

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Ohio Power Company to Establish)	
a Competitive Bidding Process for)	Case No. 12-3254-EL-UNC
Procurement of Energy to Support its)	
Standard Service Offer)	

SUPPLEMENT TO APPLICATION

Ohio Power Company d/b/a AEP Ohio (“AEP Ohio” or the “Company”) submits this supplement to its December 21, 2012 Application to establish a competitive bidding process (CBP) for procurement of energy to support its standard service offer (SSO). For the purpose of supplementing its Application, AEP Ohio states the following:

1. In its Application, the Company stated its intention to amend or supplement its Application to “detail the recovery of auction-related costs through retail rates” after the Commission issued its rehearing decision in the ESP II proceeding. (Application at 3.)
2. On January 30, 2013, the Public Utilities Commission of Ohio (Commission) issued its Entry on Rehearing in Case Nos. 11-346-EL-SSO *et al.* (“ESP II Rehearing Order”). The ESP II Rehearing Order addressed certain issues relating to AEP Ohio’s upcoming energy auctions as well as some retail rate issues related to the energy auctions. The ESP II Rehearing Order did not, however, address other issues relating to the retail rate impact of the upcoming energy auctions, explicitly deferred some of those issues into this docket, and generally ostensibly anticipated

that the unresolved issues would be addressed through this docket. (*See e.g.*, ESP II Rehearing Order at ¶¶ 36, 40 and 42.)

3. On January 31, 2013, the Commission issued an Entry in this proceeding that, among other things, gave AEP Ohio the opportunity to amend or supplement its Application in the manner described above.
4. While AEP Ohio continues to support the proposals described in its Application detailing the energy auction procurement process and rules for competitively procuring energy during the ESP II term, this Supplement adds to the Application in order to further address matters relating to recovery of the auction-related costs in retail SSO rates.¹ As further described below, there are two categories of auction-related costs that AEP Ohio continues to seek full recovery of through retail SSO rates: (i) auction clearing prices for all of the tranches purchased under auctions resulting in delivery of 10%, 60% and 100% of SSO energy mandated by the ESP II Opinion and Order and Rehearing Order, and (ii) prudently-incurred costs of conducting the energy auctions, including but not limited to the auction manager/consultant fees, stakeholder process incidental expenses, costs of default and contingency plans associated with the energy supply contracts, balancing charges incurred in administering the

¹ For example, proposals were advanced on rehearing in the ESP II proceeding to conduct separate auctions for the CSP and OP rate zones and the Commission deferred those questions to this docket. While AEP Ohio's Supplement does not specifically address that matter, the Company continues to advance the CBP proposals in its Application which involve procurement of tranches based on AEP Ohio's SSO load without separating the rate zones. *See e.g.*, Application. Exhibit A at §I.2.2 (definition of "Energy Load" is based on the hourly energy requirements of AEP Ohio's SSO customers); Exhibit A at §III.1.1 (suppliers bid to supply tranches of "Energy Load"); and Exhibit C at Art. 1 (definition of "Energy Load" is hourly SSO load of AEP Ohio).

energy supply contracts, and incremental internal costs incurred by AEP Ohio in conducting the auctions.

5. In order to blend the auction clearing energy prices with AEP Ohio's generation rates, it is necessary and appropriate to first unbundle the FAC into fixed/non-energy and variable/energy rate components, as further discussed below.
6. Throughout the ESP II proceeding, among other dockets, it was discussed and widely acknowledged that AEP Ohio's FAC rates do not just reflect pure energy costs. More specifically, the FAC rates have always reflected fixed/non-energy costs as well as variable/energy costs.² The clearing prices from the upcoming energy auctions will reflect pure energy prices; only the energy component of the FAC should be blended with energy auction clearing prices in order to accurately formulate energy rates for SSO customers. AEP Ohio proposes to file compliance tariffs to unbundle the FAC (as described below) within 30 days of a decision in this case and prior to the delivery period for the initial 10% energy auction.
7. AEP Ohio's proposed methodology for unbundling the Energy (Variable) and Non-Energy (Fixed) components of the FAC is reflected in Exhibit G attached to this Supplement.³ The proposed methodology is consistent with the existing FAC accounting and rate methodology, is based on

