

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

Reply Comments of Applicant, Ohio Power Company

Applicant, Ohio Power Company d/b/a AEP Ohio (“AEP Ohio” or the “Company”), by counsel, in accordance with the Public Utilities Commission of Ohio (“Commission”) Entry dated August 14, 2012, hereby submit its Reply Comments in this matter.¹

I. Introduction

Securitization provides an alternative means for financing the cost recoveries authorized by the Commission pursuant to the DARR, which is designed to be pursued only if it mutually benefits customers and the Company. While both Staff and OCC raise legitimate issues that the Company addresses below, some of the recommendations unreasonably attempt to place additional risk and cost on the Company. The Commission should bear in mind when addressing the issues raised in this docket that the Company would only proceed with this alternative approach to DARR recovery if the terms and conditions approved by the Commission for the securitization do not place additional risk and cost on the Company. The Company’s application, as supplemented through these reply comments, provide a reasonable and acceptable form of securitization that results in measurably enhanced cost savings to customers and mitigated rate impacts to customers and does not disadvantage the Company.

¹ Any capitalized term used but not defined herein shall have the meaning given to such term in the Joint 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 Change (the “Application”).

II. Staff Comments

A. Staff's recommendation that the upfront Financing Costs should not exceed 105% of the estimated upfront Financing Costs set forth in the Application.

AEP Ohio agrees with Staff and will not include upfront Financing Costs in excess of 105% of the estimated upfront Financing Costs set forth in the Application. If AEP Ohio determines before it prices the Phase-In-Recovery Bonds that the upfront Financing Costs are likely to exceed 105% of the estimated upfront Financing Costs and the amount of such excess would unacceptably impact the benefits to the Company of the transaction, AEP Ohio can always decide not to proceed with the issuance of the bonds and continue to collect the DARR at 5.34%.

B. Staff's recommendation that AEP Ohio seek Commission approval if the ongoing Financing Costs exceed the estimated ongoing Financing Costs set forth in the Application by 5%.

AEP Ohio disagrees with Staff's recommendation requiring AEP Ohio to seek Commission approval if the ongoing Financing Costs exceed 105% of the estimated ongoing Financing Costs set forth in the Application. In their comments, both Staff and OCC have expressed concerns regarding uncapped ongoing Financing Costs that the SPE would incur over the life of the Phase-In-Recovery Bonds. Staff believes that without a cap savings for customers may evaporate due to an increase in ongoing Financing Costs. As such, Staff believes that AEP Ohio should be required to absorb any excess over some predetermined threshold instead of passing it on to customers via the true-up process. Staff attempts to rationalize this request by noting that the ongoing Financing Costs will not vary much year to year. OCC adds that AEP Ohio should be responsible for these costs because of the benefits that AEP Ohio will accrue due to the securitization of the DARR.

AEP Ohio's servicer fee and administration fee, which are projected to make up approximately 55% of the ongoing Financing Costs, are fixed over the life of the Phase-In-Recovery Bonds. It should also be noted that the servicing revenues paid by the SPE to AEP Ohio will create a revenue credit in the test year of the distribution rate case to be filed in 2014.

The remaining ongoing costs of the SPE include items such as trustee fees and expenses, ongoing rating agency fees and ordinary course expenses such as legal fees and accounting fees which are necessary because of future filing requirements with the Securities and Exchange Commission. These fees and expenses could increase over the term of the Phase-In-Recovery Bonds because of inflation or fee changes, over which AEP Ohio has no control.

As noted above, some ongoing costs relate to filing requirements with the Securities and Exchange Commission. OCC supports AEP Ohio's recommendation to offer the Phase-In-Recovery Bonds in a registered public offering, which helps to provide access to the most liquid market. But one of the consequences of offering the Phase-In-Recovery Bonds in a registered public offering is an obligation to make future filings with the Securities and Exchange Commission which require legal and accounting support. In addition, some legal fees will be incurred by the SPE for annual legal opinions relating to maintaining a perfected security interest in the Phase-In-Property. Staff, itself, suggests that the ongoing Financing Costs will likely not vary much year to year, but that also means that the risk of a significant increase is small to customers too.

