

FILE

PUCO EXHIBIT FILING

97

Date of Hearing: 10-6-15

Case No. 14-1693-EL-RDR, 14-1694-EL-AAM

PUCO Case Caption: In the Matter of the Applicant's Seeking
Approval of Ohio Power Company's Proposal to
Enter into an Applicant's Power Purchase Agreement for
Inclusion in the Power Purchase Agreement Rides.

In the Matter of the Application of Ohio Power Company
for approval of certain ~~Accounting~~ Accounting Authority.

List of exhibits being filed:

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Date Submitted: 10-20-15

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :
 Application Seeking :
 Approval of Ohio Power :
 Company's Proposal to : Case No. 14-1693-EL-RDR
 Enter into an Affiliate :
 Power Purchase Agreement :
 for Inclusion in the Power:
 Purchase Agreement Rider. :

In the Matter of the :
 Application of Ohio Power :
 Company for Approval of : Case No. 14-1694-EL-AAM
 Certain Accounting :
 Authority. :

- - -

PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney
 Examiners, at the Public Utilities Commission of
 Ohio, 180 East Broad Street, Room 11-D, Columbus,
 Ohio, called at 9 a.m. on Tuesday, October 6, 2015.

- - -

VOLUME VII

- - -

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- - -

SC 30

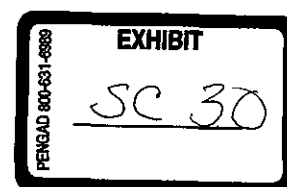
AEP OHIO EX. NO. 1

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
Ohio Power Company for Authority to)	Case No. 13-2385-EL-SSO
Establish a Standard Service Offer)	
Pursuant to §4928.143, Revised Code.)	
in the Form of an Electric Security Plan)	
In the Matter of the Application of)	
Ohio Power Company for Approval of)	Case No. 13-2386-EL-AAM
Certain Accounting Authority)	

REBUTTAL TESTIMONY OF
WILLIAM A. ALLEN
IN SUPPORT OF AEP OHIO'S
ELECTRIC SECURITY PLAN

Filed: June 20, 2014



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WILLIAM A. ALLEN

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Storm Damage Recovery Rider	10
Carrying Costs on Regulatory Assets	13

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

1 **PERSONAL DATA**

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

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

5 **Q. DID YOU PRESENT DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A. Yes.

7 **PURPOSE OF TESTIMONY**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. The purpose of my testimony is to rebut certain claims made by various parties in this
10 case related to the Power Purchase Agreement (PPA) rider, the Storm Damage Recovery
11 Rider (SDRR), and carrying costs on regulatory assets. Specifically, I will show that 1)
12 the most appropriate estimate of the PPA rider shows a net customer benefit of \$8 million
13 over the ESP term; 2) the PPA rider provides a price stabilizing tool for all customers that
14 is not available through other mechanisms; 3) the proposed modifications to the
15 Company's SDRR are inappropriate and inconsistent with historical rate making
16 treatment and 4) the weighted average cost of capital is the most appropriate carrying cost
17 to apply to regulatory assets that have deferrals longer than a year.

18 **Q. WHAT EXHIBITS ARE YOU SPONSORING?**

19 A. I am sponsoring the following exhibits:

1 Exhibit WAA-R1 Impact of Staggered and Laddered SSO Auctions
2 Exhibit WAA-R2 PPA Rider Mitigation of Market Price Changes
3 Exhibit WAA-R3 Summary of CRES Offer Terms
4 Exhibit WAA-R4 Summary of CRES Offer Price Changes
5 Exhibit WAA-R5 Upper Arlington Governmental Aggregation Price Changes
6 Exhibit WAA-R6 Response to Staff Data Request 6-010
7 Exhibit WAA-R7 Response to Staff Data Request 6-008

8 **POWER PURCHASE AGREEMENT RIDER**

9 **Q. STAFF WITNESS DR. CHOUÉIKI STATES ON PAGE 10, LINE 16, THROUGH**
10 **PAGE 11, LINE 3, THAT MARKET PRICE VOLATILITY CAN BE**
11 **MITIGATED BY STAGGERING AUCTIONS FOR SSO PROCUREMENTS AND**
12 **LADDERING MULTIPLE AUCTION PRODUCTS FOR SSO PROCUREMENTS**
13 **MORE EFFECTIVELY THAN THE PPA RIDER. HE ALSO MAINTAINED**
14 **THE POSITION DURING CROSS EXAMINATION THAT THESE TWO TOOLS**
15 **ALONE ADEQUATELY MANAGE MARKET PRICE VOLATILITY (TR. XII**
16 **AT 2924, 2933-34, 2936). DO YOU AGREE WITH THESE CONCLUSIONS?**

17 **A.** No. First, it is important to recognize that staggering and laddering only impacts the SSO
18 price and does not impact the price paid by shopping customers. Second, staggering and
19 laddering only smooth the impact of price changes for SSO customers and cannot
20 mitigate fundamental changes in market prices. I do agree that staggering auctions for
21 SSO procurements can address some of the risk of market volatility resulting from short
22 term changes in forward market prices for a comparable product. Exhibit WAA-R1, page
23 1, shows that for the FirstEnergy SSO auctions the blending of October 2013 auctions

1 with January 2014 auctions mitigated half of the auction price increase of \$4.92/MWh
2 and \$8.32/MWh that occurred in January of 2014 for the two products procured in those
3 auctions. Laddering auction products has the effect of mitigating short-term changes in
4 market prices for SSO customers. But as AEP Ohio witness Dr. McDermott testifies in
5 his testimony, the SSO laddering only addresses short-term volatility and has no
6 mitigating impacts on long-term volatility. In addition, the use of this auction design
7 method can also have unintended consequences that should be carefully considered. As
8 an example, laddering auction products essentially averages capacity clearing prices
9 across multiple planning years. If a this laddering averages a high near term capacity
10 price with lower future capacity prices, CRES providers may not be able to offer
11 competitive one year products that include that high capacity price. Because the SSO
12 determines the price to compare that drives shopping decisions by retail customers, this
13 kind of price impact could affect CRES providers' ability to compete with the SSO
14 during a particular period. Finally, to the extent there are some benefits of staggering and
15 laddering, that strategy should not be used to the exclusion of further efforts that can
16 provide an additional rate stabilization impact for all customers.

17 By contrast, the PPA rider is fundamentally different and unique from the
18 staggering and laddering options that Staff witness Dr. Choueiki supports. The PPA rider
19 by design moves in a manner counter to market prices. Exhibit WAA-R2 provides an
20 example of how the PPA rider can mitigate the impact of market price changes for both
21 SSO and shopping customers. This exhibit demonstrates that a PPA rider, including only
22 the OVEC entitlement, would mitigate \$0.35/MWh of a \$5/MWh change in market prices
23 or 7% of that change. In addition, this exhibit demonstrates that an expanded PPA rider

1 including 3,000 MW of generating capacity would mitigate \$2.39/MWh of a \$5/MWh
2 change in market prices or 48% of that change. Moreover, because the PPA rider would
3 not affect the price to compare, it would not adversely affect the competitive retail
4 market.

5 Staff witness Dr. Choueiki states that there are two tools that the Commission
6 currently can use to mitigate price volatility and that these tools should be used
7 exclusively (Tr. XII at 2924). The PPA rider is another tool that the Commission should
8 recognize as beneficial to providing added price stability for customers. Given the
9 importance of rate stability to retail customers there is no good reason to exclude such
10 effective tools from the Commissions regulatory tool box.

11 **Q. EXELON WITNESS CAMPBELL STATES AT PAGE 15 LINE 23 THROUGH**
12 **PAGE 16 LINE 2 OF HIS DIRECT TESTIMONY "IN CONTRAST, ABSENT**
13 **THE RIDER PPA CHARGE, A COMPETITIVE SUPPLIER CAN OFFER A**
14 **CUSTOMER A STABLE, LONG TERM, FIXED PRICE AT A MUCH LOWER**
15 **RATE THAT IS REFLECTIVE OF MARKET PRICES." DO YOU AGREE?**

16 **A.** No. While it is theoretically possible that a competitive supplier could offer long term
17 stable offers, the fact is that they do not currently do so. I have used data from the
18 Commission's Apples-to-Apples web page to review the current Competitive Retail
19 Electric Service (CRES) offerings to residential customers across all six Ohio Electric
20 Distribution Utilities (EDUs). This data demonstrates that CRES providers are not
21 offering long term stable offers. In fact, the vast majority of offers (72.4%) are for terms
22 of 12 months or less and there are no offers in the AEP Ohio service territory exceeding
23 36 months. I have included a summary of this data in Exhibit WAA-R3. The short-term

1 nature of these contracts results in customers needing to sign new contracts on a regular
2 basis which creates volatility for customers as they transition from one contract to
3 another. Based upon a review of CRES offerings of comparable terms one can see that
4 this transition can result in significant volatility in the form of generation rate changes of
5 at least 9.7% and up to 48.4% over the most recent 12-month period. I have included a
6 summary of this data in Exhibit WAA-R4. The same phenomenon can occur for
7 customers served by CRES providers through governmental aggregation. As shown in
8 Exhibit WAA-R5, the CRES pricing for customers served under the Upper Arlington
9 governmental aggregation program will see their price increase from 5.545 ¢/kWh to 7.84
10 ¢/kWh, or just over 41%, this year.

11 The risk of shopping customers seeing significant price volatility is exacerbated
12 by the fact that many CRES contracts for residential customers include a rollover
13 provision that automatically enrolls the customer in a new market based variable rate plan
14 or a fixed rate plan unless the customer the customer takes action. Unless the customer
15 takes proactive action, a new and potentially higher rate unilaterally charged by the
16 CRES provider will automatically apply.

17 **Q. DOES THE APPROACH RECOMMENDED BY STAFF WITNESS DR.**
18 **CHOUEIKI ADDRESS MARKET VOLATILITY ASSOCIATED WITH CRES**
19 **OFFERS OR GOVERNMENTAL AGGREGATION?**

20 **A.** No. The exclusive use of SSO auction laddering/staggering recommended by Staff does
21 nothing to address this market volatility.

22 **Q. OCC WITNESS WILSON TESTIFIED THAT THE COST OF THE PPA RIDER**
23 **WOULD BE \$116 MILLION (DIRECT TESTIMONY PAGE 9, LINE 5) OVER**

1 THE THREE YEAR TERM OF THE ESP. IEU WITNESS MURRAY INDICATES
2 IN HIS DIRECT TESTIMONY (IEU EX. 1A AT 12) THAT HE BELIEVES THE
3 PPA RIDER IMPACT DURING THE ESP TERM WILL BE \$82 MILLION.
4 HAVE YOU REVIEWED THE ANALYSIS THAT OCC WITNESS WILSON
5 USED TO COME TO THIS CONCLUSION?

6 A. Yes. In reviewing OCC witness Wilson's analysis that was provided in response to a
7 discovery request I determined that his analysis was fundamentally flawed in a number of
8 ways that make his results unreliable.

9 Q. CAN YOU DESCRIBE THE FLAWS THAT YOU IDENTIFIED?

10 A. Yes, OCC witness Wilson's analysis included the following flaws:

- 11 1. It failed to use the most current forecast data for the OVEC costs;
- 12 2. It failed to redispatch the units based upon the updated market prices included in
13 his analysis;
- 14 3. The market prices used in the analysis are not shaped by hour during the day and
15 instead use a single price for all on-peak hours and a single price for all off-peak
16 hours and inappropriately combines this with the company's dispatch that
17 included shaped prices; and
- 18 4. It arbitrarily reduced the projected output of the units based upon an overly
19 selective set of historical data.

20 Q. EXPLAIN HOW OCC WITNESS WILSON FAILED TO USE THE MOST
21 CURRENT COST ESTIMATE.

22 The failure to use the most current OVEC cost estimate results in a significantly
23 overstated and incorrect estimate of the PPA rider over the term of the ESP. On page 6,

1 line 18, through page 7, line 1, of OCC witness Wilson's testimony he states that he
2 "revised the projected Demand Charges to use the actual forecasts provided by OVEC."
3 He also states on page 12, lines 8 through 10, that \$10 million in annual demand charge
4 savings estimated by the Company does not appear to be sufficiently supported. He fails
5 to recognize that the current forecast of OVEC costs (provided by OVEC) which was
6 provided to the parties, including OCC, in response to OEG INT-2-004 (IEU Exhibit 8)
7 demonstrated that expected demand charge savings exceeded those estimated by the
8 Company. Recognition of data available to OCC at the time of the preparation of their
9 testimony demonstrates that the \$30.4 million adjustment included on Table 3 of his
10 testimony is inappropriate. IEU witness Murray also fails to account for the updated
11 OVEC cost data in his estimate of the PPA rider.

12 **Q. EXPLAIN HOW OCC WITNESS WILSON FAILED TO REDISPATCH THE**
13 **UNITS BASED ON THE UPDATED MARKET PRICES.**

14 A. The failure to redispatch the units based upon the updated market prices included in his
15 analysis results in revenues that do not align with the market prices that create the
16 revenues. As an example, in the first month of his forecast there are hours where the
17 market price in his forecast exceeds the variable cost of production for the OVEC units
18 by approximately \$15/MWh and yet his model recognizes no revenue for that hour. See
19 AEP Ohio Exhibit 22 (hours 1 through 7; hour 24). Based on a margin of \$15/MWh and
20 a maximum output of 437MW, for every hour that his model fails to reflect appropriate
21 dispatch revenues are understated by over \$6,500. In the first month of his forecast this
22 occurred 61 times which understated revenues by approximately \$400,000. Similarly, in
23 the second month of his forecast there are 37 hours where the market price in his forecast

1 exceeds the variable cost of production for the OVEC units by approximately \$28/MWh
2 and yet his model recognizes no revenue for that hour resulting in an understatement of
3 revenues of over \$450,000. In January of 2016, his analysis has a similar problem but in
4 this case both the on and off-peak prices exceed the variable cost of the OVEC units by a
5 considerable amount and there are 102 of 744 hours in the month where the units should
6 be economically dispatched and his model fails to do so. These same errors persist
7 throughout his analysis, over 10% of the total hours in the three year forecast period, to
8 such a degree as to make the analysis unreliable and unusable.

