122

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of OHIO POWER COMPANY for Authority to Issue Phase-In-Recovery Bonds and Impose, Charge and Collect Phase-In-Recovery Charges and For Tariff and Bill Format Changes	Case No. 12 -1969-EL-ATS

Application of Ohio Power Company for Authority to Issue Phase-In-Recovery Bonds to Recover Phase-In Costs and Financing Costs, and Impose and Collect Phase-In-Recovery Charges, and for Tariff and Bill Format Approvals and for Commission Action on an Expedited Basis

Applicant, Ohio Power Company ("OPCo"), hereby submits this application (the "Application"), pursuant to Section 4928.231, Revised Code, seeking authority to recover certain specified Phase-In Costs and Financing Costs (each as defined below) through the issuance of Bonds payable from the collection of Phase-In-Recovery Charges (as defined below) (such Bonds, hereinafter referred to as "Phase-In-Recovery Bonds") and to impose and collect such Phase-In-Recovery Charges, all in accordance with Sections 4928.23 through 4928.2318, Revised Code (referred to herein as the "Act").

I. Description of Uncollected Phase-In Costs Sought to be Recovered.

By Opinion and Order dated December 14, 2011, the Commission authorized OPCo (and Columbus Southern Power Company ("CSP") prior to its merger with OPCo on December 31, 2011) to implement a new rider, the Deferred Asset Recovery Rider ("DARR"), to collect certain distribution costs deferred as regulatory assets pursuant to Commission authorization in various prior proceedings. *In the Matter of the Application of Columbus Southern Power Company and*

Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively AEP Ohio) for an Increase in Electric Distribution Rates, Case Nos. 11-351-EL-AIR, 11-352-EL-AIR (the "Distribution Rate Case"). The Opinion and Order was issued in a proceeding commenced under Section 4909.18, Revised Code, and is a final order from which no appeal was taken.

The distribution regulatory assets being recovered through the DARR are comprised of the following costs or charges (the "Phase-In Costs"):

- Consumer education, customer choice implementation, and transition plan filing costs plus carrying charges, approved in Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP;
- Rate Stabilization Plan rate case expenses plus carrying charges, approved in Case No. 04-169-EL-UNC;
- Carrying charges on distribution line extension charges, approved in Case No. 01-2708-EL-COI;
- Monongahela Power Company transfer integration costs plus carrying charges and acquired net regulatory assets, approved in Case No. 05-765-EL-UNC;
- AEP Ohio's voluntary Ohio Green Power Pricing Program costs plus carrying charges, approved in Case No. 06-1153-EL-UNC; and
- Storm costs related to the Hurricane Ike windstorm experienced in September 2008 plus debt carrying costs, approved in Case No. 08-1301-EL-AAM.

The deferral balance of the Phase-In Costs collectable through the existing DARR, as of June 30, 2012 was $309 million. The estimated deferral balance of the Phase-In Costs collectable through the DARR, as of November 30, 2012, is $ 291.5 million. November 30 is currently estimated as the date of the Phase-In Costs deferral balance that will be used for the calculation of the Phase-In-Recovery Bonds, but the actual date will depend on a number of factors which will influence the timing of the bond issuance, including, among others, whether the registration statement is reviewed, the timing of the issuance of the Financing Order and its becoming final, and financial market developments.

The Phase-In-Recovery Bonds will constitute "Bonds" within the meaning of Section 4928.23(C), Revised Code. The proposed issuance of Phase-In-Recovery Bonds will benefit customers by providing both cost savings and rate impact mitigation through reducing the overall cost of these regulatory assets and by reducing the rates customers currently are paying toward their recovery through the existing DARR. The proposed securitization transaction should, based upon current market conditions, significantly reduce the carrying charges over the recovery period for these Phase-In Costs resulting in customer savings through the issuance of the Phase-In-Recovery Bonds (even after including Financing Costs as discussed below) as compared to the cost recovery method previously approved by the Commission. Based upon the proposed recovery period of seven years, the estimated nominal costs savings to customers is approximately $11.8 million in the aggregate as shown on Exhibit A. The net present value of expected customer savings is estimated to be $20.4 million based on current interest rates and market conditions. In addition, the proposed securitization is expected to mitigate rate impacts to customers by flowing the cost savings through to customers in a manner that yields lower associated rates compared to the cost recovery method previously approved by the Commission, i.e., the DARR which provides for a carrying charge of 5.34%, and consumers will benefit on a net present value basis so long as the weighted average interest rate of the Phase-In-Recovery Bonds does not exceed 3.32%, as shown on page 2 of Exhibit A.

Exhibit A to this Application compares the benefits arising from the lower costs of the securitization contrasted to the carrying charge authorized in the DARR. The expected rate mitigation is based on current interest rates, market conditions and the existing DARR as approved by the Commission. In order to reach a settlement agreement in the Distribution Rate Case, OPCo agreed to waive the traditional utility method of recovery that would have allowed OPCo to earn a carrying charge on the DARR based on its weighted average cost of capital (WACC), including the gross-up impact of income taxes on equity portion of the carrying charge rate. OPCo agreed to forgo a pre-tax WACC of approximately 10.77%, and agreed to accept a lower carrying charge of 5.34%, its cost of debt. If OPCo compared the benefits of securitization to OPCo's pre-tax weighted average cost of capital, the benefits to customers would be approximately $52 million on a nominal basis.

The proceeds from the issuance of the Phase-In-Recovery Bonds, after the payment of upfront Financing Costs (i.e., costs of issuance for the Phase-In-Recovery Bonds, as described herein), will be applied to the reduction of OPCo's existing debt through avoidance of refinancing long-term debt maturing in 2013 and defeasance of other long-term debt.

II. Securitization Transaction

1. OPCo is an Ohio corporation engaged in the distribution of electricity for sale to retail customers in Ohio under rates and tariffs approved by this Commission and an electric distribution utility pursuant to Section 4928.01(A)(6), Revised Code. CSP and OPCo were merged effective December 31, 2011 and OPCo is the surviving entity.

2. The Act provides for electric distribution utilities to securitize certain costs previously authorized to be securitized or deferred as regulatory assets through the issuance of Phase-In-Recovery Bonds pursuant to a Financing Order issued by the Commission. The Act directs the Commission to issue a Financing Order if, at the time the Financing Order is issued, the Commission finds, consistent with market conditions, that the securitization will measurably enhance cost savings to OPCo's customers and mitigate rate impacts to those customers as compared with the Commission's previously-approved recovery methods or traditional financing mechanisms, and is consistent with Ohio policy as set forth in Section 4928.02, Revised Code. Section 4928.232(D), Revised Code.

3. OPCo requests that the Commission issue a Financing Order pursuant to the provisions of Sections 4928.232(C)(1) and (D)(2), Revised Code, authorizing the issuance of up to an aggregate amount of $320, million of Phase-In-Recovery Bonds, in one or more series and one or more tranches. For purposes of estimating the benefits from securitization, OPCo has estimated a $291.5 million deferral balance of Phase-In Costs collectable through the DARR at the assumed date of the issuance (January 15, 2013) and estimated $16 million of upfront Financing Costs, for an approximate issuance amount of $307.5 million. The actual timing of issuance will depend on a number of factors, including, among others, whether the registration statement for the Phase-In-Recovery Bonds is approved, the timing of the issuance of the Financing Order and its becoming final and financial market conditions. The actual amount of Phase-In-Recovery Bonds issued will be an amount equal to (i) the deferral balance of Phase-In Costs collectable through the DARR as of the month-end which is at least 20 days prior to the date of the pricing of the Phase-In-Recovery Bonds (the "DARR Balance Amount") and (ii) the estimated upfront

Financing Costs described in Exhibit B. The proceeds from the issuance of the Phase-In-Recovery Bonds will allow full collection of the associated upfront Financing Costs and compensate OPCo for Phase-In Costs described in Section I of this Application. The Phase-In-Recovery Bonds will be issued at an effective interest rate (after taking into account upfront and ongoing Financing Costs) lower than OPCo's Commission-authorized carrying charge for such regulatory assets. The benefits to customers of the lower effective interest rate versus the current authorized carrying charge in the DARR are reflected in a reduction in the expected amount payable by customers on both a nominal and a net present value basis as compared with the existing recovery mechanism.

4. All of OPCo's customers will be responsible for repayment of the Phase-In-Recovery Bonds through separate, non-bypassable charges called Phase-In-Recovery Charges. Sections 4928.231(A)(2) and 4928.239(B)(1), Revised Code. For purposes of this proceeding, "Phase-In-Recovery Charges" are those charges to be set forth in a rider to be approved by the Commission in this proceeding, which, together with the adjustment mechanism to be authorized by the Commission pursuant to Section 4928.238, Revised Code, will provide for the full and timely recovery of all costs associated with the proposed Phase-In-Recovery Bonds including, without limitation, debt service and all other Financing Costs.

5. OPCo intends to use the proceeds from the issuance and sale of Phase-In-Recovery Bonds, net of upfront Financing Costs, to redeem, retire, repay or defease a portion of its existing debt. The Phase-In-Recovery Bonds will not be included in the regulatory capital structure of OPCo going forward. For GAAP purposes, the Phase-In-Recovery Bonds will be recorded as long term debt on the balance sheet of OPCo's bankruptcy-

remote special purpose entity, which will be a subsidiary of OPCo. Because the SPE will be consolidated with OPCo for financial reporting purposes, the Phase-In-Recovery Bonds will, under GAAP, also be reflected on the consolidated balance sheet of OPCo.

6. Notwithstanding that the Phase-In-Recovery Bonds' scheduled recovery period (and potential tranching, if any, resulting in multiple tranches of Phase-In-Recovery Bonds with different maturity dates) will be determined by reference to rating agency considerations and market conditions. As illustrated in Exhibit C, the Indicative Transaction Structure, OPCo intends that the overall scheduled (or expected) recovery period for the Phase-In-Recovery Bonds will not exceed 7.5 years. The Phase-In-Recovery Bonds (and each tranche, if applicable), however, will have a later final legal maturity date (no more than 1 year after the expected maturity date for such Bonds or tranche of Bonds) by which the Phase-In-Recovery Bonds must be paid in full in the event collections of the Phase-In-Recovery Charges are lower than projected prior to the expected maturity date. Based upon the market conditions as of the date of filing this Application, the recommended tranches with initial principal amounts, first scheduled principal payment dates, expected maturity dates, final legal maturity dates and average lives are shown in Exhibit D. OPCo intends to issue the Phase-In-Recovery Bonds at one time. Assuming no material changes in market conditions, OPCo would expect to issue the Phase-In-Recovery Bonds within one hundred twenty (120) days of the Financing Order becoming a Final Financing Order as defined in Section 4928.23(G), Revised Code. For illustrative purposes, Exhibit D assumes an issuance date of January 15, 2013. The final number of tranches, payment and maturity dates and average lives may differ

from those set forth in Exhibit D due to market conditions on the date of pricing of the Phase-In-Recovery Bonds.

7. An estimate of the upfront and ongoing Financing Costs is set forth in Exhibit B. Most of the Financing Costs set forth in Exhibit B may vary from the estimates. For instance, the most significant ongoing financing cost, debt service on the Bonds, cannot be known until the Bonds are priced in the market. Even after pricing, debt service requirements can change because scheduled debt service could differ from actual debt service if delays in payments are so severe as to cause a shortfall in payments of scheduled principal and interest. Accordingly, there can be no cap on the amount of ongoing Financing Costs which may be paid from Phase-In-Recovery Charges. As for upfront Financing Costs, these costs as well will vary from the estimates set forth in Exhibit B as a result of changes in market conditions, the SEC registration process, and other factors (e.g., the actual costs of defeasing or otherwise retiring existing long-term debt), none of which can be known at this time. Because the actual structure and pricing of the Phase-In-Recovery Bonds will not be known at the time the Financing Order is issued, following determination of the final terms of the Phase-In-Recovery Bonds and prior to issuance of the Phase-In-Recovery Bonds, OPCo will file with the Commission, no later than the close of business on the second business day after pricing the Phase-In-Recovery Bonds, an issuance advice letter in the form attached as Exhibit I (the "Issuance Advice Letter") that provides a final estimate of upfront Financing Costs as well as the estimated ongoing Financing Costs. OPCo's current estimate of such upfront Financing Costs is approximately $16 million in the aggregate, including debt retirement/defeasance costs, currently estimated at approximately $11 million, and approximately $5 million of other

upfront Financing Costs described on Exhibit B. If the actual upfront Financing Costs are less than the estimated upfront Financing Costs included in the principal amount securitized, such unused funds will be deposited into the Collection Account (as described below) to be available for payment of debt service on the Phase-In-Recovery Bonds and with the result that the periodic billing requirement following such deposit would be reduced to take into account the availability of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments). If the actual issuance costs are more than the estimated upfront Financing Costs set forth in the Issuance Advice Letter, OPCo may request recovery of the remaining upfront Financing Costs through traditional ratemaking mechanisms.

a) In the case of debt defeasance costs, these costs may vary significantly in response to market conditions and as a result of the terms of the various debt securities to be defeased (e.g. the cost of securities deposited to defease the debt securities).

b) In addition, the cost of debt retirement or tender is impacted by changes in interest rates. The lower prevailing interest rates are at the time of retirement or tender, the higher the cost will be to effect such retirement or successful tender. However, the impact of any increase in debt retirement costs caused by lower market interest rates should be somewhat offset by a lower cost of debt on the Phase-In-Recovery Bonds. Therefore, OPCo requests that the Commission authorize it to retire its debt with the proceeds from the Phase-In-Recovery Bonds in any manner, consistent with market conditions, that does not impede the securitization transaction from achieving measurably enhanced cost savings and mitigating rate impacts for customers.

III. Retail Rate Impact and Phase-In-Recovery Charges

8. The proposed securitization will provide customers with the benefit of lower cost financing compared to the existing DARR. Exhibit A shows the expected debt service associated with the Phase-In-Recovery Bonds based upon market conditions as of the date of this Application and compares those amounts to the current expected costs of recovery for the uncollected Phase-In Costs under the DARR. Exhibit A shows the projected savings to customers on both a nominal and a net present value basis. As demonstrated on Exhibit A, the proposed issuance of Phase-In-Recovery Bonds, consistent with the market conditions as of the date of filing this Application, will both measurably enhance cost savings to customers and mitigate rate impacts to customers as compared with recovery of such uncollected Phase-In Costs under the DARR. In comparing the estimated Phase-In-Recovery Charges to the rates under the DARR, it is important to acknowledge that such rates are not directly comparable (e.g., current rates do not reflect customer uncollectibles which are recovered separately, while Phase-In-Recovery Charges must be adjusted (through the adjustment mechanism described below) to reflect uncollectibles in order to assure the timely payment of the Phase-In-Recovery Bonds). While all amounts shown below: (i) are dependent upon a number of assumptions; (ii) are based on current estimates and market conditions; and (iii) will periodically change throughout the recovery period in accordance with the approved adjustment mechanism, upon issuance of the proposed Phase-In-Recovery Bonds, OPCo customers are expected to have an estimated initial Phase-In-Recovery Charge of

7.4597% of base distribution revenue. (Base distribution revenue excludes rider or surcharge revenue incurred as part of distribution service.) If the DARR continues as previously approved, OPCo customers will continue to pay a monthly charge of 8.501% of base distribution revenue. See Exhibit F for the typical bill impacts for customer classes and usage levels.

9. Consistent with Section 4928.231(B)(5), Revised Code, Exhibit A provides OPCo's initial estimate of the amount of Phase-In-Recovery Charges necessary to recover all Phase-In Costs and Financing Costs. Attached as Exhibit G are proposed tariff sheets reflecting Phase-In-Recovery Charges that are expected to approximate the final tariff charges, based upon currently available information related to the terms of the proposed issuance of Phase-In-Recovery Bonds (the "Proposed Tariff Sheets"). Exhibit G also includes the DARR tariff sheets red-lined to reflect the withdrawal of that rider upon the successful implementation of the proposed tariff. Upon pricing of the Phase-In-Recovery Bonds, the Proposed Tariff Sheets will be updated and attached to the Issuance Advice Letter to reflect actual debt service, other Financing Costs and any other revised assumptions (e.g., electricity consumption) and will be filed with the Commission pursuant to Section 4928.232(H), Revised Code (as so updated, the "Final Tariff Sheet"). Upon the issuance of the Phase-In-Recovery Bonds, OPCo will reduce the DARR deferral balance by the DARR Balance Amount to reflect the recovery of those Phase-In Costs through securitization. OPCo will make a final reconciliation filing, in a future regulatory proceeding to be commenced within ninety days after the date of bond issuance, to address the remaining deferral balance of the DARR.

10. As reflected in the description on the adjustment mechanism shown in Exhibit E, the determination of the Phase-In-Recovery Charges will take into account (a) the timing and amounts of principal, interest and other ongoing Financing Costs of the Phase-In-Recovery Bonds and (b) the expected monthly electricity consumption by customers. The Phase-In-Recovery Charges shall also take into account factors such as (i) expected delays between the billing and collection of Phase-In-Recovery Charges and (ii) expected Phase-In-Recovery Charge uncollectibles, which factors will impact the amount of Phase-In-Recovery Charges which will actually be available for the payment of Phase-In-Recovery Bonds in any period. The methodology proposed for allocating the amounts to be collected under the Phase-In-Recovery Charges among customer classes will be the same as the methodology used to allocate the DARR. For each upcoming payment period, OPCo will estimate the revenue requirement needed to be billed (the "periodic billing requirement" or "PBR") to assure that all revenues, receipts, collections, claims or other proceeds arising from the Phase-In Recovery Property (the "Phase-In-Recovery Revenues") will be sufficient to pay on a timely basis all principal and interest on the Phase-In-Recovery Bonds together with other ongoing Financing Costs during such period, and will divide such amount by the projected base distribution revenues for the same period. The resulting percentage will then be multiplied by the base distribution charges otherwise charged to each class of customers in order to generate the amount of Phase-In-Recovery Charges to be billed with the result that each rate schedule will be paying approximately the same proportion of the total Phase-In-Recovery Charges as it otherwise would for the DARR under the existing recovery methodology.

11. Because the Phase-In-Recovery Charges are recovered on a nonbypassable basis, the methodology proposed for allocating the Phase-In-Recovery Charges applicable to governmental aggregation customers is the same as for all other customers. The nonbypassability of the Phase-In-Recovery Charges ensures that all customers, including governmental aggregation customers, receive a proportion of the benefits generally consistent with the proportion of the charges they are paying under the existing recovery methodology.

12. The Phase-In-Recovery Bonds would be structured in the manner provided for in the Financing Order consistent with the Act, thus enabling the Phase-In-Recovery Bonds to achieve the highest credit rating and a lower cost than OPCo's existing, Commission-approved carrying charge, thereby both measurably enhancing cost savings to customers and mitigating rate impacts to customers as compared with the current Commission-approved recovery method, the DARR. The Phase-In-Recovery Bonds would also be structured, except for the first payment, to result in levelized debt payments. The Phase-In-Recovery Bonds will be issued with a fixed rate of interest. OPCo believes that any potential benefits of issuing the Phase-In-Recovery Bonds at a floating interest rate would be outweighed by potential risks due to volatile market conditions. The Phase-In-Recovery Bonds shall not constitute a debt or a pledge of the faith and credit or taxing power of the State of Ohio or any county, municipal corporation or other political subdivision of the State of Ohio. Section 4928.2314, Revised Code.

13. OPCo requests that the Financing Order establish the nonbypassable Phase-In-Recovery Charges in accordance with the Proposed Tariff Sheets, described in paragraph 9 above. Such charges, following the issuance of the Phase-In-Recovery Bonds, will be imposed

and collected from all customers pursuant to Section 4928.239(B)(1), Revised Code, as updated through the Final Tariff Sheet. Pursuant to Section 4928.232(H), Revised Code, the initial Phase-In-Recovery Charges will be determined by OPCo prior to the issuance of the Phase-In-Recovery Bonds and filed with the Commission in the Final Tariff Sheet as an attachment to the Issuance Advice Letter. These charges shall be final and effective upon the issuance of the Phase-In-Recovery Bonds, without further Commission action, provided that OPCo may delay imposition of such charges to the first day of the billing cycle of the revenue month next following the issuance date of the Phase-In-Recovery Bonds or such other date not more than 30 days following the date of issuance which is set forth in the Issuance Advice Letter.

14. The property, rights and interests of OPCo or its SPE assignee (further discussed below) under the Financing Order, including, among other things, the right to impose, charge and collect the Phase-In-Recovery Charges and the right to obtain adjustments to those charges, pursuant to Section 4928.238, Revised Code, together with the revenues, receipts, collections, rights to payment, payments, moneys, claims or other proceeds arising from the rights and interests created under the Financing Order, shall constitute, until fully collected, Phase-In-Recovery Property as defined in Section 4928.23(K), Revised Code. The Phase-In-Recovery Charges will be included in customers' bills, and OPCo will note on customers' bills that the right to impose, charge and collect Phase-In-Recovery Charges is owned by the SPE.

15. OPCo seeks approval of a bill message that includes the following (or substantially similar) language: "In Case No. 12-1969-EL-ATS the Commission approved recovery of previously incurred costs, including PUCO-approved Phase-In-Recovery Charges, Ohio

Power Company collects from all customers on behalf of its subsidiary, Ohio Power Phase-In Recovery Bonds I, which owns the right to impose and collect such charges." OPCo may also include similar language in billing inserts or other communication to customers. Such notation is important to preserve the "bankruptcy remote" nature of the securitization by respecting the legal ownership of the Phase-In-Recovery Property.

IV. Securitization Structure and Documentation.

16. OPCo will form a wholly-owned limited liability company, which is expected to be organized in Delaware, as a SPE for purposes of the securitization transaction. OPCo will then transfer, sell or assign its Phase-In-Recovery Property to the SPE. See H for a structure/transaction flow chart. OPCo requests that the Financing Order confirm the formation of the SPE, the sale of Phase-In-Recovery Property to the SPE, and the issuance by the SPE of Phase-In-Recovery Bonds secured by the Phase-In-Recovery Property, including Phase-In-Recovery Charges and other assets and property owned by the SPE.

    a) The SPE will be a bankruptcy-remote, special purpose limited liability company, with its activities generally limited to (i) purchasing, owning, administering and servicing the Phase-In-Recovery Property transferred, sold or assigned to it, (ii) issuing the Phase-In-Recovery Bonds, (iii) making payments on the Phase-In-Recovery Bonds, (iv) managing, selling, assigning, pledging, collecting amounts due on, and otherwise dealing with the Phase-In-Recovery Property and (v) granting a first priority security interest in the Phase-In-Recovery Property to secure such Phase-In-Recovery Bonds. Restrictions will be imposed on the SPE's ability to commence a bankruptcy case or other insolvency proceeding. The SPE will have no employees, and it will engage with other parties to undertake the activities necessary to issue the Phase-In-Recovery Bonds and perform other functions in connection with the issuance of the Bonds.

b) The SPE will establish one or more segregated trust accounts (collectively, the "Collection Account") into which all Phase-In-Recovery Charge remittances shall be deposited. The indenture trustee will on a timely basis apply moneys in this Collection Account to pay principal and interest on the Bonds and other Financing Costs. The Collection Account will include one or more subaccounts, including a general subaccount which will hold all collections of Phase-In-Recovery Charges pending distribution to bondholders, a capital subaccount as described below, and an excess funds subaccount. The excess funds subaccount will hold any Phase-In- Recovery Charge remittances and investment earnings received by the Servicer during any payment period which are in excess of the amounts needed to pay Financing Costs accrued and payable. The Collection Account may, if required by the rating agencies, also include an overcollateralization subaccount to hold additional cash collections of Phase-In-Recovery Charges in order to provide more funds available to pay Financing Costs in the event of a shortfall.

