

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :  
Application of Ohio Edison:  
Company, The Cleveland :  
Electric Illuminating :  
Company, and The Toledo :  
Edison Company for :  
Authority to Establish a : Case No. 08-935-EL-SSO  
Standard Service Offer :  
Pursuant to RC §4928.143 :  
in the Form of an :  
Electric Security Plan. :

- - -

PROCEEDINGS

before Ms. Christine Pirik and Mr. Gregory Price,  
Attorney Examiners, at the Public Utilities  
Commission of Ohio, 180 East Broad Street, Room 11-C,  
Columbus, Ohio, called at 9:00 a.m. on Friday,  
October 31, 2008.

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VOLUME XII

- - -

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1 Friday Morning Session,

2 October 31, 2008.

3 - - -

4 EXAMINER PRICE: Let's go on the record.

5 Good morning. This is our 12th day of hearing in

6 Case No. 08-935-EL-SSO.

7 Before we take our first witness this

8 morning we have a number of housekeeping matters to

9 address beginning with Staff Exhibit 10. Yesterday

10 the -- there was a great deal of discussion as to

11 whether we should take administrative notice of Staff

12 Exhibit 10 which is the public version of the staff

13 report filed in 08-124-EL-ATA or the confidential

14 version.

15 We are actually going to take

16 administrative notice of both documents. On my own

17 motion we are going to mark the confidential version

18 as Staff Exhibit 10A, and we are going to ask the

19 staff to file that document under seal in the

20     docketing division so it will be in the record of

21     this case.

22             We also have been presented a copy of

23     Staff/Company Exhibit Joint 1. Mr. Jones, would you

24     like to address that?

25             MR. JONES: Yes, your Honor. Thank you.

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1 The companies and the staff have worked together to  
2 prepare and agree on the Companies and Staff Exhibit  
3 Joint Exhibit No. 1, and we submitted that here this  
4 morning to the Bench and to the parties, and we would  
5 like to move for admission of Joint Exhibit 1 into  
6 the record.

7 EXAMINER PRICE: Does anybody -- any  
8 parties have an objection to Joint Exhibit 1?

9 MR. KUTIK: No objection, your Honor.

10 EXAMINER PRICE: Seeing none, that will  
11 be admitted.

12 (EXHIBIT ADMITTED INTO EVIDENCE.)

13 EXAMINER PRICE: Mr. Small, do you have  
14 more housekeeping matters?

15 MR. SMALL: Yes, your Honor. Yesterday I  
16 distributed OCC Exhibit 13 having to do with  
17 discussion and a motion OCC made on the second day of  
18 hearing. They are matters from the record in the  
19 hearing of FirstEnergy distribution rate case 07-551

20 to be admitted into evidence, and they are on the  
21 topic of the RCP distribution deferrals and the  
22 transition tax deferrals. The OCC moves for  
23 admission of OCC Exhibit 13.

24 EXAMINER PRICE: Actually I thought we  
25 were going to just take administrative notice of

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1 these documents.

2 MR. SMALL: I don't think it makes a  
3 difference. They aren't all filed at the Commission  
4 so that would be acceptable as well.

5 EXAMINER PRICE: Does anybody have an  
6 objection to the Bench taking administrative notice  
7 of the documents listed on OCC Exhibit 13?

8 MR. BURK: No, your Honor.

9 MR. McNAMEE: No.

10 EXAMINER PRICE: Therefore, we will take  
11 administrative notice of all those documents.

12 Do we have any housekeeping matters we  
13 need to take care of before we take our last rebuttal  
14 witness?

15 Seeing none, Mr. Kutik. Oh, I'm sorry,  
16 Mr. Korkosz.

17 MR. KORKOSZ: Recall Mr. Blank.

18 EXAMINER PRICE: Mr. Blank, I will remind  
19 you you are still under oath from your previous

20 testimony.

21 THE WITNESS: Yes, sir.

22 EXAMINER PRICE: Please proceed,

23 Mr. Korkosz.

24 MR. KORKOSZ: If the Bench please, I

25 would like to have identified on this record as

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1 Company Exhibit No. 20 a multiple page document  
2 styled the Rebuttal Testimony of David M. Blank.

3 EXAMINER PRICE: So marked.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 - - -

6 DAVID M. BLANK

7 being previously duly sworn, as prescribed by law,  
8 was examined and testified further as follows:

9 DIRECT EXAMINATION

10 By Mr. Korkosz:

11 Q. Are you the same David M. Blank that  
12 testified previously in this proceeding?

13 A. Yes.

14 Q. Do you have before you what has been  
15 identified before on this record as Company Exhibit  
16 20?

17 A. Yes, I do.

18 Q. Is that your rebuttal testimony?

19 A. Yes.

20 Q. Do you have any corrections or additions

21 to that testimony?

22 A. I do not.

23 Q. If I were to ask you the questions

24 contained in Company Exhibit No. 20, would your

25 answers be the same?

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1       A. Yes, sir.

2       MR. KORKOSZ: Mr. Blank is available.

3       EXAMINER PRICE: Mr. Yurick.

4       MR. YURICK: No questions, your Honor.

5       EXAMINER PRICE: Mr. Boehm.

6       MR. BOEHM: No questions.

7       ATTORNEY EXAMINER: Mr. Breitschwerdt.

8       MR. BREITSCHWERDT: No questions.

9       EXAMINER PRICE: Mr. Smith.

10      MR. SMITH: No questions.

11      EXAMINER PRICE: Mr. Petricoff.

12      MR. PETRICOFF: I have a couple of

13 questions, thank you, your Honor.

14               - - -

15               CROSS-EXAMINATION

16 By Mr. Petricoff:

17      Q. Good morning.

18      A. Good morning.

19      Q. Mr. Blank, if you would turn to page 5 of

20 your testimony, line 6. We are talking about --  
21 about a traders energy, and you indicate here that a  
22 difference of a day could make -- a difference of a  
23 day could make millions of dollars of difference in  
24 energy prices; is that a fair summary of your  
25 testimony on page 5?

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1       A. I say lots of things on page 5. That's  
2 one line.

3       Q. Okay. But you agree with that statement,  
4 that a difference of a day in the energy market could  
5 be millions of dollars if we are looking at a  
6 three-year period for pricing energy.

7       A. What it says "They would not rely on  
8 stale, one-day old information for trading in a  
9 market representing hundreds of millions of dollars."

10      Q. Okay. And that's why in your rebuttal  
11 you have now shifted to see what the forward curve  
12 was one day to represent the information that would  
13 have been available to traders under the Johnson  
14 model?

15      A. We looked at the information which was  
16 available to traders on the day of the auction that  
17 Mr. Johnson reflects.

18      Q. Okay. And if I look at your testimony,  
19 when we look to see those day-ahead prices, that is

20 the information you have on your DBM Rebuttal 2

21 exhibit?

22 A. The DBM Rebuttal 2 contains the forward

23 market information on December 7. We believe that

24 the next day's information is what should be used

25 which is the day of the auction itself.

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1 Q. Okay. And that is -- that would be DBM

2 Rebuttal 3?

3 A. That's correct.

4 Q. Okay. Now, looking at that wouldn't you

5 agree with me that the -- that the forward curve

6 that's represented here is for the years 2005, 2006,

7 and 2007?

8 A. Yes, sir.

9 Q. And aren't we pricing the years 2006,

10 2007, and 2008?

11 A. That is correct but what I am doing is I

12 am following what Mr. Johnson did in his model and he

13 made an assumption relating to using these -- the

14 data for these years for the year subsequent.

15 Q. Wouldn't you agree with me then if a

16 marketer wouldn't take the delay of a day because of

17 the change in prices, that they certainly wouldn't

18 tolerate the change of a year or substitute a prior

19 year in place?

20       A. Well, Mr. Petricoff, I would firmly agree  
21   that we should prefer to use our consultants' work in  
22   developing the expected market prices in preference  
23   to what Mr. Johnson does but what we have tried to do  
24   is correct the obvious errors in conceptual aspects  
25   in Mr. Johnson's testimony.

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1       Q. But if you were correcting the obvious  
2 errors, wouldn't you have used 2006, 2007, and 2008  
3 data instead of data that's a year old?

4       A. Well, I am not sure that Mr. Johnson had  
5 2008 information available to him, and I am not  
6 presuming that he did.

7       Q. And is it your testimony then that this  
8 is not an acceptable technique?

9       A. No, it is not. This technique is  
10 acceptable, although, the technique our consultants  
11 used which is a forward-looking technique rather than  
12 a backward-looking technique which is a far  
13 preferable approach and more accurate approach in our  
14 opinion.

15       Q. So your testimony is that it's okay to  
16 use data that's a year old and not the year of the  
17 actual auction, but it has to be adjusted by taking  
18 the price of the year-old data a day later?

