Stakeholder Process
Proposal for Key Elements of the CBP

Process

This document presents a proposal for key elements of the Competitive Bidding Process ("CBP") in connection with AEP Ohio's Electric Security Plan ("ESP").

AEP Ohio's intent is to discuss these key elements at the workshop to be held on October 25, 2012. Additionally, stakeholders are invited to submit written comments on these key elements by close of business on October 29, 2012 via email to OhioCBP@aep.com.

After considering the workshop discussion and written comments, AEP Ohio will develop draft documents including a Master SSO Supply Agreement, Auction Rules, an indicative schedule, and Communications Protocols. A second workshop to discuss these documents is planned for November 9, 2012. A third workshop will be held later in November as needed.

This document does not include a discussion of matters that are subject to a determination by the Public Utilities Commission of Ohio ("PUCO") on Rehearing in the ESP case, such as the manner in which auction results would impact customer rates. Depending on the timing and content of the PUCO decision, these discussions may be integrated into this stakeholder process.

Key Elements by Topic

1. **Product Definition.** AEP Ohio will procure a slice-of-system, energy-only product. Specifically:

    a. The supplier will deliver energy to AEP Ohio's PJM sub-account through a PJM internal bilateral transaction.
    b. The delivery point will be the AEP Zone or a (to-be-developed) AEP-Ohio Aggregate zone.
    c. The required delivery schedule will be 1% per tranche won of the hourly energy requirement of AEP Ohio's SSO customers, as determined by AEP in the initial day after delivery. (Tranche size of 1% will apply for the first auction for 10% of the energy of SSO customers. The tranche size is subject to potential revision in subsequent auctions for the remaining 50% and 40%.)
    d. AEP will determine the delivery schedule as soon as practical on the day following delivery and communicate that schedule to each supplier electronically.
    e. AEP will unilaterally enter the schedule as an internal bilateral transaction in a PJM account designated by the supplier and there will be no need for supplier confirmation.
    f. The schedule will be specified as settling against the day-ahead price at the delivery point.
    g. Consistent with the provision of an energy-only product, all SSO load will remain in AEP's/AEP Ohio's PJM account. Power purchased through the CBP will be considered a prudent purchased power transaction in the wholesale market made by AEP Ohio for purposes of the Fuel Adjustment Clause ("FAC") and, prior to corporate separation, for purposes of pool accounting.
    h. AEP Ohio will arrange for suppliers to access (1 week to 2 weeks ahead) Peak Load Contribution ("PLC") data or similar data in order to assess potential migration.
    i. AEP Ohio will bear all transmission, scheduling and ancillary service costs associated with the load of SSO customers.
    j. Suppliers are completely responsible to provide the scheduled energy to the delivery point and to bear all costs that are associated with this responsibility.
    k. Payments for energy will be based upon the auction clearing price times a seasonal factor applied to energy volumes scheduled. (see the note below about the volume of energy covered by the SSO supply transaction)
    l. As the product is for the delivery of wholesale energy and not a transfer of load to the supplier, PJM's 60-day reconciliation process does not apply to this transaction. Any true-ups will be conducted through the FAC. There will be no true-ups with suppliers except in case of significant deviations from load. This element is confusing and adds an element of uncertainty for SSO suppliers. DTEET instead prefers to include the PJM 60 day load settlement process in the SSO process as follows: The volume of energy in the SSO supply transaction will equal the 60 day reconciled real time SSO load obligation of the Buyer in each hour of the Term, times the SSO Supplier Responsibility Share. Buyer will enter the unilateral IBT based on the initial AEP SSO hourly load backcast after

energy flow but before the PJM IBT deadline closes. In the month 60 day reconciliation adjustments are available, Buyer will include in the SSO Supplier settlement invoice a 60 day reconciliation charge applicable to SSO suppliers for each hour of the month [being reconciled] as follows:

$$\text{Charge} = [MWh_{Final} - MWh_{IBT}]*[LMP_{RT} - \text{Contract Price}*\text{Seasonal Billing Factor}]$$

Where:

