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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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PUCO

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

NOTICE OF FILING DEPOSITION BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

Pursuant to Ohio Adm. Code 4901-1-21, The Office of the Ohio Consumers' Counsel gives notice of filing the deposition of Laura J. Thomas, which was taken on June 16, 2011.

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Notice of Filing Deposition by the Office of the Ohio Consumers' Counsel* was provided to the persons listed below via electronic transmission this 8th day of July, 2011.

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1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

2 - - -

3 In the Matter of the :
Application of Columbus :
4 Southern Power Company for:
Approval of an Electric :
5 Security Plan; an : Case No. 08-917-EL-SSO
Amendment to Its Corporate:
6 Separation Plan; and the :
Sale or Transfer of :
7 Certain Generating Assets.:
:
8 In the Matter of the :
Application of Ohio Power :
9 Company for Approval of :
Its Electric Security : Case No. 08-918-EL-SSO
10 Plan; and an Amendment to :
Its Corporate Separation :
11 Plan. :

12 - - -

13 DEPOSITION

14 of Laura J. Thomas, taken before me, Karen Sue
15 Gibson, a Notary Public in and for the State of Ohio,
16 at the offices of Janine L. Migden-Ostrander, Ohio
17 Consumers' Counsel, 10 West Broad Street, Suite 1800,
18 Columbus, Ohio, on Thursday, June 16, 2011, at 9:30
19 a.m.

20 - - -

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8 On behalf of the Ohio Energy Consumers
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ALSO PRESENT VIA TELEPHONE:
10
Mr. Scott Mertz, AEP.
11 Mr. Bill Allen, AEP.
Ms. Julie Sloat, AEP.
12 Mr. Tim Benedict, PUCO Staff.
Mr. Daniel Johnson, PUCO Staff.
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Exhibit		Identified
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1 Thursday Morning Session,
2 June 16, 2011.
3 - - -
4 LAURA J. THOMAS
5 being by me first duly sworn, as hereinafter
6 certified, deposes and says as follows:
7 EXAMINATION
8 By Ms. Grady:
9 Q. Good morning, Ms. Thomas.
10 A. Good morning.
11 MS. GRADY: At this time I'm going to ask
12 to be marked as Deposition Exhibit 1 the June 2,
13 2011, Notice to Take Deposition Upon Oral Examination
14 and Request for Production of Documents.
15 Prior to that can we take appearances for
16 the individuals that are in this room? I apologize.
17 That should have been done before we started in. So
18 if we could just go around and enter our appearances
19 at this point, that would be great.
20 MR. CONWAY: Daniel R. Conway, Porter,
21 Wright, Morris & Arthur on behalf of AEP, and with me
22 is Christen Moore, also with Porter, Wright.
23 MR. PETRICOFF: Howard Petricoff from the
24 law firm Vorys, Sater, Seymour & Pease, on behalf of
25 Exelon Generation Company, LLC, and Constellation

1 NewEnergy Company.
2 MR. ALEXANDER: Trevor Alexander from the
3 law firm Calfee, Halter & Griswold, representing
4 FirstEnergy Solutions Corporation.
5 MR. SMALZ: Michael Smalz from the law
6 firm of the Ohio Poverty Law Center, representing the
7 Appalachian Peace and Justice Network.
8 MS. GRADY: Maureen Grady and Jeffrey
9 Small representing the Office of Consumers' Counsel
10 on behalf of the residential ratepayers.
11 MR. DARR: Frank Darr, McNees, Wallace &
12 Nurick, on behalf of Industrial Energy Users of Ohio.
13 MS. GRADY: Thank you.
14 MS. MOONEY: This is Colleen Mooney for
15 Ohio Partners for Affordable Energy.
16 MS. GRADY: We'll go ahead -- and we'll
17 go ahead and go back to the questioning.
18 Q. (By Ms. Grady) Ms. Thomas, you are
19 appearing, are you not, in response to the Deposition
20 Exhibit No. 1; is that correct?
21 MR. CONWAY: She's responding -- she is
22 appearing in response to your deposition notice, the
23 terms of which were subject -- subsequently modified
24 by pursuant to agreement of counsel.
25 MS. GRADY: Thank you, Mr. Conway.

1 Q. Now, Ms. Thomas, you were asked to bring
2 the following materials in the deposition notice and
3 I will specifically go to the portion of the
4 deposition notice that begins on 3. You were asked
5 to produce at the time of your deposition, first of
6 all, documents supporting or underlying your
7 testimony. And my question is what did you bring
8 that supports or underlies your testimony?
9 A. I brought with me today my testimony and
10 my workpapers.
11 MR. CONWAY: We also have, of course, the
12 testimony from Dr. Makhija and Dr. LaCasse which you
13 already have. And you may -- you may have noticed or
14 know that she, I believe, cites to those two
15 witnesses' testimony.
16 Q. Now, with respect to the workpapers you
17 have, have those workpapers, if you know, been
18 provided to the parties to the remand proceeding?
19 A. Yes, they were provided in response to an
20 IEU data request.
21 MR. CONWAY: Do you have a copy of them
22 or not?
23 MS. GRADY: I believe we do so we're
24 okay.
25 MR. CONWAY: I didn't mean to interrupt

1 you. I didn't want to go forward if you didn't have
2 them.
3 MS. GRADY: We have some questions on the
4 workpapers, and we will get to those but thank you
5 anyways.
6 Q. Specifically, Ms. Thomas, you were also
7 asked to bring documents that respond to the
8 intervenor discovery. And my question is what
9 documents did you bring to respond to that document
10 request?
11 MR. CONWAY: I mean, counsel, all the --
12 all the discovery responses that have been served I
13 believe you have and so any documents that are
14 included in the responses to the discovery that's
15 been served you would already have and I did not
16 bring nor did I instruct her to bring any of that
17 with her to the deposition.
18 Q. Ms. Thomas, with respect to the Notice of
19 Deposition, you were asked to bring documents
20 pertaining to NERA's work with AEP Ohio to develop
21 quantifying shopping-related risks including
22 documents pertaining to the costs incurred to hedge
23 shopping risks using the Monte Carlo modeling and
24 other statistical methods to estimate the cost in
25 absence of the hedges. And what documents did you

1 bring to the deposition in response to this request?
2 MR. CONWAY: And, counsel, once again, it
3 was my understanding that your -- your question there
4 was referring to the testimony of other witnesses,
5 and I guess I make the same comment about I think
6 each of the remaining requests you have in that list,
7 so if -- she can answer the question, but I didn't
8 ask her to bring with her items beyond the workpapers
9 and her testimony and, of course, as we mentioned,
10 you already have the other testimonies that we filed.
11 MS. GRADY: We did hear a beep. If
12 whoever came on the line could identify themselves, I
13 would appreciate that.
14 MR. BOEHM: This is David Boehm on behalf
15 of the Ohio Energy Group.
16 MS. GRADY: Thank you.
17 MR. BENEDICT: Also this is Tim Benedict
18 and Daniel Johnson with the PUCO Staff.
19 MS. GRADY: Thank you.
20 Q. (By Ms. Grady) Ms. Thomas, the question
21 pending was did you bring documents to that -- that
22 pertain to the NERA work, and your response is?
23 A. I did not bring those documents. Those
24 are sponsored by other witnesses.
25 Q. With respect to Subsection H you were

1 asked to produce documents from which the information
2 contained in the AEP Ohio initial merit filing on
3 remand dated May 20, 2011, were derived. What
4 documents did you bring in response to this request
5 for production?
6 MR. CONWAY: And, again, our -- our
7 approach, counsel, was to have her bring all the
8 workpapers that supported her testimony which, of
9 course, was prepared and filed subsequently to the
10 initial merit filing on May 20, and so our view of
11 this is that what we've produced and brought to you
12 is, you know, from her -- from her responsibility
13 is -- is -- is at or beyond the scope of anything
14 that she would -- would have been responsible for
15 that underlie the initial merit filing so.
16 MS. GRADY: Just for clarification about
17 you mentioned that the documents had been filed, you
18 are referring to the testimony and not the
19 workpapers; is that correct?
20 MR. CONWAY: Yes.
21 MS. GRADY: Thank you.
22 MR. CONWAY: So just so we're clear, I
23 mean, our approach here was since you had this kind
24 of broad cast deposition notice, you didn't do it
25 witness by witness, our approach was where -- where

1 appropriate we thought to respond or deal with the
2 different duces tecum provisions on a
3 witness-by-witness basis.
4 MS. GRADY: Thank you, Mr. Conway.
5 Q. (By Ms. Grady) Ms. Thomas, what was your
6 role in preparing the initial merit filing on remand?
7 A. My role was to provide certain switching
8 data and to review the brief for my knowledge around
9 the POLR issues.
10 Q. Now, do you -- do you have a copy of the
11 initial merit -- merit filing on remand before you?
12 A. No, I don't.
13 MR. CONWAY: Do you have an extra one?
14 MS. GRADY: Yeah, I've got one here
15 somewhere.
16 Let the record reflect I am handing
17 Ms. Thomas a copy of the initial merit brief on
18 remand.
19 Q. Ms. Thomas, throughout the filing the
20 phrase is used "out-of-pocket costs." Would you
21 agree with that characterization that "out-of-pocket
22 costs" is used thought the pleading?
23 MR. CONWAY: I would, you know,
24 technically disagree. I don't know about throughout.
25 It may be used in the pleading. She didn't write the

1 pleading by the way.
2 MS. GRADY: Understood.
3 Q. You did review the brief as you
4 testified, correct?
5 MR. CONWAY: And it says what it says but
6 go ahead.
7 A. Yes, I did -- I did review it.
8 Q. And are you familiar with the phrase
9 "out-of-pocket costs" that's used in the brief?
10 A. Generally, yes.
11 Q. Okay. And who came up with that phrase,
12 if you know?
13 A. I don't know.
14 Q. Okay. What is that -- what does
15 "out-of-pocket costs" mean to you as it's used in
16 that particular document?
17 A. Out-of-pocket costs in general would mean
18 that I have -- it's something that I've actually paid
19 to another party.
20 Q. Are you talking in terms of a cash
21 payment?
22 A. Yes.
23 Q. Okay. And do you know with respect to
24 how that -- do you know how -- with respect to the
25 out-of-pocket costs if that was the meaning that was

1 intended which -- by the phrase -- let me strike
2 that.
3 Is it your understanding, Ms. Thomas,
4 that the companies' position is that the court
5 expected POLR to be related to the out-of-pocket
6 expenses versus an opportunity cost or modeled or
7 projected cost?
8 MR. CONWAY: Objection. Calls for a
9 legal conclusion.
10 Q. You may answer.
11 MR. CONWAY: Well, she can only answer
12 based on not being a legal conclusion. If she has
13 some -- some lay -- lay view of what -- whatever the
14 reference is you made might be, she can answer, and
15 if she can't, she can't. So could you restate the
16 question, please, or have it reread?
17 MS. GRADY: If the court reporter could
18 reread the question, that would be great.
19 (Question read.)
20 MR. CONWAY: And I object again, and the
21 companies' position is -- is that that's not the
22 case, so I'm not going to let her guess at it and
23 confuse the record, have it pop up in some later
24 context.
25 MS. GRADY: Are you instructing her not