(c) OPCo will capitalize the SPE in an amount anticipated to be 0.50 percent of its initial principal balance of Phase-In-Recovery Bonds, based upon guidance from the Internal Revenue Service. Such amount will be held in a capital subaccount and will be pledged to secure the Phase-In-Recovery Bonds. This equity contribution helps assure that OPCo will not recognize gross income upon the sale of the Phase-In-Recovery Property to the SPE. OPCo intends to finance the contribution of the capital amount to the SPE with cash from working capital. The amount in the capital subaccount will, however, be available to pay ongoing Financing Costs that may vary from estimates due to unexpected shortfalls in collections or increases in such Financing Costs, in which event additional Phase-In-Recovery Charges may be assessed to replenish the withdrawals from the capital subaccount. OPCo will be authorized to recover its average long term debt rate without reduction for accumulated deferred income taxes on the capital contribution to the SPE as an ongoing miscellaneous Financing Cost. Upon the full payment of the Phase-In-Recovery Bonds, the SPE will return to OPCo all amounts remaining in the Collection Account.. Any excess (or deficit) of such amounts as compared to the amount of capital contributed to OPCo should be addressed in OPCo's other regulatory proceedings.

d) The sale of Phase-In-Recovery Property by OPCo to the SPE, as authorized under the Financing Order, will occur concurrently with the issuance of the Phase-In-Recovery Bonds. Concurrently with such sale, there will arise an existing, present property right and interest in such Phase-In-Recovery Property, which shall continue to exist until the Phase-In-Recovery Bonds and all applicable Financing Costs are paid in full. Section 4928.234(C), Revised Code. Consistent with Section 4928.232(G), Revised Code, OPCo requests that the Financing Order confirm the creation of its Phase-In-Recovery Property and that such creation shall be simultaneous with the sale of that property to its SPE, and the grant of a security interest in its Phase-In-Recovery Property, among other SPE assets and property, to secure the repayment of Phase-In-Recovery Bonds and

Financing Costs. Additionally, consistent with Section 4928.234(D), Revised Code, the Financing Order should confirm that all such Phase-In-Recovery Property shall continue to exist regardless of whether Phase-In-Recovery Charges have been billed, have accrued or have been collected and notwithstanding any requirement that value or amount of the property is dependent on the future provision of service to customers, and shall continue to exist until the Phase-In-Recovery Bonds and all Financing Costs are paid in full.

e) The SPE will acquire the Phase-In-Recovery Property from OPCo using the net proceeds from the Phase-In-Recovery Bonds. The repayment of the Phase-In-Recovery Bonds by the SPE will be secured by a first priority pledge and security interest in all right, title, and interest of the SPE in (i) the Phase-In-Recovery Property, (ii) the transaction documents, (iii) the collection account and all subaccounts established in the Indenture (discussed below) under which the Phase-In-Recovery Bonds will be issued, (iv) the cash used to capitalize the SPE, (v) all other property owned by the SPE (with limited exceptions as may be appropriate) and (vi) all proceeds of each of the foregoing. The SPE's Phase-In-Recovery Bonds will be non-recourse to OPCo and its assets (i.e., OPCo will have no obligation to pay any of the principal, interest or other amounts payable on the Phase-In-Recovery Bonds or any Financing Costs); provided, however, that OPCo could be liable to holders of Phase-In-Recovery Bonds in the event that it breached representations, warranties or covenants made by it in connection with its Sale Agreement (discussed below) or otherwise to such holders in connection with the securitization.

f) The SPE will be an "Assignee" of Phase-In-Recovery Property as defined in Section 4928.23(B), Revised Code, and as provided for in Section 4928.234(A), Revised Code.

g) The Indenture pursuant to which the Phase-In-Recovery Bonds are issued shall have a "priority of payments" that shall establish how collections of Phase-In-Recovery Charges and any other amounts are applied to pay principal, interest on, and other costs related to the Phase-In-Recovery Bonds. The right to impose, charge and collect Phase-In-Recovery Charges, although owned by the SPE, will be accorded similar treatment with OPCo's own charges under applicable statutes, the Commission's rules, and OPCo's tariffs, rules and practices, including for purposes of priority of customer payments and termination/reconnection of service.

17. The Phase-In-Recovery Bonds contemplated by the transactions described in this Application will be "asset-backed securities." A key feature of any asset-backed security is that the SPE owning the asset or group of assets underlying those securities be "bankruptcy remote" from the entity originating such asset or group of assets, which in this case will be OPCo. More specifically, an asset-backed security must be secured by, and payable from, a cash flow stream associated with an identifiable asset, the collections from which are sufficient to pay debt service and related costs, and the ownership of that asset is normally vested in a limited purpose entity, such as a limited liability company or corporation, which is insulated from the credit risks, including the possible bankruptcy, of the originating entity. This structure helps to ensure that the Phase-In-Recovery Bonds will have less credit risk than debt securities issued by OPCo, and investors should

therefore be willing to accept a lower carrying charge for the asset-backed security than for other debt of OPCo. If such criteria are satisfied in the proposed securitization, the Phase-In-Recovery Bonds secured by the Phase-In-Recovery Property should receive a triple-A (or equivalent) credit rating from applicable rating agencies.

18. In order to assure that the Phase-In-Recovery Bonds receive the highest ratings and to enhance their marketability, there are a number of other structural elements and express regulatory authorizations and confirmations customarily included in a Financing Order even though some may be repetitive of provisions in the Act. These structural elements, authorizations and confirmations are described in this Application and include, among others, those described in paragraphs (a) through (j) below. For the Commission's convenience and to maximize the rating and marketability of Phase-In-Recovery Bonds, a proposed Financing Order, incorporating all the necessary and customary structural elements, authorizations and confirmations, is included in this Application as Exhibit J. OPCo requests that the Commission adopt the proposed Financing Order without material modification because any such modification could negatively impact the rating and marketability of the Phase-In-Recovery Bonds.

(a) Irrevocability: Consistent with Section 4928.235(B), Revised Code, the Financing Order should provide that it is irrevocable when final and the Commission may not reduce, impair, postpone, or terminate the Phase-In-Recovery Charges authorized in the Financing Order or impair the Phase-In-Recovery Property or the collection of Phase-In-Recovery Charges or the recovery of the DARR Balance Amount and Financing Costs. The Financing Order should further confirm, consistent with the Act, that no adjustment (described in Section

4928.238, Revised Code) approved by the Commission shall affect the irrevocability of the Financing Order.

(b) State Pledge: Consistent with Section 4928.2315, Revised Code, the Financing Order should confirm that the State of Ohio pledges to and agrees with the bondholders, any assignee, and any financing parties under the Financing Order that the State of Ohio will not take or permit any action that impairs the value of Phase-In-Recovery Property under the Financing Order or revises the DARR Balance Amount or, except as allowed under Section 4928.238, Revised Code (i.e., the adjustment mechanism) reduces, alters or impairs Phase-In-Recovery Charges until all principal, interest and premium, if any, of the Phase-In-Recovery Bonds, all Financing Costs, and all other amounts to be paid under any ancillary agreement are paid or performed in full. The Financing Order should further confirm, consistent with Section 4928.2315(B), Revised Code, that the SPE is permitted to include the above-described pledge in the Phase-In-Recovery Bonds, ancillary agreements, and documentation relating to the issuance and marketing of the Phase-In-Recovery Bonds.

(c) True Sale: Consistent with Section 4928.2313, Revised Code the Financing Order should confirm that any sale, assignment, or transfer of Phase-In-Recovery Property under a Financing Order shall be an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the seller's right, title and interest in, to, and under the Phase-In-Recovery Property.

(d) Successor Utility: Consistent with Section 4928.2311, Revised Code, the Financing Order should confirm that any successor to an electric distribution utility subject to a Financing Order shall perform and satisfy all obligations of the electric distribution utility under the Financing Order.

(e) Security Interest: Consistent with Section 4928.2312, Revised Code, the Financing Order should confirm that a valid and binding security interest in the Phase-In-Recovery Property, will be created, perfected and enforced to secure the repayment of the principal of and interest on Phase-In-Recovery Bonds, amounts payable under any ancillary agreement, and other Financing Costs. The security interest will have priority over any other lien that may subsequently attach to the Phase-In-Recovery Property. The Financing Order should further confirm that the priority of such security interest is not affected by the commingling of Phase-In-Recovery Charges with other amounts as provided in Section 4923.2312(D)(2), Revised Code, and that no application of the adjustment mechanism (described in Section 4928.238, Revised Code) shall affect the validity, perfection, or priority of a security interest in or the transfer of Phase-In-Recovery Property under the Financing Order, as provided in Section 4923.2312(D)(3), Revised Code.

(f) Bankruptcy of the electric distribution utility: Consistent with Section 4928.2310(A)(1), Revised Code, the Financing Order should confirm that if an electric distribution utility subject to a Financing Order defaults on any required payment of Phase-In-Recovery Revenues to any SPE, a court, upon application by an interested party and without limiting any other remedies available to the applicant, shall order the sequestration and payment of the Phase-In-Recovery Charges to the applicable SPE for the benefit of Bondholders, any assignee and any financing parties. The Financing Order should further confirm, consistent with Section 4928.2310(A)(2), Revised Code, that, customers of an electric distribution utility and the SPE shall be held harmless for the electric distribution utility's failure to remit any required payment of Phase-In-Recovery Charges, and such failure shall in no way affect the Phase-In-Recovery Property or the rights to impose, collect and adjust the Phase-In-Recovery Charges.

(g) Nonbypassability: Consistent with Section 4928.239, Revised Code, the Financing Order should confirm that the Phase-In-Recovery Charges cannot be avoided by any customer or other person obligated to pay the charges and that, if a customer subsequently receives retail electric distribution service from another electric distribution utility operating in the same service area, the Phase-In-Recovery Charges shall continue to apply to that customer.

(h) Third Party Billing Agents: Consistent with the nonbypassable nature of the Phase-In-Recovery Charges, the Financing Order should further provide that (i) regardless of who is responsible for billing, the customers of that electric distribution utility shall continue to be responsible for Phase-In-Recovery Charges, (ii) if a third party meters and bills for the Phase-In-Recovery Charges, the electric distribution utility (as servicer) must have access to information on billing and usage by customers to provide for proper reporting to the SPE and to perform its obligations as servicer, (iii) in the case of a third party default, billing responsibilities must be promptly transferred to another party to minimize potential losses; and (iv) the failure of customers to pay Phase-In-Recovery Charges shall allow service termination by the electric distribution utility on behalf of the SPE of the customers failing to pay Phase-In-Recovery Charges in accordance with Commission-approved service termination rules and orders. To ensure that the highest ratings on the bonds will be achieved, the Commission should provide in the Financing Order that the Phase-In-Recovery Charges will be collected in a manner that will not adversely affect the ratings on the Phase-In-Recovery Bonds.

(i) Validity of the Financing Order: Consistent with Section 4928.235, Revised Code, the Financing Order should confirm that it shall remain in effect until the Phase-In-Recovery Bonds issued under the Financing Order are paid in full and all Financing Costs relating to the Phase-In-Recovery Bonds have been paid in full, and the Financing Order shall remain in effect and unabated notwithstanding the bankruptcy, reorganization, or insolvency of the electric distribution utility or any affiliate of the electric distribution utility or the commencement of any judicial or nonjudicial proceeding on the Financing Order.

(j) Treatment of Phase-In-Recovery Charges: Consistent with Section 4928.232(E)(7), Revised Code, to ensure the full and timely collection of Phase-In-Recovery Charges, including minimizing the likelihood that customer defaults in the payment of Phase-In-Recovery Charges would result in additional charges being borne by other non-defaulting customers, the Financing Order should provide that the electric distribution utility or other servicer, on behalf of the SPE, shall terminate service of any customer who defaults in the payment of Phase-In-Recovery Charges in accordance with applicable statutes, Commission rules and orders and OPCo's rules, tariffs, and practices applicable to other charges owed directly to the electric distribution utility.

19. OPCo seeks approval to issue and sell the Phase-In-Recovery Bonds through a registered public offering under the U.S. Securities Act of 1933, as amended (the "Securities Act"). OPCo believes that a registered public offering will provide access to the most liquid market for the Phase-In-Recovery Bonds, and therefore the best method to achieve the savings for ratepayers. In connection with the public offering, OPCo and/or the SPE will enter into several agreements with respect to the securitization transaction. The material agreements listed below will be filed as exhibits to the registration statement filed with the SEC. In addition, the material terms of each agreement will also be summarized in the related prospectus included in the registration statement and used to offer and sell the Phase-In-Recovery Bonds.

a) The SPE's LLC (Limited Liability Company) Agreement is the key organizational and governing document for the SPE and contains customary SPE provisions related to its restricted purposes. The LLC Agreement will not permit the SPE to engage in any activity not related to its restricted purposes and will contain provisions regarding separateness, independent managers and restrictions on commencing bankruptcy and insolvency proceedings. It is expected that the SPE will be managed by five managers, at least two of which will be independent managers, in each case appointed by OPCo. Only independent managers are expected to be paid compensation, and this cost, which is expected to be minimal, will be recovered through the Phase-In-Recovery Charges.

b) The Administration Agreement will provide for the administrative functions that OPCo will provide to its SPE subsidiary, including services relating to the preparation of financial statements, any required filings with the SEC, any tax returns required to be filed under applicable law, qualifications to do business and minutes of managers' meetings. OPCo (or any successor administrator thereof) will receive a periodic administration fee, expected to be $50,000 annually, for performing these services, which, together with costs and expenses incurred by the administrator, will be recovered through Phase-In-Recovery Charges as Financing Costs.

c) The Sale Agreement will provide for the terms and conditions of the absolute transfer and true sale of OPCo's right, title and interest in, to, and under the Phase-In-Recovery Property to the SPE, consistent with the provisions of Section 4928.2313, Revised Code. The SPE's obligation to purchase, and OPCo's obligation to sell, the Phase-In-Recovery Property is subject to numerous conditions in the Sale Agreement, including: (i) OPCo's delivery of a bill of sale identifying the Phase-In-Recovery Property, (ii) receipt of a Financing Order from the Commission creating the Phase-In-Recovery Property, (iii) certain conditions related to the solvency of OPCo, and (iv) delivery by OPCo of appropriate opinions of counsel and officers' certificates. The Sale Agreement will further provide that OPCo has taken all actions required to transfer ownership of the Phase-In-Recovery Property to the SPE, free and clear of all liens, and to perfect such transfer, and that the Phase-In-Recovery Bonds have received a rating or ratings as required by the Financing Order. The Sale Agreement will also contain customary representations, warranties and covenants of OPCo and the SPE.

d) The Servicing Agreement describes the services that OPCo, as servicer, will provide to the SPE with respect to calculating, billing and collecting the Phase-In-

Recovery Charges. OPCo will be responsible for (among other things): (i) posting all collections, (ii) responding to inquiries by the trustee, customers, competitive retail electric suppliers (if any), third party billing agents (if any), the Commission or others regarding Phase-In-Recovery Charges, (iii) calculating historical electricity usage and customer payment information (e.g., uncollectibles, typical lags between billing and collection of charges), (iv) projecting future electricity usage and customer payment information, (v) accounting for collections, (vi) furnishing periodic certifications, reports and statements as specified in the transaction documents or required under applicable law, including filings under SEC Regulation AB and filings with the Commission, (vii) making certain filings as necessary to perfect the trustee's lien on the Phase-In-Recovery Property and (viii) taking all necessary action in connection with true-up adjustments. OPCo (or any successor servicer thereof) will receive a periodic servicing fee, which will be recovered through Phase-In-Recovery Charges as a Financing Cost. Based upon market precedent for such fees, the annual servicing fee shall be 0.10% of the initial principal amounts of the Phase-In-Recovery Bonds issued by the SPE, which fee will be paid to OPCo or a successor electric distribution utility company. OPCo, as servicer, will also be entitled to retain interest earnings and late charges on Phase-In-Recovery Charges pending disbursement to the trustee, as well as reimbursement for costs and expenses incurred by the servicer to third parties (i.e., accountants, attorneys). Customary for transactions of this type, in the unlikely event that there is no electric distribution utility successor willing or able to assume such servicing duties, a non-utility servicer may need to be engaged. Given the incremental costs for such an entity to perform the servicing function (i.e., an entity not already billing and collecting the same customer base for other charges), the annual servicing fee for such non-utility successor shall not exceed 0.75% of the initial principal amount of the Phase-In-Recovery Bonds issued by the SPE, unless otherwise approved by the Commission.

e) The Phase-In-Recovery Bonds issued by the SPE will be issued pursuant to an Indenture between the SPE and a third party trustee, which will describe the particular terms of the Phase-In-Recovery Bonds, including the principal amount, interest rate, payment dates, issuance date, collateral, authorized denominations, principal repayment schedule and other material terms of the Phase-In-Recovery Bonds. The Indenture will provide for certain covenants on the part of the SPE, including covenants restricting the SPE's ability to: (i) merge or consolidate with any other entity, (ii) sell, convey, transfer or otherwise dispose of its assets or property, (iii) terminate its existence or dissolve or liquidate, (iv) permit any lien, charge, security interest or other encumbrance (other than the lien and security interest granted under the Indenture) to be created, (v) engage in any business other than financing, purchasing, owning and managing the Phase-In-Recovery Property, and (vi) issue, incur, assume, guarantee or otherwise become liable for any indebtedness except for the Phase-In-Recovery Bonds and any other secured obligations arising under the transaction documents.

20. The fixed interest rates and yields for each series or tranche will not be known until the Phase-In-Recovery Bonds are priced. Based upon current market conditions, typical structural features, and assuming an SEC-registered offering of securities rated in the

highest category by the rating agencies, the weighted average annual interest cost of the Phase-In-Recovery Bonds is estimated to be less than 1.75%. In the absence of an extraordinary change in market conditions between the date of this Application and the issuance date of the Phase-In-Recovery Bonds, significant cost savings and mitigation of rate impacts through the proposed Phase-In-Recovery Bond issuance are expected to result. Based on the Phase-In-Recovery Bond expected principal repayment schedule reflected in Exhibit D (which is based upon level debt service), only a weighted average rate on the Phase-In-Recovery Bonds in excess of 3.32% would overcome on a net present value basis the benefits associated with OPCo's proposal so as to deny cost savings to customers. Consistent with Section 4928.232(F), Revised Code, OPCo requests that the Commission, in the Financing Order, afford it the flexibility in establishing the terms and conditions for the Phase-In-Recovery Bonds to accommodate changes in market conditions, including repayment schedules, the fixed interest rates, Financing Costs, collateral requirements, required debt service and other reserves. OPCo covenants, consistent with Section 4928.235(C)(2), Revised Code, that it will not proceed with the issuance of Phase-In-Recovery Bonds if it determines that market conditions are such that customers will not realize cost savings.

21. It is expected that the Phase-In-Recovery Bonds would be sold pursuant to a negotiated sale to investors, coordinated through one or more underwriters. The complexity of the Phase-In-Recovery Bonds and the resulting need for sophisticated marketing make it customary for securities of this type to be structured by the utility with the assistance of a financial advisor and offered pursuant to a negotiated sale in a public offering. After completing a request for proposals process and follow-up interviews, OPCo engaged

Citigroup Global Markets, Inc., an investment banking firm frequently involved in the underwriting of this type of securities, to assist in the process of structuring the transaction. OPCo's selection of a financial advisor to assist it in the issuance of Phase-In-Recovery Bonds took into account many attributes. OPCo considered each advisor's previous experience with securitization bonds, previous modeling and structuring experience, rating agency advisory capabilities, experience in marketing and distributing of securitization bonds, proposed advisory fees, and key personnel on each advisory team.

22. Certain of the Financing Costs to be recovered from the proceeds of the Phase-In-Recovery Bonds will be costs of issuing the Phase-In-Recovery Bonds and applying the *proceeds thereof. These Financing Costs, which are referred to as "upfront Financing* Costs", include, without limitation, estimated costs associated with the retiring, refunding or defeasing of OPCo's existing long-term debt, counsel fees, structural advisory fees, underwriting fees, rating agency fees, independent auditor's fees, SEC registration fees, printing and marketing expenses and other fees and expenses approved in the Financing Order. An estimate of the upfront Financing Costs is included as Exhibit B hereto. Other Financing Costs will constitute costs necessary to support, repay and service the Phase-In-Recovery Bonds. These Financing Costs, which are referred to as "ongoing Financing Costs" include principal and interest and redemption premium (if any) on the Bonds, servicer fees and expenses, trustee fees and expenses, SPE administrative fees and expenses, independent managers fees, rating agency surveillance fees, ongoing SEC compliance costs, accounting fees, the cost of maintaining or replenishing overcollateralization or other reserves or accounts (if any) established under

the indenture, any ancillary agreement or other financing document relating to the Phase-In-Recovery Bonds, and any other Financing Costs approved under the Financing Order. An estimate of the ongoing Financing Costs for the initial payment period is included in Exhibit B. While the ongoing Financing Costs are expected to be relatively stable over time, they may increase or decrease based upon factors beyond OPCo's control. Actual debt service payments, for example, may be different from scheduled debt service payments if projected Phase-In-Recovery Charges collections deviate from actual collections in a manner causing shortfalls in scheduled principal payments. Other ongoing Financing Costs, such as rating agency surveillance fees, trustee fees, and legal and accounting costs may change from time to time. In addition, ongoing Financing Costs include the recovery of all tax liabilities associated with the collection of the Phase-In-Recovery Charges or otherwise arising due to the securitization. All ongoing Financing Costs must be recovered through the imposition and collection and adjustment (or true up), from time to time, of the Phase-In-Recovery Charges.