² See e.g. AEP Ohio Ex. 103 (Direct Test. of Nelson) at 14 (FAC rates reflect demand charges); AEP Ohio Ex. 105 (Direct Test. of Roush) at 14 (generation rates reflect an amalgamation of very old cost relationships, including any historical levels of cross-subsidization among and within tariff classes).

³ AEP Ohio's Application contained Exhibits A through E, so the Supplement will continue that series with Exhibit F.

FERC accounting, and is objective and transparent. The Energy (Variable) costs resulting from this unbundling process are the most comparable to the clearing prices from the energy auctions. As indicated in Exhibit G, both unbundled components would continue to be computed on a rate zone basis and adjusted quarterly, consistent with the current FAC practice. The rates would also continue to be different by rate zone and service voltage.

8. Once the FAC is unbundled into separate rate components (for each FAC rate zone) in accordance with the methodology reflected in Exhibits F and G, the unbundled Energy (Variable) component can be blended with the clearing prices from the energy auctions in order to produce a retail SSO energy rate that reflects the appropriate combination of energy costs of AEP Ohio. More specifically, the unbundled Non-Energy (Fixed) component of the FAC will be included in a new Fixed Cost Rider and includes FAC costs not otherwise comparable to elements of the Auction.
9. The Fixed Cost Rider would apply through May 31, 2015. The Fixed Cost Rider should continue to be charged throughout the ESP term, as those costs are not diminished or otherwise affected by procurement of energy through the CBP auction process.⁴ And it would be inappropriate to

⁴ While the ESP II Opinion and Order and Rehearing Order contemplated that the FAC in 2015 would only involve a reconciliation factor in 2015, the details of the CBP and the retail rate recovery relating to the energy auctions were left for determination in this docket, as explained above. The Company is indifferent as to whether the fixed/non-energy component of the unbundled FAC is captured through a new rider or is considered part of a limited-purpose FAC in 2015. But continued recovery of the fixed/non-energy costs in 2015 is essential and is within the scope of the issues left undetermined in the ESP II Rehearing Order and deferred to this docket.

eliminate recovery of such fixed costs in conjunction with the energy auctions. The Fixed Cost Rider rates for January through May 2015 will continue to be charged based on December 2014 cost levels.

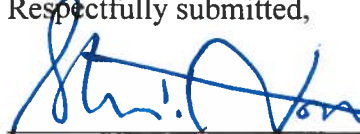
10. As described in Exhibit G, the FAC Energy Component will be included in a new Auction Phase-In Rider, which would also include an Auction Purchase Component to incorporate the costs of the Competitive Bids (Auction Energy plus Auction Costs). The Auction Purchase Component of the Auction Phase-In Rider would be the same for both rate zones and would be different by service voltage. This would establish a single rider by rate zone that includes comparable elements during the transition from full FAC rates to full Auction rates. Exhibit G also contains an illustration of how the Auction Phase-In Rider would operate. Over-recovery and under-recovery accounting would be used for both the Fixed Cost Rider and the Auction Phase-In Rider with reconciliation in the subsequent period.
11. Accordingly, as reflected in Exhibit G, the total SSO rates paid by non-shopping customers include three basic rate components: base (non-fuel) generation rates, the Fixed Cost Rider, and the Auction Phase-In Rider. During the delivery period for both the 10% and 60% energy auctions (*i.e.*, through December 31, 2014), current base generation rates would continue to be charged. In accordance with the ESP II Rehearing Order, base generation rates during the 100% energy auction delivery period (*i.e.*,

January through May 2015) would be adjusted to reflect capacity costs of \$188.88/MW-day.

