

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission Review of)	
the Capacity Charges of Ohio Power)	Case No. 10-2929-EL-UNC
Company and Columbus Southern Power)	
Company)	

**MOTION OF OHIO POWER COMPANY FOR LEAVE TO FILE A REPLY TO
THE MEMORANDUM CONTRA OHIO POWER'S FEBRUARY 27, 2012
MOTION FOR RELIEF**

Ohio Power Company ("OPCo" or "AEP Ohio"), in accordance with Rule 4901-1-12, files this motion requesting leave to file the attached Reply to the different memorandum contra in this proceeding by FirstEnergy Solutions Corp., Interstate Gas Supply, Inc.,¹ Duke Energy Retail Sales', Industrial Energy Users-Ohio, the Office of the Ohio Consumers' Counsel, the Ohio Manufacturers' Association, and collectively in one group (labeled as Suppliers) Constellation Energy Commodities Group, Inc., Constellation NewEnergy, Inc., Direct Energy Services, LLC, Direct Energy Business, LLC and the Retail Energy Supply Association. As explained in the attached Reply, the filing seeks only to provide updated factual data for the Commission's consideration of the interim capacity structure requested for consideration in this proceeding. Based on the extraordinary circumstances in this proceeding, AEP Ohio seeks leave to submit additional factual information in order to ensure that the Commission has all the relevant information before it to make an informed decision concerning the Company's February

¹ IGS' memorandum contra supported one of the methods proposed by Ohio Power.

27, 2012 Motion for Relief. In accordance with Rule 4901-1-12(C), Ohio Admin. Code,
AEP Ohio requests an expedited ruling in response to these requests.

Respectfully Submitted,



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On behalf of Ohio Power Company

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**MEMORANDUM IN SUPPORT OF MOTION TO CONSIDER THE REPLY TO
THE MEMORANDUM CONTRA OHIO POWER'S FEBRUARY 27, 2012
MOTION FOR RELIEF**

On February 27, 2012, AEP Ohio filed a request to avoid undue prejudice, in the form of substantial and adverse financial impact, that would otherwise result under the February 23, 2012 Entry on Rehearing. The Commission has not yet ruled upon that motion. Five parties to the proceeding have filed memorandum contra to Ohio Power's February 27, 2012 Motion. FirstEnergy Solutions Corp., Interstate Gas Supply, Inc.,² Duke Energy Retail Sales', Industrial Energy Users-Ohio, the Office of the Ohio Consumers' Counsel, the Ohio Manufacturers' Association, and collectively in one group (labeled as Suppliers) Constellation Energy Commodities Group, Inc., Constellation NewEnergy, Inc., Direct Energy Services, LLC, Direct Energy Business, LLC and the Retail Energy Supply Association, all filed in response to Ohio Power's February 27, 2012 Motion for Relief.

Ohio Power will rely on the rationale in the initial motion for the appropriateness of the filing, but is seeking permission to reply in order to provide the Commission with updated data in response to Intervenor's arguments and ensure that the Commission has

² IGS' memorandum contra supported one of the methods proposed by Ohio Power.

all available and updated information to make its decision. Ohio Power offers this fact intensive reply based on the attached affidavit of AEP employee William A. Allen as the basis of its reply. AEP Ohio is focusing on the facts of the situation and seeks leave to file these facts in response to the arguments made by Intervenors to assist the Commission in its review. Therefore, AEP Ohio requests leave to file the attached affidavit and supporting information for Commission review in reply to the arguments presented by Intervenors. The attached documents provide a factual reflection of the recent level of shopping in the AEP Ohio certified territory and a further breakdown of the numbers provided in the February 27, 2012 Motion for Relief.

The Intervenors argued that there was no justification for the remedy sought in the Motion for Relief and that Ohio Power's claim that RPM pricing will cause immediate and irreparable harm was untimely, unfounded and disingenuous. See Duke Retail Memo at 4-6 and FES Memo at 6-9. The Suppliers also claimed that any financial impact is premature. Suppliers Memo at 6-8. However, the attached shows that 36.7% of AEP Ohio's load has switched or the associated customers have indicated the intention to switch as of March 1, 2012. See Affidavit of William Allen at ¶ 5. Also shown in the attached affidavit is that much of this switching was rooted in the capacity price tiering approved by the Commission in the December 14, 2011 Opinion and Order approving the Stipulation in the AEP Ohio ESP and the interim structure requested by AEP Ohio until the Commission reaches a final determination. Id. at ¶ 6. The recent increase in switching that has occurred since the February 23, 2012 Entry on Rehearing is expected to increase even more, adding harm to AEP Ohio from the increase in switching of all the load at the RPM price. Id. at ¶ 5 and 7. The attached information contains statistics on

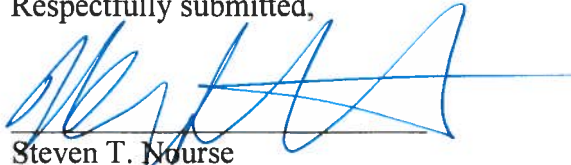
the amount of AEP Ohio load that switched since the February 23, 2012 Entry on Rehearing.