1 to answer?
2 MR. CONWAY: Yes.
3 Q. Are you familiar with the use of the term
4 opportunity cost as used in the initial merit filing
5 of the company?
6 A. I would have to go back and read the
7 brief to look at the specific context there.
8 Q. Can you pull to page 4 where "opportunity
9 cost" is used. And I believe it's also used on page
10 21 of the initial merit filing. If you could look at
11 those references.
12 MR. CONWAY: Could you give us a place on
13 the page or pages?
14 MS. GRADY: I actually think it's
15 highlighted for Ms. Thomas.
16 MR. CONWAY: Well, it isn't for me so
17 hold on a second while I locate the references.
18 MS. GRADY: It appears, Mr. Conway, on
19 page 4 in the second full paragraph, fourth line.
20 And then on page 21 it appears on the second
21 paragraph, fourth from the bottom line.
22 Q. (By Ms. Grady) Do you see those
23 references, Ms. Thomas?
24 A. Yes, I see the references.
25 Q. Are you familiar with what -- what that

1 phrase is intended to mean?
2 MR. CONWAY: The phrase being the
3 "out-of-pocket expenditure"?
4 MS. GRADY: The "opportunity cost," the
5 phrase "opportunity cost."
6 MR. CONWAY: Take your time and read
7 the -- read the passage in its entirety before
8 answering, if you would.
9 A. Okay. I have read the section. What is
10 your specific question?
11 Q. Do you understand what that term is --
12 is, means? What does the term mean? First of all,
13 what does it mean to you?
14 MR. CONWAY: The term being "opportunity
15 cost"?
16 MS. GRADY: "Opportunity cost."
17 A. An opportunity cost would be basically a
18 foregone opportunity, a loss, or a cost.
19 Q. And do you know who came up with that
20 phrase for purposes of that pleading?
21 A. No, I do not.
22 Q. Let's go to your testimony, your filed
23 testimony. Specifically I want to direct your
24 attention to page 2. If you give me a moment,
25 please. Now, on page 2, carrying over to page 3, you

1 state that you are addressing the appropriate charges
2 for the companies' POLR for the remainder of 2011.
3 Do you see that testimony?
4 A. Yes.
5 Q. And you conclude there that the amount
6 of -- amount of POLR charges previously approved in
7 the ESP case is correct; is that a correct
8 characterization?
9 A. Yes, that's my conclusion.
10 Q. Now, the ESP case POLR was based on a
11 Black-Scholes unconstrained model run that was
12 presented by Mr. Baker; is that correct?
13 A. Yes, that's correct.
14 Q. Now, with respect to the ESP2 you present
15 testimony with a Black-Scholes model constrained for
16 POLR charges; is that correct?
17 A. Technically it would be referred to as
18 the Black model but, yes, it is a constrained Black
19 model.
20 Q. And for purposes of the ESP2 you believe
21 that the POLR value derived from the Black model that
22 was constrained is an appropriate -- or results in an
23 appropriate value on a going forward basis for the
24 POLR that's going to be in effect for 2012 through
25 2014; is that correct?

A. Yes, that's correct, based on all of the parameters in that ESP case.

Q. Let's talk for a moment about the ESP1 model and we will call it the unconstrained model. Would you accept that characterization as being appropriate for the ESP1 POLR approach?

A. Yes, that would be correct as to the model originally filed, yes.

Q. Under the model as originally filed did the -- did the unconstrained model calculate the companies' cost of providing POLR service?

A. Yes, it did.

Q. Can you explain how it calculated that cost?

A. It calculated the cost by using -- by determining what the option cost was for providing customers the option to choose another supplier and return capturing the cost of the risk of providing standard service offer prices to customers throughout the period.

Q. So when you were referring to cost, you are talking about the cost of the risk as opposed to what we earlier talked about as an out-of-pocket cost; is that correct?

A. That's correct.

1 Q. Now, does the unconstrained Black-Scholes
2 model calculate -- let me strike that.
3 Would you agree that the unconstrained
4 Black-Scholes model does not calculate
5 out-of-pocket -- out-of-pocket cost risks of
6 providing POLR service?
7 A. No.
8 Q. And can you explain why your response is
9 no?
10 A. Because at some point the cost of risk
11 will ultimately result in a cost -- out-of-pocket
12 cost to the company.
13 Q. And when -- and you said at some point
14 the out-of-pocket -- or the cost of risk will result
15 in out-of-pocket costs. When -- when will that
16 occur?
17 A. I believe that's covered by the testimony
18 of Dr. Makhija.
19 Q. And what is your understanding of when
20 that will occur?
21 A. That's in -- I don't know.
22 Q. So your -- your answer is based upon the
23 fact that Dr. Makhija is taking a position on that
24 issue and you don't have an independent -- you don't
25 have independent knowledge of that -- of that so that

1 you could respond on your own; is that correct?
2 A. The company incurs the cost of risk which
3 it presently has and continues to have.
4 Q. I guess my question was really focused on
5 the second part of your answer which was that your
6 response that -- the cost of the risk will ultimately
7 result in out-of-pocket cost to the company, and your
8 response was that is something Dr. Makhija testifies
9 to. My question is do you have an independent -- do
10 you have independent knowledge or information -- or
11 independent knowledge or information of when that
12 cost will ultimately result in an out-of-pocket cost
13 to the company?
14 A. No, because the company could choose to
15 absorb that risk, in which case there would not be an
16 out-of-pocket cost.
17 Q. And why would the company choose to
18 absorb that risk, if you know?
19 A. It's -- it's really no different than
20 other risk decisions that an entity makes whether to
21 self-insure or to lay off that risk on a third party.
22 Q. And by absorbing that risk are you
23 talking about self-insuring --
24 A. Yes.
25 Q. -- versus laying that risk off on a third

1 party?
2 A. Yes.
3 Q. Does the unconstrained Black-Scholes
4 model calculate the companies' opportunity cost
5 associated with providing POLR service?
6 MR. CONWAY: Just as to, Mo, when you
7 keep referring to "unconstrained Black-Scholes model,
8 at the outset of the discussion you -- you also
9 referred to ESP1. Are they -- are they the same --
10 same things that you are referring to?
11 MS. GRADY: I think that's what we
12 established. I thought that that was our --
13 Q. -- Ms. Thomas, correct me if I'm wrong,
14 that was -- when we talk about the unconstrained
15 Black-Scholes model, we are talking about ESP model 1
16 presented by Mr. Baker being one and the same, and I
17 believe your testimony was you accepted that
18 characterization?
19 A. Yes.
20 Q. So let me state my question again. Does
21 the unconstrained Black-Scholes model calculate the
22 companies' opportunity cost associated with providing
23 POLR service?
24 A. It calculates the cost of risk of
25 providing the POLR service and providing service at

1 SSO rates where the customers have the ability to
2 shop and returned to the company.
3 Q. So is your response that it does not --
4 does not calculate foregone opportunity or it does
5 not -- let me strike that.
6 Is your response then that the
7 unconstrained Black-Scholes model does not calculate
8 the value of foregone opportunity?
9 MR. CONWAY: Just one point of
10 clarification and it may serve no one's interest
11 other than my own, you keep using the present tense.
12 That's why I asked the question before about whether
13 you are referring to ESP1, and so are you -- are you
14 asking about a current application of the
15 unconstrained model, or are you referring back to the
16 application that we made in the previous ESP?
17 MS. GRADY: I apologize if my tense is a
18 little off, but I am referring to the unconstrained
19 Black-Scholes model that was used in the last case
20 presented by Mr. Baker.
21 A. Could you repeat the question?
22 MS. GRADY: Could the court reporter
23 reread the question.
24 (Question read.)
25 A. No.

1 Q. No, it does not calculate the foregone
2 opportunity cost associated with providing POLR?
3 A. No. I do not agree that it doesn't --
4 the cost of risk can be an opportunity cost.
5 Q. So when you say that the unconstrained
6 Black-Scholes model calculates risk, within that
7 definition of risk you are including what we've
8 called -- or what you've called "opportunity cost"?
9 A. Yes.
10 Q. Can you tell me how specifically the
11 unconstrained Black-Scholes model that was utilized
12 in the last case calculates the opportunity cost?
13 A. I don't know what you mean by
14 "specifically."
15 Q. How does -- how does the Black-Scholes --
16 the unconstrained Black-Scholes model account for the
17 opportunity cost? How does it account for the
18 opportunity cost?
19 A. The -- the unconstrained model computes
20 the cost of the risk of providing that service and
21 that can be the same as an opportunity cost.
22 Q. When we say opportunity cost, are we --
23 are you talking about the fact that the company has
24 to forego selling the power on the wholesale market
25 if -- if they otherwise have POLR obligations to keep

1 that capacity and energy available?
2 A. No. The -- the calculation for the POLR
3 cost is a calculation for the retail of providing
4 that price stability for customers on the retail
5 side.
6 Q. So are you saying -- let me strike that.
7 Does the unconstrained Black-Scholes
8 model that was utilized in the ESP1, does that
9 calculate the value of the POLR option to the
10 customer?
11 A. Yes, which is equal to the cost to the
12 company.
13 Q. Would you agree with me AEP's approved
14 POLR charge is based on the interrelationship of the
15 cost of the companies to providing this service and
16 the value to the customers of having the optionality
17 provided by SB 221?
18 A. Could you repeat that, please?
19 Q. Would you agree with me that AEP's
20 approved POLR charge is based on the
21 interrelationship between the cost of the companies
22 of providing this service and the value to the
23 customers of having the optionality provided by SB
24 221?
25 A. No. It's based on the cost to the

1 company of providing customers with that option to
2 shop and return to the company at the SSO generation
3 prices.
4 Q. Now, let's shift focus for a moment to
5 the constrained model. And when I say constrained
6 model, do you understand how I'm using that term
7 "constrained model"?
8 A. Would you please explain that so I'm
9 sure.
10 Q. Okay. In your testimony do you not
11 indicate that you are presenting a constrained model
12 for purposes of calculating the POLR charge?
13 A. Yes, I have utilized a constrained model
14 for certain calculations, yes.
15 Q. And by constrained can you explain how it
16 is a constrained model as opposed to the
17 unconstrained Black-Scholes model which we have been
18 discussing?
19 A. The constrained model incorporates the
20 switching rules that customers face and incorporates
21 that into the calculations.
22 Q. And when you say the switching rules, you
23 are talking about the tariff provisions that pertain
24 to the conditions under which a customer can switch
25 to a CRES supplier?

A. I'm referring to the tariff provisions as summarized on page 14 of my testimony.

Q. Okay. Now, does the constrained model calculate the companies' cost of providing POLR service?

A. Yes, it does.

Q. And by cost of providing POLR service are we again talking about the calculation of the risk that the company bears with respect to its POLR responsibilities?

A. Yes.

Q. Are we talking about any other cost of providing POLR service when we speak of the risk?

A. Could you repeat that?

Q. Let me rephrase it. Does the constrained -- does the constrained model calculate the companies' out-of-pocket cost of providing POLR service?

A. The constrained model calculates the same cost of risk as the unconstrained model. The only difference being that it incorporates the switching rules or constraints as summarized in my testimony.

Q. Does the constrained model calculate the companies' opportunity cost associated with providing POLR service?

A. The constrained model calculates the same cost as the unconstrained model in that regard.

Q. And with respect to your response on the unconstrained model you indicated that it is your understanding and belief that the unconstrained model calculates the companies' opportunity cost; is that correct?

A. No, I don't believe that's what I said.

Q. Can you -- can you tell me what you said with respect to whether or not the unconstrained model calculates the opportunity cost?

A. I believe that I said that the companies' risk of -- the cost of risk of providing the POLR service can be an opportunity cost.

Q. And if the unconstrained model calculates the risk, that it then by -- by logic then calculates the opportunity cost, correct?

A. It calculates the cost of the risk of providing POLR service which can be an opportunity cost.

Q. Does the constrained model calculate the value of the POLR option to the customer?

A. The constrained model calculates the cost of risk to the company of providing POLR service which is equal to the value to the customer.

