

**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)	

APPLICATION

Ohio Power Company d/b/a AEP Ohio (“AEP Ohio” or the “Company”) submits this application to establish a competitive bidding process (CBP) for procurement of energy to support its standard service offer (SSO). In support of its application, AEP Ohio states the following:

1. AEP Ohio is an electric utility as that term is defined in §4928.01(A)(11), Ohio Rev. Code.
2. AEP Ohio is an electric utility operating company subsidiary of American Electric Power Company, Inc.
3. In Part II.B.7 of the Opinion and Order issued August 8, 2012 in Case No. 11-346-EL-SSO et al. (*ESP II*), the Commission adopted a requirement for three energy auctions during the term of the ESP II to achieve: (i) 10% slice-of-system procurement of SSO energy load for delivery commencing six months after the final order in the corporate separation case (Case No. 12-1126-EL-UNC), (ii) 60% slice-of-system procurement of SSO energy load for delivery commencing June 1, 2014, and (iii) 100% slice-of-system procurement of SSO energy load for delivery commencing January 1, 2015 through May 31, 2015.

4. After termination of the ESP II term, the Commission agreed that the Company should competitively procure both energy and capacity effective June 1, 2015.
5. In order to facilitate the energy auctions, the Commission ordered AEP Ohio to pursue establishment, through a filing by December 31, 2012, of an open and transparent auction process after first conducting a stakeholder process to solicit input.
6. The Company did conduct an open and transparent stakeholder process prior to submitting this CBP proposal. The Company initiated the stakeholder process through a letter in the *ESP II* docket dated September 7, 2012, which was served on the parties of record in that proceeding. AEP Ohio conducted three live workshops (with optional call-in participation) among stakeholders on October 25, November 8 and November 9, as well as a conference call discussion on November 27. In conjunction with each meeting, the Company circulated documents detailing its proposals and allowed the opportunity for verbal and written input. There was significant attendance and participation for each of the meetings, peaking with nearly 50 attendees at the October 25 meeting. The Company fully considered all of the issues raised during the stakeholder process in developing this Application.
7. The scope of the stakeholder process was focused on the “step one” energy auction procurement process and not on the “step two” issues relating to reflecting in retail rates the cost of purchased energy at the

wholesale auction clearing price. The “step two” retail rate issues associated with the energy auctions are separate and distinct from the wholesale auction and those issues remain pending on rehearing in the *ESP II* cases. *See e.g. ESP II*, AEP Ohio Application for Rehearing at Prop. I; Ohio Energy Group Application for Rehearing at Props. 4 and 5. Consequently, AEP Ohio plans to subsequently incorporate the retail rate matters into this CBP proceeding after the Commission issues its rehearing decision.¹ Specifically, upon receiving the Commission’s rehearing decision regarding those retail rate issues, AEP Ohio plans to file an amendment or supplement to this Application in a manner consistent with the decision, which will detail the Company’s recovery of auction-related costs through retail rates. This Application is contingent upon full and timely recovery in retail rates of all costs associated with the energy-only auctions, including costs incurred in planning and conducting the auction (*e.g.*, auction manager costs, consultant costs, *etc.*) as well as costs incurred in implementing the resulting energy supply contracts (*e.g.*, energy purchase price, costs of default and contingency plans, balancing charges, *etc.*).

¹ As a related matter, the Commission has stated its intention to open a separate docket to address rate mitigation issues relating to rates being set by auction. *See ESP II*, Opinion and Order at 15-16. AEP Ohio presumes that docket will be addressed in conjunction with the Commission’s rehearing decision relating to the “step two” retail rate issues. These matters further support the Company’s proposal, discussed below, to establish a comment process now for the “step one” CBP issues.