Intervenors also argue that AEP Ohio's request is anticompetitive and unreasonable. Duke Retail Memo at 3-4; IEU-Ohio Memo at 19-21; FES Memo at 12-16. However, as indicated in the attached, changes in energy prices in the PJM market have decreased creating increased headroom for CRES providers. Id. at ¶ 8.

The Intervenors opposing AEP Ohio's proposal all seek to challenge the level of harm facing Ohio Power and the reasonableness of the proposal throughout their filings. The attached affidavit also includes the underlying detail around the financial impacts demonstrated in the February 27, 2012 Motion for Relief. The information AEP Ohio seeks leave to provide the Commission includes the assumptions on which the financial impacts in the previous filing were based. Id. at ¶ 9. Again the goal of AEP Ohio is to focus on the facts in reply to the arguments raised by Intervenors so the Commission has all the relevant information needed to make an informed decision concerning the Company's February 27, 2012 Motion for Relief.

Based on the extraordinary circumstances involved in the procedural posture of this case and the impacts involved, AEP Ohio respectfully seeks leave to file these facts as a reply to the memorandum contra filed in this docket. This limited amount of information will not prejudice the interests of any party and is being provided only to ensure the Commission has all of the operative facts.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Steven T. Nourse', is written over a horizontal line.

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On behalf of Ohio Power Company

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AFFIDAVIT OF WILLIAM A. ALLEN

William A. Allen, being first duly sworn upon his oath says:

1. I am employed by American Electric Power Service Corporation as Director of Rate Case Management.
2. In my role as Director of Rate Case Management I have been actively involved in the development of the Cap Tracking System and monitoring shopping activity and issues in the AEP Ohio service territory.
3. Just after the PUCO issued the December 8, 2010, Entry initiating case 10-2929 and setting the interim capacity rate at the RPM rate the load served by alternate suppliers was just 3.0% of the connected load (*i.e.*, the total shopping and non-shopping load in its service territory).
4. Review of data for other utilities in Ohio indicates that the rate of customer switching can be very rapid – as much as 35% of a utilities load has switched to an alternate supplier in a period of only 92 days (three months). Data source: <http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-reports/electric-customer-choice-switch-rates/>.
5. As of March 1, 2012, the data indicates that 26.1% of the Ohio Power's connected load has switched to an alternative supplier with another 2.2% with a pending switch. An additional 8.4% of the load served by Ohio Power has provided notice to the company of their intent to switch to an alternate supplier. That means customers representing 36.7% of the Company's load have switched or indicated their intent to switch. See attachment 1 for the breakdown of that information by

residential, commercial and industrial classes. If the PUCO clarifies that RPM should be used going forward then Ohio Power would likely have to charge RPM for 36.7% of its connected load, with the added risk of more migration daily due to this decision.

6. The initial increase in shopping, under the ESP Settlement structure, in Ohio Power territory was not limited to the RPM priced capacity. Of the switched load, 3.2 million MWh, representing 6.8% of the total Ohio Power load, switched at \$255/MW-day.
7. In the eleven days since the Commission's February 23, 2012 Order, over 10,000 switch requests were received. More switching is expected in the near future based on the rush to maximize opportunities on the low RPM capacity price, below Ohio Power's costs.
8. Since the headroom analysis that was included in my rebuttal testimony was presented in the 11-346 *et. al* proceedings,, the energy prices in the PJM market have decreased by nearly \$10/MWh (approximately 25%) creating increased headroom for CRES providers. In addition, the Commission's February 23, 2012 Order also impacted the rates that were used in that analysis. Incorporating the current energy prices and the current rates (based on the Company's February 28, 2012 compliance filing) into the headroom analysis shows that CRES providers can make offers below the Company's tariff rates at a capacity rate of \$255/MW-day. See Attachment 2 for details of this analysis.
9. On February 27, 2012, Ohio Power filed a Motion for Relief and Expedited Ruling in Case No. 10-2929-EL-UNC which included an estimate of Ohio Power's earnings that I prepared which reflected the impact of the rejected Stipulation and Recommendation in Case Nos. 11-346_EL-SSO *et. al*. The starting point of the analysis, the Projected Earnings (Two Tiered Capacity Pricing) included the following assumptions reflecting the Commission's rejection of the Stipulation:

- a. 23% of customer load switched in 2012 and 36% in 2013 with capacity cost recovery based upon RPM pricing;
- b. DIR revenues ceased in March 2012;
- c. MTR quarterly net revenues of \$6M ceased in March 2012;
- d. December 2011 generation rates including the EICCR were implemented in March 2012;
- e. carrying costs on the PIRR regulatory assets were calculated at a weighted average cost of capital (WACC) rate beginning in March 2012;
- f. liability for the Ohio Growth Fund and Partnership with Ohio was reversed in 2012; and
- g. the income tax effect of the above was calculated at 35%.

The impact of the rejected Stipulation also included elements related to increased customer switching with capacity cost recovery based upon RPM pricing. This element of the analysis showed a net unfavorable impact on earnings of \$126M in 2012 and \$222M in 2013. This portion of the analysis included the following assumptions:

- a. customer switching increased to 65% of load for residential customers, 80% of load for commercial customers and 90% of load for industrial customers (excluding a single large customer) by the end of 2012 and remained at the level throughout 2013;
- b. lost base generation revenues associated with switched load were partially offset by off-system sales margins and capacity sales to CRES providers; and

c. the income tax effect of the above was calculated at 35%.

Further Affiant sayeth not.



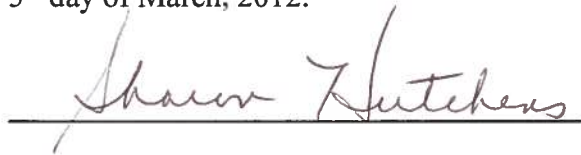
William A. Allen

Director-Rate Case Management

American Electric Power Service Corp.

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared William A. Allen, and he being first duly sworn by me upon his oath, says that the facts alleged in the foregoing Affidavit are true to the best of his information and belief.

Subscribed and sworn to before me this
5th day of March, 2012.



Sharon Hutchens
Notary Public-State of Ohio
My Commission Expires
November 17, 2014



Sharon Hutchens
Notary Public-State of Ohio
My Commission Expires
November 17, 2014

Attachment 1**Switching Statistics as of March 1, 2012**

(as a percentage of annual kWh Sales)

	Switched	Pending	Noticed	Total
Residential	8.43%	1.07%	0.05%	9.54%
Commercial	41.44%	2.26%	4.39%	48.09%
Industrial	28.10%	3.08%	18.52%	49.70%
Total	26.08%	2.20%	8.43%	36.71%

Attachment 2

Available Margin and Contribution to Supplier Overheads (\$/MWh)

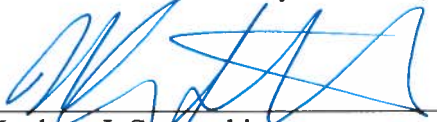
	Residential	Commercial	Industrial	AEP Ohio
Competitive Benchmark ¹	78.47	70.53	64.06	70.53
Adjust for Change in Simple Swap ²	-9.80	-9.80	-9.80	-9.80
Remove Trans Risk Adder	-3.74	-3.36	-3.05	-3.36
Remove Retail Admin Fee	-5.00	-5.00	-5.00	-5.00
Total CRES Incremental Cost	59.93	52.37	46.21	52.37
Retail Rate - OPCo Zone	62.28	64.58	54.14	59.88
Available CRES Margin	2.35	12.21	7.93	7.51
Retail Rate - CSP Zone	58.52	64.36	50.82	57.37
Available CRES Margin	(1.41)	11.99	4.61	5.00

¹ – Competitive Benchmark price from Exhibit LJT-1 (attached to AEP Ohio Ex. 5, Testimony of Laura J. Thomas) with a capacity cost of \$255/MW-day.

² – Reflects the AEP Zone Swap price as of February 28, 2012 for the months of March 2012 through December 2012.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's MOTION OF OHIO POWER COMPANY FOR LEAVE TO FILE A REPLY TO THE MEMORANDUM CONTRA OHIO POWER'S FEBRUARY 27, 2012 MOTION FOR RELIEF AND MEMORANDUM IN SUPPORT has been served upon the below-named counsel/parties via electronic mail, this 5th day of March, 2012.


Matthew J. Satterwhite

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Summary: Motion for Leave to File a Reply electronically filed by Mr. Matthew J Satterwhite on behalf of Ohio Power Company