BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
Application of Columbus :
Southern Power Company for:
Approval of its Electric :
Security Plan; an : Case No. 08-917-EL-SSO
Amendment to its Corporate:
Separation Plan; and the :
Sale or Transfer of :
Certain Generating Assets.:
:
In the Matter of the :
Application of Ohio Power :
Company for Approval of :
its Electric Security : Case No. 08-918-EL-SSO
Plan; and an Amendment to :
its Corporate Separation :
Plan. :

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PROCEEDINGS

before Ms. Kimberly W. Bojko and Ms. Greta See, Hearing Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-C, Columbus, Ohio, called at 9:00 a.m. on Wednesday, November 26, 2008.

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Wednesday Morning Session,
November 26, 2008.
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EXAMINER BOJKO: Let's go on the record.

Good morning, everyone.

This is a continuation of 08-917 and 08-918-EL-SSO, being In the Matter of the Ohio Power Company and Columbus Southern Power Company's Electric Security Plans.

We'll take abbreviated appearances again at this time.

MR. RESNIK: Marvin Resnik, Dan Conway, and Steve Nourse for the companies.

EXAMINER BOJKO: Thank you.

MR. MASKOVYAK: Joe Maskovyak and Mike Smalz for APAC.

MR. O'BRIEN: Tom O'Brien and Rick Sites for the OHA.

MR. MARGARD: Werner Margard, John Jones, Thomas Lindgren, assistant attorneys general on behalf of the Commission staff.

MR. SETTINERI: Michael Settineri, Howard Petricoff on behalf of the competitive suppliers group.

MS. GRADY: Maureen Grady and Mike

Idzkowski on behalf of the residential ratepayers of the company.

MR. RANDAZZO: Lisa McAlister, Joe Clark, and Sam Randazzo on behalf of the Industrial Energy Users-Ohio.

MR. RINEBOLT: Dave Rinebolt and Colleen Mooney on behalf of Ohio Partners for Affordable Energy.

MR. KURTZ: Mike Kurtz and Dave Boehm for the Ohio Energy Group.

MR. BELL: Langdon Bell for the Ohio Manufacturers Association.

EXAMINER BOJKO: Mr. O'Brien -- let's go off the record.

(Discussion off the record.)

EXAMINER BOJKO: Let's go back on the record.

OCC, would you like to call your next witness?

MR. IDZKOWSKI: Yes, we would, your Honor. Thank you.

OCC calls Mr. Anthony J. Yankel.

EXAMINER BOJKO: Mr. Yankel, could you please raise your right hand?

(Witness sworn.)

EXAMINER BOJKO: Thank you.

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ANTHONY J. YANKEL

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Mr. Idzkowski:

Q. Mr. Yankel, please state your name and business address for the record.

A. Anthony J. Yankel, Y-a-n-k-e-l, 29814 Lake Road, Bay Village, Ohio 44140.

Q. Mr. Yankel, for the purposes of this proceeding by whom are you employed and in what capacity?

A. The Office of Consumers' Counsel as a consultant.

Q. What is the name of your business, Mr. Yankel?

A. Yankel and Associates, Incorporated.

MR. IDZKOWSKI: Your Honor, at this time I would have marked as OCC Exhibit No. 14 the direct testimony of Mr. Anthony J. Yankel.

EXAMINER BOJKO: It will be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Yankel, do you have what's now been

marked as OCC Exhibit No. 14 in front of you?
A. Yes, I do.
Q. And could you identify that document, please?
A. This is my prefiled direct testimony in this case.
Q. And did you prepare this testimony?
A. Yes, I did.
Q. Mr. Yankel, do you have any additions, corrections, or deletions to that testimony today?
A. None of which I'm aware.
Q. If I were to ask you the questions posed in that testimony today, would your answers be the same?
A. Yes, they would.
MR. IDZKOWSKI: Your Honor, at this time OCC makes Mr. Yankel available for cross-examination.
EXAMINER BOJKO: Thank you.
Let's begin with Mr. Maskovyak.

MR. MASKOVYAK: No questions, your Honor.

EXAMINER BOJKO: Mr. O'Brien.

MR. O'BRIEN: I have none, your Honor.

EXAMINER BOJKO: Mr. Settineri?

MR. SETTINERI: No questions, your Honor.

EXAMINER BOJKO: Mr. Randazzo?

MR. RANDAZZO: Just a few.

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CROSS-EXAMINATION

By Mr. Randazzo:

Q. Good morning, Mr. Yankel.

A. Good morning.

Q. How are you?

A. Good.

Q. If you would turn to page 5 of your prepared testimony, OCC Exhibit 14, I believe, you talk there about economic development potentially providing benefits to all customers, and in your testimony you talk about the use of what us regulatory groupies in Ohio sometimes refer to as special contracts. Am I correct?

A. I don't think I used the term "special contract" but basically, yes.

Q. Okay. Reasonable arrangements under section 4905.31, correct?

A. Right.

Q. And you are aware that those arrangements cannot go into effect until they've been reviewed and approved by the Commission, right?

A. That is my understanding, yes.

Q. Okay. So the process of evaluating the merits or demerits of a specific reasonable arrangement would be something that the Commission could take up at the point in time when an application for a reasonable arrangement is filed, correct?

A. Right. I think most of my testimony mentions that but does not address that in any way. I'm really addressing more the treatment of the revenues and a revenue shortfall outside of that process.

Q. Okay. And have you reviewed the changes to section 4905.31 that were made as part of Senate Bill 221?

A. Yes.

Q. Okay. And based on that review do you understand that the revenue shortfall or, again, delta revenues for the regulatory groupies is something that can be taken up as part of the application for a reasonable arrangement? Is that your understanding?

A. I don't have an understanding as to whether or not it would be taken up on an individual case or on a generic case such as we have before us right now, so that's why I addressed it here.

Q. Fair enough. Now, on page 8 of your

testimony, as I read the answer that carries over from page 7, you're suggesting that the delta revenue or revenue shortfall, whichever term you want to use there, should be recovered from other customers based on a percentage of the total bill approach; am I correct there?

A. Yes.

Q. And that is as opposed to a percentage of distribution revenue; is that correct?

A. Yes.

Q. If you have governmental aggregation programs or shopping, how do you suggest that the companies would determine the portion of the customer's bill that is generation related?

A. I'm not following the question. I can give you what I'm thinking you're asking but it would be better if you asked again.

Q. Okay. Let's assume hypothetically that you have a governmental aggregation program in the companies' service territories, not unlike NOPEC in northeast Ohio.

A. Correct.

Q. And as part of that program the suppliers are actually invoicing customers for the generation component. How would you administer this kind of approach where you're using a percentage of the total bill in the context where other suppliers are serving customers for the generation function and invoicing those customers separately?

A. My intent here is that for customers such as that, those revenues, as far as the generation revenues, which would be going to a third-party supplier would not be counted. My thought process here was the company revenue, which would mean for company generation only, company distribution rates only, but not for third-party suppliers.

Q. Okay. So --

A. Excuse me. I was envisioning a bill that did not include a third-party supplier, if that helps, where the third-party supplier would supply the bill separately. If the bill is combined, in that case then yes, that would be taken out from my recommendation.

Q. Okay. And the customers that are then

shopping and being served by a third party would
continue to receive -- in my hypothetical would
continue to receive a bill for distribution services,
correct?

A. Yes.

Q. And would you apply that uniform

percentage to their bill for distribution service or would you do something else?

A. I would apply that percentage uniformly for all revenue given to the company for that customer. In that particular case the shopping customer would only have distribution revenue for the company. For a nonshopping customer they would have generation plus distribution revenue, so their bill for the same amount of usage would be much higher to the company, therefore, their percentage -- the percentage would be the same but the amount that would come out of that percentage would be higher.

Q. All right. Thank you.

MR. RANDAZZO: That's all I have, your Honor.

EXAMINER BOJKO: Thank you.

Mr. Rinebolt?

MR. RINEBOLT: No cross, your Honor.

EXAMINER BOJKO: Mr. Kurtz?

MR. KURTZ: Yes, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Following up on Mr. Randazzo, that would effectively make the delta revenue largely bypassable

by a shopping customer, wouldn't it?
A. It depends on the shopping customer, but yes, there would be a large portion that would be bypassable, meaning the generation portion for somebody that went to a third-party supplier.
Q. Well, the generation is the largest part of the bill, right?
A. I'm thinking about residential where it may or may not be the largest part of the bill, but it could be 50 percent of the bill easily, so yes, so a large portion of it. On a larger customer it would by far be the largest portion of the bill.
Q. Are you okay with the delta revenue being bypassable?
A. My personal feeling is it should be. That doesn't mean that that's what the Commission or the legislature thinks it should be, but my personal feeling is it should be.
MR. KURTZ: Thank you, your Honor.

EXAMINER BOJKO: Mr. Bell?

MR. BELL: Yes, your Honor, thank you.

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CROSS-EXAMINATION

By Mr. Bell:

Q. I'll pick up on Mr. Randazzo as well, page 5, my focus will be on page 5 and page 8 of your prefiled testimony, Mr. Yankel. On line 7 you speak of the "new reality of multiple possible providers." Have you made any determination or evaluation as to the likelihood of there being multiple possible providers of generation service in AEP's service territory?

A. I've not made a specific study, no.

Q. Do you have any opinion as to the likelihood of multiple possible providers of generation service in AEP's service territory?

A. For the last several years there's been a close to negative possibility of that.

Q. Okay. Thank you.

A. Going forward that could change greatly depending on what comes out of this case as far as the prices that the Commission allows the company to collect under its ESP versus the prices that could be offered in the market today, which seem to be dropping quite readily, so I can't predict the future. The future is greatly changing from the past is what I'm saying.

Q. The reason I inquired was that sentence suggests that in the future the reality is going to be there are going to be multiple providers of

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generation service, and that was not your intent in that statement, I trust.

A. That's true.

Q. The same page, at line 15 you speak of potential abuse by the utilities of economic development provisions as a means of subsidizing certain customers. Do you see that?

A. Yes.

Q. You state: Such activity would be anticompetitive and should be banned, on line 18. You are not there suggesting that the Commission should not -- should ban an economic development rider, do you?

A. No, I am not. I am in support of an economic development rider. My only concern is for any utility, not just AEP, but for any utility that it would be used for anticompetitive purposes.

Q. At the top of page 6 you reference the Partnership with Ohio as being funded with shareholder funds and, as a result, they do not cause you a concern; is that correct?

A. That is correct.

Q. That is if, in fact, shareholders funds are used in an anticompetitive behavior, they yet cause you no concern because they're being funded with shareholder funds and not ratepayer funds?

A. I guess I view this as America, and if the company wants to spend their money that way, they're allowed to do that.

Q. Okay. Your concern is that anticompetitive activity should not be funded with ratepayer funds.

A. Yes.

Q. As suggested in line 20, page 6, correct?

A. Yes.

Q. Now, turning to page 7 you speak in terms -- and I'm looking now at the second full paragraph and particularly on lines 15 and 16 where you suggest that if, in fact, the funding of economic development were to use as its base distribution revenues, that those revenues are so relatively small or insignificant that they would be incapable of funding an economic development program. Do you not?

A. For a particular customer, a large

customer looking just at distribution revenues, it may not make much of a difference to the customer as far as a discount goes.

Q. That was not the thrust of my question. The question was is your testimony there directed toward the inadequacy of the base to which the surcharge or the rider would be applied as being inadequate to fund economic development? Do you understand the question, Mr. Yankel?

A. No. I thought I answered that.

Q. Perhaps it was inartful, which I am sometimes guilty of.

On lines 15 and 16 on page 7 when you speak of the hundred percent discount being given on the distribution portion of the bill, it might fall short of stimulating economic development, focusing on that one sentence --

A. Yes.

Q. -- you are not there suggesting that the funds generated for economic development being based upon distribution revenue would fall short of the funds needed to stimulate economic development, do you? I'm focusing on the "fall short," fall short of --

A. Okay, fall short.

Q. -- of what and for what purpose?

A. Okay. Let me give you an explanation of the sentence and see if that helps your question because I'm still a little vague on the question.

My thought on fall short is just by way of example. If a large customer's -- large customer's thinking about moving into the area and it looks at its distribution rate and its generation rate, its distribution rate may be quite small in comparison to its overall generation cost. The discount that the company may give, they may give a 100 percent discount on that distribution portion, it still may fall very short from what the company would like to see as far as any kind of economic incentive for them to move in so, therefore, it would not stimulate economic development.

Q. All right. So as I understand your testimony as you have expanded upon it, what you want to do is provide a means by which the discount can be expanded; is that correct?

A. No. I'm suggesting that there will be many cases where if the company is not selling the generation, therefore it has no control over that portion of the cost, that it is less likely that they will be able to offer meaningful economic development or incentives for economic development because it would take more of a discount, and that discount would have to come off the generation portion which they may not be supplying.

Q. So that you propose that for economic development the generation component of a new customer -- economic development customer's bill should be the subject of the discount, correct?

A. Could you try it again?

Q. You are proposing then for this new customer thinking about locating, that the discount should apply to both the distribution component as well as the generation component of that customer's bill, correct?

A. The discount can apply to whatever AEP would like it to apply to as far as that goes, but if AEP is not providing, and that's the reason why I'm indicating that the chances are that the larger discounts will come only to nonshopping customers, they can only supply a very limited amount of discount for a shopping customer because they only have so many dollars to work with.

So the only ones that they would effectively be supplying a discount to are people that are nonshopping customers I think is the thrust of what I'm saying.

Q. For a potential nonshopping customer you want the discount to apply to the full bill of this new prospective economic development customer, correct?

A. It's not that I want it to apply, but the company would have more of an opportunity if they have the entire bill, the generation plus the distribution, they would have more dollars to work with. If they would give a 30 percent reduction off of both, off of both the distribution and the generation, on a large customer, they could probably come up with a lot more dollars than if it was just the distribution only.

Q. And for a shopping customer, if, in fact, there be a shopping customer, given our earlier discussion, you are proposing that the discount be applied to the distribution component of that customer's bill, if I understood your exchange with Mr. Kurtz and Mr. Randazzo correctly. Is that your position?

A. It's my interpretation that that is the only place the company could offer a discount because they are not supplying the generation. They can't offer a discount on something someone else is supplying.

Q. And, obviously, you take no position with respect to whether a shopping customer should be provided a credit to the generation component of the shopping customer's bill.

A. I don't see any way to force that upon

AEP.

Q. Now, as I understand it, with respect to the funding of the delta revenues associated with economic development, you're proposing that those delta revenues be recovered in what manner? Are you proposing that those revenues be recovered by applying a surcharge to a customer's entire bill?

A. Yes. There's a rider that the company has proposed. I agree with the rider. I just disagree with the mechanism which is the distribution versus the total revenue, yes.

Q. I'm not arguing with you, Mr. Yankel, I'm just trying to understand your proposal.

You would then, would you not, have a shopping customer's generation component of its bill be subject to the delta revenue recovery rider that you propose, would you not, because that would be on the total bill rendered by AEP?

A. And as I've tried to clarify with

Mr. Randazzo, my view of that was that there would be, especially on the larger customers, two separate bills, one from the supplier, one from AEP, so I did not envision the third-party CRES supplier bill would be contained on the AEP bill.

For residential oftentimes those are

combined on the AEP bill, and so I would separate out that generation component.

Q. Do you know for a fact whether or not today where generation service is being provided by a third party, whether or not the EDU provides one bill covering both the third party generation supplier as well as its own distribution service, where there's one bill covering both the distribution and the generation service being -- the latter being provided by a third-party supplier?

A. I assume there probably are, but I have certainly seen bills in the past that are, you know, the suppliers bill separately from the utility.

Q. Would the effect of your proposal that the delta revenue be based upon the total bill result in assigning greater revenue responsibility for the delta revenues to customers with higher bills?

A. Again, depending on what one's referring to as bills. I want to keep that clear. But if one

is looking only at the AEP portion of the bill, yes,
it would.

Q. So that, in effect, your proposal would shift, would it not, revenue responsibility for the delta revenue component, whatever that might be, from, for instance, residential -- the residential customer class to a commercial and industrial customer class?

A. Only if one assumes historically that there is no shopping in the large industrial class. I think the future's going to be very different than the past, and I think that a lot of the larger industrials will be shopping.

Q. Well, that gets back to our initial discussion, does it not --

A. Right.

Q. -- Mr. Yankel?

MR. BELL: No further questions. Thank you.

MR. YURICK: I have no questions of this witness, thank you, your Honor.

EXAMINER BOJKO: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Good morning, Mr. Yankel.

A. Good morning.

Q. Let me ask you a line of questions based on an example to make sure I understand your proposal. Suppose we have -- the Commission adopts your recommendation, but assume that there's no sharing of the delta revenues 50/50 or on some other basis, but rather the Commission concludes that the delta revenues are to be recovered from the customers in their entirety, okay?

A. Okay.

Q. And we have two customers who are identical except that -- well, two customers that are identical, and they start off buying their standard service offer generation service from the companies, and each one of those -- each of those two customers then under your proposal would pay the same Rider 82 amount; is that right?

A. Yes, assuming the same usage. Yes.

Q. And then assume that a year later one of the customers switches to an alternative supplier and takes his generation service not from the company's standard service offer but from the alternative supplier, and assume that the distribution and transmission part of the bill is half the bill and generation is half the bill, okay?

A. Okay.

Q. In that circumstance customer No. 2 that switched would pay half the amount that customer 1 would pay who has not switched, right, for the Rider

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82 part of the bill?

A. Actually, I think the numbers are 1/3-2/3 because it would -- again, the customer that switched will still be paying half of his bill, I'm not trying to fight over the numbers but 1/3-2/3 I think.

Q. Well, if the total bill is $10 before the customer switches, and after the customer switches the distribution transmission is $5, and the bill for the customer who has not switched is still 10. Then you'd apply the percentage to the $10 to come up with a Rider 82 amount and you'd apply the same percentage to the $5 to come up with a Rider 82 amount, right?

A. I'm not following the math. I'll go with the 50/50, that's fine, not a problem. I don't think it's a problem in the example. Or do you want to go through it in detail? I mean, if we're trying to do the math, then I need to go through it better.

Q. Okay. Well, let me add another element to this. Let's assume that the Rider 82 rate is a percentage and the percentage is 10 percent. Let's suppose the total bill is $10 for the customer who takes standard service offer generation service from the company, okay?

A. Okay. $10 for his total bill.

Q. Total bill.

A. Okay.
Q. And the percentage for the rider is 10 percent.
A. Okay.
Q. Then that customer would take a dollar for the Rider 82 --
A. Okay.
Q. -- part of his bill, right?
A. Right.
Q. Now, customer No. 2 first year is in the same situation, hasn't shopped, and so it's paying a dollar also, right?
A. Right.
Q. Okay. In year two customer 2 switches and his remaining bill is $5, remaining total bill from the EDU is $5, okay?
A. Okay.
Q. And so he would then pay 10 percent of the $5 on the Rider 82 rate, correct?

A. Correct.

Q. And $5 times 10 percent is 50 cents, right?

A. Yes.

Q. And 50 cents is one half of a dollar, right?

A. Yes.

Q. So he's paying one half of what customer 1 is paying for Rider 82 after he switches.

A. Yes.

Q. Okay. Then the 50 cents that customer 2 is not paying in year two because he switched compared to what he would have paid had he not switched in year two, under your proposal -- and under the assumption I gave you to start with, the Commission has concluded that all the delta revenues should be collected from the customers, would that 50 cents then be borne by the rest of the customers who have not switched?

A. Yes. And kind of the question I have in your example is are we talking about a lot of customers and only looking at two of them, or are we only looking at two customers for the whole system?

Q. Well, let's just assume for purposes of the example we only have one customer switching and -- out of the whole system.

A. Okay.

Q. Okay. So there's 50 cents that's not being recovered in year two that would have been recovered if the customer hadn't switched. So my question is does that 50 cents get borne by all the other customers?

A. Yes.

Q. Okay.

EXAMINER BOJKO: All the other nonshopping customers?

THE WITNESS: All of the other customers in relationship to their bill as I indicated, which would be, in my proposal, generation -- company generation cost plus distribution cost. So everyone's paying -- everyone has a distribution charge, plus the nonshopping customers also have a generation charge, so that the percentage of that is added on as well.

EXAMINER BOJKO: So it would be from all customers.

THE WITNESS: All customers, yes.

Q. So from the company's standpoint, Mr. Yankel, there aren't going to be, under your proposal with the assumption that I gave you, which is that the Commission has concluded that all the delta revenues are to be recovered, under your proposal even with switching there's not going to be stranded economic development costs for the company, right?

