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 for Tariff and Bill Format Changes.	:	

SUPPLEMENTAL INITIAL COMMENTS AND RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

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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 for Tariff and Bill Format Changes.	:	Case No. **12-1969-EL-ATS**

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I. BACKGROUND

A. Introduction

The Staff provides these initial supplemental comments (Staff Supplemental Comments) to address the issues raised in Ohio Power Company's (OPCo) Supplemental Comments filed on November 9, 2012 (OPCo's Supplemental Comments) addressing certain concerns:

B. Description of OPCo's Revised Transaction and OPCo's Concerns

In OPCo's Supplemental Comments, OPCo addressed among other things the following concerns:

1. Pursuant to its order on October 10, 2012, in Case No. 12-1126-EL-UNC, *In the Matter of the Application of Ohio Power Company for Approval of an Amendment to its Corporate Separation Plan*, the Commission ordered OPCo to remove the defeasance cost included in the estimated upfront financing costs included in its Application. OPCo has provided with these comments Revised Exhibits A through G to show the impact of this requirement.

2. The Commission must permit the true up and collection of phase-in-charges sufficient to pay all ongoing financing costs. In the FirstEnergy Financing Order (the "FE Order)) Commission's capping of the Special Purpose Entity's (SPE) ability to recover upfront and incremental "ongoing" financial cost through PIR Charges would expose the SPE to risks of insolvency in a manner that OPCo believes is detrimental to the SPE's ability to achieve "AAA" rating on the Phase-In-Recovery (PIR) bonds so as to maximize the savings to OPCo customers.

3. A Financing Order must contemplate the possibility of a replacement servicer, unaffiliated with the utility, and authorize the collection of a higher servicing fee for such an entity.

4. The Financing Order should provide at least minimal protections for bondholders regarding the potential for third party billing. In the FE Order, the Commission has deferred to a later date of the establishment of the terms and conditions under which the third party electric providers who are not EDU could collect PIR charges. This would not provide minimal protection to the PIR bondholders regarding the potential for third party billing.

5. The fee cap for Commission's financial advisor is out of proportion to recent financings. In the FE Order, the Commission authorized fee cap for the Financial Advisor is out of proportion to recent financings and such fee will impact on consumer savings.

6. The Commission's review of the Issuance Advice Letter needs to be limited to confirming that the final terms of the PIR bonds satisfy the requirement of the Financing Order.

In these Staff Supplemental Comments the Staff addresses the results of the review of OPCo's above mentioned concerns and presents its recommendations. The Staff's intent is to provide the Commission and other interested parties information sufficient to permit an appropriate determination on this case. However, the recommendations of this report should not be misconstrued as binding upon or limiting the scope of the Commission consideration.

II. STAFF'S ANALYSIS

The Staff reviewed OPCo's Supplemental Comments and presents the following analysis:

A. The Benefits of Securitization

For purposes of estimating the benefits from securitization, OPCo now estimates 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 estimates $6.53 million of upfront Financing Costs (Upfront Financing Costs), for an approximate issuance amount of $296.508 million. Based upon the proposed recovery period of seven years, OPCo estimates that the costs savings to customers on a nominal basis and on a net-present value basis would be about $21.9 million and $28.8 million, respectively, based on current interest rates and market conditions.

The proposed securitization is expected to mitigate rate impacts to OPCo's 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%. Consumers will benefit on a net present value basis so long as the expected weighted average interest rate of the PIR Bonds does not exceed 4.2%, and does not exceed 3.3%, on a nominal value basis, as shown in the Revised Exhibit A to OPCo's Supplemental Comments.

Based upon current market conditions, typical structural features, and other features, OPCo now estimates that the weighted average annual interest cost of the PIR Bonds to be less than 1.09%. According to OPCo, this would result in significant cost savings and mitigation of rate impacts through the proposed PIR Bond issuance.

According to OPCo, based on the PIR Bond expected principal repayment schedule reflected in Revised Exhibit A of the OPCo Supplemental Comments only a weighted average rate on the PIR Bonds at or above 4.2% would negate, on a net present value basis, the benefits associated with the Company's proposal.

