EXHIBIT NO. ___________

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

WILLIAM A. ALLEN

IN SUPPORT OF AEP OHIO'S

MODIFIED ELECTRIC SECURITY PLAN

Filed: March 30, 2012

INDEX TO DIRECT TESTIMONY OF
WILLIAM A. ALLEN

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
WILLIAM A. ALLEN
ON BEHALF OF
OHIO POWER COMPANY

PERSONAL DATA

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William A. Allen, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by the American Electric Power Service Corporation (AEPSC) as Director of Regulatory Case Management. AEPSC supplies engineering, financing, accounting, and planning and advisory services to the ten electric operating companies of the American Electric Power System, one of which is Ohio Power Company (OPCo or AEP Ohio). Columbus Southern Power Company and OPCo merged on December 31, 2011 and the surviving company is OPCo.

Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. Yes. I received a Bachelor of Science in Nuclear Engineering from the University of Cincinnati in 1996 and a Master of Business Administration from the Ohio State University in 2004.

I was employed by AEPSC beginning in 1992 as a Coop Engineer in the Nuclear Fuels, Safety and Analysis department and upon completing my degree in 1996 was hired on a permanent basis in the Nuclear Fuel section of the same department. In January 1997, the Nuclear Fuel section became a part of Indiana Michigan Power Company (I&M) due to a corporate restructuring. In 1999, I transferred to the Business Planning section of the Nuclear Generation Group as a Financial Analyst. In 2000, I transferred back to AEPSC into the Regulatory Pricing and Analysis section as a Regulatory Consultant. In 2003, I transferred into the Corporate Financial Forecasting department as a Senior Financial Analyst. In 2007, I was promoted to the position of Director of Operating Company Forecasts. In that role, I was primarily responsible for the supervision of the financial forecasting and analysis of the AEP System's eleven operating companies, including CSP and OPCo. I was named to my current position in June 2010.

Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF REGULATORY CASE MANAGEMENT?

A. I am primarily responsible for the supervision, oversight and preparation of major filings with state utility commissions and the Federal Energy Regulatory Commission (FERC).

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have previously testified before the Public Utilities Commission of Ohio (PUCO) on behalf of OPCo. I have also submitted testimony or testified before the Michigan Public Service Commission, the Indiana Utility Regulatory Commission, the West Virginia Public Service Commission and the Virginia State Corporation Commission on behalf of various other electric operating companies of the American Electric Power System.

<u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to 1) discuss the current level of shopping in AEP Ohio's service territory; 2) describe how AEP Ohio proposes to encourage customer shopping through the provision of discounted capacity to Competitive Retail Electric Service (CRES) providers; 3) describe the Distribution Investment Rider (DIR); 4) discuss the proposed Retail Stability Rider (RSR); 5) describe the current status of governmental aggregation programs in the AEP Ohio service territory and how the proposed ESP supports such programs; and 6) discuss an alternative Electric Security Plan (ESP) option that utilizes shopping credits to encourage customer shopping.

Q. WHAT EXHIBITS ARE YOU SPONSORING?

A. I am sponsoring the following exhibits:

Exhibit WAA-1	Switching Statistics as of March 1, 2012
Exhibit WAA-2	Estimate of Governmental Aggregation Load
Exhibit WAA-3	Detailed Implementation Plan
Exhibit WAA-4	Benefit of Discounted Capacity
Exhibit WAA-5	Distribution Investment Rider
Exhibit WAA-6	Retail Stability Rider

<u>CURRENT CUSTOMER SHOPPING</u>

Q. CAN YOU DESCRIBE THE CURRENT LEVEL OF SHOPPING IN AEP OHIO'S SERVICE TERRITORY?

A. Yes. As of March 1, 2012, 26.1% of the AEP Ohio's connected load had switched to an alternative supplier with another 2.2% with a pending switch. An additional 8.4% of the load served by AEP Ohio had 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 Exhibit WAA-1 for the breakdown of this information by residential, commercial and industrial classes.

Q. HAS CUSTOMER SWITCHING OCCURRED BASED UPON CHARGING CAPACITY COST RATES TO CRES PROVIDERS THAT EXCEEDED THE CURRENT RPM RATE?

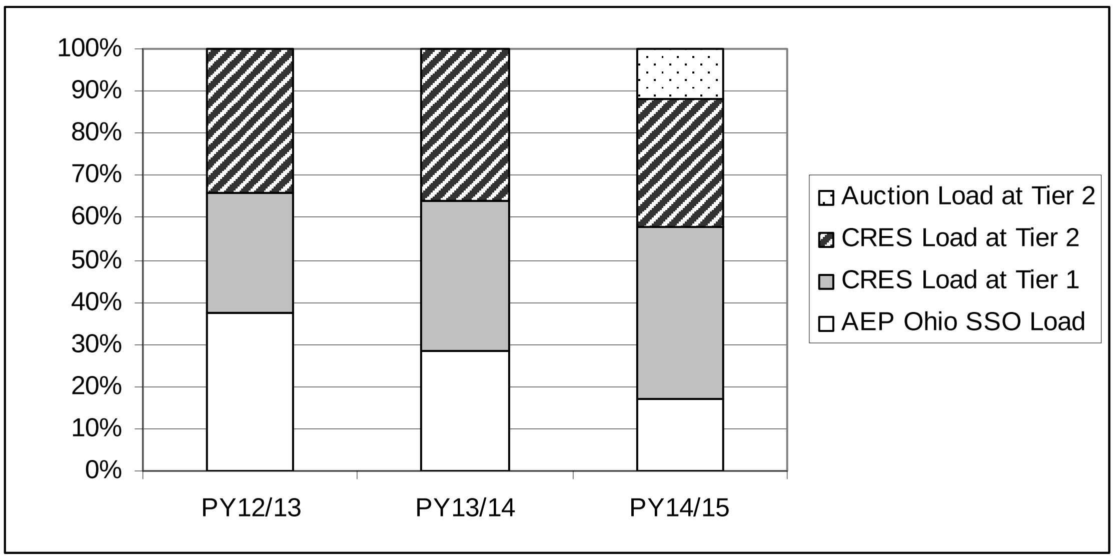
A. Yes. The initial increase in shopping, under the ESP Settlement structure, in AEP Ohio was not limited to the RPM-priced capacity. Of the switched load, 3.2 million MWh, representing 6.8% of the total AEP Ohio load, switched at a capacity charge of $255/MW-day to CRES providers.

Q. ARE YOU AWARE OF ANY OTHER FACTORS THAT COULD PROVIDE ADDITIONAL OPPORTUNITIES FOR CUSTOMER SHOPPING?

A. Yes. Over the last seven months, forward energy prices in the PJM market for the balance of 2012 have decreased by approximately $10/MWh or 25%. This significant reduction in forward energy prices should translate into additional shopping opportunities for customers and increased headroom for CRES providers.

Q. WHAT LEVEL OF CUSTOMER SHOPPING HAVE YOU PROJECTED OVER THE TERM OF THE MODIFIED ESP?

A. I have assumed customer switching increases 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 remains at those levels through May of 2015. The level of shopping load by planning year is provided in the chart below.



Q. WHAT IS THE BASIS FOR THESE SHOPPING ASSUMPTIONS?

A. I've developed these shopping assumptions based upon a review of current and historical shopping statistics for Ohio Power as well as historical shopping statistics for other Electric Distribution Utilities (EDUs) in Ohio. These shopping statistics show that levels of shopping can increase very rapidly, by as much as 35% of total load in a three month period. These shopping statistics also show that there is a portion of the EDUs load that remains on the Standard Service Offer (SSO) of the EDU.

Q. HOW MANY CRES PROVIDERS ARE CURRENTLY SERVING CUSTOMERS IN AEP OHIO?

A. As of March 1, 2012 there were fourteen CRES providers actively serving customers in AEP Ohio.

TIERED CAPACITY PRICING

Q. PLEASE DESCRIBE THE TIERED CAPACITY PRICING MECHANISM THAT THE COMPANY IS PROPOSING IN THIS FILING.

A. The Company is proposing a two tiered capacity pricing mechanism that is intended to encourage increasing levels of customer shopping during the transition period before the Company's SSO load is served though an auction. All load of Ohio Power served by a CRES provider will be charged either \$145.79/MW-day (Tier 1) or \$255.00/MW-day (Tier 2) without further adjustment. There will be a set-aside of Tier 1 priced capacity for 10,066,000 MWh (approximately 21%) of Ohio Power's retail load in 2012 (based on total MWh retail sales), 14,995,000 MWh (approximately 31%) in 2013, and 19,780,000 MWh (approximately 41%) in 2014 continuing through May of 2015 to support individual customer shopping. This is the period that Ohio Power will continue to be responsible for providing capacity under its Fixed Resource Requirement (FRR) obligation. There will be individual set-asides for each customer class (residential, commercial and industrial) based upon their relative retail sales as provided in Table 1. In order to support governmental aggregation initiatives, non-mercantile customers in communities that approved a governmental aggregation program in the November 8, 2011, election or prior elections shall be awarded additional energy allotments of Tier 1 priced capacity in 2012 even if the level of Tier 1 Set-Aside has been exceeded. Throughout the entire modified ESP period, all allotments awarded to customers under these governmental aggregation programs shall be included in the calculation of awarded allotments for purposes of determining whether additional allotments are available under the Set-Aside. The rate for the Tier 1 priced capacity was established based on the Final Zonal Capacity Price adjusted for the RPM Scaling Factor, the Forecast Pool Requirement and losses for PJM planning year 2011/2012 ($145.79/MW-day) and will remain fixed at that level throughout the modified ESP period. This rate has been in effect since June 1, 2011. The capacity pricing for the January 2015 through May 2015 auctioned load will be $255/MW-day.

Table 1 – Tier 1 Priced Capacity Set-Asides
(MWh of Customer Load)

Revenue Class	Jun-Dec 2012	Jan-Dec 2013	Jan 2014-May 2015
Residential	3,061,000	4,533,000	5,918,000
Commercial	2,996,000	4,461,000	5,923,000
Industrial	4,009,000	6,001,000	7,939,000
Total	10,066,000	14,995,000	19,780,000

Q. CAN GOVERNMENTAL AGGREGATION INITIATIVES ACCESS THE TIER 1 PRICED CAPACITY SET-ASIDES AFTER 2012?

A. Yes. In 2013 and 2014 the Tier 1 priced capacity set-asides will increase and the load of customers in governmental aggregation initiatives will have the same access to those set-asides as individual shopping customers.

Q. DOES THIS PLAN SUPPORT LARGE SCALE GOVERNMENTAL AGGREGATION INITIATIVES?

A. Yes. The provision to provide Tier 1 priced capacity to serve the expected non-mercantile load of the communities that passed aggregation initiative in the November 2011 election or prior provides significant support to governmental aggregation initiatives. Based upon estimated participation rates, this provision could provide Tier 1 priced capacity to an additional 1,400 GWh of aggregation load in 2012. Exhibit WAA-2 provides an estimate of non-mercantile aggregation load for these communities.

Q. HAVE YOU PREPARED A DOCUMENT THAT PROVIDES FURTHER DETAILS ON THE TWO-TIERED CAPACITY PRICING MECHANISM YOU HAVE DESCRIBED?

A. Yes. I have prepared a detailed implementation plan that provides specific rules concerning how the set-aside of Tier 1 priced capacity is to be implemented. This document provides rules that customers, CRES providers and the Company can rely upon to determine which load will receive Tier 1 or Tier 2 discounted capacity. The Detailed Implementation Plan is provided as Exhibit WAA-3.

Q. HAVE YOU QUANTIFIED THE BENEFIT OF PROVIDING THE TWO TIERS OF DISCOUNTED CAPACITY TO SUPPORT SHOPPING IN AEP OHIO'S SERVICE TERRITORY?

A. Yes. The benefit of this discounted capacity is $989M over the term of the modified ESP. If AEP Ohio recovered the full cost of the capacity it is obligated to provide to CRES providers as an FRR entity, AEP Ohio would recover $2,283 million from CRES providers over the ESP period based upon the shopping assumptions previously provided. Based upon the two tiers of discounted capacity that AEP Ohio is proposing as part of the modified ESP, AEP Ohio will only collect $1,294 million of its cost from CRES providers over the ESP period. Exhibit WAA-4 provides additional detail related to the value of the discounted capacity provided to CRES providers.

Q. HAVE YOU COMPARED AEP OHIO'S BASE GENERATION RATES TO THE FULL COST CAPACITY RATE THE COMPANY IS REQUESTING TO CHARGE CRES PROVIDERS IN CASE 10-2929-EL-UNC?

A. Yes. The rates are essentially the same. If you apply AEP Ohio's current base generation rates to its entire connected load over the period June 2012 through May 2013 the resultant revenues would be $1,102 million. If you apply AEP Ohio's full cost capacity rates ($355.72/MW-day) to its entire connected load over the period June 2012 through May 2013 the resultant revenues would be $1,101 million.

<u>DISTRIBUTION INVESTMENT RIDER</u>

Q. PLEASE EXPLAIN THE DISTRIBUTION INVESTMENT RIDER.

A. The DIR will allow recovery of carrying costs on incremental distribution plant. The carrying charge rate will include elements to allow the Company an opportunity to recover property taxes, commercial activity tax, earn a return on (and associated income taxes) and of plant in service associated with distribution net investment associated with FERC Plant Accounts 360-374. The return earned on such plant will be based on the cost of debt of 5.46% and a return on common equity of 10.20% utilizing a 47.72% debt and 52.28% common equity capital structure as provided by Company witness Hawkins. The net capital additions included for recognition under the DIR will reflect gross plant in-service incurred after August 31, 2010 adjusted for growth in accumulated depreciation. The DIR shall be adjusted quarterly to reflect in-service net capital additions. Any capital additions recovered through other riders authorized by the Commission to recover distribution capital additions, will be identified and excluded from the rider. The DIR revenue requirement must also include recognition of the $62.344 million revenue credit reflected in the November 23, 2011 distribution case settlement. The DIR will end on May 31, 2015.

Q. PLEASE EXPLAIN WHY THE DIR INCLUDES NET ADDITIONS POST-AUGUST 31, 2010.

A. August 31, 2010 was the date certain in the Company's most recent distribution base case. Increases in net plant that have occurred since that point in time are not currently being recovered in rates.

Q. PLEASE EXPLAIN WHY THE DIR REVENUE REQUIREMENT IS INCREASED TO REFLECT THE $62.344 MILLION REVENUE CREDIT INCLUDED IN THE NOVEMBER 23, 2011 DISTRIBUTION CASE SETTLEMENT.

A. At the time the distribution case was settled, the Company had a pending proceeding related to the September 7, 2011 Stipulation and Recommendation that included a DIR mechanism. To "prevent any potential excess collection of distribution revenue associated with the collection of the DIR in the ESP II Stipulation"[1] a $62.344 million revenue credit was applied to the overall revenue

[1] See paragraph IV.A.3 of the November 23, 2011 Joint Stipulation and Recommendation in Case Nos. 11-351-EL-AIR et. al.

requirement in the case. This $62.344 million that was expected to be recovered through the DIR was providing a mechanism to recover a portion of distribution costs that the Company incurred during the test year in that case. Failure to adjust the DIR to reflect the revenue credit in the distribution case would deprive the Company an opportunity to recover costs prudently incurred during the test year. Absent approval of the DIR in this proceeding, Ohio Power would need to immediately seek a base distribution rate increase.

Q. PLEASE DESCRIBE THE DIR MECHANISM.

A. Exhibit WAA-5 shows the methodology for calculating the revenue requirement for the DIR. Net plant investments related to distribution capital expenditures already established through the Enhanced Service Reliability Rider (ESRR) and gridSMART® Rider will be excluded from the DIR revenue requirement. The $62.344 million revenue credit included in the distribution case settlement will increase the DIR revenue requirement. The Company is proposing to update this rider quarterly based on the incremental increase in the net plant balance as shown on Form 3Q, which is filed quarterly with the FERC. This DIR will be subject to over/under recovery. Because the costs are directly related to the Company's infrastructure, the DIR will be collected as a percentage of base distribution revenue.

