

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 Approval of)
Tariff and Bill Format Changes)

Case No. **12-1969-EL-ATS**

**ISSUANCE ADVICE LETTER FOR OHIO POWER COMPANY'S 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 the close of business on the second business day after the pricing of this series of Senior Secured Phase-In-Recovery Bonds ("PIR Bonds"), the information referenced below. The issuance Advice Letter is for the PIR Bonds tranches A-1 and A-2. 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 issuance standards;
- (c) The actual terms and structure of the PIR Bonds being issued;
- (d) Together with the concurrent tariff filing being made by the Applicant, the initial Phase-In-Recovery Charges for retail users; and
- (e) The identification of the Special Purpose Entity (SPE)

PHASE-IN RECOVERY COSTS BEING SECURITIZED:

The total amount of Phase-In Costs and Upfront Financing Costs being securitized (the amount of the PIR Bonds) is presented in Attachment-1, Schedule A.

COMPLIANCE WITH ISSUANCE STANDARDS

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

1. The total amount of Phase-In Recovery Charge revenues to be collected under the Financing Order is less than the revenue requirement that would be recovered using the existing cost recovery mechanism of the Applicant (the Deferred Asset Recovery Rider ("DARR") authorized by the Commission on December 14, 2011. Case Nos. 11-351-EL-AIR and 11-352-EL-AIR.) (See Attachment 2, Schedule C and D);
2. The present value of the revenues to be billed under the Financing Order will not exceed the present value of revenue that would be expected to be billed using the existing cost recovery method of the Applicant; (See Attachment 2, Schedule D);
3. The PIR Bonds will be issued in one series comprised of two tranches having an expected scheduled final payment date no later than 6.71 years from the date of issuance and a legal final maturity not exceeding 7.71 years from the date of issuance of such series (See Attachment 2, Schedule A); and
4. The structuring and pricing of the PIR Bonds is certified by the Applicant to result in the Phase-In-Recovery Charges as of the date of issuance consistent with market conditions and the terms set out in this Financing Order (See Attachment 3) that demonstrates both measurably enhanced cost savings to customers and mitigates rate impacts to customers as compared with Applicant's existing cost recovery methods previously approved by the Commission.

ACTUAL TERMS OF ISSUANCE

PIR Bond Series: Senior Secured Phase-In-Recovery Bonds, Tranches A-1 and A-2

PIR Bond Issuer (SPE): Ohio Phase-In-Recovery Funding LLC

Trustee: U.S. Bank National Association

Closing date: August 1, 2013

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

Amount Issued: \$ 267,408,000

PIR Bond Issuance Costs (upfront financing costs): See Attachment 1, Schedule B

PIR Bond Support and Servicing (ongoing financing costs): See Attachment 2, Schedule B

Tranche	Coupon Rate	Expected Final Maturity	Legal Final Maturity
A-1	0.9580%	07/1/2017	07/01/2018
A-2	2.0490%	07/1/2019	07/01/2020

Effective Annual Weighted Average Interest Rate of the PIR Bonds	1.58%
Life of Series:	5.92 years
Weighted Average Life of Series:	3.34 years
Call Provisions (including premium, if any):	Not callable
Target Amortization Schedule:	Attachment 2, Schedule A
Expected Final Maturity Date:	See above
Legal final Maturity Date:	See above
Payments to Investors:	Semiannually Beginning July 1, 2014
Initial annual Servicing Fee as a percent of original PIR Bond principal balance:	0.10%

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 August 1, 2013 to July 1, 2014	
Forecasted retail kWh sales for the applicable period:	41,973,915,178
PIR Bond debt service for the applicable period:	\$38,309,931
Percent of billed amounts expected to be charged-off	0.28%
Forecasted % of retail kWh sales billed and collected in the Applicable Period (%):	89.71%
Forecasted retail kWh sales billed and collected for the applicable period:	37,652,792,497
Current PIR Bond outstanding balance:	\$267,408,000
Target PIR Bond outstanding balance as of 7/1/2014	\$232,471,522
Total Periodic Billing Requirement for applicable period:	\$39,234,350

The Applicant submits this Issuance Advice Letter to the Commission in compliance with the Financing Order of March 20, 2013 and Entry on Rehearing of April 10, 2013 in Case No. 12-1969-EL-ATS to permit the issuance of the PIR Bonds on August 1, 2013.

July 24, 2013

Respectfully submitted,

/s/ Steven T. Nourse

Steven T. Nourse

American Electric Power Service Corp.