B. Up-front and Ongoing Financing Costs

In its supplemental comments, OPCo revised its Upfront Financing Costs to reflect, among other things, the removal of defeasance cost of the pollution control bonds, and the addition of the maximum financial advisor's fees. OPCo also revised its Ongoing Financing Costs to reflect the changes in servicing fees for both OPCo or a third party as the servicer. OPCo will incur certain upfront financing costs related to retiring, refunding 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. OPCo's current estimate of such upfront financing costs is about $6.5 million in the aggregate, including the financial advisor's fees of approximately $1.5 million and excluding the debt retirement/defeasance costs of about $11 million, as described in Revised Exhibit B to OPCo's Supplemental Comments.

OPCo also estimates that it will incur ongoing financing costs of $621,518 if the company functions as the servicer of the PIR Bonds. The Company estimates that it will incur ongoing financing costs of about $2.6 million if a third party functions as the servicer of the PIR Bonds.

Finally, the initial PIR Charges will be determined by OPCo prior to the issuance of the PIR Bonds and filed with the Commission in the Final Tariff Sheet as an attachment to the Issuance Advice Letter. These charges will be final and effective upon the issuance of the PIR Bonds, without further Commission action.

A more detailed description of the adjustment mechanism is provided in Revised Exhibit E to OPCo's Supplemental Comments.

III SECURITIZATION TESTS AND REVIEWS

OPCo now states that the securitization transaction is expected to significantly reduce the carrying charges over the recovery period for these Phase-In Costs through the issuance of the PIR Bonds resulting in estimated nominal costs savings to customers of approximately $21.9 million in the aggregate as shown on Revised Exhibit A to the OPCo's Supplemental Comments which includes $1.5 million of Financial Advisor's Fees as described in the OPCo's Supplemental Comments.

The Staff applied the following tests and reviews to verify whether the proposed securitization transaction presented in OPCo's Supplemental Comments satisfied certain conditions:

(a) The total revenue test,

(b) The present value test,

(c) The proceeds test, and

(d) Bond Structuring and Pricing review.

A. Introduction

The cost/benefit analysis provided by the Company demonstrates that the securitization meets all required test criteria under the estimated case scenario. The total revenues from the PIR Charges will be less than the total revenue requirements under conventional utility financing methods in the expected case scenarios. In the estimated case scenario, securitization will result in revenues of about $21.9 million less than the revenues under the Commission's previously approved recovery methods. (Source: Revised Exhibit A to OPCo's Supplemental Comments)

In the expected case scenario, the securitization will result in tangible and quantifiable benefits to consumers using the present value test. OPCo's retail consumers will pay $28.8 million less on a present value basis in the estimated scenario than they would pay if the same balance were recovered through the previously approved recovery methods.

The proceeds test will be satisfied when the Companies primarily use the proceeds they receive from the issuance of PIR Bonds, in exchange for the sale of the PIR Property to redeem, retire, and repay a portion of its existing debt.

Lastly, the proposed securitization financing appears to have been designed and structured to ensure that the PIR Bonds receive the highest bond rating reasonably possible, consistent with the objective of obtaining the lowest overall cost of financing through securitized PIR Bonds.

B. Total Revenue Test

The total revenue test is intended to verify whether the total amounts of revenues to be collected under the Financing Order will be less than the revenue requirement that would be recovered using existing cost recovery/ratemaking methods.

To the extent the total amounts billed under securitization is less than the total amounts billed under DARR (See Table-1 below), it demonstrates that the securitization meets the total revenue test.

TABLE-1

Total Amounts Billed under DARR	$ 341,289,933
Total Amounts Billed under Securitization	$ 319,380,734
Savings From Securitization	$ 21,909,199

Source: Revised Exhibit A to OPCo’s Supplemental Comments

The total amounts billed under securitization include the principal and interest payments to be made over the expected life of the PIR Bonds as shown in Revised Exhibit A to OPCo's Supplemental Comments. The PIR Charge also includes the estimated annual, ongoing Financing Costs as shown in Revised Exhibit A to OPCo's Supplemental Comments, which are not included in the existing DARR.

The total amounts billed under DARR were determined using the same amount of recoverable balance as was used to compute the present value benefit from securitization, but recognizing certain differences between the two recovery methods. Specifically, the costs that relate solely to a securitization transaction, *e.g.*, the up-front Financing Costs of issuance and Ongoing Financing Costs of supporting and servicing the PIR Bonds, are not included in the computation of costs under DARR. Costs recovered under DARR assume recovery through 2018, using the return on assets of 5.34%, as shown in Revised Exhibit A to OPCo's Supplemental Comments.