Q. IS THE COMPANY PROPOSING A CAP ON DIR REVENUES?

A. Yes. The Company is proposing a cap of $86M in 2012, $104M in 2013 and a cap of $124M in 2014. The revenues collected in the first five months of 2015 will be capped at $51.7M. The DIR will expire on May 31, 2015. For any year that the Company's investments would produce revenue in excess of that period's cap, the overage will be recovered in the following period subject to such period's cap. For any year that the revenue collected under the DIR is less than the annual cap allowance, then the difference between the revenue collected and the cap shall be applied to increase the level of the subsequent period's cap.

Q. ARE THERE OTHER WAYS THAT THE COMPANY COULD RECOVER THE TYPES OF COSTS RECOVERED THROUGH THE DIR?

A. Yes. These types of costs could be recovered through distribution base rate cases. These types of cases are very costly and time consuming for customer groups, the Commission Staff and the Company. The DIR provides a cost recovery mechanism that delays the need for base distribution base rate cases. Because the DIR provides a cost recovery mechanism for new distribution investments through May 31, 2015, AEP Ohio will agree not to seek a change in base distribution rates with an effective date any earlier than June 1, 2015.

Q. PLEASE DESCRIBE HOW THE DIR BENEFITS CUSTOMERS OF AEP OHIO.

A. The DIR mechanism and associated cost recovery can allow the Company to reduce the frequency of costly and time consuming base distribution rate cases thereby assisting in stabilizing certainty regarding retail electric service. The DIR benefits customers of AEP Ohio by providing a streamlined approach to recovery of costs associated with distribution investments which will encourage investment that can improve reliability as described by Company witness Kilpatrick.

RETAIL STABILITY RIDER

Q. CAN YOU DESCRIBE THE RETAIL STABILITY RIDER THAT THE COMPANY IS PROPOSING IN THIS CASE?

A. Yes. The Retail Stability Rider mechanism is similar to a generation decoupling mechanism. AEP Ohio currently has a decoupling mechanism in place for distribution service – the Pilot Throughput Balancing Adjustment Rider. As part of this modified ESP, the Company has proposed to provide highly discounted capacity pricing to CRES providers to serve increasing percentages of the Company's load to encourage shopping. In exchange for the integrated package of terms and conditions of the modified ESP, including providing capacity to CRES providers at a price well below the Company's cost associated with this capacity and the resultant loss of generation revenues, the Company is proposing a Retail Stability Rider that will replace a portion of this lost revenue. This transitional rider will only apply through May 2015 when the Company will no longer be providing capacity to serve its entire load as an FRR entity.

Q. HOW WILL THE RETAIL STABILITY RIDER BE CALCULATED?

A. The rider will be calculated to target a level of non-fuel generation revenues similar to the level collected by AEP Ohio in 2011. For purposes of this testimony I am defining non-fuel generation revenues as base generation revenues, Environmental Investment Carrying Cost Rider (EICCR) revenues and CRES capacity revenues. As part of a larger compromise on the capacity pricing issue, AEP Ohio will recognize a $3/MWh credit for shopped load related to possible energy margins that could be realized by AEP Ohio for reductions in

SSO load. In 2011, AEP Ohio had base generation and EICCR revenues of $967M, CRES capacity revenues of $54M and shopping load of 4,935 GWh.

Q. WHAT LEVEL OF NON-FUEL GENERATION REVENUES IS AEP OHIO TARGETING FOR PURPOSES OF THE RETAIL STABILITY RIDER?

A. In 2011, AEP Ohio had a return on equity of 12.06% based on an equity balance of $4,450M. All else being equal, had the non-fuel generation revenues for AEP Ohio been $929M, the return on equity would have been 10.5%. A Retail Stability Rider that produces this level of revenues would provide financial stability for AEP Ohio. In Exhibit WAA-6, I have provided an example of how the revenues required under the Retail Stability Rider would be calculated. The Retail Stability Rider will be subject to over/under recovery as further discussed by Company witnesses Roush and Mitchell. In addition, as Company witness Roush discusses, any increase to the Rider Interruptible Power – Discretionary (IRP-D) credit would be reflected in the base generation revenues used to determine the Retail Stability Rider.

Q. HOW IS THE RETAIL STABILITY RIDER IMPACTED BY CHANGES IN THE CHARGES FOR TIER 2 PRICED CAPACITY?

A. Based upon the shopping assumptions I have previously discussed and the set-asides of Tier 1 priced capacity, for every $10/MW-day increase in the charge for Tier 2 priced capacity, the Retail Stability Rider would decrease by $33M ($0.23/MWh) over the term of the modified ESP. Likewise, for every $10/MW-day decrease in the charge for Tier 2 priced capacity, the Retail Stability Rider would increase by $33M ($0.23/MWh) over the term of the modified ESP. Of course, any change in the rate for Tier 1 priced capacity would have an additional impact on the RSR.

Q. IS THERE A REASON THAT YOU ARE PROPOSING A RETAIL STABILITY RIDER THAT FOCUSES ON REVENUES INSTEAD OF EARNINGS?

A. Yes. There are several reasons: 1) it provides greater certainty and stability for customers and AEP Ohio, 2) revenues are very easy to objectively measure and audit; 3) operational and cost risk is not borne by the customer but instead by AEP Ohio; 4) AEP Ohio can make spending decisions for their generation assets with a focus on the transitional nature of the assets; and 5) a revenue-focused approach avoids the need for and the complexity of evaluating the returns of a deregulated entity post-corporate separation.

<u>ALTERNATIVE OPTION</u>

Q. HAS THE COMPANY CONSIDERED AN ALTERNATIVE OPTION TO THE TIERED CAPACITY PRICING PROPOSAL THAT YOU HAVE PREVIOUSLY DESCRIBED?

A. Yes. AEP Ohio has considered an alternative option that has a single price for all capacity utilized by CRES providers and shopping credits for customers to encourage shopping. Under this proposal, AEP Ohio would provide shopping credits to customers and charge CRES providers a cost based rate of $355.72/MW-day for all capacity they purchase while AEP Ohio is an FRR entity. This will encourage shopping in the period prior to the point that AEP Ohio would auction its entire SSO load.

Q. HOW WOULD THESE SHOPPING CREDITS BE AWARDED TO CUSTOMERS?

A. These shopping credits would be awarded to customers on a first come, first served basis by customer class. This would encourage shopping in each of the customer classes. Credits would be provided for up to 20% of the load for each customer class from June 2012-May 2013, 30% of the load for each customer class from June 2013-May 2014, and 40% of the load for each customer class from June 2014-December 2014.

Q. WHAT IS THE LEVEL OF SHOPPING CREDIT THAT WOULD BE ASSOCIATED WITH THIS OPTION?

A. A shopping credit of $10/MWh, subject to a cap of $350M over the period June 2012 through December 2014 – the point at which the SSO load served through an auction, would provide a meaningful incentive for customers. This would be approximately 10% to 20% of the generation rate a typical customer pays. A typical residential customer could receive shopping credits of over $100 per year under this option.

Q. HOW DO SHOPPING CREDITS ENCOURAGE CUSTOMER SHOPPING?

A. Shopping credits encourage customers to shop by providing a direct and tangible benefit through a bill credit to those customers that shop. Shopping credits also provide fixed and known savings for customers that shop independent of the CRES offer that they select.

Q. HOW WOULD THE COMPANY DETERMINE WHEN THE AVAILABLE SHOPPING CREDITS ARE EXHAUSTED?

A. On a monthly basis AEP Ohio would calculate the shopping credits previously provided and the estimated future shopping credits to be provided to customers currently receiving shopping credits to determine the MWh of shopping credits still available. This information would be posted on the Company's Customer Choice website by the 15th of the following month.

Q. UNDER THIS ALTERNATIVE OPTION IS A RETAIL STABILITY RIDER NECESSARY?

A. No, since CRES providers would be paying AEP Ohio a cost based rate for use of AEP Ohio's capacity no Retail Stability Rider would be necessary.

Q. DOES THIS COMPLETE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes, it does.

Exhibit WAA-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%

Total Potential Aggregation Load (GWh) Without Mercantile

Class	Nov 2011 Communities	Pre-Nov 2011 Communities	Total
Residential	1,822	1,081	2,903
Commercial	702	885	1,587
Industrial	-	-	-
Total	2,524	1,966	4,490

Assumptions:

PIPP Load	10.1%
Individual Residential Shopping	6.3%
Residential Opt-Out Rate	10.0%
Commercial Opt-Out Rate	10.0%
Commercial Customers Currently Shopping w/RPM	30.0%
Commercial Customers Currently Shopping w/o RPM	7.0%
Commercial Customers Currently Shopping w/o RPM Opt-In	75.0%

Expected Aggregation Load at Year End 2012 (GWh)

Class	Nov 2011 Communities	Pre-Nov 2011 Communities	Total
Residential	1,381	820	2,201
Commercial	444	548	992
Industrial	-	-	-
Total	1,826	1,368	3,193

Expected Aggregation Load During 2012 (GWh)	**1,906**	**4.1%**

CAPACITY SET-ASIDE ALLOTMENT RULES
DETAILED IMPLEMENTATION PLAN

1) DEFINITIONS

a) **Annual Customer Usage** means the level of megawatt-hours (MWh) assigned to a customer based on its actual usage during the most recent 12-month billing period ending June 30 of the prior year. Should the 12-month period not encompass 365 days, the 12-month usage will be normalized to a 365 day basis. For example, the customer usage for determination of the 2013 allotments will be based on usage for the billing periods ending July 1, 2011 through June 30, 2012, and should those billing periods encompass 368 days the 12-month usage will be adjusted by a factor 0f 365/368. The Annual Customer Usage to be used for 2012 will be the most recent 12-month billing period ending September 15, 2011.

b) **Customer** means the building or facility assigned a unique Service Delivery Identifier (SDI) and does not mean the person, premise, corporation, partnership, association, governmental body, or other entity owning or having possession of the building or facilities.

c) **Tier 1 Priced Capacity Set-Aside (Set-Aside)** means the level of MWh of load that will be provided capacity at $145.79/MW-day which includes the RPM Scaling Factor, the Forecast Pool Requirement and losses. The level of Tier 1 Priced Capacity Set-Aside shall be updated as follows:

Tier 1 Priced Capacity Set-Asides
(MWh of Customer Load)

Revenue Class	Jun-Dec 2012	Jan-Dec 2013	Jan 2014-May 2015
Residential	3,061,000	4,533,000	5,918,000
Commercial	2,996,000	4,461,000	5,923,000
Industrial	4,009,000	6,001,000	7,939,000
Total	10,066,000	14,995,000	19,780,000

d) **Enrollment Queue or Queue** means the ranking system established when the level of the shopped load is greater than the Tier 1 Priced Capacity Set-Aside. A Customer that discontinues retail access service and returns to standard service offer (SSO) service will lose its Queue position. AEP Ohio shall maintain records so that it can accurately identify a customer’s position within the queue.

e) **Facility or Customer Facility** shall be defined as a building or dwelling served through a single existing electric billing meter at a single site and does not mean the person, corporation, partnership, association, governmental body, or other entity owning or having possession of the building or dwelling. In the event a customer has multiple meters that are billed as a single entity, all meters will be considered a part of the Facility or Customer Facility.

f) **First-Come First-Served Basis** means the date and time when 1) a CRES provider submits an Affidavit to AEP Ohio regarding the existence of a validly executed contract, 2) an EDI message is received by AEP Ohio for a valid transaction to begin open access service or 3) a Customer provided a 90-day notice (per the Companies' tariffs) to AEP Ohio, without preference or bias. If the Company receives more than one of these for a specific Customer, the earliest date and time will apply.

g) **Affidavit.** An Affidavit affirms that a validly executed contract for the generation portion of electric supply exists between a CRES provider and a customer. Affidavits shall be submitted to the Company by way of electronic submission as provided for on the Customer Choice section of AEP Ohio's website. (www.aepohio.com)

h) **Allotment** means an award of Tier 1 Priced Capacity and shall be based on the Annual Customer Usage.

2) ORDER OF PRIORITY FOR TIER 1 PRICED CAPACITY SET-ASIDE

a) AEP Ohio shall assign energy allotments to its customers on a first-come, first-serve basis pursuant to the guidelines of the Securing a Tier 1 Priced Capacity Allotment section of this document.

b) AEP Ohio shall establish a fully operational web-based Tier 1 Priced Capacity Tracking System pursuant to the guidelines of the Tier 1 Priced Capacity Tracking System section of this document.

3) SECURING A TIER 1 PRICED CAPACITY ALLOTMENT

a) Allotments shall be based on the customer's Annual Customer Usage.

b) If the customer does not have 12-months of annual usage, its annual energy allotment shall be estimated by AEP Ohio based on the class and rate using information of similar customer types from the utility's standard tariff service. For customers (SDIs) with less than 12 months of usage data, the annual usage calculation will be performed as follows:

i) Assign each customer to a category based upon rate class and revenue class, with separate categories for electric heat and non-electric heat, as follows:

- Residential
- General Service Non-demand Small Commercial
- General Service Non-demand Small Industrial
- General Service Demand Medium (<1000 kW) Commercial
- General Service Demand Medium (<1000 kW) Industrial
- General Service Large (> 1000 kW) Commercial
- General Service Large (> 1000 kW) Industrial
- Lighting
- School Service (OPCo Only) (Will not use this designation after 2011)
- Electric Heat General (OPCo Only) (Will not use this designation after 2011)

ii) Compute monthly energy for all customers with 12 months of usage in each category, and calculate average customer monthly energy.

iii) Estimate missing monthly energy for each customer with less than 12 months of usage with the following algorithm:

Monthly_energy_estimate = customer_scale_factor x category_monthly_energy, where customer_scale_factor = customer energy for available months divided by category energy for those same months.

iv) Add the estimated monthly energy to the actual monthly energy to get the annual energy.

v) For example, a residential non-electric heat SDI which started taking service in November 2010 and which therefore has usage for 11 months (Nov 2010 - Sep 2011), and for which the available 11 month usage = 15000 kWh. Assume the calculation of the sum of the category monthly energies for all residential non-electric heat customers yielded 11000 kWh for Nov 2010 - Sept 2011 and assume the calculation of October energy for all residential non-electric heat customers yielded 1000 kWh

Estimate October 2010 usage by the following:

Customer_scale_factor= 15000 / 11000; Monthly_energy_estimate = 15000 / 11000 * 1000 = 1364 kWh; Annual_energy = 15000 + 1364 = 16364 kWh.

Note: all calculations rounded to the integer level.

c) AEP Ohio shall award and allocate allotments on a first-come, first-served basis if there is space available below under the Tier 1 Priced Capacity Set-Aside (subject to the additional conditions related to communities that approved a governmental aggregation program in the November 8, 2011, election or prior elections described in paragraph 4.f). The utility shall award and allocate allotments on a first-come first-served basis as measured by the date and time when 1) a CRES provider submits an Affidavit to AEP Ohio regarding the existence of a validly executed contract 2) an EDI message is received by AEP Ohio for a valid transaction to begin open access service or 3) a customer provided a 90 day notice to AEP Ohio.

d) If an allotment is awarded, AEP Ohio shall notify the CRES and Customer (for customers that have provided a 90-day notice) within two business days.

i) An allotment shall be awarded if the entire amount of the expected usage falls below the Set-Aside.

ii) An allotment shall be awarded based on a customer's status in the enrollment queue in situations where the level of shopping load was above the Tier 1 Priced Capacity Set-Aside and subsequently falls below the Tier 1 Priced Capacity Set-Aside.

(1) An allotment shall be awarded to the first customer in the enrollment queue if its entire annual energy allotment falls below the Tier 1 Priced Capacity Set-Aside.