V. Adjustment Mechanism.

23. OPCo has included in Exhibit E a proposed mechanism for making expeditious periodic adjustments in the Phase-In-Recovery Charges. Such adjustments, or true-up filings, must be made annually to correct for any undercollections or overcollections during the preceding period and to ensure that the Phase-In-Recovery Charges continue to generate amounts sufficient to timely pay all scheduled payments of principal and interest and any other amounts due in connection with the Phase-In-Recovery Bonds for the twelve month period following the true-up adjustment. Further, the servicer shall make a mandatory interim true-up filing semi-annually (quarterly after the last scheduled maturity date of

any Phase-In-Recovery Bonds) if the servicer forecasts that the Phase-In-Recovery Revenues will be insufficient to make all scheduled payments of principal, interest and other ongoing Financing Costs on a timely basis during the current or next succeeding payment period; provided that in the case of any quarterly true-up adjustment following the last scheduled maturity date of any Phase-In-Recovery Bonds, the true-up filing will be calculated to ensure that Phase-in-Recovery Charges are sufficient to pay such Phase-In-Recovery Bonds in full on the next succeeding payment date. In addition to mandatory annual and semi-annual (and quarterly after the last scheduled maturity date) true-up filings, the servicer will be permitted to file a true-up filing more frequently if it determines that such filing is necessary to ensure the expected recovery of amounts sufficient to pay scheduled principal and interest and ongoing Financing Charges. To implement any required annual adjustment, OPCo, within forty-five days of the anniversary of the issuance date, will file with the Commission a request for approval of adjusted Phase-In-Recovery Charges which shall go into effect on a bills rendered basis on no earlier than 15 days thereafter. Any other adjustment will be filed by OPCo at least 15 days prior to its proposed effective date. All such adjustments shall go into effect on a bills rendered basis on the date specified therein, which will be no earlier than 15 days after the filing of the request. Consistent with Section 4928.238(B), Revised Code, the Commission's review of any adjustment request would be limited to determining whether there is any mathematical error in the application of the adjustment mechanism approved in the Financing Order. Each adjustment will take into account revised projections of base distribution revenues, electricity consumption and customer payment information (e.g., uncollectibles, lags between customer billing and collection). Further, each adjustment will take into account differences between estimated and actual revenue collections as well as differences between estimated and actual payment requirements for all ongoing Financing Costs. Each adjustment will ensure the recovery of adequate revenues sufficient to provide for the timely payment of scheduled principal and interest on the Phase-In-Recovery Bonds and all ongoing Financing Costs. Finally, pursuant to Section 4928.232(H), Revised Code, the initial Phase-In-Recovery Charges will be determined by OPCo prior to the issuance of the Phase-In-Recovery Bonds and filed with the Commission in the Final Tariff Sheet as an attachment to the Issuance Advice Letter. These charges shall be final and effective upon the issuance of the Phase-In-Recovery Bonds, without further Commission action, provided that OPCo may delay imposition of such charges to the first day of the billing cycle of the revenue month next following the issuance date of the Phase-In-Recovery Bonds or such other date not more than 30 days following the date of issuance which is set forth in the Issuance Advice Letter.

VI. Timing of Commission Action.

24. Issuance of a Financing Order as proposed herein is consistent with Section 4928.02, Revised Code. Customers will benefit from the provision of reasonably-priced retail electric service. Section 4928.02(A), Revised Code. Because securitization will reduce the overall cost of the nonbypassable DARR being replaced by the Phase-In-Recovery Charges and will result in cost savings and rate mitigation, securitization promotes customer choice and the diversity of electric supplies and suppliers. Section 4928.02(B) and (C), Revised Code. Securitization also recognizes the continuing emergence of competitive electricity markets through the development and implementation of flexible

regulatory treatment and facilitates the state's effectiveness in the global economy. Section 4928.02(G) and (N), Revised Code.

25. OPCo requests that the Commission consider and approve the securitization and all related matters requested in this Application on an expedited basis by October 1, 2012, which is within the 135-day timeline set forth in Section 4928.232(C)(1), Revised Code. Such expedited treatment will permit the Phase-In-Recovery Bonds to be issued in a timely fashion to take advantage of historically low interest rates and the currently functioning credit markets, and that the savings for customers expected to arise from the implementation of this Application may start being realized as soon as possible.

WHEREFORE, for the reasons set forth above, OPCo respectfully requests that the Commission:

(1) Approve OPCo's proposed securitization and, pursuant to the Act, issue a Financing Order, substantially in the form of the proposed Financing Order attached as Exhibit J, granting any and all authorizations and approvals that may be required under the Act, for the consummation of the securitization transaction and related matters (all as described in this Application), including, without limitation, (a) the recovery of Phase-In Costs and upfront Financing Costs, through the issuance of up to an aggregate amount of $320 million of Phase-In-Recovery Bonds payable from collections from Phase-In-Recovery Charges, and the execution, delivery and performance of all documentation necessary to consummate the securitization transaction, (b) the imposition, charging, and collection of Phase-In-Recovery Charges, (c) the creation of the Phase-In-Recovery Property (such creation to be simultaneous with the sale of such Phase-In-Recovery Property to the SPE and the issuance of the Phase-In-Recovery Bonds), (d) the

establishment of an adjustment mechanism as described herein to be applied from time to time to adjust the Phase-In-Recovery Charges to ensure the timely payment of Phase-In-Recovery Bonds and all ongoing Financing Costs, (e) the calculation and allocation of the Phase-In-Recovery Charges among customer classes, (f) the maximum term of the Phase-In-Recovery Bonds, (g) the organization and capitalization of the SPE to which Phase-In-Recovery Property will be sold, (h) the servicing of Phase-In-Recovery Charges by OPCo as initial servicer or any successor servicer under the servicing agreement, (i) flexibility in establishing the terms and conditions for the Phase-In-Recovery Bonds to accommodate changes in market conditions, (j) the ability to issue Phase-In-Recovery Bonds and to effect correlated assignments, sales, pledges, and other transfers of Phase-In-Recovery Property (k) approval of the Final Tariff Sheet and associated adjustment mechanism, (l) approval of the proposed bill message, and (m) all of the determinations and descriptions required by Section 4928.232, Revised Code;

(2) Find that the proposed securitization, consistent with market conditions, measurably provides cost savings to customers and mitigates rate impacts to customers as compared to the existing cost recovery method for the Deferred Balance Amount;

(3) Require that OPCo file with the Commission, no later than the end of the second business day after the pricing date for a series of Phase-In-Recovery Bonds, an Issuance Advice Letter (in the form attached as Exhibit I) that reports the actual dollar amount of the initial Phase-In-Recovery Charges and other information specific to the Phase-In-Recovery Bonds to be issued, including the Final Tariff Sheet;

(4) Make such other findings and issue such other orders as requested by OPCo in this Application; and

(5) Grant such other and further orders and approvals as it may deem necessary or proper under the circumstances.

Respectfully submitted,

OHIO POWER COMPANY

By: ______________________

Selwyn J. Dias
Vice-President of Regulatory and Finance

STATE OF OHIO)
)
FRANKLIN COUNTY)

Before me a notary public, in and for Franklin County in the State of Ohio, personally appeared Selwyn J. Dias, a vice president of Ohio Power Company, and he being duly sworn says that the facts herein contained are true to the best of his knowledge and belief.

Dated: July 31, 2012

____
Notary Public

2012

____

Steven T. Nourse (0046705)
David C. House (0059706)
AMERICAN ELECTRIC POWER CORPORATION
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
Telephone: 614-716-1608
Fax: 614-716-2950
stnourse@aep.com
dchouse@aep.com

Daniel R. Conway (0023058)
Kathleen M. Trafford (0021753)
PORTER WRIGHT MORRIS & ARTHUR LLP
41 South High Street
Columbus, Ohio 43215
Telephone: 614-227-1915
Fax: 614-227-2100
dconway@porterwright.com
ktrafford@porterwright.com

Counsel of Record for Ohio Power Company

Exhibit List for Securitization Application

Exhibit A	Estimated Comparison of Existing DARR versus Securitization of the Phase-In Costs covered by the Existing DARR, and Funding Cost Breakeven Analysis.
Exhibit B	Estimated Upfront and Ongoing Financing Costs
Exhibit C	Indicative Transaction Structure
Exhibit D	Expected Principal Repayment Schedule
Exhibit E	Adjustment Mechanism and Rate Design Process
Exhibit F	Estimated Monthly Bill Impacts
Exhibit G	Proposed Tariff Sheets for Rider
Exhibit H	Structure/Transaction Flow Chart
Exhibit I	Form of Issuance Advice Letter
Exhibit J	Proposed Financing Order

EXHIBIT A

ESTIMATED COMPARISON OF EXISTING DARR AND SECURITIZATION OF THE PHASE-IN COSTS COVERED BY THE EXISTING DARR

	Estimated Semi-annual Recovery Under Existing DARR					Estimated Recovery Under Securitization							
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Period	Ending Balance [1]	Return of DARR Assets	Return on Assets @ 5.34%	Total amount Billed under DARR	Period	Ending Balance	Principal Payments	Carrying Charge	Other Ongoing Financing Costs [2]	Total Financing Costs [3]	Gross Rate Conversion Factor [4]	Total Amounts Billed under Securitization
1	Jan,15,2013	291,482,926				Jan,15,2013	307,556,825	-	-	-			-
2	Oct,1,2013	255,715,040	35,767,886	12,188,918	47,956,804	Oct,1,2013	275,790,707	31,766,118	2,371,601	448,752	34,586,470	348,977	34,935,448
3	Apr,1,2014	235,360,524	20,354,516	6,552,227	26,906,742	Apr,1,2014	252,630,325	23,160,382	1,564,292	315,528	25,040,203	252,656	25,292,858
4	Oct,1,2014	212,122,697	23,237,827	5,987,901	29,225,727	Oct,1,2014	230,871,717	21,758,608	1,489,021	315,528	23,563,157	237,752	23,800,909
5	Apr,1,2015	190,591,241	21,531,457	5,375,286	26,906,742	Apr,1,2015	208,859,936	22,011,781	1,418,305	315,528	23,745,615	239,593	23,985,208
6	Oct,1,2015	166,144,697	24,446,544	4,779,183	29,225,727	Oct,1,2015	185,664,487	23,195,449	1,346,767	315,528	24,857,745	250,815	25,108,559
7	Apr,1,2016	143,371,889	22,772,808	4,133,935	26,906,742	Apr,1,2016	162,835,886	22,828,600	1,271,382	315,528	24,415,510	246,353	24,661,863
8	Oct,1,2016	117,650,479	25,721,410	3,504,317	29,225,727	Oct,1,2016	140,160,754	22,675,132	1,197,189	315,528	24,187,849	244,055	24,431,904
9	Apr,1,2017	93,568,386	24,082,094	2,824,649	26,906,742	Apr,1,2017	117,490,427	22,670,327	1,065,222	315,528	24,051,077	242,675	24,293,753
10	Oct,1,2017	66,502,341	27,066,045	2,159,682	29,225,727	Oct,1,2017	94,146,601	23,343,827	892,927	315,528	24,552,282	247,733	24,800,015
11	Apr,1,2018	41,039,308	25,463,032	1,443,710	26,906,742	Apr,1,2018	71,017,845	23,128,755	715,514	315,528	24,159,798	243,772	24,403,570
12	Oct,1,2018	12,555,041	28,484,267	741,460	29,225,727	Oct,1,2018	47,429,548	23,588,297	539,736	315,528	24,443,561	246,636	24,690,197
13	Dec,31,2018	(30,433)	12,585,474	85,307	12,670,781	Apr,1,2019	23,985,544	23,444,004	360,465	315,528	24,119,997	243,371	24,363,367
14						Oct,1,2019	-	23,985,544	182,290	315,528	24,483,363	247,037	24,730,400
Total			**$ 291,513,359**	**$ 49,776,574**	**$ 341,289,933**	**Total**		**$ 307,556,825**	**$ 14,414,710**	**$ 4,235,092**	**$ 326,206,627**	**$ 3,291,425**	**$ 329,498,052**
NPV of Total @ 5.34%			**$ 248,983,980**	**$ 45,076,870**	**$ 294,060,850**	**NPV of Total @ 5.34%**		**$ 254,970,447**	**$ 12,481,113**	**$ 3,517,965**	**$ 270,969,525**	**$ 2,734,083**	**$ 273,703,607**

NPV Cost Comparison

NPV of total amounts billed under DARR	$ 294,060,850
NPV of total amounts billed under Securitization	273,703,607
NPV Savings	**$ 20,357,243**

Nominal Cost Comparison

Nominal total amounts billed under DARR	$ 341,289,933
Nominal total amounts billed under Securitization	329,498,052
Nominal Savings	**$ 11,791,881**

Notes:

[1] Expected recoveries under DARR through expiration on December 31st 2018. Nominal under/(over) collections would be addressed in a future regulatory preceding.

[2] Financing costs include estimated admin and servicing fees

[3] Total financing costs calculated as sum of columns H, I and J

[4] Gross rate conversion factor represents incremental recovery of applicable revenue and state income taxes, and is calculated as column K * 1.009%

EXHIBIT A
ESTIMATED BREAKEVEN ANALYSIS

Estimated Funding Cost Breakeven - NPV Approach

(A) Period	(B) Balance	(C) Principal Payments	(D) Carrying Charge @ 3.32%	(E) Other Ongoing Financing Costs (1)	(F) Total Financing Costs (2)	(G) Gross Rate Conversion Factor (3)	(H) Total Amounts Billed under Securitization
Jan,15,2013	307,556,825	-	-	-			-
Oct,1,2013	275,790,707	31,766,118	7,256,644	448,752	39,471,513	398,268	39,869,781
Apr,1,2014	252,630,325	23,160,382	4,575,332	315,528	28,051,242	283,037	28,334,279
Oct,1,2014	230,871,717	21,758,608	4,191,104	315,528	26,265,240	265,016	26,530,257
Apr,1,2015	208,859,936	22,011,781	3,830,132	315,528	26,157,441	263,929	26,421,370
Oct,1,2015	185,664,487	23,195,449	3,464,959	315,528	26,975,937	272,187	27,248,124
Apr,1,2016	162,835,886	22,828,600	3,080,150	315,528	26,224,278	264,603	26,488,881
Oct,1,2016	140,160,754	22,675,132	2,701,426	315,528	25,692,086	259,233	25,951,320
Apr,1,2017	117,490,427	22,670,327	2,325,249	315,528	25,311,104	255,389	25,566,493
Oct,1,2017	94,146,601	23,343,827	1,949,151	315,528	25,608,506	258,390	25,866,896
Apr,1,2018	71,017,845	23,128,755	1,561,880	315,528	25,006,164	252,312	25,258,476
Oct,1,2018	47,429,548	23,588,297	1,178,177	315,528	25,082,003	253,077	25,335,080
Apr,1,2019	23,985,544	23,444,004	786,850	315,528	24,546,382	247,673	24,794,055
Oct,1,2019	-	23,985,544	397,917	315,528	24,698,990	249,213	24,948,203
NPV of Total @ 5.34%		**$ 254,970,447**	**$ 32,635,003**	**$ 3,517,965**	**$ 291,123,415**	**$ 2,937,435**	**$ 294,060,850**
Breakeven Coupon (4)		**3.32%**					

Estimated Funding Cost Breakeven - Nominal Value Approach

(A) Period	(B) Balance	(C) Principal Payments	(D) Carrying Charge @ 2.32%	(E) Other Ongoing Financing Costs (1)	(F) Total Financing Costs (2)	(G) Gross Rate Conversion Factor (3)	(H) Total Amounts Billed under Securitization
Jan,15,2013	307,556,825	-	-	-			-
Oct,1,2013	275,790,707	31,766,118	5,075,666	448,752	37,290,536	376,262	37,666,797
Apr,1,2014	252,630,325	23,160,382	3,200,220	315,528	26,676,131	269,162	26,945,293
Oct,1,2014	230,871,717	21,758,608	2,931,472	315,528	25,005,608	252,307	25,257,914
Apr,1,2015	208,859,936	22,011,781	2,678,989	315,528	25,006,299	252,314	25,258,612
Oct,1,2015	185,664,487	23,195,449	2,423,569	315,528	25,934,547	261,680	26,196,226
Apr,1,2016	162,835,886	22,828,600	2,154,414	315,528	25,298,542	255,262	25,553,804
Oct,1,2016	140,160,754	22,675,132	1,889,515	315,528	24,880,175	251,041	25,131,216
Apr,1,2017	117,490,427	22,670,327	1,626,397	315,528	24,612,253	248,338	24,860,590
Oct,1,2017	94,146,601	23,343,827	1,363,335	315,528	25,022,690	252,479	25,275,169
Apr,1,2018	71,017,845	23,128,755	1,092,458	315,528	24,536,742	247,576	24,784,318
Oct,1,2018	47,429,548	23,588,297	824,077	315,528	24,727,903	249,505	24,977,407
Apr,1,2019	23,985,544	23,444,004	550,363	315,528	24,309,895	245,287	24,555,182
Oct,1,2019	-	23,985,544	278,323	315,528	24,579,396	248,006	24,827,402
Nominal Value Total		**$ 307,556,825**	**$ 26,088,799**	**$ 4,235,092**	**$ 337,880,716**	**$ 3,409,216**	**$ 341,289,933**
Breakeven Coupon (4)		**2.32%**					

Notes:

(1) Financing costs include estimated admin and servicing fees

(2) Total financing costs calculated as sum of columns C, D and E

(3) Gross rate conversion factor represents incremental recovery of applicable revenue and state income taxes, and is calculated as column K * 1.009%

(4) In each case above, the corresponding amount assumed in the securitization was adjusted until the NPV and total nominal amounts, respectively, equalled the corresponding amounts calculated under "Estimated Semi-Annual Recovery under Existing DARR" as shown on page 1 of Exhibit A: specifically, $294,060,850 representing the NPV of total amounts billed under the DARR @ 5.34%, and the nominal amount of $341,289.93 billed under the DARR at 5.34%.

Exhibit B

ESTIMATED UPFRONT FINANCING COSTS [1]

Underwriters' Fees	$ 1,537,784
Legal Fees	2,250,000
Rating Agency Fees [2]	449,868
Company Advisor Fees & Expenses	350,000
Printing/Edgarizing	30,000
SEC Registration Fee [3]	35,246
Miscellaneous Administration Costs	244,440
Accountant Fees	170,000
Trustee's/Trustee Counsel's Fees	25,000
Up-Front Qualified Costs	**$ 5,092,338**

ESTIMATED ONGOING FINANCING COSTS

	ANNUAL AMOUNT (OPCO AS SERVICER)	ANNUAL AMOUNT (THIRD PARTY AS SERVICER)
(0.10% of initial principal amount for OPCO, 0.75% for Third-Party Servicer)	$ 307,557	$ 2,306,676
Administration Fees	50,000	50,000
Accountants Fees	75,000	75,000
Legal Fees/Expenses for Company's/Issuer's Counsel	45,000	45,000
Trustee's/Trustee's Counsel Fees & Expenses	2,500	2,500
Independent Manager's Fees	5,000	5,000
Rating Agency Fees	45,000	45,000
Printing/EDGAR expenses	2,500	2,500
Miscellaneous	98,500	98,500
Total Ongoing Qualified Costs	**$ 631,057**	**$ 2,630,176**

Notes:

[1] Based on assumed bond issuance of $307,556,825 comprised of Company's estimated DARR deferral balance as of November 30, 2012, estimated debt retirement/defeasance costs of approximately $11mm plus other estimated upfront costs described above.

[2] Based on current rating agency fee schedules and assumes ratings from each of S&P, Moody's and Fitch.

[3] Based on current fee level of $114.60 per million of dollars of debt issued.

EXHIBIT C
INDICATIVE TRANSACTION STRUCTURE[1]

(A)	(B)	(C)	(D)		(E)		(F)
Tranche	**Initial Principal Balance**	**Expected WAL [2]**	**Expected Maturity**		**Legal Final Maturity**		**Interest Rate**
A-1	$154,000,000	1.99	Oct-2016	3.71 yrs	Oct-2017	4.71 yrs	0.65%
A-2	$153,556,825	5.32	Oct-2019	6.71 yrs	Oct-2020	7.71 yrs	1.52%
	$307,556,825						

[1] Estimated, for discussion purposes only. Assumes an issuance date of January 15, 2013. Final structure may vary depening on then-current market conditions.
[2] Weighted average life (WAL) represents time-weighted (in years) receipt of principal payments

EXHIBIT D [(1)]

EXPECTED PRINCIPAL REPAYMENT SCHEDULE

		Tranche A-1	Tranche A-2	Total
	Tranche Size	154,000,000	153,556,825	307,556,825
Date				
Oct-13		31,766,118		31,766,118
Apr-14		23,160,382		23,160,382
Oct-14		21,758,608		21,758,608
Apr-15		22,011,781		22,011,781
Oct-15		23,195,449		23,195,449
Apr-16		22,828,600		22,828,600
Oct-16		9,279,061	13,396,070	22,675,132
Apr-17			22,670,327	22,670,327
Oct-17			23,343,827	23,343,827
Apr-18			23,128,755	23,128,755
Oct-18			23,588,297	23,588,297
Apr-19			23,444,004	23,444,004
Oct-19			23,985,544	23,985,544

(1) Estimated, for discussion purposes only. Assumes an issuance date of January 15, 2013. Final structure may vary depening on then-current market conditions.

True-up Adjustment Mechanism

True-up filings must be made annually to correct for any undercollections or overcollections during the preceding period and to ensure the phase-in recovery charges continue to generate amounts sufficient to timely pay all scheduled payments of principal and interest and any other amounts due in connection with the phase-in recovery bonds for the 12 month period following the true-up adjustment.

Further, the servicer shall make a mandatory interim true-up filing semi-annually (quarterly after the last scheduled maturity date of the phase-in recovery bonds) if:

(a) the servicer forecasts that the phase-in recovery charge collections will be insufficient to make all scheduled payments of principal, interest, and other amounts in respect of the phase-in recovery bonds on a timely basis during the current or next succeeding payment period; provided that in the case of any quarterly true-up adjustment following the last scheduled maturity date of the phase-in recovery bonds, the true-up filing will be calculated to ensure that phase-in recovery charges are sufficient to pay the bonds in full on the next succeeding payment date; and/or

(b) needed to replenish any draws upon the capital subaccount.

In no event will mandatory interim true-up adjustments occur more frequently than every six months if semi-annual phase-in recovery bond payments are required or every three months if quarterly phase-in recovery bond payments are required.

In addition to mandatory annual and semi-annual (and quarterly after the last scheduled maturity date of the phase-in recovery bonds) true up filings, the Servicer will be permitted to file a true up filing more frequently if the servicer determines that such true-up filing is necessary to ensure the expected recovery of amounts sufficient to pay scheduled principal and interest on the phase-in recovery bonds and other amounts in respect of the phase-in recovery bonds on a timely basis.

Each true-up adjustment will take into account and be designed to eliminate cumulative historical, and any projected, differences between the scheduled periodic payment for the given period and the amount of phase-in recovery charges remitted to the indenture trustee.

The procedure for making the adjustment will be as follows:

a) calculate undercollections or overcollections from the preceding period for all customers by subtracting the previous period's phase-in recovery charge revenues collected from the amounts billed to customers for the same period in order to determine the upcoming period's PBR (defined as the aggregate dollar amount of phase-in recovery charges that must be billed to all customers during a given period in order to generate revenues sufficient to make scheduled payments of principal, interest and other Financing Costs on the Phase-In-Recovery Bonds and, if applicable, payments to replenish the Capital Subaccount);

b) calculate the PBR for the six-month and twelve-month periods following the date of the proposed trueup adjustment;

c) using OPCo's forecasted base distribution revenues for such six-month and twelve-month periods, calculate the percentage that the PBR represents of forecasted base distribution revenues for each such six month and twelve-month period; and

d) take the higher of the two percentages calculated in (c) above and apply the higher percentage to each bill for each retail customer to calculate the customer's phase-in recovery charge following the true up.

In the Servicing Agreement, the servicer will agree to make the necessary calculations and filings no later than 15 days prior to the proposed effective date of each adjustment, which in each case will be the first day of a billing cycle next following the effective date of the adjustment. Consistent with Section 4928.238(B), the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Any true-up adjustment filed with the Commission should go into effect on a bills rendered basis on a date which is no earlier than 15 days subsequent to the date of submission. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future filings.