9 **Q EXPLAIN HOW OCC WITNESS WILSON FAILED TO USE SHAPED HOURLY**
10 **MARKET PRICES USED IN HIS ANALYSIS.**

11 A. The market prices used in the analysis are not shaped¹ by hour during the day and instead
12 use a single price for all on-peak hours and a single price for all off-peak hours and
13 inappropriately combines this with the company's dispatch that included shaped prices.
14 To the extent that his forecast shows the OVEC units not dispatching at the beginning of
15 a peak period in a given day, his analysis understates the revenues associated with the
16 generation during the higher priced peak hours that a shaped price would produce. An
17 example of this flaw in his analysis shows up in the 0700, 0800 and 2200 hours of June 1,
18 2015 – the first day in his analysis – and persists throughout. While I've observed that
19 this is a flaw in his analysis I have not attempted to quantify the magnitude of the impact.
20 This provides another example of the substantive flaws underlying OCC witness
21 Wilson's testimony provided to the Commission.

¹ Forward prices typically include a single price for the on-peak period and a single price for the off-peak period for each month. The shaping of prices by hour recognizes that prices change in a gradual manner throughout the hours of the day and do not make a step change at the dividing line between on-peak and off-peak. As an example, while 10 AM and 4 PM on a weekday are both peak hours, the projected price using shaped prices would show a lower price for 10 AM and a higher price for 4 PM.

1 Q. EXPLAIN HOW OCC WITNESS WILSON ARBITRARILY REDUCED THE
2 PROJECTED OUTPUT OF THE UNITS USING A SELECTIVE SET OF
3 HISTORICAL DATA.

4 A. OCC witness Wilson's analysis reduced the projected output of the units based upon an
5 overly selective set of historical data. His reduction in the output of the units by
6 approximately 25% relies on only two years' worth of data - 2012 and 2013. His analysis
7 assumes a projected capacity factor of approximately 50%. Other than in 2012 and 2013
8 when the OVEC units had environmental tie in outages and dispatched in a more limited
9 fashion due to extremely low market prices the OVEC units have historically had
10 capacity factors of approximately 75%. The use of capacity factors that are well below
11 those that would be expected for these units based upon projected market prices results in
12 a significantly overstated cost of the PPA rider. As such, the Commission should not rely
13 upon the quantification of the "Impact of updated generation quantities" provided in
14 Table 3 of OCC witness Wilson's testimony.

15 Lastly, OCC witness Wilson provides as estimate of the "Impact of Updated AD
16 Hub prices" in Table 3 of his testimony. While I am not disputing (or agreeing with) the
17 accuracy of the AD Hub prices that are included in the analysis, the impact of his updated
18 prices was calculated using the same flawed approach that I have previously described
19 and as such cannot be relied upon.

20 Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD RELY ON THE
21 ANALYSIS REGARDING THE QUANTITATIVE IMPACT OF THE PPA
22 RIDER PRESENTED BY IEU WITNESS MURRAY OR OCC WITNESS
23 WILSON?

1 A. No. I've previously discussed the flaws in each of their analysis which renders each
2 unreliable for use by the Commission. The most appropriate estimate of the PPA rider
3 over the ESP period is the estimate provided as AEP Exhibit 8A which showed a net
4 credit of \$8 million over the three year period.

5 **STORM DAMAGE RECOVERY RIDER**

6 Q. IN STAFF EXHIBIT 12 AND DURING CROSS-EXAMINATION, STAFF
7 WITNESS LIPTHRATT RECOMMENDED CONSIDERATION OF EXPENSES
8 AND REVENUES ASSOCIATED WITH MUTUAL ASSISTANCE SERVICES
9 BEING PROVIDED TO OTHER UTILITIES AS AN OFFSET TO THE
10 PROPOSED STORM RIDER RECOVERY. HOWEVER, STAFF WITNESS
11 LIPTHRATT INDICATED HE WAS UNAWARE IF MUTUAL ASSISTANCE
12 COSTS AND EXPENSES WERE ALREADY INCLUDED RATES, WILL YOU
13 PLEASE EXPLAIN?

14 A. Yes, Staff witness Lipthrott's assumptions about Ohio Power's rates are incorrect.
15 Revenues and expenses associated with mutual assistance provided to other utilities are
16 not included in rates or in the storm threshold baseline established by the Commission, as
17 proposed by Staff in prior cases.

18 First and foremost the expenses and revenues associated with providing mutual
19 assistance to peer utilities in emergencies are not included in base rates. Staff witness
20 Lipthrott had that information available to him in this case in the response to Staff Data
21 Request 6-010, where the Company indicated that these mutual assistance expenses and
22 revenues are included in Account 186. (See Exhibit WAA-R6) Account 186 is not
23 included in base rates. Staff witness Lipthrott's recommendation is based entirely on a

1 false premise that costs associated with providing mutual assistance for peer utilities,
2 such as food, travel, lodging, etc., are included in base rates. The costs associated with
3 providing mutual assistance to peer utilities are not included in base rates and as such it
4 would be improper to credit the revenues that offset the cost of providing mutual
5 assistance in the SDRR.

6 **Q. STAFF WITNESS LIPTHRATT STATES ON PAGE 5, LINES 1 THROUGH 3,**
7 **"THE FIRST 40 HOURS THAT THE EMPLOYEE WORKS IN A WEEK IS**
8 **CONSIDERED TO BE IN BASE RATES AND SHOULD NOT BE INCLUDED IN**
9 **THE SDRR REVENUE REQUIREMENT." DO YOU AGREE WITH HIS**
10 **RECOMMENDATION?**

11 **A.** No. Staff witness Liphtratt's recommendation is based upon the false premise that the
12 first 40 hours that an employee works in a week is included in base rates. When Staff
13 witness Hecker recommended the \$5 million baseline for major storm expenses, his
14 analysis was based upon the Company's policy to categorize incremental storm cost.
15 Staff witness Liphtratt supports his recommendation with the following statement on
16 page 5, lines 9 through 13, of his testimony:

17 "When rates are calculated in a base rate case, Staff determines the
18 number of employees that typically work in a week and multiplies it by 40
19 hours and the wage rates to arrive to an amount of labor to be included in
20 base rates. Therefore, theoretically, the pay for the first 40 hours in a
21 week for management and union employees is included in base rates."
22

23 This statement does not reflect how base rates were determined in the Company's most
24 recent base rate case, Case No 11-351-EL-AIR, et al. The Staff analysis that was the
25 basis of the revenue requirement determined in that case used actual expenses for the test
26 year and did not include a projected level of labor as indicated by Staff witness Liphtratt.

1 Q. WHAT WAS YOUR INVOLVEMENT IN CASE NO. 11-351-EL-AIR, ET AL?

2 A. At the time, my position was Director of Regulatory Case Management and my group
3 was responsible for the preparation of that case as well as the review of the Staff Report
4 that was filed in that case. I personally reviewed or directed the review of the
5 recommendations included in the Staff Report. I also participated in the settlement
6 discussions that lead to resolution of the proceeding.

7 Q. STAFF WITNESS LIPTHRATT INDICATED THAT HE DID NOT REVIEW
8 ANY COMPANY UNION CONTRACTS OR EXEMPT EMPLOYEE POLICIES
9 (TR. VOLUME VII AT 1699 AND 1702) TO DETERMINE THE RIGHTS AND
10 RESPONSIBILITIES OF THE COMPANY IN PAYMENT OF EMPLOYEES
11 FOR MAJOR STORM RESTORATION EFFORTS FOR HIS
12 RECOMMENDATION PROPOSED IN STAFF EXHIBIT 11. DOES HIS
13 RECOMMENDATION ON OVERTIME PAYMENT PROPERLY REFLECT
14 THE EXISTING CONTRACTS OF OHIO POWER?

15 A. No, Staff witness Lipthratt again ignored the information available to him in Staff DR 6-
16 008 (see Exhibit WAA-R7) that discussed the incremental nature of labor and overtime
17 and where to look for more information. Staff DR 6-008 discussed the unique accounting
18 codes for major storms and the accounting of storms consistent with the Staff witness
19 Hecker's approach in Case Nos. 11-346-EL-SSO and Company Mitchell's Exhibit TEM-
20 2 in Case No. 12-3255-EL-RDR (the 2012 storm case Staff witness Lipthratt relies upon
21 exclusively in cross examination). As indicated in the response provided Staff witness
22 Lipthratt, all applicable incremental major storm O&M expenses including Company
23 overtime are paid in accordance with its policies and contract labor are included in the

1 monthly determination of the over/under deferral calculation compared to the \$5 million
2 major storm threshold.

3 However, Staff witness Lipthratt failed to review those contracts and policies of
4 Ohio Power in making his recommendation that the Commission simply start storm
5 damage recovery for labor at the forty-first hour of every employee. Storm restoration
6 response is different than the normal work day. Major storm restoration personnel work
7 16 hour days, sometimes in extreme conditions, to restore power as quickly and safely as
8 possible. Employees can be reassigned away from home to other parts of the state to
9 assist in the effort and the Company labor contracts all recognize the heightened nature of
10 major storm restoration response and adjust the overtime in a non-discretionary manner
11 in reaction to the major storm. Staff witness Lipthratt's broad recommendation ignores
12 the realities and intricacies of the Ohio Power contracts and policies while minimizing
13 the restoration efforts of our dedicated staff and field workers.

14 In addition, the historical \$5 million average has been approved by the PUCO and
15 it included all Company personnel overtime. If Staff now recommends in this
16 proceeding, converting incurred Company paid overtime to straight time, it must
17 recommend a comparable decrease in the \$5 million threshold.

18 **CARRYING COSTS ON REGULATORY ASSETS**

19 **Q. STAFF WITNESS LIPTHRATT STATES AT PAGE 3 LINES 18 THROUGH 21**
20 **"STAFF BELIEVES A CARRYING CHARGE BASED ON THE LATEST**
21 **APPROVED COST OF LONG-TERM DEBT SHOULD BE APPLIED TO ANY**
22 **DIFFERENCE BETWEEN THE TOTAL MAJOR STORM COST AND THE \$5**
23 **MILLION BASELINE AT THE END OF THE PREVIOUS CALENDAR YEAR."**

1 DO YOU BELIEVE THAT IT IS APPROPRIATE TO USE A LONG-TERM
2 DEBT RATE TO CALCULATE CARRYING COSTS ON REGULATORY
3 ASSETS LIKE THOSE ASSOCIATED WITH THE SDRR IF RECOVERY IS
4 EXTENDED BEYOND ONE YEAR?

5 A. No. The Company's assets are financed with a combination of debt and equity. To the
6 extent that the company carries additional assets, a regulatory asset in this case, for a
7 period of greater than one year it is appropriate that the carrying costs reflect the
8 Company's weighted average cost of capital (WACC). The WACC reflects the cost of
9 financing the entire Company, including regulatory assets. To assign a long-term debt
10 rate to a regulatory asset fails to recognize that the debt component of the Company's
11 capital structure has already been used to fund other investments. Staff witness
12 Lipthratt's proposal would effectively use the same dollar of debt to finance two
13 investments simultaneously which is a financial impossibility. If the Commission were
14 to adopt the Staff proposal, it would be necessary to remove the value of all regulatory
15 assets that accrue a carrying cost based upon a long-term debt rate from the long-term
16 debt component of the WACC which would have the impact of increasing the WACC for
17 all other investments.

18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19 A. Yes.

EXHIBIT WAA-R1

FirstEnergy Same Delivery Period Auction Results Comparison

Auction Date	Service Type	Term	Delivery Period	Tranche Target	Tranches Procured	Range Starting Price	Winning Price (\$/MWH)	+/- same delivery period prior auction	Average
1/28/2014	Full Requirements	12	6/1/14-5/31/15	16	16	\$80-\$105	\$55.83		
10/1/2013	Full Requirements	12	6/1/14-5/31/15	16	16	\$80-\$105	\$50.91	\$4.92	\$53.37
1/28/2014	Full Requirements	24	6/1/14-5/31/16	17	17	\$80-\$105	\$68.31		
10/1/2013	Full Requirements	24	6/1/14-5/31/16	17	17	\$80-\$105	\$59.99	\$8.32	\$64.15
1/1/2013	Full Requirements	36	6/1/13-5/31/16	17	17	\$85-\$105	\$59.17	(\$1.72)	\$60.03
10/1/2012	Full Requirements	36	6/1/13-5/31/16	17	17	\$80-\$105	\$60.89		
1/1/2012	Full Requirements	24	6/1/12-5/31/14	17	17	\$65-\$85	\$44.76		
10/1/2011	Full Requirements	24	6/1/12-5/31/14	17	17	\$75-\$90	\$52.83	(\$8.07)	\$48.80
1/1/2011	Full Requirements	12	6/1/11-5/31/12	17	17	\$70-\$95	\$56.13	\$1.58	\$55.34
10/1/2010	Full Requirements	12	6/1/11-5/31/12	17	17	\$65-\$90	\$54.55		
1/1/2011	Full Requirements	24	6/1/11-5/31/13	17	17	\$70-\$95	\$54.92		
10/1/2010	Full Requirements	24	6/1/11-5/31/13	17	17	\$65-\$90	\$54.10	\$0.82	\$54.51
1/1/2011	Full Requirements	36	6/1/11-5/31/14	16	16	\$70-\$95	\$57.47		
10/1/2010	Full Requirements	36	6/1/11-5/31/14	16	16	\$65-\$90	\$56.58	\$0.89	\$57.03

FirstEnergy Auction Results

Delivery Period	Auction Date	Term	Delivery Period	Tranches Procured	Winning Price (\$/MWH)
6/1/11-5/31/12	1/1/2011	12	6/1/11-5/31/12	17	\$56.13
	10/1/2010	12	6/1/11-5/31/12	17	\$54.55
	1/1/2011	24	6/1/11-5/31/13	17	\$54.92
	10/1/2010	24	6/1/11-5/31/13	17	\$54.10
	1/1/2011	36	6/1/11-5/31/14	16	\$57.47
	10/1/2010	36	6/1/11-5/31/14	16	\$56.58
	Total			100	\$55.60
6/1/12-5/31/13	1/1/2011	24	6/1/11-5/31/13	17	\$54.92
	10/1/2010	24	6/1/11-5/31/13	17	\$54.10
	1/1/2011	36	6/1/11-5/31/14	16	\$57.47
	10/1/2010	36	6/1/11-5/31/14	16	\$56.58
	1/1/2012	24	6/1/12-5/31/14	17	\$44.76
	10/1/2011	24	6/1/12-5/31/14	17	\$52.83
	Total			100	\$53.37
6/1/13-5/31/14	1/1/2011	36	6/1/11-5/31/14	16	\$57.47
	10/1/2010	36	6/1/11-5/31/14	16	\$56.58
	1/1/2012	24	6/1/12-5/31/14	17	\$44.76
	10/1/2011	24	6/1/12-5/31/14	17	\$52.83
	1/1/2013	36	6/1/13-5/31/16	17	\$59.17
	10/1/2012	36	6/1/13-5/31/16	17	\$60.89
	Total			100	\$55.25
6/1/14-5/31/15	1/1/2013	36	6/1/13-5/31/16	17	\$59.17
	10/1/2012	36	6/1/13-5/31/16	17	\$60.89
	1/28/2014	24	6/1/14-5/31/16	17	\$68.31
	10/1/2013	24	6/1/14-5/31/16	17	\$59.99
	1/28/2014	12	6/1/14-5/31/15	16	\$55.83
	10/1/2013	12	6/1/14-5/31/15	16	\$50.91
	Total			100	\$59.30
6/1/15-5/31/16	1/1/2013	36	6/1/13-5/31/16	17	\$59.17
	10/1/2012	36	6/1/13-5/31/16	17	\$60.89
	1/28/2014	24	6/1/14-5/31/16	17	\$68.31
	10/1/2013	24	6/1/14-5/31/16	17	\$59.99
	Total			68	\$62.09