A. Correct.

Q. Mr. Randazzo and Mr. Bell asked you some questions about the -- I believe Mr. Bell also asked you but I know Mr. Randazzo did, asked you about the Commission's role in approving the economic development arrangements. Do you recall that?

A. Yes.

Q. And just to be clear I believe you agreed with him that the Commission could at the time that it reviews and approves a particular -- every economic development arrangement, could look it over for purposes of determining whether or not it has any anticompetitive or improper subsidization characteristic. Do you recall that?

A. Yes.

Q. And you agreed with him when he asked you that question.

A. Yes.

Q. And if we assume that the PUCO does perform that review function for all of the economic development arrangements that are entered into as a result of SB 221 and whose costs are being recovered under Rider 82, would you agree that in that event if the Commission does the review and approve Rider 82 properly, that we wouldn't then have any special arrangements that would be creating these anticompetitive and other improper risks that you've identified?

A. No. I don't believe the Commission is capable of knowing or reviewing everything that may be taking place. My understanding is a proposed contract would be brought to the Commission for review. The terms of the contract would be given to the Commission. They could look exactly like the last three contracts that were given to the Commission, there's no indication that there was negotiation between the company and the customer regarding the possibility of switching or why they offered that, those things just wouldn't normally come out.

Q. So in your opinion the Commission cannot perform the review function for anticompetitive characteristics of these contracts.

A. The Commission can perform those. The question is depending on the number, it may be very

difficult to do. My suggestion is more preventative.
It would help the Commission out as far as that goes
as opposed to delving into each one and taking, say,
a week to review all the contracts, each contract
individually.

Q. But if the Commission did take the time to review the contracts, you believe they could properly review them?

A. Well, the Commission certainly could properly review them. The question is how much effort it would take to, again, get all the information regarding why the contract was entered into, what all the correspondence were between the company and the customer to fully understand the intent.

Q. And if the Commission were interested in those aspects of the manner in which the arrangement was entered into, it would have the authority to discover that information and review it; would it not?

A. Certainly.

Q. Let me go back to the two-customer example that I had discussed with you earlier. Assume that those two customers are in year two and the second customer has switched and the other has stayed put and buys its standard service offer generation service from the EDU.

And also assume that a number of economic development arrangements have been submitted to the Commission and approved and that they are having their intended result, which is to increase economic activity, okay?

A. Okay.

Q. Would you agree with me that customer 1 and customer 2 get the same benefit from that economic development? In other words, the benefit that each customer gets from the economic development activities does not depend on whether the customer has switched or not switched.

A. I don't think they'd be the same, and I'm not saying it would be easy to quantify, but certainly if you have a different supplier, I believe that economic development -- it's a two-prong thing. There's general economic development in the area which benefits everybody relatively equally, but there's also economic development or sales-ability of the company where the company is generating revenues. Those revenues to the company, to the utility, benefit the utility where they may not be there otherwise without the economic development.

So there's a little more benefit on that side to the nonshopping customer that didn't switch because he is -- the company -- the utility is stronger versus somebody with a CRES supplier who gets none of those side benefits. So there is a difference in the one prong. There's, again, two prongs, economic development general and economic development for the company itself.

Q. I'm not sure I understood the second prong of that answer, but as far as the first prong goes, the general economic development activity, would you agree with regard to that aspect that the two customers' benefit from that is the same without regard to whether one has switched?

A. I would generally say yes.

Q. And could you tie together for me how these economic development arrangements that have been entered into that form the basis for the economic development benefits, that they differentially affect the two customers because one has stayed with the utility and the other has gone with a third-party supplier? How do those benefits that come from these other economic development arrangements, how do they differentially affect the customers because one has shopped and the other has not?

A. The impact is probably more understandable for larger customers, so assume two larger customers as opposed to two small customers.

Q. I'm talking about residential customers now. That's part of the example.

A. Okay.

Q. If you wouldn't mind.

A. To quantify for residential, the amount would be small, but the impact is the same or the thought process is the same. If the company -- if the utility has more sales, more revenue that's generated, it tends to be stronger, has more customers. It tends to economically be a better entity, cheaper to provide service versus the CRES supplier that does not have that particular customer.

There are thresholds or various levels where if you don't have enough customers, you can't for all practical purposes, even in business, so the CRES supplier is -- without a certain level of these really small customers wouldn't even be there.

Q. And tell me again how does that, what you just described, how does that incrementally benefit the one customer who has not switched compared to the one who has switched? I don't understand how what you just described can have any kind of a measurable differential impact on the two customers, whether there might be some incremental strengthening of the utility versus some CRES provider. How does that affect these two customers? One has already switched, it's already made the decision to switch, and the other has stayed, it's already made the decision to stay.

A. You make the comparison a little difficult when we're looking at just one residential customer, but again, the comparison is the same. The CRES supplier does not have the benefit of the new economic development customer coming in. It does not get the added benefit of a larger load, more diversified load to serve, therefore, its general costs to serve, therefore, what it has to charge goes up by comparison to the utility who can -- who has picked up through economic development, who has picked up an additional load and can diversify its costs and presumably offer slightly lower rates because of that.

Q. Would you agree with me that whatever that portion of the benefit that's differentially shared is, that it is much less than the benefit that's generally made available because of the economic development arrangements?

A. Meaning the --

Q. The first prong --

A. -- city-wide type arrangements?

Q. Yeah, that the benefits that come from
the first prong that you agreed I believe are

benefiting equally the two customers in the example, that that first prong general benefits piece is much more significant than the differential piece that you've been trying to describe to me.

A. I don't believe that there's a large difference between the two. But again, in a community the impact of economic development gets watered down. It's an important aspect of a community, but, you know, it gets -- for a small customer, again, one residential customer, it gets pretty well watered down.

Q. Just a few questions, Mr. Yankel, about your comments on Rider 72. Turning your attention to page 9 of your testimony --

A. Yes.

Q. -- I think it's at line 8 that you begin your statement that the minimum credit that the Companies appear willing to pay when the cost of generation is high is 3-1/2 cents per kilowatt-hour.

A. Yes.

Q. And you concluded in the next line or two that that corresponds to 80 percent of the AEP East load zone realtime LMP or locational marginal price, right?

A. Generally, yes.

Q. And then you translated that into a $45 per megawatt-hour wholesale rate, right?

A. Correct.

Q. And that's just accomplished by dividing 3-1/2 cents by the 80 percent?

A. Yes.

Q. At lines 11 and -- well, at line 11, excuse me, you say that curtailments -- as a result, "curtailments under this rider could occur at market prices that are lower than $45 per megawatt-hour." Do you see that?

A. Yes.

Q. When I read that, I asked myself and I'll ask you, did you mean to say that are at or above $45 per megawatt-hour?

A. No. I meant lower. And it does stick out as kind of funny there, and that's why the example is right under there in the next paragraph, it goes through the math of why, because at $45 per megawatt-hour it actually comes out to a rate of 3.6 cents, and therefore if the company has a bottom limit of 3.5 cents, the LMP had to be less than $45 a megawatt-hour.

Q. And is the LMP lower than 45 by that ratio 36 to 35 -- 3.6 to 3.5?

A. I'm not following you.

Q. Well, what I'm asking you is, is it accurate that the curtailments would occur at market prices that are at or above, say, $44 in your example?

A. Well, I think my example is designed maybe -- $40 and below is what I was trying to say. If you want to give me right down to the last dollar there, I can look at it. But I was looking at $40, maybe $35. I was saying below $45.

Q. Would it be your expectation that curtailments under the rider could occur at market prices that are lower than $20 per megawatt-hour?

A. According to the provisions of this, yes, because the lowest price offered by the company is 3.5 cents. The 3.5 cents seems more of an anomaly than anything else. The 80 percent is not too bad of a number. I understand that. The 3.5 cents takes you down to like zero.

Q. What's been the experience over the last year with regard to the market prices that are of a similar type to the market prices that you've got quoted at $45 per megawatt-hour? Have they reached that level in the last year?

A. Yes, quite a bit.

Q. Okay.
A. Again, I feel like the 3.5 cents is kind of the anomaly, not so much the 80 percent.
Q. In reading your testimony at pages 9 and 10 and thereafter, the impression I get is that you think that the curtailments are purely at the discretion of the company, but that's not accurate, is it, under Rider 72?
A. I don't recall under Rider 72. I know there's also PJM can issue curtailments. I just don't recall whether that's in the rider or not at this point.
Q. Let me just explore that a bit and then I'll move on. Under Rider 72 do you have any understanding about the terms under which the company may request curtailments?
A. Without looking at it, I'm going to have to go off the top of my head, but as I recall there were four different seasons when curtailments could

take place. I could be getting this mixed up with the interruptible rate. That's why I'm saying I'm going off the top of my head here.

Q. So your recollection at this point is that there may be in the Rider 72 provisions, some limitation on how many curtailments can be called on a seasonal basis?

A. Yeah. Let me look instead of guessing because, again, I'm getting the two mixed up in my head.

I know there's also the ability of the customer to avoid their curtailments, and I recall there's a provision for the customer to avoid the curtailments three times, as I recall. Maybe that isn't a season. Let me just get to it.

Yeah, there's four seasons during the year. The company can avoid -- excuse me, the customer can avoid it three times in a season and not be interrupted.

Q. Is there a limit on how many times the company can call for a curtailment in a season?

A. Well, I don't recall. I know there is a limit on -- there can only be -- curtailments have to be a minimum of two hours long or the company -- the customer gets a two-hour credit, and I thought there was a limit, and I just can't seem to find it.

Q. Are you finished or --

A. I can't find the limit.

Q. Okay. Let me ask you a different question. Have you reviewed and analyzed the extent to which in any recent period what the frequency of

curtailments requested has been?
A. I have seen some data from the company, I'm not sure whether it included the curtailments of this type or just interruptions under the interruptible tariff. There seem to be a number of -- I'm visualizing the page -- 25, you know, say since 19 -- excuse me, 2006.
Q. Twenty-five curtailments?
A. Since around 2006 in the last, say, maybe two years' worth, could have been 40, but just someplace in that vicinity.
Q. And do you know whether the curtailments requested would apply to all costs on the tariff or just some of them?
A. In this particular tariff there are different groupings of customers, and I'm not even sure how many customers the company has on this, but there are different groupings where some customers could request, again, a two-hour curtailment,

four-hour curtailment, six-hour curtailment, so they would not all be hit at the same time.

Where the interruptible tariff is different, everybody is supposed to be interrupted at the same time with the same interruption notice. So as this is set up, this is not the same for all customers.

Q. Let me ask you a question or two about the interruptible schedule, IRP-D --

A. Yes.

Q. -- which you discuss toward the end of your testimony. In particular, I'm interested in your Q and A No. 19 on page 12.

A. Okay.

Q. You indicate there that in IRP-D, in that schedule, "there is a provision for replacement of electricity that may be purchased by the customer during such a discretionary interruption event, if the customer so desires." Do you see that?

A. Yes.

Q. Is that the buy-through provision of the schedule?

A. It's called replacement electricity. I assume -- to me it's a buy-through provision, yes.

Q. And is it your understanding that the

companies would charge the cost of the power that
they purchased to enable the customer to buy through,
they would charge that directly to the customer?

A. Yes.

MR. CONWAY: Just a second, your Honor.

EXAMINER BOJKO: Sure.

MR. CONWAY: I'm back.
Q. Mr. Yankel, do you recall the line of questions that we discussed -- in which I started off by asking you to assume that the Commission would decide that all the delta revenues should be recovered by the companies as opposed to sharing them in some fashion between the company and customer as far as responsibility for those revenues?
A. Yes.
Q. And your recommendation is not that the company recover all the delta revenues from customers, is it? Or is it?
A. My recommendation is that for economic development the company recover half of those revenues and the customers recover the other half.
Q. 50/50 sharing?
A. 50/50 sharing.
Q. And that's -- the basis for that, as I recall, which is what took me some time while we were

getting to this point in the questioning, I was
trying to find it in your testimony, but as I recall
the rationale for 50/50 sharing in your
recommendation is that, first, that's the way it's
been done in the past, and if it was done that way in
the past, there must be some good reason for having

done it and so for continuing to do it. And then secondly, I think I recall you indicated that you thought that a 50/50 sharing approach would sharpen the company's judgment about entering into these arrangements and so would discourage imprudent or willy-nilly entering into these arrangements for not good reasons. Are those the two reasons for your 50/50 sharing proposal?

A. And if I didn't say it before, also the fact that there's a benefit to the company, I think we discussed that quite a bit, there's a benefit to the utility of retaining, getting more economic development, getting new customers or making customers grow. Because there is a direct benefit to the company as well as a benefit to the utility, the company should pay part of that delta revenue.

Q. With regard to the rationale that it would sharpen the company's judgment about entering into these arrangements and that the company would,

thereby, not propose arrangements that were not good
economic development arrangements, would you agree
with me that the Commission would be able to examine
that aspect of each arrangement that comes before it
to ensure that that's not the cause or the case with
regard to the arrangement?

A. The Commission has that ability. What I'm suggesting is this is a preventative measure that would help the Commission allow the company to police itself a little bit more as opposed to the Commission needing to review every single, you know, document that's floating around.

Again, if the company is looking at this very closely when they're issuing these contracts and they feel that it's a good contract and they're willing to pay, you know, a portion of that contract, I think that makes the Commission's job a lot easier.

MR. CONWAY: Thank you, Mr. Yankel.

Your Honor, I have no further questions.

EXAMINER BOJKO: Does staff?

MR. MARGARD: No questions for Mr. Yankel. Thank you, your Honor.

EXAMINER BOJKO: Is there any redirect?

MR. IDZKOWSKI: Your Honor, may we have a moment?

EXAMINER BOJKO: You may. Let's go off the record.

(Recess taken.)

THE EXAMINER: Let's go back on the record.

Mr. Idzkowski, do you have any redirect?

MR. IDZKOWSKI: No redirect, your Honor.

EXAMINER BOJKO: Great.

Mr. Yankel, you are excused.

THE WITNESS: Thank you.

MR. IDZKOWSKI: Your Honor, before Mr. Yankel leaves, we'd like to move for the admission of his testimony. I believe it's OCC Exhibit 14.

EXAMINER BOJKO: Any opposition to the admission of OCC Exhibit 14?

MR. CONWAY: No, your Honor.

EXAMINER BOJKO: I'm sorry, you said no, correct?

MR. CONWAY: Correct.

EXAMINER BOJKO: It will be so admitted.

MR. IDZKOWSKI: Thank you, your Honor.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER BOJKO: Now I believe we are moving on to staff's first witness.

MR. REESE: Your Honor, if I could, I'd like to move at this time OCC Exhibit 9A that I had marked yesterday. I have a packet in front of you there.

EXAMINER BOJKO: Do you have another packet?

MR. REESE: A second? I can make one more copy. I think I ran out.

EXAMINER BOJKO: Okay.

MR. REESE: Anyway, that's Exhibit 9A. I'd like to move that at this time.

MR. NOURSE: Your Honor, I'll just state I think the same thing I indicated the other day, that we had agreed to admit this discovery material wholesale into evidence to shorten up cross, but there were many items that we provided under objection and would just reserve the right in our reply brief to so argue that the material is either irrelevant or shouldn't be considered in this case if OCC uses those particular materials.

EXAMINER BOJKO: Okay. That is noted for the record.

Any other opposition to the admission of OCC Exhibit 9A?

Seeing none, it will be admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER BOJKO: Are we ready to move on?

Mr. O'Brien, do you have --

MR. O'BRIEN: Madam examiner, at the break I checked with Mr. Yurick to see if he had any questions for Mr. Fleming, and he indicated he does not.

MR. YURICK: That's correct, your Honor.

EXAMINER BOJKO: Okay. So my understanding is no parties have questions for Mr. Fleming, and we are going to mark his testimony at this time?

MR. O'BRIEN: Well, not at this time, your Honor, but sometime before we close the record.

EXAMINER BOJKO: Okay. We'll take that matter up later, then.

Anything else before we move on to staff's first witness?

Is it Mr. Jones or -- Mr. Jones.

MR. JONES: Thank you, your Honor. Staff would call Greg Scheck.

EXAMINER BOJKO: Let's go off the record for a minute.

(Discussion off the record.)

EXAMINER BOJKO: Let's go back on the

record.

There's been a change in witness schedule.

Staff would you like to call your first witness?

MR. MARGARD: Our substitute first

witness. Thank you, your Honor, we would call Duane A. Roberts to the stand, please.

EXAMINER BOJKO: Mr. Roberts, could you please raise your right hand?

(Witness sworn.)

EXAMINER BOJKO: Thank you. You may be seated.

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DUANE A. ROBERTS

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Mr. Margard:

Q. Please state your n-a-m-e.

A. Duane A. Roberts, R-o-b-e-r-t-s.

Q. And you're employed by the Public Utilities Commission?

A. Yes.

Q. And in what capacity?

A. Utilities specialist 3.

MR. MARGARD: Your Honor, I would ask that Mr. Roberts' direct prepared testimony be marked for purposes of identification as Staff Exhibit No. 2.

EXAMINER BOJKO: It will be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Roberts, do you have that document before you?

A. Yes, I do.

Q. And did you prepare this document or was it prepared at your direction?

A. Yes.

Q. And do you have any changes, corrections, or modifications to any of the material in this document?

A. No, I don't.

Q. If I were to ask you the questions contained in this document, would your answers be the same today?

A. Yes, they would.

MR. MARGARD: Can everyone hear Mr. Roberts? I'm not sure his microphone is on or working.

MR. REESE: What?

MR. MARGARD: He's soft-spoken enough. I want to make sure. Try again.

EXAMINER BOJKO: There you go.

THE WITNESS: Thank you.

MR. MARGARD: If you would, just make sure you speak so that everybody can hear your answers.

Your Honor, I'd respectfully move for the admission of Staff Exhibit No. 2 and will tender Mr. Roberts for cross-examination.

EXAMINER BOJKO: We will address moving the testimony after cross-examination is complete.

At this time let's begin with Mr. Yurick.

MR. YURICK: I have no questions of this witness. Thank you.

EXAMINER BOJKO: Mr. Bell.

MR. BELL: Yes, I do.

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CROSS-EXAMINATION

By Mr. Bell:

Q. Good morning, Mr. Roberts. My name is Langdon Bell, and I represent the Ohio Manufacturers Association. I have a number of questions for you.

Your testimony effectively addresses four areas of reliability improvement, do they not, as portrayed on the bottom of page 3?

A. Yes.

Q. And with respect to the first area, the overhead line inspection, you begin your discussions of that subject on page 4 carrying over to page 5, do you not?

A. Yes, I do.

Q. Directing your attention to the top of page 5, you express a concern there that the companies have waited until now to propose enhancing their overhead line inspection program knowing full well that they have a history of sustained outages caused by equipment and line failures. Do you see that?

A. Yes, I do.

Q. Is that problem geographically focused in any particular service area -- service territory of the companies' service area?

A. Over time it affects various parts of their service territory.

Q. It wasn't focused on any given section or area within the companies' service area?

A. Like I say, at different times there were certain areas that this statement was targeted for and then it became a broader issue.

Q. Does the concern that you express at the top of page 5 reflect a determination by the staff that this is makeup of work previously ignored or perhaps improperly not undertaken in a prior period?

A. Knowing that they had the tools or resources available, as mentioned in the last sentence of the paragraph starting on line 3 going to the end of 5, those resources available to them, the infrared, they started using that in 1987; the other, the walking, climbing, bucket inspections have been available to them for decades, and they could have utilized those and prevented some of the issues that I addressed or were my concerns.

Q. Well, stated differently, then, it's your position that you were recommending that they now undertake work that they were capable of performing in previous periods which work they should have performed, correct?

A. It's not that I just currently recognize that and noted that they could. I over time expressed through reports and to management, my management, these opportunities.

Q. I guess the point that I'm trying to get to in my question, and I'm not sure that you've responded to, Mr. Roberts, is whether it's your belief that this work should have been performed in prior periods. Yes or no? Can you answer that question?