19       MR. KORKOSZ: Objection.

20 Q. I'm sorry, a day earlier.

21 MR. KORKOSZ: Objection.

22 Mischaracterizes his testimony.

23 EXAMINER PRICE: He can answer the

24 question if he choose -- however he chooses.

25 A. That isn't what I said in the testimony.

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1 What is being done is Mr. Johnson uses 2005, 2006,  
2 and 2007 forwards, they are all forward prices, as  
3 his expectation for the forwards on the years 2006,  
4 '7, and '8. And we are saying if that's how you are  
5 going to do that, that's how you are going to do it  
6 but at least use the right date for the information  
7 for those forwards.

8 Q. And you do not think that you have to use  
9 the actual years of the auction in order to get an  
10 acceptable answer for the forward curves? Let me  
11 strike that.

12 It's your testimony that it's not  
13 necessary to price the actual years of the auction  
14 for this methodology; is that correct?

15 A. As I said, we attempted to recognize what  
16 Mr. Johnson was doing and follow his theory to the  
17 extent that we thought it had any basis at all and  
18 correct the obvious errors in that. And am I  
19 accepting his approach overall? It's an approach to

20 get to an answer. Is it terrible? No. Are there

21 better ways to do it? Yes.

22 And I think the better way is in our

23 consultants' testimony which I rely on for my

24 Attachment 1 in my original testimony.

25 Q. So it is fair to say then that while it's

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1 acceptable to use 2005 forward curve for 2006, 2006  
2 forward curve for 2007, and 2007 curve for 2008, it's  
3 not acceptable to use that on the day of the auction.  
4 You really have to use numbers from the day before.

5 A. What I'm saying is --

6 Q. That's a yes or no answer.

7 THE WITNESS: Could --

8 EXAMINER PRICE: Please answer the  
9 question yes or no.

10 THE WITNESS: Could I have it restated,  
11 please.

12 EXAMINER PRICE: Mr. Korkosz can follow  
13 up on redirect, if necessary.

14 THE WITNESS: Could I have it reread,  
15 please.

16 (Record read.)

17 A. The answer to that question is yes, it is  
18 acceptable to do that because what the concepts you  
19 are missing -- mixing, Mr. Petricoff, are completely

20 different concepts, and you are trying to join to

21 things which shouldn't be joined.

22 MR. PETRICOFF: Move to strike everything

23 after yes.

24 EXAMINER PRICE: Sustained. Mr. Korkosz

25 will have an opportunity to elicit any further

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1 testimony on this area that you feel necessary.

2 Q. Did the prices, in fact, rise for the  
3 three-year period 2006, 2007, 2008 in comparison to  
4 2005, 2006, and 2007?

5 A. Are you talking about actual prices?

6 Q. Actually prices.

7 A. Actual prices have nothing to do with  
8 what the forward prices were in 2004.

9 Q. Can you answer my question as to whether  
10 prices rose?

11 A. Absolutely. Prices did rise and that's  
12 why we think Mr. Johnson's use of the actual off-peak  
13 LMP is absolutely incorrect because they weren't  
14 expected at the time.

15 Q. I'm sorry. So assuming that you had the  
16 foresight to know prices were going up and you  
17 forecasted prices that were higher for 2006, 2007,  
18 and 2008 than were forecasted in 2005, 2006, and  
19 2007, would the fact we would be increasing the price

20 end up lowering the net present value when we go back  
21 to your calculation as shown on page I believe it's  
22 16 of your testimony?  
23 A. If you end up raising the forward price  
24 for Mr. Johnson's determination of his relationship  
25 ratio for 2006 to 2008, you end up with a reduction

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1 to the present value in my calculation, but the  
2 important point is you must know what the forward  
3 prices were at that time, not some future price which  
4 is related to all sorts of different things other  
5 than what traders were actually thinking in the  
6 aggregate at that time.

7 MR. PETRICOFF: I have no further  
8 questions, thank you, your Honor.

9 EXAMINER PRICE: Thank you, Mr.  
10 Petricoff.

11 Ms. McAlister.

12 MS. McALISTER: Thank you, your Honor.

13 Good morning, Mr. Blank.

14 THE WITNESS: Good morning.

15 MS. McALISTER: I need a microphone,  
16 please. It's Friday.

17 MR. BELL: Your Honor, may I be heard?

18 EXAMINER PRICE: Yes.

19 MR. BELL: I rose after the witness was

20     tendered for cross because I proposed to make a

21     motion to strike.

22             EXAMINER PRICE: I apologize, Mr. Bell.

23             MR. BELL: I am not being critical.

24             EXAMINER PRICE: No, no. In my haste to

25     move on today I should have seen that.

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1           MR. BELL: And the matter to which I felt  
2 a motion to strike was appropriate is the matter to  
3 which I believe Ms. McAlister is about to begin her  
4 cross-examination, and I believe, therefore, it might  
5 be appropriate for me to make the motion for the  
6 Bench's consideration which might alleviate or render  
7 unnecessary Ms. McAlister's cross-examination of this  
8 witness.

9           EXAMINER PRICE: No. This was my error,  
10 Mr. Bell. We have been taking the motion to strike  
11 first all along.

12          MR. BELL: Thank you, your Honor. I  
13 would respectfully move at this time to strike the  
14 question and answer proposed to Mr. Blank appearing  
15 on page 18, lines 6 through 20. The basis for that  
16 motion is that Mr. Blank seeks to inject into this  
17 record entirely irrelevant information relating to an  
18 entirely different market, entirely different  
19 company, entirely different load, entirely different

20 customers, and has not been shown to be relevant in  
21 any way, shape, or form to the customers and the load  
22 profile -- and the customers' load profile reaction  
23 to market prices in this market.

24 I would submit that depending upon the  
25 ruling on that Ms. McAlister may have no questions of

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1 this witness.

2 EXAMINER PRICE: Well, I don't think we  
3 will hold Ms. McAlister to that, but we will hear  
4 from Mr. Korkosz at this point.

5 MR. KORKOSZ: Well, if your Honor please,  
6 on line 1 of the same page which Mr. Bell did not  
7 move to strike the answer that Mr. Blank begins to  
8 give is a reference to FirstEnergy's experience. The  
9 information contained on lines 7 through 18 in the  
10 answer is an explanation of what that experience is  
11 based on, and it is information that with which the  
12 witness is personally familiar, the implication is  
13 directly that it's relevant, and the kind of  
14 background and degree of relevancy I suppose Mr. Bell  
15 is referring to and the basis of his objection  
16 perhaps goes to the weight and it's fair ground for  
17 cross-examination, but I submit that the admission of  
18 this testimony is proper.

19 EXAMINER PRICE: Mr. Bell.

20           MR. BELL: There's no representation  
21   either in the question or in the answer -- the  
22   preceding question or the answer that this is based  
23   upon the personal knowledge of Mr. Blank. There's  
24   simply a question do you agree with respect to an  
25   oblique area of inquiry and then he states based upon

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1 FirstEnergy's experience. He does not represent that  
2 it's the experience of these companies which would  
3 make it relevant to the inquiry before the Commission  
4 at this time. It's another PPL backdoor. No  
5 relevance has been shown, argumentative.

6 Mr. Blank, were you attempting to speak  
7 to your counsel?

8 THE WITNESS: Pardon me?

9 MR. BELL: Were you attempting to signal  
10 something?

11 THE WITNESS: Me?

12 MR. BELL: I saw you cup your hand.

13 THE WITNESS: I was coughing.

14 MR. KORKOSZ: As much as you did with  
15 Mr. King?

16 EXAMINER PRICE: Mr. Korkosz.

17 You have your explanation, Mr. Bell.

18 We are going to deny the motion to  
19 strike. All of the issues that Mr. Bell has raised

20 are, in fact, related to the weight of the testimony,  
21 and Mr. Blank is subject to cross-examination on  
22 those issues.

23 I will revisit this motion if it turns  
24 out upon cross-examination that he has no personal  
25 knowledge of this. But we have not yet established

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1     that he has no personal knowledge, and if we reach

2     that point in time, then we will go from there.

3             MR. BELL: Thank you, your Honor.

4             EXAMINER PRICE: Ms. McAlister.

5             MS. McALISTER: Thank you, your Honor.

6                     - - -

7                     CROSS-EXAMINATION

8     By Ms. McAlister:

9         Q. Good morning, Mr. Blank.

10        A. Good morning.

11        Q. Unfortunately I still have to cross you.

12             Mr. Blank, you testified that in the case  
13 of Jersey Central Power & Light the company replaced  
14 demand energy rates with energy only generation rates  
15 as a result of the basic generation service auctions  
16 in 2004. Do electricity companies in New Jersey have  
17 the option to take generation service from  
18 third-party suppliers?

19        A. Customers have the option to take power

20 from third-party suppliers, yes.