EXHIBIT WAA-R2

		OVEC	Expanded PPA
(1)	Capacity (MW)	437	3,000
(2)	Capacity Factor (%)	75%	75%
(3)	Hours/year	8,760	8,760
(1)*(2)*(3)=(4)	MWh Production	2,871,090	19,710,000
(5)	Change in Market Price (\$/MWh)	5.00	5.00
(4)*(5)=(6)	Change in PPA Rider (\$)	14,355,450	98,550,000
(7)	AEP Ohio Load (MWh)	41,250,000	41,250,000
(6)/(7)=(8)	Change in PPA Rider (\$/MWh)	(0.35)	(2.39)

EXHIBIT WAA-R3

Residential CRES Offer Terms as of June 13, 2014

Contract Term	EDU Service Territory						State Totals	
	AEP Ohio	DP&L	Duke	OE	CEI	TE	Number	Percent
Up to 12 months	35	32	49	26	26	26	194	72.4%
Greater than 12 months and up to 24 months	12	8	12	8	8	8	56	20.9%
Greater than 24 months and up to 36 months	4	3	4	1	1	1	14	5.2%
Greater than 36 months	0	0	1	1	1	1	4	1.5%
Total Offers	51	43	66	36	36	36	268	100.0%

Source: PUCO Apples to Apples Comparison Charts dated June 13, 2014

EXHIBIT WAA-R4

Residential CRES Offers by Date

CRES	EDU	Term	Rate Offered		
			June 10, 2013	June 13, 2014	Increase
AP Gas and Electric	AEP Ohio	12 months	\$ 0.0749 /kWh		
		12 months		\$ 0.0849 /kWh	13.4%
DP&L Energy	AEP Ohio	29 months	\$ 0.0679 /kWh		
		24 months		\$ 0.0819 /kWh	20.6%
IGS Energy	AEP Ohio	12 months	\$ 0.0625 /kWh		
		12 months		\$ 0.0779 /kWh	24.6%
Integrus Energy Services Inc	AEP Ohio	12 months	\$ 0.0644 /kWh		
		12 months		\$ 0.0824 /kWh	28.0%
Integrus Energy Services Inc	AEP Ohio	24 months	\$ 0.0744 /kWh		
		24 months		\$ 0.0824 /kWh	10.8%
AP Gas and Electric	Ohio Edison	12 months	\$ 0.0610 /kWh		
		12 months		\$ 0.0849 /kWh	39.2%
Border Energy Electric	Ohio Edison	12 months	\$ 0.0565 /kWh		
		12 months		\$ 0.0689 /kWh	21.9%
DP&L Energy	Ohio Edison	12 months	\$ 0.0579 /kWh		
		12 months		\$ 0.0859 /kWh	48.4%
Duke Energy Retail Sales	Ohio Edison	12 months	\$ 0.0599 /kWh		
		11 months		\$ 0.0779 /kWh	30.1%
FirstEnergy Solutions	Ohio Edison	12 months	\$ 0.0555 /kWh		
		14 months		\$ 0.0609 /kWh	9.7%

Source: PUCO Apples to Apples Comparison Charts dated June 10, 2013 and June 13, 2014

EXHIBIT WAA-R5



Electrical Aggregation Program with FirstEnergy Solutions Fact Sheet & FAQ

Updated June 10, 2014

Updates

- It was originally publicized that the letters would be mailed early June and that the opt out deadline would be Friday, June 27. However, there was a delay in the mailing pushing the mail out date to the week of June 16 and the new opt out date to Monday, July 7. The City apologizes for any confusion this may have caused.

Program Overview

- The City's 24-month Electric Aggregation contract with AEP Retail Energy will be ending this summer.
- After seeking proposals from electricity providers, the City has selected FirstEnergy Solutions to provide a new Electric Aggregation Program for eligible households and small businesses for a period of nine months. The term of the contract begins with the July/August 2014 billing cycle.
- The price secured by the City for this program is 7.84 cents per kWh.
- The electricity generation market is currently in a state of fluctuation as electricity providers transition to new competitive regulation. As a result, the rates and term lengths currently offered by electricity providers are not as favorable as they were in 2012 when the City first embarked on an electric aggregation program.
- The week of June 16, eligible households and small businesses in Upper Arlington will be sent a joint letter from the City of Upper Arlington and FirstEnergy Solutions that outlines the pricing and contract details for a nine-month period. To be automatically included on the eligibility list, one of the following criteria must be met:
 - The household or business is participating in the City's 2012-2014 electric aggregation program;
 - The household or business does not have a contract with an electrical provider and is receiving its supply directly from the AEP Ohio utility.
- This is an "opt-out" program therefore, if residents and businesses do nothing, they will automatically be enrolled. They must take action by Monday July 7, 2014 (not the previously publicized Friday, June 27, 2014) to be excluded from the program.
- The "opt-out" approach, which Upper Arlington voters approved, enables FirstEnergy Solutions to offer a lower group rate based on the community's size and estimated pool of program participants.
- There are no early termination penalties for participants who choose to leave the program within the nine-month contract period.

- The City has the ability to terminate the contract under certain circumstances, including if FirstEnergy Solutions proposes a price increase during the program that is unacceptable to the City.
- Once enrolled in the program, participants will continue to receive their local electric bill from AEP Ohio, which will include FirstEnergy Solutions' charges as a separate line item.
- Program participants should also continue to contact AEP Ohio for all service-related issues, such as outages, meter readings and billing questions.
- When the FirstEnergy Solutions contract draws to a close next spring, the City may choose to seek bids from other electricity providers in order to negotiate a new contract on behalf of eligible households and businesses.
- If the program has not produced an appropriate level of savings for participating customers, the City can choose to end the program, at which time participants would be notified of their options for continuing in another program with FirstEnergy Solutions, switching to another provider, or reverting back to AEP Ohio, the local utility.
- To determine if participating in the City's program is right for you, we encourage you to look at the Public Utilities Commission of Ohio's (PUCO) "Apples to Apples" chart for electricity providers, which can be accessed at www.puco.ohio.gov
- **The number to call at FirstEnergy Solutions for customer service is 866-686-3749, Monday to Friday, 8 a.m. to 5 p.m.**
- **For questions and concerns that cannot be addressed by this Fact Sheet, forward residents to the attention of Megan Hoffman, 583-5027 (mhoffman@uaoh.net), Bob Lamb, 583-5046 (rlamb@uaoh.net) or Emma Speight, 583-5045 (espeight@uaoh.net).**

Answers to Frequently Asked Questions

What is the City Electric Aggregation Program?

Under the City of Upper Arlington Electric Aggregation Program, the City has acted on behalf of certain of its electricity consumers to select an electricity provider who, through the power of volume buying, is able to secure electricity at competitive prices. The Public Utilities Commission of Ohio ("PUCO") has taken steps to ensure that Ohio's competitive electricity environment is consumer-friendly. Voters approved the City's ability to establish an electric aggregation program in 2000, and the City Council passed an ordinance adopting an Operation and Governance Plan for Electric Aggregation in 2001.

What is aggregation?

Under governmental aggregation, local officials bring citizens together to gain group buying power for the purchase of competitively priced electricity from a retail electric generation supplier certified by the Public Utilities Commission of Ohio.

How is my community able to choose a certified electric generation supplier on my behalf?

Residents voted in 2000 to allow the community to contract for an electric generation supplier on their behalf.

How will I know if I can save money under the electric governmental aggregation program?
You'll know you are saving money as long as your fixed price with FirstEnergy Solutions is lower than your Price to Compare.

What do I need to do if I want to be included in this governmental aggregation?
You do not need to do anything to receive the fixed price offered under this program. You may choose to remain in the aggregation group and begin receiving your discount by simply not returning the opt-out form.

If I join my community's governmental aggregation program, who will deliver my power, read my meter and respond to emergencies, such as power outages?

Your electric utility will be responsible for the delivery of power to your home or business. Since your electric utility still owns the wires and poles that deliver power to you, it will continue to read your meter and restore power after an outage.

Is your price for residential power fixed, or does it vary?

In this program, the price you will receive each month does not change – it is a fixed price.

What is my price?

The City of Upper Arlington has ensured that you will receive an electricity generation and transmission price of 7.84 cents per kWh for your electricity services beginning with the September 2014 billing cycle, for a period of nine (9) months.

How do I estimate my savings?

You can compare the price per kilowatt-hour (kWh) through this program with your local utility price by finding your 'Price to Compare' on your electricity bill. This is the price you currently pay for electric generation service from the utility. Take your Price to Compare and subtract the offer price. This equates to your savings per kWh. Multiply your savings per kWh by your monthly usage (kWh) to determine your savings per month.

What does "opt out" mean?

"Opt out" means that you can decide not to participate in your community's electric governmental aggregation program. By returning the opt-out form, which is included in this mailing, by the opt out deadline you will not be enrolled as an electric generation customer with FirstEnergy Solutions, your community's competitive electric generation supplier, and you will not receive the discount.

What happens if I do not send in the opt-out form?

If you do not return the opt-out form postmarked by the opt out deadline, you will be included in your community's governmental aggregation program and will receive competitively priced electricity from FirstEnergy Solutions.

Can I opt out over the phone?

No, if you want to opt out, you must mail in your completed opt-out form and it must be postmarked by the opt out deadline.

Can I opt out of the program at a later date?

Yes, you may cancel without penalty and switch to another provider or revert back to AEP Ohio, the local utility. Should you cancel your service with FirstEnergy Solutions and return to standard offer service with your local utility, you may not be served under the same rates, terms, and conditions that apply to other utility customers. In other words, the standard service offer available at the time you revert back to AEP Ohio would apply and may be at a different price to the standard service offer currently available to existing customers of AEP Ohio.

What are my energy supply choices if I decide to opt out?

You can stay with your current electric utility, which will continue to supply your electric generation as it always has, or you can shop for an alternative generation supplier. A list of competitive electric suppliers certified by the Public Utilities Commission of Ohio and their current prices are available by calling 1-800-686-PUCO (1-800-686-7826).

If I join the aggregation, can I stay on budget billing?

Yes, you can remain on budget billing. By joining the aggregation program, your supplier charges will automatically be budgeted along with your utility charges.

Can I still have my payment automatically deducted from my checking account as I do now?

Yes. How you pay your electric bill will not change.

Where do I send payment?

You will continue to receive one bill each month from your local utility. The amount that you owe to FirstEnergy Solutions will be stated separately on your bill and you will continue to send payments to your local utility only.

Who is FirstEnergy Solutions?

FirstEnergy Solutions Corp., a subsidiary of FirstEnergy Corp., offers a wide range of energy and related products and services, including the generation and sale of electricity and energy planning and procurement. FirstEnergy Solutions is a leading competitive supplier of energy to residential and commercial and industrial customers in Ohio, Pennsylvania, New Jersey, Maryland, Illinois and Michigan.

What happens at the end of the nine-month period?

As the program draws to a close, the City can choose to seek bids from electricity providers in order to negotiate a new contract on behalf of eligible households and businesses. If at that time, the program has not produced the savings originally anticipated for customers, the City can also choose to end the program, which time participants would be notified of their options for continuing in a different program with AEP Retail Energy, switching to another provider, or reverting back to AEP Ohio.

Why did the City select FirstEnergy Solutions as its provider?

The City selected FirstEnergy Solutions as its provider following a competitive bidding process. FirstEnergy Solutions was able to propose a program that represented the best overall value for eligible households and businesses.

What happens if my family moves to another home or I move my business location?

If you move to another home or business location within Upper Arlington, you will be able to continue participating in the program. If you leave the City of Upper Arlington, you will no longer be eligible to participate.

FILE

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PUCO

Andrew C. Emerson
aemerson@porterwright.com

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CINCINNATI
CLEVELAND
COLUMBUS
DAYTON
NAPLES
WASHINGTON, DC

June 26, 2012

Ms. Barcy F. McNeal, Secretary
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

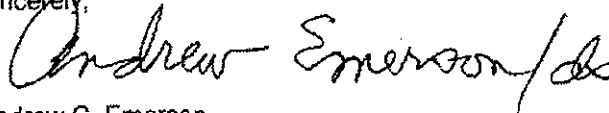
RE: Case No. 02-105-EL-GAG

Dear Ms. McNeal:

On May 30, 2012, I filed a corrected opt-out notice for use in the City of Upper Arlington/AEP Retail Energy government aggregation program. Due to an issue with the printer, that notice was not mailed. Accordingly, please find attached a copy of the opt-out notice that was mailed to all eligible customers today. The notice is identical to the corrected notice filed in this docket, except for a change in the relevant opt-out notice dates. The twenty-one day opt-out period will expire on July 17, 2012.

If you have any questions, please feel free to contact me.

Sincerely,



Andrew C. Emerson

ACE

cc: Bill Adams



CITY OF UPPER ARLINGTON



Your Experts in
Electricity Savings.®

IMPORTANT INFORMATION FROM
The City of Upper Arlington and AEP Retail Energy
regarding your electricity service at
Address:

<Date>

<First> <Last>

<Mailing address>

<Mailing City>, <Mailing State> <Mailing Zip>

Dear <First> <Last>:

The City of Upper Arlington secures an electric price of 5.545 cents per kWh
for a savings of up to 26%¹ off the AEP Ohio utility rate.

We are pleased to announce that the City of Upper Arlington is providing you with an opportunity to save money on your electricity bill. Under this arrangement, AEP Retail Energy has been selected as your city's preferred electricity provider. This special offer is exclusive for eligible residents and businesses of the City of Upper Arlington because officials acted on behalf of their community to select an electricity provider who, through the power of volume buying, is able to secure electricity at competitive prices. AEP Retail Energy is an Ohio-based company and a subsidiary of American Electric Power.