(2) If the annual energy allotment of the first customer in the enrollment queue exceeds the Tier 1 Priced Capacity Set-Aside then AEP Ohio shall not award additional allotments until such time that the first customer in the queue is provided the opportunity to accept its allotment.

e) If space below the Tier 1 Priced Capacity Set-Aside becomes available, AEP Ohio shall notify the CRES and Customer (for customers that have provided a 90-day notice) by e-mail within two business days. The CRES or Customer shall then have two business days to notify AEP Ohio that the customer desires to accept its allotment through the AEP Ohio's web based system. If the CRES or Customer does not notify AEP Ohio within the two days of acceptance of the allotment, then the allotment will be offered to the next customer in the queue.

f) AEP Ohio shall award allotments from within the enrollment queue until the available energy allotments are exhausted or the queue is empty. To accommodate the load of customers in communities that approved a governmental aggregation program in the November 8, 2011, election or a prior election, any non-mercantile[1] customer located in those governmental aggregation communities and choosing to participate in the governmental aggregation program will qualify for Tier 1 Priced Capacity in 2012 even if all available energy allotments have been exhausted, so long as the community or its CRES provider completes the necessary process to take service in the AEP Ohio service territory by December 31, 2012. All allotments awarded to customers under these governmental aggregation programs shall be included in the calculation of awarded allotments for purposes of determining whether additional allotments are available under the Tier 1 Priced Capacity Set-Aside.

g) A Customer that discontinues retail access service and returns to standard service offer (SSO) service will lose any awarded allotments.

4) TIER 1 PRICED CAPACITY TRACKING SYSTEM ("CTS")

a) The CTS shall be web-based and publicly available on the Customer Choice section of AEP Ohio's website. (www.aepohio.com)

b) AEP Ohio shall publish information concerning energy allotments on its website. At a minimum, the information contained on this website shall include:

  i) The Tier 1 Priced Capacity Set-Aside and the allocation to each of the customer classes.

  ii) Current level of awarded allotments expressed in MWh and as a percentage of the Tier 1 Priced Capacity Set-Aside.

  iii) The amount of available energy allotments expressed in MWh and as a percentage of the Tier 1 Priced Capacity Set-Aside.

  iv) The number of MWh in queue.

[1] Non-mercantile customer means any customer that is not a mercantile customer, including residential customers. Opt-out aggregation is permitted for customers that are not mercantile customers, per R.C. 4928.20(B), after passage of a ballot initiative by a majority of voters. As defined in R.C. 4928.01(A)(19), "Mercantile customer" means a commercial or industrial customer if the electricity consumed is for nonresidential use and the customer consumes more than seven hundred thousand kilowatt hours per year or is part of a national account involving multiple facilities in one or more states.

v) The date of the most recent update to the information contained on the web page.

vi) A contact name and direct phone number of a utility representative able to assist with questions about the contents of the website as well as a monitored e-mail account. An individual customer or its CRES may contact AEP Ohio and receive a report indicating its individual status in the queue.

c) AEP Ohio shall update the information contained on the website on a weekly basis.

d) The CTS shall be fully operational within 60 calendar days of the issuance of an order in this case.

5) AUDIT PROCESSES

a) The Company's Audit Services Department will complete an initial internal audit of the awarded allotments of Tier 1 Priced Capacity within 90 days of the issuance an order approving the Company's proposed modified ESP. Additional internal audits will be completed by November 30 of 2013 and 2014.

b) The Company's Audit Services Department will conduct each audit to verify the following items were determined in accordance with requirements of this Detailed Implementation Plan:

(a) Tier 1 Priced Capacity Set-Aside Allotment Awards through 90 days prior to the audit completion date; and,
(b) Enrollment Queue ranking as of 90 days prior to the audit completion date.

c) The results of the audits will be provided to the Commission Staff.

6) DISPUTE RESOLUTION

In the case of any disputes, the disputing parties will seek to resolve any matters in dispute in good faith. If good faith discussions do not lead to resolution of the disputed matter(s) the parties will seek an alternative solution in conjunction with Commission Staff prior to the filing of a complaint with the Commission.

Value of Discounted Capacity

	PY 12/13	PY 13/14	PY 14/15	Total
CRES Capacity Revenues				
Residential	$ 128 M	$ 149 M	$ 141 M	$ 417 M
Commercial	$ 143 M	$ 146 M	$ 144 M	$ 432 M
Industrial	$ 121 M	$ 119 M	$ 115 M	$ 355 M
Total	$ 391 M	$ 413 M	$ 400 M	$ 1,204 M
Auction Capacity Revenues				
Residential	$ -	$ -	$ 44 M	$ 44 M
Commercial	$ -	$ -	$ 19 M	$ 19 M
Industrial	$ -	$ -	$ 27 M	$ 27 M
Total	$ -	$ -	$ 90 M	$ 90 M
Capacity Revenues @ Full Cost	$ 684 M	$ 732 M	$ 867 M	$ 2,283 M
Discount from Full Cost	$ 293 M	$ 319 M	$ 377 M	$ 989 M

Value of Discounted Capacity
GWh of Load Served

CRES Load Served at $146/MW-d	**PY12/13**	**PY13/14**	**PY14/15**
Residential	4,844	5,100	5,897
Commercial	4,099	5,041	5,920
Industrial	4,846	6,801	7,933
Total	13,789	16,942	19,750
CRES Load Served at $255/MW-d	**PY12/13**	**PY13/14**	**PY14/15**
Residential	3,175	4,318	3,452
Commercial	6,307	6,403	5,542
Industrial	6,974	6,769	5,632
Total	16,456	17,490	14,626
SSO Load Served by AEP Ohio	**PY12/13**	**PY13/14**	**PY14/15**
Residential	6,598	5,071	2,924
Commercial	3,911	2,973	1,797
Industrial	7,442	5,785	3,400
Total	17,950	13,829	8,121
SSO Load Served by Auction at $255/MW-d	**PY12/13**	**PY13/14**	**PY14/15**
Residential	-	-	2,110
Commercial	-	-	1,181
Industrial	-	-	2,383
Total	-	-	5,674
Total Connected Load	**PY12/13**	**PY13/14**	**PY14/15**
Residential	14,616	14,489	14,384
Commercial	14,317	14,417	14,440
Industrial	19,262	19,355	19,348
Total	48,195	48,261	48,172

Distribution Investment Rider

Line		CSP	OP	AEP Ohio
1	August 31, 2010 Distribution Plant			
2	Distribution Plant as of 8/31/2010	$ 1,749,696,000	$ 1,596,229,000	$ 3,345,925,000
3	Accumulated Depreciation - As of 8/31/2010	$ 729,024,000	$ 524,149,000	$ 1,253,173,000
4=2-3	Net Distribution Plant	$ 1,020,672,000	$ 1,072,080,000	$ 2,092,752,000
5				
6	XX Quarter 201X Distribution Plant			
7	Distribution Plant - From 3Q Page 208 Line 8			$ -
8	Accumulated Depreciation - From 3Q Page 208 Line 8			$ -
9=7-8	Net Distribution Plant			$ -
10				
11				
12=9-4	Change in Distribution Net Plant			$ -
13				
14	gridSMART Net Plant Adjustment of Incremental Investment (Recovered through			$ -
15	GS Rider)			
18	Incremental Veg Mgnt net Plant Adjustment (Recovered through Rider)			$ -
19				
20=12-14-16-18	Adjusted Change in Distribution Net Plant			$ -
21				
22	Carrying Charge Rate			20.59%
23				
24=20*22	Initial Rider Revenue			$ -
25				
26	Revenue Offset Provided in Distribution Stipulation			$ 62,344,000
27				
28=24+26	Revised Rider Revenue			$ -
29				
30	2012 Rider Revenue Cap			$ 86,000,000
31				
32	2012 Rider Revenue (lesser of line 28 or line 30)			$ -
33				
34	Annual Base Distribution Revenue (12 Months Ending Sept 2011)			$ -
35				
36=32/34	AEP Ohio Percentage of Base Distribution Revenue			%

Distribution Investment Rider

Calculation of Pre-Tax WACC Rate

Line #	Capital	Percentage of Total Captial	Embedded Cost	Pre-tax WACC
1	Long-Term Debt	47.72%	5.46%	2.61%
2	Common Stock	52.28%	10.20%	8.39%
3	**Total Pre-Tax WACC**	**100.00%**		**10.99%**

Calculation of Property and CAT Tax Rates

Line #		CSP Calc's	CSP Rate	Filing/Calc Reference
	Property Tax Expense			
4	Property Tax Expense	70,758,000		Vol. 1, Sch C-2.1 p 5, Ln 8, Col (F)
5	Gross Plant	1,853,590,000		Vol. 1, Sch B-2, Lns 3&4, Col (E)
6	Accum Depr	(777,090,000)		Vol. 1, Sch B-3, pg 2, Ln 16, (Col (G); & pg 3, Ln 14, Col (G).
7	Net Plant	1,076,500,000		Ln 5 - Ln 6
8	Property Tax Rate		6.57%	Ln 4 / Ln 7
9	CAT Tax Expense (Statutory Rate)		0.260%	Sch A-2, Ln 5, Col (C)
10	CSP Tax Carrying Rate Subtotal		6.833%	Ln 8 + Ln 9

Line #		OPCo Calc's	OPCo Rate	Filing/Calc Reference
	Property Tax Expense Rate			
11	Property Tax Expense	54,682,000		Vol. 2, Sch C-2.1 p 5, Ln 8, Col (F)
12	Gross Plant	1,712,365,000		Vol. 2, Sch B-2, Lns 3&4, Col (E)
13	Accum Depr	(571,156,000)		Vol. 2, Sch B-3, pg 2, Ln 16, (Col (G); & pg 3, Ln 14, Col (G).
14	Net Plant	1,141,209,000		Ln 12 - Ln 13
15			4.79%	Ln 11 / Ln 14
16	CAT Tax Expense (Statutory Rate)		0.260%	Vol. 2, Sch A-2, Ln 5, Col (C)
17	OPCo Tax Carrying Rate Subtotal		5.052%	Ln 15 + Ln 16

Weighted Average AEP Ohio Tax Carrying Rate Calculation

Line #		Rate	Reference
18	AEP Ohio Weighted Property Tax Rate	5.66%	(Lns 4 + 11) / (Lns 7 + 14)
19	CAT Tax Expense (Statutory Rate)	0.260%	Sch A-2, Ln 5
20	**AEP Ohio Weighted Average Carrying Tax Rate**	**5.916%**	Ln 18 + Ln 19
21	**AEP Ohio Average Depreciation Rate**	**3.68%**	Per Distribution Rates in Case Nos. 11-351-EL-AIR & 11-351-EL-AIR
22	**AEP Ohio Carrying Charge Rate**	**20.59%**	**Ln 3 + Ln 20 + Ln 21**

Exhibit WAA-6

Retail Stability Rider

2011 AEP Ohio Financial Data	
Retail Non-Fuel Gen Revenues	$967 M
CRES Capacity Revenues	$54 M
Credit for Shopped Load	$15 M
Total Revenues	$1,036 M
2011 ROE	12.06%
2011 On-Going Earnings	$537 M
2011 Equity	$4,450 M
Target ROE	10.50%
Earnings at 10.5% ROE	$467 M
Revenue Reduction to Earn 10.5%	$107 M
Revenue Target	$929 M

Estimate of Retail Stability Rider Revenues

	PY 12/13	PY 13/14	PY 14/15	Total
Retail Non-Fuel Gen Revenues	$402.9 M	$309.9 M	$182.0 M	$894.8 M
CRES Capacity Revenues	$391.3 M	$413.0 M	$400.0 M	$1,204.3 M
Auction Capacity Revenues	$0.0 M	$0.0 M	$89.6 M	$89.6 M
Credit for Shopped Load	$90.7 M	$103.3 M	$120.2 M	$314.2 M
Subtotal	$884.9 M	$826.1M	$791.8M	$2,502.9M
Retail Stability Rider	$44.1 M	$102.9 M	$137.2 M	$284.1 M
Total Revenues	$929.0 M	$929.0 M	$929.0 M	$2,787.0 M
Retail Stability Rider Rate	$2.0/MWh			

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Direct Testimony of William A. Allen has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 30th day of March, 2012.

/s/ Steven T. Nourse

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AEP Ohio Exhibit No. ____

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

LAURA J. THOMAS

IN SUPPORT OF AEP OHIO'S

MODIFIED ELECTRIC SECURITY PLAN

Filed March 30, 2012

INDEX TO DIRECT TESTIMONY OF
LAURA J. THOMAS

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
TESTIMONY OF LAURA J. THOMAS
ON BEHALF OF
OHIO POWER COMPANY

PERSONAL DATA

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Laura J. Thomas. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. PLEASE INDICATE BY WHOM YOU ARE EMPLOYED AND IN WHAT CAPACITY.

A. I am employed as Managing Director – Regulatory Projects and Compliance in the Regulatory Services Department of American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent company of Ohio Power Company (AEP Ohio or the Company).

BUSINESS EXPERIENCE

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I graduated from The Ohio State University in 1979 with a Bachelor of Science Degree in Mathematics with a Statistics minor. I also received a Master of Science degree in Mathematics from The Ohio State University in 1981. I joined AEPSC in 1982 and held various analyst positions in the rate design and cost of service group over the next several years.

During the period of 1996 through 2003, I held the positions of Director – Pricing and Contracts and Director of Regulated Pricing and Analysis. In May 2003 I was promoted to Vice President – Fuel and Cost Recovery within Commercial Operations. In June 2005, I moved to the risk function where I held the position of Vice President – Enterprise Risk and Insurance with responsibility for American Electric Power's (AEP) enterprise risk oversight process, risk and insurance management, including insurance procurement and claims handling, and oversight of the insurance captive utilized by the Company. Effective March 1, 2010, I moved to the Regulatory Services Department where my responsibilities include special projects related to regulatory issues and compliance.

Q. HAVE YOU EVER SUBMITTED TESTIMONY AS A WITNESS BEFORE A REGULATORY COMMISSION?

A. Yes. I have testified or submitted testimony before regulatory commissions in the states of Indiana, Michigan, Oklahoma, Tennessee, Virginia and West Virginia and before the Federal Energy Regulatory Commission. I have also previously testified before the Public Utilities Commission of Ohio (Commission) on behalf of Columbus Southern Power Company and Ohio Power Company which were merged in December 2011 and the surviving company is OPCo.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to support the Aggregate Market Rate Offer (MRO) Test which includes the development of Competitive Benchmark prices. I also support the MRO Price Test which is only one of many elements that must be considered. Together with Company witnesses Powers and Dias, and the Company's other witnesses, I support how the Company's modified Electric Security Plan (ESP) is more favorable in the aggregate than a MRO.

Q. WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?

A. I am sponsoring Exhibits LJT-1 through LJT-5.

Exhibit LJT-1	Aggregate Market Rate Offer Test, MRO Price Test
Exhibit LJT-2	Competitive Benchmark Prices by Component and Customer Class – Full Cost Capacity
Exhibit LJT-3	MRO Price Test When Prices are Set Based on Auction/Competitive Bidding Process
Exhibit LJT-4	Weighted Average Competitive Benchmark Prices
Exhibit LJT-5	Alternative Market Rate Offer Price Test

<u>AGGREGATE MARKET RATE OFFER TEST</u>

Q. PLEASE DESCRIBE THE MRO TEST IN THE AGGREGATE.

A. Section 4928.143(C)(1), Revised Code, requires that the Company's proposed ESP be "…***more favorable in the aggregate*** as compared to the expected results that would otherwise apply under Section 4928.142 of the Revised Code." (emphasis added) Therefore, it is important to view all aspects of the ESP, not just the MRO Price Test. Viewing any one component of the Company's entire ESP proposal will not provide the proper aggregate view required by the Revised Code. In addition to the MRO Price Test, key considerations of the aggregate view are impacts on Standard Service Offer (SSO) customers and customer shopping (including price certainty), the financial stability of the Company, recognition of the Company's Fixed Resource

Requirement (FRR) and other contractual obligations, a transition period necessary before prices are based on a competitive bidding process (including termination of the pool and corporate separation), state policies and objectives, and other elements of the proposed ESP.

Each of the items identified above, while discussed below in the aggregate, is also supported by other Company witnesses. As shown in Exhibit LJT-1, the Company's modified ESP contains several key elements and benefits, all of which must be considered when reviewing the ESP in the aggregate.

Q. PLEASE SUMMARIZE HOW THE COMPANY'S MODIFIED ESP PROPOSAL MEETS THE REQUIREMENT OF BEING BENEFICIAL IN THE AGGREGATE RELATIVE TO AN MRO.