Rate Design Process

The phase-in recovery charge is expressed as a percentage of base distribution charges, and will be calculated based upon the OPCo's most recent forecast of base distribution charge revenues for all customers, as well as OPCo's most recent estimates of transaction-related expenses.

Calculation of Securitized Rider
AEP Ohio Company

Tariffs	Base Distribution Revenue ($)	Annual Securitization Rev Req ($)	Allocation on Distribution Revenue ($)	% D Rate	Revenue Verification
Residential	$ 407,824,014		30,422,349		$ 30,422,349
GS-1	20,833,364		1,554,101		1,554,101
GS2	72,997,683		5,445,391		5,445,391
GS3	117,645,199		8,775,950		8,775,950
GS4/IRP	19,728,926		1,471,714		1,471,714
SBS	40,069		2,989		2,989
EHG	451,375		33,671		33,671
EHS	916		68		68
SS	624,199		46,563		46,563
AI	11,373,991		848,463		848,463
SL	6,602,263		492,507		492,507
Total	$ 658,121,999	$ 49,093,767	$ 49,093,767	7.4597%	$ 49,093,767

Ohio Power
2012 Typical Bill Comparison - Distribution Asset Phase-In Rider
Columbus Southern Power Rate Zone

Tariff	kWh	KW	Current	Proposed	$ Difference	Difference
Residential						
RR1 Annual	100		$17.54	$17.46	-$0.08	-0.4%
	250		$34.99	$34.87	-$0.12	-0.3%
	500		$64.07	$63.88	-$0.19	-0.3%
RR Annual	750		$100.74	$100.46	-$0.28	-0.3%
	1,000		$124.54	$124.22	-$0.32	-0.3%
	1,500		$168.29	$167.89	-$0.40	-0.2%
	2,000		$212.02	$211.55	-$0.47	-0.2%
GS-1						
	375	3	$63.08	$62.96	-$0.13	-0.2%
	1,000	3	$151.25	$151.02	-$0.22	-0.2%
	750	6	$115.98	$115.80	-$0.18	-0.2%
	2,000	6	$258.46	$258.09	-$0.38	-0.2%
GS-2 Secondary						
	1,500	12	$253.07	$252.47	-$0.60	-0.2%
	4,000	12	$514.05	$513.45	-$0.60	-0.1%
	6,000	30	$846.54	$845.19	-$1.35	-0.2%
	10,000	30	$1,263.73	$1,262.38	-$1.35	-0.1%
	10,000	40	$1,332.55	$1,330.78	-$1.77	-0.1%
	14,000	40	$1,749.72	$1,747.95	-$1.77	-0.1%
	12,500	50	$1,662.12	$1,659.93	-$2.19	-0.1%
	18,000	50	$2,234.07	$2,231.88	-$2.19	-0.1%
	15,000	75	$2,094.93	$2,091.69	-$3.24	-0.2%
	30,000	150	$4,167.21	$4,160.81	-$6.39	-0.2%
	60,000	300	$8,311.71	$8,299.02	-$12.70	-0.2%
	100,000	500	$13,837.74	$13,816.64	-$21.10	-0.2%
GS-2 Primary						
	200,000	1,000	$26,206.43	$26,172.08	-$34.35	-0.1%
GS-3 Secondary						
	30,000	75	$2,945.77	$2,945.77	$0.00	0.0%
	50,000	75	$4,018.09	$4,018.09	$0.00	0.0%
	30,000	100	$3,387.19	$3,387.19	$0.00	0.0%
	36,000	100	$3,708.87	$3,708.87	$0.00	0.0%

Ohio Power
2012 Typical Bill Comparison - Distribution Asset Phase-In Rider
Columbus Southern Power Rate Zone

Tariff	kWh	KW	Current	Proposed	$ Difference	Difference
	60,000	150	$5,873.54	$5,873.54	$0.00	0.0%
	100,000	150	$8,018.17	$8,018.17	$0.00	0.0%
	90,000	300	$10,220.93	$10,208.16	-$12.77	-0.1%
	120,000	300	$11,829.40	$11,816.63	-$12.77	-0.1%
	150,000	300	$13,437.88	$13,425.11	-$12.77	-0.1%
	200,000	300	$16,118.65	$16,105.88	-$12.77	-0.1%
	150,000	500	$17,019.44	$16,998.23	-$21.21	-0.1%
	180,000	500	$18,627.89	$18,606.68	-$21.21	-0.1%
	200,000	500	$19,700.21	$19,679.00	-$21.21	-0.1%
	325,000	500	$26,402.17	$26,380.96	-$21.21	-0.1%
GS-3 Primary						
	300,000	1,000	$32,269.78	$32,235.20	-$34.58	-0.1%
	360,000	1,000	$35,404.63	$35,370.05	-$34.58	-0.1%
	400,000	1,000	$37,494.54	$37,459.96	-$34.58	-0.1%
	650,000	1,000	$50,556.44	$50,521.86	-$34.58	-0.1%
GS-4						
	1,500,000	5,000	$132,507.31	$132,493.27	-$14.03	0.0%
	2,500,000	5,000	$177,740.91	$177,726.87	-$14.03	0.0%
	3,250,000	5,000	$211,666.11	$211,652.07	-$14.03	0.0%
	3,000,000	10,000	$242,561.65	$242,544.62	-$17.02	0.0%
	5,000,000	10,000	$333,028.85	$333,011.82	-$17.02	0.0%
	6,500,000	10,000	$400,879.25	$400,862.22	-$17.02	0.0%
	6,000,000	20,000	$462,657.26	$462,634.25	-$23.01	0.0%
	10,000,000	20,000	$643,591.66	$643,568.65	-$23.01	0.0%
	13,000,000	20,000	$779,292.46	$779,269.45	-$23.01	0.0%
	15,000,000	50,000	$1,122,964.28	$1,122,923.31	-$40.97	0.0%
	25,000,000	50,000	$1,575,300.28	$1,575,259.31	-$40.97	0.0%
	32,500,000	50,000	$1,914,552.28	$1,914,511.31	-$40.97	0.0%

Ohio Power Company
2012 Typical Bill Comparison - Distribution Asset Phase-In Rider
Ohio Power Rate Zone

Tariff	kWh	KW	Current	Current	$ Difference	Difference
Residential	100		$15.92	$15.86	-$0.06	-0.4%
	250		$32.61	$32.51	-$0.10	-0.3%
	500		$60.40	$60.24	-$0.16	-0.3%
	750		$88.19	$87.96	-$0.22	-0.3%
	1,000		$113.41	$113.14	-$0.27	-0.2%
	1,500		$162.59	$162.22	-$0.36	-0.2%
	2,000		$211.73	$211.28	-$0.45	-0.2%
GS-1	375	3	$51.68	$51.53	-$0.15	-0.3%
Secondary	1,000	3	$109.42	$109.25	-$0.17	-0.2%
	750	6	$86.32	$86.16	-$0.16	-0.2%
	2,000	6	$201.77	$201.57	-$0.20	-0.1%
GS-2	1,500	12	$233.15	$232.39	-$0.76	-0.3%
Secondary	4,000	12	$431.11	$430.35	-$0.76	-0.2%
	6,000	30	$715.83	$714.29	-$1.54	-0.2%
	10,000	30	$1,032.21	$1,030.67	-$1.54	-0.2%
	10,000	40	$1,102.49	$1,100.52	-$1.97	-0.2%
	14,000	40	$1,418.88	$1,416.91	-$1.97	-0.1%
	12,500	50	$1,370.55	$1,368.15	-$2.40	-0.2%
	18,000	50	$1,803.90	$1,801.50	-$2.40	-0.1%
	15,000	75	$1,743.98	$1,740.49	-$3.49	-0.2%
	30,000	100	$3,112.61	$3,107.92	-$4.69	-0.2%
	36,000	100	$3,583.81	$3,579.12	-$4.69	-0.1%
	30,000	150	$3,468.97	$3,462.08	-$6.90	-0.2%
	60,000	300	$6,899.11	$6,885.56	-$13.55	-0.2%
	90,000	300	$9,255.25	$9,241.70	-$13.55	-0.2%
	100,000	500	$11,471.03	$11,448.62	-$22.42	-0.2%
	150,000	500	$15,397.93	$15,375.52	-$22.42	-0.2%
	180,000	500	$17,754.04	$17,731.63	-$22.42	-0.1%

Ohio Power Company
2012 Typical Bill Comparison - Distribution Asset Phase-In Rider
Ohio Power Rate Zone

Tariff	kWh	KW	Current	Current	$ Difference	Difference
GS-3	18,000	50	$1,761.93	$1,759.53	-$2.40	-0.1%
Secondary	30,000	75	$2,763.72	$2,760.23	-$3.49	-0.1%
	50,000	75	$3,698.48	$3,694.99	-$3.49	-0.1%
	36,000	100	$3,499.89	$3,495.20	-$4.69	-0.1%
	30,000	150	$4,106.26	$4,099.37	-$6.90	-0.2%
	60,000	150	$5,508.38	$5,501.49	-$6.90	-0.1%
	100,000	150	$7,377.92	$7,371.03	-$6.90	-0.1%
	120,000	300	$10,978.01	$10,964.46	-$13.55	-0.1%
	150,000	300	$12,380.16	$12,366.61	-$13.55	-0.1%
	200,000	300	$14,717.06	$14,703.51	-$13.55	-0.1%
	180,000	500	$17,334.41	$17,312.00	-$22.42	-0.1%
	200,000	500	$18,269.17	$18,246.76	-$22.42	-0.1%
	325,000	500	$24,111.45	$24,089.04	-$22.42	-0.1%
GS-2	200,000	1,000	$22,066.24	$22,025.06	-$41.19	-0.2%
Primary	300,000	1,000	$29,743.09	$29,701.91	-$41.19	-0.1%
GS-3	360,000	1,000	$33,552.92	$33,511.74	-$41.19	-0.1%
Primary	400,000	1,000	$35,395.38	$35,354.20	-$41.19	-0.1%
	650,000	1,000	$46,910.79	$46,869.61	-$41.19	-0.1%
GS-2 Subtransmission	1,500,000	5,000	$121,007.56	$120,996.98	-$10.58	0.0%
GS-3	2,500,000	5,000	$169,128.55	$169,117.97	-$10.58	0.0%
Subtransmission	3,250,000	5,000	$201,625.45	$201,614.87	-$10.58	0.0%
GS-4	3,000,000	10,000	$243,262.63	$243,251.31	-$11.32	0.0%
Subtransmission	5,000,000	10,000	$321,471.09	$321,459.77	-$11.32	0.0%
	6,500,000	10,000	$380,127.44	$380,116.12	-$11.32	0.0%
	10,000,000	20,000	$640,398.25	$640,380.94	-$17.31	0.0%
	13,000,000	20,000	$757,710.94	$757,693.63	-$17.31	0.0%
GS-4	25,000,000	50,000	$1,587,023.55	$1,586,988.29	-$35.26	0.0%
Transmission	32,500,000	50,000	$1,879,976.02	$1,879,940.76	-$35.26	0.0%

~~OHIO POWER COMPANY~~ ~~Original Sheet No. 461-1~~

~~P.U.C.O. NO. 20~~

~~Deferred Asset Recovery Rider~~

~~Effective January 1, 2012, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Deferred Asset Recovery Rider charge of 8.5012% of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission.~~

~~Filed pursuant to Orders dated December 14, 2011 in Case Nos. 11-346-EL-SSO, 11-348-EL-SSO, 11-351-EL-AIR, and 11-352-EL-AIR~~

~~Issued: December 22, 2011~~ ~~Effective: January 1, 2012~~

~~Issued by~~
~~Joseph Hamrock, President~~
~~AEP Ohio~~

~~P.U.C.O. NO. 20~~

~~OAD – DEFERRED ASSET RECOVERY RIDER~~
~~(Open Access Distribution - Deferred Asset Recovery Rider)~~

~~Effective January 1, 2012, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Deferred Asset Recovery Rider charge of 8.5012% of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission.~~

OHIO POWER COMPANY

Original Sheet No. 465-1

P.U.C.O. NO. 20

Deferred Asset Phase-In Rider

Effective _________, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Deferred Asset Phase-In Rider charge of 7.4597% of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission.

Filed pursuant to Order dated __________ in Case No. __________

Issued: _________

Effective: _________

Issued by
Pablo Vegas, President
AEP Ohio

OHIO POWER COMPANY Original Sheet No. 465-1D

P.U.C.O. NO. 20

OAD - DEFERRED ASSET PHASE-IN RIDER

(Open Access Distribution - Deferred Asset Phase-In Rider)

Effective _________, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Deferred Asset Phase-In Rider charge of 7.4597% of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission.

Filed pursuant to Order dated __________ in Case No. __________

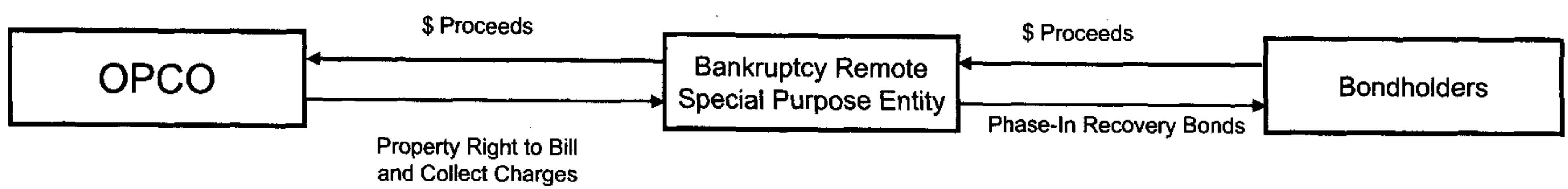
Issued: _________ Effective: _________

Issued by
Pablo Vegas, President
AEP Ohio

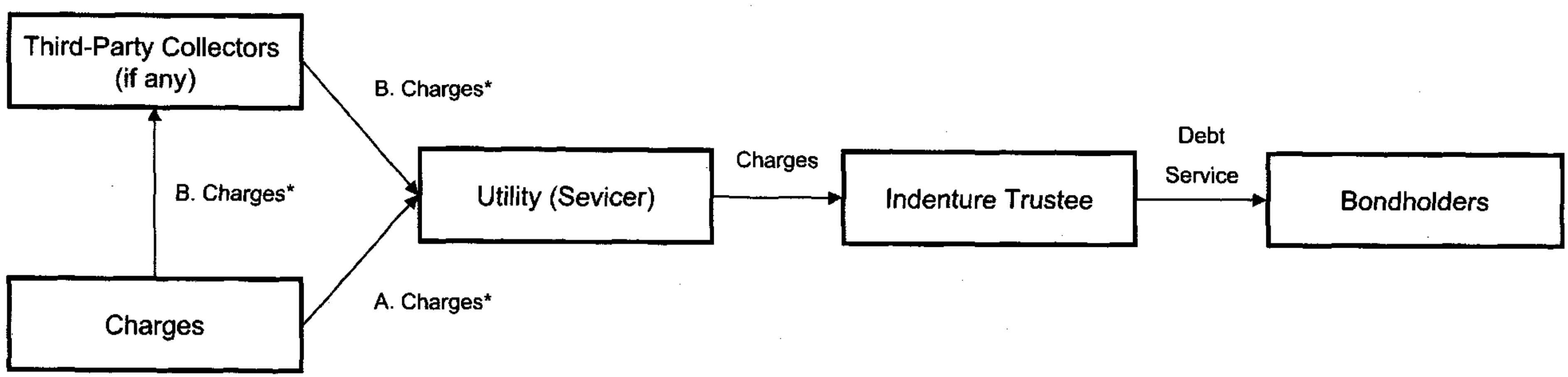
Exhibit H

Structure / Transaction Flow Chart

Initial Cash Flows



Ongoing Cash Flows



* Phase-In Recovery Charges may be collected directly (A) or indirectly (B)

FORM OF ISSUANCE ADVICE LETTER

_____ day, _____________, 20__

PUBLIC UTILITIES COMMISSION OF OHIO

SUBJECT: ISSUANCE ADVICE LETTER FOR PHASE-IN-RECOVERY BONDS

Pursuant to the Financing Order adopted in *Application of Ohio Power Company for Authority to Issue Phase-In-Recovery Bonds,* Case No. 12-1969-EL-ATS (the "Financing Order"), OHIO POWER COMPANY ("Company") hereby submits, no later than two business days after the issuance of this series of Phase-In-Recovery Bonds, the information referenced below. This Issuance Advice Letter is for the **[SPE]** Phase-In-Recovery Bonds series _____, tranches ______. Any capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing provides the following information:

PART I	The total amount of Phase-In Costs and Upfront Financing Costs being securitized;
PART II	The final terms and structure of the Phase-In-Recovery Bonds issued;
PART III	An updated Schedule of the Upfront Financing Costs; and
PART IV	The initial Phase-In-Recovery Charge for retail customers.

PART I:
CALCULATION OF SECURITIZED
PHASE-IN COSTS
AND UPFRONT FINANCING COSTS

Securitized Amount before upfront Financing Costs	
Estimated upfront Financing Costs (See Part II)	
TOTAL SECURITIZED PHASE-IN COSTS AND UPFRONT FINANCING COSTS	**$**

PART II:
FINAL TERMS AND STRUCTURE OF PHASE-IN-RECOVERY BONDS

Phase-In Bond Series: ________
Phase-In Bond Issuer: [SPE]
Trustee:
Issuance Date: _______________, 20__
Bond Ratings: Moody's Aaa, S&P AAA, Fitch AAA
Amount Issued: $________
Upfront Financing Costs $________ (See Part III);

Tranche	Coupon Rate	Scheduled Final Maturity	Legal Final Maturity
A-1	%	/ /	/ /
A-2	%	/ /	/ /

Effective Weighted Average Interest Rate of the Phase-In-Recovery Bonds:	%
Life of the Series:	____ years
Weighted Average Life of Series:	____ years
Call provisions (including premium, if any):	
Target Amortization Schedule:	Attachment 1, Schedule A
Target Final Maturity Dates:	Attachment 1, Schedule A
Legal Final Maturity Dates:	Attachment 1, Schedule A
Payments to Investors:	Semiannually Beginning ___, 20__

PART III:
ESTIMATED UPFRONT FINANCING COSTS

Underwriters' Fees	$
Legal Fees	$
Rating Agency Fees	$
Company Advisor Fees & Expenses	$
Printing/Edgarizing	$
SEC Registration Fee	$
Miscellaneous Administration Costs	$
Accountants Fees	$
Trustee's/Trustee Counsel's Fees s	$
SPE Set-Up Costs	$
	$
	$
	$
	$
TOTAL ESTIMATED UPFRONT FINANCING COSTS SECURITIZED	$

Note: Any difference between the Estimated Upfront Financing Costs securitized and the actual upfront costs incurred will be resolved through the true-up process described in the Financing Order. If the actual Upfront Financing Costs are more than those securitized, the Company may request recovery of the remaining upfront Financing Costs through traditional ratemaking mechanisms.

PART IV:
INITIAL PHASE-IN-RECOVERY CHARGES

Monthly billings to all OPCo retail customers shall include Phase-In-Recovery Charge amounts equal to _____ % of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders.

The workpapers for such calculations are attached as Attachment 2.

NOTICE

This letter is submitted for informational purposes only.

AUTHORIZED OFFICER

This undersigned is an officer of Company and authorized to deliver this Issuance Advice Letter on behalf of Company.

Respectfully submitted,

OHIO POWER COMPANY

By: ______________________________
Name: ____________________________
Title: ____________________________

ATTACHMENT 1
SCHEDULE A
PHASE-IN BOND REVENUE REQUIREMENT INFORMATION

SERIES ___, TRANCHE ___

Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

SERIES ___, TRANCHE ___

Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

ATTACHMENT 2
[Workpapers]

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company for Authority to Issue Phase-In-Recovery Bonds and Impose, Charge and Collect Phase-In-Recovery Charges and for Tariff and Bill Format Approvals	)))))	**CASE NO. 12-1969-EL-ATS**

FINANCING ORDER

TABLE OF CONTENTS

Table of Contents

Page

This Financing Order addresses the application of Ohio Power Company ("OPCo" or the "Company") under Section 4928.23 through Section 4928.2318 of the Revised Code (the "Act" or the "Revised Code") (1) for authority to recover specified Phase-In Costs together with upfront Financing Costs (each as defined in the Act), through a securitization financing under the Act; (2) for approval and authorization of the proposed securitization financing structure and issuance of Phase-In-Recovery Bonds; (3) for approval of and authority to impose charges ("Phase-In-Recovery Charges") as described in the Revised Code and which are sufficient to pay in full the Phase-In-Recovery Bonds and ongoing Financing Costs on a timely basis; and (4) for approval and authorization of tariffs to implement the Phase-In-Recovery Charges.

I. INTRODUCTION

History of Proceedings

During the regular session in 2011, the Ohio General Assembly passed the Act, which took effect on March 22, 2012. The Act provides a mechanism for electric utilities to fund Phase-In Costs through the use of securitization financing if, at the time a financing order is issued, the Commission finds that the issuance of the Phase-In Recovery Bonds and the Phase-In-Recovery Charges result in, consistent with market conditions, both measurably enhancing costs savings to customers and mitigating rate impacts to customers in comparison with traditional financing mechanisms or other traditional cost-recovery methods available to the utility. and determines that a financing order is consistent with Section 4928.02, Revised Code.

On December 14, 2011, the Commission authorized OPCo (and Columbus Southern Power Company prior to its merger with OPCo on December 31, 2011) to implement a new rider, the Deferred Asset Recovery Rider ("DARR"), to collect certain distribution costs deferred pursuant to Commission approval in various prior proceedings. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively AEP Ohio) for an Increase in Electric Distribution Rates,* Case Nos. 11-351-EL-AIR, 11-352-EL-AIR (the "Distribution Rate

Case"). The Distribution Rate Case is a proceeding commenced under Section 4909.18 and the December 14, 2011 Opinion and Order is a final order in that no appeal was taken.

The distribution regulatory assets being recovered through the DARR are comprised of the following costs or charges: 1) consumer education, customer choice implementation, and transition plan filing costs plus carrying charges, approved in Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP; 2) rate stabilization plan rate case expenses plus carrying charges, approved in Case No. 04-169-EL-UNC; 3) carrying charges on distribution line extension charges, approved in Case No. 01-2708-EL-COI; 4) Monongahela Power Company transfer integration costs plus carrying charges and acquired net regulatory assets, approved in Case No. 05-765-EL-UNC; 5) AEP Ohio's voluntary Ohio Green Power Pricing Program costs plus carrying charges, approved in Case No. 06-1153-EL-UNC; and 6) storm costs related to the Hurricane Ike windstorm experienced in September 2008 plus debt carrying costs, approved in Case No. 08-1301-EL-AAM.

The deferral balance of the Phase-In Costs collectable through the existing DARR as of June 30, 2012 was approximately $309 million.

