

AEP Ohio CBP First Stakeholder Workshop

Thursday, October 25, 2012

Today's Schedule

10AM – Noon:	Presentation of proposed elements of the CBP
Noon – 1PM:	Lunch (attendees are responsible for their own meals)
1PM – 3PM:	Stakeholder input and discussion

- Document with proposed key elements of CBP for AEP Ohio was posted prior to this workshop
- Presentation will explain the key elements
- A session for questions and comments will follow

Stakeholder Process Overview

- Stakeholders have an opportunity to ask questions and provide comments at this workshop
- Furthermore, stakeholders are invited to submit written comments on key elements by close of business October 29, 2012 via email to OhioCBP@aep.com
- Comments may be provided as redlines or comments using the word version of the Key Elements document
- Next steps are to develop drafts of key documents, solicit comments through a workshop (planned for November 9, 2012) and through written comments on the documents

Agenda

Proposed Key Elements are divided into several categories:

1. Product Definition
2. Term Structure and Auction Timing
3. Master SSO Supply Agreement (Other than Product/Credit)
4. Credit Requirements
5. Qualification Process
6. Auction Process
7. Communications Protocols
8. Data
9. Improvement Workshops

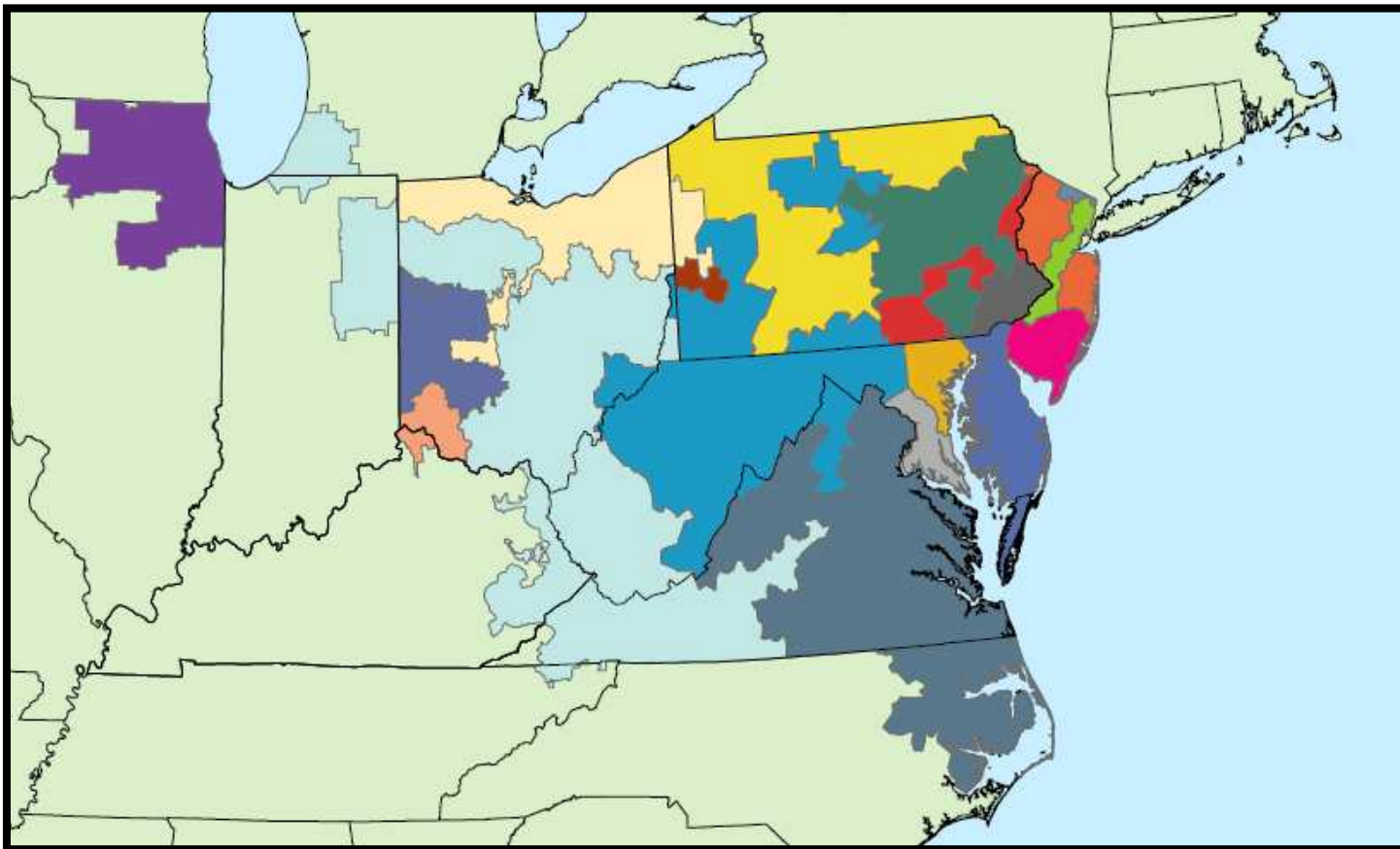
Issue 1 | Product Definition

Certain Aspects of Product Fixed by ESP Order

- Slice-of-System
 - Tranche is a percentage of SSO load
 - SSO load is subject to migration
- Energy Only
- Three delivery periods for fixed percentages of SSO load
 - July* 1, 2013 to May 31, 2015 (10%)
 - June 1, 2014 to May 31, 2015 (50%)
 - January 1, 2015 to May 31, 2015 (40%)
- * *“July 1” assumes that the final corporate separation order and the final ESP order are issued by December 31, 2012; it also assumes a final order on the CBP by March 31, 2013*

Delivery Point

Delivery point will be either AEP Zone or a to-be-developed AEP-Ohio Aggregate Zone



Source: PJM

Scheduling, Settlement and Payments

- AEP determines delivery schedule on the day following delivery and will communicate schedule to each supplier electronically
- Internal bilateral transaction with no need for supplier confirmation
- Delivery schedule will be 1% per tranche won of the hourly energy requirement of AEP Ohio's SSO customers
 - Tranche size of 1% will apply for the first auction for 10% of the energy of SSO customers and may be revised for subsequent auctions
- Schedule will be specified as settling against the day-ahead price at the delivery point
- Payments for energy will be based upon the auction clearing price multiplied by seasonal adjustment factors applied to energy volumes

