

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

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)	

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

AMENDED APPLICATION

As set forth in detail below, Ohio Power Company (AEP Ohio or the Company) submits this Amended Application requesting the Commission's approval of the Company's proposal to enter into a new affiliate power purchase agreement between the Company and AEP Generation Resources, Inc. (that agreement referred to hereinafter as the "Affiliated PPA"), through which the Company would purchase the output of specific generating units owned by AEPGR. The Company also seeks approval for inclusion of the net impacts of that new Affiliated PPA in the PPA Rider (which rider the Commission approved on a place holder basis in Case Nos. 13-2385-EL-SSO et al., Opinion and Order, at pages 25-27 (February 25, 2015) (the *ESP III Order*)). In addition, the Company requests approval for inclusion in the PPA Rider of the net impacts of the Company's contractual entitlement to a share of the electrical output of generating units owned by the Ohio Valley Electric Corporation's (that agreement referred to hereinafter as the "OVEC PPA").¹ The generating units included within the Affiliated PPA and the

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*

OVEC PPA may also be collectively referred to as the “PPA Rider Units.” Accordingly, this Amended Application supersedes and replaces the Company’s original Application in this proceeding filed on October 3, 2015.

1. As part of its *ESP III Order*, the Commission authorized the Company to establish a PPA Rider on a placeholder basis, at an initial rate of zero, for the term of the ESP. The Commission determined that the Company would be required, in a future filing, to justify the inclusion of the cost impacts of any PPAs in the rider. *ESP III Order*, at page 25.

The Commission also directed the Company to address in any PPA Rider filing, the following factors of consideration, which the Commission stated it would balance, but not be bound by, in deciding whether to approve the Company’s request:

- a. The financial need of the generating plant that is the subject of the PPA (Factor #1);
- b. The necessity of the generation facility subject to the PPA, in light of future reliability concerns, including supply diversity (Factor #2);
- c. A description of how the generating plant is compliant with all environmental regulations (Factor #3); and
- d. The impact that a closure of the generating plant would have on electric prices and the resulting effect on economic development within Ohio (Factor #4).

In addition, the Commission also indicated that any PPA Rider proposal by the Company should incorporate four substantive requirements:

- a. Provide for rigorous Commission oversight of the PPA Rider, including a process for periodic substantive review and audit (Requirement #1);

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).

- b. Commit to full information sharing with the Commission and its Staff (Requirement #2);
- c. Verification that the PPA Rider's financial risk is allocated between both the Company and its ratepayers (Requirement #3); and
- d. Include a severability provision that recognizes that all other provisions of the Company's ESP III will continue, in the event that the PPA Rider is invalidated, in whole or in part at any point, by a court of competent jurisdiction (Requirement #4).

ESP III Order, at pages 25-26.

2. This Amended Application and the revised testimony submitted with it justify inclusion of the cost impacts of both the Affiliated PPA and the OVEC PPA in the PPA Rider. They also address the Factors #1-4 and Requirements #1-3 noted above. Requirement #4 is a legal matter, however, and can be addressed in the Amended Application without further discussion in the supporting testimony.
3. AEP Ohio proposes with respect to Requirement #4 that, in the event that the PPA Rider is invalidated, in whole or in part at any point, by a court of competent jurisdiction, the ESP III plan would continue for a reasonable period of time that it takes the Commission and the Parties to explore whether it is appropriate for the Commission to modify, improve or otherwise attempt in good faith to lawfully reinstate the PPA Rider in a manner that is consistent with the court's invalidation order (whether it is an order to reverse and remand the PPA Rider or a *vacatur*). Simultaneously to the good faith attempt by the Commission and the Parties to reinstate the PPA Rider, AEP Ohio will propose an acceptable replacement ESP without a PPA Rider to be implemented prospectively upon adoption through May 31, 2018. If after six months from the court's invalidation order the

Commission has not either reinstated the PPA Rider or adopted the Company's proposed replacement ESP, AEP Ohio can exercise its right to withdraw from the ESP III plan and revert to the prior standard service offer (SSO) in accordance with R.C. 4928.143(C)(2). Consistent with the *ESP III Order*, the Company's proposed approach will ensure that ESP III will continue in an orderly fashion in the unlikely event that a court invalidates the PPA Rider.