On July 30, 2012, OPCo filed an application (the "Application") requesting this Commission to approve the recovery of its Phase-In Costs and certain Financing Costs through securitization under the Act and the issuance of Phase-In-Recovery Bonds in the amount of the deferral balance of the Phase-In Costs as of the month-end which is at least twenty calendar days prior to the date of pricing of the Phase-In-Recovery Bonds, (such balance, the "DARR Balance Amount"), together with an estimated $16 million of estimated upfront Financing Costs. The actual amount of Phase-In-Recovery Bonds issued, as well as the actual amount of Financing Costs to be recovered thereby, are subject to update and adjustment, as provided in the Application.

Pursuant to its Application, upon the issuance of the Phase-In-Recovery Bonds, OPCo will reduce the DARR deferral balance by the DARR Balance Amount to reflect the recovery of the related Phase-In Costs through securitization. OPCo will make a final reconciliation filing in Case No. 11-352-EL-AIR to address the remaining deferral balance of the DARR.

Applicable Law

In order to approve the securitization of the Phase-In Costs, this Commission must determine that the proposed securitization, consistent with market conditions, both measurably enhances costs savings to customers and mitigates rate impacts to customers in comparison with traditional financing mechanisms or other traditional cost-recovery methods available to the electric distribution utility or, if the Commission has previously approved a recovery method, as compared with that recovery method. The Commission also must determine that the issuance of a financing order is consistent with Section 4928.02, Revised Code.

The Phase-In Costs to be securitized were approved by this Commission in the Distribution Rate Case pursuant to a final order from which no appeal was taken. In that case, OPCo agreed to waive the traditional utility method of recovery that would have allowed OPCo to earn a carrying charge on the DARR based on its pre-tax weighted average cost of capital ("WACC"), including the gross-up impact of income taxes on the equity portion of the carrying charge rate, OPCo agreed to forego a pre-tax WACC of approximately 10.77%, and OPCo instead agreed to accept a lower carrying charge of 5.34%, its cost of debt, on the DARR. By contrast, OPCo currently estimates that the weighted average interest cost of the Phase-In-Recovery Bonds will be 1.28% based on current market conditions and the structure of the securitization as described in OPCo's application.

OPCo has presented evidence through Exhibit A of the Application that the issuance of Phase-In-Recovery Bonds will, assuming a weighted average annual interest rate on the Phase-In-Recovery Bonds of 1.28%, result in nominal value savings to OPCo's customers of approximately \$11.8 million when compared to the cost recovery mechanism previously approved by the Commission through the DARR. The issuance will also result in a net present value savings of approximately \$20.4 million when compared to the DARR. OPCo has further presented evidence through Exhibit A of the Application that customers will continue to realize savings on a net present value basis so long as the weighted average annual interest rate on the Phase-In-Recovery Bonds does not exceed 3.32%. The Commission finds, based on such savings, that issuance of the Phase-In-Recovery Bonds and the Phase-In Recovery Charges will, consistent with market conditions, measurably enhance cost savings to OPCo's customers and mitigate rate impacts to those customers as compared with the Commission's previously-approved cost recovery methods for OPCo's Phase-In Costs, which recovery is already lower than the cost recovery methods associated with traditional financing mechanisms, and is consistent with Ohio policy as set forth in Section 4928.02, Revised Code. Section 4928.232(D), Revised Code.

Summary of Financing Order

In this Financing Order, the Commission finds that the Phase-In Costs may appropriately be recovered through securitization under the Act. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of the Act and that the Financing Order is consistent with Section 4928.02 of the Revised Code. Accordingly, under the terms of this Financing Order, the Commission: (1) approves the securitization requested by OPCo and authorizes the issuance of Phase-In-Recovery Bonds in one or more series in an aggregate principal amount of up to \$320,000,000 equal to the sum of: (a) the deferral balance of the DARR as of the month-end which is at least 20 days prior to the pricing of the Phase-In-Recovery Bonds, (currently estimated to be \$291.5 million assuming an issuance date of January 15, 2013, though the actual date of issuance will depend on a number of factors as noted in the Application), plus (b) upfront Financing Costs in connection with issuing the Phase-In-Recovery Bonds ("upfront Financing Costs", as described below), currently estimated to equal \$16 million (for an aggregate total bond amount of approximately \$307.5 million), and which are subject to update and adjustment pursuant to the terms of this Financing Order; (2) approves and authorizes the structure of the proposed securitization financing as provided for in this Financing Order; (3) approves and authorizes the imposition, charging and collection of Phase-In-Recovery Charges in an amount, calculated and adjusted from time to time as provided in this Financing Order, to be sufficient to pay the debt service on the Phase-In-Recovery Bonds together with related financing costs ("ongoing Financing Costs", as described below) on a timely basis; and (4) approves and authorizes the form of tariff, as provided in this Financing Order, to implement the Phase-In-Recovery Charges. As shown in Exhibit B to the Application, OPCo's current estimate of such upfront Financing Costs is approximately \$16 million in the aggregate, including debt retirement/defeasance costs which are currently estimated at approximately $11 million and other upfront costs of issuance estimated at approximately $5 million.

As described in this Financing Order, OPCo shall update its estimates of the upfront Financing Costs and shall file with the Commission, no later than the end of the second business day after the pricing date for a series of Phase-In-Recovery Bonds, an issuance advice letter in the form attached as Appendix B (the "Issuance Advice Letter"). If actual upfront Financing Costs are less than the Company's estimates, the difference will be used to reduce the Phase-In-Recovery Charge in the next true-up adjustment (as described herein); if actual upfront Financing Costs are greater than estimated, the Company may request recovery in a subsequent filing with the Commission.

OPCo provided a general description of the proposed transaction structure in the Application and in the exhibits submitted in support thereof. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies that will rate the Phase-In-Recovery Bonds and, in part, upon the market conditions that exist at the time the Phase-In-Recovery Bonds are taken to the market. This Financing Order approves and authorizes the financing structure described in the application and establishes parameters which are necessary to grant flexibility to OPCo to establish the final terms and conditions of the financing. This Financing Order further authorizes OPCo to impose, charge and collect Phase-In-Recovery Charges and adjust such charges from time to time, consistent with this Financing Order, to pay the debt service and ongoing Financing Costs associated with the Phase-In-Recovery Bonds. This Financing Order also approves the form of tariff to implement those Phase-In-Recovery Charges and authorizes the filing thereof and implementation of such Phase-In-Recovery Charges.

II. DISCUSSION OF PHASE-IN COSTS AND UPFRONT FINANCING COSTS ELIGIBLE FOR RECOVERY

1. Phase-In Costs

The Phase-In Costs included in the Company's application are deferred regulatory assets, inclusive of carrying charges, authorized for recovery through the DARR by a final order in the Distribution Rate Case, a proceeding commenced under Section 4909.18, Revised Code. The Commission finds that the Phase-In Costs are eligible for securitization under the Act and that OPCo should be permitted to securitize up to 100% of the deferral balance of its Phase-In Costs as provided in this Financing Order.

2. Upfront Financing Costs

OPCo has requested authority to securitize certain upfront financing costs associated with the issuance of the Phase-In-Recovery Bonds ("upfront Financing Costs"). These costs include estimated costs associated with the retirement, redemption or defeasance of a portion of OPCo's existing debt, counsel fees, structural advisory fees, underwriting fees, rating agency fees, independent auditor's fees, SEC registration fees, printing and marketing expenses and other fees and expenses as more particularly described in Exhibit B to the Application. The Commission finds that these upfront issuance costs are Financing Costs eligible for recovery pursuant to Section 4928.23(E)(8), Revised Code.

The Commission is mindful of the fact that many of these upfront Financing Costs, such as legal fees will not be known until after the financing is completed. Further, other upfront Financing Costs will vary depending on the size of the final issuance of the Phase-In-Recovery Bonds. Specifically, the Commission realizes that the SEC registration fee, rating agency fees, and underwriting fees are proportional to the amount of Phase-In-Recovery Bonds actually issued. In addition, the SEC formula for calculating registration fees changes from time to time. Other upfront Financing Costs, such as original issue discount, will be determined at the time of sale. Accordingly, actual upfront Financing Costs will not be known until or after the pricing of the Phase-In-Recovery Bonds. OPCo will be required to submit, not later than the close of business on the second business day after the pricing of the Phase-In-Recovery Bonds, an Issuance Advice Letter, in substantially the form attached as Appendix B to this Financing Order, describing the final structure and terms of the Phase-In-Recovery Bond issuance, which letter will also include an updated estimate of the upfront Financing Costs incurred (or expected to be incurred) in connection with such issuance, and updated calculations from the calculations shown on Exhibit A to the Application to demonstrate that the securitization will produce nominal and net present value savings for customers as compared to the DARR. The initial Phase-In-Recovery Charges and the final terms of the Phase-In-Recovery Bonds as set forth in the Issuance Advice Letter will become effective on the date of issuance of the Phase-In-Recovery Bonds unless prior to noon on the fourth business day after pricing, the Commission issues an order finding that the proposed issuance does not comply with the requirements of this Financing Order and the Revised Code pursuant to Section 4928.235(C)(2). Absent such an order, the Phase-In Recovery Charges shall be final and effective upon the issuance of the Phase-In-Recovery Bonds, without further Commission action.

The Commission finds that OPCo should be permitted to securitize its upfront Financing Costs in accordance with the terms of this Financing Order. Consistent with the Application, however, OPCo may not proceed with securitization if, at the time of pricing, the weighted average interest rate on the Phase-In-Recovery Bonds would exceed 3.32%, the point at which, based on Exhibit A to the Application, customers would no longer receive savings on a net present value basis .

III. DESCRIPTION OF PROPOSED TRANSACTION

A description of the transaction proposed by OPCo is contained in its Application and accompanying exhibits. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in Section IV.B, titled "Structure of the Proposed Securitization" and in the Application and accompanying exhibits.

To facilitate the proposed securitization, OPCo will form a wholly-owned special purpose funding entity, expected to be a limited liability company, ("SPE") to which it will transfer the rights to impose, charge, collect, and receive Phase-In-Recovery Charges along with the other rights arising pursuant to this Financing Order. Simultaneous with such transfer, these rights will become Phase-In-Recovery Property as provided by this Financing Order and pursuant to Section 4928.232(G) of the Revised Code. The Phase-In-Recovery Property will constitute an existing, present property right and interest which shall continue to exist regardless of whether

Phase-In-Recovery Charges have been billed, have accrued or have been collected and notwithstanding any requirement that the value or the amount of the property is dependent on the future provision of service to customers, and shall continue to exist until the Phase-In-Recovery Bonds and all Financing Costs are paid in full. The SPE will issue Phase-In-Recovery Bonds and will transfer the net proceeds from the sale of the Phase-In-Recovery Bonds to OPCo in consideration for the transfer of the Phase-In-Recovery Property. The SPE will be organized and managed in a manner designed to achieve the objective of maintaining the SPE as a bankruptcy-remote entity that would not be affected by the bankruptcy of OPCo or any other affiliates of OPCo or any of their respective successors. It is expected that the SPE will be managed by five managers, at least two of which will be independent managers, in each case appointed by OPCo. At the time of securitization, OPCo will capitalize the SPE, from working capital, in an amount anticipated to be 0.50 percent of the initial principal balance of the Phase-In-Recovery Bonds, which amount will be held in a capital subaccount of the Collection Account described below.

The Phase-In-Recovery Bonds will be issued pursuant to an indenture (the "Indenture") and the collateral thereunder will be held and administered by an indenture trustee (the "Indenture Trustee"). Pursuant to the Indenture, the SPE will establish one or more segregated trust accounts (collectively, the "Collection Account"), which will include one or more subaccounts, into which all Phase-In-Recovery Charge remittances shall be deposited. The subaccounts will include the capital subaccount referenced above. The Phase-In-Recovery Bonds will be secured by and payable solely out of the Phase-In-Recovery Property as defined in the Act and as created pursuant to this Financing Order, the Collection Account and the other collateral described in the Application. That collateral will be pledged to the Indenture Trustee for the benefit of the holders of the Phase-In-Recovery Bonds to secure payment of the Phase-In-Recovery Bonds and related ongoing Financing Costs.

OPCo will act as the initial servicer of the Phase-In-Recovery Bonds. In that capacity, OPCo will collect the Phase-In-Recovery Charges and remit those collections to the Indenture Trustee on behalf of SPE. The servicer will be responsible for making any required or allowed true-ups of the Phase-In-Recovery Charges. If the servicer defaults on its obligations under the servicing agreement, the Indenture Trustee may appoint a successor servicer. OPCo's annual servicing fee will be capped at 0.10% of the initial principal amount of the Phase-In-Recovery

Bonds. In the event that OPCo is no longer the servicer, and a substitute, third-party servicer is appointed, the annual servicing fee may be increased but shall not exceed 0.75% of the initial principal amount of the Phase-In-Recovery Bonds unless otherwise approved by the Commission. OPCo has also proposed that it receive an annual administration fee for the SPE of $50,000 for other administrative tasks, plus accounting and legal expenses. The Commission agrees that all of the above-described fees are reasonable and appropriate.

The Phase-In-Recovery Charges will be calculated to ensure the collection of an amount sufficient to pay the debt service due on the Phase-In-Recovery Bonds together with related ongoing Financing Costs. These related Financing Costs ("ongoing Financing Costs") include the servicing fee and expenses, administration fees for the SPE, rating agency fees, trustee fees and expenses (including indemnities), legal and accounting fees, other ongoing fees and expenses, and the cost of replenishing or funding the capital subaccount (or overcollateralization subaccount, if required). These ongoing Financing Costs are financing costs eligible for recovery pursuant to 4928.23(E)(8), Revised Code, and are more particularly described and estimated by the Company in Exhibit B to the Application and Appendix A hereto.

The methodology proposed for allocating the amounts to be collected under the Phase-In-Recovery Charges among customer classes will be the same as the methodology used to allocate the DARR. For each upcoming payment period, OPCo will estimate the revenue requirement needed to be billed (the "periodic billing requirement" or "PBR") to assure that all revenues, receipts, collections, payments, moneys, claims, and other proceeds arising from the Phase-In Recovery Property (collectively, the "Phase-In-Recovery Revenues") will be sufficient to pay on a timely basis all principal and interest on the Phase-In-Recovery Bonds together with other ongoing Financing Costs during such period, and will divide such amount by the projected base distribution revenues for the same period. The resulting percentage will then be multiplied by the base distribution charges otherwise charged to each class of customers in order to generate the amount of Phase-In-Recovery Charges to be billed with the result that each rate schedule will be paying approximately the same proportion of the total Phase-In-Recovery Charges as it otherwise would for the DARR under the existing recovery methodology.

OPCo has proposed a bond structure designed to provide substantially level annual debt service and revenue requirements over the life of the Phase-In-Recovery Bonds. The initial Phase-In-Recovery Charges will be determined in accordance with the adjustment mechanism described in Exhibit E to the Application, and will be specified in the Issuance Advice Letter and the tariff filed concurrently therewith. Thereafter, the Phase-In-Recovery Charges will be adjusted annually to correct for any undercollections or overcollections during the preceding period and to ensure the Phase-In Recovery Charges will continue to generate amounts sufficient to timely pay all scheduled payments of principal and interest on the Phase-In Recovery Bonds and any other ongoing Financing Costs for the 12-month period following the true-up adjustment. Further, OPCo (or a successor servicer, if applicable) shall make a mandatory interim true-up filing semi-annually (or quarterly after the last scheduled maturity date of any Phase-In Recovery Bonds) if (a) OPCo forecasts that the Phase-In Recovery Revenues will be insufficient to fund all required payments of principal, interest and other Financing Costs on a timely basis during the current or next succeeding payment period and/or (b) such adjustments are needed to replenish any draws on the capital subaccount. In addition to such mandatory semi-annual (or quarterly) true-ups, OPCo has also sought permission to submit a true up filing more frequently if necessary to ensure the expected recovery of amounts sufficient to pay scheduled principal and interest on the Phase-In Recovery Bonds and ongoing Financing Costs on a timely basis.

Other than the servicer and administration fees, ongoing Financing Costs are not capped and are estimated in Appendix A to this Financing Order.

OPCo has also requested that it be authorized to recover its average long term debt rate without reduction for accumulated deferred income taxes on the capital contribution to the SPE as an ongoing Financing Cost.

Finally, OPCo seeks approval of a bill message that includes the following language: "In Case No. 12-1969-EL-ATS the Commission approved recovery of previously incurred costs, including PUCO-approved Phase-In-Recovery Charges, Ohio Power Company collects from all customers on behalf of its subsidiary, Ohio Power Phase-In Recovery Bonds I, which owns the right to impose and collect such charges." OPCo also seeks authority to include similar language in billing inserts or other communication to customers in order to preserve the "bankruptcy remote" nature of the securitization by respecting the legal ownership of the Phase-In-Recovery Property.

The Commission finds that the transaction as described above and OPCo's proposals related thereto are reasonable and appropriate.

III. FINDINGS OF FACT

A. Identification and Procedure

Identification of Applicant and Application

1. OPCo is an Ohio corporation engaged in the distribution of electricity for sale to retail customers in Ohio under rates and tariffs approved by this Commission and electric distribution utilities pursuant to Section 4928.01(A)(6), Revised Code. Columbus Southern Power Company and Ohio Power Company were merged effective December 31, 2011 and Ohio Power Company is the surviving entity.

Procedural History

2. On July 30, 2012, OPCo filed its application for a financing order under the Act for authority to issue Phase-In-Recovery Bonds of up to $320,000,000 consisting of the sum of: the DARR Balance Amount (i.e., the deferral balance of the Phase-In Costs as of the month-end which is at least twenty calendar days prior to the date of pricing of the Phase-In-Recovery Bonds), plus upfront Financing Costs of issuing the Phase-In-Recovery Bonds, which upfront Financing Costs are estimated to be $16 million. The actual amount of the DARR Balance Amount will vary depending on the date on which the Phase-In-Recovery Bonds are issued, and the estimated Financing Costs related to issuance are also subject to change and update prior to the pricing of the Phase-In-Recovery Bonds.

Costs to be Securitized

3. The costs to be securitized include both Phase-In Costs and Financing Costs. The Phase-In Costs to be securitized were approved for recovery in OPCo's Distribution Rate Case, by a final order no longer subject to appeal. The deferral balance of the

Phase-In Costs collectable through the existing DARR, as of June 30, 2012 was approximately $309 million.

4. The estimated upfront Financing Costs as described in the Application are Financing Costs eligible to be securitized under the Act and to be included in the principal balance of the Phase-In-Recovery Bonds. Financing Costs as defined in the Act include, among other things, all of the following items: (1) principal, interest, and redemption premiums that are payable on Phase-In-Recovery Bonds; (2) any amounts required to be paid pursuant to ancillary agreements; (3) any amounts required to fund or replenish a reserve account or another account established under any indenture, ancillary agreement, or other financing document relating to the Phase-In-Recovery Bonds; (4) any costs of retiring or refunding any existing debt and equity securities of OPCo in connection with either the issuance of, or the use of proceeds from, the Phase-In-Recovery Bonds; (5) certain other costs incurred to obtain modifications of or amendments to any indenture, financing agreement, security agreement, or similar agreement or instrument relating to any existing secured or unsecured obligation of OPCo in connection with the issuance of the Phase-In-Recovery Bonds; (6) any costs incurred by OPCo to obtain any consent, release, waiver, or approval from any holder of an obligation described in the immediately preceding clause (5) that are necessary to be incurred to cause the issuance of the Phase-In-Recovery Bonds; (7) any taxes, franchise fees, or license fees imposed on Phase-In-Recovery Charges; and (8) any costs related to issuing or servicing Phase-In-Recovery Bonds or related to obtaining a financing order, including servicing fees and expenses, trustee fees and expenses, legal, accounting, or other professional fees and expenses, administrative fees, placement fees, underwriting fees, capitalized interest and equity and rating agency fees.

5. Upon the issuance of the Phase-In-Recovery Bonds, OPCo will reduce the DARR deferral balance by the DARR Balance Amount in order to reflect the recovery of the related Phase-In Costs through securitization. OPCo will make a final reconciliation filing, in a future regulatory proceeding to be commenced within ninety days after the date of bond issuance, to address the remaining deferral balance of the DARR. Accordingly, the Phase-In-Recovery Bonds will not be included in the regulatory capital

structure of OPCo going forward. Because the SPE will be consolidated with OPCo for GAAP financial reporting purposes, however, the Phase-In-Recovery Bonds will be recorded as long term debt on the consolidated balance sheet of OPCo.

Amount Authorized to Be Securitized

6. OPCo is authorized to cause Phase-In-Recovery Bonds to be issued in a principal amount equal to the sum of (i) the DARR Balance Amount plus (ii) upfront Financing Costs as described in this Financing Order. The actual amount of Phase-In-Recovery Bonds issued, as well as the actual amount of Financing Costs to be recovered thereby, are subject to update and adjustment, as provided in the Application.

7. The actual interest rates on the Phase-In-Recovery Bonds, along with estimated upfront Financing Costs, will be updated and provided to the Commission through the filing of an Issuance Advice Letter (as described below) no later than the close of business on the second business day after the pricing of the Phase-In-Recovery Bonds. OPCo may securitize all estimated upfront Financing Costs as identified in the Issuance Advice Letter so long as the calculations shown therein continue to show that the recovery of such upfront Financing Costs through securitization will result in a reduction of costs to ratepayers on a nominal and net present value basis as compared to the DARR recovery method, consistent with the methodology used in Exhibit A of the Application.

8. If the actual upfront Financing Costs are less than the estimated upfront Financing Costs included in the principal amount securitized, such unused funds will be deposited into the Collection Account to be available for payment of debt service on the Phase-In-Recovery Bonds with the result that the periodic billing requirement following such deposit would be reduced to take into account the availability of such unused funds (together with interest earned thereon through investment by the Indenture Trustee in eligible investments). If the actual issuance costs are more than the upfront Financing Costs, OPCo may request recovery of the remaining upfront Financing Costs through traditional ratemaking mechanisms.

Accumulated Deferred Income Taxes

9. OPCo has requested that OPCo be authorized to recover its average long term debt rate without reduction for accumulated deferred income taxes ("ADIT") on the capital contribution to the SPE as a miscellaneous ongoing Financing Cost. The Commission finds that the Company's proposed request to recover its debt rate is reasonable.

Issuance Advice Letter and Report for Upfront and Ongoing Financing Costs

10. Because the actual structure and pricing of the Phase-In-Recovery Bonds will not be known at the time this Financing Order is issued, no later than the close of business on the second business day after pricing of the Phase-In-Recovery Bonds, OPCo will file with the Commission an Issuance Advice Letter in substantially the form of Appendix B to this Financing Order. The Issuance Advice Letter will describe the final structure and terms of the issuance of the Phase-In-Recovery Bonds (including the interest rates). Pursuant to Section 4928.232(H), Revised Code, the initial Phase-In-Recovery Charges will be determined by OPCo in accordance with the true-up adjustment mechanism prior to the issuance of the Phase-In-Recovery Bonds and filed with the Commission in the Final Tariff Sheet as an attachment to the Issuance Advice Letter. The initial Phase-In-Recovery Charges set forth in the Issuance Advice Letter shall become effective (without any further Commission action) on the date of issuance of the Phase-In-Recovery Bonds unless prior to noon on the fourth business day after pricing, the Commission issues an order finding that the proposed issuance does not comply with the requirements of this Financing Order. Absent such an order, the Phase-In-Recovery Charges shall be final and effective upon the issuance of the Phase-In-Recovery Bonds, without further Commission action; provided, that OPCo, in its sole discretion, may delay imposition of such charges to the first day of the billing cycle of the revenue month next following the issuance date of the Phase-In-Recovery Bonds or such other date not more than 30 days following the date of issuance set forth in the Issuance Advice Letter.