MWh_{Final} = 60 Day Reconciled AEP SSO Load in each hour times the SSO Supplier Responsibility Share

MWh_{IBT} = The IBT transaction volume in each hour

LMP_{RT} = The PJM RT LMP for the AEP SSO load settlement point in PJM in each hour

With DTEET's proposal, if the IBT in a given hour is less than the final (60 day reconciled) load volume in that hour, Buyer will charge the SSO supplier the RT LMP for those MWhs, and then credit the SSO supplier the contract price times those MWhs. Conversely, if the final load is less than the IBT, Buyer will credit SSO suppliers the RT LMP and charge SSO suppliers the contract price for those MWhs. Since the SSO price is energy only, there is no capacity or ancillary services built into the SSO price, this structure is very clean. SSO suppliers probably prefer the DA/RT price risk they assume in this structure be a function of their own load forecast methodology, but the differences between the AEP process and the SSO supplier's process should not be too much different over the term of the transaction.

In the event the PJM IBT deadline closes before the load backcast is available, Buyer's DA load forecast will be the default IBT volume on that day. In fact the forecast could always be the basis of the IBT, but SSO suppliers will probably want to keep track of the daily backcast load data. AEP could post that information in aggregate for SSO suppliers on a website.

With this modification to the AEP SSO process, AEP will not need to track how much energy is purchased from SSO Suppliers versus spot markets. Effectively everything is purchased from SSO suppliers at a fixed price. End users would not therefore be assuming any price risk caused by unavoidable load forecast inaccuracy. SSO suppliers are in fact already selling price risk management based on final SSO load volumes, so incorporating this proposed change just makes sure end users get what they pay for. Simplifying AEP's tarriff administration is another benefit.

The contract language probably needs to include a description of the preliminary settlement and final settlement process based on the IBT and then the 60 day reconciled volume. Not difficult and consistent with load serving in any case.

2. **Term Structure and Auction Timing.** The delivery periods of the products, and the timing of the first auction, will follow the PUCO's August 8, 2012 Opinion and Order in Case No. 11-346-EL-SSO et. al. ("ESP Decision"). The remaining auctions will be conducted as single product auctions starting in January 2014 as provided below.

Figure 1. Auction Timing.

Auction Timing	Tranches	7/2013* --- 5/2014	6/2014 --- 5/2015
May 2013*	10		
January 2014	25		
March 2014	25		
June 2014	40		

***Tentative and subject to change. These dates assume that the final corporate separation order and the final ESP order are issued by December 31, 2012, and that the final order on the CBP is issued by March 31, 2013.**

a. The ESP Decision specifies that a CBP for energy and capacity will start on June 1, 2015 and that all energy-only products will end on May 31, 2015.
b. As specified in the ESP Decision, there are three delivery periods for energy-only products:
    - The "long product": with a delivery period that begins six months after the final orders in both the ESP and corporate separation dockets (and ends May 31, 2015). This product is represented by the green bar in the figure above;
    - The "one-year product": with a delivery period that begins June 1, 2014 (and ends May 31, 2015). This product is represented by the yellow bars in the figure above; and
    - The "stub product": with a delivery period that begins January 1, 2015 (and ends May 31, 2015). This product is represented by the brown bar in the figure above.
c. The energy-only products serve to transition AEP Ohio to be at a full energy auction by January 1, 2015. The percentage of load for each of the delivery periods is as follows:
    - 10% for the long product;
    - 50% for the one-year product (bringing the total to 60% as specified in the ESP Decision); and
    - 40% for the stub product (bringing the total to 100%).
d. The long product will be divided into 10 tranches, each representing 1% of SSO load. The tranche size for subsequent auctions may remain at 1% or may be set higher in consultation with stakeholders.
e. A single auction will be held to procure the long product, to be held tentatively in May 2013, assuming that final orders for the ESP and in the corporate separation docket are issued by the end of 2012.
f. After the first energy-only auction, a stakeholder process would be held to integrate lessons learned into the CBP for the remaining products, as described further below under "improvement workshops".

g. Two energy-only auctions would be held to procure the one-year product in January and March 2014, with each auction having 25 tranches of 1% of SSO load up for bid (tranche size may be subject to change as discussed above). These auctions are held close to the beginning of the delivery period.
h. The last energy-only auction would be held in June 2014 with enough time to conduct combined energy and capacity auctions for delivery starting June 1, 2015.
i. All of the energy-only auctions would feature a single product and be conducted using a single set of rules.