A. The Company's modified ESP is beneficial in the aggregate because it meets the criteria discussed above and is more favorable than a MRO by approximately $960 Million as shown on Page 1 of Exhibit LJT-1. This amount does not include those items which are not readily quantifiable, but still provide additional benefits to customers. How the elements of the ESP fit with the criteria for evaluating the Company's plan in the aggregate is summarized below.

1. Impact on customers and customer shopping (including price certainty) - As discussed by Company witness Allen, Competitive Retail Electric Service (CRES) providers are provided with reduced capacity costs for the period through May 2015 which should lead to increased shopping opportunities for customers. The Retail Stability Rider (RSR), also discussed by Company witness Allen, supports those expanded shopping

opportunities and provides customers with rate certainty. The proposed SSO rates, as discussed by Company witnesses Dias and Roush, contain no non-fuel generation rate increase which provides price stability for SSO customers. Company witnesses Dias and Roush also discuss the elimination of the Environmental Investment Carrying Cost Rider (EICCR), and how the inclusion of a fixed amount provides price certainty for customers while the Company takes the risk of increases in environmental cost. As discussed by Company witnesses Dias and Roush, the unification of the Phase-In Recovery Rider (PIRR) and Fuel Adjustment Clause (FAC) at the same time in 2013 assists in the management of resulting bill impacts to customers.

2. Financial stability of the Company – As discussed by Company witness Allen, the RSR allows the Company to offer the total plan as summarized by Company witness Powers, including reduced capacity rates. Company witness Sever presents the financial impact to the Company of the aggregate plan.

3. Company's FRR and contractual obligations and a necessary transition period – As discussed by Company witness Nelson, the plan recognizes the Company's FRR obligations which continue through May 2015. Company witnesses Nelson and Powers discuss how the plan promotes competition while providing a brief transition period necessary to terminate the pool and achieve corporate separation.

4. State policies and objectives – Company witness Dias discusses how the proposed ESP advances state policies, including, but not limited to how the proposed ESP facilitates the State's effectiveness in the global economy by addressing, among other things, effective competition, pricing, economic development and protection of at-risk customers, demand and energy efficiency, customer understanding of regulatory offerings and reliability. As discussed later in this testimony, the Company's proposed ESP also permits market-based pricing for SSO service sooner than would be achievable under a MRO.

5. Other elements of the ESP – The ESP contains a number of other riders (DIR, ESSR, gridSMART®, and GRR), each of which provides a benefit as shown in Exhibit LJT-1. These benefits are discussed in more detail by Company witnesses Kirkpatrick, Allen and Nelson.

Q. PLEASE DESCRIBE EXHIBIT LJT-1, THE AGGREGATE MRO TEST.

A. Page 1 of Exhibit LJT-1 summarizes all elements of the ESP and shows that the Company's modified ESP is more favorable in the aggregate. It includes each element of the Company's proposed ESP and summarizes the benefits provided by each item as discussed above. The quantifiable items show a net benefit of the ESP, relative to a MRO, of approximately $960 Million. Other items are not readily quantifiable, but are still included in the Aggregate MRO Test. The benefits of those items are summarized in Exhibit LJT-1 and are supported by the various Company witnesses as identified above and in this exhibit.

Q. PLEASE EXPLAIN HOW THE PROPOSED RIDERS FOR THE ESP ARE ADDRESSED IN EITHER THE AGGREGATE MRO TEST OR AS PART OF THE MRO PRICE TEST.

A. The riders proposed by the Company in its modified ESP can be grouped into the categories of 1) existing generation service riders, 2) new generation-related riders and 3) non-generation-related riders. Riders are discussed below by each of these categories.

1.) Existing Generation Service Riders

- Fuel Adjustment Clause (FAC) – As discussed by Company witness Nelson, the current FAC rider is proposed to continue throughout the proposed ESP period until January 1, 2015. From that point forward, energy to SSO customers will be supplied by the winners of a competitive bidding process and the cost becomes a purchased power expense for the Company. Accordingly, for purposes of the MRO Price Test, the FAC rates in effect as of the date of this filing are used until January 1, 2015.
- Environmental Investment Carrying Charge Rider (EICCR) – the current EICCR is reflected in the total current generation service prices used in the MRO Price Test. As discussed by Company witnesses Dias and Roush, customers will receive the benefit of this rider being combined with base generation rates under the proposed ESP and therefore will provide customers and CRES providers with price certainty that does not exist with the current rider which changes yearly.

2.) New Generation-Related Riders

- Alternative Energy Rider (AER) – this rider, as supported by Company witness Nelson, is merely a separation of the costs of meeting renewable requirements from other costs contained in the FAC. Therefore, there are no additional costs to be considered in the MRO Price Test.
- Retail Stability Rider (RSR) – As supported by Company witness Allen, this rider provides financial stability for the Company, allowing it to make the other provisions of the modified ESP possible. It also supports expanded customer shopping and provides customer rate certainty over the period of the ESP. The revenue received under this rider is accounted for in the Aggregate MRO Test.
- Generation Resource Rider (GRR) – This rider, as supported by Company witness Nelson, is a placeholder rider and contains no costs proposed for recovery in this ESP at this time. The Company is uncertain as to what costs, if any, may ultimately be recovered through this rider and any costs would be the subject to Commission approval in a separate proceeding. Therefore, while itemized as part of the ESP, there are no revenues or costs to include in either the Aggregate MRO Test or the MRO Price Test. This rider would also be available to the Company under a MRO.

3.) Non-Generation-Related Riders

Each of these riders is distribution-related and recovery of such costs could be achieved under either an ESP or a MRO as the result of one or more distribution rate cases. I have been advised by counsel that Section 4928.142, Ohio Revised Code does not prohibit any type of distribution rate making provisions under a generation-related MRO and, therefore, it is appropriate to address these non-generation riders in the Aggregate MRO Test, but not in the MRO price test.

- Distribution Investment Rider (DIR) – As discussed by Company witnesses Kirkpatrick and Allen, the DIR benefits customers by providing a streamlined approach to cost recovery to support reliability improvements.
- Enhanced Service Reliability Rider (ESRR) – As discussed by Company witness Kirkpatrick, this rider benefits customers by allowing for the increased vegetation management program spend to support reliability.
- gridSMART® – As discussed by Company witness Kirkpatrick, this rider allows for the completion of Phase 1 project spend and collection.

Q. PLEASE EXPLAIN THE MRO PRICE TEST.

A. The MRO Price Test compares the proposed ESP prices with prices that would otherwise occur under a MRO. The expected prices are determined by a weighting of prior ESP prices and competitive market prices. My testimony will address how proposed ESP prices, as provided by Company witness Roush, compare to the weighted MRO prices during the period of the modified ESP. Once an auction occurs, the proposed ESP price is the same as the competitive market price.

Q. PLEASE DESCRIBE THE PRICES NEEDED FOR THE DETERMINATION OF MRO PRICES FOR THE MODIFIED ESP PERIOD.

A. Two prices are needed to determine the expected prices under a MRO during the modified ESP period – a Competitive Benchmark price and a generation SSO price.

The Competitive Benchmark price is based on market data and includes the items that would be included by a supplier providing retail electric service to AEP Ohio customers, but also should recognize the Company's FRR obligation during the ESP period. The generation SSO price is a function of generation pricing in effect on March 30, 2012, the date of this filing.

COMPETITIVE BENCHMARK PRICE

Q. HOW IS THE COMPETITIVE BENCHMARK DETERMINED?

A. A Competitive Benchmark price is determined using the components that would be expected in pricing retail generation supply in the competitive market during the period of the ESP. I have been advised by counsel that Section 4928.20(J), Ohio Revised Code, provides some general guidance on the items that should be included in the Competitive Benchmark where it discusses the market price for governmental aggregation customers that return to the utility for competitive retail service. The provision states that "…such market prices shall include, but not be limited to"

- Capacity Charges;
- Energy Charges;
- All charges associated with the provision of power supply through the regional transmission organization (RTO), including but not limited to, transmission, ancillary services, congestion, and settlement and administrative charges; and
- All other costs incurred by the utility that are associated with the procurement, provision and administration of that power supply.

Additional items typically included in the capacity and energy charges to retail customers are basis adjustments, load following/load shaping adjustments, losses, retail administration costs and transaction risk adjustments. Consistent with the guidance cited above, ten distinct components have been used to determine the Competitive Benchmark price.

Q. WHAT OTHER INFORMATION WAS REVIEWED FOR DETERMINATION OF THE COMPONENTS OF THE COMPETITIVE BENCHMARK PRICE?

A. States with deregulated electricity markets were reviewed to determine which pricing components are used to set competitive rates in the auctions for generation service. The components for pricing in the states of Delaware, Maryland, New Jersey, Pennsylvania and Illinois were reviewed because these states fall within the PJM footprint and therefore would have comparable RTO requirements for serving load as in Ohio. These states also utilize a competitive bidding or auction process for full requirements service to retail customers and have specified elements to be included in the competitive bid generation prices. While the names of the components may differ by state or utility, the components are similar to those used by the Company in the Competitive Benchmark price.

Q. DID THE COMPANY INCLUDE ANY OTHER MARKET PRICE COMPONENTS IN THE COMPETITIVE BENCHMARK PRICE?

A. Yes. An Alternative Energy Requirement was added to reflect Ohio's requirements that will be, or are anticipated to be, applicable to suppliers during the period of the proposed ESP.

Q. WHAT WAS THE COMPANY'S GENERAL APPROACH IN DETERMINING EACH COMPONENT OF THE COMPETITIVE BENCHMARK PRICE?

A. The Company's approach was to develop Competitive Benchmark prices based on ten distinct components using verifiable, publicly available information for each component wherever possible. Where more qualitative data was used, the experiences of various deregulated states were used to reflect a reasonable and balanced approach in determining an appropriate charge. Based on the ten components, Competitive Benchmark prices were developed for the residential, commercial and industrial classes and were then weighted based on MWh to determine total Competitive Benchmark prices for AEP Ohio. Prices were also developed for each of the planning years of the Company's proposed ESP. A planning year (PY) is defined as June 1 through May 31 of the following year. The PYs included in the Company's modified ESP are for the years 2012/2013, 2013/2014 and 2014/2015.

Q. PLEASE DESCRIBE EACH OF THE COMPONENTS OF THE COMPETITIVE BENCHMARK PRICE AND HOW THOSE COMPONENTS WERE DETERMINED.

A. The components of the Competitive Benchmark price, excluding the Capacity component, are described below.

1. Simple Swap (SS) – this component is the "around the clock" price of the industry standard energy product. It is traded through the broker market and on electronic exchanges and, ideally, prices for the AEP load zone would be selected.

However, the nearest liquid trading location where market quotes are available is the AEP-Dayton Hub and therefore this location was used as a proxy for the AEP load zone.

2. Basis Adjustment – this adjustment is based on the historic relationship between pricing points. Applying such an adjustment to the AEP-Dayton Hub SS prices results in prices at the AEP load zone which is where PJM settles all AEP Ohio loads. Such an adjustment would not be required if market quotes were readily available for the AEP load zone.
3. Load Following/Shaping Adjustment – this adjustment, applied to the SS component, accounts for the fact that customers do not use a constant amount of energy across all hours of the day and that customers will deviate from their historic load profile. The calculations are the result of modeling that uses AEP Ohio's hourly class load shapes, publicly available PJM market prices and historic volatility.
4. Ancillary Services - this component prices the cost of ancillary services required by PJM to serve load in the Company's service territory.
5. Alternative Energy Requirement – Section 4928.64, Ohio Revised Code requires that all suppliers meet certain requirements for the mix of alternative energy resources that must be used to serve load in Ohio. This component reflects the anticipated incremental market cost of meeting that requirement.
6. ARR Credit – this item captures the credit allocated to offset PJM congestion charges. It is based on published, historical values adjusted as necessary for announced transmission upgrades.

7. Losses – this component captures the cost of distribution and fixed transmission losses that must be supplied in order to meet the customer's power requirements at the meter.
8. Transaction Risk Adder – this item reflects a variety of risks that vary based on the unique profile and business objectives of an individual bidder. Examples of supplier risks include commodity price risk, migration risk, uncollectibles, counterparty default risk and credit risk.
9. Retail Administration Charge – the component captures the costs that a supplier would incur to participate in an auction and fulfill the contractual obligations in the event the supplier was successful in the auction. This includes the cost of personnel, overhead, taxes, profit, etc.

Q. WHAT DATES WERE SELECTED FOR DETERMINING THE SS PRICE?

A. The SS prices are the standard industry energy product priced at PJM's AEP-Dayton hub whose price changes daily. The SS prices for the ten trading days between February 20 and March 2, 2012 were averaged for use in determining the SS component of the Competitive Benchmark. These dates are the ten trading days immediately preceding the date of the Company's notice of intent to file its modified ESP on March 30, 2012.

Q. IF THE SS PRICE CHANGES, DO ALL COMPONENTS OF THE COMPETITIVE BENCHMARK CHANGE AS WELL?

A. No. Only the load following/shaping adjustment, losses, and the transaction risk adder will change based on changes in the SS price. The remaining components are independent and are not affected by the SS price.

Q. WHAT IS THE CAPACITY COMPONENT AND WHAT INFORMATION WAS USED TO DETERMINE THAT COMPONENT?

A. The Capacity component includes the capacity cost that a supplier, either a CRES provider or winning bidder in an auction, would incur to serve a retail customer in AEP Ohio's service territory. During the period of PYs 2012/2013, 2013/2014 and 2014/2015, the Company will be operating under its FRR obligation in PJM and AEP Ohio must provide capacity for its customers during this period. This FRR obligation is discussed and supported by Company witness Nelson. AEP Ohio's capacity will be used for customers taking service from a CRES provider as well as SSO customers regardless of whether AEP Ohio is the supplier or if winning bidders through a competitive bidding process are the suppliers to AEP Ohio for SSO customer load. Therefore, the Competitive Benchmark price should reflect that capacity obligation.

Q. WHAT CAPACITY COST IS USED IN THE COMPETITIVE BENCHMARK PRICE THROUGHOUT THE ESP PERIOD?

A. As discussed by the Company in Case No. 10-2929-EL-UNC, the Company's FRR obligation extends through May 2015. The full capacity cost rate for AEP Ohio, as supported by Company witness Pearce in that case, is $343.98/MW-day (before capacity losses) or $355.72/MW-day after capacity losses. During the ESP period, the Company will have the FRR obligation and, therefore, the full capacity cost of $355.72/MW-day applies through May 2015 regardless of how energy is supplied to SSO customers.

Q. USING THE CAPACITY PRICES DISCUSSED ABOVE, WHAT ARE THE RESULTING COMPETITIVE BENCHMARK PRICES BY CLASS FOR EACH PLANNING YEAR OF THE PROPOSED ESP PERIOD?

A. Table 2 below shows the weighted average Competitive Benchmark prices for each planning year. Exhibit LJT-2 shows the ten components contributing to each Competitive Benchmark price.

Table 1

AEP Ohio
Competitive Benchmark Prices by Customer Class
Capacity Cost
($/MWh)

	PY 2012/2013	PY 2013/2014	PY 2014/2015	Weighted Average
Cost Basis	FRR	FRR	FRR	
Residential	80.53	82.59	85.90	82.99
Commercial	68.73	70.86	74.35	71.32
Industrial	61.36	62.64	65.75	63.25
Weighted Average	69.36	71.09	74.34	71.60

<u>GENERATION SSO PRICE</u>

Q. PLEASE DESCRIBE THE GENERATION SSO PRICE.

A. As identified in Section 4928.142 (D), Revised Code, one price needed for the MRO Price Test is the Company's "most recent standard service offer price" which may be adjusted for any of four identified cost components. Those four cost components are fuel, purchased power, costs of satisfying supply and demand portfolio requirements for Ohio (renewable and energy efficiency requirements), and costs to comply with environmental laws and regulations.

The Company's "most recent standard service offer price" is the generation base generation rate in effect as of the date of this filing. Also included are the generation components of the Transmission Cost Recovery Rider (TCRR), the

EICCR, and full cost FAC. Company witness Roush supports these average rate components of the SSO price as provided in his Exhibit DMR-2.

No further adjustments were made to the generation SSO prices for the period prior to when the pricing of SSO service is based on the results of a competitive bidding process. SSO pricing after this period is discussed in more detail below.