It is critical to the rating of the Phase-In-Recovery Bonds that the ongoing Financing Costs be paid by the SPE and not by AEP Ohio, if the rating of the Bonds is to be based on the SPE's credit attributes and bankruptcy remote status and not blended with that of AEP Ohio. As discussed these fees cannot be capped, and if the SPE cannot fund any increases

through its resources (the ability to adjust the Phase-In-Recovery Charges), then the credit of the alternative source of payment, AEP Ohio, becomes relevant to its ability to meet its obligations. As a result, the Rating Agencies will insist that ongoing Financing Costs for the ongoing operation of the securitization be recoverable from the Phase-In-Recovery-Charges. Moreover, one of the most critical features of the rating of utility securitization transactions is the bankruptcy status of the issuer of the bonds. That entity must be legally distinct from AEP Ohio, so even if AEP Ohio becomes bankrupt, the SPE would not become the subject of the bankruptcy proceeding and the SPE's debt service payments to investors would not be subject to the automatic stay. An important element in establishing this legal separation is that AEP Ohio not retain liability for the SPE's obligations. For this structured reason as well, in order to preserve the bankruptcy remoteness of the SPE and to obtain the desired "AAA" ratings for the Phase-In-Recovery-Bonds, the SPE must be able to recover all of its ongoing Financing Costs, all agreements between AEP Ohio and the SPE must be at "arms length" and AEP Ohio cannot assume or guarantee payment of obligations of the SPE.

Finally, AEP Ohio has no reason to proceed with securitization if it becomes a net cost to AEP Ohio and it is unreasonable to suggest that the Company should simply absorb ongoing cost increases associated with securitization that occur in the normal course of business.

C. Staff's recommendation to authorize defeasance of its pollution control revenue bonds (PCRBs) only if such defeasance is consistent with the Commission's conclusions in the Company's corporate separation case.

In AEP Ohio's corporate separation proceeding (Case No. 12-1126-EL-UNC), the Company proposed that the PCRBs with tender dates prior to the closing of corporate separation be transferred to the AEP Genco, as described in that proceeding, while PCRBs with tender dates after the closing of corporate separation would be retained by AEP Ohio. The PCRBs with tender

dates after the closing of corporate separation represent only 7% of the Company's overall debt with the level shrinking to 3% after 2014. It is beneficial for these bonds to remain with the regulated entity and not be transferred because the PCRBs are a flexible, tax-exempt, low-cost form of debt, which are not directly linked to the generation assets being transferred to AEP Genco. While the Commission has not yet decided the corporate separation case, the Commission addressed part of the issue in its *ESP II* decision:

Despite the Staff's recommendation, the Commission approves AEP-Ohio's requests to retain the pollution control bonds contingent upon a filing with the Commission demonstrating that AEP-Ohio ratepayers have not and will not incur any costs associated with the costs of servicing the associated debt. More specifically, AEP-Ohio ratepayers shall be held harmless for the cost of the pollution control bonds, as well as any other generation or generation related debt or inter-company notes retained by AEP-Ohio. AEP-Ohio shall file such information with the Commission, in this docket no later than 90 days after the issuance of this Order.

(*ESP II*, Opinion and Order at 59.) In this docket, Staff recommends (at 26) that the Commission authorize the Company's "intent to defease" only if it is consistent with the Commission's conclusions in the corporate separation case.

AEP Ohio agrees with Staff's recommendation to authorize defeasance only if such defeasance is consistent with the Commission's conclusions in the Company's corporate separation case. The Company's corporate separation application did not specifically request the ability to defease the PCRBs; instead the application made the option available to AEP Ohio. Rather, as AEP Ohio recommended in its reply comments in the corporate separation case (at 16), the Commission should either: (a) grant the Company's primary request to allow the PCRBs with tender dates beyond the corporate separation closing date to be retained permanently by the Company; or (b) adopt the same approach taken in the Duke order, which is set forth as Condition 3 of the Application, which allows the Company to effectuate the transfer of the

PCRBs in an orderly fashion without the Company incurring unnecessary additional costs. The Commission can determine within this securitization case that defeasing a portion of the PCRBs with the proceeds of securitization bonds is an appropriate use of proceeds. The issue of which bonds are transferred or retained will presumably be decided in the corporate separation case but that is a separate question from how the securitization proceeds can be used and whether it is reasonable and appropriate to defease the PCRBs with tender dates after the corporate separation closing date. If the PCRBs with tender dates after the corporate separation closing date are not permitted to be retained,² then they will be defeased up-front – with a cost that the Company believes is unnecessary to incur. The use of securitization proceeds to defease one series of those bonds is reasonable and appropriate and there is nothing within the corporate separation record that would preclude that decision. Of course, if the proceeds are used to defease the bonds before corporate separation, then the issue of whether or not those bonds should be transferred will be moot.