Through your new City Electric Aggregation Program, eligible residents and businesses will receive the price of 5.545 cents per kWh for a period of twenty-four (24) months², starting with the July or August 2012 billing cycle, depending on your meter-read date.

You will be automatically enrolled in the program unless you choose NOT to participate by "opting-out" by July 17, 2012. If you do NOT wish to participate in this program, you must follow the "opt-out" instructions.

The City Electric Aggregation Program is a Smart Choice:

- **It's Easy to Participate.** You don't have to do anything to enroll. All eligible residents and businesses will be automatically enrolled in the program unless you choose to "opt-out."
- **Save Money with a Low Price.** The City of Upper Arlington has ensured that you will receive a price of 5.545 cents per kWh for a period of twenty-four (24) months, for your electricity service beginning with the July or August 2012 billing cycle, depending on your meter-read date. There is no cost to enroll in this exclusive program.
- **Continue to Receive One Bill.** Your local utility will continue to send you one monthly electric bill. You can continue to remit one payment to your local utility for AEP Retail Energy charges. Also, your local utility will continue to provide service for any emergency or maintenance issues.
- **Sign up for a Budget Billing Plan.** Simply call the number below to sign up for AEP Retail Energy's Budget Billing Plan.

If you do not wish to participate in this program, you must "opt-out" by calling the AEP Retail Energy Customer Care Team at 1-877-726-0214, Monday – Friday from 8:00 am to 7:00 pm EST and Saturday from 9:00 am to 1:00 pm EST or completing the Electric Aggregation "Opt-Out" Election Form below. Your "Opt-Out" Election Form must be returned by July 17, 2012.

Learn more about the City of Upper Arlington Electric Aggregation Program by contacting the AEP Retail Energy Customer Care Team at 1-877-726-0214. If you have questions about the City's role as an aggregator, visit www.uaoh.net or call 614-583-5040 to speak with a City representative.

Thank you.

Respectfully,

Theodore J. Staton
Upper Arlington City Manager
The City of Upper Arlington

Jason M. Beck
Managing Director, Residential Business
AEP Retail Energy



The City of Upper Arlington Electric Aggregation Opt-Out Election Form
Please print clearly.

<First> <Last>

Account Number: <Account Number>

<Service Address>

<Service City>, <Service State> <Service Zip>

Account Holder's Name: (Print)

Phone: ()

Account Holder's Signature:

Date:

Email Address:

This form must be postmarked no later than July 17, 2012 for your "opt-out" to be effective.

☒ I elect **not** to participate in the City Electric Aggregation Program with AEP Retail Energy.
<Promo Code>

IMPORTANT NOTICE: By returning this signed form, I affirmatively elect NOT to participate in the City Electric Aggregation Program. By electing not to participate, I understand from the accompanying materials that I will forgo the benefits of this program. I understand that if I choose to "opt out" of the City Electric Aggregation Program, I must complete this form and mail it to AEP Retail Energy or call AEP Retail Energy at 1-877-726-0214, to "opt-out" no later than July 17, 2012. I assume all responsibility as well as the "Opt-Out" Election Form 21 days from the postmark date on the form or to call AEP Retail Energy by July 17, 2012.

Complete form and mail to:
AEP Retail Energy
Attn: City Electric Aggregation Program
PO Box 1415
Columbus, OH 43216

Frequently Asked Questions

What is the City Electric Aggregation Program?

The City of Upper Arlington Electric Aggregation Program, a City acted on behalf of certain of its electricity consumers to select an electricity provider who, through the power of volume buying, is able to secure electricity at competitive prices. The Public Utilities Commission of Ohio ("PUCO") has taken steps to ensure that Ohio's competitive electricity environment is consumer-friendly. Voters in the City approved this aggregation program and the City Council passed an ordinance adopting this electric Aggregation Program.

The City has selected AEP Retail Energy as its preferred electricity provider to serve eligible households and businesses beginning with the July or August 2012 billing cycle, depending on your meter-read date, for a period of twenty-four (24) months.

Who is AEP Retail Energy?

AEP Retail Energy is a certified competitive retail electric service provider and a subsidiary of American Electric Power. AEP Retail Energy is headquartered in Columbus, Ohio and sells electricity to customers at market-based prices rather than regulated rates offered by your local utility.

How do I enroll?

You don't have to do anything to enroll. All eligible customers will be automatically included in the program unless you choose to "opt-out." If you "opt-out," you will continue to be served by your local electric utility's standard service offer, until you choose an alternative electric service provider. However, if you do not respond to this letter, the utility will complete the enrollment process. Once the utility completes your enrollment, you will be mailed an enrollment confirmation notice that your electric service will be provided by AEP Retail Energy. No deposits are required to enroll.

When will this program start?

The City Electric Aggregation Program will begin as early as the July or August 2012 billing cycle, depending on your meter-read date.

What is my price?

The City of Upper Arlington has ensured that you will receive an electricity generation and transmission price of 5.545 cents per kWh for your electricity services beginning with the July or August 2012 billing cycle, depending on your meter-read date, for a period of twenty-four (24) months.

How do I estimate my savings?

You can compare the price per kilowatt-hour (kWh) through this program with your local utility rate by finding your "Price to Compare" on your electricity bill. This is the price you currently pay for electric generation service from the utility. Take your Price to Compare and subtract the offer price. This equates to your savings per kWh. Multiply your savings per kWh by your monthly usage (kWh) to determine your savings per month.

Where do I send payment?

You will continue to receive one bill each month from your local utility. The amount that you owe to AEP Retail Energy will be stated separately on your bill and you will continue to send payments to your local utility only.

Is Budget Billing available?

A Budget Billing Plan is now available for AEP Retail Energy's charges (generation and transmission charges). The Budget Billing Plan levels your monthly payments to even out the seasonal highs and lows of your monthly bills. You will have more certainty and can better manage your electricity expenses. Please visit www.aepretailenergy.com/bbplan for more information.

Can I cancel at any time?

Yes, you may cancel without penalty and switch to another provider or revert back to AEP Ohio, the local utility. Should you cancel your service with AEP Retail Energy and return to standard offer service with your local utility, you may not be served under the same rates, terms, and conditions that apply to other utility customers.

How does the City have the right to aggregate?

In 2000, the City received voter approval to become an electric aggregator on its citizens' behalf.

Why is this an "opt-out" program?

It enables AEP Retail Energy to offer a lower group rate based on the community's size.

Why did the City select AEP Retail Energy as its provider?

The City selected AEP Retail Energy as its provider following a competitive bidding process. AEP Retail Energy was able to propose a program that represented the best overall value for eligible households and businesses.

What happens at the end of the 24-month program?

As the program draws to a close, the City can choose to seek bids from electricity providers in order to negotiate a new contract on behalf of eligible households and businesses. If at that time, the program has not produced the savings originally anticipated for customers, the City can also choose to end the program, at which time participants would be notified of their options for continuing in a different program with AEP Retail Energy, switching to another provider, or reverting back to AEP Ohio, the local utility.

What happens if changes in the electricity utility market impact the program?

The City has the ability to terminate the contract under certain circumstances, including if AEP Retail Energy proposes a price increase that is unacceptable to the City, or the AEP Ohio tariff rate "price to compare" drops below the City's contract rate. Should this occur, all participating customers will be notified relative to their options moving forward, including continuing in a different program with AEP Retail Energy, switching to another provider, or reverting back to AEP Ohio, the local utility.

If I opt-out initially, can I choose to join the program at a later date?

If you opt-out initially, unfortunately, you will not be able to join the program at a later date.

What happens if my family moves to another home or I move my business location?

If you move to another home or business location within Upper Arlington, you will be able to continue participating in the program. If you leave the City of Upper Arlington, you will no longer be eligible to participate.

Unless you affirmatively "opt-out" by July 17, 2012, you will be automatically enrolled if you: a) have an eligible residence or business located in the specified city receiving electric service from AEP Ohio or AEP Retail Energy and b) are not enrolled in the FUP program. Participation in the program is subject to the Terms & Conditions of the Agreement between the City and AEP Retail Energy. Estimated percentage savings apply to the generation and transmission service portions of your electric bill and are based upon AEP Ohio's Price to Compare (PTC) rate of 7.46 cents per kWh as of May 2012 compared to our price of 5.545 cents per kWh. AEP Retail Energy's price excludes utility distribution charges and other utility charges and fees. Estimated percentage savings apply to the generation and transmission service portions of your electric bill. Some business customers may be required to install an interval meter depending on peak demand if applicable. For more information, call 1-877-726-0214, write to: AEP Retail Energy, PO Box 1415, Columbus, OH 43216, or visit aepretailenergy.com.

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

If you have any additional questions, please contact the AEP Retail Energy Customer Care team at 1-877-726-0214, Monday – Friday from 8:00 am to 7:00 pm EST and Saturday from 9:00 am to 1:00 pm EST.



RESIDENTIAL AND SMALL COMMERCIAL AGGREGATION TERMS & CONDITIONS ("AGREEMENT")

TERM	GENERATION SERVICE CHARGES	CANCELLATION FEE	CONTRACT RENEWAL
Monthly Billing Cycle (see "TERMS")	5.545 cents per kWh for Generation and Transmission Services. Price excludes utility Distribution Service Charges and other non-bypassable utility charges and fees.	You may cancel within the 7-day rescission period without penalty. If you terminate after the rescission period there is no fee. See Section 6 for details.	N/A - Your Agreement will terminate after the term.

NOTES: These Terms and Conditions ("Agreement") are your agreement for Generation Service and applicable Distribution Service with AEP Retail Energy, a subsidiary of AEP Energy Services Corporation ("AEP ESC"). Please keep a copy of this Agreement for your records. AEP Retail Energy is licensed by the Public Utilities Commission of Ohio ("PUCO") as a "Retail Electric Service Provider" ("RES"). As a RES, AEP Retail Energy ("AEP RE") provides "Generation Service" ("GS") and "Distribution Service" ("DS") to its customers. AEP RE will supply the electric generation and provide applicable maintenance services to your Electric Distribution System ("EDS") based on your usage. Your EDS will distribute or deliver the electricity to you. Your Distribution System will connect with your current EDS, which is regulated by the PUCO.

DEFINITIONS: "Competitive Retail Electric Service Provider" or "CRES" provider means, as defined by Chapter 4917.11 of the Ohio Revised Code, a person or entity that provides electric service to customers in Ohio. "Generation Service" means the production of electricity. "Distribution Service" means the charges or costs associated with the production, transmission and supply of electricity. "Non-bypassable utility charges and fees" means those EDS charges and fees payable by you regardless of whether the EDS is a CRES or a "Transmission Service" means moving high voltage electricity from a generation facility to a distribution facility of an EDS. "Distribution Service" means the physical delivery of electricity to customers by EDS.

DAY OF RESCISSION: Once you have been provided to receive Generation and Transmission Services from AEP Retail Energy, your EDS will send you a notification letter. You have the right to rescind your enrollment without penalty within seven (7) calendar days following the postmark date of the notification letter by contacting your EDS. Following the instructions contained in the letter.

TERMS AND CONDITIONS OF SERVICE

Residential Customers: Customers who are not commercial users and who are not enrolled in the Percentage of Maximum Use Program ("PMU") are eligible for this offer from AEP Retail Energy. **Basic Service Price:** During the term of this Agreement, you agree to pay AEP Retail Energy a price for all applicable combined Generation and Transmission Services. Generation Service and Transmission Services are specified as "Generation Service Charges" listed above, which include all applicable taxes, if any. For the "Term" listed above, all "Non-bypassable Utility Charges and Fees" of electric service provided by the EDS shall be billed to the customer. In addition to AEP Retail Energy's charges, you will be charged by your EDS for Distribution Service and other EDS charges and fees. As an average residential customer, using 35 kWh of electricity on a monthly basis, you will incur approximately \$33 to \$42 per month in such EDS charges and fees. Also, AEP Retail Energy will charge you for any and all fees, costs, and obligations for transmission services imposed by a Regional Transmission Organization ("RTO"), such as PJM Interconnection, LLC, or an Independent System Operator ("ISO"), such as the Midwest Independent Transmission System Operator ("MISO"), or any successor organization (collectively, referred to as the "RTO"), that are not otherwise reimbursed to AEP Retail Energy, regardless of whether such charges are passed to you, and that are equal to the charges for Customer connectivity for these services ("RTO Transmission and Ancillary Services Charges"). AEP Retail Energy will pass through to you any RTO Transmission and Ancillary Services Charges, which may be variable, related to AEP Retail Energy's reasonable delivery to you and any additional or increased fees or charges that are beyond AEP Retail Energy's reasonable control. You could include, but not be limited to, fees for switching, transmission, interconnection, interconnecting electric service or equipment, charges to capacity related charges, transmission or interconnection-related charges, or charges to retail electric customer access programs, that are imposed by law, rule, regulation or statute, or PUCO rule or order. These charges or fees will be passed through to you and added to your price. AEP Retail Energy, however, cannot increase the rate without approval of the City of Tipton, Indiana ("City") under terms and conditions in the agreement with the City. If the City does not approve the increase in its sole discretion, it may terminate the program before the end of the term.

Length of Agreement: The term of the Agreement from AEP Retail Energy will begin with the first available meter reading following the seven (7) day rescission period, to the acceptance of the enrollment request by AEP Retail Energy (or its distribution and transmission services) and the acceptance of the enrollment by your EDS, and will continue for the term, unless otherwise terminated, ending on the meter read for the last month of service billing. You will continue to receive a single bill from your EDS that will include both your EDS and AEP Retail Energy charges. If you do not pay your bill by the due date, AEP Retail Energy may cancel this Agreement after giving you a minimum of five (5) days written notice. Once cancellation occurs, you will be returned to your EDS as a customer. You will remain responsible to pay AEP Retail Energy for any electricity used before this Agreement is cancelled as well as any late payment charges. Further, your failure to pay EDS charges may result in your electric service or being disconnected in accordance with the EDS utility.

Finalities, Fees and Expenses: Your EDS may charge you a switching fee. If you do not pay the full amount owed to AEP Retail Energy by the due date of the bill, AEP Retail Energy may charge a late payment fee up to one and one-half (1.5%) percent of the outstanding balance per month, on the maximum legally allowed interest rate, whichever is lower, until such payment is received by AEP Retail Energy. AEP Retail Energy reserves the right to demand adequate assurance from you in the form of payment or other form of credit support in the event you fail to make payments in accordance with the same terms. Customers requiring financial assurance will be required to post the assurance within 3 business days of notice.