Transaction Structure

- All SSO load remains in AEP/AEP Ohio's PJM account
- Power purchased through CBP will be considered a prudent purchased power transaction for purposes of the Fuel Adjustment Clause ("FAC")
- Product is for delivery of wholesale energy and not a transfer of load. The PJM's 60-day reconciliation process does not apply. There will be no true-ups with suppliers except in case of significant deviations from load. Any true-ups will be conducted through the FAC
- AEP Ohio will bear all transmission, scheduling, and ancillary service costs associated with the load of SSO customers
- Suppliers are completely responsible to provide the scheduled energy to the delivery point and to bear all costs that are associated with this responsibility
- AEP Ohio will provide suppliers with PLC data or similar data (1 week or 2 weeks ahead)

Issue 2 | Term Structure and Auction Timing

Delivery Periods and Timing Follow ESP Decision

- Delivery periods of the products and the timing of the first auction will follow the ESP Opinion and Order dated August 8, 2012
- The first auction and initial delivery start dates are tentative and subject to change
- The initial dates assume that the final corporate separation order and the final ESP order are issued by December 31, 2012; these dates also assume a final order on the CBP by March 31, 2013

Product Type	Auction Timing	Tranches	7/2013 --- 5/2014	6/2014 --- 5/2015
Long	May 2013	10		
One-Year	January 2014	25		
One-Year	March 2014	25		
Stub	June 2014	40		

Auction Timing Allows Further Stakeholder Input

- All auctions would feature a single product and be conducted using a single set of rules
- Long product will be divided into 10 tranches, each representing 1% of the energy requirement of SSO load
- Tranche sizes are subject to change in subsequent auctions
- Stakeholder process will be held after the initial auction to integrate lessons learned into the CBP for the remaining auctions, subject to Commission approval

Issue 3 | Master SSO Supply Agreement (Other than Product/Credit)

Master SSO Supply Agreement Structure

- Based on Duke Energy's Master SSO Supply Agreement
- Modifications will be required given the energy-only nature of the product:
 - Supplier will not be serving load but will only be delivering wholesale energy to AEP Ohio
 - No need for a sample PJM invoice with line items designating responsibility
 - Supplier will be required to be a PJM member but not an LSE
 - Fine-tuning will be made to credit cure periods to correspond to AEP corporate policies – these will be identified in detail during the next workshop