A. Yes, I can. And based on my professionalism, it would be yes.

Q. They should have performed it in prior

periods.
A. Yes.
Q. Thank you.
Now, with respect to understanding your testimony, would it be correct that the cost of undertaking the recommendations that you advance in your prefiled testimony is reflected in the five charts that are included within that testimony?
A. Yes, it's included in those charts.
Q. Stated --
A. I haven't fully -- these are incremental costs that the company provided. I haven't been able to do a financial audit to see if this is baseline versus incremental.
Q. Thank you. That was going to be the next line of my examination, Mr. Roberts.
Would you accept, subject to check, Mr. Roberts, that one could take each of those charts, and, for instance, let's take chart No. 1 as

an example, you have there the three years covered in
the ESP, do you not?
A. Yes, I do.
Q. And you have it broken down between O&M
and capital costs for each of those years for just
the overhead inspection and mitigation, correct?

A. Yes, I do.
Q. Would you agree, subject -- and by the way, all these figures in all these charts are figures that the company gave you, again.
A. Exactly.
Q. So that you are not necessarily standing behind and representing to the Commission --
A. No, I have not audited these numbers to find out the substance of the numbers.
Q. And that goes with respect to each of the numbers in each of the five charts contained in your testimony, correct?
A. Yes.
Q. Thank you.
Now, would you agree, subject to check, Mr. Roberts, that the total dollars represented in those five charts aggregate approximately $455 million? That's both capital and operating costs.

A. Subject to check.

Q. Well, for instance, if we take chart No. 1, I took roughly the 42 million for year 1, 56 million for year 2, and 58 million for year 3 and came up with $156 million, approximately. Would you accept that? Is my math correct?

For instance, year 1 and --
A. Yes, that's approximately correct.
Q. Yeah. And we can do that for each of the charts shown, could we not?
A. Yes.
Q. And, obviously, from a revenue requirements standpoint, the capital component of the cost would be effectively determined by taking a depreciation on the capital and putting a return to it; would it not?
A. Yes, it would.
Q. And then to determine the revenue requirement -- total revenue requirement impact for any given year we could take that figure and add to it the O&M expense, which is an ongoing expense; could we not?
MR. NOURSE: Your Honor, I just object to this line of questioning. I don't believe Mr. Roberts is being offered as the witness that

deals with cost recovery or rates associated with
these programs at all. That's my understanding.

EXAMINER BOJKO: Well, Mr. Roberts can
answer if he knows, but --

MR. BELL: I think the witness indicated
he does know in his response to my last question. He

said yes.

EXAMINER BOJKO: I just said the witness can answer if he knows.

Please proceed.

Q. The O&M is an annualized expense, is it not, an annualized revenue requirement?

A. Yes, it's recognized in the revenue requirement.

Q. By the way, in your employment history you did serve as a fiscal officer, did you not, as indicated in your prefiled testimony?

A. Yes, I did.

Q. Thank you.

Do you think it would be appropriate for the Commission to consider, in reviewing the reliability improvements that are the subject of your testimony, to fully consider the anticipated cost of those reliability improvements if, in fact, upon being audited those costs are correct as reflected in your testimony?

A. That's a long question, maybe --

Q. Let me make it short, Mr. Roberts. I apologize. That's a problem I have with every witness. It's not directed toward you. It's my problem, not yours.

Would you agree, Mr. Roberts, that the Commission in reviewing any proposal to enhance reliability should consider the consequential cost attendant to that reliability improvement?

MR. NOURSE: Your Honor, I object. This is friendly cross.

EXAMINER BOJKO: Overruled.

Q. Can you answer the question yes or no?

A. Yes, they should take that into consideration.

MR. BELL: Thank you, Mr. Roberts. That's all I have.

EXAMINER BOJKO: Mr. Kurtz?

MR. KURTZ: Thank, your Honor, just briefly.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Roberts, do you review the

reliability achievements of all the utilities, electric utilities, subject to the Commission's jurisdiction?

A. Yes, I do.

Q. How does AEP-Ohio stack up versus the other utilities?

A. As it relates to the performance measurements?

Q. Yes.

A. Subject to different geographies, I would like to see them improve their performance.

Q. Is their performance better or worse than Duke, Dayton Power & Light, and the FirstEnergy companies?

A. Based on performance measurements they -- if you're using SAIFI, their present SAIFI values are worse than others.

Q. Are they at the bottom of the state on those measurements?

A. I would have to look at some charts, but they're near the bottom if not at the bottom.

MR. KURTZ: Thank you, your Honor.

EXAMINER BOJKO: Mr. Reese?

MR. REESE: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Reese:

Q. Good morning, Mr. Roberts. Bottom of page 3 of your testimony, you basically just have four bullet points, which I believe represent the four components of AEP's proposed ESRP; is that correct?

A. As it relates to distribution, yes.

Q. Now, I want to ask you a general question about your position in terms of these four components of the ESRP. Is it your position generally that the activities proposed by the company as part of these four components are things that either the company -- the company should be doing already?

A. The last bullet point Staff Witness Peter Baker is going to testify to.

Q. Okay, fair enough.

A. But as far as these bullet points and these areas and the proposed enhancements, most of those resources as far as the tools have been available to the company to perform, and it is my opinion that they should have been performing these for a number of years.

Q. Thank you.

On page 7 of your testimony there's a

question and answer 13, beginning at line 13, and this goes to the proposed enhanced overhead inspection and mitigation work. Do you see that?

A. Yes, I do.

Q. In discussing the company's response to staff data request 4-2A, the answer states that:

"The companies reported that if it implemented this initiative CSP's CAIDI's performance would slightly increase by one and six tenths minutes in year 2012." And further down that: "OP's CAIDI would be reduced by six and one tenth minutes from the same period." That is 6.1 minutes for Ohio Power, so it would decrease CAIDI by 6.1 minutes in 2012?

A. On OP, yes.

Q. Okay. Now, in terms of this increase on CAIDI in Columbus Southern Power's territory, is there any explanation for why CAIDI would increase or do you have a personal opinion on why CAIDI would increase?

A. Yes. Certain activities when you eliminate -- the company performs preventative maintenance and it affects a number of customers, say if a circuit has a thousand customers on it and they do maintenance that would have taken that entire group of customers out of service due to a fault, if

they do maintenance to prevent that to maybe a focus
of 800 of those customers and a branch line has the
other 200 customers, and knowing -- and say it's
trees, knowing that generally tree outages, if
requiring vegetation crews to clear those outages,
they are basically the second to arrive, the first

you would send out a crew and then determine, make that determination a veg crew is needed, so they have to come on out to the fault area and clear the trees before they can actually put the lines back up or equipment or even poles.

So you're taking the length of that outage and dividing it by a smaller number of customers affected, therefore, the CAIDI rises. The duration rises. If you were spreading that across the thousand customers, it would actually reduce -- be reduced.

Q. That's a function of a system measure versus a customer-specific measure there.

A. What's that?

Q. That's partially a function, then, of a system measure, such as SAIFI, versus a customer-specific measure like CAIDI; is that what you're saying? So an individual customer can see a longer duration outage, but the rest of the customers on that line would see -- perhaps see fewer outages and perhaps outages of shorter duration as averaged over those customers.

A. Yes.

Q. Thanks.

Let's go to page 14 of your testimony.

I'm up at lines 4 through 7 in your answer to question 25. This is a discussion about deterioration occurring on the company's underground system. Just looking at lines 4 through 6: "According to the companies' response to Commission Staff's Discovery Request, the companies' reported that all of their underground power cables still in service installed prior to 1980 has met its useful life expectancy." Do you see that?

A. Yes, I do.

Q. Does this suggest to you that some of the underground power cables should have already been replaced?

A. If you use only the age as that determination, then that would be the case, but there's other relevant issues.

Q. Such as whether it's been injected or rejuvenated?

A. That would be one. How many faults have

occurred on that cable since it's been put in
service, which most of the time would affect the
impedance on that cable; the underground -- the
ground conditions; the performance.

Q. So that would be more or less a reactive
approach, wouldn't it?

A. It wouldn't be reactive unless the faults were occurring and faults were the only -- the only area that you were judging that cable by.

Q. So if underground cable has been in the ground beyond its useful life expectancy, a term I see is "useful life expectancy," what criteria is the company to follow to determine whether to replace that cable, whether there are faults occurring or whether there's an approach that requires a reactive stance; is that correct?

MR. NOURSE: Can I have the question read back, your Honor.

EXAMINER BOJKO: You may.

(Record read.)

A. Underground cable is a little bit different from overhead where you can access them, where you can perform easy maintenance and access that cable. Underground is a little different where it's 30 to 50 inches below the ground and the company's not able to access that cable, so one of the determinations that they use is faults in order to determine whether that cable needs replaced.

The assessment, you know, being able to access that cable, like overhead, overhead you can splice real easy. You can replace the cable real easy. It requires a lot more resources to replace underground cables.

MR. REESE: One moment, your Honor.

No further questions.

EXAMINER BOJKO: Mr. Petricoff?

MR. PETRICOFF: No questions, your Honor.

EXAMINER BOJKO: Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

EXAMINER BOJKO: Mr. Maskovyak?

MR. MASKOVYAK: No questions, your Honor.

EXAMINER BOJKO: Mr. Nourse.

MR. NOURSE: Thank you.

- - -

CROSS-EXAMINATION

By Mr. Nourse:

Q. Good morning, Mr. Roberts. Good morning, how are you?

A. Good morning.

Q. Let me ask you a couple questions first

before I get to my questions, concerning, first,
questions that you were asked by Mr. Bell. In
summarizing, basically you said that the company
should have conducted activities in the past that
they're proposing to do under the ESRP. Do you
recall that?

A. Yes, I do.
Q. And to clarify, are you saying that that's true with respect to the overhead program in particular? I think the discussion that was referenced at the time was the top of page 5, in that line of questioning. Was your answer limited to the overhead program?
A. No, it was not.
Q. Does it apply to all the activities in all the programs proposed in the ESRP?
A. Yes, it does.
Q. So you're saying everything that Mr. Boyd covers in the ESRP, each and every activity in all the programs should have been done in the past.
A. Even though the company -- the electromechanical inspection device that they use to detect weakening in the electrical components of circuits, that technology hasn't been available to the company for a very lengthy period of time, it's

just relative to the last couple years, but they may have been able to unitize that once it became available and fully tested, utilized that as well more.

Q. So that's your only exception?

A. New technology that comes along is always going to be exceptions.

Q. That's your only exception to your statement that everything else being proposed should have already been done?

A. Yes.

Q. Okay. Now, as I understand it, in your prior answers you were saying that because those activities were available and could have been done, they should have already been done; is that correct?

A. They should have been -- a lot of what the company's calling enhanced really is just ongoing maintenance, and they've always had these resources available to them. They should have done them. They should have introduced this and performed this before now and it should have been implemented back when staff first came to the company with issues, and that would have been back in 2003.

Q. Okay, Mr. Roberts. Does the staff judge the appropriateness of utilities' maintenance practices based on the fact that something could have been done or was technically feasible?

A. Yes.

Q. That's the primary consideration in whether it should be done, is whether it could be done?

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A. That's not the only consideration.

Q. That's a primary consideration?

A. If the company has these resources available and there are issues relating to reliability, and the company has resources for maintenance or replacement of facilities available to them, they should utilize those tools in a preventative way.

Q. Now, is your opinion based on the ESSS rules the Commission has in place?

THE WITNESS: Can I have that read back?

(Record read.)

EXAMINER BOJKO: Current? Current rules, Mr. Nourse?

THE WITNESS: Did he respond?

EXAMINER BOJKO: I'm asking, are you asking him current ESSS rules?

MR. NOURSE: I said the ESSS rules that are in place, yeah.

EXAMINER BOJKO: Thank you.

A. The current ESSS rules that are in place, I utilized that as well as a ten-year history of monitoring the company's performance.

Q. Okay. But I think we've established your opinion that the company should have done all these things in the past, and I'm asking you whether the ESSS rules that are in place would require the company to do all the things in the ESRP.

A. As far as the maintenance programs required by rule 27, ESSS rule 27, the company has the ability to extend out its trimming practices. As far as the rule 27(D)(1) on distribution, they can utilize walking inspections. They've always had that ability. They could use bucket trucks.

Q. Understood. But are they required to do all those things under the ESSS rules?

A. Yes; as part of their program.

Q. So when you talk about, on page 5, lines 4 and 5, with respect to the overhead inspection program, "the companies have been able to do more walking, climbing, and bucket truck inspections, along with the use of infrared inspections," it's your position that the ESSS rules specifically require all of those activities?

A. The ESSS rules -- the company's programs
that are governed by the ESSS rules have these
resources available to them and had -- they utilized
some of that to comply with the ESSS rules.

Q. But the companies currently don't do this
enhanced inspection, I'll call it, with more walking,

climbing, bucket truck inspections, along with the use of infrared inspections, they don't currently do that today; is that your understanding?

A. They currently do these activities today. The only difference is the volume that it's being done. They currently utilize this to comply with those ESSS rules, but the amount that they utilize these resources is a question.

Q. Well, and that's what I'm trying to ask you about, sir. The current practices that the company performs -- let's just use the overhead inspection. We'll stick with that for a minute -- versus the enhanced inspection that Mr. Boyd describes in his testimony that I think you're referencing here on page 5, lines 4 and 5, to do more walking, climbing, bucket truck inspections, infrared equipment technology surveillance, now, are you saying that all those activities as proposed by Mr. Boyd, as described in his testimony, are already required under the existing ESSS rules?

A. Yes, they are.

Q. Is there a single way to comply with the ESSS rules? And we'll stick with the inspection for purposes of this question.

A. Are you talking -- there's various parts of the ESSS rules, there's ESSS rule (D)(1) that requires a visual inspection of the company's full distribution system once every five years, and that's a visual inspection. They also have rule 27(E)(1) programs that require vegetation management, more intrusive inspection of the facilities.

Q. Understood. But is there one way to comply with that rule, the way you just described addressing the company's ESRP's enhanced inspection proposal?

A. The company submits their programs to staff, and with staff approval these resources included are a part of some of those programs that have been approved.

Q. Okay. I think I'm asking a pretty simple question here, Mr. Roberts. Is there only one way to comply with the ESSS rule requirements for inspections?

A. Is there only one way to comply? Yes, that's to follow them.

Q. Do all the utilities in Ohio do the exact same thing as described by Mr. Boyd in his testimony for the enhanced inspection program?

THE WITNESS: Can I have that read back?

(Record read.)

A. Most utilize all of these resources as I described.

Q. They utilize them in the same manner to the same extent as Mr. Boyd described?

A. Maybe not to the same extent. Maybe they have done a lot more in the past than what Mr. Boyd in his proposal plans to -- that the company do here in the near future.

Q. Well, saying they maybe have done something I don't think is particularly responsive to my question. But I'm asking you if all the other utilities do the same thing that Mr. Boyd is proposing, which you're characterizing as being required under the ESSS rules. So my question is whether all the other utilities already do all those same things in the same manner, the same extent Mr. Boyd described.

A. No, they do not. They do -- I know certain companies that do walking inspections of all their distribution circuits. They don't even use vehicles. They do a walk of their entire system. They don't even utilize vehicles other than to get to and from a circuit. So that's something different than what the company -- to the extent that the company proposes.

They also utilize buckets and they also utilize infrared, maybe not to the same extent and maybe even more, so . . .

Q. So you agree that other utilities comply with the ESSS rules in different ways.

A. Yes, they do.

Q. And you see that in the reporting that comes to the staff annually under the ESSS rules; is that correct?

A. They don't -- I want to go back. They don't comply differently; they just utilize various different resources in performing their programs and completing their programs. The compliance is when they follow -- the compliance comes in when you follow those programs.

Q. Okay. But with that distinction, the point is each of the companies have different programs which they comply or don't comply with that are submitted under the ESSS rules to demonstrate what they plan to do to comply with the ESSS rules.

MR. REESE: Objection, your Honor. Asked and answered.

MR. NOURSE: Your Honor, I think I'm getting a little bit of a different spin each time so I'm trying to make this clear.

EXAMINER BOJKO: I agree. I've been waiting for this objection for a while now, so sustained.

Q. Mr. Roberts, with respect to your opinion that the companies should have been required or have been required to do all these things under your interpretation of the ESSS rules, are you aware of any indication through correspondence or staff action, let's just say with respect to the company's most recent filings under the ESSS rules?

A. I don't believe there's a question there.

Q. Okay. Let me try to explain it again. You said you were familiar with the reports that come in under the ESSS rules that indicate the programs that the companies propose for compliance with the ESSS rules, correct?

A. Yes.

Q. You review those as part of your job?

A. Most of them, yes.

Q. Okay. And are you familiar with the --
well, first of all, does the staff review those reports and then indicate back to the companies if they have, you know, disputes or problems or disagreements about what the program should be?

A. The programs, the company submittals that they submit annually is how they've performed against goals that are set for those programs. That is what they're submitting to staff, as how they've performed against those annual goals that are set by the programs. They don't -- staff doesn't annually get companies' changes to programs and measure that against their performance on an annual -- I mean, that's not the ongoing annual audit process of staff.

We measure -- the company's programs have set goals, and we measure whether you achieve -- based on the information you submit or file to staff, we measure how well you did against those goals and how those programs not meeting those goals may impact your performance.

Q. Which reporting are you referring to under which rule?

A. ESSS rule 10 is one example of that. ESSS rule 10 is system performance. ESSS rule 26 is docketed with and filed with the Commission, and all

EDUs under the Commission's jurisdiction have to report their performance against inspection and maintenance goals that are set by those programs.

Q. And the maintenance goals and the programs themselves are established how?

A. The goals are submitted to staff by the companies as part of their program submittal, and staff comes to an agreement with the company on what those goals are or -- are or put in place, officially put in place, and that's done through communication back when those programs are approved.

Q. Okay. So did the staff in approving the company's existing overhead inspection program indicate to the company that additional activities and the manner and extent of those activities need to be increased or expanded to match what Mr. Boyd is describing in the ESRP? Did that communication occur in the past?

A. Yes, it did.

Q. And in what form?

A. In the form of -- in the 03-2570 case it was done in the form of a Stipulation. In the 06-222 case it was done -- the Commission decided additional maintenance based on dollars spent on vegetation clearance.

Q. Your understanding of the '03 Stipulation that came out of the '03 case was that all the same things that have been described and you've referenced several times now in the overhead inspection program were required, specifically required by the company?

A. The Stipulation did not specifically

address that. The discussions the staff had with the company, communications with the company, recommended that the company do a lot more of these type of maintenance activities.

Q. Are you referring to verbal communication?

A. Verbal and written.

Q. And so it's your understanding that there's a written communication from the staff to the company that indicates all these things that Mr. Boyd described in the enhanced inspection program should be done in the same manner he's describing in his testimony in this case?

A. Yes, there has.

Q. All right. Now, you also were asked by Mr. Kurtz about how AEP, quote/unquote, stacks up against the other utilities in terms of reliability performance indices. Do you recall that?

A. Yes, I do.

Q. Does staff compare the indices of the
different companies and rank them? Is that how they
determine compliance with ESSS rules or reliability
issues?

A. No, they don't.

Q. Why not?

A. Basically the geographies of the different companies and the concentration of customers, some companies have a more concentrated area of customer base, it's basically -- it would be a very difficult task to make that comparison and utilize these variances in their geographies and in their density of customer base.

Q. And, in fact, each company has their own performance targets that are established in conjunction with the staff; is that correct?

A. Yes, they do.

Q. And those targets, they're different, they vary among the companies for those tests?

A. Yes, they do.

Q. Okay. Now, let me ask you a little further down page 5, you're again I think talking about the enhanced inspection and repair program that Mr. Boyd describes, correct, throughout page 5? Let me limit it to question and answer 9 is where I'm headed.

A. Okay.

Q. Now, you're, again, saying this is the same mitigation work the companies have been using to address deficiencies, and you're saying down in line 16 and 17 that all EDUs in Ohio, the work completed by all the EDUs, has always ranged from no action to full replacement, essentially.

A. Yes.

Q. But do you understand, is it your understanding that the program Mr. Boyd describes -- let's set aside our opinions about the ESSS rules for this purpose. I just kind of want to make sure factually we're on the same page with Mr. Boyd's proposal.

Is it your understanding that as compared to what AEP-Ohio has done in the past, there are, I'll say, two major differences in the enhanced overhead program. One is that the level of inspection, the inspection activities will be enhanced. Do you agree with that first piece?

A. The level -- the term I would use would be volume versus level.

Q. Okay. But the substantive character of the inspection process is enhanced, correct, by doing

more walking, more bucket truck inspections, using
infrared equipment, et cetera?

A. If it's based on volume, what the company has been performing in the past and what it plans to perform in the future, I'm not sure the term "enhanced" is there, but they plan to do more of it.

Maybe the confusion is on the term "enhanced."