C. Present Value Test

The present value test is intended to ensure that the net present value of the amount billed under securitization does not exceed the present value of total amount billed under DARR over the PIR Bond life discounted using the proposed interest rate on the PIR Bonds.

To the extent the estimated present value of the total amounts billed under securitization does not exceed the estimated net present value of total amounts billed under DARR, it demonstrates that the securitization meets the net present value test, as illustrated in Table-2 below.

TABLE-2

Present Value	Estimated Comparison* (in millions)
Phase-In Recovery Charges	$ 294,060,850
Existing Cost Recovery/Ratemaking	$ 265,306,484
Savings From Securitization	$ 28,754,366

Source: Revised Exhibit A to OPCo's Supplemental Comments

If the PIR Bonds are issued with a weighted average annual interest rate on the PIR Bonds of 1.09%, OPCo has estimated that it will result in nominal savings to its customers of about $21.9 million and a net present value savings of about $28.8 million when compared to the cost recovery mechanism previously approved by the Commission through the DARR. If the weighted average annual interest rate of the PIR Bonds reaches at or above 4.25%, on a net present value basis, and at or above 3.32%, on a nominal value basis, OPCo's customers will not realize any savings from the securitization. (Revised Exhibit A to OPCo's Supplemental Comments)

### D.	Proceeds Test

The proceeds test is intended to ensure that the proceeds from the PIR Bonds are primarily used for the purposes of the repayment of the existing long-term debt of the Company.

As mentioned previously, OPCo now proposes to use the proceeds from the issuance of the PIR Bonds, net of its Upfront Financing Costs, to redeem, retire, repay a portion of its existing debt.

D. Bond Structuring and Pricing Review

The structuring and pricing review is intended to ensure that the structuring and pricing of the PIR Bonds result in the lowest PIR charges consistent with market conditions and the terms of the Financing Order.

The Company shall confirm that the actual terms of the PIR Bonds results in compliance with the issuance standards in the following manner:

OPCo has presented evidence through Revised Exhibit A to the OPCo's Supplemental Comments that the issuance of PIR Bonds will, assuming a weighted average annual interest rate on the PIR Bonds of 1.09%, result in nominal value savings to OPCo's customers of approximately $21.9 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 $28.8 million when compared to the DARR. OPCo has further presented evidence through Revised 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 PIR Bonds does not exceed 4.2% and savings on a nominal basis so long as the weighted average annual interest rate does not exceed 3.32%.

E. Summary

The Staff has reviewed Revised Exhibit A to OPCo's Supplemental Comments, which compares the existing rate making structure with the securitization structure, and believes the rate development methodology is reasonable as long as the financing structure results in a reduction of amount payable by customers on both a nominal and a net present value basis as compared with existing recovery mechanisms.

IV. SUMMARY OF OPCO'S CONCERNS AND STAFF RECOMMENDATIONS:

As stated previously, in its Supplemented Comments OPCO responded to several of the Commission's rulings in the FE Securitization Financing Order. Specifically, OPCO raised the following concerns:

- The Commission must permit the true up and collection of phase-in-charges sufficient to pay all "ongoing" financing costs.
- A Financing Order must contemplate the possibility of a replacement servicers, unaffiliated with the utility, and authorize the collection of a higher servicing fee for such an entity.
- The Financing Order should provide at least minimal protections for bondholders regarding the potential for third party billing.
- The fee cap for the Commission's financial advisor is out of proportion to recent financings.

- The Commission's review of the Issuance Advice Letter needs to be limited to confirming that the final terms of the bonds satisfy the requirements of the Financing Order.

Rather than address each of these concerns individually, the Staff notes that AEP has not raised any new information or circumstances that were not present in the FE Securitization Case and that the Commission has addressed each of these concerns in the Entry on Rehearing in the FE Securitization Case.

V. CONCLUSION

The Staff respectfully requests that the Commission make the above-referred changes/adjustments in its Financing Order in this case.

Respectfully submitted,

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VI. PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 4th day of January, 2013.

/s/ Thomas W. McNamee

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