1 Q. And the value is equal to the cost of
2 POLR to the company; is that correct?
3 A. The value equals the cost, yes.
4 Q. Ms. Thomas, if all other inputs, and we
5 are talking about inputs to the constrained or
6 unconstrained model, are held constant and the ESP or
7 strike price is increased, does the -- does the
8 calculated POLR charge increase?
9 MR. CONWAY: Could you repeat that,
10 please?
11 MS. GRADY: Do the -- or could the
12 reporter please reread that question.
13 (Question read.)
14 A. It depends upon what -- where that is
15 relative to the market price.
16 Q. But all other inputs are being held
17 constant with that caveat.
18 A. Okay. In this hypothetical I don't know
19 where market prices stand relative to ESP prices,
20 therefore, it depends.
21 Q. Ms. Thomas, if the spread between the
22 market and strike price decreases, then the
23 calculated POLR value increases; is that correct?
24 A. Again, I don't know where the market
25 price -- whether it is higher or lower than the ESP

price.

Q. Assume that the original market price is higher than the ESP price.

MR. CONWAY: And then what's the second -- the second part?

Q. And the spread between the market and the strike price decreases, would you agree that the calculated POLR value increases?

A. If all other provisions are held constant which may not be appropriate but, yes, it would decrease.

THE WITNESS: I'm sorry. Could you -- could you read back the question and the answer again, please.

(Record read.)

A. I misspoke. That if the spread decreased all else being constant which may not be appropriate, the POLR would increase.

Q. Ms. Thomas, where the market price -- following up on your response, where the market price is higher than the ESP price and all other things are held constant, if the ESP price is raised, would you agree that the POLR -- the POLR value would increase?

A. Yes.

Q. So can you explain then, Ms. Thomas, how

1 the value to the customer increases as the price that
2 the customer returns to increases?
3 A. The cost to the company increases because
4 the risk increases of customers moving back and forth
5 when the market and the ESP are closer together.
6 There is more risk to the company which is the cost
7 of the risk is equal to the value of the customer.
8 Q. Now, the concept of the risk is equal to
9 the value of the customer, is that a concept
10 Dr. Makhija addresses in his testimony? Is that what
11 you are referring to?
12 A. I don't recall.
13 Q. Now, in the analysis that you present,
14 have you identified any out-of-pocket expenses
15 associated with the companies' POLR responsibilities?
16 A. No. I have identified the cost of the
17 risk.
18 Q. Is there any company witnesses that are
19 being presented in the remand proceeding that
20 identify out-of-pocket expenses associated with the
21 companies' POLR responsibilities?
22 A. I don't believe so.
23 Q. Ms. Thomas, could the company identify
24 out-of-pocket expenses if it was required to by the
25 Commission associated with its POLR responsibilities?

A. I would need for you to define the specific out-of-pocket expenses that you would want -- that you are looking to calculate.

Q. If I asked you what the out-of-pocket expenses would be associated with the companies' POLR responsibilities, what would your response be?

A. I think that it would be difficult to quantify that because when we are talking about the cost to POLR, we are talking about a cost looking forward at the beginning of a period for the risk that the company incurs and an out of pocket by definition -- an out-of-pocket expense would not have occurred at the point that you incur the risk. And, therefore, you would have to speculate and do a lot of assumptions about what that would be.

Q. Well, what kind of -- what kind of costs would be considered -- let's take the quantification aspect out of it. Let's talk about the type of costs that would be out-of-pocket costs associated with providing POLR service. What -- what -- what kind of costs, what kind of categories of expenses would there be that would be considered out of pocket or for purposes of POLR?

A. I don't think you can define that up front because POLR cost is the cost of providing that

1 stable service so customers as they shop and can
2 return, and you can't determine that up front.
3 Q. Can you look back and identify anything
4 that where out-of-pocket costs -- for instance, we
5 are now in 2011. In 2009 and 2010 and, of course, up
6 until the present, the company has been providing
7 POLR service, correct?
8 A. Yes, the company has been providing POLR
9 service, yes.
10 Q. With respect to the POLR service that has
11 been provided up to date associated with that ESP1
12 term, can you identify any out-of-pocket costs that
13 the companies incurred regarding to providing POLR?
14 A. You cannot do that calculation because
15 you would have to say back at the beginning of the
16 period you would have -- you would have to say
17 that -- a number of assumptions that you would make
18 because you would have to say, well, what if this
19 happened or if what happened today had I known that
20 back three years ago, what might I have done
21 differently? And so you're having to speculate as to
22 what you might have known and when and what you would
23 have done that would have been differently to do such
24 a calculation.
25 Q. So aren't you -- aren't you in your

1 answer talking about opportunity costs versus
2 out-of-pocket costs?
3 A. Not necessarily.
4 Q. So it's your position that you can't
5 determine out-of-pocket costs on a forward basis, and
6 you can't determine out-of-pocket costs related to
7 POLR on a backward basis, on a historic basis; is
8 that correct?
9 A. Yes.
10 Q. And you can't identify or categorize any
11 out-of-pocket costs associated with POLR either on a
12 forward or a backward basis?
13 A. I cannot.
14 Q. Is there someone in the company that
15 could identify that?
16 A. I don't believe so.
17 Q. Now, on page 7 specifically I want to
18 direct your attention to line 17 and carrying --
19 actually carrying over to -- this is of your -- I'm
20 sorry, your direct testimony filed June 6, 2011, in
21 the remand.
22 A. What page?
23 Q. That would be page 7 beginning on line 17
24 and carrying over to page 8 through line 4. Do you
25 see that reference?

1 A. Yes.
2 Q. Okay. Now, there, Ms. Thomas, you
3 testify customers that have recognized the benefits
4 of retaining the option to return to service from the
5 companies at SSO prices. Do you see that?
6 MR. CONWAY: Where is that?
7 MS. GRADY: That is on page 7, starting
8 on line 17, carrying over to page 8, line 4.
9 MR. CONWAY: So your question was asking
10 her what she saw with regard to the --
11 MS. GRADY: My question --
12 MR. CONWAY: -- pervious within the
13 question itself.
14 Q. My question is did you testify -- are you
15 testifying that customers have recognized the
16 benefits of retaining the option to return to service
17 from the companies at SSO prices?
18 A. Yes.
19 Q. Thank you. Now, you indicate in response
20 to that question on line 21 that approximately
21 98 percent, I assume you are referring to customers,
22 have elected to continue to pay the POLR charge
23 rather than face the prospects of returning to the
24 companies at market rates. Do you see that
25 reference?

A. Yes.

Q. And how did you determine that approximately 98 percent had elected to continue to pay POLR?

A. I looked at the number of customers who have switched and the number of customers who have waived POLR or retained POLR.

Q. Ms. Thomas, how are customers informed that they have a choice to return at market rates instead of paying the POLR charge?

A. It is a provision in our tariffs.

Q. So the customers would have to be familiar with your tariffs; is that correct, in order to know that they have a choice in paying the POLR or not?

A. I can't speak to what customers have to be knowledgeable about. I know that it is stated in our tariffs.

Q. Do you know if it's stated anywhere else to customers or customers are informed in any other way that they have a choice to return at market rates in lieu of paying the POLR charge?

A. I don't know.

Q. In that 98 percent figure -- let me strike that.

With respect to that 98 percent figure, that 98 percent figure relates to both CSP and OP customers; is that correct?

A. Yes, that is all switching customers, yes.

Q. And would you agree with me that most of the switching is being -- is occurring in the Columbus Southern Power service territories as opposed to Ohio Power service territory?

A. CSP has more switching than Ohio Power does.

Q. And would you also agree that the switching is largely in the commercial customer segment versus residential and industrial customer segments or both and that would be for both CSP and OP?

A. I believe that -- that previously it was mostly commercial and industrial, but the residential is a growing portion.

Q. And when you say previously, what time period are you speaking of?

A. The time period covered in the graphs that I show in my exhibits, Exhibit 2.

Q. LJT-2?

A. Yes.

Q. And with respect to LJT-2, does LJT-2 reflect actual switching, if you know?

A. Yes.

Q. Okay. And if we look -- while we are back looking at LJT-2 looking at page 1 of 3, the percent of load that is indicated on the left-hand side of the graph, is that -- is that the actual load calculated on a monthly basis?

A. That is the load that has switched to another supplier and is being served by someone else.

Q. And is LJT-2 page 2 of 3 also actual numbers of customers served by competitive suppliers, if you know?

A. Yes.

Q. Now, when you -- you mentioned that there -- that -- that residential customers, that there is an increase in the number of switching that's occurring for residential customers; is that what your testimony was, from previous levels?

A. Yes.

Q. Are you referring to the Columbus Southern Power territory or the Ohio Power territory or both when you make that statement?

A. I believe that applies to both.

Q. Are you referring to the aggregation

1 efforts or the aggregation of residential customers
2 as -- are you attributing aggregation for the
3 increase in shopping occurring on the residential
4 customer side?
5 A. That certainly has caused an increase in
6 residential, yes.
7 Q. Okay. And, again, is that for both
8 service territories, CSP and OP?
9 A. I'm not sure.
10 Q. Now, let's go to page 13 of your
11 testimony. Specifically I am going to direct your
12 attention to lines 1 through 7. Do you see that
13 reference?
14 A. Yes.
15 Q. And there, Ms. Thomas, you state that
16 based on your review of the unconstrained model
17 methodology initially supported by Mr. Baker, that
18 you conclude that the -- overall that the inputs were
19 conservative resulting in a lower POLR charge than
20 otherwise would occur with less conservative inputs;
21 is that your testimony?
22 A. Yes.
23 Q. With respect to the unconstrained model
24 methodology initially supported by Company Witness
25 Baker, are you adopting Witness Baker's testimony

with respect to the unconstrained model methodology? Let me strike that.

Are you adopting -- adopting the unconstrained model methodology initially supported by companies' Witness Baker?

A. I reviewed the model that he used.

Q. You are not adopting the model as an appropriate methodology for determining in the remand proceeding that the POLR charge is appropriate?

MR. CONWAY: Objection. She's already answered the question a couple of times, and her testimony speaks for itself. She reviewed his testimony, and she concluded that overall he thought -- she thinks that the results provide -- provided were conservative. I'm not sure what you mean by "adoption" so if you are going to continue with it, I am going to object on the grounds it's -- it's confusing or it's ill defined.

MS. GRADY: I will try to remedy that.

Q. Are you sponsoring the unconstrained model methodology initially supported by Company Witness Baker for purposes of this remand proceeding?

A. I reviewed the model that he used. I have provided additional testimony as it relates to the use of the constrained model, and the use of the

1 constrained model confirms my review of the
2 unconstrained model.
3 Q. Are you familiar with the unconstrained
4 methodology that was initially supported by Company
5 Witness Baker as you reference here in your testimony
6 on page 13, lines 4 through 5?
7 A. I have reviewed that methodology.
8 Q. And what did your review consist of?
9 A. I reviewed the methodology. I reviewed
10 the inputs as well as the output.
11 Q. Can you define "methodology" as you
12 indicate in your answer? You said you reviewed the
13 methodology. What do you mean by the "methodology"
14 with the constrained model?
15 A. The use of the unconstrained model and
16 how it works, what it calculates.
17 Q. So you are familiar with the use of the
18 model, how it works, and what it calculates; is that
19 correct?
20 A. Yes.
21 Q. And how did you develop your familiarity
22 of the unconstrained model methodology?
23 A. I reviewed it.
24 Q. You sat down with -- did you sit down
25 with Mr. Baker and discuss the model?