Q. Okay. Let me try it a different way. I'm not saying that -- when you say volume, the companies aren't going to cover more circuit miles; that's not the enhancement you were talking about, right? We're talking about the manner and the method that's used for overhead inspection changing in character or being enhanced by these activities?

A. Again, I say it's more on volume, and I think some of the enhancements is getting to or what the companies and Mr. Boyd in his testimony -- is doing more line miles of replacement of underground and equipment associated with the overhead.

Q. Okay. Again, setting aside the ESSS rules, okay, whatever your opinions are about those, would you agree that the proposed enhanced inspection program Mr. Boyd describes is enhanced compared to what AEP-Ohio does today?

MR. RANDAZZO: I object.

EXAMINER BOJKO: Grounds?

MR. RANDAZZO: Not relevant.

MR. NOURSE: That's your opinion, but I think --

EXAMINER BOJKO: Okay, there's a motion pending.

Can you reread that?

MR. NOURSE: May I respond?

EXAMINER BOJKO: Let me read the question first, please.

(Record read.)

EXAMINER BOJKO: Overruled.

A. Net of what the company's already doing to -- that Mr. Boyd's proposed in his testimony, some of those activities are currently being done, so -- like cutout replacements and lightning arrester replacements, even getting vegetation or removing vegetation, extending some of that cutting on right-of-ways and even outside of the right-of-ways, that's currently being done by the company.

So the measurement where it gets gray is -- again, I want to go back to the term "enhancement." The gray area is what they're currently doing versus what's being proposed. Some of it's already being performed and completed, so the

question is the level or the extent of the volume and
that --

Q. That's right.

A. -- and I would need more data to answer
that question.

Q. Is it your understanding that the

enhanced program for overhead inspection as described in Mr. Boyd's testimony reflects what AEP-Ohio does today?

A. As far as -- you said the overhead inspections program? Is that what --

Q. That's what we're talking about.

A. Again, they are utilizing and have always utilized walking inspections. They've utilized bucket inspections. What Mr. Boyd's proposing as far as the inspection activity is still a little gray, and it's hard to make that judgment without knowing a little more of what they're actually performing today and what they're -- and what activities, and that would require looking at a lot more time sheets and -- I lost the term I was going to use, not the voucher but the invoices. That's the only way to compare what's currently being done versus what's being enhanced, is to look at contractor and company invoices and time sheets.

Q. So you're saying as you sit here today and your familiarity, you said ten-year familiarity with AEP's reliability programs and activities, you don't know whether Mr. Boyd's description of the enhanced overhead inspection program contained in his testimony reflects what AEP-Ohio is doing today?

MR. MARGARD: I think, your Honor, that Mr. Roberts has testified several times that --

EXAMINER BOJKO: Sustained.

THE WITNESS: Can I have that question read back?

EXAMINER BOJKO: No. No. It's sustained.

Move on, Mr. Nourse.

Q. Relative to vegetation management, Mr. Roberts, and the program that the company is proposing as part of the ESRP is what I want to ask you about, okay? The company, and all companies, have always trimmed trees around their circuits; is that true?

A. Well, the term "always," not every given minute, but yes, they have trimmed trees.

Q. Over the period of the last 50 years, okay, if that narrows it down for you. Would you agree with that?

A. Yes.

Q. Thank you. Appreciate it.

Now, you state at the bottom of page 9, lines 14 and 15, that: Vegetation caused outages continue to be a challenge for all electric distribution utilities serving customers in Ohio,"

correct?
A. You said page 14?
Q. Page 9, lines 14 and 15.
A. Okay.
Q. The last full sentence on page 9.
A. Yes.
Q. What do you mean, "they continue to be a challenge for all utilities"? What did you mean by that?
A. And this is vegetation in whole, whether it resides inside or outside of the right-of-way, the company's right-of-way, is always a challenge. And more so with some companies, it's more so what's outside of their right-of-ways.
For some companies that's the trend, it's the outside of the right-of-way which the company's kind of -- the struggle is being able to clear outside of your right-of-way because you have to have property owner permission to do that, and that's one

major constraint that all the EDUs have.

Q. Right. Okay. Now, given the fact that the companies -- it's nothing new to trim trees around circuits, how do you look at a company's vegetation management program and determine what should be done? What's the appropriate thing to do?

THE WITNESS: Can I have that read back, please?

EXAMINER BOJKO: Yes.

(Record read.)

A. If the company has -- if we can concentrate on outages caused by trees inside the utility's right-of-way, if I look at the volume of outages that occur caused by that factor as well as the number of customer minutes interrupted, if it's being impacted by trees inside of the right-of-way as well as customer minutes interrupted, you have long durations, and a lot of tree outages have long durations if they take facilities down.

I address that -- I look at the measurements and I make recommendations to my management as to needs -- to communicate to the company that they need to do further trimming inside those right-of-ways.

Q. Have you made such a recommendation to your management regarding AEP-Ohio's vegetation management?

A. Yes, I have.

Q. And I'm looking at the last report. I want to talk about the recent past. Has your management acted on your recommendations?

A. Not to the fullest extent that I recommended.

Q. Okay. Now, would you agree that, again, given that veg management is a traditional reliability activity -- correct, you agree with that?

A. What's that?

Q. You agree that vegetation management is a traditional reliability activity that all utilities --

A. Yes.

Q. -- engage in. Given that, as you said, all utilities are struggling to deal with the challenges associated with vegetation management, correct?

A. Yes.

Q. In that context would you agree that AEP-Ohio's vegetation management program that Mr. Boyd described as part of the ESRP contained in his testimony would be an enhancement over what

AEP-Ohio is doing today with veg management?

MR. RANDAZZO: Objection.

EXAMINER BOJKO: Grounds?

MR. RANDAZZO: Asked and answered.

EXAMINER BOJKO: Sustained.

MR. NOURSE: Your Honor, I didn't even

get to that question before. I'd like to find it in the record. We were talking about overhead inspection earlier, your Honor. I just recently switched to veg management.

EXAMINER BOJKO: Well, even though I -- I think questions earlier in the day have discussed the overall. I'll allow you to ask about vegetation management one more time, but this is the last time, so I guess I'm going to change my ruling to overruled --

MR. NOURSE: Thank you.

EXAMINER BOJKO: -- as to vegetation management.

MR. NOURSE: Can you reread the question?

(Record read.)

MR. NOURSE: Thank you. That's all I have, your Honor.

I'm sorry.

EXAMINER BOJKO: After all that, if you

don't want to hear the answer.

MR. NOURSE: I do. I apologize. I was talking to try to wind this up.

Go ahead.

A. The only -- and I'm even sort of hesitant to see if the four-year cycle is actually -- is actually the enhancement because that -- I can't judge currently whether they are trimming -- they may currently be on a four-year cycle based on the volume of trimming that is currently being done. That's another one of them gray areas because the company, when they originally submitted their program, said they were doing a certain amount of trimming on more rural areas and they were also doing -- which could be up to six years, and on their more densely populated customer base areas they claimed they were on a -- near a four-year cycle.

So it's hard to make that judgment. I would have to look at the -- currently look at the volume of trees being trimmed or the number of circuit miles being trimmed on an annual basis. I haven't -- right currently I'm not -- that is not one of my assignments to look at. I have looked at that in the past. It was my responsibility in the past. In the last year or so that responsibility was moved to another staff person.

MR. NOURSE: Thank you, Mr. Roberts. Happy Thanksgiving to you.

EXAMINER BOJKO: Just to -- Mr. Randazzo, you weren't in the room when I --

MR. RANDAZZO: I have no questions, your

Honor. Thank you for the consideration.

EXAMINER BOJKO: Staff, do you have any redirect?

MR. MARGARD: Thank your Honor, no. I have no redirect but would renew my motion for admission of Staff Exhibit No. 2.

MR. MASKOVYAK: What's the number?

MR. MARGARD: 2.

EXAMINER BOJKO: Any opposition to admission of Staff Exhibit 2, which is Mr. Roberts' direct testimony?

Hearing none, it will be so admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER BOJKO: Thank you, Mr. Roberts. You may step down.

Let's go off the record.

(Discussion off the record.)

EXAMINER BOJKO: We'll take a lunch recess till 1 o'clock.

(At 11:52 p.m. a lunch recess was taken until 1:00 p.m.)

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Wednesday Afternoon Session,
November 26, 2008.
- - -
EXAMINER SEE: Let's go on the record.
Staff.
MR. JONES: Thank you, your Honor. I call Greg Scheck to the stand.
EXAMINER SEE: Mr. Scheck, would you raise your right hand?
(Witness sworn.)
EXAMINER SEE: Thank you. Have a seat.
Mr. Jones.
MR. JONES: Thank you, your Honor.
Your Honor, I previously distributed a copy of the testimony. Is it still up there?
EXAMINER SEE: We have our copy. Thank you.
- - -
GREGORY C. SCHECK

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Mr. Jones:

Q. Would you please state your name for the record, please?

A. My name is Gregory Scheck.

Q. Where are you employed?

A. I'm employed at the Public Utilities Commission.

Q. And what is your job title?

A. My job title is utilities specialist.

Q. And did you have an opportunity to review AEP's ESP application in this case?

A. I reviewed a portion of the company's ESP application.

MR. JONES: Your Honor, at this time I'd like to mark the prefiled testimony of Gregory C. Scheck as Staff Exhibit No. 3.

EXAMINER SEE: The exhibit is so marked.

MR. JONES: Thank you.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Scheck, before you should be Staff Exhibit 3. Could you please identify that document for the record, please?

A. Yes. This is my prepared direct testimony filed on November 10th in this case.

Q. And was this testimony prepared by you or at your direction?

A. Yes.

Q. And do you have any corrections or

additions to make to that testimony?

A. No, I do not.

Q. If I were to ask you those same questions here today, would your answers be the same?

A. Yes.

Q. Is this testimony true and accurate to the best of your knowledge and belief?

A. Yes.

MR. JONES: Your Honor, at this time I would offer Mr. Scheck for cross-examination.

EXAMINER SEE: Okay.

Mr. Bell.

MR. BELL: Thank you.

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CROSS-EXAMINATION

By Mr. Bell:

Q. Good afternoon, Mr. Scheck. Could you turn to page 5 of your prefiled testimony, Staff Exhibit No. 3, please? On line 19 you make reference to recommending the companies offer some form of a critical peak pricing rebate for residential customers. What is the peak -- would you define or identify the peak to which you refer in that sentence?

A. Well, generally speaking, this critical peak is a super peak period generally consisting of a subset of hours of the peak period, roughly something on the order of 1 percent of the hours or less, something along those lines, usually during a seasonal period like a summer for I believe both AEP operating companies. So it would be probably hours existing between 12 noon to 6 p.m., or something thereabouts, on weekdays during the summer from probably June through August or thereabouts.

Q. And in your response to that question did you identify that peak as being the peak of the operating companies or AEP?

A. Considering that the law is looking at, from my best understanding, the peak reductions to be achieved as a benchmark for each year, I believe it's by operating company.

Q. So that the peak to which you make reference is the annual system peak of the individual operating companies, correct?

A. Yes, the individual operating companies of AEP-Ohio, in this case which are Columbus Southern Power and Ohio Power.

Q. On page 7 of your prefiled testimony you recommend that in evaluating energy efficiency and peak demand reduction programs, that the Commission

utilize two measures to evaluate the worthiness of those proposals; do you not?
A. If you are speaking to lines -- the first three lines in my testimony on the top of page 7, yes, that's correct.
Q. With respect to the ratepayer impact measure test as stated on line 3 of page 7 of your prefiled testimony. Your testimony was filed November 10, 2008, was it not, Mr. Scheck?
A. Yes.
Q. In all fairness to the utility in this case, or the utilities, plural, they would have had no reason when this ESP was filed on July 31, 2008, to anticipate the economy in the state of Ohio and in their service territory would be where it is this very day?
A. I would think not.
Q. At the bottom of page 7, beginning on line 18, you make reference to the observation,

"However, in the case of generation investments, the benefits may or may not accrue to Ohio's retail customers, therefore making it questionable to give such investments credit toward meeting the companies' annual benchmarks." Do you see that?

A. Yes, I do.

Q. Were you in the hearing room when OCC Witness Yankel testified this morning?

A. Only in part.

Q. Have you read, by any chance, Mr. Yankel's prefiled testimony?

A. No, I did not.

Q. That shortened that line.

Beginning I believe on page 8 and following -- and in the following pages you reference and critique Mr. Baker's adjustments to the baseline period of 2006, 2007, 2008; do you not, sir?

A. Yes, I do critique, I believe, two -- I speak to two of the four adjustments that he has put in his testimony.

Q. With respect to energy efficiency and peak demand reduction programs, if such programs were initiated, for instance, in the 2006 time period, those reductions would have the effect of reducing the base period benchmark; would they not?

A. Yes. My best understanding of the law at this time in the draft proposed rules, that the reductions due to programs in effect from 2006 through 2008 would reduce -- those reductions would apply to the baseline numbers.

Q. And would you agree to the extent

individual customers or utilities initiated such programs in the 2006 through 2008 time period, that they have received the economic benefits associated with the effectiveness of those programs in reducing energy and demand?

A. I can only answer that in the sense of yes, in part, and that is typically when a customer or a utility initiates a program, usually the type of measure such as a motor or a lighting system will last longer than three years, so therefore, they would have gotten some of the benefits for those particular investments, but -- all the benefits would carry much further than the three years initiated in 2006.

Q. To the extent that the company's DSM and EE programs on a going-forward basis gives a credit, prospective credit, future bills, for the programs thus implemented during the base period time period, might there indeed be a double counting associated with the benefits received by the customer?

A. Could you clarify what you mean by "double counting"?

Q. Well, to the extent that the customer has already enjoyed the benefits, whether it's the utility or a utility customer that's enjoyed the benefits associated with the energy efficiency actions or demand supply management actions or programs that it placed into effect in the last three years, that providing an incremental benefit to the same utility or customer on a prospective basis may result in duplicating or overrewarding, if you will, that utility or customer for the actions it has taken.

A. I'll answer the question in this fashion: One could interpret it to think that if a particular customer filed for an exemption from paying an energy efficiency rider going forward starting 2009 for an investment made, say, in 2006, that that was an incremental benefit from their prior decision-making. One could interpret it to mean that, but the law does provide for customers to submit for an exemption in conjunction with the utility before the Commission.

So one could take the position that it is an additional benefit. I don't know if it's a double benefit but an additional benefit, but the law provides for customers and utilities to actually file to receive credits towards reducing the baseline and exemptions for mercantile customers that qualify.

Q. Thank you, Mr. Scheck.

In any event, your interpretation as to

the appropriateness of providing a credit to either utilities or to customers for such energy efficiency or demand response programs is not limited to programs initiated after July 31, 2008.

A. I don't know if I fully understand your question. Are you giving me the question that prospective benefits are to be --

Q. Let me try it again. Again, it's my fault, Mr. Scheck, not yours in raising the question.

I take it, then, it's the staff's position that the credits that are to be made available under Senate Bill 221 are to be made available to customers on an ongoing basis regardless of whether the programs -- the energy efficiency and/or demand response programs they have were initiated before or after January 31, 2008. Is that a little clearer?

A. Yes. Customers could file for an exemption for a program that may initiate in 2009.

Obviously, it would be a joint application before the Commission in order to be granted that exemption, but yes, for programs in the historical three-year baseline period as well as applications made for exemption prospective of 2008 in the 2009 through 2011 period could be granted exemptions as well.

Q. Turning to page 11 of your prefiled testimony, a subject that's near and dear to Mr. Petricoff's heart, you state beginning on line 3 that: "The Staff is not discouraging such efforts, but believes that such RTO programs are not committed for integration into the AEP-Ohio's distribution utilities' energy efficiency and peak reduction programs." Do you see that?

A. Yes, I do.

Q. Given that statement, do you believe it's appropriate for this Commission to, in fact, encourage the pursuit of such programs by Ohio -- by the applicants' Ohio operating companies' customers?

A. By clarification, do you mean pursue RTO demand response programs?

Q. Yes. Pursue demand response programs regardless of the venue in which those programs are pursued.

A. In my belief, the Commission would not attempt to discourage either one.

Q. Should they encourage customers' pursuit of those programs irrespective of the venue in which those programs are pursued?

A. I'm not clear what you mean by "encourage."

Q. Facilitate, for instance, customers of Columbus & Southern Power and Ohio Power's furtherance of demand-supply management, whether that pursuit is through an RTO or otherwise.

A. I'll qualify my answer as a yes in this sense, that I think the Commission would certainly encourage customers to reduce consumption, either through energy efficiency or peak demand reduction, either venue, of an RTO or through a distribution utility regulated by the state.

However, overriding concerns would be are there other cross-subsidies that would occur while encouraging such participation.

Q. One final line of examination, Mr. Scheck. With respect to demand and supply management and energy efficiency programs, do you believe that the emphasis to be accorded such programs should or might properly be tempered by reason of the environment in which such programs would be initiated?

A. Could you clarify what environment, what you mean by the term "environment"?

Q. Let's assume, for instance, hypothetically, Mr. Scheck, that we are in an environment where simply economic conditions are resulting in drastic reductions in demand and energy consumption on the part of customers. Would that have any impact or effect on your recommendations with respect to the degree to which demand-side management or energy efficiency programs should be pursued?

A. I'll answer your question in two parts. Basically, yes, I think that economic conditions certainly should be considered in terms of short-term rate impacts that may occur on customers in general; however, there is still a mandate to reach certain benchmarks with respect to energy efficiency and peak demand reductions.

However, with that said, the reductions in sales by the company for the balance of '08 and probably carrying forward through '09 and '10 will reduce the baselines starting years 2011, '12, '13, so yes, it is a consideration in the sense that the economic deterioration is occurring right now, and yet sales were probably fairly robust in these prior three years but the targets still are supposed to be reached.

But I would agree that economic considerations with immediate short-term impacts would have to be considered.

Q. Stated differently, Mr. Scheck, the long-term objectives of the statute remain, do they not?

A. Correct.

Q. Yet from the short term, and by "short term" I'm referencing the period that you captured in your answer, not in the question, 2008, 2009, and 2010, if, in fact, economic conditions as they exist today persist or worsen, is it not indeed likely that the benchmarks with respect to demand and energy reduction will be met by reason of economic forces without any incentive being created by the Commission?

A. I don't believe the interpretation of the law in terms of reduced sales because of economic conditions is the criteria to determine whether or not energy efficiency reductions were met; however, one would have to take into consideration in terms of a company's application for not meeting such a

benchmark, they would need to file an application
explaining the economic conditions that occurred that
caused them not to be able to reach their benchmarks.

Q. Well, would those economic conditions as
we have just discussed them play a role in any
recommendation with respect to the companies

incurring substantial program costs in initiating such programs, and I'm referencing specifically your testimony on page 2, advanced meters, $46 million, the gridSMART, $109.7 million and the other costs associated with implementing some of the programs, the ultimate objective of which is to reduce energy consumption and/or demand?

A. Could you restate the question to me?

Q. Given the economic conditions that we've just discussed, do you believe those should be considered by the Commission in determining the appropriateness of the rate at which those -- rate of speed at which those programs should be pursued?

A. That certainly could be a consideration.

Q. Thank you.

MR. BELL: No further questions.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: A few. Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon, Mr. Scheck. Is it your understanding of the statute that the energy efficiency or peak demand reduction benchmark would be met if the utility did absolutely nothing in 2009 but people on their own went out and bought more compact fluorescent light bulbs and more efficient refrigerators and so forth so that there really was a savings, the savings mandated under the statute, but people did it on their own rather than the utility doing anything? Would that meet the statutory requirement?

A. My answer would be no. I believe the statutory requirement is to look at initiatives the electric distribution utility has done in order to reach those benchmarks. People today buy compact fluorescent bulbs. The question is what additional efforts can utilities do to accelerate energy efficiency reductions.

Q. So under that analysis we would actually have more reduction than the statute called for. We would have what people did on their own plus what the utility does.

A. If you wanted to characterize it that way. People undertake their own individual analysis of whether or not they would like to reduce energy consumption based on their purchasing decisions. A large part of why I believe there is a legislative mandate is that it is felt that customers on their own many times either don't understand the benefits of choosing a better technology or the costs that are associated with that, so the electric distribution utility provides the vehicle to accelerate customers' decisions.

But with that said, there's still a sizeable number of customers that make that decision on their own facing the current prices they do today.

Q. Let me ask you about assume there's a recession and general usage of electricity goes down by 5 percent. How does that play into the benchmarks and the measurement going forward as to how much the utility has to reduce?