21 Q. And in your rebuttal testimony you

22 discuss the Jersey Central Power & Light's experience

23 with customers' load factors since 2004. Was the

24 analysis that you performed based on all of Jersey

25 Central Power & Light's demand-based customers?

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1       A. Yes, it was, and I commissioned this  
2 study to be done because I -- I had the belief that  
3 others had that removal of demand charges from the  
4 rates would impact customer demands and load factors,  
5 and, in fact, the first study that came back that had  
6 these results, I said, no, that can't be right. I'm  
7 an economist. I read all this stuff. I believe -- I  
8 believe the economic theory.

9       And in this situation they went back, and  
10 they went from a sample size to doing this for all of  
11 the customers in these classes and got the same  
12 answer the sample gave to us.

13      Q. And how many of Jersey Central Power &  
14 Light's customers were historically subject to  
15 demand-based charges?

16      A. Just a moment, please. I can provide  
17 that subject to check. I think that's about 24,000  
18 customers in these classes.

19      Q. And have any of Jersey Central Power &

20 Light's commercial and industrial customers switched  
21 to a third-party supplier?  
22 A. The customers that are not in these  
23 classes have switched to third-party suppliers in  
24 many cases. That would be the customers larger than  
25 the size of these particular customers.

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1       Q.   Okay.  And for those -- well, so the  
2   answer is no, there weren't any commercial and  
3   industrial customers that switched?

4       THE WITNESS:  Could I have the question  
5   reread, not -- the second question ago.

6       (Record read.)

7       A.   In the particular classes for which this  
8   study was done the answer is very, very few, if any.

9       Q.   For those that did switch did you review  
10   any of their contracts to determine how the  
11   generation services were priced under those  
12   contracts?

13      A.   My very, very few, if any, is the result  
14   of reviewing summary statistics which there may have  
15   been one, two, or three customers in this size that  
16   shift and, no, I did not review their contracts.

17      Q.   Okay.  So then you are not aware of  
18   whether the contract price -- if generation service  
19   is based upon demand or energy charges or some

20 combination of both?

21 A. I'm generally aware that the shopping in

22 New Jersey for customers in classes larger than these

23 is frequently not demand based but rather is LMP

24 based, locational marginal price based, which is a

25 cents per kilowatt hour process.

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1       Q. Mr. Blank, Mr. Korkosz indicated you are  
2 personally familiar with this, but I suppose I should  
3 ask are you familiar with Jersey Central Power &  
4 Light's tariff?

5       A. Yes, I am.

6       MS. McALISTER: Your Honor, may I  
7 approach the witness?

8       EXAMINER PRICE: You may.

9       Q. Mr. Blank, I have handed you a copy of  
10 Jersey Central Power & Light's schedule for Service  
11 Classification GT. Are you familiar with this  
12 tariff?

13      A. Generally.

14      MS. McALISTER: Your Honor, could I have  
15 what I have just handed out the service schedule for  
16 GT marked as IEU-Ohio Exhibit 3.

17      EXAMINER PRICE: So marked.

18      (EXHIBIT MARKED FOR IDENTIFICATION.)

19      MR. KORKOSZ: What number?

20 EXAMINER PRICE: 3. So marked.

21 Q. Mr. Blank, would you agree for customers

22 served under this rate schedule their distribution

23 charges are based upon the customers' billing demand?

24 A. I will agree with the distribution

25 charges are based upon the billing demand just like

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1 the distribution charges for this class is in the  
2 proposed Ohio tariffs are based on billing demands.  
3 My testimony goes to the charge for the basic  
4 generation rates, not for the distribution rates.

5 Q. I'm glad you said that.

6 MS. McALISTER: May I approach again?

7 EXAMINER PRICE: You may.

8 Q. Mr. Blank, what I have just handed you  
9 now is a copy of Jersey Central Power & Light's Rider  
10 Basic Generation Service, Commercial and Industrial  
11 Energy Pricing. Are you familiar with this schedule?

12 A. Generally.

13 MS. McALISTER: Your Honor, could I have  
14 marked as IEU-Ohio Exhibit 4 the one-page document  
15 rider BGS?

16 EXAMINER PRICE: So marked. I will note  
17 this is actually one page duplexed.

18 MS. McALISTER: Oh, thank you.

19 MR. SMALL: I'm sorry. What was that?

20 EXAMINER PRICE: It's one page front and

21 back.

22 (EXHIBIT MARKED FOR IDENTIFICATION.)

23 Q. Mr. Blank, would you agree this applies

24 to commercial and industrial customers that do not

25 switch to a third-party generation supplier?

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1       A. Yes.

2       Q. And this rider specifies how generation  
3 service will be priced to such customers?

4       A. Yes, but I think it needs an explanation.  
5 I am ready to give that explanation.

6       Q. Okay. Actually I'm not ready to have you  
7 explain yet.

8       A. Okay.

9       Q. I would actually like to focus your  
10 attention to numbered section 2 under the "Rate Per  
11 Billing Month" heading.

12      A. Yes.

13      Q. It identifies that BGS capacity is a  
14 kilowatt of generation obligation. Would you agree  
15 that section of the tariff specifies that customers  
16 will be subject to a per kW base charge based on  
17 their contribution to the capacity peak load assigned  
18 to the Jersey Central Power & Light's transmission  
19 zoned by PJM?

20       A. I would agree that's what it states, but  
21 I would also suggest these rates that these tariffs  
22 replaced when they were replaced years ago had much,  
23 much, much higher demand charges than the capacity  
24 charges identified here such that this -- this charge  
25 is very small for a customer in comparison to what

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1 rates were previously. Effectively the demand  
2 charges are very close to zero for these customers.

3 MS. McALISTER: Your Honor, I am going to  
4 move to strike everything after yes as nonresponsive.

5 EXAMINER PRICE: Motion to strike is  
6 granted.

7 Mr. Korkosz will have an opportunity to  
8 elicit any further testimony on this issue he thinks  
9 appropriate.

10 Q. Mr. Blank, just to tie this all together  
11 would you agree with me even though the nonshopping  
12 commercial and industrial customers of Jersey Central  
13 Power & Light have a portion of their generation  
14 charges based on a kilowatt-hour basis, they still  
15 are subject to other charges that are based on their  
16 monthly billing demand?

17 A. I would agree that a very small  
18 proportion of the charges are based upon a billing  
19 demand, but the vast, vast majority of the charges

20 are kilowatt-hour based.

21 Q. Would you agree with me it would be  
22 incorrect to characterize industrial and commercial  
23 customers of Jersey Central Power & Light as being  
24 subject to only energy-based charges for electricity?

25 A. It's virtually only, I would suggest.

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1       Q. And would you agree with me that the rate  
2   structure in place for commercial and industrial  
3   customers provides customers with a price signal that  
4   it's important they still manage their load?

5       A. My belief is that the size of the charge  
6   that you are reflecting is such a small proportion of  
7   any price signal that it is virtually irrelevant to a  
8   customer's decision unlike the situation previous to  
9   the installation of these tariffs.

10       MS. McALISTER: Thank you. I have no  
11   further questions.

12       EXAMINER PRICE: Thank you.

13       Mr. Porter.

14       MR. PORTER: No questions.

15       EXAMINER PRICE: Mr. Sites.

16       MR. SITES: No questions.

17       EXAMINER PRICE: Mr. Bell.

18       MR. BELL: Yes, sir.

19       - - -

20 CROSS-EXAMINATION

21 By Mr. Bell:

22 Q. Good morning, Mr. Blank.

23 A. Good morning, Mr. Bell.

24 Q. Mr. Blank, I am going to be an Alan

25 Buckman for a moment, try to, no one can ever be an

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1 Alan Buckman. Would it be correct that effectively  
2 16 of your 18 pages of rebuttal addresses  
3 Mr. Johnson's testimony and exhibits, 1 page reflects  
4 your address of Mr. Gonzalez, and 1 page reflects  
5 your address of Mr. Murray's testimony, correct?

6 A. I suggest it's closer to 15 pages, but  
7 the vast bulk is devoted toward discussion of  
8 Mr. Johnson's work.

9 Q. And would it also be correct that we  
10 might characterize your rebuttal of Mr. Johnson as a  
11 fifth revision?

12 A. What I am suggesting is there are a  
13 number of modifications that ought to be made to  
14 Mr. Johnson's work.

15 Q. You make corrections, and you make  
16 additions, do you not? You change your assumption,  
17 and you change the numbers. It's a revision, is it  
18 not?

19 A. I'm suggesting that Mr. Johnson made a

20 series of assumptions in conceptual concepts that are  
21 incorrect and need to be revised for his work to have  
22 any rationality.

23 Q. So your exhibits and your testimony  
24 constitute a fifth revision, does it not? One on  
25 four is five.

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1       A. You characterize it however you want,  
2 Mr. Bell. I don't know that I would characterize it  
3 that way.