Issue 4 | Credit Requirements (Excluding Form of Documents)

Overview of Credit Requirements

- Two credit requirements: an independent credit requirement (“ICR”) and a mark-to-market (“MTM”) requirement
- Unsecured credit line for each of the ICR and MTM determined on the basis of tangible net worth (“TNW”) and credit ratings (and may be subject to a cap)
 - Affiliates and their Guarantor limited to a single unsecured credit line
 - Supplier with multiple Master SSO Supply Agreements has single unsecured credit line but has exposures aggregated over multiple Master SSO Supply Agreements
- A supplier may provide security due under the Master SSO Supply Agreement in the form of cash, a letter of credit, or a guaranty
- Cash provided as security under the Master SSO Supply Agreement will be held by AEP Ohio and accrue interest at the Federal Funds rate

Independent Credit Requirement

The ICR will decline based on the number of months remaining in the delivery period

- ICR for long product will begin at \$900,000 per tranche upon signing the Master SSO Supply Agreement
- ICR for the one-year product and for the stub product are the values in the schedule (e.g., begins at \$600,000 for the one-year product)

Month	(\$/tranche)
Execution through July 2013	\$900,000
August 2013	900,000
September 2013	900,000
October 2013	900,000
November 2013	800,000
December 2013	800,000
January 2014	800,000
February 2014	800,000
March 2014	600,000
April 2014	600,000
May 2014	600,000
June 2014	600,000
July 2014	500,000
August 2014	500,000
September 2014	500,000
October 2014	500,000
November 2014	300,000
December 2014	300,000
January 2015	300,000
February 2015	300,000
March 2015	200,000
April 2015	200,000
May 2015	200,000

Unsecured Credit Line --- ICR

Suppliers or their Guarantors will be considered for an unsecured credit line determined on the basis of the entity's tangible net worth ("TNW"), credit rating, and a cap for lower ratings as follows

Credit Rating of the SSO Supplier or its Guarantor			Maximum Independent Credit Threshold (calculated as the lesser of the percentage of TNW and the applicable Credit Limit Cap below)	
S&P	Moody's	Fitch	Percentage of TNW	Credit Limit Cap
A- and above	A3 and above	A- and above	16%	Not applicable
BBB+	Baa1	BBB+	10%	Not applicable
BBB	Baa2	BBB	10%	Not applicable
BBB-	Baa3	BBB-	8%	Not applicable
BB+	Ba1	BB+	2%	\$3,000,000
BB	Ba2	BB	1%	\$1,500,000
BB- and below	Ba3 and below	BB- and below	0%	\$0

Unsecured Credit Line --- MTM

Suppliers or their Guarantors will be considered for an unsecured credit line determined on the basis of the entity’s tangible net worth (“TNW”), credit rating, and a cap as follows

Credit Rating of the SSO Supplier or its Guarantor			Maximum Credit Limit (calculated as the lesser of the percentage of TNW and the applicable Credit Limit Cap below)	
S&P	Moody's	Fitch	Percentage of TNW	Credit Limit Cap
A- and above	A3 and above	A- and above	16%	\$75,000,000
BBB+	Baa1	BBB+	10%	\$50,000,000
BBB	Baa2	BBB	10%	\$40,000,000
BBB-	Baa3	BBB-	8%	\$30,000,000
BB+	Ba1	BB+	2%	\$10,000,000
BB	Ba2	BB	1%	\$5,000,000
BB- and below	Ba3 and below	BB- and below	0%	\$0

Mark-to-Market Requirement

- Forward price quotes calculated by AEP will be AD Hub prices
- Forward price quotes will be validated against data provided by brokers
- Where quotes are not available for a given month, quotes for longer periods encompassing the month will be shaped
- Exposure calculation method will generally be similar to Duke's except that, in accord with AEP Ohio practices, volumes per tranche will be for 5 x 16, 5 x 8, and 2 x 24 periods each month (as opposed to on-peak and off-peak periods)
- Volume adjustments related to customer switching will be made monthly with exceptions for major changes

Standard Credit Instruments Will Be Proposed

- There will be standard forms for the Letter of Credit and Guaranty
- Suppliers will have the opportunity to request modifications prior to applying to participate in the first auction under the CBP
- All modifications proposed by one supplier and accepted by AEP Ohio will be made available to all suppliers on an optional basis