A. Is there a consumption in your question, that energy consumption is going down by 5 percent?

Q. Yes, because of a recession.

A. I'd have to go back and check EDU sales data, but I'm not certain there's a 5 percent reduction in either peak demand or energy sales in any of the last -- at least the last three recessions that I'm aware of. I could be wrong. But subject to check I don't think there's a 5 percent reduction in sales or peak demand.

Q. It was a hypothetical. Make it 1 percent. It doesn't make any difference. A

1 percent reduction in usage because of a recession, how does that play into the benchmarks going forward?

A. I don't think it plays at all, other than the fact that if a company feels that it can't meet its benchmark, then it has the right or the ability to file an application from meeting the benchmarks due to economic, regulatory, or technological reasons. That would be the purpose for that.

Q. Well, when you measure whether the utility achieved its goals, how do you factor in a recession, for example? How do you measure what the -- how effective these programs were?

A. Well, the general outlay in terms of measuring, and it's in my testimony, in terms of meeting a benchmark, is based on the last three prior years of consumption. That's for the energy as well as the average hourly peak demand for each of those three years.

And whether or not a recession occurred

in those three years or occurred post those three years, that really doesn't come into play. You're just looking at the numbers for those three years and then what occurs in the following year in order to meet the benchmark number.

Now, if a recession is occurring during

that year, obviously there may be constraints upon a distribution utility to meet that number. In that case they would need to file an application and explain why they could not.

Q. Is it your position that the utility -- utilities ought to pick the most cost-effective demand-side management or energy efficiency program of the available options?

A. In general that's my answer, yes, they should prioritize the measures and programs based first on a total resource cost test as defined in the standard practice -- the California Standard Practice Manual. I think the latest version is 2001 or 2002. And a strong secondary consideration is the short-term impact on rates or what is called the rate impact measure test.

Q. Have you calculated how much it costs on a per megawatt-hour basis to do the basically cost-effective programs? The most -- something to be

considered cost-effective in general, how much does
it cost per megawatt-hour to create electricity
through these programs?

A. I think it varies on the measure that
you're looking at. Some are quite expensive and
others are much cheaper than others. It just depends

on the measure and the application and the customer class it's applied to.

Q. That's what I was asking. I mean, pick a group that's cost-effective. Pick something that is cost-effective, on the cheaper side. How much does it cost per megawatt-hour?

A. I don't know the precise answer to that in terms of the cost per megawatt-hour. The question is, is the investment in the energy efficiency less than what it would be to purchase power on the margin.

Q. What is that test used for? That it's cheaper to do energy efficiency than to purchase, what do you use that test to decide?

A. That in general is the total resource cost test that I've described, which is you're looking at the cost of supply versus the cost of energy efficiency.

Q. What do you do if the cost of purchased power is cheaper? Do you not do the DSM?

A. I would probably not if I were making that decision. I would think it would be cheaper to buy power that's cheaper than buying incremental energy efficiency.

Q. So the utility can meet its goals by

purchasing cheap electricity rather than doing a program that costs more money?

A. No. That's not the correct answer. The answer is that decision is made by either a mercantile customer or customers and the utility. What I would say is if they can't meet their goals because purchased power costs are cheaper on the whole than it is to invest in the -- at the margin on some energy efficiency, then I would expect them to file an application to explain that for the economic reasons.

Q. But that would be a possible outcome, that the purchased power could be the substitute if it were less expensive?

A. Yes.

Q. Okay.

MR. KURTZ: Thank your Honor.

EXAMINER SEE: Mr. Rinebolt.

MR. RINEBOLT: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Rinebolt:

Q. Good afternoon, Mr. Scheck. Let's revisit, if we may, for a moment the line of questioning that Mr. Kurtz entered into. Is it your understanding that a cost-effective energy efficiency measure which is defined as cost-effective by the TRC is cheaper, a cheaper alternative than buying power?

A. So long as the benefit-cost ratio is greater than 1.0.

Q. And so -- and is it -- you're familiar with DSM programs over time. Is one of the rationales that policymakers have used to adopt DSM programs that these types of programs overcome barriers in the marketplace to customers availing themselves of more energy efficient technologies?

A. Yes. Certainly that's one of the considerations, informational barriers if that's what you're referring to.

Q. And would there be financial barriers as well because of the nature of the up-front investment?

A. Certainly that would be another possible barrier.

Q. All right. Let's move to page 3 of your testimony. It's really 2 and 3. I just have some generic questions. They're not to a specific line. And I won't characterize your testimony, but you discuss AEP's smart grid or smart meter proposal.

Is there a single technology standard

nationwide for smart meters at this point?

A. By that do you mean a national standard?

Q. A national standard.

A. Not that I'm aware.

Q. Do you think it would be advantageous to customers in Ohio if there was a single standard for smart meters within the state of Ohio?

A. If your question is a statewide standard --

Q. Yes.

A. -- I suppose there would be an advantage to that to some marginal extent. But I think if there were a national standard, that would probably be more effective.

Q. Do you believe that smart meters should utilize proprietary hardware and/or software, or should they be open architecture, i.e., that it's a published standard that external developers can develop software or hardware additions for?

A. If your question goes to plug and play where the utilities roll out, I would agree that having an open architecture is a better result in terms of having other competitors supply software down the road.

Q. Now, a smart meter is essentially a

portal into the house, into a residence or a structure, and it's got a communications capability. To the extent the utilities make use of this potential to provide other products and services, such as internet or such as telecommunications or other applications that I can't think of, do you believe that all or some of the revenue associated with those uses should be credited back to customers?

A. I don't believe all the revenues would be -- if it were to be the case the Commission would rule that some credit should be given back, I don't believe it would be all the incremental revenues because there are costs associated with deploying and offering other additional features associated with that, which we don't know what those all are.

I don't think that particular topic has been tackled at this point in time, but certainly that's for consideration down the road.

Q. Well, with that as your answer, do you

think it would be useful to, say, pick one utility in
the state of Ohio and conduct a pilot there to
determine what an appropriate standard for smart
meters would be in Ohio?

A. I don't think it's necessarily a good
idea just to have one utility do one pilot and then

have that one utility's pilot be the standard. I think it actually would be better to have all of the utilities deploy some kind of pilot and then we can see where things are at after the pilot period.

Q. One last question on the smart meters. Do you believe that the cost associated with smart meters is one of the costs that the Commission might consider being avoidable for at-risk customers?

A. Yes.

Q. Further down that page you discuss a home area network. Are appliances commonly available that could utilize a home area network at this point, to your knowledge?

A. No, I don't believe they are.

Q. Is there a national standard for home area networks?

A. I don't believe there is a national standard.

Q. To your knowledge, are there any studies showing the cost-effectiveness of home area networks for residential or small commercial customers?

A. Could you better describe to me what you mean by "home area network"?

Q. Well, I guess it would have to be the home area network that AEP is proposing in this case, but I'll take any studies that you've reviewed that look at any kind of home area network.

A. Yes, I can answer that question. And I can speak to certainly one pilot that was done in California I believe in the time period I think 2003 through at least 2004 or 2005 whereby about half of the customers were given enabling technology, such as a programmable thermostat to control air conditioning loads, and there was an incremental reduction in consumption, especially at peak period times for those customers that had the enabling technology versus those that did not.

Q. Well, it's interesting you mention that air conditioning load control. Are there technologies, existing technologies, that can control air conditioning loads of customers that are less expensive than a $333 meter and communicating thermostat?

A. Yes. There are many utilities that have employed direct load control with just one-way communication.

Q. All right. And then one last hopefully brief series of questions here. You have a short discussion of the energy efficiency and peak demand programs. Do you view the collaborative that AEP has initiated as a body that should make program design recommendations to the company?

A. I have no opposition from collaborative members making program design recommendations; however, with that said, the company is having an ongoing market potential study being conducted by a consultant that should tell them a great deal of information, and I think that should also be strongly considered as well as any input from collaborative members on program design. But, obviously, both of those I think are necessary inputs for designing programs.

Q. Well, and the market studies should be something that are considered by the collaborative as they design recommendations for the company.

A. I would hope so because I would believe that when you look at a market potential study, you'll look at, you know, the technological, the economic, and then finally the market potential of doing any particular measure or program, and I think, obviously, going back to criteria, total resource cost test and then rate impact test. I think those are the things that should be looked at strongly first and deployed before marching off and just rolling off programs we're not really sure are cost-effective or not.

Q. Do you believe that programs developed by the collaborative should be able to be used cooperatively with other currently existing demand-side management programs?

A. What do you mean by "cooperatively"?

Q. Let me rephrase. Do you believe that it would improve cost-effectiveness of programs if electric energy efficiency programs could be delivered in conjunction with natural gas efficiency programs?

A. The answer is yes when there are synergies by delivering both.

Q. And finally, do you believe that to the extent there are existing programs that are available and rolled out in this state that meet the TRC, that the company should give serious consideration to adopting those programs designs and providing them with additional funding?

A. I think they should strongly be considered. However, if they can even -- if there's improvements that can even be made to those existing programs, those should be considered as well.

MR. RINEBOLT: Thank you very much, Mr. Scheck.

EXAMINER SEE: Mr. Randazzo.

MR. RANDAZZO: No questions. Thank you.

EXAMINER SEE: Mr. Idzkowski?

MR. IDZKOWSKI: Yes, your Honor. Thank you.

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CROSS-EXAMINATION

By Mr. Idzkowski:

Q. Hello, Mr. Scheck.

You reviewed AEP Witness Sloneker's testimony, correct?

A. Yes.

Q. Do you recall an advertising cost estimate for Phase I of $6 million?

A. Yes.

Q. Do you also recall AEP was proposing an additional 4,028,000 to be spent on, quote, customer incentives and education?

A. As a part of the second part?

Q. As a part of -- it's listed in Exhibit KLS-1, page 4 of 7, it says as a part of O&M.

MR. NOURSE: Could I have the question read back, please?

EXAMINER SEE: Yes.

(Record read.)

A. Yes, I see that.

Q. Do you know them to be separate cost -- or, separate expense items?

A. I believe they are. I think the second one relates to HAN.

Q. Yes, it does. I'm sorry, I should have identified that more accurately.

A. And the first one I believe related to just general -- the AMI general education, if I recall correctly.

Q. So it appears there's about a $10 million budget for advertising and customer incentives and education about Phase I alone, correct?

A. Yes.

Q. Do you know or has AEP provided any details regarding these expenses?

A. Not other than what's in Ms. Sloneker's testimony.

Q. Has AEP provided staff any details

supporting any of the cost estimates in
Ms. Sloneker's testimony?

A. Are you referring to all of the cost
estimates related to AMI?

Q. Yes.

A. What do you mean by "supporting

evidence"?

Q. I think I said any details supporting, so strike the word "supporting" and say any details regarding the cost estimates in Ms. Sloneker's testimony, has AEP provided staff any of those details?

A. Not that I'm aware of.

Q. In addition to reviewing AEP's AMI and smart grid program, you reviewed the AMI in Duke and FirstEnergy, in those cases, correct?

A. I reviewed them both, however, the Duke Energy is a stipulated arrangement right now, not approved by the Commission at this point.

Q. How does AEP's AMI compare to those other two?

A. Compare in what sense?

Q. Well, let's ask this: Do either of those other two programs include components in addition to AMI, advanced metering?

A. Well, they all have components related to communications. With respect to HAN, I think AEP's the only one that has HAN specific in that sense.

Q. Are any of the other -- are any of the other two programs pilot programs?

A. Well, certainly FirstEnergy's is

characterized as a pilot program. Duke, I don't believe it's characterized as a pilot program, however, there is a staff and Commission review of that at some period of time within the ESP period.

Q. You testified that, back to AEP, that the AMI costs as stated by AEP are generally reasonable. This was on page 2 and 3, Mr. Scheck. You said they were generally reasonable, but on the higher end of reasonableness. What do you mean by the "higher end of reasonableness"?

A. I'm basing my decision on just calculating the costs per end point of $333 and then looking at Witness Ms. Sloneker's testimony regarding overhead costs associated with meter acquisition in HAN, that the overhead costs I thought were substantially high.

Q. So are you referring then to HAN and DA components in addition to AMI costs when you say they're on the higher end of reasonableness?

A. I can't speak directly for distribution automation, but speaking for AMI and HAN, yes.

Q. And I think in your testimony you said staff was concerned about the costs of HAN, of the $14.5 million cost associated, correct?

A. Yes.

Q. Especially, you testified, the percentage of overhead costs.

A. That's correct.

Q. AEP has submitted that it's going to cost $109 million for gridSMART Phase I with the prospect of saving only $2.7 million in costs. Is that reasonable?

MR. NOURSE: Objection, your Honor.

EXAMINER SEE: On what grounds, Mr. Nourse?

MR. NOURSE: He's trying to get him to extend his position that wasn't stated in testimony to promote OCC's position. I think it's friendly cross.

MR. IDZKOWSKI: I'm sorry, I can't hear, counsel.

MR. BELL: Friendly cross.

MR. NOURSE: He's asking the witness to extend his testimony to a matter he didn't testify to in order to advance OCC's position. I think it's friendly cross.

EXAMINER SEE: Do you want to respond, Mr. Idzkowski?

MR. IDZKOWSKI: I wanted to get a detail about this overall program and staff's position on that that Mr. Scheck would be stating generally, but I believe that that objection's been used repeatedly in this case when it hasn't been the case.

I can strike the question, though.

Q. (By Mr. Idzkowski) Mr. Scheck, you testify that you're concerned with minimal risks AEP is taking on relative to the minimal potential gain for ratepayers, correct? This is on page 4.

A. Yes.

Q. As submitted by AEP what, if any, are the risks AEP would bear with respect to gridSMART Phase I?

A. As far as I know, the operational savings as only claimed in the period of Phase I, and that really is probably a shortcoming of their analysis in that Ms. Sloneker only gave credit for operational savings for three years, and typically most analysis that I've seen for business cases are 15 to 20 years.

The other aspect of it that you really

don't see is the operational savings for meter readers because they're only deploying 110,000 of these meters, and so, obviously, the meter reading costs probably aren't going to be reduced, if any at all, as far as meter readers go.

Q. Well, you've stated that they'll save money operationally and in the area of meter reader costs, but what risks does AEP bear, what risks -- if this is a fully funded -- approved by the Commission to be fully funded by customers, what risks, if any, does AEP bear for gridSMART Phase I?

A. As I said, if they don't achieve their operational savings, the differences -- the remainder is -- if the Commission granted them full recovery of the remaining costs, then they would have minimal to no risk.

Q. You testify on page 4 that you recommend that AEP's Phase I gridSMART be pulled out of general distribution rates and be set aside in a separate rider set at zero dollars until a further, more detailed investigation can be completed, correct?

A. Yes.

Q. What type of investigation?

A. Well, I think the company in another case had filed a more robust rollout than just a Phase I.

I think what's missing, at least in part, in this particular filing is the credit or the benefits related to longer term than just three years for operational savings. That needs to be looked at. And in addition, there's no quantification that goes to customer or societal benefits that were due in large part to demand response.

Q. And on page 5 you testify that in the event the Commission authorizes Phase I gridSMART, quote, "the Staff would recommend that there be an annual cost and performance review of the initiative." Correct?

A. Yeah, I think that would be right.

Q. And as part of this annual performance review, would you recommend an annual analysis to be -- to determine if Phase I is cost-effective?

A. At least with respect to the cost rollout. In terms of benefits and it being cost-effective, I think it's pretty hard to gain a cost-effective AMI smart grid rollout by just doing a small portion of the service territory because a lot of the operational savings can't be gained unless you do a full deployment.

Q. As part of this annual performance review, would you recommend an annual analysis as to

Phase I's effect on customers' ability to control
their energy use?

A. Yes, absolutely. I believe a significant component missing in the company's filing is dynamic pricing for all customer groups to take advantage of these intelligent meters.

Q. Same question but as to environmental benefits. Would that be a part of the annual review?

A. Certainly that would be a part of it.

Q. Same question as to customers' savings on their bills.

A. Well, customer savings on their bills is related to what kind of pricing structures customers can avail themselves to.

Q. All right. Same question as to the program's effect on electric distribution system reliability.

A. That certainly would be a part of it.

Q. Would it be your recommendation that these annual reviews continue past the three-year pilot program period?

A. Yes. If it were to be approved by the Commission and the rollout period I believe would be a seven- to ten-year period, yes, there should be an ongoing review of the company's AMI rollout.

Q. Is it your opinion that AEP's customers are requesting or demanding this gridSMART technology deployment now?

A. I will answer that in this sense, that on the whole probably a lot of customers don't even know what gridSMART is; however, there are probably a significant number of larger customers that want better reliability than they currently have now. And if they were aware that gridSMART could enable that, they probably would have an interest in it if they know what the underlying costs are associated with the increase in reliability.

Q. And how does the staff gauge that customer awareness or demand?

A. I honestly -- we don't have any measurement at this time. Reliability folks that testified, Duane Roberts, and maybe Mr. Pete Baker, could answer that issue with respect to reliability itself as it relates to customer awareness or perception or demand. But other than that, no, I'm not aware of any customer demand specifically for reliability or any of the other features.

Q. Regarding energy efficiency and DSM, on page 6 you state that a number of -- a number of the companies' energy efficiency programs are quite expensive and might not pass this total resource cost test in the California manual. What programs are you referring to?

A. Yes, I'd have to look at the appendix back in Ms. Sloneker's testimony. I can tell you several based on just the numbers that she has supplied.

The first program would be the low income weatherization program on Witness Miss Sloneker's Exhibit KLS-2, page 1 of 27, especially page 2 of 27. There is a dollar per kilowatt-hour associated for each of the operating companies for this program, and as I best understand it, it's 93 cents a kilowatt-hour. I don't know of anybody paying 93 cents a kilowatt-hour in terms of anything relating to power supply.

The next one is the targeted energy efficiency weatherization program on page 4 of 27. It is 89 cents a kilowatt-hour.

And then another example would be the Energy Star Home Appliance Program on page 10 of 27 of Exhibit 2 of Ms. Sloneker's testimony, which is I believe at 90 cents a kilowatt-hour.

Q. I'm sorry, what page again?

A. The last one?

Q. Thank you, I found that.

A. It was on page 10 of 27, Exhibit KLS-2 of Ms. Sloneker's testimony --

Q. Thank you.

A. -- in the back.

Q. What's the difference between the

ratepayer impact measure test and the total resource cost test?

A. Well, the total resource cost test doesn't really take into consideration changes in rates in the short-term to all customers, it really looks at the total costs of incremental energy efficiency against purchased power costs or construction, as well as the energy related to the supply side and just compares those two investments over a period of time, usually the life cycle costs of the energy efficiency investment.

And then the rate impact measure test says, okay, what does it cost to recover the program costs, incentives, and any lost revenues due to distribution and/or maybe even transmission, and then if there is any incentives associated with the program, what would be the cost in a cents per kilowatt-hour basis or dollar per kilowatt-hour basis to recover all those costs when they start, usually.

Q. Are you suggesting in your testimony or today that AEP's energy efficiency programs should be deemed to be cost-effective under both tests?

A. I wouldn't make that judgment on any of them. There's no tests that are conducted. It just lists what's the cost per kilowatt-hour to roll these programs out, but there's been no TRC conducted I could tell or rate impact measure test for any of their programs.

Q. On page 7 of your testimony at the bottom you discuss the companies' annual benchmarks regarding energy efficiency. Is it your opinion that generation investments should not be credited toward the companies' meeting their annual energy efficiency benchmarks if the investments do not have benefits that accrue to Ohio's retail customers?

A. Well, certainly not if they are not benefits that accrue to Ohio's retail electric customers if they're paying for these programs in their rates.

Q. On page 11, line 1 you state -- if you'll find that, please. You state that: "A number of AEP retail mercantile customers participate in one or more of PJM's demand response programs." Which programs are you referring to?

A. Well, they have several. I believe they have what is known as an economic demand response program that's volunteer in nature, and then I believe they have three other emergency type programs. Two of those are capacity related and one is energy only, which I believe is voluntary. So I think there's at least four, if not more, programs offered by PJM to market participants.

Q. And regarding the loads of these mercantile customers that participate in those programs, should these loads count toward reducing the company's energy efficiency and peak demand reduction benchmarks?

A. Only to the extent that the company and the customer could demonstrate that they were integrated. If they're not integrated, I don't see how they can be.

Q. In your testimony you state that according to Revised Code 4928.66, the companies must achieve an energy savings improvement of at least 3/10 of 1 percent of the company's total annual average normalized kilowatt-hour sales for the preceding three years. Do you recall that testimony?

