

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application Seeking |) | |
| Approval of Ohio Power Company's |) | |
| Proposal to Enter into an Affiliate |) | |
| Power Purchase Agreement for |) | Case No. 14-1693-EL-RDR |
| Inclusion in the Power Purchase |) | |
| Agreement Rider |) | |

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|-------------------------------------|---|-------------------------|
| In the Matter of the Application of |) | |
| Ohio Power Company for Approval of |) | Case No. 14-1694-EL-AAM |
| Certain Accounting Authority |) | |

APPLICATION

As set forth in detail below, Ohio Power Company (AEP Ohio or the Company) submits this application to seek approval of the Company's proposal to enter into a new affiliate power purchase agreement (PPA) between the Company and AEP Generation Resources, Inc. (AEPGR) for inclusion in the PPA Rider (which is pending approval in Case Nos. 13-2385-EL-SSO et al., AEP Ohio's *ESP III* proceeding).

1. As part of its *ESP III* proposal, the Company proposed the PPA Rider. As detailed in the Application, testimony and briefing in the *ESP III* proceeding, the Company's PPA Rider proposal is a measure for stabilizing rates for both shopping customers and SSO customers alike – by passing through to customers the differential between PJM market prices and a cost-based contractual price. The PPA Rider would flow through to customers, on a non-bypassable basis, the net benefit of all revenues accruing to AEP Ohio resulting from the liquidation of PPA entitlements into the PJM market (including energy, capacity, ancillaries, etc.) less all costs associated with the PPA. While the PPA Rider could be either

- a credit or a charge during a given time period, inclusion of the AEPGR PPA in the PPA Rider would always provide a measure of stability in parallel to, and as a hedge against, more volatile market prices.
2. Equally important is that including the AEPGR PPA as part of the PPA Rider will protect Ohio's economy and reduce the likelihood of premature retirements of the relevant AEPGR generating plants due to short-term economic signals. Large base load generating plants are vital to Ohio's economy, as they employ hundreds of Ohioans and produce millions of dollars of annual economic benefit to the state and local economies; conversely, premature closure of the generating plants would be devastating to the local economies in which they currently operate.
 3. Including the AEPGR PPA in the PPA Rider will also promote Ohio competitive markets and keeps AEP Ohio on the path to a fully auction-based standard service offer (SSO). First, by providing a "safety net" against more volatile market prices, the PPA Rider helps encourage customers to shop by reducing the volatility pricing disincentive and providing a financial stability benefit. Second, the SSO supply will continue being supplied through the competitive bidding process and the capacity, energy and ancillary services associated with the PPA units will be liquidated in the PJM market. Thus, the PPA Rider promotes Ohio's energy policy by fostering competitive markets for both shopping and SSO customers.
 4. While the Company proposed initially to include the Ohio Valley Electric Corporation (OVEC) contractual entitlement,¹ the Company's *ESP III*

¹ The Commission previously approved AEP Ohio's retention of the OVEC contractual entitlement as part of the structural corporate separation that occurred at the end of 2013. *In the matter of the Application of*

Application (at page 8) noted that its proposal would enable the Company to petition the Commission to allow the inclusion of additional PPAs (or similar products) in the PPA Rider. Hence, the purpose of this Application is to present the new affiliate PPA for inclusion in the PPA Rider. The new PPA would be between AEP Ohio and AEPGR and this separate rider Application will allow the Commission to consider the additional PPA in parallel with the pending ESP III Application. The proposed PPA will only be executed if this Commission approves retail cost recovery through inclusion in the PPA Rider.

5. The weather events experienced this past Winter – during the Polar Vortex events in the First Quarter of 2014 – have provided an early warning about serious issues with electric supply, especially as it relates to generation resources in Ohio as compared to electric load in Ohio. For example, during the Polar Vortex events in the First Quarter of 2014, more than two-thirds of the generation resources that AEPGR will be retiring in 2015 were called upon to meet electricity demand in January.
6. While the proposed PPA will not avoid closure of units already planned for retirement in 2015, it would incorporate a long-term solution for other Ohio coal plants that are on the economic bubble going forward. As a related matter, the proposed PPA would help begin to address the current prospects faced by Ohio of being a perpetual importer of power and a taker of volatile market prices in the future. Among other things, those bleak prospects could undermine Ohio's economy not only for large industrial customers but for all commercial and

Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment of its Corporate Separation Plan, Case No. 12-1126-EL-UNC (December 4, 2013 Finding and Order and February 13, 2014 Entry on Rehearing).

residential customers. It is AEP Ohio's position that the proposed PPA will help address those interests in a way that promotes the best interests of the State of Ohio.

