BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company for Approval of its Renewable Energy Technology Program	)))))	**Case No. 09-1871-EL-ACP**
In the Matter of the Application of Columbus Southern Power Company for Approval of its Renewable Energy Technology Program	))))	**Case No. 09-1872-EL-ACP**

AEP OHIO REPLY COMMENTS
FILED OCTOBER 15, 2010

Columbus Southern Power Company (CSP) and Ohio Power Company (OP), collectively the "Companies" or "AEP Ohio," initiated these cases by submitting an application that sought approval of the Companies' Renewable Energy Technology (RET) Program On October 8, 2010, pursuant to the schedule set out in the docket, the Industrial Energy Users of Ohio (IEU) filed comments concerning the Companies' application. The Ohio Consumers' Counsel (OCC) and Vote Solar Initiative (VSI) also filed joint comments As noted by OCC and VSI, the parties have engaged in substantive and productive discussions to construct an incentive program that encourages residential and small business customers to install distributed generation equipment Despite this dialogue some differences of opinion remain

AEP Ohio is strongly supportive of providing robust programs that encourage customer-sited distributed generation with renewable resources. The Companies face the challenge of determining program prices that will achieve this goal while simultaneously providing electric service to all of their customers at the lowest reasonable cost AEP Ohio believes the RET Program, as filed, allows AEP Ohio to achieve a win-win for all of its customers The Companies submits these reply comments in response to the issues raised by the other parties in this docket

OCC/VSI's Comments

OCC and VSI are very supportive of an incentive based technology program. AEP Ohio engaged in extensive discussions with OCC Staff and representatives of VSI seeking ways to improve the program offered by AEP Ohio and understanding the practices across the country Ultimately, OCC/VSI is not opposed to AEP Ohio's program; in fact OCC/VSI's real problem with AEP Ohio's proposal is that they would like AEP Ohio to go even further. AEP Ohio appreciates the commitment of both OCC and VSI but is only comfortable offering the program as proposed and amended in its comments in this case.

A. Incentive Amounts

OCC/VSI seeks to increase the incentive amount proposed by AEP Ohio in its application According to the comments filed OCC/VSI proposes to increase the costs of the program as reflected in the table below.

System Type	Customer Type	AEP Ohio Proposed Incentive Amount	OCC/VSI Proposed Increased Incentive Amount
Solar Photovoltaic	Residential	$1 50/watt	**$1.80/watt**
Wind	Residential	$0.275/kWh[1]	**$0.29/kWh**

[1] OCC/VSI mistakenly included this price as $0 0275 in their comments.

OCC/VSI argues that the Commission should adjust the costs of the program similar to what the Commission approved in other REC purchase programs. AEP Ohio already adjusted the price of its REC purchase program under the Stipulation and Recommendation reached with Commission Staff in the 09-1873 and 09-1874 cases. A REC Purchase program and an Incentive program as proposed in these dockets are different. Should the Commission determine to modify the application and award an increase to 75% of the alternative compliance payment, it can do so in its decision in this case. At this time AEP Ohio is supportive of the level of incentive as initially filed in its application. AEP explained its development of the costs for the program and OCC/VSI's preferences do not persuade AEP Ohio to raise the costs of the program. AEP Ohio is aware of the importance of providing an incentive to its customers but is also mindful of the fact that any increase in costs is ultimately borne by AEP Ohio customers.

B. Eligibility Requirements

1. Generation Provider Neutral: OCC/VSI comments that customers who take service from AEP either under its standard service offer or under its open access distribution schedule and purchase generation form an alternative supplier should be eligible for the program. AEP Ohio is willing to provide the service to both categories of customers as a means to meet the state goal of encouraging distributed generation renewable facilities.

2. Customer Leases of Third Party Business Equipment: OCC/VSI asks the Commission to expand the renewable distributed generation circle to include customers who lease the facilities from third parties. (Comments at 5.) Since Substitute S.B. 221 clearly indicates that the owner of the generator has ownership of the RECs, it is an extreme challenge to allow third party participation in this program designed for customer-owned systems.

OCC/VSI is correct that the AEP Ohio is concerned about the ability to recover payments provided participants if the system fails. It is the Companies position that it must be able to seek recourse against the participant who has an interest in the property upon which the facility is built not just the hardware that make up the facility. AEP Ohio is amenable to a change that provides residential customers who lease the facilities the ability to retain ownership/responsibility for the RECs. The key to this system is that the formal relationship and responsibilities under the program are completely between the customer of record and AEP Ohio. Third parties can develop whatever business model that is needed to encourage it to enter the market, but removing the security and direct relationship between AEP Ohio and its customers as part of this customer based program is not the preferred structure for AEP Ohio.

C. Program Length and Reporting

OCC/VSI commented that AEP should be required to implement the program no later than 30 days from the Commission's decision in this case and that the program should be offered until December 31, 2011 or until the total $2.5 million is allocated, "whichever comes later. AEP Ohio intends to implement the program after Commission approval and but does not find a 30-day mandate appropriate. The program will be implemented as soon as it can and an arbitrary order to begin does not change the administrative issues that must be in line to begin.