3. **Master SSO Supply Agreement (excluding credit).** AEP Ohio will use as a base the Master SSO Supply Agreement used in Duke Energy Ohio's CBP. The following modifications are expected from this base, mostly due to the energy-only nature of AEP Ohio's CBP.
   a. Significant changes will be made in the area of supplier responsibility as the supplier will not be serving load but will only be delivering wholesale energy to AEP. There will be no need for a sample PJM invoice with line items designating responsibility.
   b. The supplier will be required to be a PJM member but not an LSE.
   c. There will be fine-tuning of items like credit cure periods to correspond to AEP corporate policies, but major changes are not expected and these will be identified in detail when the Master SSO Supply Agreement is produced for the next workshop.
   d. This is a fairly important point. Please incorporate language in the supply agreement that defines the settlement volume applicable to calculation of settlement at Early Termination. The Duke contract uses the term "commercially reasonable" as I recall which is too open ended to allow for mark to market treatment of the supply obligation because the transaction volume cannot be adequately defined at any point in time. Please incorporate language that is common in other default supply agreements in PJM such as this language from the Maryland SOS FSA which I took the liberty of editing a bit to fit the proposed AEP process;

[check box] Seller may, in its sole discretion, add the following subsection 12.3(b) by checking this box. If Seller does not check this box, subsection 12.3(b) will not be deemed to be included as part of the Parties' Agreement.
[12.3](b) In order to avoid doubt regarding a commercially reasonable calculation for the purposes of calculating the Settlement Amount by the Non-Defaulting Party, the quantity of amounts of Energy to have been provided under the SSO Supplier Agreement for the period following the Early Termination Date (the "Termination Quantity") shall be deemed those quantity amounts that would have been delivered on an hourly basis had the Agreement been in effect during the previous calendar year, adjusted for such SSO load changes as have occurred since the previous calendar year. Nothing in this section shall limit the right of the Buyer when Seller is the Defaulting Party to replace Seller's full energy supply obligation and the result of any Commission-approved procedure will be deemed to be commercially reasonable for purposes of calculating the Settlement Amount and will be deemed to have been determined by reference to the Termination Quantity.

~~c.~~e.

4. **Credit Terms.** AEP Ohio will use as a base the credit terms of the Master SSO Supply Agreement used in Duke Energy Ohio's CBP. A summary of the main provisions is as follows.
   a. There will be two sets of credit requirements: an independent credit requirement ("ICR"), which will be an amount per tranche, and a mark-to-market ("MTM") requirement. Suppliers that meet specific creditworthiness criteria will be granted an unsecured credit line for each set of credit requirements (one for the ICR and another for the MTM exposure).
   b. 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.
   c. The ICR for the long product will be $900,000/tranche due at the time of the execution of the Master SSO Supply Agreement. The ICR will decline throughout the delivery period, as provided below.

Table 1. Credit-Based Tranche Caps.

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

   d. The ICR in effect during the delivery period for the one-year product and for the stub product are the values shown in the schedule above. For example, the ICR for the one-year product at the beginning of the supply period (June 1, 2014) is $600,000.

e. Suppliers or their guarantors will be considered for an unsecured credit line for the ICR. The amount of the unsecured credit line is determined on the basis of the entity's tangible net worth ("TNW") and credit ratings and is also subject to a cap for lower credit ratings. AEP Ohio proposes using the determination of the Duke Master SSO Supply Agreement, as follows:

Table 2. Unsecured Credit Line Determination for ICR.