As a related matter, AEP Ohio disagrees with OCC's recommendation to limit the use of proceeds from the Phase-In-Recovery Bonds. If there are savings from the securitization offering and the Commission has determined that it is an appropriate use of proceeds to defease the one series of long-dated PCRBs, then the Commission has the authority to make that determination. However, if the Commission comes to a different conclusion, the Company would determine an alternative use of proceeds such as the retirement or defeasance of other debt.

² AEP Ohio proposed in its corporate separation proceeding (Case No. 12-1126-EL-UNC) that the bonds with tender dates after the corporate separation closing date either be retained permanently by AEP Ohio or, alternatively, that they be retained until a time that they can be transferred in an orderly fashion without the incurring of unnecessary, additional costs.

D. Staff's recommendation that the Issuance Advice Letter should become effective on the date of issuance of the Phase-In-Recovery Bonds unless prior to noon on the fifth business day after pricing the Commission issues an order finding that the proposed issuance of the Phase-In-Recovery Bonds does not comply with the requirements of the Financing Order.

AEP Ohio disagrees with Staff's recommendation to add a day to the review of the Issuance Advice Letter. A five day review will likely result in a closing on the sixth day after pricing which creates an additional day of exposure to the markets potentially disrupting closing. All recent securitization transactions have provided four days for review as a result. In order to provide Staff with current information about the marketing of the Phase-In-Recovery Bonds, AEP Ohio proposes to provide a draft Issuance Advice Letter to the Staff two weeks prior to the expected date of commencement of marketing the bonds. This will provide Staff an opportunity to review AEP Ohio's updated view on the expected pricing of the bonds and let them become familiar with the types of information that will be provided after pricing of the bonds. AEP Ohio proposes that within one week after receipt of the draft Issuance Advice Letter, Staff should provide AEP Ohio with any comments or recommendations regarding the adequacy of the information provided in the draft.

E. Staff's recommendation that the Commission set a procedural schedule for each true-up adjustment in order for new rates to become effective.

AEP Ohio disagrees with Staff's recommendation that the Commission set a procedural schedule for each true-up adjustment, as AEP Ohio believes that a schedule is unnecessary. The true-up mechanism represents one of the most fundamental components of the credit structure for utility securitization transactions. The rating agencies have required a formulaic mandatory true-up mechanism allowing the SPE to recover all of its Financing Costs (including principal and interest), in order for the bonds to be rated "AAA". With respect to rating agency expectations, the standard for annual and interim true-ups has been 15 days in all recent

transactions. It is critical for rating agency purposes that the true-up adjustment be automatic and implemented on an expeditious basis subject only to a mathematical review. The Legislature was aware of this rating agency criteria when the statute was adopted: Section 4928.238(B), Revised Code, limits the Commission's review of a true-up filing to the determination of whether there is a mathematical error in the application of the adjustment mechanism. Since any review is limited to mathematical errors and each calculation will be made pursuant to a formula approved as part of the initial Financing Order, there is no reason for a proceeding at the time of a true-up. If the Commission desires a longer review period than the proposed 15-days, AEP Ohio notes that extending the review period makes the true-up less efficient. In other words, the more quickly a true-up can be implemented, the more quickly a deficiency (or over-collection) can be addressed-thus potentially reducing costs to customers and supporting the AAA rating of the Phase-In-Recovery Bonds.

F. Staff's recommendation that the annual updates to the DARR rate should be based on data covering twelve months rather than the higher of six month data and twelve month data.

AEP Ohio does not believe there is any difference between the two approaches, but agrees that the proposed financing order can be rephrased to provide that annual updates should be based on twelve-month data. It is important, however, that the use of twelve-month data be without prejudice to AEP Ohio's option to file an interim true-up adjustment if necessary. To use twelve-month data in the annual true-up will also make it more important that any true-up adjustments, whether annual or interim, go into effect promptly after filing (*i.e.*, within 15 days), to ensure sufficient revenues to make all payments of debt service and other ongoing Financing Costs on a timely basis following the adjustment. The sole purpose of the Company's proposal to use six-month estimates was to assure on-time semi-annual bond payments while reducing the

fluctuation of the rate for customers since distribution revenues tend to fluctuate throughout the year and such fluctuations could lead to a seesaw effect in customer's rates using an estimated 12 months. However if the Commission so orders, the Company can utilize true-ups based on 12 months of data so long as the effective date of the adjustment is 15 days after filing to assure timely implementation and payment.