The real issue in this comment is the potential that the program could continue past December 31, 2011. As indicated in AEP Ohio's comments in the 09-1873 and 09-

1874 comments filed today, anything after December 31, 2011 is outside of the electric security plan period and outside the constructs of a fuel adjustment clause. That means there is no mechanism for cost recovery past December 31, 2011. Thus a system tied to the spending of a dollar amount regardless of time cannot be approved absent an entirely new cost recovery mechanism. The program must be operated within the terms of the electric security plan, which only accommodates assured cost recovery through the fuel adjustment clause through December 31, 2011. It is not appropriate to order continuation of the program past December 31, 2011.

AEP Ohio also is not convinced that the $2.5 million is a budget that must be spent regardless of all other factors. That amount is a cap not an absolute spend. AEP Ohio is supportive of spending on its proposed program but does not support committing to spending until a certain number is reached regardless of how long that time takes.

OCC also seeks a Commission order to implement a follow-up program and to provide quarterly reporting on the program. There is no justification to require a future program at this time when the facts concerning cost recovery and program structure are unknown. AEP Ohio committed to file a program similar to its REC Purchase Program outlined in Commission case dockets 09-1873 and 09-1874, but the structure and cost recovery of that program is in question. A blanket declaration at this time absent knowledge of future circumstances is irresponsible.

The quarterly reports filed with the Commission also present an unnecessary administrative burden. It has always been AEP Ohio's intention to evaluate this program and to assess its value and opportunities as we develop future programs. AEP Ohio values the input of other interested parties, which we sought prior to filing this program and continued after our filing AEP Ohio will monitor its program and share that information as it moves along with Staff and other parties as appropriate OCC/VSI already recognized the efforts of AEP Ohio to work cooperatively; an ordered quarterly filing is unnecessary

D. Conditions of the Renewable Energy Technology Program

OCC/VSI comments on the importance of an incentive-based REC program and the agreement to propose such a program from a previous agreement AEP Ohio believes a diversity of programs is a good approach, which is why the Companies encouraged and agreed to file both a REC Purchase program and an Incentive-based program for the Stipulation filed in portfolio plan case The applications in these cases provide the additional up-front payment customers need We further agree with the OCC/VCI comment reducing seeking to reduce the contract term from 20 years to 15 years and previously explained this in AEP Ohio's January 27, 2010 reply comments

E. Up-front Payment is Reasonable

OCC/VSI comments on the reasonableness of up-front payments to fund the incentive programs In fact, OCC/VSI comments that up-front payments are "widely used with success in states with solar programs across the country " (See page 8) AEP Ohio is in agreement with OCC/VSI In addition to the reasonableness and the success met with this practice across the country, again the funding structure of this program requires a commensurate cost recovery mechanism to be provided The up-front payment allows the cost to be included in the fuel adjustment clause in existence and known at this time up until December 31, 2011

Commission Staff's Comments

The Commission Staff comments on three issues: 1) Program Design, 2) Rate Recovery, and 3) Metering. AEP Ohio is not in disagreement with the Staff's comments. The Companies can provide a little more insight to the issues raised by Staff to inform the Commission of how it intends to address some of the issues raised, but ultimately does not view the Staff's comments as inconsistent with the intent of the application filed.

A. Program Design

Staff's main concern with the program design appears to be focused on the up-front payment compared to the term of performance required by the customer. It is true that the system is based on an up-front payment. As shown by OCC/VSI and offered by AEP Ohio, the up-front payment method is effective and administratively manageable. The method also allows AEP Ohio to offer the program and be assured of recovery through the fuel adjustment clause. Staff's concern appears to be the "what if" a customer does not live up to its part of the bargain whether that be by broken facilities, moving, or simple non-performance of the facility. AEP Ohio acknowledges Staff's concerns; however, there are measures to recover prorated incentives for failure to perform.

Staff's concern does relate to the comment offered by OCC/VSI on third party leases of the equipment. The greater the complexity of the program (i.e. removing the customer of record as the party to the program in favor of a third party) the tougher the administrative burden becomes. In addition, many small businesses do not survive for 20 years or even for 15 years. It is AEP Ohio's concern that there is an even greater-than-average likelihood of failure for firms in the renewable resources industry, since it is in its infancy and not well established As a result, AEP Ohio expects that, should systems owned by third parties fail to perform under the terms of the contract, AEP Ohio would be in a position of having to seek recovery of monies due to its ratepayers from its ratepayers.

Even if the application is approved without the change proposed by OCC/VSI concerning third party leases, AEP Ohio recognizes the program could involve some administrative strain But AEP Ohio weighs those expected risks in the structure of the program, as applied for, against what can be accomplished through providing this program and what can be learned to help develop other programs In addition, the program has a cap, so in all likelihood most, if not all, will yield the RECs or be recovered and returned to the ratepayers Also, with the associated RECs having a $0 cost for 19 years, it will bring down the total future REC costs.