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

f. Suppliers or their guarantors will be considered for an unsecured credit line for the MTM exposure. The amount of the unsecured credit line is determined on the basis of the entity's tangible net worth ("TNW") and credit ratings and is also subject to a cap. AEP proposes the following adjustments to the amounts used in the Duke Master SSO Supply Agreement.

Table 3. Unsecured Credit Line Determination for MTM.

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

g. A supplier that has multiple Master SSO Supply Agreements in force at a given point in time will have each of its exposures (for ICR and for MTM) aggregated across all Master

SSO Supply Agreements. The amount of any unsecured credit line granted to a supplier does not change depending on whether the supplier has one or multiple Master SSO Supply Agreements.

h. Affiliates or their guarantor will be assigned a single amount to be shared amongst them for each unsecured credit line (i.e., for purposes of the ICR and for purposes of the MTM exposure).
i. The MTM methodology will specify that forward price quotes will be AD Hub prices. These forward price quotes will be validated against data from brokers. Where quotes are not available for a month, quotes for longer periods encompassing the month will be shaped.
j. The 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.
k. There will be a standard form for the letter of credit and guaranty under the Master SSO Supply Agreement. Suppliers will have an opportunity to request modifications prior to applying to participate in the first auction under the CBP. Modifications proposed by one supplier and accepted by AEP Ohio will be made available to all suppliers on an optional basis.

5. **Qualification Process.** The qualification process will occur in two stages and generally be similar to the process established by Duke Energy Ohio and by the FirstEnergy Ohio Utilities with simplifications to the process to the extent possible.
   a. Suppliers will submit application forms either online or via email to the Auction Manager, with one hard copy to follow by overnight delivery service.
   b. In the first part of the application process, suppliers provide contact information, make certifications to agree to the process, and provide financial information.
      - Suppliers will be required to be PJM members.
      - Communication between the Auction Manager and the supplier will typically be via email.
      - Suppliers nominate one individual as the main point of contact with the Auction Manager, but they may provide contact information for up to four individuals for purposes of the application process.
   c. In the second part of the application process, suppliers provide indicative offers, make certifications regarding associations and the handling of confidential information, and post pre-bid collateral.
      - The forms of the pre-bid letter of credit, letter of intent to provide a guaranty, and letter of reference will take as a base the forms in use by Duke Energy Ohio.
      - Pre-bid security of $500,000/tranche will be required for all suppliers. For the first auction, this pre-bid security must be provided in the form of a pre-bid letter of credit. (While cash will be accepted as security under the terms of the Master SSO Supply Agreement, it will not be accepted as a form of pre-bid security in the first auction. This will be revisited in the improvement workshops for the auctions held in 2014). Suppliers will have the opportunity to comment on the form of the pre-bid letter of credit prior to qualification. As migration occurs, if the tranche percentage is not increased, the amount ofcollateral per tranche can become rather large beyond reason over the short term of the auction. DTEET suggests ratcheting down (or up if customers have migrated back to SSO supply) the pre-bid collateral requirements as a function of expected SSO load volume.
      - Suppliers may also be required to provide a letter of intent to provide a guaranty or a letter of reference, depending on a creditworthiness assessment, based on quarterly financial statements, at the Part 1 Application stage. Each supplier will be notified of the results of the assessment and of the documents required for the Part 2 Application. DTEET would like to be able to deliver one LIPG that would apply to the full series of SSO auctions rather than one at a time, perhaps with a statement provided by the SSO supplier each time.
      - Credit-based caps will apply, as provided in the table below. These limits also apply to affiliated suppliers bidding in the auction.

Table 4. Credit-Based Tranche Caps.