A. I'm not sure where it's in there, but I'm pretty sure I stated that, yes.

Q. Would that period start in 2009?

A. Well, the reduction period starts in 2009. The baseline period is from 2006 through 2008, so the 3/10 number is based on the sales that occurred the prior three years. And that would be both for the energy efficiency, which is -- or kilowatt-hours in that case is 3/10 of 1 percent, and then the peak demand would be 1 percent for the year 2009 against the company's prior three years of their maximum hourly peak demand.

Q. Do you know if the companies have started any steps toward meeting that benchmark?

A. Well, they certainly have had a -- I believe they've had two collaborative meetings and I believe they've indicated they need to get started as soon as possible in order to reach those benchmarks.

MR. IDZKOWSKI: One moment, please, your Honor.

That's all I have, Mr. Scheck. Thank you.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Scheck.

First I want to ask you some preliminary questions in terms of your responsibilities. Are you the staff member who is responsible for the energy efficiency and demand reduction programs in ESP filings at the Commission?

A. At this point, yes.

Q. And is there a policy within the Commission staff that there should be some type of uniformity in terms of compliance among the utilities with the energy efficiency and demanned reduction programs?

A. That compliance would be reflected in the rules that I believe are out there.

Q. And would you agree with me at the moment the rules are promulgated but not approved and implemented at this time?

A. That's right.

Q. Now I want to direct your attention to page 9, line 8 of your testimony, and I'm going to pick up the line of testimony that the OCC was asking you about that. That is where you'll find the reference to Revised Code section 4928.66. And would you agree with me that that is -- well, let me ask you this question before that, a prefatory question.

In preparation for your duties in reviewing the energy efficiency and demand reduction programs, did you review the statute?

A. Yes. But there are no actual I'll call well-defined programs at this point that I could point to and say yes.

Q. But there are standards in that statute as to what these programs have to achieve?

A. In total, yes.

Q. Okay. Do you happen to have a copy of 4928.66 -- I'm sorry, Revised Code section 4928.66 with you at the moment?

A. Yes, I do.

Q. Well, I want to start with this next series of questions and sort of establish what we're measuring. You may want to look at 4928.66 when we go through this.

Wouldn't you agree with me that basically -- and we're going to start with the energy efficiency, that we have energy efficiency reduction standards for the years 2009, 2010, and 2011 that are established in the statute?

A. Yes.

Q. Okay. And for 2009 we're looking at 3/10 of 1 percent, and that increases to 5/10 of 1 percent in 2010.

A. Yes.

Q. And then I think we get up to 7/10 in 2011.

A. For energy efficiency, yes.

Q. And, of course, in order for those type of percentage numbers to make sense, we have to have a baseline number to apply them against; isn't that correct?

A. That is correct.

Q. And in your testimony you have provided us in Exhibit GCS-1 with such a baseline?

A. Yes.

Q. Now, as I understand your testimony, you developed this baseline by looking at the weighted average for kilowatt-hour consumption within the Ohio Power and the Columbus Southern Power service territory for the three years, three calendar years 2006, 2007, 2008?

A. Are you referring to the first exhibit or the second one?

Q. I'm referring to the first one which I think is GCS-1.

A. That is for the megawatt-hours or the energy, yes.

Q. Okay. Let me make sure that I understand. GCS-1 is kilowatt-hours -- or, I'm sorry, megawatt-hours?

A. It's megawatt-hours, but one could convert it to kilowatt-hours.

Q. Right. That's a matter of just moving the decimal point.

A. Correct.

Q. Okay. Did you make any adjustments to the actual numbers that were used in establishing this baseline?

A. No. I just used historical numbers in 2008 as an estimated number. These are out of the 2008 filed long-term forecast reports for both the electric -- both the Ohio Power and Columbus Southern Power electric companies.

Q. Under the statute would any adjustments have to be made for these to become the official baselines for 2009?

A. Yes. These are just a starting point. Obviously, there will be other adjustments, weather normalization and other factors. Well, let's go through those factors.

I believe on paragraph, same page, page 8 -- I'm sorry, page 9, line 11, you indicate that we'll have to normalize these kilowatt-hours. Let's go through the kind of normalization that would have to be done. The first would be weather.

A. That would be the most obvious one.

Q. Okay. And how would that take place? What calculation would have to be done to normalize the baseline numbers that you show here in your Exhibit GCS-1 for weather?

A. You mean in terms of if the weather's warmer than normal or colder than normal?

Q. Yes.

A. Well, I can't speak to all the specifics of it, but typically if let's say the utilities are summer peaking and they have a hotter than normal summer, sales are higher than they would normally expect it to be so they would probably be adjusted downward a little bit due to the warmer than normal temperatures in the summertime.

If they have colder than normal temperatures in the winter, there would be an adjustment in the same -- in terms of in the same direction, a correction made for colder than normal temperatures.

But then again, it all depends on the weather and the season it occurs and the impact on demand in each of those months.

Q. Is that something that you or the Commission staff would do in establishing the benchmark, or is that something that you would expect the company to submit to the Commission?

A. I would expect the companies to submit that to the Commission, but we would probably closely scrutinize any adjustments made with respect to weather in terms of the methodology used and that type of thing.

Q. Now, besides weather, what other normalization would take place to the benchmark number?

A. I can't think of anything that specifically relates to normalization other than there's an adjustment for economic growth.

Q. Are you familiar with the companies' interruptible service tariffs?

A. Somewhat. I'm not -- I didn't look at them that closely in the context of this particular case, other than I know they were expanded relative to the offerings they've had prior to the ESP period that would start in January 1st of '09.

Q. Would the benchmark numbers be adjusted to reflect any interruptions which took place during the 2006, 2007, 2008 benchmark period because of IT, because of interruption to interruptible service to customers?

A. If there were actual interruptions that were conducted that impacted the companies' peak demand, then yeah, I can see some credits given for that in that time period, but they would have to be verified they occurred during the companies' peak demand during those particular years.

Q. Do you know for fact whether or not there was interruption that took place under these interruptible tariffs during the benchmark periods?

A. Well, I know there were interruptions that were actually executed, if you will, at the request of the company, those who had interruptible contracts, but to the extent when they occurred in terms of were they coincident with their company's peak, I don't know the answer to that question at this time.

Q. Right now I'm focusing in just on the energy efficiency. We'll deal with peak in a moment.

A. Okay.

Q. But you would agree with me that if they were interrupted and it was a -- no matter what time of the year, if they were interrupted there would be

a decrease in the kilowatt-hours or megawatt-hours of
sales.

A. That would be a part of it. That would
also contribute to reduction in the kilowatt-hours as
well, but again, it would have to be measured as to
when, you know, how much and when it occurred.

Q. What if the interruption took place because it was called by PJM as opposed to being called by Columbus Southern or Ohio Power?

A. I don't know if that's under the discretion of the company itself. I mean, I don't know if they're even aware of it. They may or may not be. But I don't think they're under the control of the company. That's the first thing.

I mean, in terms of they might credit it in the baseline period if they knew when they occurred and how much they were, but beyond that they're not integrated with any of the companies' interruptible programs.

Q. Let's move aside from the -- because we'll deal with integration in a minute, but let's go back just in terms of trying to establish a baseline. In terms of looking for an accurate baseline, would it make a difference whether the interruption was called by the company or called by PJM in terms of

its effect as to what the proper usage was during the
baseline period?

A. I still think it would have to be something that the company actually called. I mean, they're unaware of probably what other providers are doing. I'm aware that there are other third-party providers out there that provide this service at the RTO level, but that's independent of the distribution utility.

Q. Let's go up a level of detail and discuss in just broad terms what the General Assembly was trying to achieve here in 4928.66. Wouldn't you agree with me that the goal here is to measure, if we're going to measure what reduction is, we have to start with what was consumption because if we don't know what consumption is, then we don't know whether we've got an accurate reduction or not or how much? Isn't that correct?

A. Are you referring to -- when you say "consumption," an adjustment to the consumption?

Q. Let me withdraw the question and try again.

In establishing the baseline, isn't it true that the goal is to try to accurately reflect what consumption was, because, remember, we're still

on the kilowatt-hours. We're going to reduce
kilowatt-hours, how many kilowatt-hours or
megawatt-hours were used in the benchline period so
that we can measure to see whether or not we're
having conservation, whether we are reducing it in
the out years, in the years 2009, 2010, and 2011.

A. Well, I would agree you have to know what went on in the baseline period; however, actions that occur outside of the utility's control, people could have gone on vacation for two weeks and turned off their power and not be part of any RTO program. The company doesn't keep track of any of that.

So I don't believe any actions that occurred outside of the utility's knowledge or control would count towards adjusting the baseline unless there was something like weather normalization or an economic growth adjustment, and I believe the other ones are sales, customers, and peak demand, and other appropriate factors. I don't know if this fits under other appropriate factors. I'm not aware of the RTO curtailment service providers providing us or the utilities any of this information at all.

Q. I think here's where we're passing in the night. You're talking about adjustments to the baseline. I'm a step behind you. I'm still talking about the baseline itself. In the baseline itself we start with looking at how many megawatt-hours were consumed; that's correct?

A. Yes; based on the sales made at the meter totally rolled up for the historical period.

Q. Right. And, in fact, that's what your

GCS No. 1 has done. That's given us the base consumption -- the consumption during the baseline period.

A. Yes.

Q. Okay. And the mandate that's on the utility, then, is to basically have a reduction from the baseline of 3/10 of a percent by 2009, correct?

A. Well, a baseline that's been adjusted, if there were adjustments made to it, then yes, it would be 3/10 of 1 percent for energy efficiency for just calendar year '09.

Q. Right. And then when we go to measure in 2009 to compare it to the baseline, we have to use the same type of accounting techniques that we used in establishing the baseline. Wouldn't that be correct -- or isn't that correct?

A. Can you rephrase that question again?

Q. Actually, maybe going to an example would be better. We make an adjustment and we drop out the

interruptible service, the IT service, in the
baseline. Then don't you have to drop out the IT
reductions in 2009 when you go to measure the two to
see whether or not we've had conservation in 2009 at
a level required by the General Assembly?

A. When you talk about dropping out, I guess

I need clarification. What exactly do you mean by dropping out the interruptions in the baseline?

Q. Well --

A. I mean, sales are sales. So the sales would reflect whatever actual reductions occurred.

Q. Right.

A. So I don't know why there's any adjustments to be made with respect to anything dealing with anything -- interruption or energy efficiency that's already in sales during the historical period.

Q. Okay. Well, let's just start with sales if we're going to measure -- let me ask you this: Your understanding of 4928.66 is that the task of the Commission will be to review energy consumption during the baseline period, the three years with 2009, and determine whether or not there was a 3/10 of a percent reduction. That's the assignment -- would you agree with me that that's the assignment from the General Assembly to the Commission?

A. That's true. But those reductions would have to be due to initiation or efforts by the company to achieve those goals or committed mercantile programs that contribute to those same goals. So reductions that occurred, as a prior question has come to me, regarding an economic recession really don't come to me, if that's where you're going.

I don't understand the question. Sales are sales, and then after the fact we'll look at reductions. You may still have had an economic recession, but that may have nothing to do with energy efficiency, per se. That was just customers reducing it on their own accord.

Q. So your interpretation of the statute then is that the 3/10 percent reduction is not a 3/10 reduction from the sales, it is reviewing all of the programs and seeing if all the programs come to 3/10 of a percent?

A. That would be my general presumption of how it would be understood.

Q. And so the key that you have, then, for -- well, okay.

If that's the view that you have now,

explain to me then what adjustments we have to make in the baseline in order to make the calculations to determine whether or not a 3 percent savings has been achieved in 2009.

MR. NOURSE: Could I have the question read back, please?

MR. PETRICOFF: Let me withdraw the question. Let me try it a different way.

Q. These figures that you have in your GCS No. 1, these are just -- that's every kilowatt-hour that was consumed, correct, or every megawatt-hour that was consumed.

A. For the years '06 and '07; '08 wasn't finished at the time they filed this .

Q. So at that point you are working with consumption data.

A. Correct.

Q. Okay. And your testimony is that the only purpose for looking at this data is to determine what the energy target is so that you can measure these conservation programs against the target.

A. Right.

Q. Okay.

A. But subject to these baseline numbers that I have, that will probably be adjusted for other

factors like weather and economic growth or some
other adjustment factors that I'm not aware of.

Q. But that's just to establish how much the
programs have to achieve.

A. Correct. And that would include any
mercantiles that would apply for an exemption that

could be present credited towards reducing a baseline.

Q. So if there were programs that were out there that just didn't happen to be sponsored by the company but resulted in tremendous reductions, that wouldn't count in terms of meeting the goals under the statutes by your interpretation.

A. I don't know if I understood your question in its entirety. Mercantile customers can apply for an exemption if they've implemented something that goes towards meeting what I would establish as minimum goals for '09. They could apply for an exemption from the energy efficiency rider if they could demonstrate they had actually done the minimal amount towards that goal.

But I'm not throwing them all out. I'm just saying an application, a joint application, would have to be made by the customer with the company to the Commission in order to achieve -- in order to get that credit.

Q. I wasn't talking about just mercantile customers --

EXAMINER SEE: I'm sorry, were you finished answering your question, Mr. Scheck?

THE WITNESS: Yeah, I'm done.

Q. I was not talking about just mercantile customers. I'm just talking about in general. Tomorrow on the market a new device is available at a low cost which reduces energy consumption. You just put it into the plug and then plug your plug into that, and then all of a sudden you can achieve a 10 percent discount in usage and, in fact, everybody in AEP's service territory goes out and buys this device, and the total reduction goes down 10 percent, none of it having to do with any of the programs that are touted by AEP.

In that case you would say that the -- under your measurement -- and AEP's programs produced no savings at all. In that case you would say we have not reached the statutory reduction.

A. My understanding is you would not because the particular company didn't do anything on its own to initiate anything and didn't produce any reductions. This is something that happened in the normal course. People do energy efficiency every day of the year and that's not factored into any of these numbers right here when I look at this. So in any of the given numbers in a historical period there's going to be energy efficiency that's built in.

I don't go in and remove that or add that back in. It already exists naturally. We're looking at goals that are above and beyond what the normal, natural occurrence of energy efficiency is.

Q. If, in fact, the interpretation comes out that the General Assembly was looking to get actual reductions in both demand and, actually -- let me withdraw that and start this another way.

Is there a societal benefit in terms of pollution and emissions if there is less generation that takes place in the service territory?

A. That depends.

Q. Okay. It depends on what?

A. Well, for example, let's take a particular program that does what I'll call peak load with a shift so you have customers that reduce their peak consumption with gas turbines running on the margin. They shift all of that consumption to, say, a second or third shift that runs at night and the coal is on the margin. You might have increased environmental costs rather than reduction.

Q. I'm sorry, Mr. Scheck, I haven't crossed over to the demand portion yet. I'm still working on conservation of kilowatt-hours.

A. Okay.

Q. If we burn less kilowatt-hours, aren't we going to burn less fuel? Isn't that just a --

A. Are you talking about in total?

Q. In total.

A. In general in total, yes, you would have.

Q. And if the goal of the General Assembly was to reduce pollution by reducing the amount of generation, wouldn't that goal be achieved if there was just a reduction in megawatt-hours as opposed to a reduction in megawatt-hours in AEP-approved programs?

MR. JONES: Objection, your Honor, asked and answered.

EXAMINER BOJKO: Sustained.

Q. Isn't it true that there would be a benefit to the customers in delaying the capital requirements to build new power plants, and now I'm switching to demand -- if the demand could be reduced by programs other than approved-AEP programs to reduce demand?

A. Could you state that question again? It was pretty long for me.

Q. Sure. Wouldn't there be a benefit to the customers of the AEP operating companies if the demand for peak power could be reduced regardless of whether that reduction was due to an AEP-approved demand reduction program or a reduction program that wasn't an AEP-sanctioned program?

MR. RANDAZZO: I object.

EXAMINER SEE: Grounds?

MR. RANDAZZO: I probably should have done this a while ago, and I apologize for not doing it a while ago. It's not my understanding that we are either establishing benchmarks in this proceeding or establishing the means by which the benchmarks will be established in this proceeding, and I'm having difficulty understanding where this line of cross-examination is directed relative to the issues in the case.

MR. PETRICOFF: Well, your Honor --

MR. NOURSE: Your Honor --

MR. PETRICOFF: I'm sorry. Mr. Nourse.

MR. NOURSE: If I could, I believe AEP would be interested in the baseline methodology, and I thought that was addressed in our testimony. It gets addressed in Mr. Scheck's testimony. I believe it is placed at issue in this case.

MR. RANDAZZO: I'll withdraw the objection then.

EXAMINER SEE: Is there a question pending before the witness?

(Record read.)

A. Yes, with a qualification. I mean, customers regardless of the program would reduce peak demand if they just changed out their refrigerator or air conditioner. They reduce peak demand. The question is, as far as I understand the law, is a burden placed on the utility to reach a goal. If the utility can't reach a goal due to changes in economic provisions, then there's a provision set in the statute to file an application for economic reasons or technological reasons if they cannot reach a goal.

Q. My question to you is do you think the goal is something other than actually reducing the number of megawatt-hours that are consumed and the number of -- and the peak for the company?

A. Well, I believe there's a linkage between actions taken by the utility and reduction in those baseline numbers. Absent no action taken by the utility, I don't think they reached any kind of goal because those adjustments should be taken into account.

Q. Let's switch to another subject. Let's talk about what mercantile customers can do. Given the way you have described that we're looking at company programs, how do you see the mercantile exemption fitting into that paradigm?

A. Well, I guess in a general context if a particular mercantile customer already has some sort of investment made into energy efficiency, then they would need to make a showing via through a joint application between the customer and the company before the Commission asking for such exemption. The exemption should have the investment expenditures and also some sort of showing as to a reduction in consumption associated with that.

That's just kind of a general layout or a parameter of that. And then probably some audits would have to be performed on some of those particular applications for exemption.

Q. When the customer makes that kind of showing, doesn't that count towards making the goal of reduction in both demand and in megawatt-hour consumption?

A. It could. I mean, it depends on the

nature of what's been invested. I mean, it could
reduce both. It may not. But again, the customer
would need to make that showing. Whether or not they
would get an entire exemption if they just met the
goals on energy efficiency, that I don't think has
been determined, but it's possible one could get an

exemption by meeting one rather than both of those goals. At least one of those two would have to be met based on whatever would be expected or the requirements from the EDU for the same year for the reductions.

Q. And a mercantile customer who is making such an application, can they also become exempt for any charge the company has for running an energy efficiency or demand reduction program?

A. I think that's what I spoke to. An application for exemption is an exemption from a rider to pay for energy efficiency programs. Does that answer your question?

Q. That does answer my question.

A. Maybe I misunderstood your question.

Q. No. No. That answers my question, and no, that's an excellent response.

MR. RANDAZZO: Could I have it read back, then? Just kidding.

MR. BELL: Friendly cross.

Q. Now, you would agree with me, Mr. Scheck, that if a customer, and we'll make it a mercantile customer, if a mercantile customer enrolls in one of these PJM either energy reduction or demand reduction programs and actually reduces the amount of demand that they require or the number of megawatt-hours that they use, that that could have an effect on the number of megawatt-hours that are consumed in the service territory and the peak demand that the AEP operating companies would have to meet?

A. Not necessarily. I mean, it could have an effect in terms of the consumption during that particular year, but as a credit towards the goal, not necessarily.

Q. Well, I'm not talking about credits. I'm talking about just reducing the amount -- let's use the -- stay with the kilowatt-hours first.

If a company enrolls in a PJM program to reduce the number of megawatt-hours and it reduces -- and, in fact, it does reduce the megawatt-hours, wouldn't that reduce the number of megawatt-hours that the AEP service companies would have to provide?

A. Yes, it would.

Q. And the same is true that if a company reduces by enrolling in a PJM program, reduces the peak load, the peak demand that it requires, and that happens to be coterminous with the peak load of the AEP companies, that it would help the AEP companies reduce their peak demand?

A. It could if they are coincident.

Q. Okay. And that the issue of whether or not the mercantile company that is participating in these PJM programs has to pay for a rider for energy efficiency or demand reduction would depend on making an application with the Commission and having the Commission accept that application.

A. Well, it would have to be a joint application with the utility. And from my viewpoint if they're not integrated with the utility's efforts, I don't see how they would be approved.

Q. Okay. And what are the key elements of being integrated? What does integration -- in your mind, what would have to occur for there to be integration?

