision	Unknown	Unknown	Unknown
17		*60.59*	*63.02*	*62.02*

MRO

	Current ESP Full Fuel			
18	Standard Offer Generation Service (2011 Rate) (A)	21.56	21.56	21.56
19	Fuel Adjustment Clause Rider (2012 Rate) (A)	32.75	32.75	32.75
20	Transmission Adjustment (A)	2.10	2.10	2.10
21	2011 Provider Last Resort Charge (A)	2.04	2.04	2.04
22	Environmental Investment Carrying Cost Rider (A)	0.73	0.73	0.73
23		59.18	59.18	59.18
24		90%	77%	
25		53.262	45.57	48.75
26	Market Rate Offer	57.47	57.47	57.47
27	Alternative Energy Requirement (D)	0.54	0.79	0.69
28		58.01	58.26	58.16
29		10%	23%	
30		5.80	13.40	10.26
31	Weighted MRO	59.06	58.97	59.01
32	**ESP Benefit**	-1.53	-4.06	-3.01

Source
(A) David M. Roush work papers
(B) Exhibit AEM-2
(C) Exhibit DMR-8, Exhibit PJN-4
(D) Exhibit LJT-1

Exhibit KMM- 5

Columbus Southern Power Company

ESP

Prices are $ per MWH

	Generation Service Price	2012	Jan 2013 - May 2014	Wgt. Average
1	Standard Offer Generation Service Rider (2012 Rates) (A)	24.27	26.97	25.85
2	Fuel Adjustment Clause Rider (2012 Estimate) (A)	33.04	33.04	33.04
3	Transmission Adjustment (A)	2.20	2.20	2.20
4	2012 Provider of Last Resort Charge (A)	2.84	2.84	2.84
5	Enhanced Service Reliability Rider (B)	0.62	0.62	0.62
6	gridSMART® Rider (B)	0.37	0.97	0.72
7	Environmental Investment Carrying Cost Rider (A)	0.97	0.97	0.97
8	Generation Resource Rider (C)	0.00	0.20	0.12
9	Alternative Energy Rider	Unknown	Unknown	Unknown
10	Distribution Investment Rider	Unknown	Unknown	Unknown
11	Generation NERC Compliance Cost Recovery Rider	Unknown	Unknown	Unknown
12	Facility Closure Cost Recovery Rider	Unknown	Unknown	Unknown
13	Carbon Capture and Sequestration Rider	Unknown	Unknown	Unknown
14	Plug-In Electric Vehicle Tariff / Costs	Unknown	Unknown	Unknown
15	Storm Damage Recovery Mechanism	Unknown	Unknown	Unknown
16	Pool Termination or Modification Provision	Unknown	Unknown	Unknown
17		64.31	67.82	66.37

MRO

	Current ESP Full Fuel	2012	Jan 2013 - May 2014	Wgt. Average
18	Standard Offer Generation Service (2011 Rate) (A)	20.21	20.21	20.21
19	Fuel Adjustment Clause Rider (2012 Rate) (A)	33.04	33.04	33.04
20	Transmission Adjustment (A)	2.20	2.20	2.20
21	2011 Provider Last Resort Charge (A)	4.60	4.60	4.60
22	Environmental Investment Carrying Cost Rider (A)	1.15	1.15	1.15
23		61.20	61.20	61.20
24		90%	77%	
25		55.08	47.12	50.42
26	Market Rate Offer	57.47	57.47	57.47
27	Alternative Energy Requirement (D)	0.54	0.79	0.69
28		58.01	58.26	58.16
29		10%	23%	
30		5.80	13.40	10.26
31	Weighted MRO	60.88	60.52	60.67
32	**ESP Benefit**	-3.43	-7.29	-5.69

Source
(A) David M. Roush work papers
(B) Exhibit AEM-2
(C) Exhibit DMR-8, Exhibit PJN-4
(D) Exhibit LJT-1

Exhibit KMM-6

Exhibit KMM- 6

Ohio Power Company

ESP

		2012	Jan 2013 - May 2014	Wgt. Average
	Prices are $ per MWH			
	Generation Service Price			
1	Standard Offer Generation Service Rider (2012 Rates) (A)	21.34	23.57	22.65
2	2001-2008 Environmental Carrying Costs	-3.23	-3.23	-3.23
3	Fuel Adjustment Clause Rider (2012 Estimate) (A)	32.75	32.75	32.75
4	Transmission Adjustment (A)	2.10	2.10	2.10
5	2012 Provider of Last Resort Charge (A)	0.00	0.00	0.00
6	Enhanced Service Reliability Rider (B)	0.71	0.71	0.71
7	gridSMART® Rider (B)	0.00	0.00	0.00
8	Environmental Investment Carrying Cost Rider (A)	0.00	0.00	0.00
9	Generation Resource Rider (C)	0.00	0.20	0.12
10	Alternative Energy Rider	Unknown	Unknown	Unknown
11	Distribution Investment Rider	Unknown	Unknown	Unknown
12	Generation NERC Compliance Cost Recovery Rider	Unknown	Unknown	Unknown
13	Facility Closure Cost Recovery Rider	Unknown	Unknown	Unknown
14	Carbon Capture and Sequestration Rider	Unknown	Unknown	Unknown
15	Plug-In Electric Vehicle Tariff / Costs	Unknown	Unknown	Unknown
16	Storm Damage Recovery Mechanism	Unknown	Unknown	Unknown
17	Pool Termination or Modification Provision	Unknown	Unknown	Unknown
18		53.67	56.11	55.10