MRO PRICE TEST

Q. HAVE YOU PREPARED AN EXHIBIT WHICH DETAILS THE CALCULATION OF THE MRO PRICE TEST?

A. Yes, Exhibit LJT-1, Pages 2 and 3, details those calculations. First, the Total Generation Service price is determined as previously described and as included in the "market comparable" generation rate supported by Company witness Roush. The average Total Generation Service price for the proposed ESP period is $62.17/MWh as shown on Line 6 of Exhibit LJT-1, Page 2.

Q. HOW IS THE EXPECTED BID PRICE DETERMINED?

A. The Expected Bid Price is the proxy for the market rate which was determined through the development of the Competitive Benchmark price using the Company's capacity cost to reflect its FRR obligation.

Q. HOW IS THE MRO ANNUAL PRICE DETERMINED?

A. As described in Section 4928.142, Ohio Revised Code, the MRO Annual Price is determined by weighting the Generation Service Price and the Expected Bid Price. The prices are weighted for each year of the proposed ESP period resulting in an average MRO Annual Price shown in Line 12 of Exhibit LJT-1, Page 2 ($65.39/MWh). This MRO Annual Price is the basis for comparison to the Proposed

ESP Prices for the period. Company witness Roush supports the development of the Proposed ESP Prices shown in Line 13 of Exhibit LJT-1, Page 2 which average $63.62/MWh for the period given that there is no proposed non-fuel generation price increase reflected in the proposed ESP price, only the change to market based rates for SSO service beginning in January 2015.

Q. WHAT WEIGHTINGS ARE APPLIED TO THE GENERATION SERVICE PRICE AND THE EXPECTED BID PRICE IN EXHIBIT LJT-1, PAGE 2 FOR EACH YEAR?

A. The weightings used for each year to determine the MRO Annual Prices are summarized in Table 2 below. I have been advised by Counsel that the provisions of Section 4928.142(D), Ohio Revised Code, require that if the Company were to be in an MRO, it is required to phase-in the MRO with a minimum of six (6) years before 100% of the load could be subject to a competitive bidding process. It is my understanding, based on the advice of counsel, that the percentages specified in Section 4928.142 (D), Ohio Revised Code, tie together the amount of load that is put up for competitive bid.

Table 2
Generation Service / Expected Bid Price Weightings

Planning Year	Months	Percentage Generation Service	Percentage Competitive Benchmark
May 2012 - Jun 2013	12	90%	10%
Jun 2013 - May 2014	12	80%	20%
Jun - Dec 2014	7	70%	30%
Jan - May 2015	5	70%	30%

Q. DOES THIS MEAN THAT THE WEIGHTINGS HAVE AN IMPACT ON THE OUTCOME OF THE MRO TEST BEGINNING AT THE TIME THAT 100% OF THE LOAD IS SUBJECT TO A COMPETITIVE BIDDING PROCESS?

A. No. There are two ways of viewing the MRO test weightings once the pricing is based on competitive bidding and those two methods produce equivalent results. The first method would continue the weighting of the Generation Service Price, although adjustments would be made to the price according to the provisions of Section 4928.142 D, Ohio Revised Code as the generation price, including the fuel factor, would be replaced by purchased power cost that reflects the price resulting from the competitive bid process. The second method is to assign a weighting of 100% to the Expected Bid Price and 0% to the Generation Service Price beginning at the time that price is based on a competitive bidding process. Those results are the same as the Expected Bid Price. A weighting of the Generation Service Price (equal to the Expected Bid Price) with the Expected Bid Price is mathematically equivalent to the Expected Bid Price regardless of the price or the weighting.

Q. WHEN DOES AEP OHIO PROPOSED TO BEGIN THE PRICING AND DELIVERY OF SSO GENERATION SERVICE BASED ON THE RESULTS OF A COMPETITIVE BIDDING PROCESS?

A. As discussed by Company witnesses Powers and Nelson, AEP Ohio proposes that the delivery and pricing of energy based on a competitive bidding process, will be in effect beginning January 1, 2015.

Q. DO YOU HAVE AN EXHIBIT WHICH ILLUSTRATES THAT THE TWO METHODOLOGIES FOR THE PERIOD JANUARY THROUGH MAY 2015 ARE EQUIVALENT?

A. Yes, Exhibit LJT-3 illustrates that the two methodologies that could be used for the period January-May 2015 are equivalent. Because pricing during this period is based on a competitive bidding process, both methodologies result in the Expected Bid Price being equal to the MRO price which is equal to the modified ESP price. This result was recognized and adopted by the Commission in Case No. 10-388-EL-SSO where the Commission stated:

> "Under the proposed ESP in the Combined Stipulation, the rates to be charged to customers will be established through a CBP; therefore the rates in the ESP should be equivalent to the results which would be obtained under Section 4928.142, Revised Code…" (Opinion and Order at page 44).

Therefore, for simplicity in the MRO Price Test, the simpler method of reflecting a 100% weighting of the Expected Bid Price is used rather than adjusting the Generation Service Price as shown on Exhibit LJT-3. The weightings reflect the Company's proposal for pricing to be based on a competitive bid process with pricing beginning in January 2015.

Q. HAVE YOU PREPARED COMPETITIVE BENCHMARK PRICES BASED ON THE COMPANY'S MODIFIED PROPOSAL FOR THE ESP PERIOD OF PY 2012/2013 THROUGH PY 2015/2016?

A. Yes. As discussed by Company witness Allen, the Company's ESP proposal has a tiered capacity charge for CRES providers, together with a non-bypassable rate stability charge to customers. The weighted average Competitive Benchmark prices that reflect this tiered capacity approach are determined based on the MWHs under each rate. Company witness Allen provided the forecasted MWH applied to each Competitive Benchmark price by class. The resulting weighted average Competitive Benchmark prices are provided in Exhibit LJT-4 and are summarized in Table 3 below.

Table 3

Weighted Average Competitive Benchmark Prices

Planning Year	Months	Wtd Average Competitive Benchmark Price
May 2012 - Jun 2013	12	62.39
Jun 2013 - May 2014	12	63.56
Jun - Dec 2014	7	66.26
Jan - May 2015	5	64.28

Q. HAVE YOU PREPARED A MRO PRICE TEST THAT REFLECTS THE FULL CAPACITY COST AS WELL AS ONE THAT REFLECTS THE TIERED CAPACITY CHARGE THE COMPANY PROPOSES TO CHARGE UNDER ITS MODIFIED ESP PROPOSAL?

A. Yes. Exhibit LJT-1, Pages 2 and 3, reflects the Company's full capacity cost while Exhibit LJT–5 reflects the tiered capacity cost proposal which reduces the Competitive Benchmark Prices. Under Exhibit LJT-1, the Proposed ESP price differs from the weighted average MRO Annual Price by $1.77/MWH or approximately $256 Million. However, this is merely the beginning of understanding the Company's modified ESP in the aggregate and many other factors or benefits of the modified ESP must also be considered.

While Exhibit LJT-5 shows that the "benefits" of the ESP are reduced to $81 Million when the discounted capacity is reflected in the Expected Bid Price (based on the appropriate percentages of load to which the discounted capacity is applicable), such results are purely the mathematical results of a MRO test that is not designed to capture the benefits of offering reduced capacity prices to CRES providers during the period of the Company's FRR obligation. The Company's ESP should not be deemed less beneficial when it is offering a benefit to CRES providers which, in turn, should result in benefits to customers. This result only emphasizes the need to review the modified ESP plan in the aggregate. Accordingly, the more proper method is to use a MRO test and Competitive Benchmark pricing with the full capacity cost that details the discounted capacity and other benefits as shown in Exhibit LJT-1, Page 1. It is appropriate to use the full capacity cost Competitive Benchmark prices because outside of this proposed ESP where discounted capacity is offered to CRES providers, it is the full capacity cost that would apply.

Q. PLEASE SUMMARIZE THE RESULTS OF THE MRO PRICE TEST BASED ON DISCOUNTED CAPACITY RATES.

A. As shown in Exhibit LJT-5, the Company's discounted capacity proposal which provides a reduced cost to CRES providers, results in a MRO Price Test with less benefits of an ESP to customers because the benefits are first being provided to CRES providers.

Q. WHAT RECOMMENDATION DO YOU MAKE REGARDING THE AGGREGATE MRO TEST AND THE MRO PRICE TEST?

A. The appropriate Aggregate MRO Test and the MRO Price Test provided in Exhibit LJT-1 are the proper tests that the Commission should use to determine that the Company's proposed ESP is more favorable in the aggregate than a MRO. These tests clearly show the benefits of the proposed ESP and are not burdened with the oddities of other price tests that do not properly recognize benefits provided to CRES providers. Exhibit LJT-1 demonstrates that the proposed ESP is more favorable in the aggregate as required by Section 4928.143(C)(1), Revised Code.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

AEP Ohio
Electric Security Plan
Aggregate Market Rate Offer Test

Item No.	Item	Benefit	$ or NRQ (not readily quantifiable)	Testimony/Source
Quantifiable Benefits				
1	MRO Price Test	SSO pricing under the modified ESP plan is less than the expected pricing under a MRO for the period of the plan	$256,022,505	Exhibit LJT-1, page 3
2	Discounted, tiered capacity pricing for CRES providers	Reduced cost to CRES providers facilitates increased shopping opportunities for customers	$988,700,000	Allen
3	Retail Stability Rider	Provides financial stability to the Company, which allows the Company to offer the other elements of the plan; provides customer rate certainty, supports expanded customer shopping opportunities	($284,100,000)	Allen
4	Placeholder Riders*			
	Generation Resource Rider	Provides mechanism for recovery of any renewable or alternative capacity additions the Commission may approve	$0	Nelson
TOTAL Quantifiable Benefits of the ESP			**$ 960,622,505**	

Not Readily Quantifiable Benefits				
5	Delivery and pricing of energy at market prices beginning 1/15	Occurs sooner than under a MRO (6 years) while recognizing the Company's FRR obligation through 5/15 and the transition period necessary to terminate the pool and achieve corporate separation	NRQ	Powers, Nelson, Thomas
6	Elimination of EICCR, fixed amount rolled into non-fuel generation rates	Provides price certainty for SSO customers and Company takes the risk of increases in environmental cost	NRQ	Dias, Roush
7	No non-fuel generation rate increase	Price certainty for SSO customers	NRQ	Dias
8	Unification of PIRR and FAC	Management of customer bill impacts	NRQ	Roush
9	Advancement of state policies	Facilitiates the State's overall effectiveness including effective competition, pricing, econcomic development and protection of at-risk customers, demand and energy efficiency, customer understanding of regulatory offerings and reliability	NRQ	Dias
10	Distribution-related Riders *			
	DIR	Streamlined approach to cost recovery to support reliability improvements	NRQ	Kirkpatrick, Allen
	ESSR	Increased vegetation management program spend to support reliability	NRQ	Kirkpatrick
	gridSMART®	Provides opportunitites for customers to create and realize efficiency gains	NRQ	Kirkpatrick

* See Thomas testimony, page 9 for discussion of why these riders are excluded from the MRO Price Test

AEP Ohio
Electric Security Plan
Aggregate Market Rate Offer Test

Market Rate Offer Price Test *

		PY 2012/2013	PY 2013/2014	PY 2014/2015 Jun-Dec 2014	PY 2014/2015 Jan-May 2015	Wtd Average
	Generation Service Price	(1)	(2)	(3)	(4)	(5) = weighted (1) through (4)
1	Current Base ESP 'g' Rate	21.26	21.26	21.28	21.22	21.26
2	Current TCCR 'g' component	2.95	2.95	2.95	2.94	2.95
3	Current EICCR	1.60	1.60	1.61	1.60	1.60
4	Market Comparable Base 'g'	25.81	25.81	25.84	25.76	25.81
5	Current Fuel Factor	36.35	36.36	36.39	36.32	36.36
6	Total Generation Service Price	62.16	62.17	62.23	62.08	62.17
	Expected Bid Price					
7	Competitive Benchmark (at $355/MW-Day)	69.36	71.09	74.34	74.34	71.60
	MRO Pricing					
8	Generation Service Price	62.16	62.17	62.23	62.08	62.17
9	Generation Service Weight	90%	80%	70%	0%	
10	Expected Bid Price	69.36	71.09	74.34	74.34	71.60
11	Expected Bid Weight	10%	20%	30%	100%	
12	MRO Annual Price	62.88	63.95	65.86	74.34	65.39
	MRO - ESP Price Comparison					
13	Proposed ESP Price	62.12	61.79	61.82	74.34	63.62
14	MRO Annual Price	62.88	63.95	65.86	74.34	65.39
15	Modified ESP Benefit**	0.76	2.16	4.04	0.00	1.77

* One part of the test "in the aggregate"
** Does not include all ESP Benefits shown on Page 1

AEP Ohio
Electric Security Plan
Aggregate Market Rate Offer Test

Market Rate Offer Price Test *

		PY 2012/2013	PY 2013/2014	PY 2012/2013 Jun-Dec 2014	PY 2012/2013 Jan-May 2015	Wtd Average (5) = weighted (1) through (4)
	Generation Service Price	(1)	(2)	(3)	(4)	
1	Current Base ESP 'g' Rate	1,024,623,306	1,026,026,251	605,071,259	418,841,336	3,074,562,152
2	Current TCCR 'G' component	142,174,918	142,369,588	83,879,709	58,029,855	426,454,070
3	Current EICCR	77,111,820	77,217,404	45,778,418	31,580,874	231,688,516
4	Market Comparable Base 'g'	1,243,910,044	1,245,613,243	734,729,386	508,452,065	3,732,704,738
5	Current Fuel Factor	1,751,884,157	1,754,765,497	1,034,705,973	716,885,831	5,258,241,458
6	Total Generation Service Price	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
	Expected Bid Price					
7	Competitive Benchmark (at $355/MW-Day)	3,342,797,391	3,430,865,764	2,113,768,674	1,467,326,339	10,354,758,168
	MRO Pricing					
8	Generation Service Price	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
9	Generation Service Weight	90%	80%	70%	0%	
10	Expected Bid Price	3,342,797,391	3,430,865,764	2,113,768,674	1,467,326,339	10,354,758,168
11	Expected Bid Weight	10%	20%	30%	100%	
12	MRO Annual Price	3,030,494,520	3,086,476,145	1,872,735,354	1,467,326,339	9,457,032,357
	MRO - ESP Price Comparison					
13	Proposed ESP Price	2,993,866,406	2,982,039,606	1,757,777,501	1,467,326,339	9,201,009,852
14	MRO Annual Price	3,030,494,520	3,086,476,145	1,872,735,354	1,467,326,339	9,457,032,357
15	Modified ESP Benefit**	36,628,114	104,436,539	114,957,853	0	256,022,505

* One part of the test "in the aggregate"
** Does not include all ESP Benefits shown on Page 1

Connected Load (kWh)	48,194,887,407	48,260,877,259	28,433,799,761	19,738,045,996	144,627,610,423

AEP Ohio
Electric Security Plan
Competitive Benchmark Prices
by Component and Customer Class

Full Cost Capacity

Planning Year 2012/2013
$/MWh

		Residential	Commercial	Industrial
1	Simple Swap	32.68	32.68	32.68
2	Basis Adjustment	0.49	0.49	0.49
3	Load Following/Shaping Adjustment	6.12	2.54	1.91
4	Capacity	30.01	23.01	17.29
5	Ancillary Services	0.85	0.85	0.85
6	Alternative Energy Requirement	0.55	0.54	0.54
7	ARR Credit	(1.54)	(1.11)	(0.97)
8	Losses	2.52	1.44	0.64
9	Transaction Risk Adder	3.83	3.27	2.92
10	Retail Administration	5.00	5.00	5.00
	Class Total	80.53	68.73	61.36
	Weighted Total		69.36	

Planning Year 2013/2014
$/MWh

		Residential	Commercial	Industrial
1	Simple Swap	35.34	35.34	35.34
2	Basis Adjustment	0.49	0.49	0.49
3	Load Following/Shaping Adjustment	6.35	2.68	1.90
4	Capacity	28.64	21.90	15.57
5	Ancillary Services	0.85	0.85	0.85
6	Alternative Energy Requirement	0.71	0.71	0.71
7	ARR Credit	(1.44)	(1.04)	(0.89)
8	Losses	2.71	1.55	0.69
9	Transaction Risk Adder	3.93	3.37	2.98
10	Retail Administration	5.00	5.00	5.00
	Class Total	82.59	70.86	62.64
	Weighted Total		71.09	