8. The details associated with AEP Ohio's proposed energy-only wholesale procurement are reflected in detailed exhibits to this Application:

Exhibit A – Bidding Rules for the Auctions Under the Competitive Bidding Process of Ohio Power Company (CBP Rules)

Exhibit B – Rules and Protocols for Participation by Associated Bidders (Associated Bidder Protocols)

Exhibit C – Master Energy Supply Agreement (MESA)

Exhibit D – Communication Protocols for Ohio Power Company Competitive Bidding Process Auctions (Communication Protocols)

9. While most of the features and provisions of the Company's CBP proposal and documents are similar to those utilized by Duke Energy Ohio and the FirstEnergy operating companies, differences are needed in order to reflect the unique energy-only scope of the AEP Ohio auctions. Further, both stakeholders and the electric distribution utility can improve the existing process based on experience and additional information. Thus, while the Company looked to recent successful CBP processes as a starting point, consistent with the Commission's directive, the proposed CBP does reflect some differences for the foregoing reasons. Key features of the documents comprising the exhibits are described below.

10. The CBP Rules are found in Exhibit A to this Application. The CBP Rules provide an overview of the auction process, a description of the product that is consistent with the MESA, the quantities for each auction and the general timing of each auction as well as an indicative schedule for the first auction, recognizing that such schedule is contingent upon

receipt of final Commission orders.² The CBP Rules then describe the application and qualification processes, the bidding process and the post auction process. In describing the bidder application process, the CBP Rules set forth the certifications that CBP bidders will be required to make to ensure the effectiveness and competitiveness of the auction as well as required pre-bid security. The CBP Rules specify the Contingency Plans should an auction not be fully subscribed and/or an energy supplier defaults. Costs of these Contingency Plans will be deemed prudent and passed through AEP Ohio's retail rates. Finally, the CBP Rules specify how associated bidders and confidential information will be handled.

11. The Associated Bidder Protocols are found in Exhibit B to this Application. These protocols provide detailed standards governing when associated parties apply to participate in a CBP auction and provide specific protocols that will be followed when associated entities submit Part 1 and/or Part 2 Applications to participate in a CBP auction for AEP Ohio.
12. The MESA is found in Exhibit C to this Application. The MESA fully describes the energy product and sets forth obligations of both energy-only auction suppliers and AEP Ohio. In addition to establishing the

² For example, the delivery period for the initial 10% energy auction is currently projected to commence on August 1, 2013. As referenced in the indicative schedule set forth in Article II.2 of the CBP Rules, the August 1, 2013 projection is based on receiving a final order in this CBP Application case at least 90 days in advance of the delivery date as well as receiving final orders in both the *ESP II* and Corporate Separation (Case No. 12-1126-EL-UNC) by the end of January 2013, which is six months prior to commencement of the delivery period for the initial energy auction.

obligations of each party to the contract, the MESA contains provisions that describe the delivery point, the scheduling protocol, payments and settlements, events of default and default remedies, credit and margining terms and standard miscellaneous provisions. Two significant elements of the MESA are the delivery point and the determination of the energy delivery schedule. The delivery point for energy is specified as the AEP Load Zone established in PJM. This is currently the point at which all load in AEP Ohio's service territory is priced. At a time in the future it may be appropriate to request that PJM establish an AEP Ohio Aggregate pricing point that would be used to settle AEP Ohio load.³ However, for purposes of this Application, use of the established AEP Load Zone as the delivery point provides parity with load supplied by CRES providers and maximizes price information that is available to prospective bidders. The second significant feature of the MESA is the determination of the energy purchase schedule. Consistent with PJM processes, AEP Ohio calculates energy load for shopping and non-shopping (SSO) load on the day after flow and provides those amounts to PJM. The total load is then adjusted as more data becomes available from meter readings and is finalized or reconciled 60 days later. PJM then adjusts settlements to reflect the 60-day load reconciliation, which is typically the final determination of load

³ There is significant lead time required for notification to PJM for the creation of a new pricing point (which would serve as the delivery point under the MESA). More specifically, for each successive PJM Planning Year, PJM requires notice as of the preceding October in order to change the delivery point. For example, the Company would have needed to notify PJM by October 2012 if it were going to change the delivery point for the 2013-2014 Planning Year.

for each CRES provider and for SSO load. PJM's reconciliation only applies to load for which an entity is responsible. Under the energy-only auction structure, AEP Ohio remains the Load Serving Entity and load serving responsibility is not transferred to energy-only auction suppliers. Those suppliers provide AEP Ohio with slice-of-system shaped scheduled energy deliveries which AEP Ohio will treat as purchased power energy. Hence, PJM's 60-day reconciliation cannot apply to the scheduled energy deliveries; it only applies to load for which energy responsibility has been transferred. The slice-of-system energy schedule will, thus, be established in PJM's InSchedule system based on the SSO share as determined using the best available data on the day after flow. To the extent that information within the 60-day PJM reconciliation period would show that the actual load is materially different, there would be financial settlement between AEP Ohio and each energy-only auction supplier.