12. Regarding recovery of the prudently-incurred costs incurred in conducting the energy auctions other than the auction clearing prices, those costs would also be recovered (on a levelized basis during the delivery period of all three energy auctions) through the Auction Phase-In Rider, as reflected in Exhibit G. A current estimate of the auction costs that can currently be estimated is reflected in Exhibit H. Once the costs are finalized, there would be a reconciliation to ensure that the Company recovers the actual costs incurred.
13. AEP Ohio reserves the right to further supplement its proposals through the course of this proceeding, using whatever process the Commission employs to resolve the issues being presented.

WHEREFORE, AEP Ohio respectfully requests that the Commission grant the relief described in its December 21, 2012 Application and in this Supplement.

Respectfully submitted,



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Exhibit F

Unbundling Methodology - Current FAC Accounts

Line	Account	Description	Non-Energy (Fixed)	Energy (Variable)
1	4118002	Comp. Allow. Gains SO2		X
2	4118003	Comp. Allow. Gains-Seas NOx		X
3	4118004	Comp. Allow. Gains-Ann NOx		X
4	4119002/4119003	Loss Disposition of Allowances		X
5	5010000	Fuel (Ash Handling)		X
6	5010001/22/23/33	Fuel Consumed		X
7	5010003	Fuel - Procurement, Unloading & Handling		X
8	5010009	Fuel Consumed - No Load		X
9	5010011	Fuel Handling - No Load		X
10	5010012	Ash Sales Proceeds		X
11	5010013	Fuel Survey Activity		X
12	5010019	Fuel Oil Consumed		X
13	5010020/5010036	Natural Gas Consumed		X
14	5010027/5010029	Gypsum handling/disposal costs		X
15	5010028	Gypsum Sales Proceeds		X
16	5010032	Coal Procurement-Aff		X
17	5020001	Lime Expense		X
18	5020002	Urea Expense		X
19	5020003	Trona Expense		X
20	5020004	Limestone Expense		X
21	5020005	Polymer expense		X
22	5020007	Lime Hydrate Expense		X
23	5020008	Activated Carbon		X
24	5020025	Steam Exp Environmental		X
25	5090000/5090002	Allowance Consumption - SO2		X
26	5090001	Allowance Consumption - Seasonal NOx		X
27	5090003	CO2 Allowance Consumption		X
28	5090005	Allowance Expenses - Annual NOx		X
29	5470001/5470003	Fuel - Gas Turbine		X
30	5470004	Fuel - Gas Turbine - Purchasing / Handling Costs		X
31	5550001	Purchased Power - NonTrading		X
32	5550003	Purchased Power - Cogeneration		X
33	5550004	Purchased Power - Pool Capacity	X	
34	5550005	Purchased Power - Affil. Primary/Econ. Pool Energy (Fuel)		X
35	5550023	Purchased Power - Capacity	X	
36	5550031/5550032	Purchased Power - Mone (Fuel)		X
37	5550032	Purchased Power - Mone - Non-Fuel		X
38	5550040	PJM Inadvertent – LSE (only)		X
39	5550046	PP - Fuel Portion - Affil (PP from West Pool)		X
40	5550046	PP - Fuel Portion - Affil (PP from AEG-Lawrenceburg)		X
41	5550046	Purchased Power-Non-Fuel Portion - Affiliated (PP from West Pool)		X
42	5550046	PP - Fuel Portion - Affil (PP - Lawrenceburg fuel handling)		X
43	5550047	Purchased Power - Wind		X
44	5550080	PJM Energy Purchases (Fuel)		X
45	5550086	Purchased Power - O&M portion-Affiliate (Lawrenceburg)		X
46	5550087	Purchased Power - Tax portion-Affiliate (Lawrenceburg)		X
47	5550093	Peak Hour Avail Charge - LSE	X	
48	5550094	Purchased Power-Trading-Nonassoc (Fuel)		X
49	5550096 - in part	PP - Non Trade - Non-Fuel (OVEC, 3rd party)		X
50	5550096 - in part	PP - OVEC Demand-Actual	X	
51	5550101	PP Pool Non Fuel -Aff (primary/econ. purchases from East Pool)		X
52	5550104	Defd Depr & Capacity portion-Affili (Lawrenceburg)	X	
53	5550105	Depr & Capacity portion-Affili (Lawrenceburg)	X	
54	5550109	Purchased Power - Solar		X