Financial Benefit

11. The Commission has reviewed the proposed structuring, expected pricing, and Financing Costs of the Phase-In-Recovery Bonds and finds, pursuant to Section 4928.232(D)(2) of the Revised Code, that the issuance of the Phase-In Recovery Bonds and the Phase-In-Recovery Charges result in, consistent with market conditions, both measurably enhancing costs savings to customers and mitigating rate impacts to customers in comparison with traditional financing mechanisms and as compared with the DARR, which is the previously approved Commission recovery method for the Phase-In Costs to be securitized.

12. The rate of recovery approved for the DARR in Case Nos. 11-351-EL-AIR, 11-352-EL-AIR, is 5.34%, representing OPCo's weighted average debt cost (as opposed to its weighted average cost of capital).

13. The weighted average interest rate of the Phase-In-Recovery Bonds, as of the date of the Application, was estimated by the Company to be 1.28% per annum. The maximum scheduled term proposed by OPCo for the Phase-In-Recovery Bonds is seven and one-half years from the date of issuance.

14. Based upon an assumed recovery period of seven years and assuming a weighted average annual interest rate of 1.28%, the Company projects that the issuance of the Phase-In-Recovery Bonds will result in an estimated saving for OPCo's retail customers of $11.8 million on a nominal basis and $20.4 million on a net present value basis.

15. The benefits for customers set forth in the evidence in this case are fully indicative of the benefits that customers will realize from the securitization approved hereby.

16. The Phase-In-Recovery Bonds are hereby authorized for issuance, so long as the weighted average annual interest rate of the Phase-In-Recovery Bonds does not exceed 3.32%.

B. Structure of the Proposed Securitization

SPE

17. OPCo will form a wholly-owned subsidiary (the "SPE"), which is expected to be organized in Delaware, for purposes of the securitization transaction. The SPE will be a bankruptcy-remote, special purpose limited liability company, with its activities generally limited to (i) purchasing, owning, administering and servicing the Phase-In-Recovery Property transferred, sold or assigned to it, (ii) issuing the Phase-In-Recovery Bonds, (iii) making payments on the Phase-In-Recovery Bonds, (iv) managing, selling, assigning, pledging, collecting amounts due on, and otherwise dealing with the Phase-In-Recovery Property and (v) granting a first priority security interest in the Phase-In-Recovery Property to secure such Phase-In-Recovery Bonds. Restrictions will be imposed on the SPE's ability to commence a bankruptcy case or other insolvency proceeding. The SPE will have no employees, and it will engage with other parties to undertake the activities necessary to issue the Phase-In-Recovery Bonds and perform other functions in connection with the issuance of the Phase-In-Recovery Bonds.

18. OPCo will capitalize the SPE in an amount anticipated to be 0.50 percent of its initial principal balance of Phase-In-Recovery Bonds, based upon guidance from the Internal Revenue Service. Such amount will be held in a capital subaccount of the Collection Account and will be pledged to secure the Phase-In-Recovery Bonds. This capital contribution helps support the credit of the Phase-In-Recovery Bonds and also satisfies current IRS standards so that OPCo will not recognize gross income upon the sale of the Phase-In-Recovery Property to the SPE. OPCo intends to finance the contribution of capital to the SPE with cash from working capital. The amount in the capital subaccount will, however, be available to pay principal and interest on the Phase-In-Recovery Bonds, together with other ongoing Financing Costs, which Financing Costs may vary from estimates due to unexpected shortfalls in collections or increases in such Financing Costs. If such withdrawals were to occur, additional Phase-In-Recovery Charges may be assessed to replenish the withdrawals from the capital subaccount. OPCo will be authorized to recover its average long term debt rate without reduction for accumulated deferred income taxes ("ADIT") on the capital contribution to the SPE as

an ongoing Financing Cost. Upon the full repayment of the Phase-In-Recovery Bonds, the amount remaining in the capital subaccount will be returned to OPCo. In the unlikely event OPCo is required to make a capital contribution in excess of 0.50 percent of the initial principal amount of the Phase-In-Recovery Bonds, OPCo's recovery on that excess contribution will be addressed in other regulatory proceedings.

19. The SPE will issue Phase-In-Recovery Bonds in one or more tranches, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the Indenture Trustee, as collateral for payment of the Phase-In-Recovery Bonds, all right, title, and interest of the SPE in and to (i) the Phase-In-Recovery Property, (ii) the transaction documents, (iii) the Collection Account and all subaccounts established in the Indenture (discussed below) under which the Phase-In-Recovery Bonds will be issued, (iv) the amounts in the capital subaccount, (v) all other property owned by the SPE (with limited exceptions as may be appropriate) and (vi) all proceeds of each of the foregoing. The SPE's Phase-In-Recovery Bonds will be non-recourse to OPCo and its assets (i.e., OPCo will have no obligation to pay any of the principal, interest or other amounts payable on the Phase-In-Recovery Bonds or any Financing Costs); provided, however, that OPCo could be liable to the holders of Phase-In-Recovery Bonds (or to the Indenture Trustee on their behalf) in the event that it breached representations, warranties or covenants made by it in connection with its Sale Agreement (discussed below) or otherwise to such holders in connection with the securitization.

20. The Phase-In-Recovery Bonds contemplated by the transactions described in the Application will be "asset-backed securities." A key feature of any asset-backed security is that the SPE owning the asset or group of assets underlying those securities be "bankruptcy remote" from the entity originating such asset or group of assets, which in this case will be OPCo. More specifically, an asset-backed security must be secured by, and payable from, a cash flow stream associated with an identifiable asset, the collections from which are sufficient to pay debt service and related costs. The ownership of that asset is normally vested in a special purpose entity, such as a limited liability company or corporation, which is insulated from the credit risks, including the

possible bankruptcy, of the originating entity. This structure helps to ensure that the Phase-In-Recovery Bonds will have less credit risk than debt securities issued by OPCo, and investors should therefore be willing to accept a lower yield for the asset-backed security than for other debt of OPCo. If such criteria are satisfied in the proposed securitization, the Phase-In-Recovery Bonds secured by the Phase-In-Recovery Property should receive a "AAA" (or equivalent) credit rating from applicable rating agencies, and will serve to maximize benefits to ratepayers from the proposed securitization.

21. The use and proposed structure of the SPE and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the Phase-In-Recovery Charges. Therefore, the use and proposed structure of the SPE should be approved.

Credit Enhancement and Arrangements to Reduce Interest Rate Risk or Enhance Marketability

22. The Phase-In-Recovery Bonds issued by the SPE will be issued pursuant to an Indenture, between the SPE and the Indenture Trustee, which will describe the particular terms of the Phase-In-Recovery Bonds, including the principal amount, interest rate, payment dates, issuance date, collateral, authorized denominations, principal repayment schedule and other material terms of the Phase-In-Recovery Bonds. The payment schedule for the Phase-In-Recovery Bonds, with the exception of the first payment, will be structured to result in levelized debt payments. OPCo intends that the Phase-In-Recovery Bonds will be issued at one time in one or more tranches and that the overall scheduled recovery period will not exceed 7.5 years. The Phase-In-Recovery Bonds (and each tranche, if applicable) will also have a later final legal maturity date (no more than one (1) year after the scheduled maturity date for such Bonds or tranche of Bonds) by which the Phase-In-Recovery Bonds must be paid in full, in the event collections of the Phase-In-Recovery Charges are lower than projected prior to the scheduled maturity date. Based upon the market conditions as of the date of filing of the Application, the recommended tranches with initial principal amounts, scheduled principal payment dates, final legal maturity dates and average lives were shown in Exhibit D to the Application. However, the final number of tranches, payment and maturity dates and

average lives may differ from those set forth in the Application due to market conditions on the date of pricing of the Phase-In-Recovery Bonds.

23. The Indenture will provide for certain covenants on the part of the SPE, including covenants restricting the SPE's ability to: (i) merge or consolidate with any other entity, (ii) sell, convey, transfer or otherwise dispose of its assets or property, (iii) terminate its existence or dissolve or liquidate, (iv) permit any lien, charge, security interest or other encumbrance (other than the lien and security interest granted under the Indenture) to be created, (v) engage in any business other than financing, purchasing, owning and managing the Phase-In-Recovery Property, and (vi) issue, incur, assume, guarantee or otherwise become liable for any indebtedness except for the Phase-In-Recovery Bonds and any other obligations arising under the transaction documents.

24. Pursuant to the Indenture, the SPE will establish one or more segregated trust accounts (collectively, the "Collection Account"), into which all Phase-In-Recovery Charge remittances shall be deposited. The Collection Account will include one or more subaccounts, including the capital subaccount described above. The other subaccounts will include a general subaccount which will hold all collections of Phase-In-Recovery Charges pending distribution to Bondholders, and an excess funds subaccount which will hold any Phase-In-Recovery Charge remittances and investment earnings received by the SPE during any payment period which are in excess of the amounts needed to pay Financing Costs accrued and payable. Funds in the Collection Account subaccounts may be invested by the Indenture Trustee in short-term high quality investments and such funds (including investment earnings) will be applied by the Indenture Trustee to pay principal and interest on the Phase-In-Recovery Bonds and ongoing Financing Costs, except that investment earnings on funds in the Capital Subaccount not needed for such purposes may be released to OPCo. The Collection Account may, if required by the rating agencies to obtain a "AAA" rating, also include an overcollateralization subaccount to hold additional cash collections of Phase-In-Recovery Charges in order to provide more funds available to pay Financing Costs in the event of a shortfall. The Commission finds that OPCo's proposals with respect to the Collection Account,

including its request for flexibility to include an overcollateralization subaccount if required by the rating agencies, are reasonable and should be approved.

25. Other than the Collection Account and other subaccounts described in this Financing Order, OPCo has not requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees), nor has it requested the use of arrangements to reduce interest rate risks (including hedges) or other credit enhancement mechanisms (except for the true-up adjustment mechanism described below and provided for under the Act) to promote the credit quality and marketability of the Phase-In-Recovery Bonds. OPCo has also determined, consistent with its decision not to use hedges, to issue fixed rate and not floating rate Phase-In-Recovery Bonds. The Commission finds that OPCo's determinations not to use any such additional credit or marketing enhancements and to issue fixed-rate bonds are consistent with maximizing customer benefits.

Phase-In-Recovery Property

26. Concurrent with the issuance of the Phase-In-Recovery Bonds, OPCo will transfer to the SPE all of OPCo's rights under this Financing Order, including rights to impose, charge, collect, and receive Phase-In-Recovery Charges approved in this Financing Order. The SPE will acquire the Phase-In-Recovery Property from OPCo using the net proceeds from the Phase-In-Recovery Bonds and the SPE will be an "Assignee" of Phase-In-Recovery Property as defined in Section 4928.23(B), Revised Code and as provided for in Section 4928.234(A), Revised Code. This transfer will be structured so that it will qualify as a true sale within the meaning of Section 4928.2313, Revised Code and the SPE will thereby acquire all of the right, title, and interest of OPCo in the Phase-In-Recovery Property arising under this Financing Order.

27. The Phase-In-Recovery Property will be created simultaneously with the transfer of such property to the SPE and the issuance of the Phase-In-Recovery Bonds. The Phase-In-Recovery Property will constitute an existing, present property right and interest which shall continue to exist regardless of whether Phase-In-Recovery Charges have been billed, have accrued or have been collected and notwithstanding any requirement

that the value or the amount of the property is dependent on the future provision of service to customers, and shall continue to exist until the Phase-In-Recovery Bonds and all Financing Costs are paid in full.

Servicer and the Servicing Agreement

28. OPCo will execute a servicing agreement with the SPE setting forth the terms under which, OPCo will act as initial servicer with respect to calculating, billing and collecting the Phase-In-Recovery Charges. As servicer, OPCo will be responsible for (among other things): (i) imposing and collecting Phase-In-Recovery Charges, (ii) posting all collections, (iii) responding to inquiries by the Indenture Trustee, customers, competitive retail electric suppliers (if any), third party billing agents (if any), the Commission or others regarding Phase-In-Recovery Charges, (iv) calculating historical electricity usage and customer payment information (e.g., uncollectibles, typical lags between billing and collection of charges), (v) projecting future electricity usage and customer payment information, (vi) accounting for collections, (vii) furnishing periodic certifications, reports and statements as specified in the transaction documents or required under applicable law, including filings under SEC Regulation AB and filings with the Commission, (viii) making certain filings as necessary to perfect the Indenture Trustee's lien on the Phase-In-Recovery Property and (ix) taking all necessary action in connection with true-up adjustments. Under the terms of the servicing agreement, if OPCO (or any other servicer) fails to perform its servicing obligations in any material respect, the Indenture Trustee may appoint an alternate party to replace the defaulting servicer. OPCo (or any successor servicer thereof) will receive a periodic servicing fee, which will be recovered through Phase-In-Recovery Charges as a Financing Cost. Based upon market precedent for such fees, the annual servicing fee shall be 0.10% of the initial principal amounts of the Phase-In-Recovery Bonds issued by the SPE, which fee will be paid to OPCo or a successor electric distribution utility company. OPCo, as servicer, will also be entitled to retain interest earnings and late charges on Phase-In-Recovery Charges pending disbursement to the Indenture Trustee, as well as reimbursement for costs and expenses incurred by the servicer to third parties (i.e., accountants, attorneys). Customary for transactions of this type, in the unlikely event

that there is no electric distribution utility successor willing or able to assume such servicing duties, a non-utility servicer may need to be engaged. Given the incremental costs for any entity other than OPCo to perform the servicing function (i.e., an entity not already billing and collecting the same customer base for other charges), the annual servicing fee for any successor shall not exceed 0.75% of the initial principal amount of the Phase-In-Recovery Bonds issued by the SPE, unless otherwise approved by the Commission.

29. The obligations to continue to provide service and to impose, charge, collect and account for Phase-In-Recovery Charges will be binding upon OPCo and any successor servicer. Any such successor servicer shall be bound by the requirements of Sections 4928.23 to 4928.2318, Revised Code. The successor servicer shall perform and satisfy all obligations of OPCo under this Financing Order, in the same manner and to the same extent as OPCo, including the obligation to impose, charge, collect and pay Phase-In-Recovery Charges to the person entitled to receive those revenues. The successor servicer shall have the same rights as OPCo under this Financing Order, in the same manner and to the same extent as OPCo. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules and statutory provisions.

30. The proposals described in Findings of Fact Nos. 28 and 29 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower Phase-In-Recovery Charges and greater benefits to ratepayers and should be approved.

<u>Phase-In-Recovery Bonds</u>

31. The SPE will issue and sell Phase-In-Recovery Bonds in one or more tranches. The scheduled final payment date of any tranche of Phase-In-Recovery Bonds will not be later than seven and one-half years from the date of issuance, and the legal final maturity date will not be more than one (1) year following the scheduled final payment date. The scheduled final payment date and legal final maturity date of each tranche and amounts in each tranche will be finally determined by OPCo, consistent with market

conditions and indications of the rating agencies, at the time the Phase-In-Recovery Bonds are priced, and reported to the Commission in the Issuance Advice Letter.

32. It is expected that the Phase-In-Recovery Bonds will be sold pursuant to a negotiated sale to investors, coordinated through one or more underwriters. The Commission finds that it is customary for securities of this type to be offered pursuant to a negotiated sale in a public offering and that selling the Phase-In-Recovery Bonds through a public offering results in greater liquidity for investors, and therefore a lower interest cost, than would privately priced securities or securities sold through another method. Accordingly, the Commission approves the pricing and sale of the Phase-In-Recovery Bonds as described herein.

33. OPCo will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning Phase-In-Recovery Property arising under this Financing Order, or to cause the issuance of any Phase-In-Recovery Bonds authorized in this Financing Order.

Phase-In-Recovery Charges: Imposition and Collection and Nonbypassability

34. OPCo seeks authorization to impose on and collect Phase-In-Recovery Charges from its customers, in the manner provided in this Financing Order and the tariffs approved hereby, in an amount sufficient to provide for the timely payment of principal and interest on the Phase-In-Recovery Bonds and all ongoing Financing Costs. After the final terms of the Phase-In-Recovery Bonds are established, and prior to issuance, OPCo shall determine the resulting Phase-In-Recovery Charges, in accordance with the adjustment mechanism described in this Financing Order, and the Phase-In-Recovery Charges shall be final and effective upon the issuance of the Phase-In-Recovery Bonds without further Commission action. Such Phase-In-Recovery Charges will be imposed and collected until the Phase-In-Recovery Bonds are paid in full and all ongoing Financing Costs have been paid in full.

35. Any Phase-In-Recovery Charges authorized under this Financing Order shall be "nonbypassable" charges meaning that such charges cannot be avoided by any customer or other person obligated to pay the charges. Such Phase-In-Recovery Charges shall be

collected by the servicer (initially OPCo) through a Phase-In-Recovery Charge that is separate and apart from OPCo's other rates. Such Phase-In-Recovery Charges shall apply to all customers of OPCo for as long as they remain customers of OPCo; provided, that if a customer of the electric distribution utility subsequently receives retail electric distribution service from another electric distribution utility operating in OPCo's service area, including by succession, assignment, transfer, or merger, the Phase-In-Recovery Charges shall continue to apply to that customer. If a customer of OPCo (or any successor distribution utility) purchases electric generation service from a competitive retail electric service provider, OPCo or the successor servicer shall collect the Phase-In-Recovery Charges directly from that customer.

36. OPCo has further requested that (i) regardless of who is responsible for billing, the customers of that electric distribution utility shall continue to be responsible for Phase-In-Recovery Charges, (ii) if a third party meters and bills for the Phase-In-Recovery Charges, the electric distribution utility (as servicer) must have access to information on billing and usage by customers to provide for proper reporting to the SPE and to perform its obligations as servicer, (iii) in the case of a third party default, billing responsibilities must be promptly transferred to another party to minimize potential losses; and (iv) the failure of customers to pay Phase-In-Recovery Charges shall allow service termination by the electric distribution utility on behalf of the SPE of the customers failing to pay Phase-In-Recovery Charges in accordance with Commission-approved service termination rules and orders. OPCo has also requested that, in order to ensure that the Phase-In-Recovery Bonds are rated "AAA," the Commission should provide in the Financing Order that the Phase-In-Recovery Charges will be collected in a manner that will not adversely affect the ratings on the Phase-In-Recovery Bonds.

37. If any customer does not pay the full amount of any bill to OPCo, the shortfall in such collections shall be allocated as between Phase-In-Recovery Charges and other charges pro-rata based upon the amounts billed with respect to each item; provided, that late fees and charges may be allocated to the servicer to the extent provided in the tariff.

38. OPCo's proposed standards for imposition, billing and collection of Phase-In-Recovery Charges are reasonable and necessary to ensure collection of Phase-In-Recovery Charges sufficient to support timely payment of principal and interest on the Phase-In-Recovery Bonds and recovery of the Financing Costs approved in this Financing Order, and such standards should be approved.

39. The methodology proposed for allocating the amounts to be collected under the Phase-In-Recovery Charges among customer classes will be the same as the methodology used to allocate the DARR. For each upcoming payment period, OPCo will estimate the revenue requirement needed to be billed (the "periodic billing requirement" or "PBR") to assure that Phase-In-Recovery Revenues will be sufficient to pay on a timely basis all principal and interest on the Phase-In-Recovery Bonds together with other ongoing Financing Costs during such period, and will divide such amount by the projected base distribution revenues for the same period. The resulting percentage will then be multiplied by the base distribution charges otherwise charged to each class of customers in order to generate the amount of Phase-In-Recovery Charges to be billed with the result that each rate schedule will be paying approximately the same proportion of the total Phase-In-Recovery Charges as it otherwise would for the DARR under the existing recovery methodology.

40. Because the Phase-In-Recovery Charges are recovered on a nonbypassable basis, the methodology proposed for allocating the Phase-In-Recovery Charges to governmental aggregation customers is the same as for all other customers. The nonbypassability of the Phase-In-Recovery Charges, when used in conjunction with the existing rate design methodology as described in Finding of Fact 39 above, ensure that all customers, including governmental aggregation customers, receive a proportion of the benefits generally consistent with the proportion of the charges they are paying under the existing recovery methodology.

41. The actual Phase-In-Recovery Charge that will be billed during a given period (i.e., annually, semi-annually, or such other applicable period) will be calculated in advance in an amount so that the Phase-In-Recovery Charge collections will be sufficient to meet

the sum of all principal and interest on the Phase-In-Recovery Bonds and other Financing Costs due and payable for that period, given: (i) forecast usage data for the period; (ii) forecasted uncollectibles for the period; and (iii) forecast lags in collection of billed Phase-In-Recovery Charges for the period.

42. The Commission finds to be reasonable and appropriate, and adopts, the allocation method proposed by OPCo in Finding of Fact Nos. 39 and 40, and the method for calculation of the Phase-In-Recovery Charges described in Finding of Fact No. 41.

True-Up of Phase-In-Recovery Charges

43. OPCo has also included in Exhibit E to the Application a proposed formula-based mechanism for making expeditious periodic adjustments to the Phase-In-Recovery Charges as contemplated under Section 4928.238(B), Revised Code. Such adjustments, or true-up filings, must be made annually to correct for any undercollections or overcollections during the preceding period and to ensure that the Phase-In Recovery Charges continue to generate amounts sufficient to timely pay all scheduled payments of principal and interest and any other amounts due in connection with the Phase-In Recovery Bonds for the twelve-month period following the true-up adjustment, with the first such adjustment to be made within forty-five days of the first anniversary of the issuance date for the bonds. Further, the servicer shall make a mandatory interim true-up filing semi-annually (quarterly after the last scheduled maturity date of any Phase-In Recovery Bonds) if: (a) the servicer forecasts that the Phase-In Recovery Revenues will be insufficient to make all scheduled payments of principal, interest, and other ongoing Financing Costs bonds on a timely basis during the current or next succeeding payment period; provided, that in the case of any quarterly true-up adjustment following the last scheduled maturity date of any Phase-In Recovery Bonds, the true-up adjustment will be calculated to ensure that Phase-In Recovery Charges are sufficient to pay such Phase-In-Recovery Bonds in full on the next succeeding payment date; and/or (b) such adjustments are needed to replenish any draws upon the capital subaccount. In no event will mandatory interim true-up adjustments occur more frequently than every six months if semi-annual phase-in recovery bond payments are required or every three months if quarterly phase-in recovery bond payments are required. In addition to

mandatory annual and semi-annual (and quarterly after the last scheduled maturity date of the phase-in recovery bonds) true up filings, the Servicer will be permitted to submit a true-up filing more frequently if the servicer determines that such true-up filing is necessary to ensure the expected recovery of amounts sufficient to pay scheduled principal and interest on the Phase-In Recovery Bonds and other ongoing Financing Costs on a timely basis.