1 Riverside Plaza, 29th Floor

Columbus, OH 43215

Tel: (614) 716-1915

Email: stnourse@aep.com

Counsel for Ohio Power Company

Cc: Parties of Record

ATTACHMENT-1
SCHEDULE-A

TOTAL AMOUNT SECURITIZED

Amount permitted to be Securitized by Financing Order	\$298,018,000
Phase-In-Costs	\$263,667,605
Upfront Financing Costs	\$3,740,395
TOTAL AMOUNT SECURITIZED	\$267,408,000

ATTACHMENT-1
SCHEDULE-B

ESTIMATED UP-FRONT FINANCING COSTS

		<u>AMOUNT</u>
1	Underwriters' Fees	\$ 903,132
2	Legal Fees	\$1,674,500
3	Rating Agency Fees	\$ 300,000
4	Company Advisor Fees & Expenses	\$ 50,000
5	Printing/Edgarizing	\$ 20,000
6	SEC Registration Fees	\$ 37,919
7	Miscellaneous Administration Costs	\$ 75,844
8	Accountant Fees	\$ 170,000
9	Trustee's Fees	\$ 9,000
10	Financial Advisor's Fees	\$ 500,000
10	TOTAL UP-FRONT FINANCING COSTS	\$3,740,395

ATTACHMENT-2
SCHEDULE-A

PIR BOND REVENUE REPAYMENT SCHEDULE

<u>Tranche A-1</u>				
Payment Date	Principal Balance (\$)	Interest (\$)	Principal (\$)	Total Payment (\$)
8/1/13	164,900,000			
7/1/14	129,963,522	1,448,097	34,936,478	36,384,575
1/1/15	107,763,420	622,525	22,200,102	22,822,628
7/1/15	84,536,959	516,187	23,226,461	23,742,648
1/1/16	61,790,651	404,932	22,746,308	23,151,240
7/1/16	38,672,593	295,977	23,118,058	23,414,035
1/1/17	16,232,132	185,242	22,440,461	22,625,702
7/1/17	-	77,752	16,232,132	16,309,884
1/1/18	-	-	-	-
7/1/18	-	-	-	-
1/1/19	-	-	-	-
7/1/19	-	-	-	-
1/1/20	-	-	-	-
7/1/20	-	-	-	-
Total		3,550,712	164,900,000	168,450,712

Amounts rounded to the nearest dollar

<u>Tranche A-2</u>				
Payment Date	Principal Balance (\$)	Interest (\$)	Principal (\$)	Total Payment (\$)
8/1/13	102,508,000			
7/1/14	102,508,000	1,925,357	-	1,925,357
1/1/15	102,508,000	1,050,194	-	1,050,194
7/1/15	102,508,000	1,050,194	-	1,050,194
1/1/16	102,508,000	1,050,194	-	1,050,194
7/1/16	102,508,000	1,050,194	-	1,050,194
1/1/17	102,508,000	1,050,194	-	1,050,194
7/1/17	94,878,311	1,050,194	7,629,689	8,679,883
1/1/18	72,047,744	972,028	22,830,568	23,802,596
7/1/18	47,922,805	738,129	24,124,939	24,863,068
1/1/19	24,586,670	490,969	23,336,135	23,827,104
7/1/19	-	251,890	24,586,670	24,838,560
1/1/20	-	-	-	-

7/1/20	-	-	-	-
Total		10,679,540	102,508,000	113,187,540

Amounts rounded to the nearest dollar

ATTACHMENT-2
SCHEDULE-B

ONGOING FINANCING COSTS

	<u>ANNUAL AMOUNT</u>
Ongoing Servicer Fee (Applicant as Servicer) ¹ (0.10% of initial principal balance of the bonds)	\$267,408
Administration Fees	\$50,000
Accountants Fees	\$75,000
Legal Fees	\$45,000
Trustee's Fees & Expenses	\$3,000
Independent Managers Fees	\$5,000
Rating Agency Fees	\$35,000
Printing/EDGAR expenses	\$2,500
Return on Capital Account ²	\$71,398
Miscellaneous	\$26,602
TOTAL ONGOING FINANCING COSTS	\$580,908

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 in Ongoing Financing Costs through the true-up process described in the Financing Order, subject to the adjustment for such Ongoing Financing Costs in any year not exceeding 105% of an amount equal to the total of such costs estimated in the application for the Financing Order.

¹ Assumes Applicant will act as Servicer for the life of the PIR Bonds. If in the future a third party that is not an EDU acts as servicer for the PIR Bonds, the servicing fee may be increased up to 0.75% of the initial principal balance of the PIR Bonds in accordance with the Financing Order.

² Applicant funded capital subaccount in an amount equal to 0.50% of the PIR Bond issuance amount and earns an annual rate of return of 5.34% thereon.

ATTACHMENT-2**SCHEDULE-C****SUMMARY OF PHASE-IN RECOVERY CHARGES**

Year	<u>PIR Bond Payment¹</u> <u>(\$)</u>	<u>Ongoing Financing Costs²</u> <u>(\$)</u>	<u>Total nominal Phase-In Recovery Charge Requirement³</u> <u>(\$)</u>	<u>Present Value of Phase-In Recovery Charges⁴</u> <u>(\$)</u>
0.0				
0.9	38,309,931	532,499	39,234,350	37,384,072
1.4	23,872,822	290,454	24,407,084	22,651,265
1.9	24,792,842	290,454	25,336,386	22,902,226
2.4	24,201,434	290,454	24,739,012	21,780,698
2.9	24,464,230	290,454	25,004,458	21,441,904
3.4	23,675,897	290,454	24,208,171	20,219,216
3.9	24,989,767	290,454	25,535,299	20,773,023
4.4	23,802,596	290,454	24,336,149	19,282,665
4.9	24,863,068	290,454	25,407,321	19,607,875
5.4	23,827,104	290,454	24,360,904	18,311,397
5.9	24,838,560	290,454	25,382,566	18,583,180
6.4	-	-	-	-
6.9	-	-	-	-
Total	281,638,252	3,437,039	287,951,701	242,937,520