AEP Ohio
Electric Security Plan
Competitive Benchmark Prices
by Component and Customer Class

Full Cost Capacity

Planning Year 2014/2015
$/MWh

		Residential	Commercial	Industrial
1	Simple Swap	37.75	37.75	37.75
2	Basis Adjustment	0.49	0.49	0.49
3	Load Following/Shaping Adjustment	6.57	2.79	1.99
4	Capacity	28.83	22.45	15.82
5	Ancillary Services	0.85	0.85	0.85
6	Alternative Energy Requirement	0.92	0.91	0.92
7	ARR Credit	(1.46)	(1.08)	(0.92)
8	Losses	2.87	1.65	0.73
9	Transaction Risk Adder	4.09	3.54	3.13
10	Retail Administration	5.00	5.00	5.00
	Class Total	85.90	74.35	65.75
	Weighted Total		74.34	

AEP Ohio
Electric Security Plan
MRO Price Test When Prices are Set Based on
Auction/Competitive Bidding Process

		Jan-May 2015 (1)	Jan-May 2015 (2)	Comments (3)
	Generation Service Price			
1	Current Base ESP 'g' Rate	21.22	0.00	Since the Company has divested its generation, it no longer has a Base ESP 'g' Rate, TCRR "G" component, EICCR or Fuel Cost
2	Current TCCR 'G' component	2.94	0.00	
3	Current EICCR	1.60	0.00	
4	Market Comparable Base 'g'	25.76	0.00	
5	Current Fuel Factor	36.32	74.34	Purchased Power Cost = CBP or Auction Price
6	Total Generation Service Price	62.08	74.34	
	Expected Bid Price			
7	Competitive Benchmark - $355/MW-Day			
		74.34	74.34	
	MRO Pricing			
8	Generation Service Price			
9	Generation Service Weight	62.08	74.34	
		0%	70%	
10	Expected Bid Price			
11	Expected Bid Weight	74.34	74.34	
		100%	30%	
12	MRO Annual Price			
		74.34	74.34	
	MRO - ESP Price Comparison			
13	Proposed ESP Price	74.34	74.34	
14	MRO Annual Price	74.34	74.34	
15	Modified ESP Benefit**	0.00	0.00	

* Does not include all ESP Benefits included in the Settlement

AEP Ohio
Electric Security Plan
Weighted Average Competitive Benchmark Prices

	MWh by Capacity Rate*				Competitive Benchmark Prices			
	PY12/13	PY13/14	Jun-Dec 14	Jan-May 15	PY12/13	PY13/14	Jun-Dec 14	Jan-May 15
OAD Load Served at $145.79/MW-day Capacity								
Residential	4,844.1	5,099.6	3,425.3	2,472.0	59.19	62.33	65.61	65.61
Commercial	4,098.9	5,041.4	3,577.5	2,342.9	53.69	56.61	59.78	59.78
Industrial	4,846.0	6,800.9	4,655.1	3,277.7	50.05	52.52	55.49	55.49
Total	13,789.1	16,941.8	11,657.9	8,092.6				
OAD Load Served at $255/MW-day Capacity								
Residential	3,174.6	4,318.3	2,005.1	1,447.0	70.28	72.83	76.12	76.12
Commercial	6,307.2	6,402.6	3,351.3	2,190.8	61.50	64.00	67.34	67.34
Industrial	6,973.7	6,769.0	3,298.4	2,333.6	55.93	57.77	60.82	60.82
Total	16,455.5	17,490.0	8,654.8	5,971.5				
SSO Load Served by AEP Ohio at $355/MW-day Capacity								
Residential	6,597.6	5,071.2	2,924.1	0.0	80.53	82.59	85.90	85.90
Commercial	3,910.7	2,973.0	1,796.7	0.0	68.73	70.86	74.35	74.35
Industrial	7,442.0	5,784.9	3,400.3	0.0	61.36	62.64	65.75	65.75
Total	17,950.3	13,829.1	8,121.1	0.0				
SSO Load Served by Auction at $255/MW-day Capacity								
Residential	0.0	0.0	0.0	2,110.3	70.28	72.83	76.12	76.12
Commercial	0.0	0.0	0.0	1,180.7	61.50	64.00	67.34	67.34
Industrial	0.0	0.0	0.0	2,383.0	55.93	57.77	60.82	60.82
Total	0.0	0.0	0.0	5,674.0				
Total Connected Load								
Residential	14,616.3	14,489.0	8,354.5	6,029.3				
Commercial	14,316.8	14,417.1	8,725.5	5,714.4				
Industrial	19,261.8	19,354.8	11,353.8	7,994.3				
Total	48,194.9	48,260.9	28,433.8	19,738.0	62.39	63.56	66.26	64.28

* MWH supported by Company witness Allen

Alternative Market Rate Offer Price Test *

		PY 2012/2013	PY 2013/2014	PY 2014/2015 Jun-Dec 2014	PY 2014/2015 Jan-May 2015	Wtd Average (5) = weighted (1) through (4)
	Generation Service Price	(1)	(2)	(3)	(4)	
1	Current Base ESP 'g' Rate	21.26	21.26	21.28	21.22	21.26
2	Current TCCR 'G' component	2.95	2.95	2.95	2.94	2.95
3	Current EICCR	1.60	1.60	1.61	1.60	1.60
4	Market Comparable Base 'g'	25.81	25.81	25.84	25.76	25.81
5	Current Fuel Factor	36.35	36.36	36.39	36.32	36.36
6	Total Generation Service Price	62.16	62.17	62.23	62.08	62.17
	Expected Bid Price					
7	Competitive Benchmark-Shopping Weighted	62.39	63.56	66.26	64.28	63.80
	MRO Pricing					
8	Generation Service Price	62.16	62.17	62.23	62.08	62.17
9	Generation Service Weight	90%	80%	70%	0%	
10	Expected Bid Price	62.39	63.56	66.26	64.28	63.80
11	Expected Bid Weight	10%	20%	30%	100%	
12	MRO Annual Price	62.18	62.45	63.44	64.28	62.80
	MRO - ESP Price Comparison					
13	Proposed ESP Price	62.12	61.79	61.82	64.28	62.25
14	MRO Annual Price	62.18	62.45	63.44	64.28	62.80
15	Modified ESP Benefit**	0.06	0.66	1.62	0.00	0.56

* One part of the test "in the aggregate"
** Does not include all ESP Benefits shown on Page 1

Alternative Market Rate Offer Price Test *

				PY 2012/2013		
		PY 2012/2013	PY 2013/2014	Jun-Dec 2014	Jan-May 2015	Wtd Average
	Generation Service Price	(1)	(2)	(3)	(4)	(5) = weighted (1) through (4)
1	Current Base ESP 'g' Rate	1,024,623,306	1,026,026,251	605,071,259	418,841,336	3,074,562,152
2	Current TCCR 'G' component	142,174,918	142,369,588	83,879,709	58,029,855	426,454,070
3	Current EICCR	77,111,820	77,217,404	45,778,418	31,580,874	231,688,516
4	Market Comparable Base 'g'	1,243,910,044	1,245,613,243	734,729,386	508,452,065	3,732,704,738
5	Current Fuel Factor	1,751,884,157	1,754,765,497	1,034,705,973	716,885,831	5,258,241,458
6	Total Generation Service Price	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
	Expected Bid Price					
7	Competitive Benchmark-Shopping Weighted	3,006,879,025	3,067,461,359	1,884,023,572	1,268,761,597	9,227,125,553
	MRO Pricing					
8	Generation Service Price	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
9	Generation Service Weight	90%	80%	70%	0%	
10	Expected Bid Price	3,006,879,025	3,067,461,359	1,884,023,572	1,268,761,597	9,227,125,553
11	Expected Bid Weight	10%	20%	30%	100%	
12	MRO Annual Price	2,996,902,683	3,013,795,264	1,803,811,823	1,268,761,597	9,083,271,367
	MRO - ESP Price Comparison					
13	Proposed ESP Price	2,993,866,406	2,982,039,606	1,757,777,501	1,268,761,597	9,002,445,110
14	MRO Annual Price	2,996,902,683	3,013,795,264	1,803,811,823	1,268,761,597	9,083,271,367
15	Modified ESP Benefit**	3,036,277	31,755,658	46,034,322	0	80,826,257

* One part of the test "in the aggregate"
** Does not include all ESP Benefits shown on Page 1

Connected Load (kWh)	48,194,887,407	48,260,877,259	28,433,799,761	19,738,045,996	144,627,610,423

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Direct Testimony of Laura J. Thomas has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 30th day of March, 2012.

/s/ Steven T. Nourse

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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

RENEE V. HAWKINS

IN SUPPORT OF AEP OHIO'S

MODIFIED ELECTRIC SECURITY PLAN

Filed March 30, 2012

INDEX TO DIRECT TESTIMONY OF
Renee V. Hawkins

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
RENEE V. HAWKINS
ON BEHALF OF
OHIO POWER COMPANY

PERSONAL DATA

Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Renee V. Hawkins and my business address is 1 Riverside Plaza, Columbus, OH 43215.

Q. **ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am testifying on behalf of Ohio Power Company (AEP Ohio or the Company) also known as AEP Ohio.

BUSINESS EXPERIENCE

Q. **BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY**

A. I am employed by American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc. (AEP) as Managing Director, Corporate Finance and I am also the Assistant Treasurer of Ohio Power. AEP is the parent company of Ohio Power Company, referred to as AEP Ohio or the Company.

Q. **WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR, CORPORATE FINANCE?**

A. My primary responsibilities are for corporate finance activities of the utility operating companies, including AEP Ohio. These activities include issuing debt, establishing dividend recommendations and capitalization targets, supporting the rating agency relationships to maintain credit ratings and assisting in the management of liquidity of the utilities and for the overall AEP System.

Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.**

A. I earned a Bachelors of Business Administration Degree in Finance and International Business from the Ohio State University in 1987. I earned a Masters of Business Administration with a concentration in Finance from the Simon School at the University of Rochester in 1991. I was first employed by State Teachers Retirement System of Ohio in 1987 in the Real Estate section where I was assigned to asset management.

In June 1991, I was employed by General Motors as an analyst for AC Delco, which is now a subsidiary of Delphi East. This rotational program included positions in cost accounting, division finance, and capital planning.

In June 1993, I was hired by Cablevision Systems Corporation, first as a Senior Financial Analyst and then promoted to Treasury Manager. My responsibilities included managing capitalization and liquidity for a number of subsidiaries including American Movie Classics and cable systems in northern Ohio and Massachusetts. Included in those responsibilities was raising capital through bank markets and financial markets, managing compliance under various financial agreements, and supporting investor and rating agency relations.

In October 1996, I joined AEPSC as a Corporate Finance Senior Analyst supporting financing activity for the AEP System operating companies. In July 1999, I was named Manager – Corporate Finance of the AEPSC. In June 2000, I was named Director – Corporate Finance of the Service Corporation, a position that was renamed Director – Regulated Finance in 2001. In that capacity, I was responsible for capital markets activity for all of the regulated utilities, and such things as establishing dividend recommendations and capitalization targets, supporting the rating agency relationships to maintain credit ratings and assisting in the management of liquidity for the overall AEP System. In January 2008, I was made Assistant Treasurer of AEP and its operating companies.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A COMMISSION?

A. Yes, I have filed testimony on behalf of AEP Ohio before the Public Utilities Commission of Ohio (PUCO or the Commission) in the distribution base rate case in Case No. 11-351-EL-AIR and Case No. 11-352-EL-AIR and in the previous 2011 ESP cases. Also, I have filed testimony and testified on behalf of Appalachian Power Company before both the Public Service Commission of West Virginia and the Virginia State Corporation Commission. I have testified on behalf of Indiana Michigan Power before both the Indiana Utility Regulatory Commission and the Michigan Public Service Commission. I have testified for Southwestern Electric Power Company before both the Arkansas Public Service Commission and the Public Utility Commission of Texas. Finally, I have testified on behalf of Public Service Company of Oklahoma before the Corporation Commission of the State of Oklahoma.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am sponsoring testimony on AEP Ohio's capital structure and weighted average cost of capital (WACC) for the purposes of determining the carrying costs to be applied to Non-Fuel Adjustment Clause (FAC) riders included in our filing for the proposed June 1, 2012 –May 31, 2016 Electric Security Plan (ESP). I am sponsoring the calculation of the various components of the carrying charge calculation for the various riders discussed by other witnesses. I am also discussing both securitization and providing updated credit rating agency reports.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, I am sponsoring the following Exhibits:

Exhibit RVH-1:	Cost of Capital
Exhibit RVH-2:	Embedded Cost of Long-term Debt
Exhibit RVH-3:	Cost of Short Term Debt
Exhibit RVH-4	Carrying Charges
Exhibit RVH-5	Pollution Control Bonds
Exhibit RVH-6	Rating Agency Reports

CAPITAL STRUCTURE AND COST OF CAPITAL

Q. PLEAE DESCRIBE YOUR CALCULATION FOR THE CAPITAL STRUCTURE AND COST OF CAPITAL

A. Exhibit RVH-1 computes the total WACC for AEP Ohio. The amount of long-term debt and associated cost on line 1 is supported by Exhibit RVH-2 Embedded Cost Long-Term Debt. The cost of equity on line 3 is assumed to be 10.2%, which is the cost of equity rate agreed to in Case No. 11-351-EL-AIR and Case

No. 11-352-EL-AIR, the most recently approved distribution case for AEP Ohio. There is no longer any preferred stock outstanding at AEP Ohio nor was there any outstanding short-term debt (Exhibit RVH-3), so those items have not been included in the capital structure for the Company. When weighting the outstanding balances of debt and equity as of the December 31, 2011, the pre-tax weighted cost of capital is 10.99% and the after-tax weighted cost of capital is 7.94%.

Q. PLEASE DESCRIBE EXHIBIT RVH-2 and the COST OF LONG-TERM DEBT AS OF DECEMBER 31, 2011

A. Exhibit RVH-2 identifies all long-term debt outstanding as of December 31, 2011 and the related annualized costs. The costs include premiums and discounts, issuance expenses, gains or losses recognized on reacquisition of debt, and associated hedging gains and losses. The calculated embedded cost for long-term debt is 5.46%.

Q. PLEASE DESCRIBE THE CALCULATION OF THE EMBEDDED COST OF LONG-TERM DEBT.

A. Exhibit RVH-2 provides the calculation of the embedded cost of long-term debt as of December 31, 2011. The Exhibit details the series of debt, the date of issuance, maturity date, original amount issued and the current amount outstanding. The premium/discount and issuance expense columns represent legal, underwriting, gains and losses related to pre-issuance hedging and other miscellaneous costs associated with the issuance. Other annualized charges primarily represent insurance costs associated with each bond where applicable.

The annualized cost is calculated by taking the effective cost rate, which includes all costs associated with the debt, and multiplying it by the principal outstanding. The annual amortization of the cost of reacquired debt is added to the annualized cost of the bonds to provide an all-in annualized cost of debt. By dividing this by the total amount of debt outstanding we arrive at the embedded cost of long-term debt for AEP Ohio.

Q. PLEASE EXPLAIN WHY PREFERRED STOCK IS NO LONGER INCLUDED AS A COMPONENT OF THE COST OF CAPITAL?

A. On December 1, 2011, AEP Ohio redeemed the $16.6 million remaining of preferred stock outstanding.

Q. WHAT IS THE RESULTING CAPITAL STRUCTURE FOR AEP OHIO?

A. The resulting capital structure for AEP Ohio is 47.7% long-term debt and 52.3% equity.

Q. WERE THERE ANY PRO FORMA ADJUSTMENTS TO CAPITAL STRUCTURE?

A. No.

CARRYING COSTS

Q. THE COMPANY INCLUDES CARRYING COSTS IN SEVERAL OF ITS EXISTING RIDERS WHICH CONTINUE UNDER THIS ESP PLEASE EXPLAIN CAPITAL CARRYING COSTS AND HOW THE COMPANY WILL CALCULATE THEM.