B. Rate Recovery

Staff raises parameters it would prefer if the application were to be approved While not the preferred method, Staff expresses an understanding of the benefit of the upfront cost as opposed to payment over the term of the arrangement. Staff proposes three parameters to provide comfort with AEP Ohio's proposed recovery method AEP Ohio is in agreement with Staff's recommended parameters to the recovery mechanism (See page 4)

C. Metering

Staff proposes a language change to the metering language in the application to mirror O A C 4901:1-40-04(D) (1). Staff includes that language in its comments (See page 4-5.) AEP Ohio agrees with the Staff's recommendation and will change its compliance tariff as sought by Staff upon approval of the application by the Commission

IEU's Comments

IEU asks the Commission to deny AEP Ohio's application. IEU's comments on the program are similar to its position on the REC Purchase Program filed in the 09-1873 and 09-1874 dockets. IEU asserts that because AEP Ohio does not need the solar RECs to comply with the 2010 and 2011 mandates that the program should be rejected AEP Ohio admits that the Wyandot Solar LLC could enable AEP Ohio to produce enough RECs to meet its standards but that is not reason enough to deny the REC purchase program. S.B 221 encourages utilization of distributed generation from all classes of customers or third parties. This diversity is necessary not only to develop renewable energy resources to meet the environmental and economic objectives of S.B. 221, but also to promote the acceptance of renewable energy resources and provide opportunities for all parties to participate As for non-solar RECs, AEP Ohio is in need for calendar year 2010 and this program will enhance the ability to secure those RECs IEU also raised a concern with the pricing of the RECs and benefits. As previously explained in our January 27, 2010 reply comments to OCC's motion to intervene, the costs of our solar PV incentive was determined by a simple pay back analysis with a customer taking full advantage of the Federal tax incentive, the State grant program and our Schedule NEMS, from which we determined the incentive amount. Since the cost of small wind varied greatly we determined what the levelized solar PV REC cost would be for the incentive amount, which was approximately 65% of the solar Alternative Compliance Payment (ACP). We then took 65% of the non-solar ACP and worked backwards to determine the small wind incentive amount. At the time of filing the program this 65% for small wind was comparable to what we were seeing in the very limited market for non-solar REC's. The purpose of this program was to provide a means to promote customer interest to invest in customer-owned renewable energy resource distributed generation. This approach in combination with limiting the program to $5 million we believe is a prudent cost effective solution that is supportive of the spirit of Substitute S.B. 221.

IEU also raised an issue concerning the impact of the program on the deferrals associated with the fuel adjustment clause and rate caps and not provide any customer benefits. Although rates are capped for AEP Ohio there is no guarantee that AEP Ohio will be over the caps and require deferrals. In addition, AEP Ohio points out the benefit that it will have a known source of RECs for approximately 15 years. This would be taken into consideration when securing future utility scale PPA's or self-build projects that will make overall REC costs lower since these RECs will have a cost of $0. Furthermore, customers will receive the benefits associated with these costs in the development of the state policy to encourage renewables while at the same time provided RECs to apply to AEP Ohio's required pool of RECs.

IEU also proposes that the Commission deny the application and leave the subject matter to a future filing. AEP Ohio filed the application to open the door to this type of program and understands that a utility must start somewhere to accomplish the goals of the General Assembly. This program in addition to the REC's Purchase program provides two different pilot programs that allow AEP Ohio the opportunity to learn and develop better customer programs There is no need to delay this until the next SSO application

CONCLUSION

For the foregoing reasons, AEP Ohio requests that the Commission approve the Companies' application consistent with the application and the above comments

Respectfully submitted,

Matthew J Satterwhite
Steven T Nourse
Anne M Vogel
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
Telephone: (614) 716-1608
Fax: (614) 716-2950
Email: mjsatterwhite@aep.com
stnourse@aep.com
amvogel@aep.com

Counsel for Columbus Southern Power Company and Ohio Power Company

PROOF OF SERVICE

I certify that Columbus Southern Power Company's and Ohio Power Company's Reply Comments were served by First-Class U.S. Mail upon counsel for all parties of record identified below this 15th day of October, 2010

Matthew J. Satterwhite

Janine L. Migden-Ostrander
Consumers' Counsel
Christopher J. Allwein
Ann M. Hotz
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

Richard Cordray
Ohio Attorney General
William L. Wright
Section Chief
Rebecca Hussey
Asst. Section Chief
Attorney General's Office
180 East Broad Street
Columbus, Ohio 43215

Claudia Eyzaguirre
The Vote Solar Initiative
300 Brannan Street, Suite 609
San Francisco, CA 94705

Samuel C. Randazzo
Joseph M. Clark
McNees, Wallace & Nurick, LLC
21 East State Street
Columbus, Ohio 43215