4       Q. Thank you. Now, with respect to  
5 corrections, Mr. Blank, could you turn to page 6.  
6 Would you agree that the numerical value contained in  
7 line 18 of your prefiled testimony is incorrect and  
8 needs to be revised?

9       A. The 39.25, is that what you are referring  
10 to?

11      Q. Yes.

12      A. Yes, we believe that overstates the value  
13 of the off-peak forwards at the time of the auction.

14      Q. Where is the value of the 39.25?  
15 Shouldn't that not be 29.25 as shown in your blocked  
16 material in -- between lines 7 and 8? Shouldn't that  
17 be the off-peak megawatt price shown for 2006, 2007,  
18 2008, and the average 29.25? Where do you get the  
19 39.25, Mr. Blank?

20       A. Mr. Bell, you are so correct. I believe  
21   that the off-peak price to which I am referring is  
22   the value which is shown on page 4 in the chart  
23   between lines 13 and 14 where it says 29.25 and that  
24   is a typographical error which I should have  
25   corrected in the corrections and failed to do so, I

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1 believe.

2 Q. So this could be characterized as

3 Mr. Bell's sixth revision?

4 MR. KORKOSZ: Objection.

5 EXAMINER PRICE: Sustained.

6 Q. Now, both -- now, you have used --

7 utilized extensively in your rebuttal the method

8 employed by Mr. Johnson to arrive at a market price,

9 have you not, the auction?

10 A. My rebuttal discusses Mr. Johnson's

11 approach. My primary testimony discusses the

12 approach we think is the right way to do it.

13 Q. In your rebuttal testimony you are not

14 advancing or advocating the employment of the

15 methodology employed by Mr. Johnson, are you?

16 A. What I am suggesting is that although we

17 believe that the work of the consultants is better

18 thought out, is a more forward-looking approach as

19 markets tend to be than Mr. Johnson's

20 backward-looking approach, his result comes up with a  
21 value when you correct for the errors to be a very  
22 consistent value for what the numbers we got  
23 previously. So we don't think it's wrong, but we  
24 think there may be better methods to get there.  
25 Q. Would you answer my question? Are you

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1 advocating or advancing that methodology for -- to  
2 the Commission upon which you are recommending it  
3 place its reliance? Yes or no.

4 A. As corrected, it's a supporting  
5 approaching.

6 Q. And with respect to that approach, would  
7 you turn to page 14. In the block material there you  
8 have got an RTC price, do you not?

9 A. Yes, sir.

10 Q. And is that -- the RTC price shown in  
11 there the RTC price that Mr. Jones derived or  
12 developed?

13 A. Yes.

14 Q. And with respect to the load shaping  
15 cost, is that Mr. Jones?

16 A. Yes.

17 Q. So effectively you took the methodology  
18 of Mr. Johnson and plugged in the numbers that your  
19 consultant recommended to arrive at the result, did

20   you not?

21       A. I disagree with that characterization.

22       EXAMINER PRICE: How would you

23   characterize it, Mr. Blank?

24       THE WITNESS: Mr. Johnson started with

25   Mr. Jones' work which is the RTC price which is the

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1 so-called flat product price. And he applied a  
2 relationship ratio which was based upon a load shaped  
3 approach to those values and that's -- that's the  
4 classic apples and oranges type of comparison.

5 To make an appropriate comparison you  
6 need to take a load shaped approach, multiply it  
7 times a load shaped energy product, and you get the  
8 appropriate result at that point. So, yes, I have  
9 used Mr. Jones' numbers because he has actually  
10 developed precisely the information which was  
11 necessary to -- to construct a -- construct the  
12 appropriate result.

13 EXAMINER PRICE: Thank you, Mr. Bell.

14 Q. (By Mr. Bell) Mr. Blank, would you agree  
15 that if, in fact, the Commission were to exercise --  
16 excuse me, if the Commissioners collectively were to  
17 exercise their judgment and determine that no  
18 deferrals were appropriate or should be authorized,  
19 would you agree that neither your net present

20 valuation or Mr. Johnson's net present valuation

21 would have any relevancy to this proceeding?

22 MR. KORKOSZ: Objection.

23 EXAMINER PRICE: Grounds?

24 MR. KORKOSZ: It goes outside the scope

25 of this witness's rebuttal testimony.

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1           EXAMINER PRICE: Mr. Bell.

2           MR. BELL: Your Honor, the witness has  
3   made adjustments to Mr. Johnson's methodology which I  
4   think the record suggests the witness is not  
5   advocating. It wasn't part of their direct case and,  
6   in fact, the witness in his direct rebuttal testimony  
7   is critical of that method and is portraying it,  
8   again, a comparison of his methodol -- of his  
9   recommendations and Mr. Johnson's based upon a net  
10   present valuation with the revisions that are  
11   proposed.

12           And I believe I should be entitled to  
13   inquire into the witness what value are the revisions  
14   proposed by Mr. Blank to Mr. Johnson's testimony if,  
15   in fact, the Commission were not to employ a net  
16   present valuation, and indeed if the Commission were  
17   to decide not to defer current revenue -- current  
18   revenues to future generations' responsibility, then  
19   the net present valuation correction Mr. Blank is

20 pursuing has no relevancy to the proceeding.

21 EXAMINER PRICE: I believe that time to

22 have asked Mr. Blank this question would have been on

23 his previous direct testimony. The objection is

24 sustained.

25 MR. BELL: Thank you, your Honor.

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1       Q. (By Mr. Bell) Would you agree that the  
2       suggested impact of the corrections that you make to  
3       Mr. Johnson's determination of the appropriate market  
4       price is shown in your Exhibits DMB Rebuttal 6, page  
5       1 of 1, and DMB Rebuttal 7, page 1 of 1?

6       A. Yes. Those pages reflect the impact of  
7       the modifications we have suggested need to be made  
8       to make the study appropriate.

9       Q. Mr. Blank, I am not an economist and I am  
10      not a rate consultant or a financial consultant. I  
11      am kind of a Columbo, but in your prepared testimony  
12      you compare Mr. Johnson's auction price as you have  
13      corrected to your original net present valuation, do  
14      you not?

15      A. I don't understand the question,  
16      Mr. Bell, because Mr. Johnson corrected his auction  
17      price.

18      Q. Well, I am talking about your testimony  
19      and your comparison and your rebuttal testimony.

20 Perhaps we can approach it in this fashion, could you

21 turn to DMB Rebuttal 7, page 1 of 1.

22 A. Yes, sir.

23 Q. Under your Blank Alternative Attachment 1

24 per kWh net present value benefit you for some reason

25 or other leave that blank. Could you fill in that

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1 blank for me? In your testimony you compare the  
2 corrected auction reference case to your original but  
3 not your alternative attachment, and I am simply  
4 asking you could you fill in the blank that your  
5 exhibit neglects to portray.

6 A. Let me make sure I understand what you  
7 are asking me. On DMB Rebuttal 7, page 1 of 1, the  
8 last line in the bottom box, what's the relative  
9 number to the 9.59?

10 Q. Precisely, that's the blank.

11 A. Is that what you are looking for?

12 Q. That's the blank.

13 A. That value would be approximately  
14 two-thirds of the \$9.59. The way you would get that  
15 is take the 1,008,300,000 divided by the 1 billion  
16 659 million 8 some thousand dollars, get that ratio,  
17 multiply that by the \$9.59. In either event it's a  
18 huge number. It's billion with a B.

19 Q. On a kilowatt-hour basis, what would that

20 be for the GEN charge? Again, I am a Columbo. I

21 don't know what these megawatts are. I am a

22 customer, and I want to know how much my bill is

23 going to increase per kilowatt hour.

24 A. This is nothing to do with how much your

25 bill is going to increase.

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1 Q. Well, your GEN charge.

2 A. It's nothing to do about how much your  
3 GEN charge is going to increase. This is a measure  
4 of the benefit of the ESP versus the MRO and it's in  
5 the neighborhood of a little more than half a cent a  
6 kilowatt hour. And typical bills are 10 cents a  
7 kilowatt hour, so it's a big number.

8 Q. Now, with respect to the \$9.59 and the  
9 two-thirds figure that you were unable to plug in --

10 MR. KORKOSZ: Objection.

11 EXAMINER PRICE: Mr. Korkosz.

12 MR. KORKOSZ: That was absolutely a  
13 mischaracterization of what Mr. Blank testified to.

14 Q. That you approximated, not unable to plug  
15 in. You are able to do much more than --

16 A. Mr. Bell, if you want a precise answer, I  
17 did not bring a calculator to the witness stand. I  
18 can do that.

19 Q. That's not necessary. We can all

20 calculate it. And I didn't mean to suggest that you  
21 couldn't operate a calculator, Mr. Blank. Now, would  
22 you agree that the number that would go into that  
23 blank and the number that's shown next to it, auction  
24 reference case, is an average of the per kilowatt  
25 hour net -- per kilowatt prices of 2009, 2010, 2011?