44. Each true-up adjustment will take into account and be designed to eliminate cumulative historical, and any projected, differences between the scheduled periodic payment for the given period and the amount of Phase-In Recovery Charges remitted to the Indenture Trustee. The Phase-In Recovery Charge will be expressed as a percentage of base distribution charges, and will be calculated based upon OPCo's most recent forecast of base distribution charge revenues for all customers, as well as OPCo's most recent estimates of ongoing Financing Costs. The procedure for making the adjustment will be as follows:

a) calculate undercollections or overcollections from the preceding period for all customers by subtracting the previous period's Phase-In Recovery Revenues collected from the amounts billed to customers for the same period in order to determine the upcoming period's PBR (defined as the aggregate dollar amount of Phase-In Recovery Charges that must be billed to all customers during a given period in order to generate revenues sufficient to make scheduled payments of principal, interest and other Financing Costs on the Phase-In-Recovery Bonds and, if applicable, payments to replenish the capital subaccount);

b) calculate the PBR for the six-month and twelve-month periods following the date of the proposed true- up adjustment;

c) using OPCo's forecasted base distribution revenues for such six-month and twelve-month periods, calculate the percentage that the PBR represents of forecasted base distribution revenues for each such six-month and twelve-month period; and

d) take the higher of the two percentages calculated in (c) above and apply the higher percentage to each bill for each retail customer to calculate the customer's Phase-In Recovery Charge following the true up adjustment.

45. Any true-up adjustment request will be filed by OPCo at least 15 calendar days prior to the proposed effective date of the true-up, which shall not be less than 15 calendar days after such filing, and the adjustment will become effective on a bills rendered basis commencing with the date specified in the true-up adjustment request. Consistent with Section 4928.238(B), Revised Code, the Commission's review of any adjustment request will be limited to determining whether there is any mathematical error in the application of the formula-based adjustment mechanism approved in this Financing Order.

46. Each adjustment will take into account revised projections of base distribution revenues, electricity consumption and customer payment information (e.g., uncollectibles, lags between customer billing and collection). Further, each adjustment will take into account differences between estimated and actual revenue collections as well as differences between estimated and actual payment requirements for all ongoing Financing Costs.

47. Each true-up adjustment filing request will set forth the servicer's calculation of the true-up adjustment to the Phase-In-Recovery Charges. The Commission will have fifteen (15) days after the date of a true-up adjustment request filing in which to confirm the mathematical accuracy of the servicer's adjustment. Any necessary corrections to the true-up adjustment, because of mathematical errors in the calculation of such adjustment, will be made in a future true-up adjustment filing. Each true-up adjustment request filed with the Commission shall be substantially in the form of Appendix C hereto.

48. There is no limit on the amount of the Phase-In-Recovery Charges which may be imposed as a result of a true-up adjustment.

49. The true-up adjustment mechanism and procedures described in the Company's Application and in this Financing Order are reasonable and will reduce risks related to the Phase-In-Recovery Bonds, resulting in lower Phase-In-Recovery Charges and greater benefits to ratepayers and should be approved.

Use of Proceeds

50. Upon the issuance of Phase-In-Recovery Bonds, the SPE will use the net proceeds from the sale of the Phase-In-Recovery Bonds (after payment of transaction costs) to pay to OPCo the purchase price of the Phase-In-Recovery Property.

51. OPCo will use the proceeds from the sale of the Phase-In-Recovery Property (net of upfront Financing Costs), to redeem, repay, retire or defease existing long-term and/or short-term debt. The repayment of OPCo's existing long-term debt may result in improved credit metrics as the Phase-In-Recovery Bonds are not expected to be classified as OPCo's debt by the rating agencies because they will not be supported by OPCo's general revenue streams or collateralized by OPCo's assets.

Distribution Following Repayment

52. Upon the full repayment of the Phase-In-Recovery Bonds and all Financing Costs, the SPE will return to OPCo all amounts remaining in the Collection Account. Any excess (or deficit) of such amounts as compared to the amount of capital contributed to OPCo will be addressed in OPCo's other regulatory proceedings.

CONCLUSIONS OF LAW

1. OPCo is an Ohio corporation and electric utility engaged in the distribution of electricity for sale to retail customers in Ohio.

2. OPCo is authorized to file an application for a financing order under the Act.

3. The Commission has jurisdiction and authority over OPCo's Application pursuant to the Act.

4. The Commission has authority to issue this Financing Order under the Act.

5. The SPE will be "an assignee" as defined in the Act when an interest in Phase-In-Recovery Property is transferred to the SPE as described herein.

6. The holders of the Phase-In-Recovery Bonds and the Indenture Trustee will each be a "financing party" as defined in the Act.

7. The SPE may issue Phase-In-Recovery Bonds in accordance with this Financing Order.

8. The use of the proceeds of the Phase-In-Recovery Bonds (net of transaction costs) for the purposes of recovering Phase-In Costs and paying upfront Financing Costs is consistent with the Act.

9. The securitization approved in this Financing Order satisfies the requirement of the Act that the issuance of the Phase-In Recovery Bonds and the Phase-In-Recovery Charges result in, consistent with market conditions, both measurably enhancing costs savings to customers and mitigating rate impacts to customers in comparison with traditional financing mechanisms or other traditional cost-recovery methods or other previously-approved Commission methods of recovery. The issuance of this Financing Order is consistent with Section 4928.02, Revised Code.

10. The Phase-In Costs approved for securitization in this Financing Order are eligible for securitization under the Act in an amount equal to the DARR Balance Amount.

11. This Financing Order adequately details the amount to be recovered and the period over which OPCo will be permitted to recover nonbypassable Phase-In-Recovery Charges in accordance with the requirements of the Act.

12. The method approved in this Financing Order for collecting and allocating the Phase-In-Recovery Charges among customer classes is reasonable and appropriate and satisfies the requirements of the Act.

13. As requested by OPCo and in accordance with the Act, the Phase-In-Recovery Property created by this Financing Order is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Phase-In-Recovery Property to an assignee and the pledge of

the Phase-In-Recovery Property to secure Phase-In-Recovery Bonds. (Revised Code § 4928.232(G).

14. As provided in the Act, the rights and interests of OPCo or its successor under this Financing Order, including the right to impose, charge, collect and receive the Phase-In-Recovery Charges authorized in this Financing Order, are assignable.

15. Any electric distribution utility which is a successor to OPCo shall be bound by OPCo's duties under this Financing Order when it becomes a final financing order and shall be bound by the requirements of sections 4928.23 to 4928.2317 of the Act. The successor shall perform and satisfy all obligations of OPCo under this Financing Order, in the same manner and to the same extent as OPCo, including the obligation to collect and pay Phase-In-Recovery Charges to the person entitled to receive those revenues. The successor shall have the same rights that OPCo has under this Financing Order, in the same manner and to the same extent as OPCo.

16. The rights, interests and property conveyed to the SPE as authorized by this Financing Order, including the irrevocable right to impose, charge, collect and receive Phase-In-Recovery Charges and the revenues and collections from Phase-In-Recovery Charges, will when so assigned to the SPE constitute "Phase-In-Recovery Property" within the meaning of the Act.

17. The Phase-In-Recovery Property will upon its creation constitute an existing, present property right and interest which shall continue to exist regardless of whether Phase-In-Recovery Charges have been billed, have accrued or have been collected and notwithstanding any requirement that the value or the amount of the property is dependent on the future provision of service by OPCo to customers, and shall continue to exist until the Phase-In-Recovery Bonds and all Financing Costs are paid in full.

18. Upon the transfer by OPCo of the Phase-In-Recovery Property to the SPE, the SPE will have all of the rights, title and interest of OPCo with respect to such Phase-In-Recovery Property including the right to impose, charge, collect and receive the Phase-In-Recovery Charges authorized by the Financing Order.

19. The Phase-In-Recovery Bonds issued pursuant to this Financing Order will be "Phase-In-Recovery Bonds" within the meaning of the Act and the Phase-In-Recovery Bonds and holders thereof are entitled to all of the protections provided under the Act.

20. Amounts that are required to be paid to the servicer as Phase-In-Recovery Charges under this Financing Order or the tariffs approved hereby are "Phase-In-Recovery Charges" as such term is defined herein and used in the Act, and shall be separate and apart from OPCo's other rates, and the amounts collected from customers with respect to such Phase-In-Recovery Charges are "Phase-In-Recovery Revenues" as defined in the Act.

21. The proposed formula based methodology to true-up the Phase-In-Recovery Charges, as described in Findings of Fact 43 through 48 of this Financing Order, satisfies the requirements of the Act. Consistent with Section 4928.238(B), Revised Code, the Commission's review of any true-up adjustment request will be limited to determining whether there is any mathematical error in the application of the formula-based adjustment mechanism approved in the Financing Order. Any necessary corrections to the true-up adjustment, because of mathematical errors in the calculation of such adjustment, will be made in a future true-up adjustment filing.

22. This Financing Order meets the requirements for a financing order under the Act.

23. The true-up adjustment mechanism, and all other obligations of the State and the Commission set forth in this Financing Order, are direct, explicit, irrevocable and unconditional upon issuance of the Phase-In-Recovery Bonds and are legally enforceable against the State and the Commission.

24. After the issuance of this Financing Order, OPCo retains sole discretion regarding whether to cause the Phase-In-Recovery Bonds to be issued, including the right to defer or postpone such sale, assignment, transfer or issuance. Nothing in the Act limits the rights of OPCo or its successor to recover its Phase-In Costs under normal rate making should the Phase-In-Recovery Bonds not be issued.

25. This Financing Order shall be operative and in full force and effect from the date of issuance by the Commission.

26. This Financing Order will be irrevocable when it becomes a Final Financing Order (as defined in Section 4928.23(G), Revised Code) and, except as provided in the application of the true-up mechanism, the Commission may not reduce, impair, postpone, terminate, or otherwise adjust the Phase-In-Recovery Charges approved in this Financing Order or impair the Phase-In-Recovery Property or the collection of Phase-In-Recovery Charges or the recovery of the DARR Balance Amount and Financing Costs. No adjustment through the true-up mechanism shall affect the irrevocability of this Financing Order. This Financing Order, once it becomes a Final Financing Order, shall remain in effect and unabated notwithstanding the bankruptcy, reorganization or insolvency of OPCo or any affiliate of OPCo or the commencement of any judicial or nonjudicial proceeding on this Financing Order.

27. All or any portion of Phase-In-Recovery Property may be encumbered by a security interest to secure Phase-In-Recovery Bonds issued pursuant to this Financing Order, amounts payable to financing parties and to counterparties under any ancillary agreements, and other Financing Costs. The security interest of the Indenture Trustee in the Phase-In-Recovery Property contemplated hereby will be created, valid and binding at the latest of the date that the security interest is executed and delivered or the date that the SPE receives the net proceeds from the issuance of the Phase-In-Recovery Bonds, which receipt will constitute value for purposes of Section 4928.2312(C)(1), Revised Code. The security interest shall attach without any physical delivery of collateral or other act, and, upon the filing of the financing statement with the office of the Ohio Secretary of State, (i) the lien of the security interest shall be valid, binding, and perfected against all parties having claims of any kind in tort, contract, or otherwise against the SPE, regardless of whether the parties have notice of the lien and (ii) the transfer of an interest in the Phase-In-Recovery Property shall be perfected against all parties having claims of any kind, including any judicial lien or other lien creditors or any claims of OPCo or creditors of OPCo. Such security interest shall constitute a continuously perfected security interest and will have priority over any other lien, created by operation

of law or otherwise, that may subsequently attach to the Phase-In-Recovery Property or those rights or interests unless the Indenture Trustee has agreed in writing otherwise.

28. As provided in Section 4928.2310(A)(1), Revised Code, if OPCo defaults on any required payment of Phase-In-Recovery Revenues, a court shall, upon application by an interested party, and without limiting any other remedies available to the applying party, order the sequestration and payment of the Phase-In-Recovery Revenues to the financing parties or their representatives. Any such order shall remain in full force and effect notwithstanding any reorganization, bankruptcy, or other insolvency proceedings with respect to OPCo or its successors or assigns. (Section 4928.2310(A)(1), Revised Code).

29. The interest of a transferee, purchaser, acquirer, assignee, or secured party in Phase-In-Recovery Property specified in this Financing Order is not subject to setoff, counterclaim, surcharge, or defense by OPCo or any other person, including as a result of OPCo's failure to provide past, present or future services, or in connection with the reorganization, bankruptcy, or other insolvency of OPCo, its successors or assignees or any other entity. (Section 4928.2310(B), Revised Code).

30. Any sale, assignment or other transfer of the Phase-In-Recovery Property to the SPE pursuant to this Financing Order, shall constitute an absolute transfer and true sale of, and not a pledge of or security transaction relating to, OPCo's right, title, and interest in, to and under the Phase-In-Recovery Property, so long as (i) this Financing Order has become a Final Financing Order as defined in the Act, (ii) the Sale Agreement has been executed and delivered to the SPE, (iii) the SPE has paid to OPCo the net proceeds from the issuance of the Phase-In-Recovery Bonds (which payment shall constitute "value" for purposes of Section 4928.2313(A)(3), Revised Code), and (iv) the Sale Agreement expressly states that such transaction is a sale or other absolute transfer. As provided in the Act (Section 4928.2313, Revised Code), the characterization of such sale, conveyance, assignment, or other transfer as a true sale or other absolute transfer shall be effective and perfected against all third parties and shall not be affected or impaired by, among other things, the occurrence of any of the following:

(1) Commingling of amounts arising with respect to the Phase-In-Recovery Property with other amounts; or

(2) The retention by OPCo of (i) a partial or residual interest, including an equity interest or entitlement to any surplus, in the Phase-In-Recovery Property, whether direct or indirect, or whether subordinate or otherwise, or (ii) the right to recover costs associated with taxes, franchise fees, or license fees imposed on the collection of Phase-In-Recovery Charges; or

(3) Any recourse that the SPE or any assignee may have against OPCo; or

(4) Any indemnification rights, obligations, or repurchase rights made or provided by OPCo; or

(5) The obligation of OPCo to collect the Phase-In-Recovery Charges on behalf of the SPE or any assignee; or

(6) The treatment of the sale, assignment, or transfer for tax, financial reporting or other purposes; or

(7) Any application of the true-up adjustment mechanism under this Financing Order.

31. For all purposes other than federal and state income tax purposes, the parties' characterization of a transaction as a sale of an interest in Phase-In-Recovery Property shall be conclusive that the transaction is a true sale and that ownership has passed to the party characterized as the purchaser, regardless of whether the purchaser has possession of any documents evidencing or pertaining to the interest. Upon the filing to perfect the security interest of the Indenture Trustee as described in Conclusion of Law No. 27, the transfer to the SPE of the Phase-In-Recovery Property shall be perfected against all parties having claims of any kind, including any judicial lien or other lien creditors or any claims of OPCo or creditors of OPCo.

32. The priority of the conflicting ownership interests of assignees in the same interest or rights in any Phase-In-Recovery Property is determined in accordance with the Act. (4928.2312, Revised Code).

33. The creation, attachment, granting, perfection, priority and enforcement of liens and security interests in Phase-In-Recovery Property are governed by the Act. (Section 4928.2312, Revised Code).

34. The priority of the Indenture Trustee's lien and security interest in Phase-In-Recovery Property, when perfected by the filing of a financing statement, will not be impaired or otherwise affected by the commingling of funds arising from Phase-In-Recovery Property with other funds. (Section 4928.2312(D)(2), Revised Code). The Indenture Trustee shall have a perfected security interest in the amount of all Phase-In-Recovery Revenues that are deposited in any cash or deposit account of OPCo in which such revenues have been commingled with other funds. Any other security interest that may apply to those funds shall be terminated when the funds are transferred to the Collection Account or any other segregated account in favor of the SPE or the financing parties.

35. No application of the true-up adjustment mechanism as described in Section 4928.238, Revised Code shall affect the validity, perfection, or priority of a security interest in or the transfer of Phase-In-Recovery Property under this Financing Order.

36. The transfer and ownership of Phase-In-Recovery Property and the imposition, charging, collection, and receipt of Phase-In-Recovery Charges under sections 4928.231 to 4928.2317, Revised Code are exempt from all taxes and similar charges imposed by the state or any county, municipal corporation, school district, local authority, or other subdivision.

37. The Phase-In-Recovery Bonds issued under this Financing Order shall not constitute a debt or a pledge of the faith and credit or taxing power of the State of Ohio or of any county, municipal corporation, or any other political subdivision of the State of Ohio. Bondholders shall have no right to have taxes levied by the State of Ohio or the taxing authority of any county, municipal corporation, or any other political subdivision of the State of Ohio for the payment of the principal of or interest on the Phase-In-Recovery Bonds. The issuance of Phase-In-Recovery Bonds does not, directly, indirectly, or contingently, obligate the State of Ohio or any county, municipal corporation, or political subdivision of the State of Ohio to levy any tax or make any appropriation for payment of the principal of or interest on the Phase-In-Recovery Bonds. The foregoing does not, however, exempt the State of Ohio or any such county, municipal corporation or political subdivision from any obligation to pay Phase-In-Recovery Charges in its capacity as a consumer of electricity in OPCo's service area.

38. Pursuant to the Act (Section 4928.2315, Revised Code), the State of Ohio and its agencies, including the Commission, pledge to and agree with Bondholders, the owners of the Phase-In-Recovery Property, and other financing parties that the State of Ohio and such agencies (including the Commission) will not:

    (1) Take or permit any action that impairs or would impair the value of Phase-In-Recovery Property or the Phase-In Recovery Charges or that would reduce the DARR Balance Amount; or

(2) Except as allowed under Section 4928.238 of the Act in connection with the true-up adjustments authorized under this Financing Order, reduce, alter, or impair Phase-In-Recovery Charges that are to be imposed, charged, collected, and/or remitted for the benefit of the bondholders, the SPE, any other assignee and any other financing parties, until any and all principal, interest and premium, if any, on the Phase-In-Recovery Bonds, all Financing Costs and all other amounts to be paid to the SPE, any other assignee and any financing parties under an ancillary agreement have been paid and performed in full.

39. The SPE is expressly authorized, consistent with Section 4928.2315(B), Revised Code, to include the pledge described in the Conclusion of Law No. 37 in the Phase-In-Recovery Bonds, ancillary agreements and documentation relating to the issuance and marketing of the Phase-In-Recovery Bonds.

40. As provided in Section 4928.237, Revised Code, the Commission, in exercising its powers and carrying outs its duties regarding regulation and ratemaking, may not do any of the following: (1) consider the Phase-In-Recovery Bonds issued pursuant to this Financing Order to be the debt of OPCo; (2) consider the Phase-In-Recovery Charges imposed, charged, or collected under this Financing Order to be revenue of OPCo; (3) consider the Phase-In Recovery Charges or Financing Costs authorized under this Financing Order to be the costs of OPCo.

41. The Commission may not order or otherwise require, directly or indirectly, OPCo to use Phase-In-Recovery Bonds to finance the recovery of Phase-In Costs and may not refuse to allow the recovery of Phase-In Costs solely because OPCo may elect to finance those costs through a financing mechanism other than the issuance of Phase-In-Recovery Bonds. If OPCo elects not to finance those Phase-In Costs through the issuance of Phase-In-Recovery Bonds as authorized in this Financing Order, such Phase-In Costs shall be recovered as authorized by the Commission prior to OPCo's application for issuance of this Financing Order.

42. If any provision of Sections 4928.23 to 4928.2318, Revised Code is held to be invalid or is superseded, replaced, repealed, or expires for any reason, that occurrence shall not

affect any action allowed under this Financing Order in reliance on those sections that is taken prior to that occurrence by the Commission, OPCo, the SPE, any other assignee, collection agent, financing party, bondholder, or party to an ancillary agreement. Any such action shall remain in full force and effect.

ORDERING PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

A. Approvals and Authorizations

1. **Approval of Application.** The application of OPCo for the issuance of a financing order under the Act is approved, as provided in this Financing Order.

2. **Authority to Securitize.** OPCo (and the SPE as its assignee) are each authorized in accordance with this Financing Order to securitize and to cause the issuance of Phase-In-Recovery Bonds in an amount of up to $320,000,000 equal to the sum of (i) the DARR Balance Amount plus (ii) upfront Financing Costs, each of (i) and (ii) being subject to update and adjustment as provided in this Financing Order.

3. **Authority to Recover Phase-In-Recovery Charges.** OPCo and any assignee of OPCo are hereby authorized to impose on, and the servicer shall collect from all existing and future customers located within OPCo's service area as it existed on the date this Financing Order is issued, as provided in this Financing Order, Phase-In-Recovery Charges in an amount sufficient to provide for the timely recovery of principal, interest and premium if any, on the Phase-In-Recovery Bonds together with all ongoing Financing Costs approved in this Financing Order.

4. **Approval of Adjustments.** OPCo and any successor servicer to OPCo are hereby authorized to adjust the Phase-In-Recovery Charges from time to time consistent with the true-up formula methodology described in Findings of Fact 43 through 48 of this Financing Order.

5. **Approval of Tariffs.** The form of Tariff Sheet attached as Exhibit G to OPCo's Application, to be completed as attached to the Issuance Advice Letter, is approved.

6. **Accumulated Deferred Income Tax.** OPCo will be authorized to recover its average long term debt rate without reduction for ADIT on the capital contribution to the SPE as an ongoing Financing Cost.

B. Reports and Accounting

7. **Issuance Advice Letter.** OPCo will submit to the Commission, not later than the close of business on the second business day after the pricing of the Phase-In-Recovery Bonds, an Issuance Advice Letter, in substantially the form attached as Appendix B to this Financing Order, describing the final structure and terms of the Phase-In-Recovery Bond issuance. The Issuance Advice Letter will also include an updated estimate of the upfront Financing Costs incurred (or expected to be incurred) in connection with such issuance, and updated calculations from the calculations shown on Exhibit A to the application to demonstrate that the securitization will produce nominal and net present value savings for customers as compared to the DARR and to OPCo's weighted average cost of capital. If at the time of the pricing of the Phase-In-Recovery Bonds, market conditions are such that customers will not realize cost savings from the issuance of the Phase-In-Recovery Bonds, as demonstrated through the Issuance Advice Letter, OPCo shall not proceed with such issuance. Such savings will, however, be deemed to have been achieved so long as the effective weighted-average annual interest rate of the Phase-In-Recovery Bonds, excluding upfront and ongoing Financing Costs, does not exceed 3.32% per annum, and the total amount of the aggregate principal amount of the Phase-In-Recovery Bonds does not exceed $320,000,000. The initial Phase-In-Recovery Charges and the final terms of the Phase-In-Recovery Bonds as set forth in the Issuance Advice Letter will become effective on the date of issuance of the Phase-In-Recovery Bonds unless prior to noon on the fourth business day after pricing, the Commission issues an order finding that the proposed issuance does not comply with the requirements of the Financing Order. Absent such an order, the Phase-In Recovery Charges shall be final and effective upon the issuance of the Phase-In-Recovery Bonds, without further Commission action.