A. Capital carrying costs are the annual costs associated with the investment of a dollar in capital projects. Investors require both a return of and a return on their capital expenditures. Capital investments or expenditures are recovered over the life of the related asset. The capital carrying cost is determined by applying an annual carrying cost rate, expressed as a percent of the capital expenditure, to the total amount spent on a capital project or projects. The carrying cost rate includes the cost of money (WACC), a depreciation component, an income tax component, property and other taxes component and an administrative and general component. It does not include direct O&M expenses. The carrying costs have been prepared consistent with the adjustments made by PUCO staff in other cases. Also, because of the depreciation component, the rate varies based on the expected life of the project. The rate is higher the shorter the life of the project. The Company will apply the appropriate annual levelized carrying cost rate to a project based on its projected service life. The Company's current levelized carrying cost rates as of December 31, 2011 are attached to this testimony as Exhibit RVH-4, which provides the appropriate carrying cost rate for various service lives.

SECURITIZATION

Q. IS SECURITIZATION AVAILABLE AS A MEANS TO RECOVER ANY OF THE COSTS ASSOCIATED WITH THIS ESP?

A. Yes, there is legislation in place that will allow for the securitization of the Phase In Recovery Rider (PIRR). This legislation was passed in December, 2011 and allows for the securitization of the PIRR assets as well other regulatory assets. The deferred expenses that can be securitized under the legislation are as follows:

> "Phase-in costs" means costs, inclusive of carrying charges incurred before, on, or after the effective date of this section, authorized by the commission before, on, or after the effective date of this section to be securitized or deferred as regulatory assets in

> proceedings under section 4909.18 of the Revised Code, sections 4928.141 to 4928.143, or 4928.144 of the Revised Code, or section 4928.14 of the Revised Code as it existed prior to July 31, 2008, pursuant to a final order for which appeals have been exhausted.

A securitization for the PIRR regulatory assets would both reduce customer costs through the reduction of the carrying cost and provide AEP Ohio with needed capital to assist with its efforts to transition to competition.

Q. DOES THE COMPANY INTEND TO PURSUE SECURITIZATION FOR ITS PIRR?

A. Yes, the Company does intend to pursue securitization for the PIRR balances, but the timing of such an issuance is uncertain.

Q. WHAT IS THE EXPECTED TIME TO SECURITIZE ASSETS UNDER OHIO LAW?

A. It is my understanding, based on the advice of counsel, that the Ohio law requires a final non-appealable order relating to the approval of the recovery of the underlying assets before they are eligible for securitization. The one example of an expedited process for securitization of assets after a final non-appealable order that I am aware of took nine months to finalize the securitization effort. I would expect that would be the quickest any securitization could happen for AEP Ohio assets in Ohio.

Q. CAN RECOVERY BE COMMENCED ON THE PIRR PRIOR TO SECURITIZATION?

A. Yes. Recovery on the PIRR can be commenced with the authorized carrying cost until such time as the securitization transaction is completed.

CORPORATE SEPARATION

Q. HAVE YOU COMPLETED ANY ANALYSIS OF THE CORPORATE SEPARATION TRANSACTION?

A. Yes. Company Witness Philip Nelson is sponsoring corporate separation testimony and as part of that anticipated transaction, I have been evaluating the anticipated financing activities.

Q. PLEASE DESCRIBE THE FINANCING ACTIVITIES YOU ANTICIPATE AS PART OF CORPORATE SEPARATION.

A. The long-term indebtedness of AEP Ohio is composed of general obligations that are not secured by the generation assets being transferred to the generating business ("Genco") or by any other assets of the Company. This unsecured, long-term indebtedness currently consists of two types: senior notes and pollution control revenue bonds ("PCRBs"). Between March 2012 to December 2013, AEP Ohio has approximately $1 billion in debt securities that will mature and an additionally $390 million in optional redemptions. In order to manage debt maturities before the closing of Corporate Separation, the Company anticipates that it will initially refinance those maturities with a combination of short term debt and/or intercompany notes to AEP that can be repaid upon divestiture of the generation assets. The notes would be subject to approval by the Commission.

Q. WILL PCRBs BE TRANSFERRED FROM AEP OHIO?

A. PCRBs that have tender dates prior to the closing of the Corporate Separation will be transferred by AEP Ohio to Genco as soon as practicable after closing of Corporate Separation in the following manner: Genco, or its holding company would reissue new, separate PCRBs in its own name and use the proceeds to redeem the existing PCRBs, releasing AEP Ohio from any futher obligation for those PCRBs. Currently, AEP Ohio expects the transfer of those PCRBs to be completed within six months of the closing of Corporate Separation. AEP Ohio anticipates retaining those PCRBs that have tender dates after the closing of Corporate Separation.

Q. IS THERE A BENEFIT TO RETAINING A PORTION OF THE PCRBs AT AEP OHIO?

A. Yes. First, the Corporate Separation transaction is cleaner if the remaining $296 million (7% of debt portfolio) in PCRBs stay with AEP Ohio. Otherwise, inter-company notes between AEP Ohio and the generating business would be necessary to transfer these liabilities at a later date. Also, this allows AEP Ohio to retain some tax exempt debt, providing AEP Ohio with debt issuance flexibility in the future and access to debt that historically is less costly than senior notes. PCRBs are issued in smaller sizes than typically seen in public senior notes offerings and can be issued as fixed rate notes of varying maturities or as floating rate debt. This flexibility on a portion of its portfolio can be beneficial to AEP Ohio.

RATING AGENCY REPORTS

Q. HAS THERE BEEN ANY RECENT RATING AGENCY REPORTS ON OHIO POWER?

A. Yes, I have attached as Exhibit RVH-5 published reports by Moody Investor Service (Moody's), Fitch Ratings (Fitch) and Standard & Poor's (S&P).

Immediately following the reversal of the PUCO order pursuant to the ESP stipulation agreement, the three major rating agencies all published articles on Ohio Power with Fitch Ratings taking a rating action on Ohio Power as well. In the March 5th edition of Moody's publication Weekly Credit Outlook, Moody's published an article titled "Ohio's Utility Commission Rescinds Ohio Power's Transition to Market-Based Rates, a Credit Negative for AEP. In the article, Moody's indicated that the "PUCO's rescission is credit negative for Ohio Power and its parent, American Electric Power Company (AEP, Baa2 stable), as Ohio Power now faces substantially reduced cash flows and increased uncertainty over the size and composition of its customer base for electric generation if PUCO does not take further action to modify rates."

On February 27, 2012, Fitch affirmed the credit ratings on AEP and all the remaining subsidiaries; however, they chose to place Ohio Power's BBB+ Issuer Default Rating (IDR) on Negative Outlook. Negative Outlook indicates the direction a rating is likely to move over a one- to two-year period. In the press release on the rating action, Fitch indicated "the Negative Outlook on Ohio Power reflects the challenging operating environment in Ohio. The most troubling concern in Ohio is the Public Utility Commission of Ohio's (PUCO) decision last week to revoke the stipulation agreement on Ohio Power's Electric Security Plan (ESP) that it had approved just two months earlier."

On February 27, 2012, S&P issued a bulletin titled "Ohio Utility Regulator's Decision Could Be Negative For Credit Quality Of Power Companies In The State." The bulletin is included in it's entirety below.

> Last week's retraction by Ohio regulators of its prior approval of a stipulated resolution to the difficult problem of managing a utility's transition to competition highlights the increased risk to bondholders during such transitions. The unexpected reversal, due to ratepayer resistance, came in a case involving American Electric Power Co. Inc.'s (BBB/Stable/A-2) Ohio utilities. As we have previously noted, this kind of uncertainty about when the transition to competition will be completed potentially exposes a utility to rates that reflect a "lower-of-cost-or-market" approach that can produce higher or asymmetrical risk for the company and its bondholders. (See "Assessing U.S. Utility Regulatory Environments," published Nov. 7, 2007). While we currently contemplate no rating or outlook changes for any Ohio-based utilities, we are closely monitoring the political and regulatory atmosphere in the state, and credit quality could erode for some utilities if any transition decisions compress the transition period, disallow recovery of prudently incurred costs, or lead to extended periods of suppressed returns and weakened credit metrics.

Q. WHY DID THE RATING AGENCY REACT SO STRONGLY TO THE REVOCATION OF THE ESP ORDER?

A. For utilities, which have much higher leverage than similarly rated industrial companies, regulatory stability is a major component to the credit ratings. Rating agencies consider competitive generation businesses to be more similar to other industrial companies and require lower leverage for similarly rated competitive businesses. In my opinion, the credit rating agencies were comfortable that a three year transition to market based generation rates provided AEP Ohio with adequate time to implement corporate separation and with adequate cash flows over the transition period. From the published reports, the revocation of the order caused the rating agencies to question if Ohio is entering a period of regulatory uncertainty as well as concern about the cash flows of AEP Ohio to support its current bond ratings.

Q. ARE THE RESULTS OF THIS ESP IMPORTANT TO AEP OHIO'S CREDIT RATINGS AND RESULTING FINANCING?

A. Yes. An appropriate regulatory outcome for AEP Ohio is important to maintaining AEP Ohio's access to liquidity and capital at a reasonable cost, especially through the transition to "corporate separation".

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes.

AEP OHIO
CASE No. 11-346-EL-SSO AND CASE No. 11-348-EL-SSO
Rate of Return Summary
($000)

Date of Capital Structure: December 31, 2011

EXHIBIT RVH-1

Line No.	Class of Capital	Reference	($) Amount	% of Total	(%) Cost	Pre-Tax Weighted Cost (%)	After-Tax Weighted Cost (%)
1	Long-Term Debt	Exh RVH-2	$ 4,062,325	47.72%	5.46%	2.61%	2.61%
2	Short-Term Debt	Exh RVH-3	$ -	0.00%	0.00%	0.00%	0.00%
3	Common Equity		4,450,179	52.28%	10.20%	8.39%	5.33%
4	Total Capital		$ 8,512,504	100%		10.99%	7.94%

AEP Ohio
CASE No. 11-346-EL-SSO AND CASE No. 11-348-EL-SSO
Embedded cost of Long-Term Debt
($000)

Exhibit RVH-2

Line No.	(1) Description	(2) Interest Rate	(3) Issue Date	(4) Maturity Date	(5) Term in Years	(6) Principal Outstanding	(7) Principal Amount Issued	(8) Premium or (Discount) at Issuance	(9) Issuance Expense	(10) Cost of Reacquired Debt	(11) Other Anualized Charges (1)	(12) Net Proceeds (7 + 8 + 9 + 10 + 11)	(13) Effective Cost Rate	(14) Annualized Cost (6 X 13)
		%				$	$	$	$	$	$	$	%	$
1 OP	IPC - Ohio Air Quality, Series C	5.150	5/13/1999	5/1/2026	27	50,000,000	50,000,000	-	(1,359,731)	-		48,640,269	5.341%	2,670,659
2 OP	IPC - Ohio Air Quality, Series2010A	3.250	5/18/2010	6/1/2041	31	79,450,000	79,450,000	-	(984,190)	-	-	78,465,810	3.314%	2,633,096
3 OP	Ohio Air Quality Series 2010A	2.875	8/20/2010	12/1/2027	17	39,130,000	39,130,000	-	(542,989)	-	-	38,587,011	2.978%	1,165,337
4 OP	IPC - WVEDA 2010 A	3.125	3/17/2010	3/1/2043	33	86,000,000	86,000,000	-	(688,792)	-	-	85,311,208	3.164%	2,721,268
5 OP	IPC - WVEDA 2008 C	0.070	6/23/2008	7/1/2014	6	50,000,000	50,000,000	-	(273,786)	-	(766,667)	49,726,214	0.161%	847,369
6 OP	IPC - WVEDA, Series 2007A	4.900	6/13/2007	6/1/2037	30	65,000,000	65,000,000	-	(3,017,866)	-		61,982,134	5.208%	3,384,928
7 CSP	Series 2007 A; Air Quality	4.850	4/9/2008	4/1/2012	4	44,500,000	44,500,000	-	(1,123,328)	-		43,376,672	5.566%	2,476,783
8 CSP	Series 2007 B; Air Quality	5.100	4/24/2008	5/1/2013	5	56,000,000	56,000,000	-	(1,411,067)	-		54,588,933	5.684%	3,182,900
9 CSP	Series 2009 A; Air Quality	3.875	8/19/2009	6/1/2014	5	60,000,000	60,000,000	-	(656,061)	-	-	59,343,939	4.128%	2,476,871
10 CSP	Series 2009 B; Air Quality	5.800	8/19/2009	12/1/2038	29	32,245,000	32,245,000	-	(446,770)	-	-	31,798,230	5.899%	1,902,198
11	Total Installment Purchase Contracts					562,325,000	562,325,000	-	(10,504,579)	-	(766,667)	551,820,421		23,461,410
												-		-
												-		-
12 OP	Senior Unsecured Notes, Series G	6.600	2/14/2003	2/15/2033	30	250,000,000	250,000,000	(1,165,000)	(2,368,087)	-	-	246,466,913	6.710%	16,774,980
13 OP	Senior Unsecured Notes, Series F	5.500	2/14/2003	2/15/2013	10	250,000,000	250,000,000	(647,500)	(1,805,904)	-	-	247,546,596	5.630%	14,074,056
14 OP	Senior Unsecured Notes, Series I	6.375	7/11/2003	7/15/2033	30	225,000,000	225,000,000	(1,845,000)	(2,204,350)	-	-	220,950,650	6.512%	14,652,390
15 OP	Senior Unsecured Notes, Series H	4.850	7/11/2003	1/15/2014	11	225,000,000	225,000,000	(184,500)	(1,697,821)	-	-	223,117,679	4.953%	11,144,202
16 OP	Senior Unsecured Notes, Series K	6.000	6/12/2006	6/1/2016	10	350,000,000	350,000,000	(1,235,500)	(2,449,572)	-	-	346,314,928	6.142%	21,498,539
17 OP	Senior Unsecured Notes, Series L	5.750	9/9/2008	9/1/2013	5	250,000,000	250,000,000	(200,000)	(1,676,238)	-	-	248,123,762	5.926%	14,814,719
18 OP	Senior Unsecured Notes, Series M	5.375	9/21/2009	10/1/2021	12	500,000,000	500,000,000	(500,000)	(2) 13,109,292	-	-	512,609,292	5.092%	25,459,181
19 OP	Promissory Notes	5.250	8/18/2004	6/1/2015	11	200,000,000	200,000,000	-	-	-	-	200,000,000	5.249%	10,497,960
20 CSP	Senior Unsecured Notes, Series B	6.600	2/14/2003	3/1/2033	30	250,000,000	250,000,000	(1,180,000)	(2,187,500)	-	-	246,632,500	6.704%	16,760,966
21 CSP	Senior Unsecured Notes, Series A	5.500	2/14/2003	3/1/2013	10	250,000,000	250,000,000	(657,500)	(1,625,000)	-	-	247,717,500	5.620%	14,049,335
22 CSP	Senior Unsecured Notes, Series F	5.850	10/14/2005	10/1/2035	30	250,000,000	250,000,000	(2,815,000)	(2,187,500)	-	-	244,997,500	5.994%	14,985,930
23 CSP	Senior Unsecured Notes, Series G	6.050	5/12/2008	5/15/2018	10	350,000,000	350,000,000	(791,000)	(2,347,096)	-	-	346,861,904	6.171%	21,599,590
24 CSP	Senior Unsecured Notes, Series A	0.950	3/16/2010	3/16/2012	2	150,000,000	150,000,000		(556,619)		-	149,443,381	1.138%	1,707,280
25	Total Senior Unsecured Notes					3,500,000,000	3,500,000,000	(11,221,000)	(7,996,395)	-	-	3,480,782,605		198,019,129
										Cost of Reacquired Debt				Annual Amortization
26	Unrefunded Redeemed IPC									(722,615)				73,670
27	Unrefunded Redeemed FMB									(9,542,807)				633,036
28	Unrefunded Redeemed Debentures									(3,287,707)				295,632
29	Unrefunded Redeemed Senior Unsecured									(998,479)				37,684
30	Total Unrefunded Redeemed Notes									(14,551,607)				393,215
31	Total Long Term Debt					4,062,325,000	4,062,325,000	(11,221,000)	(18,500,974)	(14,551,607)		4,032,603,026		221,873,753
32	Total Annual Cost of Long Term Debt													221,873,753
33	Principal Outstanding													4,062,325,000
34	Weighted Average Cost of Long Term Debt (Line 25 / Line 26)													5.46%