G. Staff's recommendation that the Commission require that AEP Ohio include a separate line item to identify the Deferred Asset Phase-In Rider on the bill.

AEP Ohio agrees with Staff's recommendation that the Commission require that AEP Ohio include a separate line item to identify the Deferred Asset Phase-In Rider on the bill.

H. Staff's recommendation that the Commission condition its approval upon AEP Ohio achieving a weighted average annual interest rate below 2.32% in order that AEP Ohio may satisfy the nominal test.

AEP Ohio agrees with the Staff that the savings in the transaction should be identified and updated in the Issuance Advice Letter. However, AEP Ohio disagrees with Staff's recommendation that the Commission condition its approval of the Financing Order upon AEP Ohio achieving a weighted average annual interest rate on the Phase-In-Recovery-Bonds below 2.32%. The 2.32% breakeven coupon set forth in Exhibit A to AEP Ohio's Application was based on market conditions at the time the Application was filed and was based on numerous assumptions, such as the expected DARR balance, expected maturity dates of the various tranches, and estimated upfront Financing Costs, including defeasance costs. The presented structure recommended by Citibank and the related pricing information are preliminary and subject to change. Market conditions will likely change before the Phase-In-Recovery Bonds are priced, and certainly the estimated upfront Financing Costs will change from those estimated in the Application. Any change will affect the calculation of the breakeven coupon, and therefore

the precise 2.32% breakeven coupon should not be included as a limitation in the Financing Order.

The final bond structure and the final terms of the Phase-In-Recovery Bonds will be described in the Issuance Advice Letter and provided to the Commission after the Phase-In-Recovery Bonds are priced, but prior to the issuance of the bonds. The Issuance Advice Letter process should afford AEP Ohio the flexibility to establish the terms and conditions of the Phase-In-Recovery Bonds, as long as AEP Ohio complies with the terms of the Financing Order and meets the statutory test. Section 4928.235(C)(2), Revised Code, already provides that if market conditions are such that customers will not realize cost savings from the issuance of the Phase-In-Recovery Bonds, the utility cannot proceed with the securitization. As Staff suggests, and as AEP Ohio proposes in the revised form of Issuance Advice Letter attached as **Attachment A** to this Reply Comment, AEP Ohio will provide a specific schedule to the Issuance Advice Letter. The schedule will confirm that there are customer savings and will quantify the nominal and present value savings that will be realized through the securitization. Finally, an officer of AEP Ohio will include a certificate with the Issuance Advice Letter that certifies that the structure and pricing of the bond issuance measurably enhances cost savings to customers and mitigates rate impacts to customers, the two standards under the statute

I. AEP Ohio proposes certain changes to the Staff's proposed format for the Issuance Advice Letter.

AEP Ohio has revised the form of Issuance Advice Letter, which is attached as Attachment A, and incorporated almost all of Staff's suggested changes. Staff has suggested that Schedule A be a calculation of Securitized Phase-In-Recovery Charges, but that schedule should be a calculation of the Phase-In Costs and Upfront Financing Costs that can be securitized. AEP

Ohio also made some minor changes on page 2 of the Issuance Advice Letter to provide that only two of the standards are required under the Financing Order

J. Staff's recommendation that if third-party billing/collection is permitted in the future, no additional burden from such billing/collection should be imposed on customers.

AEP Ohio agrees with Staff's recommendation that if any third-party billing/collection is performed in the future, no additional costs from such billing/collection should be imposed on customers.

III. OCC Comments.

A. OCC's recommendation to utilize the entire 135 days permitted by R.C. 4928.232(B).

AEP Ohio disagrees with OCC's recommendation (at 11) to utilize the entire 135 days permitted by R.C. 4928.232(B). It is unnecessary to utilize the full statutory time period since parties have already completed discovery, the comment cycle is completed and the Commission has sufficient time to address the issues based on the record. While AEP Ohio recognizes that its initial requested date of October 1, 2012 is not likely to be fulfilled, there is no need to take extra time to complete the decision. In addition, there is no guarantee that credit market conditions will remain the same during any period of unnecessary delay.