7. The wholesale rates paid to AEPGR under the proposed PPA are jurisdictional to the Federal Energy Regulatory Commission (FERC) and could only be challenged through proceedings before the FERC. But the Commission will have reasonable and adequate regulatory jurisdiction over several aspects of AEP Ohio's recovery of the proposed PPA costs through retail rates, as discussed in testimony supporting the Application.
8. With regard to the proposed PPA, the Company requests that the Commission find that it is reasonable and prudent for AEP Ohio to enter into this life-of-unit purchase contract with AEPGR. Consistent with the details reflected in the proposed contract and as further explained in testimony, the Company also requests that the Commission acknowledge that its up-front approval of the PPA for retail recovery is a one-time prudence review that will not be revisited later during the term of the contract should economic conditions or cost/price projections change in the future.
9. The PPA Rider proposal was advanced and supported in the *ESP III* proceeding and the Company does not intend to re-litigate the issues pending in the *ESP III* proceeding. Rather, this case is intended to build upon the foundation laid in the *ESP III* cases and explore the benefits of the particular set of terms and conditions reflected in the new affiliate PPA. In support of the Application, the Company is

presented its direct testimony along with this filing. The following table summarizes the supporting direct testimony as follows:

| Witness | Subject Area |
|-----------------|---|
| Pablo Vegas | <ul style="list-style-type: none"> • Policy Overview • Introduction of Witnesses • Background and Development of the PPA • Industry Trends Driving the Need for the PPA • Economic Benefits to Ohio from the PPA |
| Karl Bletzacker | <ul style="list-style-type: none"> • Fundamentals Forecast |
| Kelly Pearce | <ul style="list-style-type: none"> • Terms and Conditions of the PPA • Forecasted Revenues and Costs under the PPA • PJM Markets • Cost Stability of the PPA |
| Toby Thomas | <ul style="list-style-type: none"> • PPA Generating Units • Economic Viability in a Deregulated Market |
| Robert Bradish | <ul style="list-style-type: none"> • Results of Transmission Planning Impact Study |
| John McManus | <ul style="list-style-type: none"> • EPA Greenhouse Gas Regulations |
| Renee Hawkins | <ul style="list-style-type: none"> • Return on Equity • Capital Structure |
| Thomas Mitchell | <ul style="list-style-type: none"> • PPA Accounting |
| Steve Fetter | <ul style="list-style-type: none"> • Regulatory and Public Interest Considerations Supporting the PPA |
| William Allen | <ul style="list-style-type: none"> • PPA Rider Structure • Economic Development Benefits • Customer Rate Impacts |

10. Pursuant to R.C. 4928.143(C)(1), the statutory deadline for the ESP III decision was September 22, 2014. If the decision was issued before the statutory deadline, the Company could be filing this Application as a rider proceeding implementing the ESP decision. Since the *ESP III* decision remains pending and because the proposed PPA commences on June 1, 2015, however, it has become necessary to proceed with this case on a parallel path based on contingent outcomes in the *ESP III* case. In deciding the *ESP III* case, the Commission could approve the PPA

Rider and initially authorize only the OVEC costs to be included or it could approve the PPA Rider as an empty Rider and defer to this proceeding whether to include OVEC, the proposed PPA or both in the PPA Rider. Regardless, this proceeding should be focused on the new PPA proposal and not on re-hashing the OVEC contract issues litigated in the *ESP III* case. Moreover, the Commission should press forward to decide both cases well in advance of June 2015, in order to provide an orderly transition to the new ESP and to implement the proposed PPA. By June 2015, approximately 20% of the investor-owned generation in Ohio will be retired (using 2012 as a baseline); resolving the proposed PPA well before June 2015 is in the public interest.

11. Because this proceeding is related to the *ESP III* docket, AEP Ohio is providing a courtesy copy of this Application to the parties in the *ESP III* case. Future filings in this case, however, will be served in accordance with the requirements of Ohio Administrative Code Chapter 4901-1.
12. Based on the foregoing, the Company asks that an expedited procedural schedule be issued as follows:
 - a. Motions to intervene shall be filed by October 17, 2014.
 - b. Testimony on behalf of intervenors shall be filed by November 8, 2014.
 - c. Discovery requests, except for notices of deposition, shall be served by November 15, 2014.
 - d. Testimony on behalf of the Commission Staff shall be filed by November 19, 2014.
 - e. A procedural conference shall be scheduled for December 1, 2014, at 10:00 a.m., at the offices of the Commission.

- f. The evidentiary hearing shall commence on December 8, 2014, at 10:00 a.m., at the offices of the Commission.

WHEREFORE, based on the reasons stated above and further supported in the testimony included with the Application, the Commission should establish a procedural schedule designed to expeditiously consider the Company's Application. Upon providing such due process as the Commission deems appropriate, the Company requests that the Commission approve the Application and grant any other relief deemed appropriate to facilitate approval of the Application.

Respectfully submitted,

//s// Steven T. Nourse

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Case No(s). 14-1693-EL-RDR, 14-1694-EL-AAM

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