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1 It's an average of the three years? You are  
2 averaging the benefits derived over the life of the  
3 three-year plan, are you not?

4 A. I must say, Mr. Bell, the \$9.59 was  
5 derived by Mr. Johnson. I don't know how he got that  
6 precisely. So I don't know whether it's an average  
7 or not. I could verify that, but I don't know it  
8 right now.

9 Q. Do you know how you got your number?

10 A. Yes. I took two-thirds of the 9.59 which  
11 is what you asked me to do.

12 Q. And is that two-thirds number an average  
13 number? Yes or no.

14 A. It's the same type of number which  
15 Mr. Johnson had using the same dimensions.

16 Q. I thought you said a minute ago you  
17 didn't know how Mr. Johnson arrived at his numbers.

18 A. That's what I said.

19 Q. And, now, you are saying you did it the

20 same way he did it?

21 A. I took the relationship between the

22 Alternative Attachment 1 value, compared it to the

23 result in the auction reference case, and multiplied

24 it times his number which is the right way to do that

25 calculation.

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1 Q. Do you know whether that's an average?

2 Can you say -- can you answer that yes or no?

3 A. No, I cannot. I can figure that out, but

4 I can't do it sitting on the witness stand.

5 Q. All right. Then you -- would you

6 agree -- turn to DMB Rebuttal 6, page 1 of 1. Would

7 you agree that the average shown on the last

8 linear -- it's not a columnized but in the area which

9 is blocked "09 to 11 Average," would you agree that

10 that number is less than the number shown in 2009?

11 A. Yes. The 89.42 is less than the 90.85.

12 Q. And if one were to make a decision based

13 upon the average, would that mask the impact upon

14 customers, the impact to be felt by customers in the

15 year 2009 by "averaging"?

16 A. If that's a question, I failed to

17 understand it.

18 Q. As shown in the blocked-in area, auction

19 reference prices, do you see that?

20       A.   Yes.

21       Q.   Does not the average number reflect a  
22   lesser impact than the actual impact in 2009? Is not  
23   89.42 less than 90.85?

24       A.   The auction reference price for the  
25   average of the three years is less than it is for

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1 2009, I'll agree with that statement.

2 Q. And if we were to take the values shown  
3 on your DMB Rebuttal 6, page 1 of 1, and transfer --  
4 transformed them over to DMB Rebuttal 7, page 1 of 1,  
5 that is the 90.85 or 9.85 rounded to 9.09 and do the  
6 same for 2010 which is 89.45 which would be 89 -- or  
7 8.90 and for 2011 which is 89.42 which would be 8.9,  
8 averaging those numbers would come up with a figure  
9 of 8.93, would it not?

10 MR. KORKOSZ: May I have that question  
11 reread, please.

12 (Record read.)

13 A. I disagree, Mr. Bell, because you are  
14 using the \$89.42 as the number for 2011 when, in  
15 fact, it is the value in Rebuttal 6 is 87.97 which I  
16 do believe was transferred accurately to DMB Rebuttal  
17 7.

18 Q. I stand corrected. That was a  
19 transformation error and it wasn't intentional. I

20 was doing this at about 11 o'clock last night,

21 Mr. Blank, I apologize, and I didn't have a

22 calculator when I did it.

23 But would you agree that would be the

24 methodology by which one could fill in the missing

25 blank that we spoke of earlier and that is taking the

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1 proper figures -- correcting the 2011 figure that you  
2 have just detected, by taking those three figures,  
3 dividing it by 3, and the result or the product could  
4 be placed in that per megawatt hour net present value  
5 under Blank Alternate Attachment 1?

6 A. No, I do not agree with that.

7 Q. Let's move to the last two pages of your  
8 testimony. Now, on page 16 beginning on line 7 and  
9 carrying over through line 17 on page 17, you  
10 challenge the logic in the basis of Mr. Gonzalez's  
11 testimony in this case, do you not?

12 A. Yes, sir.

13 Q. And is the essence of your testimony that  
14 the experience of the company is that it is  
15 experiencing extreme difficulty in attracting new  
16 business; is that correct?

17 A. That is not the essence of this  
18 testimony.

19 Q. Is it the essence of the testimony that

20 the delta revenues are directed primarily toward the  
21 retention of existing business?

22 A. That's been our history, yes.

23 Q. And that is the direction that your  
24 proposed riders are focused on, are they not?

25 A. Our proposed riders are focused on any

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1 delta revenue.

2 Q. New business or retention?

3 A. That's correct.

4 Q. Your focus -- your experience in the past

5 has been focused on retention, correct?

6 A. By far the most part, yes, for the past.

7 Q. Under the company's proposal would you

8 agree it is the company that is -- the company that

9 decides which of its many industries served and which

10 of the businesses within those industries should be

11 retained based upon its perception of which -- of

12 which of those companies would otherwise leave the

13 company in the face of increased prices? Yes or no.

14 A. No. The company is one -- going to the

15 company is one avenue that the customer seeking a

16 special arrangements contract can go to, but the

17 customer can go directly to the Public Utilities

18 Commission as well. In any event the Public

19 Utilities Commission will be the decider of who gets

20 the delta revenue contracts.

21 Q. Doesn't the company -- the Commission

22 approve -- do you know how many companies are going

23 to -- do you have any idea how many companies might

24 seek relief from the onerousness of the increased

25 prices they are being faced with?

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1       A. Well, first, I don't think they are  
2   onerous price increases. I think the number of  
3   customers who can be seeking delta revenue contracts  
4   is substantial. I don't know a precise number, but I  
5   am expecting it is at least in the dozen, if not in  
6   the hundreds.

7       Q. Or perhaps more, we don't know.

8       A. We don't know, that's correct.

9       Q. It could be IEU's members?

10      A. I suppose it could be.

11      Q. It could be Kroger's? Could be Wal-Mart?

12      A. It could be people you represent.

13      Q. Yes, it could.

14      A. I don't know.

15      Q. But in any event would you agree that  
16   under your proposal the customers bear the cost of  
17   the retention of those customers, not the company,  
18   although the company plays a role, a substantial  
19   role, although perhaps not the determining role as to

20 who receives those credits?

21 A. Mr. Bell, I would be delighted to get the

22 company out of that role at all. And if the

23 Commission doesn't want the company to participate in

24 that, that's great.

25 Q. Would you agree that relief from the

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1 increased prices, and I won't characterize it as  
2 onerous, I will just relief from the increased prices  
3 can be derived through several vehicles?

4 A. Yes.

5 Q. Could they be derived through credits for  
6 on-site generation or on-site customer facilities? A  
7 unique arrangement? Energy efficiency credits?  
8 Demand-side management credits?

9 A. Those are all possibilities.

10 Q. And with respect to job -- with respect  
11 to retention of customers have you any basis for  
12 recommending which businesses should receive those  
13 credits? If I, for instance, am a business and I am  
14 dying as a result of international competition and  
15 the granting of those credits will not save me from  
16 that competition, do you believe those credits should  
17 be extended?

18 MR. KORKOSZ: Objection.

19 EXAMINER PRICE: Grounds, Mr. Korkosz?

20 MR. KORKOSZ: Two questions there,

21 compound question.

22 EXAMINER PRICE: Sustained.

23 Q. Would you agree that certain businesses

24 are subject to international competition more as

25 other businesses are not?

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1       A. Yes.

2       Q. Would you agree that an automobile  
3 manufacturer today trying to sell cars in Ohio is  
4 subject to much more competition from the  
5 international market than is Toledo Edison, Cleveland  
6 Electric Illuminating Company, and Ohio Edison  
7 subject to competition?

8       MR. KORKOSZ: Objection.

9       EXAMINER PRICE: Grounds?

10       MR. KORKOSZ: This is going far beyond  
11 the scope of Mr. Blank's testimony.

12       MR. BELL: I tried to limit it with the  
13 last question. It was suggested it was a compound  
14 question; I should break it down.

15       EXAMINER PRICE: I understand, Mr. Bell.  
16 We are getting far afield. We are into international  
17 competition, and I believe he only has as you pointed  
18 out one -- one page on this topic.

19       MR. BELL: I agree. I will try to sum it

20 up. I apologize to the Bench. Sometimes I get  
21 carried away with my mission to try to bring logic  
22 and reason into the ratemaking business.

23 No further questions, Mr. Blank.

24 EXAMINER PRICE: Mr. Small.

25 MR. SMALL: Thank you. Thank you, your

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1 Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Small:

5 Q. Mr. Blank, would you please turn to page  
6 18 of your testimony. On page 18 of your testimony  
7 you have some comments about the testimony of  
8 Mr. Murray. On line 14 you use the -- you refer to  
9 "information." Do you see that? And that's  
10 information regarding Jersey Central customers,  
11 correct?