A. No.

Q. Did you review Mr. Baker's testimony submitted in the last proceeding?

A. I read his testimony.

Q. So you conducted an independent review of the methodology associated with the unconstrained model?

A. I -- I conducted a review. I read the testimony. I read other materials from the case.

Q. And what other materials from the case did you read?

A. The Commission's order, the transcripts.

Q. Transcripts of cross-examination; is that correct, of Mr. Baker?

A. Yes.

Q. Did you read any other transcripts?

A. I don't recall.

Q. What did Mr. Baker compute to arrive at his calculated POLR charges? Let me strike that.

Did Mr. Baker in the unconstrained model methodology that you indicate you reviewed and you understand how -- how it works and what it calculates, did it -- did it calculate the value of a put option, if you know?

A. Yes, it did which it calculated the cost

1 of the risk to the company.
2 Q. And you're saying that the risk to the
3 company includes the risk which we would call a put
4 option?
5 A. Put option and a call option.
6 Q. Now, the put option, can you define for
7 me what a put option is in respect to the
8 unconstrained model methodology initially supported
9 by Mr. Baker?
10 A. Well, rather than look at it in terms of
11 a put and a call, okay, I looked at it in totality
12 rather than trying to segment the pieces. And
13 overall looking at the cost of the -- cost of risk
14 and the model that is used, the Black-Scholes model
15 unconstrained utilizing that is an appropriate
16 calculation for the cost of risk.
17 Q. Do you believe it's inappropriate to look
18 at the segments of the put and call segments of the
19 model?
20 A. I -- I don't believe it's necessary to
21 look at the individual pieces because it is all
22 related to the cost of risk.
23 Q. So is it your understanding the
24 unconstrained model calculated the value of a put
25 option and a call option at the same time; is that

1 your testimony?
2 A. It's that the model computed the total
3 cost of risk which includes both components.
4 Q. Is there a Black-Scholes formula that
5 computes the put and the call option at the same
6 time, if you know?
7 A. I don't know.
8 Q. So how did you arrive at the conclusion
9 that the Black-Scholes model used by Company Witness
10 Baker calculates the put and the call option at the
11 same time?
12 A. I understand the model in total. I
13 understand Black-Scholes methodology and that it is
14 appropriate for calculating the cost of the option
15 which is the cost of the risk to the company.
16 Q. So although you understand the model in
17 total you do not understand how it would specifically
18 calculate both the put and the call option? You
19 don't need the mechanics of that; is that a correct
20 characterization?
21 A. I -- I did not look at the individual --
22 did not look at the individual components. I looked
23 at in totality in terms of all the things that it
24 calculated.
25 Q. When you say "looked at," what do you

1 mean? You mean you did an independent examination
2 of -- of the model?
3 A. I looked at the -- the theory behind the
4 model. I looked at the model inputs and outputs and
5 my understanding of the calculations in the model.
6 Q. Is it your understanding that with
7 respect to the unconstrained model that was used --
8 supported by Mr. Baker, that the value -- that
9 90 percent of the value produced under that model
10 related to the put option and not the call option?
11 A. That's my recollection of his testimony.
12 Q. And with respect to the constrained model
13 that you -- you present, is it -- is it correct that
14 the valuation that you produced shows that 88 percent
15 of the value is related to the put option and not the
16 call option?
17 A. I don't know where that number came from.
18 What number you are referring to?
19 Q. With respect -- with respect to the
20 calculations produced in the ESP2.
21 A. I don't have the ESP2 numbers with me.
22 Q. Would you accept subject to check the
23 value produced with the constrained model in the ESP2
24 case showed that 88 percent of the value related to
25 the put option and not the call option?

1 MR. CONWAY: Objection. She said she
2 didn't know so she didn't have the option -- actually
3 she said she didn't have the information with her, I
4 believe.
5 Q. Did Mr. Baker, if you know, use an Excel
6 spreadsheet to perform the Black-Scholes
7 computations?
8 A. Yes, he did -- yes, he did.
9 MS. GRADY: At this point I would like
10 marked as Deposition Exhibit No. 2 a two-page
11 document which I will hand to Ms. Thomas.
12 (EXHIBIT MARKED FOR IDENTIFICATION.)
13 Q. Ms. Thomas, if you could be so kind as to
14 review that document. Have you had a moment to look
15 at that?
16 A. Yes.
17 Q. Do you -- do you recognize that as the
18 Excel model or Excel spreadsheet that Mr. Baker used
19 to perform the Black-Scholes computations?
20 A. I have not seen this before. The model
21 output from the case that Mr. Baker sponsored was
22 provided in my workpapers and --
23 Q. I'm sorry. Can you specify which
24 workpaper?
25 A. Workpaper E.

1 Q. If you give me a moment, I would like to
2 try to find Workpaper E. Can you give me the heading
3 for the workpaper?
4 A. 2008 ESP requested POLR charge.
5 Q. Okay. Is it a two-page document with
6 compliance run for 2008 POLR 06-02-11?
7 A. Yes. That would be workpaper F.
8 MR. CONWAY: Did you catch that, Maureen?
9 MS. GRADY: Yes.
10 MR. CONWAY: E is one; F is one.
11 Q. Understood, yeah. So with respect to the
12 document we have marked as Deposition Exhibit No. 2,
13 is it your response that this is not the Excel model
14 that was used by Mr. Baker, or you just don't know if
15 it is?
16 A. Well, I can't confirm it by just looking
17 at this page and, two, the inputs are not the inputs
18 that Mr. Baker used.
19 Q. Did you review the Excel spreadsheets
20 that Mr. Baker used to perform the Black-Scholes
21 computations?
22 A. Could you please clarify what you mean by
23 "reviewed the spreadsheet"?
24 Q. Are you familiar with the spreadsheet,
25 that Excel spreadsheet, that Mr. Baker used to

1 perform the Black-Scholes computations that were
2 presented in the unconstrained model methodology in
3 ESP1?
4 A. I have reviewed the methodology. I
5 didn't go through every, you know, every -- all the
6 computations, all the formulas in the model, but it
7 is the Black model.
8 Q. Is it Black model or is it the
9 Black-Scholes Model that Mr. Baker printed?
10 A. The Black model is the appropriate name.
11 Mr. Baker referred to it as the Black-Scholes, but
12 it's more properly referred to as the Black model.
13 Q. Did you review any of the formulas that
14 were used when Mr. Baker presented the Black -- Black
15 model for purposes of calculating POLR?
16 A. I reviewed the general formulas for the
17 Black model. I did not review the -- every formula
18 in the spreadsheet.
19 Q. And what formulas did you not review that
20 were in the spreadsheet, the Excel spreadsheet, that
21 was used to perform the Black model calculations?
22 A. I don't know.
23 Q. When you reviewed the Black -- the -- let
24 me strike that.
25 MS. GRADY: May I have her answer reread,

1 please.
2 Q. When you say the general formula for the
3 Black-Scholes model, what formulas are you referring
4 to?
5 A. The Black -- the Black model formulas
6 that you can look in any number of textbooks to look
7 at what that model is, to look at what the formulas
8 are.
9 Q. Did you confirm that Mr. Baker took the
10 general Black-Scholes formula and programmed them
11 into the spreadsheet appropriately?
12 A. No, I did not verify the programming.
13 Q. Did anyone at the company verify the
14 programming, if you know? And let's talk about first
15 the timeframe that Mr. Baker would have presented the
16 results in ESP1. Do you know with respect to the
17 initial presentation of those results whether at that
18 time anyone verified the programming of the -- of the
19 Black-Scholes formula into the spreadsheet?
20 MR. CONWAY: Ms. Grady, Miss Thomas was
21 not involved in the original, as I understand it, you
22 can ask her, but my understanding is she was not
23 involved in the original application of the Black or
24 the Black-Scholes model that was used to develop the
25 companies' proposed POLR charges in ESP1 so --

1 MS. GRADY: Understood.
2 MR. CONWAY: Okay. So asking her what
3 Mr. Baker did to confirm or the extent of his
4 confirmation of the formulas that were used to run
5 the model the first time around when she wasn't there
6 to observe it I think is pointless.
7 MS. GRADY: I don't think it's pointless
8 because we are dealing with what Mr. Baker determined
9 was the appropriate level and that's exactly what you
10 are asking the Commission to approve now. So we have
11 a question about whether or not those results were
12 properly arrived at and whether anybody verified the
13 programming of the results into the spreadsheet.
14 Q. So I'm going -- my question remains, are
15 you aware, Ms. Thomas, of whether or not when the
16 Black-Scholes unconstrained methodology was presented
17 whether anyone verified at that time the programming
18 of the Black-Scholes formula into the spreadsheets?
19 MR. CONWAY: Well, I just -- the question
20 you asked previously was whether she was there to
21 verify it at the time. That's what I took it to be.
22 MS. GRADY: Okay.
23 MR. CONWAY: Now, you have changed the
24 question as to whether or not she knows whether
25 someone else was there to verify it at the time and,

1 of course, again, she wasn't actually there, but the
2 Commission accepted the -- the methodology and its
3 application in the prior iteration of the case. Now,
4 you can -- you can ask her the question whether
5 she -- what extent she is familiar with what was done
6 back then. I'm just telling you it seems to me it's
7 fairly pointless since she wasn't there.
8 Q. Can you respond, Ms. Thomas?
9 A. Can you repeat the question?
10 MS. GRADY: Can the court reporter please
11 reread the question.
12 (Question read.)
13 A. I'm not specifically aware, but I'm sure
14 that it was.
15 Q. And why are you sure that it was?
16 A. General business practices.
17 Q. Are you aware of whether in the context
18 of the present case, the remand proceeding, whether
19 anyone has verified the programming of the
20 Black-Scholes formula into the spreadsheet?
21 A. Are you referring to the unconstrained
22 model?
23 Q. Let's start with the unconstrained and
24 then we will move on to the constrained.
25 A. The same model and spreadsheet that

1 Mr. Baker used were used this time for the limited
2 purposes of the run that was provided in my Exhibit
3 3.
4 Q. So with respect to the unconstrained
5 model, are you aware of whether someone verified the
6 programming of the Black-Scholes formula into the
7 spreadsheet?
8 A. I am not aware that that activity took
9 place at this time.
10 Q. With respect to the constrained model if
11 I were to ask you the same question, are you aware of
12 whether there was anyone that verified the
13 programming of the Black-Scholes formula into the
14 spreadsheet?
15 A. No. It's not a spreadsheet.
16 Q. With respect to the Black-Scholes formula
17 that was programmed into the spreadsheet, and here we
18 are talking about the unconstrained model, are you
19 aware of whether -- are you -- do you have knowledge
20 of -- let me strike that.
21 With respect to the Black-Scholes formula
22 that was programmed into the spreadsheet for purposes
23 of the unconstrained model, and I am referring to the
24 model that was presented in methodology that was
25 presented by Mr. Baker, are you aware or familiar

1 with the -- whether the formula that was programmed
2 into the spreadsheet was for a put option?
3 MR. CONWAY: Can I have the question
4 reread. It was kind of lengthy.
5 (Question read.)
6 A. It is both -- there is both the put and
7 the call. It is the total costs that the model
8 calculates.
9 Q. So are you specifically aware of a
10 formula that was used that would have produced the
11 put and the call option at the same time in the --
12 with respect to the constrained -- unconstrained
13 model presented by Mr. Baker?
14 A. I don't know.
15 Q. Did you review the formula that was
16 programmed into the spreadsheet for the unconstrained
17 model?
18 A. I did not review the programming.
19 Q. Did anyone review the programming, if you
20 are aware?
21 A. I believe I have already answered that
22 question.
23 Q. Is that where you think it's general
24 business practice to review; is that -- was that your
25 response you are referring to?

