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RE: *In the Matter of the Annual Alternative Energy Compliance Plan Under Rule 4901:1-40-03(C), Ohio Administrative Code, by Ohio Power Company*, Case No. 13-0879-EL-ACP.

Dear Ms. McNeal:

Ohio Power Company ("OPCo," "the Company" or "AEP Ohio") submits the enclosed 2012 Alternative Energy Compliance Plan on behalf of Ohio Power Company pursuant to Rule 4901:1-40-03(C), Ohio Administrative Code.

Thank you for your attention to this matter.

Respectfully Submitted,

/s/ Matthew J. Satterwhite
Matthew J. Satterwhite

Alternative Energy Portfolio Compliance Plan

Introduction

In Case No. 08-888-EL-ORD, the Public Utilities Commission of Ohio ("Commission" or "PUCO") approved Rules for the Alternative Energy Portfolio Standard for electric utilities ("Rules"). The Rules became effective on December 10, 2009. Applying Amended Substitute Senate Bill 221 ("S.B. 221"), the Rules require that each electric utility within the jurisdiction of the Commission adhere to specific advanced and renewable energy benchmark percentages. Each electric utility and electric services company is required to file an annual plan for compliance with future annual advanced and renewable energy benchmarks, utilizing a 10-year planning horizon. This plan is to be filed by April fifteenth of each year. Per Ohio Administrative Code ("OAC") 4901:1-40-03(C), the report shall include the following items:

1. Baseline for the current and future calendar years.
2. Supply portfolio projection, including both generation fleet and power purchases.
3. A description of the methodology used by the company to evaluate its compliance options.
4. A discussion of any perceived impediments to achieving compliance with required benchmarks, as well as suggestions for addressing any such impediments.

Projected Baselines

Tables 1 and 2 below show the development of the 2012 Ohio Power Company ("OPCo," "the Company" or "AEP Ohio") benchmarks as well as the actual retail sales for years 2010, 2011 and 2012, which are used for the development of the 2013 benchmarks. OPCo made adjustments for Economic Growth and Customer Choice. Benchmark adjustments for Economic Growth going forward only include the associated kWh captured in the Economic Development Rider. Although the kWh of the recipients of the Rate Stabilization Plan grants are permissible, OPCo is excluding them because they are: 1) administratively burdensome to compile for inclusion, 2) the incremental economic development load associated with those grant recipients is only a small portion of the total applicable kWh and in turn represent a minimal change in the Benchmarks, 3) the economic development grant recipients can shop for generation service and their load would become subject to another provider's compliance mandate, and 4) OPCo doubts that the Commission's original ruling intended for the baseline exclusion to have an infinite applicable life.

Ohio Power Company Renewable Energy Benchmarks

Table 1: Solar – (MWh)

Solar - Ohio Power							
(all units in MWh unless noted)							
Year	Actual Retail Sales (SSO Load)	Adjustments for Economic Growth	Adjusted Baseline		Preceding 3-Yr Average	Year-end Solar Target	Year-end Solar Benchmark
2010	46,808,205	(4,029,891)	42,778,314				
2011	43,707,876	(6,166,126)	37,541,751				
2012	31,585,376	(5,866,596)	25,718,780				
2013	19,969,246	(5,866,596)	14,102,650		35,346,282	0.09%	31,812
2014	15,975,510	(5,866,596)	10,108,914		25,787,727	0.12%	30,945
2015	15,106,753	(5,866,596)	9,240,157		16,643,448	0.15%	24,965
2016	15,157,850	(5,866,596)	9,291,254		11,150,574	0.18%	20,071
2017	15,160,634	(5,866,596)	9,294,038		9,546,775	0.22%	21,003
2018	15,186,418	(5,866,596)	9,319,823		9,275,150	0.26%	24,115
2019	15,215,379	(5,866,596)	9,348,783		9,301,705	0.30%	27,905
2020	15,171,008	(5,866,596)	9,304,412		9,320,881	0.34%	31,691
2021	15,197,750	(5,866,596)	9,331,154		9,324,339	0.38%	35,432
2022	15,221,488	(5,866,596)	9,354,892		9,324,339	0.42%	39,162

Note: Actual Retail Sales and Adjustments for Economic Growth for 2013 - 2022 are estimated.