A. Well, the simplest answer would probably be to enroll in the utility program or they would actually contribute towards that energy efficiency investment the customer already made. But beyond that, I think the definition of integration is one of those gray things that really hasn't been defined, and maybe there's a legal definition, what does commit to integrate mean. A hundred percent, I couldn't tell you exactly.

Q. But when we boil down the integration, isn't the idea that whatever the mercantile customer is doing, it has to achieve a real reduction in kilowatt-hours if we're going for energy efficiency or a real reduction in the coincidental peak if we're going for demand reduction? Isn't that what integration should achieve?

A. I'm not a hundred percent sure. I would tend to probably more likely agree with the kilowatt-hour presumption, but not necessarily with the demand because I don't believe in many cases the PJM peak demand and the utility's peak demand are coincident.

Q. But it could be measured to see if they were.

A. It's possible.

Q. If you had a realtime meter that was registering clock hours and you could measure them up with the clock hours of the utility, couldn't you verify that, in fact, you were reducing the peak?

A. I said I suppose it's possible it could be done.

Q. If you had your choice between a program that was integrated because it was a company-owned program but it achieved meager results in reducing peak load demand and meager results in reducing megawatt-hour consumption, or you had a program that was run by the RTO that had a robust reduction in megawatt-hour reduction and peak reduction, which do you think the Commission would find was in the best interest of the public?

A. Well, I can only answer it in this context: One, it could achieve a tremendous result with either type. If there are a lot of cross-subsidies involved, I think that is germane to the type of effects one gets, so depending on the nature of the program, who's paying for it, I think those have to be a consideration in respect to what is the effect achieved versus, say, an RTO program versus a distribution utility program. Is the RTO program generating a lot of cross-subsidies from other customers to pay for that? That's a big question.

Q. Same question, but let's assume that there's no cross-subsidies. There's no cross-subsidies and you have a program that's run through the RTO that has robust reduction in megawatt-hour consumption and a significant decrease in a demand versus a program that is integrated by virtue of the definition that it has to be an AEP program but it has meager megawatt-hour reductions and poor or slight reductions in demand. Which would

the Commission rather see?
A. Well, again --
MR. JONES: Objection, your Honor, as to what the Commission would do.
MR. PETRICOFF: I accept that, your Honor and let me rephrase the question.
Q. Say, which is in the best interest of the public?
A. Again, this is presuming that the customer that's getting no cross-subsidies from an RTO program isn't getting paid. So if he's willing to undertake it under his own dollar and do it, that's fine, and he would not receive a payment from the RTO. He would just get a reduction in his bill from the distribution company.
Q. What if the payment from the RTO was by companies that were all out of state?
A. Again, those companies have to be paid from somebody, and those are usually retail

ratepayers.

Q. But they're out of state retail
ratepayers.

A. Well, that I don't know. That's an
assumption.

Q. Well, let me ask you this question: Do you know whether the AEP companies participate -- do you know whether the AEP companies participate in the RPM market as buyers?

A. Are you asking whether the AEP distribution companies participate in the RPM -- the AEP-Ohio distribution companies are participating as buyers in the RPM?

Q. Right. Do either Ohio Power or Columbus Southern Power buy any capacity in the RPM market?

A. My best answer to that is I'm not fully understandable, but I think they're in the fixed resource requirement, which is sort of exempted out of the RPM itself. So they're self -- I guess in that sense they self-serve their own capacity.

Q. So if the PJM programs that we were talking about in my hypothetical are funded by the RPM market and the AEP operating companies don't contribute to the RPM payments at all, in that case could there be any cross-subsidy from Columbus

Southern customers or Ohio Power customers to people
participating in the market, in the PJM program?

MR. NOURSE: Excuse me, your Honor, again is this a hypothetical asking him to assume the things you stated?

MR. PETRICOFF: Yes, this was a

hypothetical.
MR. NOURSE: Thank you.
A. If your hypothetical is true, that would be the case, but I don't think that is the actuality.
Q. But you don't know.
A. Well, my understanding is that AEP still has to cover the capacity costs for those customers that do participate in the RPM that are AEP-Ohio retail customers. They still have to cover the capacity costs associated with those customers that participate.
Q. And when those customers curtail, can AEP take that capacity and sell it in the RPM market?
A. That would be my presumption if it has some value.
Q. So at this point we haven't established that AEP has had any loss, have we?
A. Not necessarily.
Q. And when AEP makes those sales in the RPM

market, is there any mechanism where those dollars come back to the customers?

A. Are you referring to retail customers?

Q. Yeah, I'm referring to retail customers. Yes. Thank you.

A. I'm not aware of any revenue sharing

arrangement.

MR. PETRICOFF: Thank you, your Honor.

Thank you, Mr. Scheck. I have no further questions.

EXAMINER SEE: Thank you.

Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

EXAMINER SEE: Mr. Maskovyak.

MR. MASKOVYAK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Maskovyak:

Q. I'll try to be a little more brief.

Mr. Scheck, I'm Joe Maskovyak. I represent the Appalachian People's Action Coalition. It's a consortium of low-income customers in southeast Ohio. I don't think we've met so I thought I would give you some understanding of my perspective.

I'd like to turn first to page 2 of your testimony. If we could. I'm going to revisit a few things with a little different tact that others have already examined.

At lines 20 and 21 you indicate the direct meter costs including overhead for the advanced metering are 36.5 million and $333 for the end point. And are these the costs that you're referring to in determining reasonable in the answer or in your question 8 at the bottom of page 2 that flows over to page 3?

A. In part, yeah, they go to reasonableness. But I think the main issue related to that number has to do with the overhead costs.

Q. All right. You talk about on the top of page 3 in line 1 the "higher end of reasonableness." I'm curious about what would be the lower end of reasonableness?

A. Well, typically, I mean what I've seen in other filings, if you include the communications along with the meter, something along the order of 200, 250 dollars somewheres as a midrange. If they're lower than that, they're doing very well.

Q. So we're talking 200 to 250 dollars versus the $333 mark?

A. Correct.

Q. Thank you.

And getting on to the other issue that you just mentioned, the overhead cost, you mentioned that in line 3 on page 3, and you're somewhat concerned about these overhead costs, and I understand that your continuation of your answer is your recommendation to ameliorate that concern; is that correct?

A. I don't follow what you mean by "ameliorate that concern."

Q. That if your recommendation is followed, that your concern about the overhead costs would be reduced.

A. Well, I think there needs to be a check with respect to the current meter purchasing costs for the company. They already have an expense for overhead to make sure they're not duplicative with respect to buying new meters.

Q. Would you recommend that the company move forward with its plan and its spending levels if there is no review?

A. I'm not suggesting they go forward with no review.

Q. I'm not sure what you mean by that

answer.

A. Based on what the company has filed, I think there is concern about the costs, especially overhead associated with meter reading, or I should say meter acquisition and HAN, and there obviously is issues with respect to the education and advertising amounts as well associated with this, so I think those categories need to be reviewed for their reasonableness or if there is duplicativeness with respect to overhead costs.

I think the other category had 93 percent overhead cost. I would be in any business concern strongly interested in why I had 93 percent overhead costs.

Q. So would you then recommend not going forward with such a plan if there is no review?

A. That's presuming there is no review, and I would think there's going to be review.

Q. I'm asking you to presume that.

A. Hypothetically, if you say there would be no review, then I would say yes, then no, you would not go forward.

Q. Thank you. And the review process, can you describe your vision to me of what the review process would look like?

A. I can't in its entirety, other than I would expect the company to more fully flesh out what they filed in terms of, you know, what are we talking about in terms of overhead, the additional man-hours being added, what are those expenses, and can they justify them. If they're not, they should be taken out.

Q. And who would get that information?

A. I would presume the staff -- Commission staff would receive that information along with other interested parties if they had a material interest.

Q. So any other interested parties would also be privy to this information?

A. Well, subject to probably some confidentiality agreement, they probably could; otherwise, probably not if it's competitive in a nature.

Q. That seems reasonable.

Would there be a chance for other parties to object to the review -- to the findings of the review?

A. I don't know what the review process is at this point. That hasn't been set up.

Q. I understand. I'm just asking for what your view would be of the review process since it was your suggestion that there be such.

A. I don't have an opinion one way or the other.

Q. Okay. Continuing on page 3 and looking at question 10, line 14, talking about concerns of the AMI pilot program, and I'm going to try and summarize, as I understand it, you are not so concerned with the large expense but more about the small amount of savings that result; is that correct?

A. That's in part. I think I'm looking at both ends of that, and the large expense relates to some of those overhead costs, and then, obviously, the operational savings are very small. But there are other factors that come into play which I don't think the company's filing was complete in that fashion, and, therefore, I think they would have to provide benefits that would be associated with operational savings for not just three years but for at least 15 to 20 years.

Q. So you would like to see some schedule out of the savings.

A. Yes.

Q. Can you tell me what amount of savings you might hope to achieve that would take away the concern you have about the small return of 2.7 that's listed here?

A. Well, I think in part the problem is looking at the size of this if I've referred to it as a pilot or phase, it would be considered a very large pilot, if one were to look at it that way. On the other hand, it's not a full rollout. So inherent with that problem you carry costs that you would otherwise get in terms of cost savings with meter readers. This would be displaced that you otherwise don't get with the size of a program like this. However, you have a lot of expense, so, therefore, it looks as if it's not very effective.

But normally speaking, as a threshold number you would expect operational savings to be on the order of 50 percent or higher in order to say "yes," because you would expect also to get some societal and customer benefits that would be in order, and there is no analysis with respect to that either, and we have no time-differentiated rates for customers to take advantage of in this filing as well.

Q. An issue I'll get to in a moment.

So if I understand your answer correctly, and if I could quantify, an approximately $110 million program you would hope to achieve a

$55 million result in savings.

A. Operational savings.

Q. Operational savings.

A. Hard savings that you could identify.

Q. Okay. Thank you.

I'd like to turn to page 4 and question

13 regarding your recommendation to the company about the Phase I gridSMART. You recommend a rider. Again, I'm going to characterize. I assume that the rider mechanism will make it easier to do the review of the progress of Phase I gridSMART that you propose?

A. Well, before there's even a rollout, I think the review is going to look at a more embellished filing than what we have here in this particular case. And at that point I would recommend that the Commission hold off before saying yes or no until the staff does a further more complete review for Phase I before saying -- or at least the staff recommending a yes for Phase I.

Q. And that actually gets me to the next point about the review process which you describe going through in your answer at the bottom of page 4 that flows over to the top of page 5. You talk about the staff would recommend there be an annual cost and

performance review. Again, can you describe to me in
your mind's eye what that process would look like
here?
A. Well, at a minimum it would be an annual
filing by the company at a certain date set. What
date that is I don't know at this point. And then

there would be a review period to look at what had been accomplished if it had been initially approved, and then to look at that annually to see where or how far the company had rolled out and what the costs were associated with doing that and also the benefits associated with those rollouts.

Q. And once again, would you expect that this review would be not just by the staff but open to other intervenors subject to confidentiality or whatever other concerns that one may have?

MR. JONES: Objection; asked and answered, your Honor.

MR. MASKOVYAK: Your Honor, I think this is a different review process we're talking about.

EXAMINER SEE: I'm going to allow it. It isn't quite the same question that was asked earlier.

A. I guess my answer will still be the same. I'm indifferent as to whether other parties participate or not.

Q. Would you expect that there be a hearing as a part of this process?

A. I don't know.

Q. On page 5 in question 14 on line 7 asks you to address the other concerns of Phase I gridSMART. Again, would it be fair to summarize your

concerns is that there is no rate or tariff in the plan that allows customers to maximize the potential savings of the Phase I gridSMART program?
A. Currently there is not.
Q. Is it fair for me to characterize or summarize your testimony that is your concern?
A. Yes, that's a large concern.
Q. And if you slide down to line 18, as part of your answer you make a recommendation for a critical peak pricing rebate. As I understand it, you would then recommend implementing this simultaneously with the installation of the gridSMART meters?
A. Absolutely.
Q. And if there is no rebate or perhaps some other tariff or rate that's associated with the smart meter, do you recommend delay of Phase I until such time as a tariff or a rate or the critical peak pricing rebate is included as part of the plan?

A. Well, let me answer it in this fashion:
If the company wants to go forward and roll it out without having dynamic rates, then I think they can do it on their own dollar or their shareholders' dollar. If they want recovery, then they have to have dynamic rates that are contemporaneous with the

rollout.

Q. So in order for it to be -- for the Commission as your recommendation to approve as part of rates, then there has to be some kind of rate program associated with the rollout of the gridSMART meter.

A. If it's to be approved up front.

Q. Thank you.

I want to look at now going over to page 6 and question 15 on line 13. Again, if I may summarize your concern with the energy efficiency and demand response programs is that they are expensive and that there's no evidence that they are cost-effective?

A. In general, yes.

Q. And at the bottom of that page on line 23 you talk about how the staff would "strongly recommend." And the reason I take you to that is here you talk about strongly recommending, which is different than other places where you just recommend. Can you explain to me the difference in emphasis?

A. Yeah. I'll explain it in context this way. The company's had two collaboratives with, could be as many as ten different interested parties, their wanting certain programs without any preliminary cost-effectiveness to check whether any of those programs are worth pursuing.

I think they have indicated that they're doing a market potential study that will be completed by the end of this year. I think it's premature to go marching off spending millions and millions of dollars on something that may not be very effective.

So I think having the preliminary analysis done first and then ranking them in order on terms of the total resource cost test, and then secondary, the rate impact measure test, that's where they should best spend their dollars.

If they say it's not even effective as passing the total resource cost test, I wouldn't recommend them proceed going forward. They would be better off purchasing power.

Q. Thank you.

And I want to get to my final line of questioning, which should be short, which is your use of the test. Are you recommending that all of the programs or measures, that both tests be applied to them?

A. I recommend both tests to be applied, however, the test they must pass is the total resource cost test. However, in terms of prioritizing what's most beneficial to ratepayers, if they pass both tests, that one says it's actually reducing rates by doing this energy efficiency program. That would to me be the most sensible thing to pursue first.

Q. So if you were to prioritize a plan or a proposal that passes both tests, moves to the front of the line, versus one that passes one test or the other?

A. Absolutely. Other than any program that passes a total resource cost test is probably worth pursuing.

MR. MASKOVYAK: Thank you.
No more questions, your Honor.

EXAMINER PRICE: We're going to take a five-minute break.

(Recess taken.)

EXAMINER SEE: Let's go back on the record.

(Recess taken.)

EXAMINER SEE: Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Nourse:

Q. Mr. Scheck, I'll try to talk as fast as I can.

You had a discussion earlier with counsel about the risk that AEP would be assuming under the gridSMART proposal; do you recall that?

A. Are you speaking in respect to the company's Phase I AMI?

Q. Yeah. The gridSMART proposal in this case.

A. Yes.

Q. Okay. And if this is a proposal the company's bringing forward to make an investment in utility network for purposes of providing utility service, regulated service, and it's something the Commission approves as part of this case, can you explain to me why the company should undertake a risk of recovering the cost for that program?

A. Well, absent not undertaking it, the company would still provide service, that I understand. So this is incremental investment beyond what it would normally do. So I think if I had to characterize it, the way it is now is that it is what I would call a nice AMR program with no dynamic rates for customers, so pretty much I think most of the benefits with information are going back to the company, not sure at what time frame the HAN would be deployed and it's only those that would have central air conditioning, is my understanding.

So in total I think the benefits pretty much go back to the utility. So service is already there. If the company wanted to do an AMR, they could do an AMR application.

Q. The benefits of an AMR application, as you call it, would go back to the company?

A. Primarily. I mean, AMR is basically an efficient way of collecting metering data, otherwise then just having standard meter readers go around and collect it.

Q. Well, when you say benefits would flow to the company, are you suggesting in that example that the operational cost savings would exceed the cost of deploying the AMR, as you call it, in that example?

A. Yes. Other than this would be fancy AMR, because typical AMRs, such as you drive around in some kind of mobile truck to pick up data at much lower cost than, say, a two-way communication that is in the proposal right now.

Q. So are you saying the companies'

operational cost savings estimates contained in Ms. Sloneker's Exhibit 1 should actually, if they were accurate, they would outweigh the costs of implementation? Is that what you're saying?

A. If one were doing AMR. But that's not your -- I don't believe that's your application. I think your application is something beyond that. It's got a higher expense than an AMR. I'm not suggesting that the operational savings will offset that entirely, by no means, but typically in most of the filings that I've seen they're on the order of 50 percent or higher magnitude, and then the remainder is made up of customer and societal benefits, operational, however, in this case discusses customers can't really get those benefits if they don't have a dynamic rate.

Q. I'll get to that in a minute. The customer and societal benefits you mention there in your answer, whatever those are and however they're

quantified, they don't offset the utility's cost of
implementing any of these systems, AMI, AMR,
gridSMART, do they?
A. If I understood your question correctly,
offset the operational cost?
Q. The utility's net cost. The utility's

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net cost of implementing this --

A. Oh, the net cost? It should.

Q. A customer --

A. The customer and societal benefits plus the utility's operational savings should be enough to offset the total cost to the company or something close to that.

Q. You're saying the utility gets the benefit of customer and societal benefits?

A. No, not in that respect. I mean there would be a total benefit to society and you would get -- collect that difference between whatever the total costs were minus your operational costs. I'm not suggesting that you wouldn't recover anything except the total cost to society, including what the customer benefits are plus the operational savings of the utility have to exceed the total cost of the rollout.

Q. Yes. But the customer and societal

benefits, whatever they are, however they're quantified, do not affect the company's cost recovery, they just help justify the rationale for the Commission adopting such a proposal; is that your understanding?

A. Yes.

Q. Okay. And you -- if I can find the reference here -- you mention at the bottom of page 4 carrying over to page 5 that without those customer and societal benefits associated with the gridSMART, it's not clear whether the companies truly want to assist customers in making wiser energy choices. Do you see that?

A. Yes.

Q. Now, I guess I'm at a bit of a loss in terms of if I could ask you to explain how you jump from no quantification of those benefits to questioning the company's intention relative to helping customers get energy choices. Could you perhaps explain that in your own words today?

A. Well, I think there's two factors primarily driving that. The first one is there's no dynamic rates offered with respect to this rollout. They're kind of generically discussed at some point in the future. My point would be that in order for those benefits to inure to customers right away, they would have to be given or offered some kind of dynamic rate, and that would include all the classes that would receive these kind of meters.

So to do a rollout and then think about it three years later tells me that I'm not sure the company really is interested because the bulk of the customer benefits actually come from demand response.

Q. Okay.

A. So if the company had put dynamic rates out there in conjunction -- in its filing in conjunction with its AMI rollout of this filing, I would probably think of it differently, but there are no dynamic rates associated with it. They're mentioned about it some time in the future.

And the second piece is the home area network, and that again seems like some future element of the AMI rollout is close to completion in Phase I. Then maybe we'll offer it to some customers and only those that have central air conditioning.

Q. Okay. So in that context then at the bottom of page 4, line 23, where you talk about customer and societal benefits there, you're talking about dynamic rates?

A. That would be the main thrust of it, that and the HAN, the programmable communicating thermostat being offered to all customers as well at the outset, not two-and-a-half years later.

Q. Is that your understanding. Of AEP's plan, that the dynamic rates, as you call it, will not be offered until two-and-a-half years into the term?

A. My speaking with the two-and-a-half years went more to the HAN rather than the dynamic rates. It's uncertain to me when the dynamic rates would be offered.

Q. And were you here for Ms. Sloneker's live testimony?

A. I think I was here for most of it.

Q. And you've read Mr. Roush's testimony that addresses that point?

A. I don't recall Mr. Roush's, even though I believe I did read it.

Q. Page 6. Well, let me ask you this way. If the company has stated on the record in this case that they fully intend to propose and roll out time differentiated tariffs as the technology's implemented and coincident with the availability of those capabilities that the tariffs would relate to, would that resolve your concern about that timing?

A. Assuming the company is going to do that.
What I don't understand is why the filing wasn't made in the current case when the request is for the recovery of those costs and yet there's no dynamic tariffs filed. I would expect the dynamic tariffs to be filed in concurrence with the cost recovery

requests.

Q. So you would expect the tariffs to be put out there now and approved even though the capabilities might not exist for a year or so.

A. I don't think it hurts.

Q. Okay. But does it hurt to roll them out at the same time that the capabilities -- as the company has stated, is there any difference in terms of customer benefits?