A. Yes.

Q. Okay. But you don't know whether the general business practice was carried out? You don't have any personal knowledge that it was carried out; is that correct?

A. I was --

MR. CONWAY: She's already answered that question also. I mean, that's -- that's the nature of the general business practices comments she made. That's the basis for her conclusion that it was done.

Q. Your conclusion was not based on personal knowledge; is that correct?

A. That's correct.

Q. Okay. Did you use the unconstrained model -- Mr. Baker's model to confirm or produce the POLR charges using the final first year 2009 ESP rates that you show on LJT-3?

A. Yes. That same model was used substituting the 2009 ESP rates.

Q. And, Ms. Thomas, are you familiar with the values that Mr. Baker input into the unconstrained model?

A. Yes.

Q. And what is the basis of your familiarity with the values?

1 A. I reviewed -- I looked at the values that
2 were used.
3 Q. Did you do an independent analysis of
4 whether the values were appropriate?
5 A. I reviewed the values and some of them
6 were conservative and others like the ESP rate were
7 adjusted for known values.
8 Q. Let's break that down a bit. You said
9 some were conservative. What were the values you
10 considered conservative that Mr. Baker used in the
11 unconstrained model?
12 A. The use of only the year one ESP rate as
13 opposed to the proposed ESP rate which increased over
14 the period was conservative. The use of annual
15 volatility values was conservative.
16 Q. Were there any other values that were
17 conservative?
18 A. Those were the -- those were the ones
19 that I recall.
20 Q. So with respect to the remaining input
21 values did you believe that the input -- or have you
22 formed an opinion as to whether the input values used
23 by Mr. Baker in the unconstrained model are
24 appropriate?
25 A. Given that the results of the model were

accepted by the Commission in its order, I did not independently try to create other numbers.

Q. Do you have an opinion as to whether those values are appropriate?

A. Based on how I understand they were calculated, I believe they were appropriate.

Q. When you say how they were calculated, are you talking about how the values were chosen, or are you talking about a mathematical output of the model?

A. Talking about how -- how the forward price was determined, how the interest rate was determined.

Q. So you are talking about the actual appropriateness of the input values themselves?

A. Yes.

MS. GRADY: Can we go off the record now.

(Recess taken.)

MS. GRADY: We can go back on the record.

Q. Ms. Thomas, we were discussing your familiarity with the values that Mr. Baker put into the unconstrained model, and now, I am going to specifically talk about the volatility input to the model. Are you familiar with Mr. Baker's input as it relates to the volatility in the unconstrained model?

A. Yes.

Q. And did you use the same volatility value that Mr. Baker did in order to produce the POLR charges you show on LJT-3?

A. Yes.

Q. And did you use the same volatility value that Baker did in order to produce the POLR charges shown on LJT-4?

A. Yes.

Q. Are you familiar with the methodology, and by methodology I mean the type of data and the computations, that Mr. Baker used to develop the volatility input value?

A. Yes.

Q. Is this the same methodology that you used to develop the volatility value that you put into the constrained model that you are presenting in this case?

A. I did not develop another volatility value but used the same volatility value for the purposes of Exhibit LJT-4.

Q. Do you know, Ms. Thomas, how the volatility input was developed for purposes of Mr. Baker's model and used?

A. My recollection is that he used the

1 volatility over a three-year -- average volatility
2 over a three-year period.
3 Q. Is it your understanding that historical
4 market quotes for forward prices were used to develop
5 the volatility input to the POLR calculation?
6 A. I believe that's correct.
7 MS. GRADY: If the court reporter could
8 read back -- I'm sorry, went without my witness next
9 to me and he would like the prior question and answer
10 read back. I believe it was something about how was
11 the volatility input developed was that question and
12 the answer that followed it.
13 (Record read.)
14 MS. GRADY: Thank you.
15 Q. Ms. Thomas, would you agree that the
16 volatility input measures the volatility of energy
17 prices?
18 A. A -- it's the volatility of market
19 prices.
20 Q. Of market prices, market prices for
21 energy?
22 A. I don't recall.
23 Q. Do you know whether the volatility input
24 measures the volatility or the market prices on a
25 wholesale or on a retail level?

A. I believe that the volatility is only available on a wholesale level but to be applied to retail market prices.

Q. And in this model was it applied to retail market price, if you know?

A. Yes.

Q. Are -- are the historical market questions for forward prices related to the ATC simple swap component of the competitive electric retail service price or benchmark price?

A. I believe so.

Q. How are the historical market quotes for forward prices that were used to develop the volatility input assumption related to each of the other components of the competitive benchmark price that you have calculated or the constrained model -- unconstrained model has calculated?

MR. CONWAY: Could I have that question reread.

(Question read.)

MR. CONWAY: So you -- is the question how were the forward prices related to these other values, or is it something different than that?

MS. GRADY: That's what we are after.

A. Okay. I am not sure what you are asking.

1 Q. Did you apply the volatility factor that
2 we have been discussing to the other components of
3 the competitive benchmark price?
4 A. I utilized -- for the purposes of LJT-3 I
5 utilized all of the same inputs that Mr. Baker used
6 with the exception of changing the ESP price.
7 Q. So is it your understanding that
8 Mr. Baker applied the volatility factor to all the
9 components of the competitive benchmark price, and
10 you merely present the same analysis?
11 A. I'm not sure what you mean by "applied
12 the volatility factor to the components." I'm not
13 sure what you mean by that.
14 Q. Is there any relationship between the
15 volatility factor that was developed for purposes of
16 energy to the other components of the competitive
17 benchmark price?
18 A. The competitive benchmark is an input to
19 the model volatility, is an input as well as the ESP
20 price and others, so I'm not sure what you are
21 asking.
22 Q. Would you agree with me that the
23 competitive benchmark price is made up of a number of
24 components?
25 A. Yes.

1 Q. And would you agree with me that the
2 volatility input was based on the volatility of only
3 one of those components, that being the energy
4 component?
5 A. It's the volatility of the market price
6 which is the measure of volatility that was used.
7 MS. GRADY: Let me repeat my question
8 again. Can the court reporter read that question
9 back.
10 (Question read.)
11 A. Volatility is based on an ATC simple swap
12 market price.
13 Q. And then you applied that volatility
14 input to the total benchmark price; is that correct?
15 A. The volatility is applied in the model to
16 the results of the cost of the risk that comes out of
17 the model. It's applied inside, but it applies to
18 the cost that comes out, not applied to any one
19 component.
20 Q. And the cost that comes out is -- is a --
21 is related, in fact, is -- is a product of the
22 competitive benchmark price that is entered into the
23 model; is that correct?
24 A. It is a product of the competitive
25 benchmark and the ESP price and the term and the

1 interest rate as well as the volatility.
2 Q. Would you agree with me the volatility of
3 the market is most likely higher than the volatility
4 of other components of the competitive benchmark
5 price?
6 A. I can't -- I don't know.
7 Q. Would you agree with me that the pricing
8 of energy is extremely volatile?
9 A. Yes.
10 Q. Are any of the other components that make
11 up the competitive benchmark price extremely volatile
12 as well?
13 A. All components have some variability to
14 them.
15 Q. Understood but would you characterize any
16 of the other components of the competitive benchmark
17 price as being extremely volatile?
18 A. I would need for you to define extremely.
19 Q. You -- I guess your response was you
20 agreed with me that the pricing of energy is
21 extremely volatile; is that -- do you recall agreeing
22 with that?
23 A. Yes. The energy component is
24 typically -- has volatility. I guess I should
25 correct whether -- the characterization of extremely.

1 Q. And what is the correction you are making
2 now?
3 A. That I don't know that I would say that
4 it's extremely. I would say it's volatile.
5 Q. Did you review the testimony of Mr. Baker
6 that was filed in 08-917 and 08-918, the SSO case?
7 A. I did read it, yes.
8 Q. Do you understand that Mr. Baker
9 characterized electricity as an extremely volatile
10 commodity?
11 MR. CONWAY: Is it part of his refiled
12 direct testimony?
13 MS. GRADY: Yes. That would be page 32
14 of his prefiled testimony.
15 A. The statement says electricity is an
16 extremely volatile commodity traded.
17 Q. Do you agree with that characterization
18 or is that inaccurate?
19 A. Electricity, yes.
20 Q. Is the pricing of electricity extremely
21 volatile for purposes of the Black-Scholes
22 unconstrained model?
23 MR. CONWAY: I think -- she's already
24 testified that she would like some definition around
25 the world "extremely" before we go into your

1 characterization.
2 MS. GRADY: And I think the witness has
3 agreed that it was extremely volatile, so I would
4 throw the definition back to Ms. Thomas and tell me
5 what you mean by "extremely."
6 MR. CONWAY: That's not correct. In
7 fact, she -- she corrected her answer to delete the
8 "extremely" reference from her characterization of it
9 and she asked you for a definition of "extremely."
10 And, now, you give her the description of another
11 witness used the word "extremely" and I would hazard
12 to guess that you're not going to be able to provide
13 what the definition that witness had in mind when he
14 used the term but so. So I object but you can ask --
15 go ahead and ask the question.
16 MS. GRADY: I think I have asked it. I
17 am waiting for an answer.
18 MR. CONWAY: What's the question?
19 A. I am not sure what the question is.
20 MS. GRADY: I think we probably need the
21 court reporter to read that back.
22 (Question read.)
23 A. The volatility of market prices over the
24 three-year period produced a volatility value that
25 was used in the Black-Scholes model for the last time

as Mr. Baker testified to. I don't know whether or not you can consider that value that he has as extreme or not.

Q. He considered it extreme at the point that he submitted the testimony, did he not?

A. I can't speak to what Mr. Baker thought.

Q. But you can -- you can review Mr. Baker's testimony, can you not?

A. Yes.

Q. Does it appear that he -- he characterized the pricing of electricity as extremely volatile for purposes of discussing the unconstrained Black-Scholes model?

A. He made the statement that electricity is an extremely volatile commodity traded and that this volatility no doubt is responsible for customers urging the passage of SB 3 so they could get access to market prices and then urging the passing of 221 so they would be protected from market prices. The option calculation takes into account the extreme volatility of electricity prices when calculating the cost of the POLR obligation. That was his statement.

Q. And you have adopted the volatility component that Mr. Baker sponsored in that testimony?

A. I utilize the same values as he did based

on what the Commission had ruled on.

Q. Now, we were speaking of the competitive benchmark components, and earlier I had asked you whether or not the competitive -- the other elements of the competitive benchmark prices were volatile. Can you tell me if any -- in your opinion if any of the components of the competitive benchmark price are as volatile as the energy component which you apply a volatility factor to?

A. I did not review the volatility of any individual components.

Q. Would you believe that the volatility of the individual components that consist of the benchmark price would differ from the volatility associated with the market price of energy?

A. I don't know.

Q. Would you expect that the volatility of, for instance, components of the competitive benchmark provides such as retail administration would not have the volatility that the market price of energy would have?

A. I've not reviewed the specific components, but the use of the three-year average volatility would account for any volatility differences in various components.