Cancellation/Termination: Prerequisites/Notice to Pay: If this Agreement is not rescinded during the rescission period, enrollment will be sent to your EDS. You may terminate the Agreement without penalty, if you move outside AEP Retail Energy's service area or into an area where AEP Retail Energy charges a different price, by providing AEP Retail Energy with a thirty (30) day written notice prior to your move. Any failure to pay your bill shall be deemed a breach of this Agreement permitting AEP Retail Energy to terminate this Agreement upon fourteen (14) days advance written notice. Should you cancel service with AEP Retail Energy and return to standard offer service with your EDS, you may not be served under the same terms, rates, and conditions that apply to other EDS customers.

7. **Customer Consent and Informed Decision Making:** By accepting this offer from AEP Retail Energy, you understand and agree to the terms and conditions of this Agreement with AEP Retail Energy. You authorize AEP Retail Energy to obtain information from the EDS that includes, but is not limited to, billing history, payment history, historical and expected electricity usage, metering data, and characteristics of electricity service. This Agreement shall be considered accepted by AEP Retail Energy following: a) acceptance of your enrollment request by AEP Retail Energy; b) the end of the seven (7) day rescission period; and c) acceptance of enrollment by your EDS.

8. **Dispute Resolution:** Contact AEP Retail Energy with any questions concerning the terms of service by phone at 1-866-233-4734 (toll-free) M-F 8 AM - 5 PM EST or by writing to AEP Retail Energy, PO Box 1411, Columbus, OH 43216. Our web address is AEPRetailEnergy.com. If you complain is not resolved after you have called AEP Retail Energy and/or your EDS, or for general inquiry information, you should and become necessary may contact the Public Utilities Commission of Ohio for assistance at 1-800-646-1818 (toll free) or TTY at 1-800-626-1570 (toll free) from 8:00 AM - 5:00 PM EST weekdays or at www.PUCO.ohio.gov. Resolution options may also contact the Ohio Consumer's Council for assistance with complaints and utility issues at 1-877-342-5622 (toll free) from 8:30 AM - 5:00 PM EST weekdays, or www.pucocouncil.org.

9. **Interruptions:** You have the right to request from AEP Retail Energy notice within a 12-month period, up to 24 months of suspension, without charge. AEP Retail Energy is prohibited from conducting a Customer's local security number under account number(s) without the Customer's affirmative written consent except for AEP Retail Energy's collection and reporting, participating in programs funded by the universal service fund pursuant to section 4926.54 of the Revised Code, or assigning a Customer's contract to another CRES provider. AEP Retail Energy assumes no responsibility or liability for the following items that are the responsibility of the EDS: ownership and maintenance of the EDS's electric system, any interruption of service, termination of service, or discontinuation of the EDS's service. In the event of a power outage, you should contact your local EDS. You are responsible for providing AEP Retail Energy with accurate account information. If such information is incorrect, AEP Retail Energy reserves the right to re-bill the applicable account(s). AEP Retail Energy reserves the right to no longer be eligible for this program. AEP Retail Energy's environmental disclosure statement is available for viewing on our website at AEPRetailEnergy.com. You agree that AEP Retail Energy will make the request equally subject to the same standards as our website. We will also provide the information to you upon request.

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

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

12. **Customer Liability and Indemnification:** AEP Retail Energy. You assume full responsibility for the Power furnished to you at the delivery point(s) and on your side of the delivery point(s), and agree to and shall indemnify, defend, and hold harmless AEP Retail Energy, its parent company and all of its officers, directors, managers, members, officers, directors, shareholders, agents, employees, servants, and agents from and against all such losses, expenses, damages, demands, judgments, causes of action, and suits of any kind (hereinafter collectively referred to as "Claims"), including Claims for personal injury, death, or damages to property occurring in the delivery point(s) or on your side of the delivery point and upon the premises, arising out of or based in the electricity and/or your performance under the Agreement.

13. **Assignment:** Customers shall not assign this Agreement or its rights hereunder without the prior written consent of AEP Retail Energy. AEP Retail Energy may, without the consent of Customers, assign this Agreement to another CRES provider, including any successor, in accordance with the rules and regulations of the PUCO and with the provisions of the agreement with the City.

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

15. **Customer Information:** AEP Retail Energy, PO Box 1411, Columbus, Ohio 43216. For more information, call (616) 621-6158 or visit AEPRetailEnergy.com.

PLEASE KEEP A COPY FOR YOUR RECORDS.



Environmental Disclosure - Quarterly Comparison AEP Retail Energy

Projected Data for the Calendar Year 2012

Actual Data for the Period 01/01/12 to 03/31/12.*

eneration source Mix - comparison between the sources of generation projected to be used to generate this product and the actual resources used during this period.	<div><div><div>Projected</div><div><div>Coal</div><div>Nuclear</div><div>Natural Gas</div><div>Petroleum</div><div>Hydro Power</div></div></div><div><div>Actual</div><div><div>Coal</div><div>Nuclear</div><div>Natural Gas</div><div>Petroleum</div><div>Hydro Power</div></div></div></div>																				
Environmental Characteristics - a description of the characteristics associated with each possible generation resource.	<table><tr><td>Biomass Power</td><td>Air Emissions and Solid Waste</td></tr><tr><td>Coal Power</td><td>Air Emissions and Solid Waste</td></tr><tr><td>Hydro Power</td><td>Wildlife Impacts</td></tr><tr><td>Natural Gas Power</td><td>Air Emissions and Solid Waste</td></tr><tr><td>Nuclear Power</td><td>Radioactive Waste</td></tr><tr><td>Oil Power</td><td>Air Emissions and Solid Waste</td></tr><tr><td>Other Sources</td><td>Unknown Impacts</td></tr><tr><td>Solar Power</td><td>No Significant Impacts</td></tr><tr><td>Unknown Purchased Resources</td><td>Unknown Impacts</td></tr><tr><td>Wind Power</td><td>Wildlife Impacts</td></tr></table>	Biomass Power	Air Emissions and Solid Waste	Coal Power	Air Emissions and Solid Waste	Hydro Power	Wildlife Impacts	Natural Gas Power	Air Emissions and Solid Waste	Nuclear Power	Radioactive Waste	Oil Power	Air Emissions and Solid Waste	Other Sources	Unknown Impacts	Solar Power	No Significant Impacts	Unknown Purchased Resources	Unknown Impacts	Wind Power	Wildlife Impacts
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Solar Power	No Significant Impacts																				
Unknown Purchased Resources	Unknown Impacts																				
Wind Power	Wildlife Impacts																				
Air Emissions - Product-specific projected and actual air emissions for this period compared to the regional average air emissions.	<div><div><div>Carbon Dioxide</div><div>Sulfur Dioxide</div><div>Nitrogen Oxides</div></div><div><div><div>100%</div><div><div>Projected</div><div>Actual</div></div></div></div><div>Regional Average</div></div>																				
Radioactive Waste - Product-specific projected and actual radioactive waste for this period.	<table><tr><td>Type:</td><td>Quantity:</td></tr><tr><td>High-Level Radioactive Waste</td><td>LBs./1,000 kWh</td></tr><tr><td>Low-Level Radioactive Waste</td><td>Ft.³/1,000 kWh</td></tr></table> <p>AEP Retail Energy purchases all of its electric energy from the wholesale market. The above generation resource mix is based on EIA reporting of regional generation sources. AEP Retail Energy does not have access to information regarding the radioactive waste produced by nuclear generation in the region.</p>	Type:	Quantity:	High-Level Radioactive Waste	LBs./1,000 kWh	Low-Level Radioactive Waste	Ft. ³ /1,000 kWh														
Type:	Quantity:																				
High-Level Radioactive Waste	LBs./1,000 kWh																				
Low-Level Radioactive Waste	Ft. ³ /1,000 kWh																				
With in-depth analysis, the environmental characteristics of any form of electric generation will reveal benefits as well as costs. For further information, visit us online at AEPRetailEnergy.com or contact AEP Retail Energy at 1-866-823-6738.																					

Version: 12.05.22OH_ED

*Environmental Disclosure Label is based on the most accurate data available to AEP Retail Energy as of May 1, 2012.

EXHIBIT WAA-R6

**OHIO POWER COMPANY'S RESPONSE
TO THE PUBLIC UTILITIES COMMISSION OF OHIO'S
DATA REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
STAFF LIPTHRAT SET (6)**

DATA REQUEST

DR-6-010 How does the Company propose to address revenues associated with mutual assistance provided to other utilities regarding storm restoration?

RESPONSE

The Company is not proposing any changes to mutual assistance provided to other utilities, which is not included in the storm damage mechanism/rider. Expenses and revenues associated with mutual assistance provided to other utilities are included in account 186.

Prepared By: Andrea E. Moore

EXHIBIT WAA-R7

**OHIO POWER COMPANY'S RESPONSE
TO THE PUBLIC UTILITIES COMMISSION OF OHIO'S
DATA REQUEST
PUCO CASE NO. 13-2385-EL-SSO et al.
STAFF LIPTHRAT SET (6)**

DATA REQUEST

DR-6-008 How would the Company ensure the storm expenses reported within the true-up rider be incremental, both for company and contract labor (straight-time and over-time) and non-labor?

RESPONSE

The Company assigns unique accounting codes for each major storm. These unique accounting codes ensure all applicable major storm costs are properly assigned and can be attributed to a specific major storm. With respect to the monthly determination of whether major storm expenses are above or below the annual \$5 million major storm O&M threshold for deferral (provided in base distribution rates), the Company analyzes the cost components within the identified major storm O&M expenses and excludes non-incremental expenses from consideration consistent with Staff witness Hecker's approach in Case Nos. 11-346/348-EL-SSO. Also see Company witness Mitchell's Exhibit TEM-2 in Case No. 12-3255-EL-RDR which lists examples of the non-incremental cost components which are excluded from incremental major storm expenses.

All applicable incremental major storm O&M expenses including Company overtime paid in accordance with its policies and contract labor are included in the monthly determination of the over/under deferral calculation which records a regulatory liability or regulatory asset as appropriate in comparison to the annual \$5 million major storm O&M threshold.

The Company will file in April of each year, a true-up rider based on the incremental storm expense incurred in the previous calendar year including the design for the SDRR to collect or refund this regulatory asset or liability recorded at year-end.

Prepared by: Thomas E. Mitchell

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the Rebuttal Testimony of William A. Allen was served by electronic mail upon the individuals listed below this 20th day of June, 2014.

/s// Steven T. Nourse

Steven T. Nourse

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in

Case No(s). 13-2385-EL-SSO, 13-2386-EL-AAM

**Summary: Testimony (Rebuttal) of William A. Allen electronically filed by Mr. Steven T Nourse
on behalf of Ohio Power Company**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

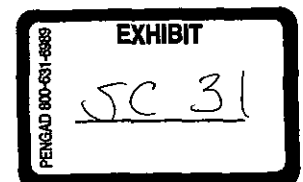
AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF)	CASE NO.
KENTUCKY POWER COMPANY FROM)	2014-00225
NOVEMBER 1, 2013 THROUGH APRIL 30, 2014)	

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 13, 2014, to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the six-month period that ended on April 30, 2014. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, ("AG") and Kentucky Industrial Utility Customers, Inc. ("KIUC") were granted intervention in this matter. The Commission established a procedural schedule that provided for discovery, intervenor testimony, and rebuttal testimony. Commission Staff ("Staff") and KIUC submitted requests for information to Kentucky Power. After KIUC and the AG filed joint testimony, Kentucky Power filed rebuttal testimony. The Commission held a public hearing on this matter on November 12, 2014. Kentucky Power filed a post-hearing brief, and KIUC and the AG filed a joint post-hearing brief. All information requested at the hearing has been filed, and the case now stands submitted for a decision.

Power Purchases

Staff questioned Kentucky Power about the recovery of power purchases through the FAC. Specifically, Kentucky Power was asked whether it was limiting cost recovery,



through the FAC, of power purchased under either of the following circumstances: 1) when experiencing a planned outage, or 2) when not experiencing an outage, but making power purchases to meet its load. Kentucky Power responded that it was not limiting recovery of these purchases through the FAC in either scenario.¹

In FAC review proceedings in 2002, the Commission set forth the definition of "economy energy purchases" and "non-economy energy purchases" and the recoverability of each through the FAC. In Case No. 2002-00495-B involving the six-month FAC review of Kentucky Power (formerly known as American Electric Power Company), the Commission discussed the recoverability of "economy energy purchases" via the FAC.

We view "economy energy purchases" that are recoverable through an electric utility's FAC as purchases that an electric utility makes to serve native load, that displace its higher cost of generation, and that have an energy cost less than the avoided variable generation cost of the utility's highest cost generating unit available to serve native load during that FAC expense month.²

In that same case, the Commission also discussed the recoverability of "non-economy energy purchases" via the FAC.

We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses"

¹ Response to Items 26 and 27 of the Commission's First Request for Information ("Commission's First Request"), attached as the Appendix to the Commission's August 13, 2014 Order.

² Case No. 2000-00495-B, *An Examination of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002) at 4.

and, if reasonably incurred, are otherwise eligible for recovery through base rates.³

Because Kentucky Power was unique in that it did not own a combustion turbine in 2002, it sought and was granted rehearing in Case No. 2000-00495-B. By Order dated October 3, 2002, Kentucky Power was granted authority to use the "Peaking Unit Equivalent" approach to calculate the level of non-economy purchase power costs to recover through the FAC.⁴

In a March 21, 2005 Order in Case No. 2004-00430⁵ involving East Kentucky Power Cooperative, Inc. ("East Kentucky"), the Commission clarified its definition of "non-economy energy purchases," stating, "A more accurate definition of non-economy energy purchases recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generating unit available to serve native load."⁶ The Commission, however, did not modify the limitation set forth in Case No. 2002-00495-B that a utility could recover through the FAC "only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month."⁷

³ *Id.* at 5.

⁴ The Peaking Unit Equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

⁵ Case No. 2004-00430, *East Kentucky Power Cooperative's Request for a Declaratory Ruling on the Application of Administrative Regulation 807 KAR 5:056 to its Proposed Treatment of Non-Economy Energy Purchases* (Ky. PSC Mar. 21, 2005).

⁶ *Id.* at 6.

⁷ Case No. 2000-00495-B, *An Examination of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002) at 5. (Emphasis added).