Issue 5 | Qualification Process

Application Process Overview

- The application process will be in two stages and generally similar to the process established by other EDUs
- Potential suppliers will submit application forms either online or via email to the Auction Manager
- Potential suppliers must provide one hard copy of the application forms by overnight delivery service with original signatures

Application Process is in Two Parts

Part 1 (to become Qualified Bidder)

- Provide basic contact information
- Provide financial information
- Must be PJM member
- Agree to process

Communications

- Nominate one individual as main representative
- Up to four individuals as points of contact
- Bidder and Auction Manager communicate via email
- Bidder notified of status and Part 2 pre-bid security requirement

Part 2 (to become Registered Bidder)

- Submit an indicative offer
- Submit pre-bid security (\$500,000 per tranche)
 - Letter of credit only
 - May also be required to submit a letter of intent to provide a guaranty or letter of reference
- Make certifications regarding associations and handling of confidential information

Credit-Based Tranche Caps Will Apply

These limits also apply to affiliated suppliers bidding in the auction:

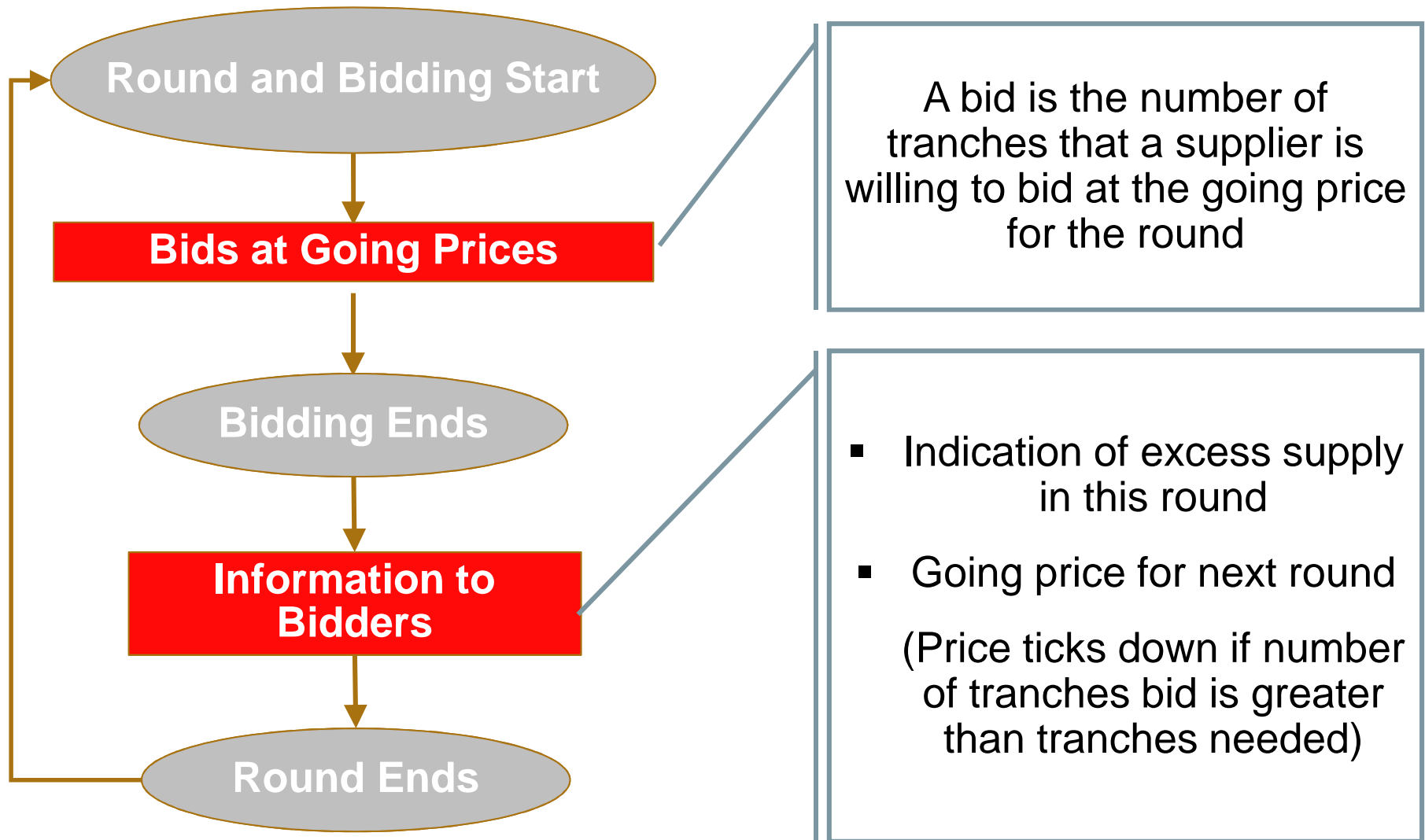
Credit Rating of Qualified Bidder or Guarantor			
S&P	Moody's	Fitch	Credit-Based Tranche Cap
BB and above	Ba2 and above	BB and above	No Cap
BB-	Ba3	BB-	10
Below BB-	Below Ba3	Below BB-	5
If not rated by any of those ratings agencies			5