B. OCC's recommendation to hire a financial advisor.

AEP Ohio disagrees with OCC's recommendation that the Commission hire a financial advisor. OCC claims that a financial advisor can assure that the issuance of the Phase-In-Recovery Bonds is consistent with state electric service policies and measurably enhances customer savings and mitigates customer rate impacts. Based on Staff's prior experience in processing other types of financing applications at the Commission and based on comments filed in this proceeding and the questions posed to AEP Ohio by Staff, AEP Ohio believes that the

Staff is more than capable of performing those tasks. Furthermore, through the Issuance Advice Letter process, AEP Ohio will confirm that the securitization both measurably enhances cost savings to customers and mitigates rate impacts to customers (the two standards contained in the statute) as compared with the recovery method previously approved for the Applicant. It is noteworthy in this regard that the securitization statute does not contemplate the use of a financial advisor by the Commission. OCC further argues that in a typical Commission debt proceeding (such as the utility's annual application to issue debt), the Commission can review, adjust, and impose conditions and terms on those debt securities. The Commission has the ability to do that here through a detailed Financing Order and the Issuance Advice Letter process. Under the Financing Order, the Commission will authorize, among other things, the maximum amount and description of the Phase-In Costs that may be recovered, a description of the Financing Costs that may be recovered through Phase-In-Recovery Charges, a description of the true-up mechanism and the maximum term of the Phase-In-Recovery Bonds to be issued.

OCC also argues that in a typical debt proceeding, any debt costs to be borne by customers is further adjudicated in future rate case proceedings. The current Application and related proceedings, however, are much more thorough than those associated with a typical debt application. Unlike a typical debt application, this proceeding has intervenors, discovery and briefings. In addition, AEP Ohio will provide to the Commission the final terms of the Phase-In-Recovery Bonds in the Issuance Advice Letter (which will include a description of the final structure and terms of the Phase-In-Recovery Bonds, updated cost estimates, and updated calculations to demonstrate that the securitization will produce nominal and net present value savings for customers) which the Commission has the ability to review for compliance with the

Financing Order. The Commission does not have that ability in any other debt issuance of a utility.

OCC also argues that AEP Ohio should be responsible for the cost of a financial advisor. The financial advisor's fee will add an additional expense to the transaction. OCC assumes that such a fee would be approximately \$400,000. Some investment advisors also hire their own legal counsel which can add an additional several hundred thousand dollars. If the Commission does hire an advisor, AEP Ohio believes any such fee, and any legal fee for the advisor, should be treated as an upfront Financing Cost. If AEP Ohio did not securitize the DARR, it would continue to collect the DARR at a carrying cost of 5.34% and not bear the cost of a financial advisor. Even if the financial advisor fee is included as an upfront Financing Cost, it could consume the 5% margin requested by Staff.

C. OCC's recommendation that the Commission require AEP Ohio to be the servicer of the Phase-In-Recovery Bonds.

AEP Ohio will be the initial (and based upon the experience in all other securitizations to date, the only) servicer of the Phase-In-Recovery Bonds. The servicing agreement that AEP Ohio will enter into with the SPE will prohibit the initial servicer (AEP Ohio) from resigning as servicer unless it is no longer permissible under applicable law for AEP Ohio to continue in that capacity. In the 50 plus utility securitization transactions completed to date (including one in which the utility was in bankruptcy), there has never been a need to appoint a successor servicer.

Nonetheless, in order to rate the Phase-In-Recovery Bonds at a higher credit rating than AEP Ohio itself enjoys, the rating agencies will insist that the transaction documents provide for the possibility of a successor servicer unaffiliated with AEP Ohio, and the financing order must

authorize an increase in the servicing fee to address this concern. Given the need for any replacement servicer to duplicate the systems AEP Ohio already has in place, a replacement servicer would of necessity charge a higher fee than AEP Ohio. While the actual amount a successor servicer would charge is unknown, AEP Ohio included the \$2.6 million as an estimate (.75% of the principal amount of the Phase-In-Recovery Bonds) based on other utility securitizations. That amount would be a cap on the replacement servicer fee that could not be exceeded without further approval of the Commission. Once again, no successor servicer has ever been appointed in any prior utility securitization.

D. OCC's recommendation that AEP Ohio market and sell the Phase-In-Recovery Bonds in a competitive auction.

AEP Ohio disagrees with OCC's suggestion that AEP Ohio market and sell the Phase-In-Recovery Bonds in a competitive auction. A competitive bidding process involves underwriters submitting prices at which they would purchase the Phase-In-Recovery Bonds (presumably with a view towards reselling the Phase-In-Recovery Bonds at a higher price), and the issuer selecting the underwriter(s) that submits the highest price (lowest interest cost). A negotiated sale involves a comprehensive marketing process of reaching out to investors, coordinated through the underwriter(s), with investors submitting indications of interest, and the transaction priced between the issuer and the underwriter(s) at a level where there is expected to be adequate demand for the Phase-In-Recovery Bonds to be fully distributed to investors. Negotiated sales are preferred for structured transactions of this type: out of the over fifty utility securitization transactions since 1997, AEP Ohio is aware of only one that was conducted through a competitive bid, with all other transactions conducted through a negotiated sale process.