Table 2: Non-Solar – (MWh)

Non-Solar - Ohio Power							
(all units in MWh unless noted)							
Year	Actual Retail Sales (SSO Load)	Adjustments for Economic Growth	Adjusted Baseline		Preceding 3-Yr Average	Year-end Non-Solar Target	Year-end Non-Solar Benchmark
2010	46,808,205	(4,029,891)	42,778,314				
2011	43,707,876	(6,166,126)	37,541,751				
2012	31,585,376	(5,866,596)	25,718,780				
2013	19,969,246	(5,866,596)	14,102,650		35,346,282	1.91%	675,114
2014	15,975,510	(5,866,596)	10,108,914		25,787,727	2.38%	613,748
2015	15,106,753	(5,866,596)	9,240,157		16,643,448	3.35%	557,556
2016	15,157,850	(5,866,596)	9,291,254		11,150,574	4.32%	481,705
2017	15,160,634	(5,866,596)	9,294,038		9,546,775	5.28%	504,070
2018	15,186,418	(5,866,596)	9,319,823		9,275,150	6.24%	578,769
2019	15,215,379	(5,866,596)	9,348,783		9,301,705	7.20%	669,723
2020	15,171,008	(5,866,596)	9,304,412		9,320,881	8.16%	760,584
2021	15,197,750	(5,866,596)	9,331,154		9,324,339	9.12%	850,380
2022	15,221,488	(5,866,596)	9,354,892		9,324,339	10.08%	939,893

Note: Actual Retail Sales and Adjustments for Economic Growth for 2013 - 2022 are estimated.

Portfolio Projection

The Company has developed a 10-year strategy in order to meet the renewable energy benchmarks set by S.B. 221. This strategy includes such items as purchasing Renewable Energy Credits/Certificates ("RECs"), securing long-term Renewable Energy Purchase Agreements ("REPAs"), pursuing ownership of certain renewable energy resource generation and the development of customer-sited distributed generation. The Company's 10-year strategy portfolio primarily consists of a mix of solar photovoltaic and wind energy resources.

The Company has secured a number of In-State Non-Solar RECs via forward broker and bilateral REC transactions and has also executed two wind REPAs totaling 99 MWs of nameplate generation from the Timber Road wind farm located in Paulding County, Ohio, as further indicated in AEP Ohio's most recent Modified Electric Security Plan ("ESP") filing. In the Commission's order dated August 8, 2012, in Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, AEP Ohio received PUCO approval of the two wind REPAs with Timber Road. As previously discussed in the 2011 Compliance Plan, the Company also has secured additional Non-Solar generation through two wind REPAs totaling 100 MW with the Fowler Ridge II wind farm located in Indiana.

The Company has produced some In-State Solar MWh which are the result of AEP Ohio's two 70 kW solar facilities located atop the Athens and Newark Service Centers and secured RECs from the Company's REC Purchase and Renewable Energy Technology programs for customer-sited distributed generation. The Company also entered into a 10.1 MW REPA with Wyandot Solar LLC, which began deliveries of solar energy to AEP Ohio in April of 2010. Additionally, the Company completed some market purchases of Out-of-State Solar RECs. On January 9, 2013, the Commission issued an order on AEP Ohio's Long-Term Forecast Report (Case Nos. 10-501-EL-FOR and 10-502-EL-FOR). The Commission found that there was no need for the Turning Point solar project, a 49.9 MW solar facility proposed to be built in the state of Ohio.

AEP Ohio considers detailed information regarding renewable energy MWh, secured and non-secured, as competitively sensitive information. Providing such information could be detrimental to future purchase negotiations, and ultimately affect the cost borne by AEP Ohio's ratepayers.

Methodology

AEP Ohio Planning Methodology

AEP's New Technology Development group provides information as part of its annual renewable planning process and evaluates a wide range of renewable technologies. The evaluations involve a multifaceted effort using input from many AEP groups. Technologies are evaluated on cost, location, feasibility, commercial availability and applicability to AEP's service territory. After a high-level evaluation, economic screening is carried out considering each technology's estimated costs and effectiveness, leading to the development of a levelized incremental dollar-per-renewable-MWh cost. Costs and benefits considered in the screening includes project capital and O&M costs; avoided capacity and energy costs; alternative fuel costs; alternative emission rates and associated allowance costs; and available federal or state subsidies or incentives, if any. This levelized cost is used to rank the various renewable technologies which may include:

- biomass co-firing in existing coal-fired units
- separate injection of biomass in existing coal-fired units (up to 10 percent of the combined fuels' heat content)
- biodiesel used for unit startup and flame stabilization
- wind energy projects, with and without the federal production tax credit
- solar generation
- incremental hydroelectric production
- landfill gas with micro-turbine
- geothermal generation
- distributed generation

Although some renewable technologies could be economic, AEP is constrained from doing some projects because the energy sources are not practical in AEP's service territory. Similarly, biomass co-firing is constrained by a supply of suitable fuel and/or transportation options anticipated to be in proximity to the host coal units evaluated, as well as uncertainty around United States Environmental Protection Agency ("USEPA") permitting requirements and capital constraints.

The ranking of alternatives was translated into a plan, using more cost-effective options first, but limited by practicality and implementation concerns. Wind energy, already under development, predominates due to its cost compared to other renewable resources, such as solar energy, which is currently more expensive and, in the short term, is chosen only to fulfill specific state requirements set forth in S.B. 221.

Federal subsidies and incentives affect the timing and the pricing of the planning methodology. The "fiscal cliff" legislation passed by Congress on January 1, 2013, extended tax credits related to renewable energy, energy efficiency and alternative fuel tax credits, one of them being the Production Tax Credit ("PTC"). The legislation, which

supports the development of wind generation and other renewables, not only extended the tax credit by one year, but made a policy change that allows for the credit to be claimed if construction begins on a renewable energy facility before the end of 2013. The Investment Tax Credit ("ITC") was also significantly expanded, allowing renewable developers to claim a one-time tax credit of 30 percent, which can be claimed if their project begins construction during 2013, rather than having to go into commercial service by the end of this year, as was previously required. PTCs for wind energy offer tax credit benefits to project developers equal to 2.3 cents per kilowatt-hour of renewable energy generated over the ten-year credit eligibility period. This would equate to a pre-tax (revenue requirement) benefit of over 3.5 cents per kilowatt-hour during that same period. Projects entering commercial service after those dates would require significantly higher income, producing significantly higher costs to the customers of the purchasing entity. Prospects for the extension of the PTC beyond 2013 seem uncertain. The 30 percent Solar ITC remains in effect for projects completed and placed in service by the end of 2016. Solar projects completed after 2016 are eligible for a 10 percent Solar ITC.

Implementation

AEP Ohio continues to consider owning, or controlling via capital lease, physical renewable energy assets in Ohio where assurance of cost recovery, available capital, and opportunities for investment present themselves. In addition, the Company will continue to assess the opportunities for development of their own projects, the purchase of development assets from other developers, or the purchase of turn-key projects in the future to meet the goals in the statute. AEP Ohio intends to continue to manage the renewable energy it has procured through long-term purchase agreements and/or use the spot or broker markets for additional REC purchases as required.

Impediments

Non-Solar Renewable Energy Resources

The Company is meeting the annual benchmarks and is on target to comply with Ohio's renewable energy standard, which requires that AEP Ohio supply 2.0 percent of their resources from renewable energy in 2013 (0.09 percent of which is solar) and 12.5 percent by 2024 (0.5 percent solar).

As the Company has stated in previous reports, impediments to compliance with the benchmarks set forth in S.B. 221 can be summarized by principles of supply and demand. The demand side of the equation is quite clear as the legislation states which entities are subject to the increasingly aggressive benchmarks. However, a potentially unintended consequence of S.B. 221 forces incumbent load-serving utilities in Ohio to over-comply with the benchmarks since the benchmarks are based, in part, on its three-year adjusted sales volume, which may lag in reflecting the amount of a utility's load lost to Competitive Retail Energy Service ("CRES") providers. While there are factors that influence demand, the quantity of annual RECs needed by each entity can be easily derived, but the supply side of the equation is subject to much more volatile factors.