1 Q. And how would it do so?
2 A. Because if you were looking at only the
3 energy component, I wouldn't average it over the
4 three-year period. It would be much higher.
5 MR. PETRICOFF: I'm sorry. Could I have
6 the answer read back.
7 (Answer read.)
8 Q. So is your response -- let me strike
9 that.
10 You would agree, Ms. Thomas, you have not
11 directly measured the volatility of the remaining
12 eight components of the competitive benchmark price;
13 is that correct?
14 A. No, I did not review the volatility of
15 any individual components.
16 Q. And do you know if Mr. Baker in his
17 analysis, his original analysis, reviewed the
18 volatility of the different components of the
19 competitive benchmark price?
20 A. I don't know.
21 Q. Now, let's go back to Mr. Baker's
22 unconstrained Black-Scholes model and the date he
23 entered into it. Can you tell me what date values he
24 entered into the model?
25 A. When you say date values, could you

1 clarify what you mean by date values?
2 Q. Was the beginning and ending date entered
3 into the model, or was it a length of time?
4 A. It was the three-year term 2009 through
5 2011.
6 Q. Was the input a start date and an end
7 date, or was the input just a three-year term, if you
8 know?
9 A. Well, it results in a three-year term.
10 Q. So the starting date would have been
11 January 1, 2009, and the ending date would have been
12 December 31, 2011; is that your testimony?
13 A. Yes.
14 Q. As to the mechanics of the model, what
15 actually was -- what data was actually entered, if
16 you know?
17 A. I don't recall.
18 Q. Is it your understanding in using the
19 original unconstrained model, the model that
20 Mr. Baker presented, the companies calculated the
21 value of a European option?
22 A. I believe that's correct.
23 Q. Can you tell me if a European option can
24 be exercised?
25 A. It can be exercised at the end of the

1 period.
2 Q. And for purposes of the unconstrained
3 model, that -- the end of the period would have been
4 December 31, 2011?
5 A. I believe that's correct.
6 Q. What is your interpretation of when a
7 European option with a three-year term could be
8 exercised, for instance, the European option was paid
9 for in February of 2009?
10 A. Are you talking with regard to the POLR
11 option?
12 Q. Let's keep it at stock option.
13 A. I don't know.
14 Q. Okay. If I asked you the question with
15 respect to a POLR option, what is your interpretation
16 of when a European option with a three-year term
17 could be exercised if the European option was paid
18 for in February of 2009 for POLR, what would your
19 response be?
20 A. Well, for -- the POLR option customers
21 are not paying for the option all at once. Customers
22 are paying for the option based on a rate that they
23 pay each month.
24 Q. And when they make the payment in -- the
25 last payment in December -- in December of 2011, what

period of time are they paying for the option -- what period of time are they paying to exercise that option? What period of time does that relate to?

A. Customers have the ability to exercise their option to shop at any time during the three-year period subject to the switching rules.

Q. And the option to shop is -- it's valued at the same -- or it's charged at the same rate each month of the ESP period; is that correct?

A. It's charged on a kilowatt hour rate.

Q. And it's the same rate. It just depends on how many kilowatt hours you used; is that correct, or is it adjusted?

A. No, it does not adjust. It's per kilowatt hour.

Q. So a customer pays at the very beginning of the rate option term -- a customer pays at the very beginning of the ESP term that is January, 2009, and pays continuously throughout the term of the ESP for the option; is that correct, under the model?

A. That's right. Well, no, let me correct that. That's correct under the way that the rates are charged to customers.

Q. How does the model treat -- you seem to be making a distinction between that's the way the

1 rates work, but I would ask you how the model works
2 and how does the model treat the customers' ability
3 to exercise the option?
4 A. The model just computed a per kilowatt
5 hour value, per kilowatt hour cost. Then this was
6 applied to kilowatt hours throughout the period as
7 opposed to kilowatt hours at the beginning or end but
8 kilowatt hours throughout the period.
9 Q. Do you believe that using a European
10 option to calculate POLR expense of the charging the
11 value monthly for the duration of the ESP is correct?
12 A. Could you repeat the question?
13 Q. Let me try to repeat, do you believe that
14 using a European option to calculate POLR expenses
15 and charging that value monthly for the duration of
16 the ESP is theoretically correct?
17 A. I would say that the constrained model
18 accounts for and treats it as a series of options
19 that customers have at various points in time and,
20 therefore, it's not a single option but a series of
21 options and that is appropriately captured in the
22 constrained model.
23 Q. Is it appropriately captured in the
24 unconstrained model?
25 A. I don't know.

1 Q. Specifically with regard to the
2 unconstrained model do you believe that using a
3 European option to calculate POLR expenses and
4 charging that value monthly for the duration of the
5 ESP is theoretically correct?
6 A. I think so.
7 Q. And why -- what is your belief based
8 upon?
9 A. I can't answer that.
10 Q. Is the constrained model that you speak
11 of in your -- in your testimony the same model that
12 you used in the ESP2, Case No. 11-346?
13 A. The model is the same, yes.
14 Q. Can you describe for me how the
15 constrained model works in terms of the mechanics of
16 the model?
17 A. The constrained model uses a series of
18 calculations that look at the price and that
19 customers have a decision to make each month in terms
20 of whether they choose to move, to switch or not to
21 switch, and basically it's -- the calculations create
22 a tree where you are looking at changes and potential
23 changes in market price and the decisions that
24 customers would make each month based on those
25 movements in price to decide whether to move, to

1 switch or not to switch.
2 Q. And how is it calculating an option
3 value?
4 A. It's calculating an option value using
5 the Black formula, incorporating the decisions that
6 customers make each month or that -- the options that
7 they have each month.
8 Q. How does it incorporate the Black
9 formula?
10 A. It -- it's a series of options, and it
11 calculates those values each month and then averages
12 them over the term.
13 Q. Did you personally develop the
14 constrained model that you present?
15 A. No.
16 Q. If you didn't, then who did?
17 A. Our market risk oversight group.
18 Q. And who is the head of your market risk
19 oversight group?
20 A. John Kinateder.
21 Q. Can you spell that for me?
22 A. His last name is K-I-N-A-T-E-D-E-R. Let
23 me correct that. He's head of the market risk
24 analytics group.
25 Q. And that was who developed the

1 constrained model?
2 A. Yes. His group did.
3 Q. And what's his position, if you know?
4 A. I believe it's director of market risk
5 analytics.
6 Q. Did you review the model to assure that
7 it was correctly programmed?
8 A. No. I reviewed how it works.
9 Q. Do you know if anyone reviewed the model
10 to determine whether it was correctly programmed?
11 A. I believe that it was a group effort
12 within the market risk analytics group to assure that
13 it was correctly programmed.
14 Q. And you said you reviewed how the model
15 works. What did your review consist of?
16 A. Sat down with the market risk analytics
17 group to review how the model works.
18 Q. Would that be with Mr. Kinateder?
19 A. Yes.
20 Q. And what other individuals would you have
21 sat down with to review how the model works?
22 A. Other people within -- within that -- his
23 group.
24 Q. Can you name those individuals?
25 A. Jason Westfall and I cannot remember the

1 woman's name.
2 Q. Can you spell Westfall, please?
3 A. W-E-S-T-F-A-L-L, I believe.
4 Q. And there was a woman also but you can't
5 identify them?
6 A. I can't recall her name.
7 Q. And that would have been it from the
8 market risk oversight analytical group who would have
9 sat down with you to review the constrained model?
10 A. People from the market risk analytics
11 group.
12 Q. Okay. Have you personally developed
13 binomial models before?
14 A. I personally have not.
15 Q. Does the constrained model that you used
16 to estimate POLR charges compute the value of a put
17 option, call option, or both the put and call option?
18 A. Both.
19 Q. And it does that at the same time; is
20 that correct?
21 A. It's all contained within the model.
22 Q. Would you agree with Mr. Baker's
23 characterization that when determining the cost of
24 POLR obligation, the customer's optionality rights
25 are equivalent to a series of options on powers and

1 that the Black-Scholes model values the series of
2 options?
3 A. Are you referring to the constrained or
4 Mr. Baker's model?
5 Q. Mr. -- first, let's deal with Mr. Baker's
6 model, the unconstrained model.
7 A. Yes, it's a series of options.
8 Q. I asked you with respect to the
9 constrained model, would you agree that when
10 determining the cost of POLR obligation, the
11 customers' optionalities are equivalent to a series
12 of options on power and that the model values the
13 series of options?
14 A. Yes.
15 Q. Can you tell me how the constrained model
16 reflects the series of options?
17 A. I believe that I explained that in my
18 earlier explanation of how the model works and the
19 decisions that can occur each month. Each month the
20 customer has an option.
21 Q. Does the constrained model compute a
22 series of options that are one month in length; would
23 you agree with that?
24 A. No.
25 Q. And what time period would you equate

with the series of options, if it is not one month?

A. It can be as short as one month, or it could be as long as three years. It looks at all of those different points in times where customers can choose to switch subject to the switching constraints.

Q. And then those results are averaged; is that right, under the Black-Scholes model under the constrained model --

A. Yes.

Q. -- over the three-year --

A. Yes.

Q. -- term? And then the constrained model they averaged over the two-and-a-half-year term?

A. I'm not sure what you mean, where the two-and-a-half-year term comes from.

Q. That's -- I'm sorry, the ESP2 term.

A. The -- it uses the appropriate term depending on the application.

Q. And the appropriate term for the ESP2 would be a two-and-a-half-year period because the term of the ESP; is that right?

A. It would be a 27 months -- or 29 months, I'm sorry, 29 months.

Q. You earlier, I believe, testified that

your constrained model incorporates the switching rules that are contained in the companies' tariffs; is that correct?

A. That's correct.

Q. Would an unconstrained version of the constrained model produce the same results as Baker's unconstrained Black-Scholes model if the same data were input to both models?

A. I don't understand the question.

Q. In other words, if you used the constrained model but took out the constraints, would you produce the same results as Mr. Baker produced under the unconstrained Black-Scholes model?

A. I don't know. I've not done that calculation.

Q. Does the constrained model reflect the impact of the fuel adjustment clause rider on the companies' ability to recover POLR costs associated with a returning customer?

A. The POLR model computes the cost of risk of the POLR obligation based on the ESP prices that are input as well as the market prices that are input.

Q. Does the POLR model take into account the ability of the company to recover purchased power

1 expenses associated with returning customers through
2 the fuel adjustment clause?
3 A. The fuel clause is not a component of the
4 model except to the extent that fuel costs are
5 included in an ESP price.
6 Q. Do you understand -- do you understand
7 how the fuel adjustment clause rider works?
8 A. Only in -- only very generally. I'm not
9 versed in the specifics of the Ohio fuel clause.
10 Q. Do you understand that the fuel
11 adjustment ri -- clause allows the company to collect
12 purchased power capacity and expenses?
13 A. I'm not sure as to what specific costs
14 can be passed through the fuel clause. I don't know.
15 Q. To the extent that the fuel adjustment
16 clause rider would allow the company to recover
17 purchased power expense and capacity costs, would it
18 impact the risk of the company, the POLR risk of the
19 company?
20 MR. CONWAY: Objection. She's already
21 answered the question. She is not familiar with the
22 mechanics of the FAC and to what extent it captures
23 whatever the costs are that you're referring to.
24 MS. GRADY: I am asking her to assume
25 that it does and then if --

1 MR. CONWAY: You haven't -- you haven't
2 even identified the costs. If you are going -- if
3 you are going to ask her to assume it recovers
4 particular costs and she is not familiar with whether
5 it does, then I am going to object to the question as
6 lacking foundation. The witness can't provide the
7 foundation.
8 MS. GRADY: It's a hypothetical. I am
9 asking her a hypothetical.
10 Q. Assume that the fuel adjustment clause
11 that governs the companies allows the companies to
12 collect purchased power costs, costs of capacity and
13 energy, does that affect the companies' risk of
14 being -- of being a POLR provider?
15 MR. CONWAY: Objection. If you can
16 answer it, go ahead. Take a shot. If you can't,
17 don't.
18 A. I don't know.
19 Q. Does the constrained model calculate the
20 value of a European option or an American option?
21 A. I believe it's a European option.
22 Q. Can you tell me what an American option
23 would be and when an American option can be
24 exercised, if you know?
25 A. I don't know.