AEP Ohio has retained a structuring advisor in connection with this securitization transaction that has extensive knowledge and experience structuring and marketing utility securitizations. The structuring advisor has advised AEP Ohio that an underwritten negotiated sale is the most common form of marketing for highly structured securities like the Phase-In-Recovery Bonds and that, based on current market conditions, a transparent marketing process to the broadest range of institutional investors available, with the full cooperation and support of AEP Ohio in educating the investor base, will result in the best execution of these securities. By comparison, in a competitive bid process, bids are based upon underwriters' subjective, often conservative judgments of market clearing prices instead of testing those judgments through breath and depth of distribution. Accordingly, the structuring advisor has advised AEP Ohio that a competitive bid process will likely result in higher, not lower, clearing prices.

The competitive bid process is used infrequently in connection with structured securities, and mainly in situations where an issuer is looking for a back-stop bid in order to mitigate execution risk of the trade – i.e. whether a trade can be sold, and competitive bids are not typically used by issuers to obtain best execution. In other words, if there is a high risk that a transaction cannot be completed efficiently, a competitive bid process may be favorable to an issuer as a way to ensure that a transaction ultimately happens, but not as a means to lower costs. If, as expected, the financing order is issued consistent with the parameters requested by AEP Ohio in order to obtain AAA ratings for the Phase-In-Recovery Bonds, the Company does not foresee a need to mitigate execution risk so as to justify the higher costs likely to result from a competitive bid process.

In the current market environment, a competitive bid process would likely not result in the best execution for the contemplated bonds as underwriters would be focused on setting bid

levels where the bonds can be resold without the underwriter realizing a loss and underwriters will therefore likely add a significant risk premium to their bids. The process by which levels are tightened in a negotiated sale would be replaced by the underwriters' need to resell the bonds and get out of the trade. Further, the competitive bid process may also limit the selection of underwriters as many US banking institutions may become subject to the Volker rule, which aims to prohibit or severely limit proprietary trading.

As Ohio prepares for the first issuance under the new securitization legislation, investors will require an education process to understand that the legislation provides protections similar to those in other states (this marketing is an integral part of the negotiated approach), even though the security class is well-understood and, as noted above, the Company does not foresee significant execution risk. Since there are multiple securitization opportunities in Ohio, investor outreach is critical to develop a broad market for these bonds and laying the groundwork for future transactions.

Overall, the negotiated offering provides a disciplined and open process whereby the utility and the public service commission has a rational "supply/demand" framework for understanding and approving the final issuance. AEP Ohio believes this approach was adopted and continues to be utilized because both the utilities and their respective regulators felt comfortable that the process was an efficient and transparent one capable of achieving the best pricing.

IV. Conclusion

The Commission should grant AEP Ohio's application and adopt the proposed financing order, as reflected in the terms and conditions outlined in the Company's application and these reply comments.

Steven T. Nourse (0046705)
David C. House (0059706)
American Electric Power Service 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

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing reply comments was served this 27th day of September, 2012 by regular U.S. mail, upon the persons listed below.

/s/ Steven T. Nourse

Steven T. Nourse

Kyle I. Kern
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street
Suite 1800
Columbus, OH 43215
614.466.8574 (telephone)
614.466.9475 (fax)
kern@occ.state.oh.us

Michael DeWine
William L. Wright
Thomas W. McNamee
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, OH 43215-3793
614.466.4397 (telephone)
614.644.8764 (fax)
thomas.mcnamee@puc.state.oh.us

Attachment A

ATTACHMENT 1
FORM OF ISSUANCE ADVICE LETTER

_____ day _____, 201__

Case No. 12-1969-EL-ATS

The Public Utilities Commission of Ohio

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

Pursuant to the Financing Order issued *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 for Tariff and Bill Format Changes in Case No. 12-1969-EL-ATS (the Financing Order)*, Applicant hereby submits, no later than noon on the second business day after the pricing of this series of PIR Bonds, the information referenced below. The issuance Advice Letter is for the PIR 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 establishes the following:

- (a) The total amount of Phase-In Costs and Upfront Financing Costs being securitized;
- (b) Confirmation of compliance with standards set forth in the Financing Order and confirmation of nominal and net present value savings;
- (c) The actual terms and structure of the PIR Bonds being issued;
- (d) The initial Phase-In-Recovery Charges for retail users; and
- (e) The identification of the SPE

PHASE-IN COSTS AND UPFRONT FINANCING COSTS BEING SECURITIZED:

The total amount of Phase-In Costs and Upfront Financing Costs being securitized is presented in Attachment-1.