To help meet its 2012 compliance benchmarks, AEP Ohio relied primarily on a combination of its previously executed REPAs for solar and wind resources (Wyandot and Fowler), as well as an assortment of RECs acquired via the broker market in 2010 and 2011. Pending Commission approval of the Timber Road REPAs, the Company entered into a separate short-term non solar REC purchase agreement with Timber Road from which a majority of RECs for its 2012 In-State Non-Solar benchmarks were sourced. Although a limited number of utility-scale wind projects have been approved by the Ohio Power Siting Board, only two have been built to date. Both commenced construction while still eligible for the ARRA Section 1603 grants. To the Company's knowledge, no new utility scale wind or biomass projects are currently under construction in the state and thus, unless construction is commenced in 2013, no future project will be eligible for the Section 45 Production Tax Credit, which expires for projects which have commenced construction by December 31, 2013, unless further extended by Congress. The addition of new renewable energy utilizing the above mentioned federal incentives serves to buy down the cost of energy over the life of the project.

The ability to commit to long-term contracts or investments, in the face of increasingly aggressive benchmarks, is the preferred approach to secure reasonably priced reliable sources of renewable energy and to ensure that this energy will be economically accessible to its customers in the coming years. Simply put, significant new renewable energy generation resources are unlikely to be built in Ohio unless the developers of such proposed resources can execute long-term contracts for the future output of their projects.

As the electricity markets in Ohio move towards deregulation, it will become more difficult for investor-owned utilities ("IOU") to plan for the long-term procurement of renewables, which typically is supplied at a higher cost. Planning is further complicated by the fact that CRES providers can choose which customer classes in which to market; IOUs must always be prepared to serve their SSO load leaving uncertainty around its actual renewable requirement as customers concurrently have the option to switch energy suppliers.

AEP did not conduct any new biomass testing programs in 2012. This was primarily due to incremental cost factors associated with biomass. In addition to the information gathered in the 2010 biomass fuel Requests for Proposals ("RFP"), AEP has continued to follow the biomass fuel market and has not seen the biomass fuel market develop to a point where the fuel was cost competitive. Also, due to uncertainty around USEPA regulations impacting coal-fired generation, significant investment in plant modifications to support using biomass co-firing on a full-time basis could not be justified.

Solar Renewable Energy Resources

The Company is meeting the annual benchmarks and is on target to comply with Ohio's renewable energy standard, which requires that 0.09 percent of the Company's load be supplied with solar energy in 2013 and 0.5 percent by 2024. For 2012 compliance, the Company relied on the 10.1 MW Wyandot REPA, which represented one of the first significant solar energy projects commissioned in the state since the advent of the S.B. 221 benchmarks in 2008. The output from the Wyandot REPA will satisfy the Company's benchmark requirements through most of 2013.

Self-Build

Small scale renewable self-build options do not involve many of the long lead-time items as do commercial or utility scale renewable self-build options. However, the small scale renewable self-build options are not the most cost effective means to meet the aggressive benchmark obligations. In fact, customer-sited incentive programs for solar, used by some Ohio utilities, are one of the most costly options in which to meet a Solar REC obligation. To participate in the ownership of larger, utility scale renewable resources, in the near term, there are several items in addition to capital that need to be considered such as site control, transmission access, property tax and permitting to name a few. The most important of these items is the need for regulatory certainty for long-term recovery of all costs associated with developing, constructing, financing and operating these assets, which are being considered in order to meet the benchmarks established under S.B. 221.

REC Market

The impediments mentioned above have a direct correlation to the available REC supply. In theory, it is expected that over time the value or cost of a REC will more

closely resemble REC costs in the rest of the PJM market area, all of which are expected to increase with the expiration of the PTC for wind energy projects which have not commenced construction by December 31, 2013, and the expiration of the 30 percent Investment Tax Credit for solar projects on December 31, 2016. In markets where there are aggressive renewable energy resource targets, specific In-State requirements and concentrated load centers, there is the potential for demand to outweigh supply of RECs and thus lead to the potential for pricing distortions.

Conclusion

In conclusion, renewable energy resource options provide for environmentally friendly energy solutions and are part of a diversified approach. When considering renewable energy resources, the challenges include, identifying the actual customer base to supply for, selecting an option that minimizes costs to customers, regulatory approval within the state of Ohio and any external factors influencing the planning cycle such as the existence, if any, of federal subsidies. The combination of commitments to new solar and non-solar projects has allowed AEP Ohio the opportunity to provide a diversified renewable portfolio.

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Summary: Notice AEP Ohio Annual Alternative EnergyPortfolio Compliance Plan electronically filed by Mr. Yazen Alami on behalf of Ohio Power Company