Exhibit G

AEP Ohio
Supplement to December 21, 2012 Application
Competitive Bid Process

1. Components of Retail Riders

Existing Riders	Components	Components	Proposed Riders
FAC	Non-Energy (Fixed) ^{1,2}	Non-Energy (Fixed) ²	Fixed Cost Rider
	Energy (Variable) ²	Energy (Variable) ²	Auction Phase-In Rider
		Auction Purchase ³ Auction Costs ^{3,4}	

2. FAC Component Example ⁵

FAC	Non-Energy (Fixed)
\$44.0	\$4.0
	Energy (Variable)
	\$40.0

3. Auction Phase-In Rider Example ⁵

	Pre-Auction	Auction Phase 1	Auction Phase 2	Auction Phase 3
Auction Purchase Component	\$0.0	\$4.0	\$24.0	\$40.0
FAC Energy (Variable) Component	\$40.0	\$36.0	\$16.0	\$0.0 ⁶
Auction Cost Component	\$0.0	\$0.1	\$0.1	\$0.1
Total	\$40.0	\$40.1	\$40.1	\$40.1

4. Charges to Retail Customers by Time Period

	Pre-Auction Compliance Tariff (30 days after CBP Order)	Auction Phase 1 10% Energy Auction TBD - 5/31/14	Auction Phase 2 60% Energy Auction 6/1/14 - 12/31/14	Auction Phase 3 100% Energy Auction 1/1/15 - 5/31/15
Base g	Current Base g Rates	Current Base g Rates	Current Base g Rates	Base g Rates reflecting Capacity at \$188.88
Fixed Cost Rider	Non-Energy (Fixed) Costs	Non-Energy (Fixed) Costs	Non-Energy (Fixed) Costs	Non-Energy (Fixed) Costs ⁷
Auction Phase-In Rider	Energy (Variable) Costs	Energy (Variable) Costs + Auction Purchase Price x Auction % + Auction Costs	Energy (Variable) Costs + Auction Purchase Price x Auction % + Auction Costs	Auction Purchase Price x Auction % + Auction Costs

¹ The existing FAC rider will be separated into two components, a FAC Non-Energy (Fixed) Component and a FAC Energy (Variable) Component.

² The FAC Energy (Variable) component of the Auction Phase-In Rider and the Fixed Cost Rider would be computed on a rate zone basis and adjusted quarterly, consistent with the current FAC practice. The rates would be different by rate zone and service voltage.

³ The Auction Purchase and Auction Costs components of the Auction Phase-In Rider would be the same for both rate zones and would be different by service voltage.

⁴ Auction Costs are levelized costs associated with the energy auctions, but exclude the cost of procured energy.

⁵ Values are illustrative only, stated in \$/MWH. Actual values may be higher or lower.

⁶ There would be a final true-up of 2014 costs in 2015.

⁷ Rider would be frozen at December 31, 2014 levels for January to May 2015.

Exhibit H

Estimated Costs for the Mandated Energy Auctions			
		Total	
Auction Manager Fees/Expenses		\$ 1,755,000	
Auction Incidentals		\$ 7,000	
Internal Incremental Auction Costs		\$ 570,000	
Total		\$ 2,332,000	
Note: Certain costs associated with the auctions, such as contingency plans and balancing charges are not feasible to estimate with any level of certainty and therefore are not included in the initial estimate.			

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Supplement by Ohio Power Company was served upon the parties of record of the Public Utilities Commission of Ohio by electronic service this 11th day of February 2013.



Steven T. Nourse

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Summary: Application SUPPLEMENT to Application electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company