COMPLIANCE WITH STANDARDS IN THE FINANCING ORDER AND CONFIRMATION OF NOMINAL AND NET PRESENT VALUE SAVINGS

The Financing Order requires Applicant to confirm, using the methodology approved therein, that the actual terms of the Phase-In Recovery (PIR) Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. The PIR Bonds will be issued in one or more series comprised of one or more tranches having final maturities of ___ years and legal final maturities not exceeding ___ years from the date of issuance of such series (See Exhibit-A, Attachment 2, Schedule A); and
2. Certification of applicant as to certain matters with respect to the PIR Bonds (see Attachment 3).

In addition, Applicant confirms that:

1. The total amount of revenues to be collected under the Financing Order is less than the revenue requirement that would be recovered using the existing cost recovery method of the Applicant (See Exhibit-A, Attachment 2, Schedule C and D); and
2. The present value of the revenues expected to be billed under the Financing Order will not exceed the present value of the revenue that would be expected to be billed using the existing cost recovery method of the Applicant; (See Exhibit-A, Attachment 2, Schedule D).

ACTUAL TERMS OF ISSUANCE

PIR Bond Series: _____

PIR Bond Issuer: [SPE]

Trustee:

Closing date: _____, 201__

Bond ratings: S&P AAA, Fitch AAA, Moody's Aaa

Amount Issued: \$ _____

PIR Bond Upfront Financing Costs: See Attachment 1- Schedule B

PIR Ongoing Financing Costs: See Attachment 2- Schedule B

Tranche	Coupon Rate	Expected Final Maturity	Legal Final Maturity
A-1		__/__/____	__/__/____
A-2		__/__/____	__/__/____

Effective Annual Weighted Average Interest Rate of the PIR Bonds	____%
Expected Final Life of Series:	____years
Weighted Average Life of Series:	____years
Call Provisions (including premium, if any):	
Target Amortization Schedule:	
Target Final Maturity Dates:	
Legal final Maturity Dates:	
Payments to Investors:	Semiannually Beginning _____, 2013
Initial annual Servicing Fee as a percent of original PIR Bond principal balance:	____%

INITIAL PHASE-IN RECOVERY CHARGES

Table I below shows the current assumptions for each of the variables used in the calculation of the initial Phase-In Recovery Charges

TABLE I	
Input Values For Initial Phase-In Recovery Charges	
Applicable period: from _____, _____ to _____, _____	
Forecasted retail kWh/kW sales for the applicable period:	_____
PIR Bond debt service for the applicable period:	\$ _____
Percent of billed amounts expected to be charged-off	%
Forecasted % of Billing Paid in the Applicable Period:	%
Forecasted retail kWh/Kw sales billed and collected for the applicable period:	
Forecasted annual ongoing transaction expenses	\$ _____
Current PIR Bond outstanding balance:	\$ _____. ____
Target PIR Bond outstanding balance as of __/__/____	\$ _____
Total Periodic Billing Requirement for applicable period:	\$ _____

ATTACHMENT-1
SCHEDULE-A

CALCULATION OF SECURITIZED PHASE-IN COSTS AND UPFRONT FINANCING COSTS

DARR Balance Amount before Upfront Financing Costs	\$
Estimated Upfront Financing Costs	\$
TOTAL SECURITIZED PHASE-IN COSTS AND UPFRONT FINANCING COSTS	\$

ATTACHMENT-1
SCHEDULE-B
ESTIMATED UPFRONT FINANCING COSTS⁽¹⁾

		<u>AMOUNT</u>
1	Underwriters' Fees	
2	Legal Fees	
3	Rating Agency Fees ⁽²⁾	
4	Company Advisor Fees & Expenses	
5	Printing/Edgarizing	
6	SEC Registration Fees ⁽³⁾	
7	Miscellaneous Administration Costs	
8	Accountant Fees	
9	Trustee's/Trustee Counsel's Fees	
10	TOTAL UP-FRONT FINANCING COSTS	

⁽¹⁾ Based on the actual amount of the PIR Bond issuance comprised of the Company's DARR Balance Amount, estimated debt retirement/defeasance costs and other upfront financing costs described above.