Kentucky Power initially stated in this proceeding that it was not limiting recovery of the non-economy purchases because it had interpreted the Commission's March 21, 2005 Order in Case No. 2004-00430 to require that actual fuel costs of non-economy purchases, rather than a proxy, be used in accounting for and reporting fuel costs.⁸ However, upon additional questioning, Kentucky Power stated, "Upon review and analysis, the Company recognizes its earlier interpretation of the EKPC Orders was erroneous."⁹ During questioning at the hearing, Kentucky Power stated that \$83,720.76 in power purchases in excess of the "Peaking Unit Equivalent" should be disallowed for the review period.¹⁰

Methodology of Allocating Fuel Costs Between Native Load and Off-System Sales

When allocating fuel costs between native load customers and off-system sales, Kentucky Power allocates "no load costs" to native load customers each hour. "No load costs" are defined by Kentucky Power as the fixed fuel and consumable costs incurred when a unit is in operation that are not dependent on the output level of the unit.¹¹ In addition, Kentucky Power allocates other incremental costs to run the generating units at the minimum level of operation each hour to native load customers to the extent that there is native load to which to allocate the costs. If there is not enough native load in that hour to allocate the other incremental costs, Kentucky Power allocates the costs to

⁸ Response to Item 1.b.(1) of Commission Staff's Second Request for Information ("Staff's Second Request").

⁹ Response to Item 1.a. of Commission Staff's Third Request for Information ("Staff's Third Request.")

¹⁰ November 12, 2014 Hearing at 15:11:13.

¹¹ Response to Item 29 of the Commission's First Request.

off-system sales.¹² For costs above the unit minimums, Kentucky Power stacks the costs on a \$/MWh basis, and for each hour, for each unit, the unit with the most expensive \$/MWh cost of the last megawatt hour ("MWh") produced is assigned to off-system sales.¹³ Kentucky Power states that allocating "no load costs" and other incremental costs to run the generating units at the minimum level to native load customers is a historical practice that has been in place for at least 30 years.¹⁴

Kentucky Power asserts that its fuel allocation methodology is reasonable because: 1) customers have "first call" on its generating assets and, because of this "first call," its customers received net benefits of \$9.9 million during the period between January 1, 2014, through April 2014;¹⁵ and 2) its fuel allocation methodology is consistent with historic practice, the methodology used by Louisville Gas and Electric Company and Kentucky Utilities Company, Federal Energy Regulatory Commission guidance, and the Stipulation and Settlement Agreement ("Settlement Agreement") in Case No. 2012-00578 ("Mitchell Case").^{16 17} Kentucky Power notes that the Settlement Agreement states that "[c]ustomers shall at all times be entitled to the least-cost energy

¹² Response to Item 4.b.(1) of Staff's Second Request.

¹³ Response to Item 29.b. of Commission's First Request.

¹⁴ *Id.*

¹⁵ Rebuttal Testimony of Kelly D. Pearce at pages 8 and 20.

¹⁶ Kentucky Power Post-Hearing Brief at pages 10-16.

¹⁷ Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2013).

produced by generation owned, leased or purchased by the Company consistent with economic dispatch principles" and that its allocation of the highest incremental fuel costs to off-system sales follows from the economic dispatch of its units. Kentucky Power claims that it acted in good faith in making its representations regarding a \$16.75 million fuel savings reported in the Mitchell Case, and that had a net energy cost analysis been performed in that proceeding, it would have demonstrated the significant net fuel cost benefits to its native load customers as a result of the Mitchell Generating Station ("Mitchell Station") transfer. Kentucky Power claims that any change to its fuel allocation methodology can be made only prospectively and only at a time when base rates are modified.

KIUC and the AG object to Kentucky Power's methodology, arguing that: 1) it caused native load customers to pay a disproportionate amount of fuel costs during the review period, as evidenced by a difference in \$/MWh of fuel costs allocated to native load compared to the \$/MWh allocated to off-system sales;¹⁸ 2) "no load costs" for all Kentucky Power generating units were unfairly allocated to native load customers each hour even when the units were not necessary to serve native load; 3) Kentucky Power claimed \$16.75 million in annual fuel savings if it acquired a 50 percent undivided interest in the Mitchell Station, but failed to disclose the impact its fuel allocation methodology would have on native load customers upon acquisition of the Mitchell Station; 4) "no load costs" are similar to fixed environmental costs which are allocated to off-system sales; and 5) Kentucky Power's calculation of \$9.9 million of savings from January 1, 2014, through April 30, 2014, related to the transfer of the Mitchell Station

¹⁸ Direct Testimony of Lane Kollen, Exhibit (LK-3), shows that, for the four months of the review period that fall in the overlap period, the average fuel cost allocated to native load customers was \$31.67/MWh, while \$24.13/MWh was allocated to off-system sales.

was flawed in that it used unrealistic and incorrect assumptions. KIUC and the AG recalculated Kentucky Power's fuel costs using the methodology used by East Kentucky and recommend that \$12.648 million in fuel costs be disallowed, plus an additional \$.864 million in interest.^{19 20} In addition, KIUC and the AG recommend that Kentucky Power be required to adopt the fuel-cost allocation of East Kentucky and Duke Energy Kentucky, Inc. hereafter.²¹

DISCUSSION

In Case No. 2012-00578, the Commission approved a non-unanimous Settlement Agreement which authorized Kentucky Power to acquire a 50 percent undivided interest in the Mitchell Station. Because of that approval, during the period January 1, 2014, through May 31, 2015 ("the Overlap Period"), Kentucky Power will own and operate both the 800-megawatt ("MW") Big Sandy Unit 2 and its 50 percent undivided interest in the Mitchell Station, or 780 MW. During the 17-month Overlap Period, Kentucky Power will be operating with an unusually large reserve margin, estimated at 57 percent for 2014.²² Given that most utilities operate with much smaller

¹⁹ Direct Testimony of Lane Kollen at page 6.

²⁰ East Kentucky describes its methodology as follows: "Fuel is allocated between native-load sales and off-system sales on a stacked cost basis. EKPC considers each hour of operation, determines if a sale was made from its system during that hour and then allocates the highest cost resource(s) to that sale for FAC purposes. The process of stacking and assigning the highest cost resources to off-system sales protects EKPC's native load from having no-load cost assigned inappropriately." See Case No. 2014-00226, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 through April 30, 2014*, Response to Commission's Initial Request for Information, attached as the Appendix in the Commission's August 13, 2014 Order, Item 29.a.

²¹ KIUC and the AG believe the methodology used by East Kentucky and Duke Energy Kentucky, Inc. to be the same or similar as both make reference throughout their joint brief of the "EKPC/Duke" methodology.

²² See Case No. Case No. 2013-00475, *Integrated Resource Planning Report of Kentucky Power Company to the Kentucky Public Service Commission*, page 14, filed Dec. 20, 2013.

reserve margins, Kentucky Power's operations during the temporary Overlap Period cannot be considered "usual" or "normal." For these reasons, the Commission finds that it is inappropriate at this time to determine whether Kentucky Power's methodology for allocating fuel costs between native load and off-system sales is unreasonable under "normal" operating conditions. We will defer consideration of that issue until such time as Kentucky Power is operating under "usual" or "normal" circumstances with respect to the level of reserve margin. The Commission further finds that Kentucky Power's methodology for allocating fuel costs between native load and off-system sales should be evaluated for reasonableness after Kentucky Power has operated for a 12-month period without the effect of the recently terminated American Electric Power Pool Agreement and without the operation of Big Sandy Unit 2. However, the Commission finds that during the Overlap Period, when its reserve margin is unusually large and operating conditions are not "normal," Kentucky Power's fuel allocation methodology is unreasonable because it produces an unreasonable result and that certain fuel costs related to the Mitchell Station should be disallowed as discussed below.

"No Load Costs" Related to the Mitchell Station ("Mitchell 'no load cost'")

As discussed *supra*, the Settlement Agreement approved in Case No. 2012-00578 authorized Kentucky Power to acquire a 50 percent interest in the Mitchell Station. Our approval was premised, in no small part, on the stipulation that the Mitchell acquisition would result in significant fuel savings to Kentucky Power's ratepayers, because the Mitchell Station was fully scrubbed and capable of burning a certain amount of higher-sulfur, lower-cost coal. In that proceeding, in response to Item 10 of Staff's Fifth Request, Kentucky Power provided an exhibit which showed, among other

things, that customers would receive a 5.33 percent increase in rates during the Overlap Period as a result of the Mitchell Station acquisition. The relatively small rate impact was a direct function of the then-claimed \$16.75 million in annual fuel savings. However, it was discovered in June 2014²³ that this response failed to reflect the "no load costs" related to the Mitchell Station that would be allocated to native load customers as a result of Kentucky Power's fuel allocation methodology. Kentucky Power was asked to revise the exhibit in the current proceeding to reflect the Mitchell "no load costs." The revised exhibit shows \$38.252 million in annual "no load costs" related to the Mitchell Station and that, instead of an increase of 5.33 percent, customers are actually experiencing a 12.81 percent increase during the Overlap Period.²⁴

Kentucky Power was the only party to the Settlement Agreement aware of and able to disclose the effect that its allocation of Mitchell "no load costs" would have on its customers during the Overlap Period. Kentucky Power did not disclose this information, even though a Kentucky Power witness testified in this proceeding that he had been aware of the allocation of "no load costs" for years,²⁵ and this same witness participated in the settlement discussions in the Mitchell Case.²⁶ It is incomprehensible to the Commission how information this significant, resulting in costs of this magnitude, could

²³ The information became known when a meeting was scheduled for June 26, 2014, pursuant to the Commission's Meeting Tracking process, and KIUC requested Kentucky Power to explain the reason for an increase in fuel costs for discussion at the meeting.

²⁴ Response to Item 9.c. of Staff's Third Request.

²⁵ November 12, 2014 Hearing at 19:36:35, Kentucky Power witness William Allen stated he has been involved in fuel costs for eight to ten years and was aware of "no-load" fuel costs.

²⁶ See attendance sheets attached to June 28, 2013 Informal Conference Memo in Case No. 2012-00578, which summarized the May 16, 2013, May 22, 2013, and May 24, 2013 Informal Conferences in which the parties to that case engaged in settlement discussions.

have been overlooked by Kentucky Power in the Mitchell Case. The parties entering into the Settlement Agreement in that case had every right to believe that Kentucky Power had fully disclosed all costs related to the transaction. Instead, the Commission and the intervening parties were informed that there would be \$16.75 million in annual fuel savings, but were not informed of \$38.252 million in annual "no load costs" that would be allocated entirely to native load customers. It is difficult to overstate the importance of the Commission's decision in the Mitchell Case to Kentucky Power's ratepayers, the parties to that proceeding, and the Commission. Transparency is critical, and indeed one of the touchstone principles in the regulatory process. The failure of Kentucky Power to disclose this information in the Mitchell Case is a matter of great concern to the Commission.

DECISION

Administrative Regulation 807 KAR 5:056 requires the Commission, at six-month intervals, to conduct public hearings on a utility's past fuel adjustments. It further requires the Commission to "order a utility to charge off and amortize any adjustments it finds unjustified due to improper calculation or application of the charge or improper fuel procurement practices."

Because the Mitchell "no load costs" and their impact during the Overlap Period were not disclosed by Kentucky Power in Case No. 2012-00578, and because the application of Kentucky Power's fuel cost allocation methodology during the Overlap

Period when its reserve margin is approximately 57 percent produces an unreasonable result,²⁷ the Commission finds the following:

1. One hundred percent of Kentucky Power's share of Mitchell "no load costs" incurred during the Overlap Period should be disallowed for recovery. For the entire 17-month Overlap Period, the disallowance will total approximately \$54 million.²⁸ For the four months of the Overlap Period that fall in the review period, the amount of the disallowance is \$13,155,170.15.²⁹

2. Kentucky Power should immediately cease collecting through the FAC "no load costs" related to the Mitchell Station. This cessation should continue through the end of the Overlap Period, May 31, 2015.

3. Mitchell "no load costs" that Kentucky Power has recovered through the FAC since the end of the review period should be disallowed in future FAC review proceedings.

4. Because the \$13,155,170.15 of Mitchell "no load costs" was collected over a four-month period and the \$83,720.76 of power purchases in excess of the Peaking Unit Equivalent was collected over three months, Kentucky Power should be required to credit through its FAC a total of \$13,238,890.91 over four months in equal amounts of

²⁷ A percentage increase approximately 2.5 times the increase that Kentucky Power indicated would occur as a result of the Settlement Agreement is patently unreasonable. In addition, the difference between the \$/MWh of fuel costs allocated to native load and the \$/MWh allocated to off-system sales is unreasonable.

²⁸ \$38.252 million divided by 12, multiplied by 17.

²⁹ Total of columns Mitchell 1 KP and Mitchell 2 KP of Kentucky Power's response to Item 29 of the Commission's First Request, Attachment 2.

\$3,309,722.73³⁰ beginning with the first FAC monthly filing following the date of this Order.

5. Outside of the power purchases in excess of the Peaking Unit Equivalent and the allocation of Mitchell "no load costs" discussed herein, the Commission finds that there is no evidence of improper calculation or application of Kentucky Power's FAC charges or improper fuel procurement practices.

Although the Commission has found that Kentucky Power's allocation of its "no load costs" in the context of FAC recovery during the Overlap Period is unreasonable, such a finding has no impact on our decision in the Mitchell Case that the Mitchell Station acquisition, over the long term, still represents the lowest reasonable cost alternative with respect to the disposition of Big Sandy Unit 2.

The Commission also finds that, in the next FAC review proceedings covering the two-year period November 1, 2012, through October 31, 2014, it will examine the issue of regional transmission organization ("RTO") billing codes and the appropriateness of their inclusion in the FAC calculation for those utilities that are members of an RTO. The Commission further finds that Kentucky Power should file testimony in the next FAC review proceeding on the specific codes that are included in the FAC calculation and an explanation of why each is appropriate for inclusion.

IT IS THEREFORE ORDERED that:

1. One hundred percent of Kentucky Power's share of Mitchell "no load costs" incurred during the Overlap Period is disallowed for recovery.

³⁰ In order not to exceed the total refund of \$13,238,890.91, the fourth month's credit will be equal to \$3,309,722.72.

2. For the four months of the Overlap Period that fall in the review period, January 2014 through April 2014, the amount of the disallowance for Mitchell "no load costs" is \$13,155,170.15.

3. Power purchases in the amount of \$83,720.76 that were in excess of the Peaking Unit Equivalent are disallowed for recovery during the review period.

4. Beginning with its first FAC filing made subsequent to the date of this Order, or as amended if filed prior to the date of this Order, and continuing for a total of four consecutive months, Kentucky Power shall include a credit of \$3,309,722.73³¹ to refund to customers a total of \$13,238,890.91 for power purchases in excess of the Peaking Equivalent Unit and Mitchell "no load costs" during the period under review as discussed herein.