4. Beyond the specific Factors and Requirements addressed by the Commission in the *ESP III Order*, AEP Ohio submits that the purpose of the proposed PPA Rider is to stabilize 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, in this case the cost-based prices of the Affiliated and OVEC PPAs. Consistent with the *ESP III Order*, the PPA Rider would flow through to customers, on a nonbypassable basis, the net benefit of all revenues accruing to AEP Ohio resulting from the liquidation of its entitlements under each PPA into the PJM market (including energy, capacity, ancillaries, etc.) less all costs associated with each PPA. While the PPA Rider could be either a credit or a charge during a given time period, inclusion of the Affiliated PPA and the OVEC PPA in the PPA Rider would always provide a measure of stability in parallel to, and as a hedge against, more volatile market prices.
5. An equally important benefit of the PPA Rider is that including the net impacts of the Affiliated PPA in the 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.
6. Including the Affiliated and OVEC PPAs in the PPA Rider will also promote Ohio competitive markets while maintaining a robust and 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 Rider 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.
 7. The primary purposes of this Amended Application are to: (1) add the OVEC PPA into the proposal, along with the Affiliated PPA, for inclusion in the PPA Rider; (2) explicitly address the factors and requirements set forth in the *ESP III Order*; and (3) update the supporting testimony to reflect a current analysis of the amended proposal. As with the original Application, the proposed Affiliated PPA will only be executed if this Commission approves retail cost recovery through its inclusion in the PPA Rider.
 8. The weather events experienced during recent winters – including most dramatically 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 of 2014.

9. While the proposed Affiliated 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, that proposed Affiliated 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 residential customers. It is AEP Ohio's position that the proposed Affiliated PPA will help address those interests in a way that promotes the best interests of the State of Ohio.
10. The Commission will have reasonable and adequate regulatory jurisdiction over several aspects of AEP Ohio's recovery of both the proposed Affiliated PPA's and the OVEC PPA's costs through retail rates, as discussed in testimony supporting the Amended Application.²

² The OVEC PPA is a legacy contract and the Commission has routinely permitted recovery of OVEC costs as being prudent. For example, the Commission previously decided to affirmatively and explicitly permit recovery of OVEC/Lawrenceburg demand charges separately from base generation rates and through the Fuel Adjustment Clause for the period of 2009-2011 as part of its *ESP I* decision, which has long since been final and nonappealable. *ESP I*, Case Nos 08-917-EL-OSS, et al., Opinion and Order, at pages 14-15, 51-52 (Mar. 18, 2009). Consequently, there is no need to review the prudence of entering into the OVEC PPA or the terms and conditions of the OVEC contract. But prudence of the ongoing costs will be subject to the normal prudence review as those costs are passed through the PPA Rider in the future.

11. With regard to the proposed Affiliated 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 Affiliated 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.
12. As noted above, the Commission approved the PPA Rider, on a placeholder basis, in its *ESP III Order*, so the Commission should not re-litigate the issues in this docket that it has already addressed and resolved in its *ESP III Order*. In particular, the *ESP III Order* already found that the PPA Rider is authorized under R.C. 4928.143(B)(2)(d) and promotes Ohio energy policy under R.C. 4928.02. Moreover, the Commission found that the PPA Rider has the potential to supplement the benefits derived from staggering and laddering of the SSO auctions and to protect customers from price volatility in the wholesale market; the Commission also found that a reasonable PPA rider proposal could provide for a significant financial hedge that truly stabilizes rates, particularly during period of extreme weather. The Amended Application and supporting testimony are intended to build upon the foundation laid in the *ESP III Order* and present a proposal that fulfills the benefits envisioned in the *ESP III Order* through a particular set of terms and conditions reflected in the new proposed affiliate PPA with AEPGR, as well as the benefits of the OVEC PPA. As part of that

evaluation, this case should consider the factors and requirements, also noted above, that the Commission set forth in its *ESP III Order*. In support of the Amended Application, the Company is presenting its revised direct testimony along with this filing. The Company hereby withdraws all of its direct testimony previously submitted with its original application filed in this proceeding on October 3, 2014. The following table summarizes the supporting revised direct testimony as follows:

Witness	Subject Area
Pablo Vegas	<ul style="list-style-type: none"> • Introduction of Witnesses • Required Information for a PPA Application • Benefits to Ohio from the PPA Rider Units • Background and Development of the Proposed PPAs • Generation Supply Diversity • Industry Trends Driving the Need for Both PPAs • Allocation of Financial Risk • PPA Oversight and Information Sharing
Steve Fetter	<ul style="list-style-type: none"> • Regulatory and Public Interest Considerations Supporting the Affiliated PPA and Its Inclusion in the PPA Rider
Kelly Pearce	<ul style="list-style-type: none"> • Terms and Conditions of the Affiliated PPA • Forecasted Revenues and Costs of the PPAs • PJM Markets • Cost Stability of the PPAs • AEP Ohio OVEC Entitlement
Toby Thomas	<ul style="list-style-type: none"> • Affiliated PPA Generating Units • Economic Viability of the Affiliated PPA Units in a Deregulated Market
Karl Bletzacker	<ul style="list-style-type: none"> • Fundamentals Forecast • Impact of PPA Unit Closures on Electricity Prices
Robert Bradish	<ul style="list-style-type: none"> • Results of Transmission Planning Impact Study to Address Reliability Concerns
John McManus	<ul style="list-style-type: none"> • Compliance of PPA Rider Units with Environmental Regulations
Renee Hawkins	<ul style="list-style-type: none"> • Return on Equity • Capital Structure
Thomas Mitchell	<ul style="list-style-type: none"> • PPA Accounting
William Allen	<ul style="list-style-type: none"> • PPA Rider Structure • Economic Development Benefits • Customer Rate Impacts • Rate Stability
Eric Wittine	<ul style="list-style-type: none"> • Outlook for Construction of New Generation in Ohio

13. AEP Chief Executive Officer Nicholas Akins has publicly stated (a number of times but most recently during the April 23, 2015 American Electric Power Co., Inc. 1st Quarter 2015 Earnings Call) that it is critical for AEP to get a timely answer to the question of whether Ohio is interested in adopting AEP Ohio's PPA proposal. More specifically, in order to make strategic decisions regarding the future of these plants, including investments or a potential sale, AEP needs to get an answer on the PPA question first. (Corrected Transcript 23-Apr-2015 AEP Earnings Call at 18.) As Mr. Akins stated in this context, with attribution to famous song lyrics,³ "a choice not to decide is still a choice" – meaning that no timely answer on the important PPA question will actually be an answer that nonetheless drives the outcome. (*Id.* at 4.) Accordingly, AEP Ohio is requesting that the Commission resolve this case expeditiously and proposes a procedural schedule to facilitate a decision by October 1, 2015.

14. Based on the foregoing, the Company asks that an expedited procedural schedule be issued as follows:

- a. Motions to intervene shall be filed by June 1, 2015.
- b. Testimony on behalf of intervenors shall be filed by June 19, 2015.
- c. Discovery requests, except for notices of deposition, shall be served by June 30, 2015.⁴

³ The lyric paraphrased by Mr. Akins is from a 1980 song by Rush entitled "Freewill": "If you choose not to decide, you still have made a choice."

⁴ AEP Ohio has already responded to hundreds of discovery requests since the inception of this docket on October 1, 2014. Most of the responses and data provided remain applicable to the Amended Application, but the Company commits to reviewing and supplementing its current discovery responses, as applicable, in order to facilitate an expedited procedural schedule in this case.

- d. Testimony on behalf of the Commission Staff shall be filed by July 6, 2015.
- e. A procedural conference shall be scheduled for July 14, 2015, at 10:00 a.m., at the offices of the Commission.
- f. The evidentiary hearing shall commence on July 20, 2015 at 10:00 a.m. at the offices of the Commission.

For the reasons stated above and further supported in the revised testimony included with the Amended Application, the Commission should establish a procedural schedule designed to expeditiously consider the Company's Amended Application. AEP Ohio will automatically distribute the workpapers supporting the updated testimony within three business days of this filing. Upon providing such due process as the Commission deems appropriate, the Company requests that the Commission approve the Amended Application and grant any other relief deemed appropriate to facilitate approval of the Amended Application.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of Ohio Power Company's *Amended Application* have been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 15th day of May, 2015.

/s/ Steven T. Nourse

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