12 A. Yes.

13 Q. And you are referring to a tracking of  
14 load factors by Mr. Ridmann and his personnel in New  
15 Jersey; is that correct?

16 A. Yes.

17 Q. Mr. Ridmann works for you?

18 A. That's correct.

19 Q. That information has not been presented

20 in this proceeding, has it?

21 A. Well, I have it available if you are

22 interested in seeing it.

23 Q. That's not the question.

24 A. I don't know whether it has or not. I

25 don't think it has.

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1 Q. Okay. It hasn't been presented to the

2 PUCO staff for evaluation, has it?

3 A. I don't think that they would change the

4 results of the data collection.

5 Q. That wasn't the question. The question

6 was whether it's been presented to the PUCO staff.

7 A. I have no idea.

8 Q. Now, you've mentioned in the previous

9 answer to a question your involvement, you referred

10 to it in your direct examination that you have a

11 Master's degree in economics, correct?

12 A. That's correct.

13 Q. And was there any attempt to conduct a --

14 an econometric study of the data for Jersey Central?

15 A. What do you mean by econometric?

16 Relating to what?

17 Q. Well, I am suggesting a study that would

18 hold all other factors equal other than the change in

19 the rate structure.

20       A. We looked at the accumulated data and  
21   summarized it. I did some correlation work. That's  
22   a branch of econometrics.

23       Q. Now, the time period that you state on  
24   page 18 is your -- of your testimony refers to 1998  
25   to 2006; is that correct?

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1       A. Yes. There were three separate years of  
2 study.

3       Q. And in economics would you agree with me  
4 that the long run is the time period in which all  
5 inputs are variable?

6       A. It all depends on the inputs but  
7 generally that's a statement which is made by  
8 economists.

9       Q. Do you agree with it then?

10      A. Not always.

11      Q. I mean, I am asking you whether that's a  
12 definition of long run in economics. It's either it  
13 is or it isn't.

14      A. Different authors describe long run  
15 differently. Some authors describe it in the way you  
16 have described it.

17      Q. Okay. How would you define long run from  
18 an economic standpoint, not from the standpoint of  
19 this proceeding but from an economic standpoint?

20 What does long run mean?

21 A. To me long run is what does it take to

22 get the impact of decisions which are made.

23 Q. The full impact, the full impact when you

24 are able to vary the inputs into a decision, correct?

25 A. I think you have to look at that in any

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1 specific situation. I think it's very different to

2 generalize that as a statement.

3 Q. All right. Let's -- let me give you an

4 example. The long run, for instance, for an electric

5 utility would be a very long period of time. It

6 would be the time period in which the company was

7 able to change all of its capital, its lines, its

8 poles, its substation, its power plants, that -- very

9 long load assets, that would be long run where you

10 are able to make all the changes to your inputs for a

11 utility; is that correct? This is just an example.

12 A. Well, I have a number of issues with that

13 statement. Our utilities don't have power plants,

14 for example.

15 Q. I didn't say your utilities. I said for

16 a utility.

17 A. It depends upon the type of decision you

18 are trying to evaluate, Mr. Small. I don't think you

19 can arbitrarily state the long run over the time in

20 which you replace all your capital.

21 Q. All right. Again, what is your

22 definition of long run from an economic standpoint?

23 I am not -- we don't have any particular problem in

24 front of us. Is there a definition of long run for

25 an economist?

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1       A. Do you want my definition or?

2       Q. Yes, please.

3       A. I believe long run is the time period  
4 over which the impact of a decision will be -- will  
5 be felt when you change some sort of a process.

6       Q. Okay. Let's discuss the process that you  
7 have in your testimony. The process that is changed  
8 in your testimony is a change in rate structure for  
9 Jersey Central customers, correct?

10      A. Yes.

11      Q. And customers would make adjustments for  
12 a period of time, possibly a very long period of  
13 time, and the period of time in which it takes them  
14 to adjust their -- all their inputs to their --  
15 industrial customer instance to their production  
16 process, correct?

17      A. Yes, I would agree with that.

18      Q. So the change to the rate structure  
19 wouldn't be instantaneous, but it might continue over

20 a period of time; that's the point I am making. Do

21 you agree with that?

22 A. They could take place over a very long

23 period of time, but I think I have measured a very

24 long period of time.

25 Q. And you consider the period 1998 to 2008

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1 to be the long term as far as Jersey Central

2 customers?

3 A. I think that it's really through 2006,

4 from '98 to 2006, is the data we measured. I think

5 that's a long enough period of time to begin to see

6 the impact of the rate change, and frankly we haven't

7 seen any impact other than demands actually went up a

8 little bit rather than went down.

9 Q. The full impact wouldn't be felt though

10 for a considerable period of time.

11 A. I would agree that the full impact would

12 not be felt, but we haven't seen any impact. In

13 fact, it's been the reverse of impact by a slight

14 amount of what the economic literature would suggest.

15 Q. I have a clarification, and I think it

16 may be a typographical error, but I would like to go

17 through it a little bit. Would you turn to page 3 of

18 your testimony.

19 Okay. I think I may be in the wrong

20 place. Page 2, lines 9 through 10, you have some

21 results from your -- from your tables; is that

22 correct?

23 A. Yes, sir.

24 Q. And then you have the same numbers on

25 page 4, lines 2 through 5. What I am referring to is

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1 the \$1.66 billion and the \$1.936 billion. Do you see  
2 those?

3 A. Yes.

4 Q. Would you go back to your tables and I  
5 think that's DMB Rebuttal 7. Shouldn't those numbers  
6 for the auction reference case in the Blank Alternate  
7 Attachment be 1.659 and 1.008 billion? Has there  
8 been a problem with your transferring the numbers  
9 into the text of your testimony?

10 A. I don't think so. As I --

11 Q. Well --

12 MR. KORKOSZ: Please let him finish his  
13 answer.

14 A. As I look at the 1660 on page 2 on line  
15 9, that's the rounding for the \$1,659,819,525 value  
16 on Rebuttal 7 under the auction reference case.  
17 210 million is what Mr. Johnson has. The  
18 1,936,000,000 is a calculation which we have done  
19 using the ESP values in my original Attachment 1. I

20 did not provide a supporting attachment for that

21 page.

22 Q. All right. Let's go to page 2, line 11,

23 1.936 billion number.

24 A. Yes.

25 Q. Where does that come from?

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1       A. You will recall that I have a -- in my  
2 original Attachment 1 the net present value is \$1.3  
3 billion. And when you work through the arithmetic  
4 using the \$1.3 billion rather than the \$1.008  
5 billion, you derive the value of \$1,936,000,000 as  
6 what the Johnson corrections would look like if he  
7 had used the original Attachment 1, not the Alternate  
8 Attachment 1.

9       Q. I guess as you said the \$1.936 billion  
10 doesn't show up on your support documents.

11      A. I did not provide another table for that.  
12 That was an easy calculation substitution to make.

13      MR. SMALL: I have no further questions.

14      EXAMINER PRICE: Thank you, Mr. Small.

15      Mr. McNamee.

16      MR. McNAMEE: Thank you.

17                   - - -

18                   CROSS-EXAMINATION

19 By Mr. McNamee:

20 Q. Good morning, Mr. Blank.

21 A. Good morning.

22 Q. Mr. Petricoff asked all the interesting

23 questions. I have a few. Let's turn to page 8,

24 lines 14 through 16. Do you see that? There's a

25 sentence that refers to records you maintained of --

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1 the companies maintained served on- and off-peak

2 forward broker quotes. Do you see that?

3 A. Yes, sir.

4 Q. Okay. You don't mean to suggest there

5 the bidders in the December 8, 2004, auction or those

6 who were considering bidding had access to those

7 company records, do you?

8 A. It's the reverse, Mr. McNamee. The

9 company recorded information as I understand it from

10 what they were hearing from traders in the

11 marketplace contemporaneously and that's what we are

12 reporting there.

13 Q. Okay. That will be the next question.

14 How did the company gather that information?

15 A. My understanding is that information is

16 available from two separate sources, one is from

17 electronic trading platforms which are generally

18 available to subscribers and also from the broker

19 network that the company participants engage in.

20       Q.  So the company called brokers to get  
21   these -- to get these numbers and then reported it.

22       A.  Yes.

23       Q.  So these numbers weren't published, if  
24   you will?

25       A.  These are not published numbers, that's

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1 correct. But they are available to market  
2 participants and other interested observers who  
3 follow this market.

4 Q. Okay.

5 A. Including the -- we would expect the  
6 traders in these auctions would certainly follow  
7 these types of matters.

8 Q. Okay. The information that you used, the  
9 forward broker quotes that you used, over what period  
10 of time were they gathered?