13. The Communication Protocols are found in Exhibit D to the Application and address communications (i) between AEP Ohio and its affiliates, and (ii) between and among the Auction Manager, the general public and media, AEP Ohio, the PUCO, PUCO Staff and PUCO Consultant. The Communication Protocols specify that all communications with bidders will be through the Auction Manager. The Communication Protocols explicitly define what comprises confidential information. The Communication Protocols are defined to achieve the following four objectives:

- To establish a fair and equitable process for all bidders by ensuring all bidders have equal access to the same information necessary to evaluate the bidding opportunity and to prepare their bids in a timely manner.
- To take all reasonable precautions that any information generated by the auction process that could harm the competitive position of bidders or AEP Ohio, if released, is kept confidential.
- To take all reasonable precautions that confidential information is provided only to those persons to whom it is deemed necessary for the conduct and management of the auction process.
- To ensure that information that, if released, could harm the competitiveness of future competitive bidding processes, is kept confidential from all entities, including bidders.

14. AEP Ohio plans to evaluate the CBP after conducting each of the energy auctions, through the opportunity for input and dialogue with the auction manager and stakeholders. If there are best practices or other improvements to be made that involve changes to the CBP, the Company will timely pursue formal approval from the Commission through an Application in order to resolve such matters in advance of the next energy auction. The Commission can establish an appropriate process for considering such an amendment, upon such a proposal being advanced.
15. AEP Ohio recommends that National Economic Research Associates, Inc. d/b/a NERA Economic Consulting (NERA) be retained as the auction manager. As reflected in Exhibit E, NERA is eminently qualified to conduct energy auctions and has an extensive and unblemished track record for doing so. Further, NERA was the Auction Manager for the original Ohio SSO auction conducted in 2004 for the FirstEnergy operating companies. Moreover, NERA has facilitated the stakeholder

process described herein and is most familiar with the details relating to the energy auctions to be implemented for AEP Ohio.

16. Regarding the process to be used in this Application proceeding, AEP Ohio recommends a notice-and-comment process. Depending on the timing of the Commission's *ESP II* rehearing decision, the Commission may wish to establish a comment process for considering the "step one" auction issues now with the "step two" retail rate issues to be considered subsequently as part of a separate round of comments. Because time is of the essence for finalizing the CBP and conducting the auction process and since the retail rate issues are separate and distinct from the wholesale auction issues, AEP Ohio recommends that the Commission establish an expedited comment process for the proposals currently contained in this Application. In doing so, the Commission should assure stakeholders up front that the retail rates issues will be taken up separately after the rehearing decision is issued – and order commenters to hold their comments about the retail rate issues until that second phase of comments (especially since those matters are pending on rehearing and have already been fully briefed under the Commission's rules). Of course, if the *ESP II* rehearing decision is forthcoming very soon, the Commission could potentially adopt a procedural schedule after issuance of the rehearing decision that would allow consolidated comments for both the wholesale auction issues and the retail rate process – after also leaving enough time for the Company to amend or supplement its Application as referenced

above in Paragraph 7. In any case, AEP Ohio submits that a comment process is adequate to fully consider and decide the issues presented in this Application. Should the Commission deem it necessary and appropriate to take written testimony and/or conduct an evidentiary hearing in order to adjudicate this case, however, AEP Ohio requests a litigation schedule designed to produce a final order in this case at least 90 days in advance of the delivery date for the first procurement.

WHEREFORE, based on the information and exhibits submitted with this filing, the Commission should adopt the Company's CBP proposals as reflected in Exhibits A through E, following a comment process to consider approval of the Company's application.

Respectfully submitted,



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