5. Kentucky Power shall cease collecting through the FAC "no load costs" related to the Mitchell Station. This cessation shall continue through the end of the Overlap Period, May 31, 2015.

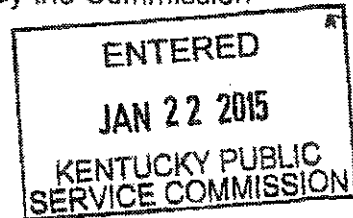
6. Mitchell "no load costs" that Kentucky Power has recovered through the FAC since the end of the review period shall be disallowed in future FAC review proceedings.

7. Outside of the power purchases in excess of the Peaking Unit Equivalent and the allocation of Mitchell "no load costs" to native load customers discussed herein, the Commission finds that there is no evidence of improper calculation or application of Kentucky Power's FAC charges or improper fuel procurement practices.

³¹ *Id.*

8. Kentucky Power shall file testimony in the next FAC review proceeding on which codes are included in the FAC calculation and an explanation for why each is appropriate for inclusion.

By the Commission



ATTEST:


Executive Director

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DELIVERED BY EMAIL

June 3, 2015

Ray Strom
Public Utilities Commission of Ohio
Rates & Analysis Department
Siting, Efficiency & Renewables Division

Tamara S. Turkenton
Public Utilities Commission of Ohio
Rates & Analysis Department
Regulatory Services Division

Re: Update to Redactions

Dear Mr. Strom and Ms. Turkenton:

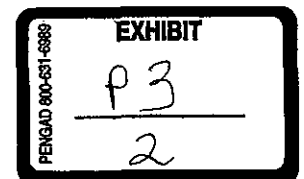
Pursuant to the requirements of paragraph 9 of the May 13, 2015 Finding and Order of the Public Utilities Commission of Ohio ("PUCO" or "Commission"), please find attached to this letter a redacted version of the report from NERA Economic Consulting ("NERA"), the Auction Manager under AEP Ohio's Competitive Bidding Process ("CBP"). This report was submitted on May 12, 2015 following the conclusion of the auction to procure full requirements supply for 50% of the energy and capacity requirements of AEP Ohio's Standard Service Offer ("SSO") customers using supply periods of twelve months, twenty-four months, and thirty-six months.

Other than an update to the redactions pursuant to paragraph 9 of the Finding and Order cited above, the attached report is the same as the report sent to you on May 12, 2015.

Sincerely yours,



Chantale LaCasse,
Senior Vice President, NERA



Page 2

cc: Andre Porter, Chairman, Public Utilities Commission of Ohio
Thomas Johnson, Commissioner, Public Utilities Commission of Ohio
Lynn Slaby, Commissioner, Public Utilities Commission of Ohio
M. Beth Trombold, Commissioner, Public Utilities Commission of Ohio
Asim Z. Haque, Commissioner, Public Utilities Commission of Ohio

Jason Rafeld, Public Utilities Commission of Ohio
Greg Price, Public Utilities Commission of Ohio

Frank Mossburg, Boston Pacific Company

Michael McCulty, AEP Ohio
David Weiss, AEP Ohio
Steven T. Nourse, AEP Ohio

Final Report of the Auction Manager

AEP Ohio CBP

May 12, 2015

(Redacted Version)

NERA
ECONOMIC CONSULTING

Table 1. Summary of Auction Results

	Delivery Period			Total
	June 1, 2015 to May 31, 2016	June 1, 2015 to May 31, 2017	June 1, 2015 to May 31, 2018	
Number of Registered Bidders				13
Total initial eligibility of Registered Bidders (# of tranches)				
Total initial eligibility divided by tranche target				
Number of tranches bid in round 1	84	68	43	195
Number of bidders that submitted bids in round 1				
Number of tranches bid in round 1 divided by tranche target/volume	4.94	4.00	2.69	3.90
Number of tranches to procure in auction (tranche target/volume)	17	17	16	50
Number of tranches procured in auction	17	17	16	50
Number of rounds in the auction				18
Number of winning bidders	6	6	6	9
Starting price range (\$/MWh)	70.00 - 95.00	70.00 - 95.00	70.00 - 95.00	
Starting price (\$/MWh)				
Clearing price (\$/MWh)	55.42	54.70	56.35	

Table 2. Winning Bidders, Tranches Won, and Clearing Prices

	Delivery Period			Total
	June 1, 2015 to May 31, 2016	June 1, 2015 to May 31, 2017	June 1, 2015 to May 31, 2018	
Clearing Price (\$/MWh)	55.42	54.70	56.35	
Winning Bidder	Tranches Won	Tranches Won	Tranches Won	
AEP Energy Partners, Inc.	4	4	2	10
American Electric Power Service Corporation as agent for Appalachian Power Company, Indiana Michigan Power Company and Kentucky Power Company	4	–	–	4
BP Energy Company	–	4	3	7
Buckeye Power, Inc.	1	–	–	1
DTE Energy Trading, Inc.	2	3	2	7
Exelon Generation Company, LLC	3	3	4	10
FirstEnergy Solutions Corp.	–	1	3	4
Noble Americas Gas & Power Corp.	–	2	2	4
TransCanada Power Marketing Ltd.	3	–	–	3
Total	17	17	16	50

Table 3. Auction Manager's Assessment of the Conduct of the Auction

#	Question	Answer
1	Were the competitive bidding rules violated?	No.
2	Does the Auction Manager believe the auction was open, fair, transparent, and competitive?	Yes.
3	Did bidders have sufficient information to prepare for the auction?	Yes. Bidders received information from the competitive bidding process documents, the CBP Website, FAQs posted to the CBP Website, and a bidder webcast.
4	Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?	Yes. No updates to the timetable were needed.
5	Were there any issues and questions left unresolved prior to the auction that created material uncertainty for bidders?	We do not believe that there were any unresolved issues or questions that created material uncertainty for bidders.
6	Were there any procedural problems or errors with the auction, including the electronic bidding process, the backup bidding process, and communications between bidders and the Auction Manager?	No.
7	Were protocols for communication between bidders and the Auction Manager adhered to?	Yes.

#	Question	Answer
8	Were there any hardware or software problems or errors, either with the auction system or with its associated communications systems?	No.
9	Were there any unanticipated delays during the auction?	No.
10	Did unanticipated delays appear to adversely affect bidding in the auction?	No.
11	Were appropriate data backup procedures planned and carried out?	Yes. The database was saved in two locations each round.
12	Were any security breaches observed with the auction process?	No security breaches were observed.
13	Were protocols for communications followed by AEP Ohio, the Auction Manager, the PUCO, and the PUCO's consultant during the auction?	Yes.
14	Were the protocols followed for decisions regarding changes in auction parameters (e.g., volume adjustments and price decrements)?	Yes. There were no volume adjustments. The decrements were set according to the information provided to bidders.
15	Were the calculations (e.g., for price decrements or bidder eligibility) produced by the auction software double-checked or reproduced off-line by the Auction Manager?	Yes.

#	Question	Answer
16	Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction?	No. There was no such evidence.
17	Were the communications between the Auction Manager and bidders timely and effective?	Yes. The Auction Manager provided information on the schedule and reminders through the messaging function of the auction system.
18	Was there evidence that bidders felt unduly rushed during the process?	No.
19	Was there any evidence of collusion or improper coordination among bidders?	No.
20	Was there any evidence of anti-competitive behavior in the auction?	No.
21	Was information made public appropriately? Was confidential and sensitive information treated appropriately?	Yes.
22	Were there factors exogenous to the auction (e.g., changes in market environment) that materially affected the auction in unanticipated ways?	No, we are not aware of any factors exogenous to the auction that materially affected the auction in unanticipated ways.



This foregoing document was electronically filed with the Public Utilities

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in

Case No(s). 15-0792-EL-UNC

Summary: Report - Updated Redacted Version - Final Report of the Auction Manager, AEP
Ohio CBP, May 12, 2015 electronically filed by Raymond W. Strom on behalf of PUCO Staff

NERA
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April 28, 2015

Ray Strom
Public Utilities Commission of Ohio
Rates & Analysis Department
Siting, Efficiency & Renewables DivisionTamara S. Turkenton
Public Utilities Commission of Ohio
Rates & Analysis Department
Regulatory Services Division**Re: Notification of Auction Results under AEP Ohio's CBP**

Dear Mr. Strom and Ms. Turkenton:

Please find attached to this letter the redacted version of the report that NERA Economic Consulting, as Auction Manager under AEP Ohio's Competitive Bidding Process ("CBP"), prepared at the conclusion of the first auction under ESP III. This auction procured full requirements supply for 50% of the energy and capacity requirements of AEP Ohio's Standard Service Offer ("SSO") customers using supply periods of twelve months, twenty-four months, and thirty-six months.

Please let us know whether you require any additional information.

Sincerely yours,

Chantale LaCasse,
Senior Vice President, NERAcc: Andre Porter, Chairman, Public Utilities Commission of Ohio
Thomas Johnson, Commissioner, Public Utilities Commission of Ohio
Lynn Slaby, Commissioner, Public Utilities Commission of Ohio

M. Beth Trombold, Commissioner, Public Utilities Commission of Ohio
Asim Z. Haque, Commissioner, Public Utilities Commission of Ohio

Jason Rafeld, Public Utilities Commission of Ohio
Greg Price, Public Utilities Commission of Ohio

Frank Mossburg, Boston Pacific Company

Michael McCulty, AEP Ohio
David Weiss, AEP Ohio
Steven T. Nourse, AEP Ohio

April 28, 2015
Final Report (Redacted Version)

Final Report of the Auction Manager

AEP Ohio CBP

April 28, 2015

(Redacted Version)

NERA
ECONOMIC CONSULTING

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Number of Registered Bidders				13
Total initial eligibility of Registered Bidders (# of tranches)				
Total initial eligibility divided by tranche target				
Number of bidders that submitted bids in round 1				
Number of tranches bid in round 1				
Number of tranches bid in round 1 divided by tranche target/volume				
Number of tranches to procure in auction (tranche target/volume)	17	17	16	50
Number of tranches procured in auction	17	17	16	50
Number of rounds in the auction				18
Number of winning bidders	5	7	5	9
Starting price range (\$/MWh)	70.00 - 95.00	70.00 - 95.00	70.00 - 95.00	
Starting price (\$/MWh)				
Clearing price (\$/MWh)	53.79	53.51	55.58	

Table 2. Winning Bidders, Tranches Won, and Clearing Prices[illegible]

Table 3. Auction Manager's Assessment of the Conduct of the Auction

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1	Were the competitive bidding rules violated?	
2	Does the Auction Manager believe the auction was open, fair, transparent, and competitive?	
3	Did bidders have sufficient information to prepare for the auction?	
4	Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?	
5	Were there any issues and questions left unresolved prior to the auction that created material uncertainty for bidders?	
6	Were there any procedural problems or errors with the auction, including the electronic bidding process, the backup bidding process, and communications between bidders and the Auction Manager?	
7	Were protocols for communication between bidders and the Auction Manager adhered to?	

#	Question	Answer
8	Were there any hardware or software problems or errors, either with the auction system or with its associated communications systems?	
9	Were there any unanticipated delays during the auction?	
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12	Were any security breaches observed with the auction process?	
13	Were protocols for communications followed by AEP Ohio, the Auction Manager, the PUCO, and the PUCO's consultant during the auction?	
14	Were the protocols followed for decisions regarding changes in auction parameters (e.g., volume adjustments and price decrements)?	
15	Were the calculations (e.g., for price decrements or bidder eligibility) produced by the auction software double-checked or reproduced off-line by the Auction Manager?	

#	Question	Answer
16	Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction?	
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19	Was there any evidence of collusion or improper coordination among bidders?	
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21	Was information made public appropriately? Was confidential and sensitive information treated appropriately?	
22	Were there factors exogenous to the auction (e.g., changes in market environment) that materially affected the auction in unanticipated ways?	



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in

Case No(s). 15-0792-EL-UNC

**Summary: Report - Redacted Version - Final Report of the Auction Manager, AEP Ohio CBP,
April 28, 2015 electronically filed by Raymond W. Strom on behalf of PUCO Staff**

IEU 11

NERA
ECONOMIC CONSULTING

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Senior Vice President

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DELIVERED BY EMAIL

May 12, 2015

Ray Strom
Public Utilities Commission of Ohio
Rates & Analysis Department
Siting, Efficiency & Renewables Division

Tamara S. Turkenton
Public Utilities Commission of Ohio
Rates & Analysis Department
Regulatory Services Division

Re: Notification of Auction Results under AEP Ohio's CBP

Dear Mr. Strom and Ms. Turkenton:

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Please let us know whether you require any additional information.

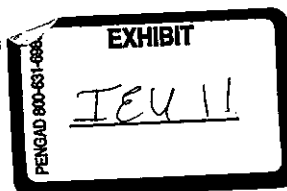
Sincerely yours,



Chantale LaCasse,
Senior Vice President, NERA

cc: Andre Porter, Chairman, Public Utilities Commission of Ohio
Thomas Johnson, Commissioner, Public Utilities Commission of Ohio
Lynn Slaby, Commissioner, Public Utilities Commission of Ohio

 Marsh & McLennan Companies



M. Beth Trombold, Commissioner, Public Utilities Commission of Ohio
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Greg Price, Public Utilities Commission of Ohio

Frank Mossburg, Boston Pacific Company

Michael McCulty, AEP Ohio
David Weiss, AEP Ohio
Steven T. Nourse, AEP Ohio

Final Report of the Auction Manager

AEP Ohio CBP

May 12, 2015

(Redacted Version)

NERA
ECONOMIC CONSULTING

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Clearing Price (\$/MWh)	55.42	54.70	56.35	
Winning Bidder	Tranches Won	Tranches Won	Tranches Won	
Total	17	17	16	50

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3	Did bidders have sufficient information to prepare for the auction?	
4	Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?	
5	Were there any issues and questions left unresolved prior to the auction that created material uncertainty for bidders?	
6	Were there any procedural problems or errors with the auction, including the electronic bidding process, the backup bidding process, and communications between bidders and the Auction Manager?	
7	Were protocols for communication between bidders and the Auction Manager adhered to?	

#	Question	Answer
8	Were there any hardware or software problems or errors, either with the auction system or with its associated communications systems?	
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14	Were the protocols followed for decisions regarding changes in auction parameters (e.g., volume adjustments and price decrements)?	
15	Were the calculations (e.g., for price decrements or bidder eligibility) produced by the auction software double-checked or reproduced off-line by the Auction Manager?	