1 Q. Do you know what an American option is?
2 A. Not to where I can explain it.
3 Q. Do you know if binomial models are used
4 to price an American option?
5 A. I don't know.
6 Q. Does the companies' constrained model
7 return a price that an option purchaser would pay
8 once for the right to exercise the option up to some
9 point in time?
10 MR. CONWAY: Could I have the question
11 restated.
12 MS. GRADY: Can it be reread, please.
13 (Question read.)
14 MR. CONWAY: Just clarification, by
15 "return" what is it that you mean?
16 MS. GRADY: Calculate.
17 A. I'm not sure what the question is.
18 Q. What costs over and above your SSO rate
19 does the company incur when a customer leaves and
20 returns from CRES service?
21 A. The company incurs the cost of risk that
22 the customer can leave and come back, the company
23 incurs that cost.
24 Q. If the company were relieved of its POLR
25 obligation, what would it do differently?

A. I guess I don't know because I don't believe the company can be relieved of its POLR obligation.

Q. If I were to ask theoretically, would you be able to answer that question?

MR. CONWAY: I am going to object. It's vague. It's ambiguous. It's not clear in what respect you're contemplating something might be done differently.

Q. Under the model that you have -- that you are supporting, Ms. Thomas, you call -- you determine risk associated with the companies' responsibilities for POLR, do you not?

A. Yes.

Q. And that risk imposes costs upon the company under your -- under your view; is that correct?

A. Yes.

Q. And if the company -- strike that.

Have you reviewed the testimony of Staff Witness Cahaan in the ESP1 case?

A. I don't recall whether I reviewed that or not.

Q. Are you familiar with the term migration risk as discussed by Staff Witness Cahaan in the

1 ESP1?

2 A. I'm familiar with that -- I am not

3 familiar as -- with his testimony.

4 Q. Okay. Are you familiar with the term

5 "migration risk" that was used in the course of that

6 proceeding?

7 A. I believe that term is used in the

8 Commission's order.

9 Q. And how do you -- how do you -- what do

10 you understand the term used in the Commission order

11 means? How would you define "migration risk" as you

12 understand it in the Commission's order?

13 A. I believe that it refers to the risk of

14 customers switching to a CRES provider.

15 Q. And that's the one piece of the -- of the

16 risk that you have calculated in the Black-Scholes

17 constrained model; is that correct?

18 A. The constrained model deals with the risk

19 of customers leaving and returning, both sides of

20 that.

21 Q. And it would be the leaving risk that we

22 are talking about, that the Commission was talking

23 about, when it talks about migration risks in the

24 order; is that correct?

25 A. That is my understanding, yes.

1 Q. And that's also what Mr. Baker called the
2 put option; is that your understanding?
3 A. Yes.
4 Q. And you characterize that risk, do you
5 not, as the first leave component; is that fair?
6 A. I've not computed a first leave
7 component. I am not familiar with that term in this
8 case.
9 Q. Ms. Thomas, I am going to show you -- I
10 am not going to mark it as a deposition exhibit, but
11 I am going to show you response to interrogatory No.
12 37 which was prepared by you and ask if you can
13 review that and specifically look at the term that
14 you used to respond to the discovery request.
15 A. Yes.
16 Q. Do you see the term "first leave
17 component"?
18 A. Yes, I do.
19 Q. Can you tell me now is the first leave
20 component term that you used in response to OCC's
21 interrogatory 37 the same as the migration risk we
22 have been discussing?
23 A. The first leave component is part of the
24 migration risk. You will notice in the response to B
25 where this is cost beyond the first leave component

1 which captures when a customer comes back and they
2 have the ability to leave again within the period
3 that is being evaluated, and so the first leave
4 component is a portion of the migration risk.
5 Q. Okay. And the first leave component is
6 your terminology, is it not, and not OCC's
7 terminology?
8 MR. CONWAY: Just a moment. For the
9 record, counsel, this is a -- an interrogatory
10 response which you identified as responding to
11 interrogatory No. 37. Did you mention as part of
12 your description of what you were discussing with her
13 that the case number in which it appears to have been
14 provided was 11-346 and 11-348?
15 MS. GRADY: I did not mention that, but I
16 appreciate the clarification.
17 MR. CONWAY: Well, let the record reflect
18 that it's -- it's an interrogatory response that was
19 provided in the course of discovery in a different
20 case and -- and so you may continue, but I think it's
21 helpful for the record to know what it is you're
22 inquiring about.
23 MS. GRADY: Was there a question pending
24 that had not been answered? I kind of lost track.
25 (Record read.)

1 MR. CONWAY: Thank you. And would you
2 agree, counsel, the document you are using is in a
3 different case than this case?
4 MS. GRADY: Yes, I would agree.
5 MR. CONWAY: Okay. Continue.
6 Q. Are you familiar generally with the term
7 first leave component?
8 A. Yes.
9 Q. And did you calculate -- and for purposes
10 of this case have you calculated the first leave
11 component?
12 A. No, I have not.
13 Q. Now, Ms. Thomas, early on in our
14 discussion we talked about the lost -- lost
15 opportunity cost. Do you recall that discussion?
16 A. Yes.
17 Q. And would it be correct that you defined
18 the lost opportunity for cost as occurring at the
19 wholesale level?
20 A. No.
21 Q. You believe the lost opportunity for
22 companies is at the retail level but costed out at
23 the wholesale price; is that correct?
24 A. No.
25 Q. Can you tell me how you define the lost

1 opportunity then?
2 A. The POLR cost is the cost of risk
3 associated with retail customers coming and going and
4 the obligations of the company to provide an SSO
5 retail price for the period.
6 Q. And part of the POLR risk -- would you
7 agree that part of the POLR risk relates to the fact
8 that the company loses the opportunity to sell power
9 associated with its POLR obligations?
10 A. Well, the risk is that you have to
11 provide the SSO generation price to retail customers
12 for the period, and customers have the choice to come
13 and go as they would like.
14 Q. If the companies were relieved of their
15 POLR obligation already -- let me strike that.
16 Are you familiar with the fixed resource
17 requirement capacity plan obligations of the company?
18 A. Generally, yes.
19 Q. If the companies were relieved of their
20 POLR obligation, how would the companies' fixed
21 resource requirement capacity plan obligations affect
22 the companies' ability to make capacity sales during
23 the ESP period?
24 A. I don't believe that the companies can be
25 relieved of their POLR obligation.

1 Q. Assume the companies are relieved of
2 their POLR obligation. How would the companies'
3 fixed resource capacity plan obligations affect the
4 companies' ability to make a capacity sale during the
5 ESP period?
6 MR. CONWAY: Objection, relevance.
7 Q. You may answer.
8 A. I haven't thought about that because the
9 company -- I don't know how the companies can be
10 relieved of their POLR obligation.
11 Q. Assuming that the companies were relieved
12 of their POLR obligation, how would the AEP pool
13 agreement -- let me strike that.
14 Are you familiar with AEP pool agreement?
15 A. Generally.
16 Q. If the companies were relieved of --
17 assume the companies were relieved of their POLR
18 obligation. How would the AEP pool agreement affect
19 their ability to make a long-term sale to lock in
20 prices?
21 MR. CONWAY: Same objection.
22 Q. You may answer.
23 A. I haven't thought about that because I
24 don't know how the companies can be relieved of their
25 POLR obligation.

Q. Are you familiar with typical CRES providers' terms with respect to Ohio?

A. I believe that CRES providers all have individual terms and conditions. I don't know what would be typical.

Q. Ms. Thomas, do you believe that there are other factors besides price which influence a customer's choice to switch?

A. I can't speak to why a customer would switch or not switch. Price is -- price -- in my view price is a -- is the key determinant.

Q. Do you believe that there are other factors besides price which could influence a customer's decision to switch?

A. I don't know.

Q. Do you know if the unconstrained model incorporates non-price factors which could influence a customer's decision to switch?

A. It does not incorporate non-price factors that could cause a customer to switch or to -- either switch to another or not to switch.

Q. Okay. Does the constrained model incorporate any non-price factors which would influence a customer's decision to switch?

A. No.

1 Q. Ms. Thomas, would you -- is it a fair
2 characterization that the company decided to
3 self-insure their POLR risk during the ESP1 period?
4 A. That's correct.
5 Q. And how did the companies make the
6 decision to self-insure their POLR risk?
7 A. I don't know that there was a specific
8 decision. I don't know whether there was a specific
9 decision or not.
10 Q. Are you saying you don't know whether the
11 company decided to self-insure?
12 A. The company self-insured its risk during
13 the period because it did not take any action to do
14 so otherwise.
15 Q. And do you know whether it affirmatively
16 decided not to take action?
17 A. I don't know.
18 Q. Who would have made the decision, if you
19 know, to self-insure POLR risk?
20 A. I can't name a specific person who would
21 make that decision.
22 Q. What division or department of the
23 company would you imagine has the responsibility to
24 determine whether or not they should self-insure
25 their POLR risk?

A. I don't know.

Q. With respect to the tariff mechanisms that contain the switching constraints, can you tell me when those tariff provisions were approved by the Commission?

A. I don't know the date that they were approved. I know they were in effect for the prior 2009.

Q. So what -- do you know why Mr. Baker didn't take those -- the switching rules into account in running the Black-Scholes model?

A. I can't speak to that.

Q. Now, on page 8 of your testimony, lines 12 through 15, you indicate that real levels of switching have occurred for CSP. Do you see that reference?

A. Which lines again?

Q. Line 13, page 8.

A. Yes.

Q. Would you make the same statement for OP, that real levels of switching have occurred for OP, or is that not accurate?

A. Yes. Customers have switched -- Ohio Power customers have switched to another supplier.

Q. Now, on LJT-2 page 3 you show the

switching that's occurred for other Ohio utilities, correct?

A. On page 3 of LJT-2, yes.

Q. Would you -- would you characterize the other utilities as similar -- as having similar -- let me strike that.

Are all -- are the other utilities that you list on LJT-2 page 3 similar to Ohio Power and Columbus Southern Power?

A. I'm not sure what you mean by similar. They are all Ohio EDUs.

Q. Do they face the same risk of shopping that Ohio Power and Columbus Southern Power face in your opinion?

A. The same risk regarding providing a standard service offer price to customers when customers may come and go; is that what you are referring to?

Q. I am referring to the shopping that's occurring in the areas. Is there the same level of shopping that is occurring in these utilities as is occurring for CSP and OP?

A. The current levels of shopping are a bit -- a little bit greater for the -- some of the other utilities. However, all have the same risk of

1 shopping.
2 Q. Is the POLR risk that is -- the POLR risk
3 that is faced by the other utilities the same or
4 similar to the POLR risk that's faced by Ohio Power
5 and Columbus Southern Power?
6 A. I have not computed what the cost of the
7 POLR obligation is for these other companies.
8 Q. So you don't know the cost of the POLR
9 obligation so, therefore, you don't know the risk of
10 POLR; is that correct, for these other utilities that
11 are contained on LJT-2 page 3?
12 A. They all have the risk of providing a
13 rate, an SSO rate, to customers, and customers have
14 the right to switch and return to that SSO price.
15 They all have that same POLR obligation.
16 Q. But the POLR risk is really a measurement
17 of the difference in the market price and the tariff
18 rate for those particular utilities?
19 A. Market price and tariff price are two of
20 the factors that go into determining the cost of the
21 POLR risk.
22 Q. And they would be one of the major
23 drivers -- the distance between the ESP price and the
24 market price are one of the major drivers of the cost
25 of POLR; is that correct?