8. **Future Adjustments for Financing Costs.** If the actual upfront Financing Costs are less than the estimated upfront Financing Costs included in the principal amount securitized, such unused funds will be deposited into the Collection Account to be available for payment of debt service on the Phase-In-Recovery Bonds with the result that the periodic billing requirement following such deposit would be reduced to take into account the availability of such unused funds (together with interest earned thereon through investment by the Indenture Trustee in eligible investments). If the actual issuance costs are more than the upfront Financing Costs included in the Issuance Advice Letter, OPCo may request recovery of the remaining upfront Financing Costs through traditional ratemaking mechanisms.

C. Phase-In-Recovery Charges

9. **Imposition and Collection, Non-Bypassability.** OPCo is authorized to impose Phase-In-Recovery Charges on, and the servicer is authorized to collect from, all customers located within OPCo's service area as it existed on the date of this Financing Order in an amount sufficient to provide for the timely payment of principal and interest on the Phase-In-Recovery Bonds and all ongoing Financing Costs. Such charges shall be non-bypassable meaning that they cannot be avoided by any customer or other person obligated to pay the charges. Phase-In-Recovery Charges shall apply to all customers of OPCo for as long as they remain customers of OPCo; provided, that if a customer of the electric distribution utility subsequently receives retail electric distribution service from another electric distribution utility operating in OPCo's service area, including by succession, assignment, transfer, or merger, the Phase-In-Recovery Charges shall continue to apply to that customer. If a customer of OPCo (or any successor distribution utility) purchases electric generation service from a competitive retail electric service provider, OPCo or the successor servicer shall collect the Phase-In-Recovery Charges directly from that customer.

10. **The SPE's Rights and Remedies.** Upon the transfer by OPCo of the Phase-In-Recovery Property to the SPE, all of the rights, title and interest of OPCo under this Financing Order shall become Phase-In-Recovery Property and the SPE shall have all of the rights, title and interest of OPCo with respect to any Phase-In-Recovery Property,

including, without limitation, the right to impose, charge, collect and receive the Phase-In-Recovery Charges authorized by the Financing Order and to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any customer in respect of the Phase-In-Recovery Property. The Phase-In-Recovery Property will upon its creation constitute an existing, present property right and interest which shall continue to exist regardless of whether Phase-In-Recovery Charges have been billed, have accrued or have been collected and notwithstanding any requirement that the value or the amount of the property is dependent on the future provision of service to customers, and shall continue to exist until the Phase-In-Recovery Bonds and all Financing Costs are paid in full.

11. **Collector of Phase-In-Recovery Charges.** OPCo or any successor servicer of the Phase-In-Recovery Bonds shall bill a customer for the Phase-In-Recovery Charges attributable to that customer through a charge that is separate and apart from OPCo's other rates.

12. **Collection Period.** The Phase-In-Recovery Charges will be imposed and collected until the Phase-In-Recovery Bonds and all ongoing Financing Costs have been paid in full.

13. **Allocation.** OPCo shall allocate the Phase-In-Recovery Charges among customer classes in the manner described in Finding of Fact 39.

14. **True-Ups.** Periodic adjustments of the Phase-In-Recovery Charges should be undertaken and conducted as described in this Financing Order and as reflected in the form of tariff attached to the Application as Exhibit G.

D. Initial Phase-In-Recovery Charge; Issuance Advice Letter

15. Not later than the close of business on the second business day after the pricing of the Phase-In-Recovery Bonds, OPCo shall file with the Commission an Issuance Advice Letter, in substantially the form attached as Appendix B to this Financing Order, describing the final structure and terms of the Phase-In-Recovery Bond issuance and setting forth the resulting initial Phase-In-Recovery Charges. The Issuance Advice

Letter will include an updated estimate of the upfront Financing Costs incurred (or expected to be incurred) in connection with such issuance, and updated calculations from the calculations shown on Exhibit A to the application to demonstrate that the securitization will produce nominal and net present value savings for customers as compared to the DARR and to OPCo's weighted average cost of capital. The initial Phase-In-Recovery Charges and the final terms of the Phase-In-Recovery Bonds as set forth in the Issuance Advice Letter will become effective on the date of issuance of the Phase-In-Recovery Bonds unless prior to noon on the fourth business day after pricing, the Commission issues an order finding that the proposed issuance does not comply with the requirements of the Financing Order. Absent the Commission issuing such an order, the Phase-In-Recovery Charges shall be final and effective upon the issuance of the Phase-In-Recovery bonds, without further Commission action; provided, that the Company in its sole discretion may delay imposition of such charges to the first day of the billing cycle of the revenue month next following the issuance date of the Phase-In-Recovery Bonds or such other date not more than 30 days following the date of issuance which is set forth in the Issuance Advice Letter.

E. Phase-In-Recovery Property

16. **Creation of Phase-In-Recovery Property**. Creation of the Phase-In-Recovery Property is conditioned upon, and shall be simultaneous with the sale or other transfer of the Phase-In-Recovery Property to the SPE and the pledge by the SPE of the Phase-In-Recovery Property to secure Phase-In-Recovery Bonds.

F. Phase-In-Recovery Bonds

17. **Issuance.** The SPE is authorized to issue Phase-In-Recovery Bonds as specified in this Financing Order in an amount not to exceed $320,000,000.

18. **Collateral.** All Phase-In-Recovery Property and other collateral shall be held and administered by the Indenture Trustee pursuant to the Indenture as described in OPCo's application. The SPE shall establish a collection account with the Indenture Trustee as described in the application and Finding of Fact No. 24. Upon the full repayment of the Phase-In-Recovery Bonds authorized in this Financing Order and the discharge of all

Financing Costs obligations in respect thereof, all amounts in the collection account, including investment earnings, shall be released by the Indenture Trustee to the SPE for distribution in accordance with Ordering Paragraph No. 19.

19. **Distribution Following Repayment.** Upon the full repayment of the Phase-In-Recovery Bonds, the SPE will return to OPCo all amounts remaining in the capital subaccount, including investment earnings. Any excess (or deficit) of such amounts as compared to the amount of capital contributed to OPCo will be addressed in OPCo's other regulatory proceedings.

20. **Funding of Capital Subaccount.** The capital contribution by OPCo to the SPE's capital subaccount shall be funded by OPCo and not from the proceeds of the sale of Phase-In-Recovery Bonds. Investment earnings in the capital subaccount may be released from time to time in accordance with the Indenture to the SPE for payment to OPCo. OPCo may recover its average long term debt rate without reduction for accumulated deferred income taxes ("ADIT") on the capital contribution to the SPE as an ongoing Financing Cost. If OPCo is required to make a capital contribution in excess of 0.50 percent of the initial principal amount of the Phase-In-Recovery Bonds, OPCo's recovery on that excess contribution will be addressed in other regulatory proceedings.

21. **Overcollateralization Subaccount.** The Company is granted the flexibility to fund such an overcollateralization subaccount if required to achieve "AAA" ratings on the Phase-In-Recovery Bonds.

22. **Credit Enhancement.** OPCo has not requested and may not provide for any credit enhancement or other mechanisms designed to promote the credit quality or marketability of the Phase-In-Recovery Bonds or any hedging or other arrangements to mitigate the risk of an increase in interest rates. This Ordering Paragraph does not apply to the Collection Account or its subaccounts, including any overcollateralization subaccount, approved in this Financing Order.

23. **Original Issue Discount.** Consistent with its obligation to achieve cost savings for customers, the SPE may determine to provide for original issue discount in connection with the issuance and pricing of the Phase-In-Recovery Bonds.

24. **Weighted Average Interest Rate of Bonds.** The Phase-In-Recovery Bonds shall be issued using a fixed interest rate and not a floating rate. The effective weighted average annual interest rate of the Phase-In-Recovery Bonds, excluding upfront and ongoing Financing Costs, shall not exceed 3.32% per annum.

25. **Life of Bonds.** The scheduled final payment date of the Phase-In-Recovery Bonds authorized by this Financing Order shall not be later than seven and one-half years from the date of issuance and the legal final maturity date shall not exceed one (1) year thereafter.

26. **Use of SPE.** OPCo shall use the SPE, a special purpose funding entity as proposed in its application, in conjunction with the issuance of any Phase-In-Recovery Bonds authorized under this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions and to avoid the possibility that OPCo would have to extend funds to the SPE in a manner that could jeopardize the bankruptcy remoteness of the SPE, as well as to assure that the Phase-In-Recovery Bonds will be treated as a borrowing of OPCo and as debt, both for federal income tax purposes. Concurrently with the issuance of the Phase-In-Recovery Bonds, OPCo will contribute capital to the SPE in an amount equal to 0.50 percent of the initial principal amount of the Phase-In-Recovery Bonds by depositing such amounts into the Capital Subaccount described in this Financing Order. Should the SEC or federal legislative requirements be imposed on OPCo that increases the required capital contributions, OPCo can request relief through the other rate proceedings when and if such events occur. The annual administration fee of $50,000 for the SPE, plus reimbursable third party accounting and legal costs, are ongoing Financing Costs recoverable by OPCo through the Phase-In-Recovery Charges.

G. Servicing

27. **Servicing Agreement.** The Commission authorizes OPCo to enter into the servicing agreement with the SPE and to perform the servicing duties described in this Financing Order and such other duties ancillary thereto. Without limiting the foregoing, in its capacity as initial servicer of the Phase-In-Recovery Property, OPCo is authorized to calculate, bill and collect for the account of the SPE, the Phase-In-Recovery Charges authorized in this Financing Order, as adjusted from time to time as provided in the Tariff attached as Exhibit G to the Application and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-up adjustments described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, the annual servicing fee payable to OPCo while it is serving as servicer (or to any other servicer affiliated with OPCo) shall equal 0.10% of the initial principal amount of the Phase-In-Recovery Bonds. In the event that OPCo is no longer the servicer, and a third-party servicer is appointed, the annual servicing fee may be increased but shall not exceed 0.75% of the initial principal amount of the Phase-In-Recovery Bonds unless otherwise approved by the Commission. Such servicing fees shall be ongoing Financing Costs recoverable through the Phase-In-Recovery Charges.

28. **Replacement of OPCo as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the Phase-In-Recovery Charges, the financing parties may replace OPCo as the servicer in accordance with the terms of the servicing agreement.

29. **Collection Terms.** The servicer shall remit collections of the Phase-In-Recovery Charges to the SPE or the Indenture Trustee for the SPE's account in accordance with the terms of the servicing agreement.

30. **Bill Messages.** OPCo is authorized to send bill messages to Customers that includes the following (or substantially similar) language: "In Case No. 12-1969-EL-ATS the Commission approved recovery of previously incurred costs, including PUCO-approved Phase-In-Recovery Charges, Ohio Power Company collects from all customers on

behalf of its subsidiary, Ohio Power Phase-In Recovery Bonds I, LLC, which owns the right to impose and collect such charges." OPCo may also include similar language in billing inserts or other communication to customers as deemed necessary by OPCo to preserve the "bankruptcy remote" nature of the securitization by respecting the legal ownership of the Phase-In-Recovery Property.

H. Structure of the Securitization

31. **Structure.** OPCo shall structure the securitization as proposed in OPCo's Application and as set forth in this Financing Order.

I. Use of Proceeds

32. **Use of Proceeds.** Upon the issuance of Phase-In-Recovery Bonds, the SPE shall pay the proceeds from the sale of the Phase-In-Recovery Bonds (after payment of transaction costs) to OPCo for the purchase price of the Phase-In-Recovery Property. OPCo will apply these net proceeds to redeem, repay, retire or defease a portion of its existing debt.

J. Miscellaneous Provisions

33. **Continuing Issuance Right.** OPCo has the continuing irrevocable right to cause the issuance of Phase-In-Recovery Bonds in one or more series in accordance with this Financing Order.

34. **Binding on Successors.** This Financing Order, together with the obligation to provide service and to collect and account for Phase-In-Recovery Charges authorized herein, shall be binding on OPCo and any successor to OPCo that provides transmission and distribution service directly to retail consumers in OPCo's service area, any other entity that provides transmission or distribution services to retail consumers within that service area, and any successor to such other entity. Any such successor shall be bound by the requirements of Sections 4928.23 to 4928.2317, Revised Code. Any such successor shall perform and satisfy all obligations of OPCo under this Financing Order, in the same manner and to the same extent as OPCo, including the obligation to collect and pay Phase-In-Recovery Charges to the person entitled to receive those revenues. Such

successor shall have the same rights as OPCo under this Financing Order, in the same manner and to the same extent as OPCo.

35. **Flexibility.** Subject to compliance with the requirements of this Financing Order, OPCo and the SPE shall be afforded flexibility in establishing the terms and conditions of the Phase-In-Recovery Bonds, including the repayment schedules, term, payment dates, collateral, required debt service, required capital subaccount funding, required overcollection subaccount funding (if any), interest rates, use of original issue discount, and other Financing Costs and the ability of OPCo, at its option, to cause one or more series of Phase-In-Recovery Bonds to be issued.

36. **Effectiveness of Order.** This Financing Order is effective upon issuance. Notwithstanding the foregoing, no Phase-In-Recovery Property shall be created hereunder, and OPCo shall not be authorized to impose, charge, collect, and receive Phase-In-Recovery Charges, until concurrently with the transfer of OPCo's rights hereunder to the SPE in conjunction with the issuance of the Phase-In-Recovery Bonds.

37. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the issuance of the Phase-In-Recovery Bonds and all related transactions contemplated in the application, are granted.

38. **Effect.** This Financing Order constitutes a financing order within the meaning of the Act. The Commission finds this Financing Order complies with the provisions of the Act. A financing order gives rise to rights, interests, obligations and duties as expressed in the Act. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Financing Order. OPCo and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

39. **Further Commission Action.** This Financing Order shall be irrevocable and the Commission shall not reduce, impair, postpone, terminate, or otherwise adjust the Phase-In-Recovery Charges approved in this Financing Order or impair the Phase-In-

Recovery Property or the collection of Phase-In-Recovery Charges or the recovery of the DARR Balance Amount and Financing Costs. No adjustment through the true-up mechanism shall affect the irrevocability of this Financing Order. The Commission guarantees that it will act pursuant to this Financing Order to ensure that expected Phase-In-Recovery Charges are sufficient to pay on a timely basis scheduled principal and interest on the Phase-In-Recovery Bonds issued pursuant to this Financing Order and all ongoing Financing Costs in connection with the Phase-In-Recovery Bonds.

40. **Amendment of DARR in Case No. 11-352_EL-AIR.** The Company shall, when the Phase-In-Recovery Bonds are issued, reduce the DARR deferral balance by the DARR Balance Amount in order to reflect the recovery of the related Phase-In Costs through securitization. OPCo shall make a final reconciliation filing in Case No. 11-352-EL_AIR to address the remaining deferral balance of the DARR.

41. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

Lynn Slaby

Entered on the Journal

Betty McCauley

Secretary

<u>ESTIMATED UPFRONT FINANCING COSTS</u>[1]
(Exclusive of Debt Retirement/Defeasance Costs)

Underwriters' Fees	$ 1,537,784
Legal Fees	$ 2,250,000
Rating Agency Fees[2]	$ 449,868
Company Advisor Fees & Expenses	$ 350,000
Printing/Edgarizing	$ 30,000
SEC Registration Fee[3]	$ 35,246
Miscellaneous Administration Costs	$ 244,440
Accountants Fees	$ 170,000
Trustee's/Trustee Counsel's Fees	$ 25,000
TOTAL ESTIMATED UPFRONT FINANCING COSTS SECURITIZED	**$ 5,092,338**

Note: <u>This schedule of Estimated Upfront Financing Costs represents the Company's estimates as of the date of the Application and is subject to change.</u> Any difference between the Estimated Upfront Financing Costs securitized and the actual upfront costs incurred will be resolved through the true-up process described in the Financing Order. If the actual Upfront Financing Costs are more than those securitized, the Company may request recovery of the remaining upfront Financing Costs through traditional ratemaking mechanisms.

[1] Based on assumed bond issuance of $307,556,825 comprised of Company's estimated DARR deferral balance as of November 30, 2012, estimated debt retirement/defeasance costs of approximately $11mm plus other estimated upfront costs described above.

[2] Based on current rating agency fee schedules and assumes ratings from each of S&P, Moody's and Fitch.

[3] Based on current fee level of $114.60 per million of dollars of debt issued.

ESTIMATED ONGOING FINANCING COSTS

	ANNUAL AMOUNT (OPCO AS SERVICER)	ANNUAL AMOUNT (THIRD-PARTY AS SERVICER)
Ongoing Servicer Fees (0.10% of initial principal amount for OPCO, 0.75% for Third-Party Servicer)	$ 307,557	$ 2,306,676
Administration Fees	$ 50,000	$ 50,000
Accountants Fees	$ 75,000	$ 75,000
Legal Fees/Expenses for Company's/Issuer's Counsel	$ 45,000	$ 45,000
Trustee's/Trustee Counsel Fees & Expenses	$ 2,500	$ 2,500
Independent Managers' Fees	$ 5,000	$ 5,000
Rating Agency Fees	$ 45,000	$ 45,000
Printing/Edgarization Expenses	$ 2,500	$ 2,500
Miscellaneous	$ 98,500	$ 98,500
TOTAL ONGOING QUALIFIED COSTS	**$ 631,057**	**$ 2,630,176**

Note: This schedule of Estimated Ongoing Financing Costs represents the Company's estimates as of the date of the Application and is subject to change. The amounts shown for each category of operating expense on this attachment are the expected expenses for the first year of the Phase-In-Recovery Bonds. Phase-In-Recovery Charges will be adjusted at least annually to reflect any changes in Ongoing Financing Costs through the true-up process described in the Financing Order.

FORM OF ISSUANCE ADVICE LETTER

_____ day, ______________, 20__

PUBLIC UTILITIES COMMISSION OF OHIO

SUBJECT: ISSUANCE ADVICE LETTER FOR PHASE-IN-RECOVERY BONDS

Pursuant to the Financing Order adopted in *Application of Ohio Power Company for Authority to Issue Phase-In-Recovery Bonds*, Case No. 12-1969-EL-ATS (the "Financing Order"), OHIO POWER COMPANY ("Company") hereby submits, no later than two business days after the issuance of this series of Phase-In-Recovery Bonds, the information referenced below. This Issuance Advice Letter is for the **[SPE]** Phase-In-Recovery Bonds series _____, tranches ______. Any capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing provides the following information:

PART I	The total amount of Phase-In Costs and Upfront Financing Costs being securitized;
PART II	The final terms and structure of the Phase-In-Recovery Bonds issued;
PART III	An updated Schedule of the Upfront Financing Costs; and
PART IV	The initial Phase-In-Recovery Charge for retail customers.

PART I:
CALCULATION OF SECURITIZED PHASE-IN COSTS AND UPFRONT FINANCING COSTS

Securitized Amount before upfront Financing Costs	
Estimated upfront Financing Costs (See Part II)	
TOTAL SECURITIZED PHASE-IN COSTS AND UPFRONT FINANCING COSTS	**$**

PART II:
FINAL TERMS AND STRUCTURE OF PHASE-IN-RECOVERY BONDS

Phase-In Bond Series: ________
Phase-In Bond Issuer: [SPE]
Trustee:
Issuance Date: _______________, 20__
Bond Ratings: Moody's Aaa, S&P AAA, Fitch AAA
Amount Issued: $________
Upfront Financing Costs $________ (See Part III);

Tranche	Coupon Rate	Scheduled Final Maturity	Legal Final Maturity
A-1	%	/ /	/ /
A-2	%	/ /	/ /

Effective Weighted Average Interest Rate of the Phase-In-Recovery Bonds:	%
Life of the Series:	____ years
Weighted Average Life of Series:	____ years
Call provisions (including premium, if any):	
Target Amortization Schedule:	Attachment 1, Schedule A
Target Final Maturity Dates:	Attachment 1, Schedule A
Legal Final Maturity Dates:	Attachment 1, Schedule A
Payments to Investors:	Semiannually Beginning ___, 20__

PART III:
ESTIMATED UPFRONT FINANCING COSTS

Underwriters' Fees	$
Legal Fees	$
Rating Agency Fees	$
Company Advisor Fees & Expenses	$
Printing/Edgarizing	$
SEC Registration Fee	$
Miscellaneous Administration Costs	$
Accountants Fees	$
Trustee's/Trustee Counsel's Fees s	$
SPE Set-Up Costs	$
	$
TOTAL ESTIMATED UPFRONT FINANCING COSTS SECURITIZED	$

Note: Any difference between the Estimated Upfront Financing Costs securitized and the actual upfront costs incurred will be resolved through the true-up process described in the Financing Order. If the actual Upfront Financing Costs are more than those securitized, the Company may request recovery of the remaining upfront Financing Costs through traditional ratemaking mechanisms.

PART IV:
INITIAL PHASE-IN-RECOVERY CHARGES

Monthly billings to all OPCo retail customers shall include Phase-In-Recovery Charge amounts qual to _____ % of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders.

The workpapers for such calculations are attached as Attachment 2.

NOTICE

This letter is submitted for informational purposes only.

AUTHORIZED OFFICER

This undersigned is an officer of Company and authorized to deliver this Issuance Advice Letter on behalf of Company.

Respectfully submitted,

OHIO POWER COMPANY

By: ______________________________
Name: ____________________________
Title: ____________________________

ATTACHMENT 1
SCHEDULE A
PHASE-IN BOND REVENUE REQUIREMENT INFORMATION

SERIES ____, TRANCHE ____

Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

SERIES ____, TRANCHE ____

Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

ATTACHMENT 2
[Workpapers]

FORM OF TRUE-UP REQUEST LETTER

[date]

[name]
Secretary
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Re: *Application of Ohio Power Company for Authority to Issue Phase-In-Recovery Bonds*, Case No. 12-1969-EL-ATS

Dear __________:

Pursuant to the Commission's Financing Order adopted on _______, 2012, in the above-referenced Case (the "Financing Order"), Ohio Power Company ("Company"), as servicer of the Phase-In-Recovery Bonds, submits this filing for a true-up adjustment to the Phase-In-Recovery Charges. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order.

The Company has calculated the true-up adjustment in accordance with the methodology approved in the Financing Order. Attachment 1 is the Company's Deferred Asset Phase-In Recovery Rider which shows the resulting values of the Phase-In-Recovery Charge rates as a percentage of base distribution rates. The Company has attached its work papers showing the true-up calculation as Attachment 2.

Pursuant to the Financing Order, the Phase-In-Recovery Charge rates shall go into effect on [insert date which is no earlier than 15 days subsequent to date of submission]. The Commission will have 15 days after the filing date in which to confirm the mathematical accuracy of the true-up adjustment to the Phase-In-Recovery Charges. Any mathematical correction to the true-up adjustment will be made in the next true-up adjustment filing and will not delay the effectiveness of the Phase-In-Recovery Charges requested herein on the effective date set forth in this request.

Respectfully submitted,

OHIO POWER COMPANY

By: ______________________________
Name: ______________________________
Title: ______________________________

Attachments

ATTACHMENT 1

Effective __________,[4] all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Deferred Asset Phase-In Rider charge of _____ %[5] of the customer's base distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission as set forth in the Financing Order dated ______ in Case No. 12-1969-EL ATS.

[4] Show old effective date as struck out language and new effective date as added language.

[5] Show old percentage as struck out language and new percentage as added language.

ATTACHMENT 2
WORKPAPERS