#	Question	Answer
16	Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction?	
17	Were the communications between the Auction Manager and bidders timely and effective?	
18	Was there evidence that bidders felt unduly rushed during the process?	
19	Was there any evidence of collusion or improper coordination among bidders?	
20	Was there any evidence of anti-competitive behavior in the auction?	
21	Was information made public appropriately? Was confidential and sensitive information treated appropriately?	
22	Were there factors exogenous to the auction (e.g., changes in market environment) that materially affected the auction in unanticipated ways?	

May 12, 2015
Final Report (Redacted Version)



This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

5/13/2015 11:31:28 AM

in

Case No(s). 15-0792-EL-UNC

**Summary: Report - Redacted Version - Final Report of the Auction Manager, AEP Ohio CBP,
May 12, 2015 electronically filed by Raymond W. Strom on behalf of PUCO Staff**

OHIO POWER COMPANY'S RESPONSES TO
OHIO ENERGY GROUP'S DISCOVERY REQUESTS
PUCO CASE NO. 14-1693-EL-RDR
FIRST SET

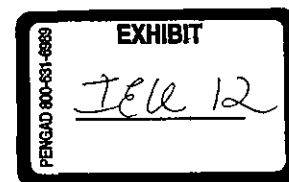
INTERROGATORY

- INT-1-011 Refer to pages 10 and 11 of Mr. Allen's Direct Testimony wherein he describes the "oversight" available to the Commission.
- a. Does the Company plan to seek approval from the FERC for the proposed PPA contract(s) and implement FERC tariff(s) for the seller? If so, please describe this process.
 - b. Please provide a copy of the seller's application before the FERC for the proposed PPA contract(s), and the proposed FERC tariff(s).

RESPONSE

- a. Company objects to this question because it seeks legal advice and does not seek information likely to lead to the discovery of admissible evidence. Without waiving any of its rights, Company states as follows. The proposed PPA contract will be entered into under the AEP Generation Resources Inc. (Generation Resources) FERC Electric Tariff for Market-Based Sales (MBR Tariff). In accordance with standard FERC procedures for wholesale power contracts, the PPA contract will be reported in the Electronic Quarterly Reports filed by Generation Resources with FERC to report electric power sales for each calendar quarter.
- b. Company objects to providing documents that are in the public record. Without waiving any of its rights, Company states that the current Generation Resources MBR Tariff became effective on March 1, 2014 and is on file in FERC Docket No. ER13-01896-005. A copy of the tariff record is provided as OEG INT-1-011 Attachment 1.

Prepared by: Counsel



IEU 12

AEP Generation Resources Inc. as of 6/9/2015
Electric TCS and MBR
Tariff Database

Effective Date: 03/01/2014
FERC Docket: ER13-01896-005 314
FERC Order: Delegated Letter Order
03/24/2014

Status: Effective

Order Date:

MBR Tariff, FERC Electric Tariff For Market-Based Sales, 4.0.0 A

**AEP Generation Resources Inc.
FERC Electric Tariff
For Market-Based Sales**

1. Availability. AEP Generation Resources Inc. ("Seller") makes electric energy and capacity available under this Tariff to any purchaser for resale. Seller also makes available to any purchaser, the ancillary services listed below:

a. RTO/ISO Specific

PJM: Seller offers regulation and frequency response service, energy imbalance service, and operating reserve service (which includes spinning, 10-minute, and 30-minute reserves) for sale into the market administered by PJM Interconnection, L.L.C. ("PJM") and, where the PJM Open Access Transmission permits, the self-supply of these services to purchasers for a bilateral sale that is used to satisfy the ancillary services requirements of the PJM Office of Interconnection.

MISO: Seller offers regulation service and operating reserve service (which includes 10-minute spinning reserve and 10-minute supplemental reserve) for sale to the Midcontinent Independent System Operator, Inc. ("MISO") and to others that are self-supplying ancillary services to MISO.

SPP: Seller offers regulation and frequency response service, reactive supply and voltage control service, energy and generator imbalance service, operating reserve- spinning and operating reserve-supplemental service.

b. Third Party Provider

Third-party ancillary services: Regulation Service, Energy Imbalance Service, Spinning Reserves, and Supplemental Reserves. Sales will not include the following: (1) sales to an RTO or an ISO, i.e., where that entity has no ability to self-supply ancillary services but instead depends on third parties; and (2) sales to a traditional, franchised public utility affiliated with the third-party supplier, or sales where the underlying transmission service is on the system of the public utility affiliated with the third-party supplier. Sales of operating reserve-spinning and operating reserve-supplemental will not include sales to a public utility that is purchasing ancillary services to satisfy its own open access transmission tariff requirements to offer ancillary services to its own customers, except where the Commission has granted authorization. Sales of regulation and frequency response service and reactive supply and voltage control service will not include sales to

a public utility that is purchasing ancillary services to satisfy its own open access transmission tariff requirements to offer ancillary services to its own customers, except at rates not to exceed the buying public utility transmission provider's OATT rate for the same service or where the Commission has granted authorization.

2. **Rates.** All sales shall be made at rates established by agreement between the purchaser and Seller.
3. **Other Terms and Conditions.** All other terms and conditions shall be established by agreement between Seller and the purchaser.
4. **Compliance with Commission Regulations.** Seller shall comply with the provisions of 18 C.F.R. Part 35, Subpart H, as applicable, and with any conditions the Commission imposes in its orders concerning seller's market-based rate authority, including orders in which the Commission authorizes seller to engage in affiliate sales under this tariff or otherwise restricts or limits the seller's market-based rate authority. Failure to comply with the applicable provisions of 18 C.F.R. Part 35, Subpart H, and with any orders of the Commission concerning seller's market-based rate authority, will constitute a violation of this Tariff.
5. **Limitations and Exemptions Regarding Market-Based Rate Authority.**
 - a. Exemptions: The Commission granted Seller in Docket No. ER13-1896-000 the following waivers and blanket authorization: (a) waiver of Subparts B and C of Part 35 of the Commission's regulations requiring the filing of cost-of-service information, except for sections 35.12(a), 35.13(b), 35.15 and 35.16; (b) waiver of Part 41 and Part 101; (c) waiver of Part 141 of the Commission's regulations concerning accounting and reporting requirements, with the exception of 18 C.F.R. §§ 141.14 and 141.15; and (d) blanket approval as to Section 204 of the FPA and Part 34 of the Commission's regulations for all future issuances of securities and debt and assumption of liabilities.

Waiver of Affiliate Restrictions: The Commission has determined that the Order No. 697 affiliate restrictions codified at 18 C.F.R. § 35.39 do not apply to the relationship between Seller and its public utility affiliate, Ohio Power Company, including the requirement to obtain prior approval for affiliate sales of electric energy or capacity between Seller and Ohio Power Company. *Ohio Power Company*, Docket No. ER14-594 (Feb. 5, 2014).

In *American Electric Power Service Corp.*, 145 FERC ¶ 61,268 (2013), the Commission granted the request for waiver of the "AEP Operating Companies" (Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, and Wheeling Power Company) of the following market-based rate affiliate restrictions: (1) the separation of functions requirement in section 35.39(c)(2) to permit certain shared employees to continue to

provide outage planning and resource allocation functions to the AEP Operating Companies and Seller; (2) the asymmetrical pricing rule in section 35.39(e) in order for the AEP Operating Companies and Seller to participate in a capital spare parts and machine shop sharing arrangement; and (3) with respect to the Phillip Sporn Plant: (a) the affiliate restriction in section 35.39(d) to permit the sharing of information related to the operation of the plant; (b) the asymmetrical pricing rule in section 35.39(e) for the operation and maintenance (“O&M”) services provided by Appalachian Power Company to Seller; and (c) the separation of functions requirements in section 35.39(c)(2) to permit the sharing of employees engaged in fuel procurement.

In *American Electric Power Service Corp.*, 145 FERC ¶ 61,269 (2013), in connection with the Mitchell Power Generation Facility (“Mitchell Plant”), the Commission granted the waiver of the following market-based rate affiliate restrictions to Kentucky Power Company and Seller: (1) the affiliate restrictions in section 35.39(d) to permit the sharing of information related to the operation of the Mitchell Plant; (2) the asymmetrical pricing rule in section 35.39(e) for the O&M services provided by Kentucky Power Company to Seller, and (3) the separation of functions requirement in section 35.39(c)(2) to permit the sharing of employees engaged in fuel procurement.

b. Limitations: None.

6. **Modifications.** Seller may unilaterally apply, under Federal Power Act Section 205 and the regulations promulgated thereunder, to the Commission or other regulatory agency having jurisdiction for a modification of this Tariff.
7. **Seller Category.** Seller is a Category 2 seller in the Northeast, and Southwest Power Pool Regions, and a Category 1 Seller in the Central, Southeast, Southwest, and Northwest Regions, as defined in 18 C.F.R. § 35.36(a).

**OHIO POWER COMPANY'S RESPONSES TO
ENVIRONMENTAL LAW & POLICY CENTER'S DISCOVERY REQUESTS
PUCO CASE NO. 14-1693-EL-RDR AND 14-1694-EL-AAM
THIRD SET**

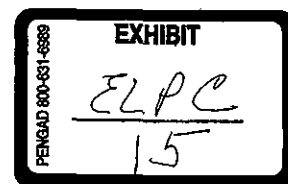
INTERROGATORY

INT-3-019 Refer to Allen Direct Testimony at 10:19-20. Identify any contract or agreement giving rise to potential "legacy costs" under the PPA Rider.

RESPONSE

See the Company's prior discovery responses including OCC INT 5-131, IEU INT 3-1, IEU INT 4-016, and OEG INT 1-003.

Prepared by: William A. Allen



OHIO POWER COMPANY'S RESPONSES TO
OHIO CONSUMERS' COUNSEL'S DISCOVERY REQUESTS
PUCO CASE NO. 14-1693-EL-RDR
FIFTH SET

INTERROGATORY

- INT-5-131 Referring to the "legacy costs" for the Affiliated PPA, referenced at page 10 of the Direct Testimony of AEP Ohio Witness Allen:
- a. Would legacy costs include costs incurred under long-term (one year or longer) coal contracts entered into prior to the Commission accepting the Affiliated PPA?
 - b. If the response to (a) is affirmative, for each contract:
 - i. What is the identity of each contract for each PPA Unit?
 - ii. Who are the parties who entered into the contract?
 - iii. What are the dates of the contract?
 - iv. What are the coal prices for each time period in the contract?

RESPONSE

- a. Yes.
- b. See the Company's response to IEU INT 4-016.

Prepared by: William A. Allen

OHIO POWER COMPANY'S RESPONSES TO
INDUSTRIAL ENERGY USERS-OHIO DISCOVERY REQUESTS
PUCO CASE NO. 14-1693-EL-RDR
THIRD SET

INTERROGATORY

INT-3-001 At page 10, lines 19-20, of the Direct Testimony of William A. Allen, Mr. Allen states, "Legacy costs to be recovered through the contract would be accepted as part of the up-front prudence review." In regard to that statement:

- a. What are "legacy costs"?
- b. If the legacy costs are identifiable for Federal Energy Regulatory Commission ("FERC") accounts, what are the relevant FERC accounts?
- c. What is the "up-front prudence review"?

RESPONSE

- a. Legacy costs are costs related to actions that occur prior to the Commission accepting the affiliate contract.
- b. The legacy costs are not limited to specific FERC accounts.
- c. The up-front prudence review is the review of AEP Ohio's decision to enter into the affiliate contract and legacy costs performed by the Commission in this proceeding.

Prepared by: William A. Allen

OHIO POWER COMPANY'S RESPONSES TO
INDUSTRIAL ENERGY USERS-OHIO DISCOVERY REQUESTS
PUCO CASE NO. 14-1693-EL-RDR
FOURTH SET

INTERROGATORY

INT-4-016 Identify any long-term (one year or longer) contract(s) for the supply of coal to any of the units proposed to be included in the PPA Rider.

RESPONSE

Because the response to this question involves materials which are voluminous and highly confidential, the materials will be made available for inspection at the AEP offices, upon request with Counsel, at a mutually agreeable date and time.

As a non-operating co-owner, this information is not available for Stuart or Zimmer.

Prepared by: Toby L. Thomas and Kelly D. Pearce

OHIO POWER COMPANY'S RESPONSES TO
OHIO ENERGY GROUP'S DISCOVERY REQUESTS
PUCO CASE NO. 14-1693-EL-RDR
FIRST SET

INTERROGATORY

INT-1-003 Please confirm that it is the Company's position that the Commission does not need to approve the proposed PPAs

RESPONSE

The Company is not seeking approval by the Commission of either the Affiliated PPA or the OVEC/ICPA contract, as both of those agreements would be subject to economic regulation by FERC as wholesale power contracts. As further described below, the Company is seeking recovery of the costs associated with these wholesale contracts as part of the Company's retail rates in Ohio – through the PPA Rider.

With regard to the proposed Affiliated PPA, the Company requests that the Commission find that it is reasonable and prudent for AEP Ohio to enter into this life-of-unit purchase contract with AEPGR. Consistent with the details reflected in the proposed contract and as further explained in testimony, the Company also requests that the Commission acknowledge that its up-front approval of the Affiliated PPA for retail recovery is a one-time prudence review that will not be revisited later during the term of the contract should economic conditions or cost/price projections change in the future. This situation is similar to the Commission's approval of AEP Ohio's decision to enter into a 20-year renewable energy purchase agreement in *ESP II*, where the Commission approved as prudent the Company's decision to enter into the Timber Road renewable energy purchase agreement (REPA); the costs recovered through retail rates (*i.e.*, through the PPA Rider) are still subject to ongoing financial audits but not subsequent prudence audits. Legacy costs to be recovered through the contracts would be accepted as part of the up-front prudence review, future costs relating to AEP Ohio's obligations and responsibilities under the Affiliate PPA would be subject to Commission review; whereas, the wholesale rate collected by the Seller would not (though the Commission has the opportunity to pursue such issues before the FERC if it desired to do so).

Regarding the OVEC contract, the Company is requesting inclusion of the contract in the PPA Rider – which is an existing contract that does not expire until 2040. Because OVEC is a legacy contract and the Commission has routinely permitted recovery of OVEC costs as being prudent, there is no need to review the prudence of entering into the OVEC contract or the terms and conditions of the OVEC contract. The contract between AEP Ohio and OVEC is already valid and accepted as a just and reasonable wholesale power contract under the Federal Power Act. The contract is and remains subject to FERC's Federal Power Act jurisdiction under the plain terms of the contract, regardless of the orders that the Ohio Commission issues in this proceeding. AEP Ohio only seeks an order of the Ohio Commission approving retail recovery of the costs it incurs as a result of that valid, FERC-approved contract – through the PPA Rider.

Prepared By: Counsel