11 A. Well, those are the quotes for the data  
12 for the forwards available on the 8th of -- 8th of  
13 December of 2004. They were contemporaneous with the  
14 auction. They were forward quotes for the years '5,  
15 '6, and '7 gathered prior to the auction on December  
16 8, 2004.

17 Q. Prior to the auction.

18 A. Contemporaneous with the auction.

19 Q. Okay.

20       A.   Earlier in the day.

21       MR. McNAMEE: All right. That's all I

22 need. Thank you.

23       EXAMINER PRICE: Mr. Korkosz.

24       MR. KORKOSZ: May we take a brief recess?

25       EXAMINER PRICE: Let's break until 10:35.

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1 (Recess taken.)

2 EXAMINER PRICE: Mr. Korkosz.

3 MR. KORKOSZ: Just a bit, your Honor.

4 Redirect.

5 - - -

6 REDIRECT EXAMINATION

7 By Mr. Korkosz:

8 Q. Mr. Blank, do you recall under

9 questioning by Mr. Petricoff he suggested to you that

10 in the course of your modifications to Staff Exhibit

11 9D that he characterized it you would find it

12 acceptable to use 2005 data -- impute 2005 data to

13 2006, 2006 to 2007, 2007 data to 2008, but that your

14 view is that it would be incorrect to impute the

15 actual forward prices on December 8 -- December 7 to

16 December 8. Do you recall that question?

17 A. Yes, I do.

18 Q. And do you, in fact -- can you explain

19 why you distinguish between those two cases?

20       A. Yes, I can. With respect to the  
21 information on December 7 and December 8, I think  
22 it's very important to use the information that --  
23 the actual information the traders had available to  
24 them in participation in the August -- in the auction  
25 which is the information from the forecast prices for

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1 the 8th as reported on the 9th. The forecast prices  
2 for the 7th reported on the 8th is stale information  
3 by that point and should not be used.

4 On the other hand, first, the 2008  
5 forward information if to the extent it existed was  
6 not widely available and not -- certainly not being  
7 published at that time. And so it's appropriate to  
8 use a proxy of 2005 to 2007 for the forwards for the  
9 period 2006 to 2008, and I found that to be an  
10 acceptable proxy.

11 Q. And you are putting that in the context  
12 of being at the time of the December 8, 2004,  
13 auction, correct?

14 A. That is correct.

15 Q. All right. Now, do you still have IEU  
16 Exhibit No. 4 in front of you?

17 A. Yes, I do.

18 Q. And this was a tariff sheet reflecting  
19 generation service from Jersey Central, right?

20       A.   Yes.

21       Q.   And your attention was directed on the  
22   portion of that tariff sheet dealing with rate per  
23   billing month to subsection 2 dealing with what was  
24   pointed out as a demand charge.  Do you recall that?

25       A.   Yes.

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1       Q. Can you put in some perspective the  
2 magnitude of that -- some historical perspective of  
3 that demand charge?

4       A. Yes. Demand charges for generation  
5 pricing for Jersey Central prior to the rate change I  
6 am talking about were in the range of 12 to 15  
7 dollars per kilowatt month. In comparison on IEU  
8 Exhibit 4 which are the more current rate structure  
9 the BGS capacity charge of 11 cents per kilowatt day  
10 translates into a value in the neighborhood of \$3 --  
11 a little more than \$3 per kilowatt month which is a  
12 dramatic reduction, very dramatic reduction from the  
13 12 to 15 dollars previously in the rate structure.

14      Q. Finally, Mr. Blank, Mr. Bell suggested  
15 early on in his examination that there might be an  
16 error in your direct testimony -- or your rebuttal  
17 testimony that you hadn't picked up at page 6, line  
18 18, and that the value of \$39.25 that was listed in  
19 your testimony might be inaccurate. At the time you

20 agreed with him.

21 Have you had an opportunity to review

22 that figure and do you believe that, in fact, your

23 rebuttal testimony was wrong?

24 A. My rebuttal testimony is correct as

25 previously printed. The 39.25 on line 18 is correct.

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1 The 39.25 is a round-the-clock price including the  
2 weighted on-peak and off-peak price, whereas, the  
3 29.25 to which I was referring and got confused is  
4 the off-peak price originally reported by  
5 Mr. Johnson.

6 Q. So your testimony is correct as it was  
7 initially presented.

8 A. That is correct.

9 MR. KORKOSZ: Nothing further, your  
10 Honor.

11 EXAMINER PRICE: Mr. Yurick.

12 MR. YURICK: Nothing, your Honor, thank  
13 you.

14 ATTORNEY EXAMINER: Mr. Boehm.

15 MR. BOEHM: Nothing, your Honor.

16 ATTORNEY EXAMINER: Mr. Breitschwerdt.

17 MR. BREITSCHWERDT: Nothing, your Honor.

18 ATTORNEY EXAMINER: Mr. Smith.

19 MR. SMITH: Just a few questions.

20                   - - -

21                   CROSS-EXAMINATION

22    By Mr. Smith:

23           Q.   Good morning.  On your -- talking about

24   the Jersey Central, when you reduced your kW per

25   month demand charge of \$12 down to effectively \$3 kW

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1 a month, did you increase your energy charges to

2 recover the lost revenue?

3 A. Yes, sir.

4 Q. And was the energy charge increased by

5 the same magnitude as the decrease in your demand

6 charges?

7 A. The overall prices in New Jersey went up

8 as a result of the first auction, and so they more

9 than made up for that differential, yes.

10 Q. Okay. As far as Mr. Johnson's testimony,

11 in your dissertation about use of data, you concluded

12 that -- you effectively created a proxy, remember the

13 word proxy?

14 A. Mr. Johnson created a proxy. And I don't

15 find that to be problematic in this particular

16 situation relative to the on-peak price.

17 Q. And that's based on your judgment?

18 A. My judgment based upon a review of the

19 information at that time.

20 MR. SMITH: I have nothing further.

21 Thank you.

22 EXAMINER PRICE: Mr. Petricoff.

23 MR. PETRICOFF: Thank you, your Honor.

24 - - -

25

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1           RECROSS-EXAMINATION

2   By Mr. Petricoff:

3       Q.   Mr. Blank -- Mr. Blank, you are not an  
4   energy trader, are you?

5       A.   No, sir.

6       Q.   And FirstEnergy did not participate in  
7   the 2004 auction.

8       MR. KORKOSZ: Objection.

9       EXAMINER PRICE: Grounds?

10       MR. KORKOSZ: Beyond the scope of the  
11   redirect.

12       EXAMINER PRICE: Mr. Petricoff.

13       MR. PETRICOFF: No. The redirect talks  
14   about what bidders would do, what traders would do.  
15   I think it's important to establish if they were a  
16   trader. It goes to credibility.

17       EXAMINER PRICE: I'm sorry. I don't have  
18   anything for any questions on redirect with respect  
19   to -- on redirect as with respect to what traders

20 would do. I just had a question related to the use

21 of the proxy.

22 MR. PETRICOFF: Well, that's right, and

23 if we are establishing if this is a good proxy or

24 not, then I'm trying to lay a foundation about where

25 that knowledge comes from.

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1           EXAMINER PRICE: I will give you a little  
2 bit of leeway but not too far, Mr. Petricoff.

3           Q. (By Mr. Petricoff) Mr. Blank, isn't it  
4 true that you don't know what sources of information  
5 that the bidders had when they made the bid in 2004  
6 and -- well.

7           A. I am aware of the type of information  
8 which is available to bidders. I do not know whether  
9 those bidders actually accessed it, but I believe in  
10 marketplaces generally the bidders must access the  
11 availability information or else they are not going  
12 to stay in business.

13          Q. And so it's possible that bidders had  
14 information for the calendar years in 2004 for  
15 forward curves -- forward prices for the calendar  
16 years 2006, 2007, 2008?

17          A. That is a possibility but that was not  
18 widely available in the marketplaces to the best of  
19 my knowledge.

20       Q. But it's possible they had access to that  
21 information.

22       A. It's possible that they were -- the  
23 bidders had been involved in bilateral transactions  
24 which would have given them such information.

25       MR. PETRICOFF: I have no further

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1 questions.

2 EXAMINER PRICE: Thank you.

3 Ms. McAlister.

4 MS. McALISTER: Thank you, your Honor.

5 - - -

6 RECROSS-EXAMINATION

7 By Ms. McAlister:

8 Q. Mr. Blank, you characterized the current  
9 Jersey Central charges as dramatically reduced  
10 compared to the historical demand-based generation  
11 charges, right?

12 A. Yes.

13 Q. The current generation rates do still  
14 include demand charges, right?

15 A. To a small extent as I stated.

16 Q. The current Jersey Central generation  
17 rates are not energy only, are they?

18 A. As I remarked earlier, they are virtually  
19 energy only.

20 MS. McALISTER: No further questions,

21 your Honor.