(1) Includes annual letter of credit fees
(2) Includes $16.8MM profit associated with pre-issuance hedge

AEP Ohio
CASE No. 11-346-EL-SSO AND CASE No. 11-348-EL-SSO
Embedded cost of Short-Term Debt
($000)

Exhibit RVH-3

Line No.	Issue (A)	Amount Outstanding (B)	Interest Rate (C)	Interest Requirement (D)
1	Ohio Power Company	$ -	0.00%	$ -

Exhibit RVH-4

Ohio Power
Annual Investment Carrying Charges
For Economic Analyses
As of 12/31/2011

	Investment Life (Years)											
	5	7	8	10	15	20	25	30	33	35	40	50
Return (1)	7.94	7.94	7.94	7.94	7.94	7.94	7.94	7.94	7.94	7.94	7.94	7.94
Depreciation (2)	18.00	12.15	10.35	7.85	4.62	3.10	2.25	1.72	1.50	1.37	1.13	0.82
FIT (3) (4)	1.60	2.69	2.61	1.53	1.82	1.89	1.67	1.53	1.47	1.44	1.37	1.27
Property Taxes, General & Admin Expenses	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01
	30.54	25.79	23.91	20.32	17.39	15.94	14.87	14.20	13.92	13.76	13.44	13.04

(1) Based on a 100% (as of 12/31/2011) and 0% incremental weighting of capital costs

(2) Sinking Fund annuity with R1 Dispersion of Retirements

(3) Assuming MACRS Tax Depreciation

(4) @ 35% Federal Income Tax Rate

AEP OHIO
Pollution Control Bonds

Exhibit RVH-5

Pollution Control Bonds that will be transferred **(In Millions)**

Description	% Rate	Maturity	Call/Put	Amount	Plant
WV Economic Dev. Authority, Series 2008C (Sporn)	floating	07/01/2014	in trust	$50,000	Sporn
Marshall County, West Virginia, Series F	floating	04/01/2022	in trust	$35,000	Kammer
Marshall County, West Virginia, Series E	floating	06/01/2022	in trust	$50,000	Kammer
JMG Air Quality Revenue Bonds 2005 A	floating	01/01/2029	in trust	$54,500	Gavin
JMG Air Quality Revenue Bonds 2005 B	floating	07/01/2028	in trust	$54,500	Gavin
JMG Air Quality Revenue Bonds 2005 C	floating	04/01/2028	in trust	$54,500	Gavin
JMG Air Quality Revenue Bonds 2005 D	floating	10/01/2028	in trust	$54,500	Gavin
5.15% Ohio Air Quality Revenue Bonds, 1999 Series C	5.15%	5/1/2026	5/1/2009	$50,000	Cardinal/MR
State of Ohio, Air Quality Bonds, Series 2007A	4.85%	8/1/2040	in trust	$44,500	Stuart
WV Economic Dev. Authority, Series 2008B (Kammer)	floating	7/1/2014	call anytime	$50,000	Kammer
State of Ohio, Air Quality Bonds, Series 2007B	5.10%	11/1/2042	5/1/2013	$56,000	Connesville
WV Economic Dev. Authority, Series 2008A (Mitchell)	floating	04/01/2036	in trust	$65,000	Mitchell
West Virginia Economic Dev. Authority, Series 2007 A	4.90%	6/1/2037	6/1/2012	$65,000	Mitchell
				$683,500	

Pollution Control Bonds to remain with AEP Ohio **(In Millions)**

Description	% Rate	Maturity	Call/Put	Amount	Plant
State of Ohio, Air Quality Bonds, Series 2009A	3.875%	12/1/2038	6/1/2014	$60,000	Zimmer
Ohio Air Quality Development Authority, Series 2010A	3.25%	6/1/2041	6/2/2014	$79,450	Cardinal
Ohio Air Quality Dev Authority Gavin Project, Series 2010A	2.875%	12/1/2027	8/1/2014	$39,130	Gavin
State of Ohio, Air Quality Bonds 2009B	5.80%	12/1/2038	12/1/2019	$32,245	Zimmer
WV Economic Dev. Authority, Series 2010A (Amos)	3.125%	3/1/2043	4/1/2015	$86,000	Amos
				$296,825	

Total Pollution Control Bonds **$980,325**

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT

Ohio's Utility Commission Rescinds Ohio Power's Transition to Market-Based Rates, a Credit Negative for AEP

From Weekly Credit Outlook

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On 23 February, the Public Utilities Commission of Ohio (PUCO) rescinded a three-and-a-half-year transitional electric rate structure for Ohio Power Company (OPCo, Baa1 stable) that it had approved in December 2011. The rate structure sought to move OPCo's prices toward market rates in stages at a time when PUCO is enabling more OPCo customers to choose their electric generation provider. PUCO's rescission is credit negative for OPCo and its parent, American Electric Power Company (AEP, Baa2 stable), as OPCo now faces substantially reduced cash flows and increased uncertainty over the size and composition of its customer base for electric generation if PUCO does not take further action to modify rates.

The PUCO's reversal is noteworthy because its December order was based on a stipulation agreement for which the PUCO's own staff had been one of the negotiating parties. Other parties in the months-long negotiation included 31 groups, among them consumer advocates, industrial associations and environmental organizations, that had registered as interveners in the rate case to determine the 2012-15 rate structure, and 21 of them had signed the agreement. The stipulation agreement provided a gradually increasing limit on the percentage of OPCo's customers who could switch electric generation providers while paying a discounted capacity rate to OPCo instead of OPCo's much higher cost-based capacity rate. The agreement provided an important transition period from a credit perspective because it would have stabilized OPCo's cash flow during the transition.

After receiving customer complaints, the PUCO took the unusual step of reconsidering its own decision and determining that the stipulated rate plan was not in the public's interest, and it ordered OPCo to return to the previous rate structure. Under the old rate structure, the capacity payments that a competing generation provider must pay OPCo will decrease dramatically in June, which will likely cause a large increase in the residential, commercial and industrial customers who switch generation providers. AEP has estimated the negative earnings impact for OPCo could be about $220 million in 2013. Transition capacity payments compensate an incumbent utility for its electric generation infrastructure during the transition period to full retail competition.

What is Moody's Weekly Credit Outlook?

Moody's Weekly Credit Outlook provides our research clients with timely opinions on breaking credit market developments and trends. Published every Monday morning, the newsletter will help you start your week informed of Moody's latest opinions from across the organization

Ohio began transitioning to a competitive retail electric generation market in the mid-1990s, although the pace of that transition fluctuated until 2008, when the state senate passed Senate Bill 221, which is the governing legislation behind the PUCO's most recent decisions.

The PUCO's decision reflects more consumers becoming less tolerant of absorbing electric utility rate increases and complaining to their elected officials. Since competition means that generation rates can rise and fall, there is a higher risk of political intervention, such as a new law governing the electricity retail market, and potentially a more contentious regulatory environment.

If either of these scenarios develops, the uncertainty would be a material credit negative for all of Ohio's electricity utilities, even though most of these utilities are less exposed to a transition to competitive markets than AEP. The other Ohio electricity utilities are First Energy's Cleveland Electric Illuminating (Baa2 stable) and Ohio Edison (Baa2 stable), Duke Energy's Duke Energy Ohio (Baa1 stable), and AES Corp.'s Dayton Power & Light (Baa1 stable).

Report Number: 140357

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MOODY'S
INVESTORS SERVICE

STANDARD &POOR'S

Standard & Poor's Research

February 27, 2012

Bulletin:
Ohio Utility Regulator's Decision Could Be Negative For Credit Quality Of Power Companies In The State

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NEW YORK (Standard & Poor's) Feb. 27, 2012--Last week's retraction by Ohio regulators of its prior approval of a stipulated resolution to the difficult problem of managing a utility's transition to competition highlights the increased risk to bondholders during such transitions. The unexpected reversal, due to ratepayer resistance, came in a case involving American Electric Power Co. Inc.'s (BBB/Stable/A-2) Ohio utilities. As we have previously noted, this kind of uncertainty about when the transition to competition will be completed potentially exposes a utility to rates that reflect a "lower-of-cost-or-market" approach that can produce higher or asymmetrical risk for the company and its bondholders. (See "Assessing U.S. Utility Regulatory Environments," published Nov. 7, 2007). While we currently contemplate no rating or outlook changes for any Ohio-based utilities, we are closely monitoring the political and regulatory atmosphere in the state, and credit quality could erode for some utilities if any transition decisions compress the transition period, disallow recovery of prudently incurred costs, or lead to extended periods of suppressed returns and weakened credit metrics.

Fitch Ratings

Tagging Info

Fitch Affirms Ratings on AEP and Subs; Ohio Power Outlook Revised to Negative

Ratings Endorsement Policy
27 Feb 2012 2:55 PM (EST)

Fitch Ratings-New York-27 February 2012: Fitch Ratings affirms all the ratings on American Electric Power Company, Inc. (AEP) and its eight regulated electric utility subsidiaries: AEP Texas Central Company (TCC), AEP Texas North Company (TNC), Appalachian Power Company (APCo), Indiana Michigan Power Company (I&M), Kentucky Power Company (KPCo), Ohio Power Company (OPCo), Public Service Company of Oklahoma (PSO), and Southwestern Electric Power Company (SWEPCo).

The Rating Outlook on OPCo is revised to Negative from Stable. The Rating Outlook on AEP and its other regulated electric utility subsidiaries is Stable.

A full list of rating actions is shown at the end of this release.

Key rating factors include:
--AEP's regulatory and geographic diversification from ownership of electric utilities with operations in 11 states;
--Generally constructive regulatory environments, with the exception of Ohio;
--An operating environment in Ohio that has become increasingly challenging and uncertain;
--Exposure to federal environmental regulation that will result in increased expenditures to many of AEP's coal-fired electric generation plants and the retirement of older, less efficient plants;
--An improved consolidated financial profile and liquidity position.

Regulatory and Geographic Diversification:

AEP benefits from its ownership of eight regulated electric utilities. The utilities have operations in 11 states, providing regulatory and geographic diversification. AEP's combination of electric utilities that are exposed to different operating environments helps provide some stability to consolidated cash flows.

Low-Cost Operations:

AEP and its utilities have a favorable competitive position due to their ownership of low-cost, coal-fired electric generation plants. AEP's utilities are able to keep their fuel costs low through at-cost coal delivery contracts with affiliated company AEP River Operations LLC (not rated), a wholly owned AEP subsidiary that also barges agricultural products, coal, construction materials, and other products to third parties.

Challenges in Ohio:

The Negative Outlook on OPCo reflects the challenging operating environment in Ohio. The most troubling concern in Ohio is the Public Utility Commission of Ohio's (PUCO) decision last week to revoke the stipulation agreement on OPCo's Electric Security Plan (ESP) that it had approved just two months earlier.

Fitch considers it likely that the PUCO would still require AEP's Ohio operations to move to a competitive pricing market for generation. The uncertainty, though, is how the transition would now be planned and the extent to which it would negatively impact OPCo's cash flows. This concern is heightened by the competitive retail electricity market in Ohio, which has started to result in increasing amounts of customer shopping in OPCo's service territory.

OPCo is heading into these challenges with a strong financial profile, which gives it a little cushion at the current ratings level. Prior to the PUCO revoking the stipulation agreement, Fitch had been expecting OPCo's financial metrics to remain strong over the next three years, with EBITDA to interest coverage to average more than 6.0 times (x) and funds from operations (FFO) to debt to average more than 25%. There is an increased likelihood now that these metrics may be weaker than previously expected. A less favorable outcome in OPCo's ESP that results in expected FFO to debt dropping below 20% could result in a downgrade to the Ohio utility.

Environmental Regulatory Concerns:

Another concern to AEP's integrated utilities is exposure to environmental regulation. The AEP family of utilities operates the largest coal-fired electric generation fleet in the U.S. AEP expects the pending implementation of various environmental regulations to result in roughly $6 billion-$7 billion of capex through 2020, along with the retirement of more than 5,000 MW of older, less-efficient, coal-fired electric generation plants.

Fitch would expect the utilities to be able to recover their environmental capital spending in a timely manner given the various environmental cost recovery mechanisms allowed by the regulatory commissions in AEP's states of operation. The expected timely recovery of these costs mitigates the concerns associated with such large capital outlays.

Improved Financial Profile:

AEP's consolidated financial profile has improved over recent years. Part of this improvement is due to the implementation of cost recovery mechanisms through trackers and riders at the utilities that have reduced regulatory lag. AEP's improved recovery mechanisms now account for 48% of cost recovery, versus just 20% in 2008. Management has also kept its leverage in check, which has decreased the consolidated debt to capitalization ratio to less than 55.5%, from as high as 62.5% in 2008.

AEP's pension plan is on a stronger footing now too, which should result in lower cash contributions going forward. AEP contributed $500 million in 2010 and $450 million in 2011, and the company expects a planned $200 million cash contribution this year to improve the funding level to above 90%. This should free up cash to be used for environmental capex and transmission projects, which is where the most promising growth is for AEP.

Fitch expects consolidated EBITDA to interest coverage to average more than 4.0x and FFO to debt to average around 19% over the next three years.

AEP's liquidity position is solid, with the company's $1.5 billion credit facility maturing in June 2015 and $1.75 billion credit facility maturing in June 2016. Ample amounts are available under these facilities, which back up a commercial paper program that is used to support short-term needs at the utilities not funded by the internal money pool.

Fitch has affirmed the following ratings with a Stable Outlook:

AEP
--Long-term Issuer Default Rating (IDR) at 'BBB';
--Senior unsecured debt at 'BBB';
--Junior subordinated debt at 'BB+';
--Short-term IDR and commercial paper at 'F2'.

TCC
--Long-term IDR at 'BBB+';
--Senior unsecured debt at 'A-';
--Pollution control revenue bonds at 'A-';
--Short-term IDR at 'F2'.

TNC
--Long-term IDR at 'BBB+';
--Senior unsecured debt at 'A-';
--Short-term IDR at 'F2'.

APCo
--Long-term IDR at 'BBB-';
--Senior unsecured debt at 'BBB';
--Pollution control revenue bonds at 'BBB';
--Short-term IDR at 'F2'.

I&M
--Long-term IDR at 'BBB-';
--Senior unsecured debt at 'BBB';
--Pollution control revenue bonds at 'BBB';
--Short-term IDR at 'F2'.

KPCo
--Long-term IDR at 'BBB-';
--Senior unsecured debt at 'BBB';

--Short-term IDR at 'F2'.

PSO
--Long-term IDR at 'BBB';
--Senior unsecured debt at 'BBB+';
--Pollution control revenue bonds at 'BBB+';
--Short-term IDR at 'F2'.

SWEPCo
--Long-term IDR at 'BBB-';
--Senior unsecured debt at 'BBB';
--Short-term IDR at 'F2'.

Fitch has affirmed the following ratings and revised the Outlook to Negative from Stable:

OPCo
--Long-term IDR at 'BBB+';
--Senior unsecured debt at 'A-';
--Pollution control revenue bonds at 'A-';
--Short-term IDR and commercial paper at 'F2'.

Fitch has withdrawn the preferred stock ratings of TCC, TNC, APCo, I&M, PSO, and SWEPCo as a result of the redemption of all their preferred stock in December 2011.

Fitch has also withdrawn all the ratings on Columbus Southern Power Company following its merger with and into OPCo.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Rating North American Utilities, Power, Gas, and Water Companies' (May 16, 2011);
--'Recovery Ratings and Notching Criteria for Utilities' (May 12, 2011).

Applicable Criteria and Related Research:
Corporate Rating Methodology
Rating North American Utilities, Power, Gas, and Water Companies
Recovery Ratings and Notching Criteria for Utilities

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Direct Testimony of Renee V. Hawkins has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 30th day of March, 2012.

/s/ Steven T. Nourse

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