MRO

		2012	Jan 2013 - May 2014	Wgt. Average
	Current ESP Full Fuel			
19	Standard Offer Generation Service (2011 Rate) (A)	21.56	21.56	21.56
20	2001-2008 Environmental Carrying Costs	-3.23	-3.23	-3.23
21	Fuel Adjustment Clause Rider (2012 Rate) (A)	32.75	32.75	32.75
22	Transmission Adjustment (A)	2.10	2.10	2.10
23	2011 Provider Last Resort Charge (A)	0.00	0.00	0.00
24	Environmental Investment Carrying Cost Rider (A)	0.00	0.00	0.00
25		53.18	53.18	53.18
26		90%	77%	
27		47.86	40.95	43.81
28	Market Rate Offer	57.47	57.47	57.47
29	Alternative Energy Requirement (D)	0.54	0.79	0.69
30		58.01	58.26	58.16
31		10%	23%	
32		5.80	13.40	10.26
33	Weighted MRO	53.67	54.35	54.07
34	**ESP Benefit**	-0.01	-1.76	-1.03

Source
(A) David M. Roush work papers
(B) Exhibit AEM-2
(C) Exhibit DMR-8, Exhibit PJN-4
(D) Exhibit LJT-1

Exhibit KMM- 6

Columbus Southern Power Company

		2012	Jan 2013 - May 2014	Wgt. Average
	ESP	Prices are $ per MWH		
	Generation Service Price			
1	Standard Offer Generation Service Rider (2012 Rates) (A)	24.27	26.97	25.85
2	2001-2008 Environmental Carrying Costs	-1.49	-1.49	-1.49
3	Fuel Adjustment Clause Rider (2012 Estimate) (A)	33.04	33.04	33.04
4	Transmission Adjustment (A)	2.20	2.20	2.20
5	2012 Provider of Last Resort Charge (A)	0.00	0.00	0.00
6	Enhanced Service Reliability Rider (B)	0.62	0.62	0.62
7	gridSMART® Rider (B)	0.37	0.37	0.37
8	Environmental Investment Carrying Cost Rider (A)	0.00	0.00	0.00
9	Generation Resource Rider (C)	0.00	0.20	0.12
10	Alternative Energy Rider	Unknown	Unknown	Unknown
11	Distribution Investment Rider	Unknown	Unknown	Unknown
12	Generation NERC Compliance Cost Recovery Rider	Unknown	Unknown	Unknown
13	Facility Closure Cost Recovery Rider	Unknown	Unknown	Unknown
14	Carbon Capture and Sequestration Rider	Unknown	Unknown	Unknown
15	Plug-In Electric Vehicle Tariff / Costs	Unknown	Unknown	Unknown
16	Storm Damage Recovery Mechanism	Unknown	Unknown	Unknown
17	Pool Termination or Modification Provision	Unknown	Unknown	Unknown
18		59.01	61.71	60.59
	MRO			
	Current ESP Full Fuel			
19	Standard Offer Generation Service (2011 Rate) (A)	20.21	20.21	20.21
20	2001-2008 Environmental Carrying Costs	-1.49	-1.49	-1.49
21	Fuel Adjustment Clause Rider (2012 Rate) (A)	33.04	33.04	33.04
22	Transmission Adjustment (A)	2.20	2.20	2.20
23	2011 Provider Last Resort Charge (A)	0.00	0.00	0.00
24	Environmental Investment Carrying Cost Rider (A)	0.00	0.00	0.00
25		53.96	53.96	53.96
26		90%	77%	
27		48.57	41.55	44.45
28	Market Rate Offer	57.47	57.47	57.47
29	Alternative Energy Requirement (D)	0.54	0.79	0.69
30		58.01	58.26	58.16
31		10%	23%	
32		5.80	13.40	10.26
33	Weighted MRO	54.37	54.95	54.71
34	**ESP Benefit**	-4.65	-6.76	-5.89

Source
(A) David M. Roush work papers
(B) Exhibit AEM-2
(C) Exhibit DMR-8, Exhibit PJN-4
(D) Exhibit LJT-1

Exhibit KMM-7

AEP-OHIO'S RESPONSE TO
OFFICE OF CONSUMERS' COUNSEL'S
PUCO CASE NOS. 08-917-EL-SSO AND 08-918-EL-SSO
(ESP REMAND)
DATA REQUEST
SECOND SET

INTERROGATORY

INT-R2-013. Define the "loss" referred to on page 15 of the Companies' Initial Merit Brief Filing of May 20, 2011 that results when AEP Ohio bears the difference between market and ESP prices. And for the ESP I period, please identify the actual loss experienced on a yearly basis over the term of the ESP.

RESPONSE

The loss is described on page 15 of the Companies' Initial Merit Brief, Section C, second paragraph The Companies have not performed such a calculation.

Prepared by: Laura J. Thomas