Amounts rounded to the nearest dollar¹ From Attachment 2, Schedule A² From Attachment 2, Schedule B³ Sum of PIR Bond payments and ongoing financing costs and taxes owed.⁴ The discount rate used is the weighted average cost of debt for Ohio Power.

ATTACHMENT-2
SCHEDULE-D

COMPLIANCE WITH THE NOMINAL AND PRESENT VALUE STANDARD¹

	Existing DARR Rate (\$) ²	Securitization Financing (\$)	Savings/(Cost) of Securitization Financing (\$)
Nominal	306,550,309	287,951,701	18,598,608
Present Value	266,766,198	242,937,520	23,828,678

¹ Calculated in accordance with the methodology used in the Application

² Carrying costs at 5.34%

ATTACHMENT-3

CERTIFICATION OF COMPLIANCE

Ohio Power Company
1 Riverside Plaza
Columbus, OH 43215

Date: July 24, 2013

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

Applicant, Ohio Power Company, submits this Certification pursuant to the Financing Order *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)*. All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order and the Issuance Advice Letter referenced herein.

In its Issuance Advice Letter dated July 24, 2013, the Applicant has set forth the following particulars of the PIR Bonds:

Name of PIR Bonds: Senior Secured Phase-In-Recovery Bonds

PIR Bond Issuer: Ohio Phase-In-Recovery Funding LLC

Trustee: U.S. Bank National Association

Closing date: August 1, 2013

Amount Issued: \$ 267,408,000

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

Distributions to Investors: Semi-annually on January 1 and July 1

Weighted Average Coupon Rate: 1.58%

Weighted Average Yield: 1.59%

Expected Final Maturity (Tranche A-1): July 1, 2017

Expected Final Maturity (Tranche A-2): July 1, 2019

Legal Final Maturity (Tranche A-1): July 1, 2018

Legal Final Maturity (Tranche A-2): July 1, 2020

Estimated NPV Savings of: \$ 23,828,678

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

- Included credit enhancement in the form of the true-up mechanism and an equity contribution of 0.50% of the original principal amount of the PIR Bonds to be deposited in the capital subaccount.
- Registered the PIR Bonds with the Securities and Exchange Commission to facilitate greater liquidity.
- Achieved preliminary Aaa/AAA ratings from the two major rating agencies with final Aaa/AAA as a condition to closing.
- Selection of underwriters that have relevant experience and execution capabilities was affirmed by the Company, the Commission Staff and the Commission's Financial Advisor.
- The marketing presentations were developed to emphasize the strong credit quality and security related to these bonds, and provides relative value analysis to other competing securities.
- Provided the termsheet and preliminary prospectus by e-mail to prospective investors.
- Allowed sufficient time for investors to review the termsheet and preliminary prospectus and to ask questions regarding the transaction.
- Ensured that the offering materials and investor presentation materials describe the legislative, political and regulatory framework and the bond structure with a focus on corporate/agency/other crossover buyers specifically targeted to achieve the transaction objectives, and held telephone one-on one conference calls with potential investors to discuss and answer questions.
- Arranged issuance of rating agency pre-sale reports during the marketing period.
- During the period that the bonds were marketed, held daily market update discussions with the underwriting team, the Commission's designated representative(s) and Commission's Financial Advisor to develop recommendations for pricing.
- Developed and implemented a marketing plan designed to encourage each of the underwriters to aggressively market the PIR Bonds to their customers and to reach out to a broad base of potential investors, including investors who have not previously purchased this type of security.
- Provided potential investors with access to an internet roadshow for viewing on repeated occasions at investors' convenience.

- Adapted the PIR Bonds offering to market conditions and investor demand at the time of pricing within the constraints set by the Financing Order. Variables impacting the final structure of the transaction were evaluated including the length of average lives and maturity of the bonds and interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for AAA ratings.
- Worked with the Commission's Financial Advisor to develop underwriter compensation and preliminary price guidance designed to achieve lowest possible interest rates.

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

The forgoing certifications do not mean that lower Phase-In-Recovery charges could not have been achieved under different market conditions, or that structuring and pricing the PIR Bonds under conditions not permitted by the Financing Order could not also have achieved lower Phase-In-Recovery 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: /s/ Renee V. Hawkins

Name: Renee V. Hawkins

Title: Assistant Treasurer

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Summary: Correspondence Issuance Advice Letter for Ohio Power Company's Phase-In Recovery Bonds electronically filed by Ms. Shana L Eiselstein on behalf of Ohio Power Co. and Nourse, Steven T. Mr.