⁽²⁾ Based on current rating agency fee schedules and ratings from S&P, Moody's and Fitch.

⁽³⁾ Based on actual fee level on total debt registered.

ATTACHMENT-2
SCHEDULE-A

PHASE-IN RECOVERY 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
SCHEDULE-B
ESTIMATED ONGOING FINANCING COSTS

	<u>ANNUAL AMOUNT</u>
Ongoing Servicer Fee (OPCo as Servicer) (0.10% of principal amount)	
Administration Fees	
Accountants Fees	
Legal Fees/Expenses for Company's/Issuer's Counsel	
Trustee's/Trustee's Counsel Fees & Expenses	
Independent Manager's Fees	
Rating Agency Fees	
Printing/EDGAR expenses	
Miscellaneous	
TOTAL ONGOING FINANCING COSTS	

Note: The amounts shown for each category of operating expense on this attachment are the expected expenses for the first year of the PIR Bonds. Phase-In Recovery Charges will be adjusted at least annually to reflect any changes on Ongoing Financing Costs through the true-up process described in the Financing Order.

ATTACHMENT-2
SCHEDULE-C

CALCULATION OF PHASE-IN RECOVERY CHARGES

Year	Phase-In Recovery Bond Payments ¹	Ongoing Costs ²	Total nominal Phase-In Recovery Charge Requirement ³ (b)+(c)	Present Value of Phase-In Recovery Charges ⁴
(a)	(b)	(c)	(d)	(e)

¹ From Attachment 2, Schedule A.

² From Attachment 2, Schedule B.

³ Sum of PIR Bond payments and ongoing costs

⁴ The discount rate used is the weighted average effective annual interest rate of the DARR carrying charge.

ATTACHMENT-3
SCHEDULE-D

CONFIRMATION OF NOMINAL AND NET PRESENT VALUE SAVINGS¹

	Existing Method of Recovery²	Securitization Financing	Savings/(Cost) of Securitization Financing
Nominal	\$ _____	\$ _____	\$ _____
Present Value	\$ _____	\$ _____	\$ _____

¹ Calculated in accordance with the methodology used in the Application

² Carrying Costs at 5.34% and the _____ the term of _____ years. The discount rate used is the weighted average effective annual interest rate of the DARR carrying charge.

ATTACHMENT-3

CERTIFICATION OF COMPLIANCE

[OPCo Letterhead]

Date: _____, 201__

Re: Application of Ohio Power Company, Case No. 12-1969-EL-ATS

Applicant, Ohio Power Company, *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 for Tariff and Bill Format Changes in Case No. 12-1969-EL-ATS (the Financing Order)* submits this Certificate pursuant to ordering Paragraph No. _____ of the Financing Order. All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated _____, 201__, the Applicant has set forth the following particulars of the PIR Bonds:

Name of PIR Bonds: _____

PIR Bond Issuer (SPE):

Trustee:

Closing date: _____, 201__

Amount Issued: \$ _____

Expected Amortization Schedule: See Attachment 2, Schedule A to the Issuance Advice Letter

Distributions to Investors (quarterly or semi-annually):

Weighted Average Coupon Rate: ____%

Weighted Average Yield: ____%

The following actions were taken in connection with the design, structuring and pricing of the PIR Bonds:

<Insert actions actually taken here>

Based upon the information reasonably available to its officers, agents, and employees, the Applicant hereby certifies that the structuring and pricing of the PIR Bonds, as described in the issuance advice letter, will result in Phase-In-Recovery Charges, consistent with market conditions and the terms set out in this Financing Order, that both measurably enhances cost savings to customers and mitigates rate impacts to customers as compared with the recovery method previously approved for the Applicant.

The forgoing certifications do not mean that lower PIR Bond charges could not have been achieved under different market conditions, or that the structuring and pricing of the PIR Bonds under conditions not permitted by the Financing Order could not also have achieved lower PIR Bond charges.

Applicant is delivering this Certification to the Commission solely to assist the Commission in establishing compliance with the aforementioned standard. Applicant specifically disclaims any responsibility to any other person for the contents of this Certification, whether such person claims rights directly or as third-party beneficiary.

Respectfully submitted,

OHIO POWER COMPANY

By: _____

Name: _____

Title: _____

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

9/28/2012 2:50:44 PM

in

Case No(s). 12-1969-EL-ATS

Summary: Reply Comments electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company