A. Well, I think in terms of a sincere interest in helping customers manage their energy costs, providing the tariffs sooner rather than later I think shows that rather than, okay, we'll file it simultaneously and then there's some kind of delay or there's an issue with the tariff itself in terms of the construct. I think having a look at the tariff up front and being able to look at that and see if it's reasonable, I don't see a problem with that.

If you have the tariff and yet you don't have the technology yet, I don't think anybody is really harmed in the sense that the tariff is there but they can't take advantage of it yet, but maybe that will expedite the rollout.

Q. All right. We can move on. The two forms of dynamic pricing that you refer to here on page 5 in line 19, first you talk about critical peak pricing rebate for residential. Do you see that?

A. Yes.

Q. Now, is that -- first of all, that's the super peak that you described earlier --

A. Yes.

Q. -- in response to questions?

A. Yes.

Q. Now, is that for this rebate that would apply or be paid to those customers who respond during the critical peak?

A. Correct.

Q. And those that don't would not get paid?

A. Correct.

Q. And that would just be a voluntary choice at this point, right?

A. Right.

Q. Okay. And then with respect to the hedge price for commercial customers in line 20, you also mention, is that -- I'm not sure what you mean by hedge price, and I wanted to try to clarify that. Are you talking like a percentage of their load that would be -- well, can you explain to me what you meant by that?

A. Well, there's probably several different ways to design that, and one I can think of is that you would have a what they call a customer baseline usage, and that would be developed and then you would have a fixed price for the CBL, and then anything that was above would be at market price if they would consume above the CBL for any given hour or day-ahead pricing, however you want to do that, and then anything that went below that they would get a market price credit.

Q. Now, I wanted you to clarify something you said earlier during your examination about the DSM and energy efficiency programs were too expensive, the company would be better off purchasing power. Was that what you said?

A. If you were in a situation where you had to purchase power, but if the generation of power is cheaper on the margin for AEP to supply its customers than it is to do energy efficiency, then I think that's the better choice.

Q. Well, better choice just strictly from an
economic perspective?

A. Correct.

Q. How does the Senate Bill 221 mandate
figure into that choice?

A. Well, I think that's a consideration, but

I still think it comes down to does it pass a total resource cost test. It's still cheaper to supply customers power than it is to invoke very expensive energy efficiency, I think a better option is to provide cheaper power, file an application to explain why you can't reach the benchmarks, if it happens to come into that kind of situation, but it was cheaper to supply power to customers than to charge them for energy efficiency to achieve a similar result I think, so cost is a better choice.

Q. Well, understanding that it may be cheaper under your example, your conclusion there, I think you're agreeing, doesn't account for or doesn't consider the mandates for energy efficiency that are in 221; is that correct?

A. No, I'm not saying that. That's only -- it comes into play if there's nothing -- let's say you've exhausted all the energy efficiency you can do that is cost-effective according to the total resource cost test and you still can't reach your mandates, and the remaining choices for energy efficiency are more expensive than selling customers power. I think that's a better option. Then you would file an application to explain economically why that's the better choice.

Q. So are you saying -- and that is the staff's perspective, right, not the Commission's, first of all?

A. Correct.

Q. Okay. And you're saying that the cost-effectiveness of DSM and EE programs would override the statutory mandate, that the company should just take the risk that they can file for excusal later and hope the Commission goes with that?

MR. JONES: Objection. That is mischaracterizing the testimony.

Q. Please explain, Mr. Scheck, how you would characterize that. That would be fine.

MR. IDZKOWSKI: Could I hear that again? I'm sorry, it's tapering off down here.

EXAMINER SEE: Okay. Please read the question back, Maria.

(Record read.)

MR. IDZKOWSKI: Your Honor, counsel asked a lot of "please explain" questions that I think are so vague. The witness can answer them as best he can, but if he would be a little more specific with his questions --

MR. JONES: I'd ask counsel to rephrase that last question, too.

MR. NOURSE: I'll rephrase it, your Honor. I was just trying to shortcut here. If Mr. Scheck could tell me where I went wrong, that's certainly fine with me.

EXAMINER SEE: Okay. Thank you, Mr. Nourse.

Q. (By Mr. Nourse) Are you saying that from your standpoint, Mr. Scheck, as you sit here today and your recommendation in your testimony about purchasing energy instead of doing DSM or EE where it's more expensive -- okay, that's the background of the question -- are you saying that the companies should forego EE and DSM and just ask the Commission for an excusal after the fact based on purely economic arguments?

A. Well, let me characterize it this way. I think it wouldn't be something you would notify us necessarily after the fact. I think you would have your market potential study completed by the end of this year. In the market potential study you should be able to determine what is the economic and the market potential to do energy efficiency.

If it appears that you can't reach your goals in '09, 2010, and 2011 based on the market potential study, then there would be a serious problem up front that it can't pass a total resource cost test, then I think we would already know about that up front. And if that were the case, I think you would want to make that application as soon as possible to say there's problems because we can't do it.

But I'm looking at some of the numbers in Ms. Sloneker's testimony. 93 cents a kilowatt-hour is a very expensive program to reach a goal, and therein lies a problem, is that to me that's way above and beyond what power costs would be to those same group of customers, even considering if your rates went up 15 percent a year.

So I think you have to look at the total picture. If they're very close, then I would say yes, you should probably go ahead and do the energy efficiency. But if it's on the order of magnitude five times the cost of energy, I don't think that's a prudent thing to do.

Q. Is it your understanding that the excusal provisions within SB 221 in section 66 allow for excusal if DSM or EE is more expensive than buying power?

A. I think that says it's an economic reason in there, economic regulatory and technological.

Q. Would that be yes?

A. That would be yes.

Q. Okay. Now, understanding your prior response, that would be a further delay in timing sequence, would it not, to try to go through all that and resolve that scenario you outlined before the company could do whatever it's going to do to comply with the mandates; is that accurate?

A. If that were the case, yes, it would probably result in a delay. I would hope that the market potential study doesn't reflect that for the first year because the goals are the smallest for energy efficiency in the first year. It's only 3/10 of 1 percent. As you go in the out years, the goals become much more aggressive if you have a rolling three-year average.

Q. So your scenario about purchasing power, does that occur after the fact there would be, you know, second-guessing EE and DSM efforts that were evaluated to be cost-effective up front but the power market changes during the implementation, is that the case under your recommendation? Or are you saying everything should be looked at up front and locked down, if you will, based on knowledge at that time?

A.   Well, I think both of those have to be looked at. I mean, you can have a change in conditions that occur during the same calendar year that change what's going on in terms of what's cost-effective, but you have done some preliminary analysis.

So going back and trying to conduct some sort of prudence or imprudence, if you will, that your initial analysis based on the economic conditions that you had at that time you were going to proceed with these programs, then you find out six months or nine months into the year they no longer are good economic conditions, well, obviously then, those would be prospective or after the fact.

But going in, if you already knew that a lot of the programs were very cost ineffective and you couldn't reach your goals, then I think you should put the Commission on notice that there's a problem.

Q. But your example about going in doesn't

really cover the other situation where the power
market prices change during implementation. You
would still subject that to somehow getting an
excusal from the Commission while that's all
happening?

A. Well, I think both of them would require an excusal. The question is just when does it occur.

Q. Okay. There's been a good deal of discussion as well about the cost-effectiveness screening under the California Standard Practice Manual. Were you aware of the company's response to OCC request for production of document RPD-91 in this case?

A. Is this the company's --

Q. Yeah.

A. -- request?

Q. The company's response.

A. No, I don't have that.

Q. You're not familiar with it where the attachment actually went through total resource cost --

MR. IDZKOWSKI: Objection. He said he was not aware of it.

MR. NOURSE: Well, your Honor, there's been --

MR. IDZKOWSKI: Now counsel's attempting to describe it so he can ask something about questions he's not aware of.

MR. NOURSE: Your Honor, there's been a lot of statements about what the company did not provide in this case, so I'm asking him about this discovery response that's been served on the parties.

MR. JONES: I would object, too, your Honor, because he had nothing to do with that data response from OCC and he doesn't have any knowledge of it. So I join in that objection.

MR. NOURSE: That's fine. That's fine.

EXAMINER SEE: Okay.

Q. (By Mr. Nourse) So, Mr. Scheck, how do you see the timing playing out as far as the companies implementing DSM and EE to comply with the 2009 benchmarks? You stated you were aware of the market potential study being completed around the end of the year. You stated you were aware of the collaborative process.

Can you give me, under your recommendation, a general time line or general understanding of how you would expect that to occur?

A. You want me to answer when you think you should initiate energy efficiency programs for '09 credit?

Q. You're saying hold off, is what I gather, right?

A. Well, I think you certainly should get that cost-effectiveness test. If you've already performed that task, I'm not aware of, but if you've already done that, then you have some basis to move forward. If that's the case and you have say motors or lighting for the commercial class that are cost-effective, without question, then I would expect you to move full speed ahead on those. If there are others that are on the margin that you're not sure about, then I would hold off on doing those.

Clearly,if you get the market potential study back, and my understanding was at the last meeting at the end of this year, which seems to me very late, but I would think that you would want to get that back as soon as you possibly can and then get designing the programs and getting them rolled out before January of '09 as soon as possible.

Q. Okay. On page 7 you talk about the generation, transmission, and distribution efficiencies, whether they can be credited toward the benchmarks, Q and A 16, correct?

A. Yes.

Q. Now, relative to the generation piece
where you make your statement starting on line 18,
are you saying that the benefits should be verified
or allocated commensurate with any benefits accruing
to Ohio retail customers?

A. When you say "allocated," what do you mean?

Q. Well, you're saying the benefits may or may not accrue. Are you saying they would be all or nothing, or should it be indicated according to retail load, or what is the approach you would use to verify the concern you're articulating here?

A. Well, my understanding is, and I forget whose testimony it was in, it might have been in Mr. Baker's, was Amos 3 improvements for generation, and I don't know if Amos is dedicated for sales outside of Ohio or how that allocation is made. Generally I view the distribution company as a separate entity from the generation component of the company.

The bill I think contemplates distribution and transmission improvements, but I don't believe it contemplated generation improvements. I'm not intending to discourage the company from doing those things, but I think it's kind of difficult going forward to give generational credits when generation is, to a certain extent, deregulated.

Q. I'm not sure what you stated about the intention of the bill, but you're saying that in section 66 transmission and distribution efficiencies are specifically allowed, correct?

A. That's correct. But there's no mention for generation.

Q. No mention there of generation. Is it your understanding that generation efficiencies are considered advanced energy resources under the bill?

A. I believe so.

Q. Okay. Let me move to the benchmarks and the baselines that you've set forth -- excuse me, let me rephrase that.

GCS-1 and 2 are essentially illustrations of the baseline methodology that could be used for the benchmarks?

A. Yes.

Q. Is that correct? And I think you stated earlier that there's not weather normalization and there could be other adjustments for other factors permitted by the statute, correct?

A. Correct.

Q. So the final benchmark, if you will --
excuse me. The final baseline that would be used to
calculate the benchmark would be -- would include all
those things; is that correct?

A. Yes.

Q. So let me ask you about -- you start on page 8 talking about the adjustments that are reflected in Mr. Castle's exhibits but also discussed and justified by Mr. Craig Baker, his testimony, correct?

A. Yes.

Q. Okay. Let's talk about the Monongahela Power situation first. You state down on line 14 that: "CSP was responding to a request to help those customers in that part of the state." Who was the request made by or what body made the request?

A. I'm not certain if it was a particular legislator or the legislator and the Commission.

Q. Legislator and the Commission?

A. Yes.

Q. Or it could have been just the Commission, right?

A. I think there was a certain legislator involved in that process.

Q. Okay. Would there have been a Commission order that went out to the companies?

A. Yes.

Q. And that's generally what you're referring to by the request in line 14?

A. That's right.

Q. Now, are you familiar with the orders

that the Commission issued in that case?
A. Not exactly. I was not materially involved in those cases, per se.
Q. Okay. So you were not attempting to characterize the Commission's orders in that case in your recommendation here?
A. No, I'm not speaking to any particular Commission order.
Q. And you didn't necessarily consider the content of those orders in --
MR. IDZKOWSKI: Objection.
Q. -- making the recommendation.
MR. IDZKOWSKI: He has said he's not familiar with these orders.
EXAMINER SEE: Overruled.
Please answer the question, Mr. Scheck.
A. No, I'm not particularly familiar with the particular orders in those cases.
Q. Okay. But you did state you were

generally familiar with the situation, right?

A. Yes.

Q. Okay. And is it your understanding that Monongahela Power sought to charge a purely market-based price for their service territory at that time?

A. Yes.

Q. Now, you state down in lines 17 and 18 that "CSP acquired this load outside the three year average for determining the baselines." Do you see that, Mr. Scheck?

A. Yes, I do.

Q. Do you know when the Mon Power load was acquired by CSP?

A. I'm not certain if it was 2003 or 2004, but it was in that time frame area.

Q. Okay. Now, so just to be clear, you're reading the statute in terms of the baseline to exclude -- if economic development or economic load had occurred earlier than 2006, you're reading that to exclude an adjustment even though that could carry through to the load data in 2006 to 2008; is that correct?

A. Yes. But beyond that with respect to Mon Power, I don't view it in the traditional sense of economic development or even economic retention in the sense of within your certified service territories.

Q. I understand that. And I'm happy to rely on the Commission's order for that part of it.

So is it your understanding that the

baseline can be adjusted under the statute for other matters that are beyond the control of the utility?

A. Yes.

Q. Okay. Now, with respect to -- I just want to circle back now. You talked about the mercantile customer provisions of the bill a couple different times this afternoon, and on this issue of adjustments to the baseline is it your understanding that mercantile provisions allow for EE or DR resources of customer-sided resources to be committed to the utility, integrated, as you said, earlier? Does that allow for carrythrough from prior periods prior to 2006 in this example?

A. I don't believe for mercantile it does. I think for mercantile it's whatever impacts are in effect for 2006, 2007, and 2008, even though they may have originated prior to that.

Q. So you're saying no adjustment to the baseline, that's what you're talking about?

A. No. The actual adjustments to the baseline for mercantile application for preexisting energy efficiency prior to the '09 period would credit those adjustments or those reductions would be going against the baseline, is my understanding.

Q. So there would be an adjustment to the baseline for the mercantile.

A. The mercantile, yes. But not for energy efficiency that was in effect in '05, if you will, if it initiated then, but if it was still in effect in '06, '07, and '08, then we will account for that three-year period, not for anything prior to '06.

Q. Okay. But if it did occur earlier but it carried through -- we're still with the mercantile example --

A. Yes.

Q. -- wouldn't it be an adjustment to the baseline, and potentially for a committed resource there would also be attainment considered for a committed resource?

A. I didn't follow your whole question in terms of "attainment committed."

Q. Well, I think there's two questions, you correct me if I'm wrong, with these benchmarks and how we're -- in relationship to this question, whether there's an adjustment to the baseline and whether the particular resource and attainment of either peak demand reduction or energy efficiency savings would count toward the company's attainment of the benchmarks. Do you follow me?

A. Yes. They would count towards the

baseline for both energy efficiency, and if there was a peak demand reduction, you can get credit for both, for the periods '06 through '08.

However, as a credit to the requirements of the utility, that I think is to be determined by rule. I don't think the law specifically states that. It just says reductions to the baseline for those efforts.

Q. Okay. Now, going on with your discussion of adjustments to the baseline, the bottom of page 8, Q and A 18, you're now referencing the Ormet --

A. Yes.

Q. -- load. And I guess you're saying that staff should consider whether the adjustments occurred within the three-year period, '06 through '08; in addition, essentially the economic development nature of that load; is that fair?

A. Yes.

Q. So when would this determination be made?

A. I believe that should be made sometime around the time the company would file on or about April 15th of this year with an integrated resource plan, and in that plan I would think you would put in for adjustments that would relate to Ormet and Hannibal.

Q. You said April 15 of this year. You meant 2009?

A. I'm sorry, yes, April 15th of 2009.

Q. So that's where you would see that not being resolved until after that filing was resolved?

A. Right. Correct.

Q. Now, do you know, how big is the Ormet load?

A. How large is it?

Q. How large is it?

A. I'm not certain. I know it's a huge load. I have heard it's over 500 megawatts. I could be wrong.

Q. Yeah. So whether that's in or out might -- it would be fair to say that could significantly impact the company's plans to comply with the benchmarks in 2009?

A. Correct. And I probably would strongly recommend that they should be removed from the

benchmarks, if you will -- not the benchmarks but
the --

Q. Baselines?

A. -- baselines.

Q. Okay. Now, with respect to your
exhibits -- let me withdraw that. I think that's

been covered.

Mr. Scheck, if you could turn to page 11 of your testimony, you talk about the -- this is your last, well, Q and A 21. You express the opinion that the interruptible load for the companies must actually occur and be measured retrospectively in order to receive credit toward the peak demand reduction targets; is that correct?

A. Yes.

Q. Okay. So, first of all, I think you stated your understanding earlier, and let me just take you back to page 9 for a moment. I think you reflect this properly here. I want to see how it relates to page 11. On line 10 you're talking about energy efficiency programs and you say "that will achieve energy savings," et cetera. Do you see that?

A. Yes.

Q. And on line 14 you're talking about peak demand reduction programs, and you use the phrase "designed to achieve." Do you see that?

A. Yes.

Q. And is it your understanding that that tracks the corresponding statutory language for energy efficiency and peak demand reduction programs respectively?

A. I'm not sure they do, but I'll take your word for it.

Q. Let's assume that for purposes of this discussion. So the phrase "designed to achieve" applies to peak demand reduction programs. So what's the difference, in your mind, between achieving for energy efficiency and designed to achieve for peak demand reduction?

A. Well, one would presume that achieved means you actually did it. Designed means you designed something to do it, but maybe you didn't.

Q. Okay. And in that light, again, I want to take you back to your recommendation on page 11 relative to the interruptible load of the companies, now, is it your recommendation to interrupt -- you know, even if there's capacity and energy available, you're saying there has to be an actual interruption during peak in order to count under the "designed to achieve" language in the statute?

A. Yes, I would think so. I think you have to achieve some sort of interruption to count towards those targets.

Q. So even though the companies would have the capability and the capacity and energy might be available during a peak period, you're saying, go ahead, interrupt, that's the only way you can count it for the mandate.

A. I believe so.

Q. Okay. Is it your understanding that -- well, let me ask this way: With respect to integrated resource planning that utilities undertake, what's the treatment, if you know, of interruptible load in terms of resource planning?

A. Are you speaking in respect to our rules or some other context?

Q. In general, in utility practice under your general experience with dealing with IRPs.

MR. JONES: Could I have that question reread, please?

EXAMINER SEE: Sure.

(Record read.)

A. This is going back aways, but I believe if it had that capability to interrupt, then it would count and would have to be a capacity resource, but

if it's something like a buy-through, I don't think
that counts.

Q. When you say "count," in other words when
utilities decide whether or not they should build a
new power plant, you would exclude interruptible
load; is that another way to say what you just said?

A. As long as the utility is counting on it as capacity.

Q. Okay.

A. If they don't, then it's really immaterial, then it's as if it doesn't exist.

Q. Okay.

MR. NOURSE: Thank you, your Honor.

Thank you, Mr. Scheck. That's all I have.

EXAMINER SEE: Thank you, Mr. Nourse.

Any redirect, Mr. Jones?

MR. JONES: Could I have a minute, your Honor, to confer?

EXAMINER SEE: Yes.

MR. JONES: Thank you.

EXAMINER BOJKO: Go off the record.

(Discussion off the record.)

EXAMINER SEE: Let's go back on the record.

Mr. Jones, any redirect?

MR. JONES: Your Honor, I have no redirect.

EXAMINER SEE: Thank you.

With that we are adjourned until --

MR. JONES: Your Honor, I move --

EXAMINER BOJKO: I have a question.

EXAMINER SEE: I'm sorry.

MR. JONES: Staff would move for the admission of Staff Exhibit 3.

EXAMINER PRICE: Are there any objections to the admission of Staff Exhibit 3?

MR. NOURSE: No, your Honor.

EXAMINER SEE: Hearing none, Staff Exhibit 3 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Hearing nothing further, we're adjourned until 10 a.m. on Monday morning.

(The hearing adjourned at 3:59 p.m.)

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ARMSTRONG & OKEY, INC., Columbus, Ohio (614) 224-9481

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, November 26, 2008, and carefully compared with my original stenographic notes.

____

Maria DiPaolo Jones, Registered
Diplomate Reporter, CRR and Notary
Public in and for the State of
Ohio.

(3305-MDJ)

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