Credit Rating for 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	Below BB-	5
If not rated by any of these rating agencies			5

6. **Auction Process.** The auction format and post-auction process will be based upon the process established by Duke Energy Ohio and by the FirstEnergy Ohio Utilities.
   a. The auction format will be a descending clock auction, which is a multiple round auction format.
   b. Suppliers in each round state the number of tranches that they are willing to bid of each product in the auction. Suppliers may reduce (but may never increase) the total number of tranches that they bid during the auction. When a supplier reduces the number of tranches bid for a product, the supplier may provide an exit price for that product, which is a last and best offer for those tranches.
   c. Each supplier (or group of affiliated bidders) will be subject to an 80% load cap and to a credit-based tranche cap.
   d. Price decrements used in each round will be determined through a formula or table that will be released to suppliers before the auction.
   e. At the conclusion of each auction:
      - The Auction Manager will make a determination of whether the CBP rules were followed. The Auction Manager will present the results of the auction to the PUCO.
      - The PUCO may reject results within two (2) business days <u>either</u>: if the Auction Manager determines that the CBP Rules were not followed; <u>or</u>: if one of the following criteria were <u>not</u> met:
        - o The auction was oversubscribed on the basis of the indicative offers received in the Part 2 Application;
        - o There were four or more bidders;
        - o No bidder won more than 80% of the tranches available at the start of the auction.
      - If the PUCO does not reject the results within two (2) business days, the results are deemed approved.
   f. In a given auction, all suppliers will be paid a uniform price for a given product. This price will be the lowest price at which there is sufficient supply.
   g. If the auction results are approved, suppliers and AEP Ohio must execute the Master SSO Supply Agreement with three (3) business days.

7. **Communications Protocols**. The objective of the Communication Protocols is to ensure the proper handling of confidential information and to ensure that all suppliers have equal access to information necessary to prepare their bids. Topics of the communication protocols will follow the documents used by Duke Energy Ohio and by the FirstEnergy Ohio Utilities. These protocols will address the following:

   a. The CBP website will be the main source of information for suppliers and all stakeholders.
   b. The Auction Manager or AEP Ohio may issue notices or ads for the purpose of outreach to suppliers that may become potential bidders in the CBP.
   c. During the auction process, the Auction Manager will interface with the bidders (prior to signing of the Master SSO Supply Agreements). The Auction Manager will respond to bidder question and concerns; all responses to individual bidder questions will be posted to the CBP website for the benefit of all suppliers.
   d. Named representatives for AEP Ohio, who will be subject to a confidentiality agreement, will participate in the qualification of bidders, notably in making a creditworthiness assessment and determining the acceptability of credit instruments, and will have access during the auction to the next round prices, the range of excess supply, and messages from the Auction Manager. The Auction Manager will communicate with AEP Ohio during the auction if any issues related to the administration of the auction arise that may affect the results.
   e. During the auction, representatives of the PUCO Staff and the PUCO's consultant that are present at the Auction Manager's location will have access, if desired, to the results available to the Auction Manager on a round-by-round basis. If preferable for PUCO Staff, the Auction Manager's location will be in Columbus.
   f. The PUCO's consultant report will be available in its entirety to the Auction Manager and will be available on a redacted basis to AEP Ohio.
   g. Any public release of auction results will be made in accordance with PUCO decisions.

8. **Data to be provided.** Subject to discussion with suppliers, AEP Ohio intends to provide three years of historical data for suppliers to use in preparing their bids.
    a. AEP Ohio will provide data beginning on June 1, 2010. Data will first be posted to the website in January 2013 and updated monthly.
    b. The data will include hourly energy for SSO load and CRES load in the aggregate, and will be broken down among three (3) groups: residential, small commercial and industrial, as well as large commercial and industrial. Data will be provided separately for CSP and OP and this breakdown will be maintained post- merger. DTEET would like to see the aggregate CSP data is also divided into the three groups.
    c. The data will be comprised of hourly energy after the 60 day reconciliation. Beginning with loads for January 2013, data will also be provided from the initial day after load backcast, which does not reflect the 60-day reconciliation.

9. **Improvement Workshops.** AEP Ohio proposes to solicit further input from stakeholders after the first auction.
    a. AEP Ohio will convene workshops aimed at discussing the lessons learned from the first auction and using these to improve the CBP process and documents.
    b. AEP Ohio expects to hold two workshops divided among the various themes and documents.
    c. AEP Ohio will solicit two rounds of written comments on the documents and may integrate improvements in time for the second energy-only auction, subject to Commission approval.