22 EXAMINER PRICE: Mr. Bell.

23 MR. BELL: Of course.

24 - - -

25

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1                   RECROSS-EXAMINATION

2   By Mr. Bell:

3       Q.   Dealing with the Jersey Central Power &  
4   Light your review and the conclusions that you draw  
5   from your review as to the change in the rate  
6   structure, i.e., the revenue recovery aspects,  
7   address the period 1998 to 2006, did it not?

8       A.   Three specific years in that period, yes.

9       Q.   Were the economic conditions during those  
10   years such that the individuals subject to the change  
11   in pricing might have willingly accepted the  
12   resultant change, that is, if the change did not  
13   cause a change -- that the change in rate design did  
14   not cause a change in the customers' load profiles;  
15   is that essentially your testimony?

16           MR. KORKOSZ: Objection.

17           ATTORNEY EXAMINER: Grounds?

18           MR. KORKOSZ: It is beyond the scope of  
19   redirect.

20 EXAMINER PRICE: Mr. Bell.

21 MR. BELL: I guess I'll brief it. Thank

22 you.

23 EXAMINER PRICE: Thank you.

24 Any further questions, Mr. Bell?

25 MR. BELL: Yes.

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1       Q. (By Mr. Bell) Now, you said that while  
2 demand decreased -- the demand charge component of  
3 the ultimate revenue recovery decreased, the energy  
4 component of the overall recovery, in fact,  
5 increased, did you not?

6       A. Yes, sir.

7       Q. What was the net impact upon the overall  
8 revenue as a result of one increasing and one  
9 decreasing? You said the net impact as I recall was  
10 an increase?

11      A. That is my recommendation.

12      Q. Do you know the magnitude of the  
13 increase? Did you attempt to evaluate the magnitude  
14 of the increase and the effect of that magnitude upon  
15 the customers' elasticity, if you will, in changing  
16 the customers' load profile?

17      A. The magnitude of the increase is my -- to  
18 the best of my recollection was in the neighborhood  
19 of 5 percent at the time of the first auction. It

20 would have subsequently been higher, and I have done  
21 no elasticity studies relating electricity prices  
22 with income, if that's what you are talking about.

23 MR. BELL: Thank you. That's all I have.

24 EXAMINER PRICE: Mr. Small.

25 MR. SMALL: No questions, your Honor.

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1 EXAMINER PRICE: Mr. McNamee.

2 MR. McNAMEE: No questions.

3 - - -

4 EXAMINATION

5 By Examiner Price:

6 Q. I have a couple of questions. With  
7 respect to this issue of using the proxy for 2008,  
8 the issue was there was no 2008 forward number; isn't  
9 that correct? Therefore, Johnson used the 2007  
10 forward --

11 A. Yes, sir.

12 Q. -- in its place. And then in order to be  
13 consistent he used the 2006 forward for the 2007  
14 number, the 2005 forward for the 2006 number; is that  
15 not correct?

16 A. Yes. He advanced each year by one year.

17 Q. And I understand this is not your model,  
18 but isn't the problem that he used a proxy for 2006  
19 when the actual 2006 number was available, that for

20 2006 the actual number according to your DMB Rebuttal

21 3 was 48.25 when the number he used, the proxy he

22 used, was 48.0?

23 A. Well, as you see, the -- well, the answer

24 to the question is yes, but as you see, he used --

25 there wasn't a 2008 number available. What number

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1 should he have used?

2 Q. I am not talking about 2008. I am  
3 talking about for 2006 and 2007. He used the proxy  
4 when the actual number was available for the 2006,  
5 the value 48.25 was available, but he used his proxy  
6 No. 48.0 for 2007, the actual number of 47.25 was  
7 available, but he used his proxy number of 48.25; is  
8 that not true?

9 A. That's what he used, that's correct. But  
10 if you extend that pattern from the 2006 to 2007 into  
11 the 2008 pattern, of course, the price decreases from  
12 one year to the next. That would have the influence  
13 of even further reducing his cost at the time of the  
14 auction.

15 Q. I understand that. I am just saying you  
16 think it's more important -- do you agree his  
17 apparent conclusion was more important to be  
18 consistent in terms of using the proxy rather than  
19 using the actual data where available?

20       A. Well, to use the actual data available to  
21   traders at the time of the auction, then I would  
22   agree with that.

23       Q. Correct. And that's what DMB Rebuttal 3  
24   is, the actual data available to traders at the time  
25   of the auction.

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1       A. Yes, sir.

2       EXAMINER PRICE: Thank you. That's all I  
3 have. You are excused.

4       THE WITNESS: Thank you.

5       EXAMINER PRICE: Mr. Korkosz.

6       MR. KORKOSZ: Offer Company Exhibit 20.

7       EXAMINER PRICE: Any objection to the  
8 admission of Company Exhibit 20?

9       Seeing none, it will be admitted.

10       (EXHIBIT ADMITTED INTO EVIDENCE.)

11       EXAMINER PRICE: Ms. McAlister.

12       MS. McALISTER: Oh, thank you, your

13 Honor. I would move for the admission of IEU

14 Exhibits 3 and 4.

15       EXAMINER PRICE: Any objection to the  
16 admission of IEU 3 and 4?

17       MR. KORKOSZ: No objection.

18       ATTORNEY EXAMINER: Seeing none, they  
19 will be admitted.

20 (EXHIBITS ADMITTED INTO EVIDENCE.)

21 EXAMINER PRICE: Did we put the briefing  
22 schedule on the record, or did we just discuss that?

23 MR. SMALL: Your Honor, I have more small  
24 other housekeeping matters.

25 EXAMINER PRICE: Let me do the briefing

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1 schedule. As I understand it, the initial briefs are  
2 due November 21, and replies are due on December 12.

3 Mr. Small.

4 MR. SMALL: Yes, your Honor. I think you  
5 had taken administrative notice of the items that  
6 were listed on OCC Exhibit 13.

7 EXAMINER PRICE: Yes.

8 MR. SMALL: If you would, I would like  
9 administrative notice made of the exhibit itself. It  
10 might help for briefing purposes to distinguish  
11 because we are going to have exhibits that have  
12 duplicate numbers, so I would like the exhibit itself  
13 you to take administrative notice of it.

14 EXAMINER PRICE: That was my intent to  
15 take administrative notice of the exhibit and the  
16 whole document.

17 MR. SMALL: Thank you for the  
18 clarification.

19 MR. KORKOSZ: If your Honor, please, with

20 respect to the briefing schedule, could we have an  
21 understanding that those briefs would be exchanged  
22 electronically among the parties?

23 EXAMINER PRICE: It would certainly be my  
24 expectation. Everything else has been exchanged  
25 electronically. Does anybody object to the

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1 electronic exchange of briefs?

2 Do we want to just clarify agree 5:30

3 p.m. is the official time on those days in question?

4 Seeing no objection to that, that is the

5 ruling from the Bench.

6 Do we have anything else before we go off

7 the record?

8 Ms. Pirik.

9 EXAMINER PIRIK: I think from the Bench's

10 perspective we have conferred and as you are all

11 aware, this is an extremely complex case that not

12 only has a great deal of issues that you all have

13 brought forward but issues that the Bench needs to

14 take into consideration in our recommendation to the

15 Commission.

16 We are dealing with the short-term ESP,

17 the long-term ESP, the MRO, the fuel case, the

18 distribution rate case, trying to figure out how all

19 of those cases fit together and exactly what

20 recommendation we are going to put forward.

21 To that end we are not going to close the

22 record today. We are going to leave the record open.

23 Obviously we have a briefing schedule, and the

24 briefing schedule will go forward. And if we

25 determine that something further needs to happen in

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1 the way of procedure, then we will make that  
2 determination at that time. But you will not hear us  
3 today closing the record. We just have too many  
4 things that we need to take into consideration.

5 MR. KORKOSZ: May we infer, your Honor,  
6 that should there be some issue that arises, that the  
7 parties would have an opportunity to be heard on the  
8 inclusion of additional matters into the record?

9 EXAMINER PIRIK: There will be due  
10 process. Everyone will have an opportunity. We will  
11 not blind side anyone on anything, and we don't  
12 anticipate -- at this point we don't anticipate  
13 anything. We just think it's prudent not to state at  
14 the conclusion of the hearing at this point that the  
15 record is closed because we just have a lot of things  
16 that we have to take into consideration. It's a  
17 unique case.

18 MR. KORKOSZ: Thank you.

19 EXAMINER PRICE: With that we are

20 adjourned. Thank you all.

21 (The hearing was adjourned at 10:55 a.m.)

22 - - -

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CERTIFICATE

I do hereby certify that the foregoing is  
a true and correct transcript of the proceedings  
taken by me in this matter on Friday, October 31,  
2008, and carefully compared with my original  
stenographic notes.

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Karen Sue Gibson, Registered  
Merit Reporter.

(KSG-5007)

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