Issue 6 | Auction Process

Auction Format/Post Auction Process Based Upon Process Established by Other EDUs

- Auction format will be a descending clock auction
 - Suppliers state in each round the number of tranches that they are willing to bid
 - Suppliers can reduce the number of tranches bid, but may never increase
 - Suppliers name exit prices when reducing the number of tranches bid
- Each supplier (or group of affiliated suppliers) will be subject to an 80% load cap and to a credit-based tranche cap
- Price decrements used each round will be determined through a formula or table that will be released to suppliers before the auction

Descending Clock Auction Schematic



Post-Auction Process

- Auction Manager determines whether CBP rules were followed
- Auction Manager presents results to PUCO and PUCO consultant
- PUCO may reject results within two business days if PUCO consultant says CBP Rules were not followed
- PUCO may reject results within two business days if the Auction Manager determines the CBP Rules were not followed or if one of the following criteria were not met:
 - Oversubscribed based on indicative offer
 - 4 or more bidders
 - No bidder won more than 80% of the initial tranches available at start of auction
- All winning suppliers will be paid a uniform price for a given product (based on the lowest price at which there is sufficient supply and a seasonal factor)
- If results are approved, suppliers and AEP Ohio execute the Master SSO Supply Agreement within three (3) business days

Issue 7 | Communication Protocols

Communication Protocols Overview

Topics in the Communication Protocols will follow the documents used by Duke and FirstEnergy

Goals of the Communication Protocols are as follows:

- Ensures proper handling of confidential information
- Ensures all suppliers have equal access to information necessary to prepare bids

Communications --- Auction Manager, AEP Ohio, and PUCO

Auction Manager

- Maintains CBP website as main source of information
- May issue notices for the purposes of outreach to suppliers that may become bidders in the CBP
- Interfaces with bidders prior to the execution of the Master SSO Supply Agreement
- Answers bidder questions and concerns – responses to an individual bidder will be posted to www.aepohiocbp.com for the benefit of all bidders

AEP Ohio

- May issue notices for the purposes of outreach to suppliers that may become bidders in the CBP
- Named representatives, subject to confidentiality agreement, will participate in the qualification of bidders and will have access to round-by-round prices, range of excess supply, and messages from the Auction Manager sent to bidders

PUCO

- During auction, PUCO Staff and the PUCO consultant present at the Auction Manager's location will have access to round-by-round results
- PUCO consultant report will be available in its entirety to the Auction Manager and will be available to AEP Ohio on a redacted basis
- Any public release of auction results will be determined by PUCO

Issue 8 | Data

Data Provided to Potential Suppliers

AEP Ohio intends to provide three years of historical data for potential suppliers to use in preparing bids

- Historical data, from June 1, 2010 forward, will be provided and posted on the auction website (www.aepohiocbp.com) beginning January 2013
- Data to be provided includes:
 - Hourly energy for SSO customers
 - Hourly energy for CRES load in the aggregate
 - Broken down into residential, small commercial & industrial, and large commercial & industrial
 - Provided separately for Columbus Southern Power and Ohio Power pre and post merger
- Data provided will be comprised of hourly energy after 60-day reconciliation
- Data will also be provided by these groupings from the initial day after backcast beginning with January 2013 loads

Issue 9 | Improvement Workshops

Further Input From Stakeholders After Initial Energy-Only Auction

- AEP Ohio will convene workshops aimed at discussing lessons learned from the initial energy-only auction to improve the process
- AEP Ohio expects to hold two workshops divided among the various themes and documents
- AEP Ohio will solicit two rounds of written comments and may integrate improvements in time for the second energy-only auction, subject to Commission approval