A. That's correct.

Q. And have you done an analysis to look at the -- the distance between the proposed -- between the ESP price and the market price with respect to those -- each one of those particular utilities to determine the POLR risk that's being faced by the utilities?

MR. CONWAY: Objection. It's been asked and answered. She already said she didn't do the POLR calculations for the Ohio utilities.

Q. (By Ms. Grady) You can answer, Ms. Thomas.

A. I haven't done the calculations for the other Ohio utilities.

Q. Let's turn a moment to the workpapers associated with the IEU data request. Do you have a copy of those in front of you?

A. Yes.

MS. GRADY: Let's go for a moment to what you have -- let's mark as Deposition Exhibit No. 3 -- is that where we are at -- the 10-page document entitled LJT WPs A through J dot PDF.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Are these the workpapers that we have been referring to from -- in response to IEU data

requests in the remand case?

A. Yes.

Q. I would kind of like to walk through these very quickly and have you explain starting with A, the first page, 1 of 10, what the schedule is intended to show.

A. Workpaper A shows the calculation of the POLR dollars per megawatt hour and what percent that is relative to generation charges, dollars per megawatt hours based on actual billings of customers from January through April of 2011.

Q. And that would -- when you say it shows that the POLR -- what percent of POLR is to generation. If I looked at the line that says POLR percent, I would see 7.3 percent on average is the percent of generation that POLR is for CSP customers?

A. Yes.

Q. Okay. Let's move along to B. Can you tell me what this information shows?

A. This information is support for LJT-2 that shows the percentage of load that is served by CRES providers on page -- on page 1 of LJT-2.

Q. Is there a similar workpaper that would show the Ohio Power load served by CRES?

A. I didn't -- it's not included in my

1 workpapers because I didn't prepare an exhibit on
2 that.
3 Q. That data is available for Ohio Power,
4 correct?
5 A. Yes.
6 Q. Move along to C.
7 A. C is the numbers that support LJT-2 page
8 2 of 3.
9 Q. And what does ESIIDS mean?
10 A. Those are the IDs for the switch --
11 switching customers. Every -- every account has an
12 ESIID.
13 Q. Residential as well as commercial and
14 industrial?
15 A. Yes.
16 Q. Okay. And so is there a column that's
17 missing here or that was intentionally left off?
18 A. There's no column missing. We have the
19 dates and we have the number of customers or ESIIDS.
20 Q. Okay. And the Choice total would include
21 all -- all different types of customers, commercial,
22 industrial, residential? You haven't broken that
23 down for purposes of this workpaper?
24 A. Right. It's just the totals.
25 Q. Okay. And, again, is this number

available for Ohio Power, Choice?

A. Yes.

Q. Okay. But you did not produce it because it was not related to LJT-2.

A. That's correct.

Q. Okay. We can move on to D.

A. D is the percentages that support the graph in LJT-2 page 3 of 3.

Q. Okay. And is this information that's contained on the Commission's website?

A. Yes.

Q. And E?

A. E is the information from the POLR charges as proposed by Mr. Baker in the ESP case.

Q. Okay. Specifically with respect to E, I want to direct your attention to the line that's contained in both the boxes that says "today," and it contains a date -- a date of 7-30-2008. Can you tell me what the significance of that line is with respect to the put values for POLR?

A. I believe that's the date as of which the analysis was done for the ESP filing that was done in 2008.

Q. So are you saying that date was not put into the model to determine the length of the option?

A. That's correct.

Q. Going along to F.

A. F is the model output support for Exhibit LJT-3.

Q. And when it's entitled "compliance run," can you explain to me why you have called it a "compliance run"?

A. Compliance in terms of using the Commission's approved 2009 ESP rate.

Q. Which was not used in the earlier runs of Mr. Baker, correct?

A. No.

Q. He used the ESP proposed rates in his?

A. That's correct.

Q. And ESP proposed rates would have been higher than the PUCO-approved ESP rate; is that correct?

A. Yes.

Q. Going on to G.

A. G is the staff exhibit with the market price -- the competitive market prices that were used by the staff, and those market prices were then used in support of Exhibit LJT-4.

Q. And the competitive market prices used by the staff were lower than the competitive market

prices incorporated by Mr. Baker's model; is that correct?

A. That's correct.

Q. Is this a term of art, that "calendary," or is that a typo?

A. This is the staff exhibit. I can't speak to that.

MR. CONWAY: Talk to Hess.

Q. Going on to H.

A. H is the workpaper that is calculated by residential, commercial, and industrial the approved ESP rates because the rates were done on a tariff basis and needed to be done on a residential, commercial, and industrial basis and this is the calculation that produces the residential, commercial, and industrial approved rates for 2009, '10, and '11 that were used in -- for Exhibit LJT-4.

Q. And those are the generation rates that are contained in the box at the very top of the page?

A. Yes, the box and 2009 that sits right above the box.

Q. Okay. And I just shows the same data for Ohio Power Company.

A. Yes.

Q. And J.

A. J is just the numbers that support the calculation of that 98 percent of customers have chosen to continue to pay POLR as opposed to waiving the POLR charge and returning at market rates.

Q. And when you use the term "exempt," that would mean those are the customers who did not -- or chose not to pay POLR and chose to pay market rates when they returned?

A. That's correct.

Q. And nonexempt would be those who continue to pay POLR throughout?

A. Yes.

Q. Can I have just one -- oh, I'm sorry. I spoke a little too soon. Final line of questioning, Miss Thomas, the residential customers in Ohio who are served by an AEP electric distribution utility, what circumstances would prevent them from being Choice eligible, if you know?

A. I'm not aware of any restrictions, but I'm not positive.

Q. Are you familiar with the Municipal Electric Aggregation Program that Columbus Southern Power -- let me strike that.

Are you familiar with the aggregation efforts by the city of Reynoldsburg?

1 A. Just very generally.
2 Q. Do you know what type of customers served
3 by AEP and located within the city of -- the city
4 boundary of Reynoldsburg were not included as part of
5 the aggregation group?
6 A. I believe -- I believe that customers who
7 were on the Percentage of Income Payment Plan were
8 not included.
9 Q. And do you know why that was?
10 A. No.
11 Q. What assumptions were used in the
12 constrained model that you developed with respect to
13 customers who could be ineligible for switching?
14 A. Because the model calculates it on a per
15 kilowatt-hour basis, there's no assumption about
16 certain customers, just the switching rules were
17 incorporated.
18 Q. And is that statement true for both the
19 constrained and the unconstrained model, that neither
20 of the models would account for in -- customers that
21 were ineligible for switching?
22 A. That's correct.
23 MR. DARR: Could I have that read back
24 again? Let me make sure -- maybe I can shortcut
25 this. The model does not account for customers that

1 cannot leave the system.
2 THE WITNESS: That's correct, because it
3 computes it on a megawatt -- kilowatt-hour basis.
4 MR. DARR: It's indifferent.
5 THE WITNESS: Yes.
6 Q. Miss Thomas, is --
7 MS. GRADY: And thank you, Mr. Darr.
8 Q. Are the customers who are ineligible to
9 switch, that means they are not able to leave, are
10 they charged the POLR shopping -- are they charged
11 the POLR rider?
12 A. All customers are charged the POLR rider
13 with the exception of I believe a couple of special
14 contract customers where the Commission has
15 determined that -- that they cannot shop and that
16 POLR is not applicable.
17 Q. So customers who are ineligible for
18 switching still pay the POLR charge, POLR rider; is
19 that correct?
20 A. All customers pay the POLR rider except
21 those couple of circumstances that I mentioned.
22 Q. Do you know how many customers on an AEP
23 Ohio basis are ineligible to switch?
24 A. No, I don't.
25 Q. Has AEP had discussions with the Ohio

1 Department of Development relating to initiating a
2 choice program for PIPP customers in the AEP Ohio
3 service territory, if you know?
4 A. I don't know.
5 MS. GRADY: That's all the questions I
6 have. Thank you, Miss Thomas.
7 MR. ALEXANDER: I can be done somewhere
8 around 15 minutes, half an hour. Do we have time to
9 do that?
10 MR. CONWAY: The deposition for -- are we
11 off the record?
12 MR. PETRICOFF: Let's go off the record.
13 (Discussion off the record.)
14 - - -
15 EXAMINATION
16 By Mr. Darr:
17 Q. Ms. Thomas, my name is Frank Darr. I am
18 here on behalf of IEU-Ohio. Very briefly you
19 provided Answers to Interrogatories also in the
20 11-346, 347 cases concerning the ability of customers
21 to come on and off the system as a factual matter,
22 that is, customers have come in on and off the
23 system; is that right?
24 A. Yes.
25 Q. And if we asked you those questions

1 today, would your answers be substantially the same
2 as the answers you provided in your answers to
3 interrogatories?
4 A. Yes.
5 Q. Very good. At various times in these
6 proceedings the cost -- and I am now speaking of the
7 08-917 proceedings, the cost of POLR has been
8 described by the company as the -- as affecting the
9 companies' ability to manage its portfolio
10 recognizing options to -- I believe I quoted
11 Mr. Baker word for word. Do you subscribe to that
12 definition of what the POLR or the default obligation
13 of the cap is and how it affects -- I am asking two
14 questions, and I should only ask one.
15 Do you agree with that statement that the
16 cost to the company represented by the default
17 obligation is represented by the companies'
18 obligation to manage its portfolio obligation
19 recognizing this option exists?
20 A. Managing the portfolio is part of the
21 cost of the risk of providing customers with an SSO
22 generation clause while they are free to switch and
23 return subsequent to the switching.
24 Q. So if I understand it correctly, as a
25 default provider, you have to do some certain things

with your portfolio, whatever that portfolio is.

A. Well, the real obligation is to provide service to customers at the SSO generation rates and then, you know, and then whatever it takes to serve customers at those rates.

Q. And as we find out from your testimony and Dr. LaCasse's testimony, the way of meeting that portfolio obligation could be a number of different things, correct?

A. Sure.

Q. One could be the way that you currently do it which apparently is to make your generation available to those customers that may leave or come back, specifically those that come back?

A. Well, not specifically to the customers' generation but we have that price obligation so whatever it takes to serve customers, the customer has the right to that price, and the company bears the risk of how to meet that price to customers.

Q. And as -- and how you do that is part of the portfolio management that's encompassed in Mr. Baker's statement; is that correct?

A. Yes.

Q. Now, when we were talking earlier about PIPP customers, what we are really talking about

1 those subject to the universal service fund
2 obligation, correct? PIPP is sort of a term of art
3 which statute now talks about universal service fund
4 customers, I believe. Are you familiar with that?
5 A. No, not at this time.
6 Q. And is it true at this time that the
7 company has not -- well, back in 2008 when these
8 hearings were going on, the company had not made a
9 calculation of what it would take to keep units
10 available so that customers could come back. Has
11 that calculation been done more recently?
12 A. Not to my knowledge.
13 Q. The period that's used in the 2008 cal --
14 polar calculation, the one that Mr. Baker did, we've
15 already talked about it at some length, I just want
16 to make sure I understand it correctly. When he made
17 the calculation, the term that he used was a
18 three-year term?
19 A. Yes, three-year term consistent with the
20 term of the ESP.
21 Q. Okay. And that's -- when you -- when you
22 qualify it by the term of the ESP, that's important
23 because that sets the parameters for calculating the
24 energy price; is that correct?
25 A. It sets the parameters for all --

1 basically all components that go into the POLR
2 calculation.
3 Q. Well, specifically it tells us that you
4 are going to draw energy prices from the period
5 roughly January 1, '08, to January -- excuse me,
6 December 11.
7 A. We are looking at ESP prices for that
8 period. We are looking at market prices for that
9 period.
10 Q. Right. You are not pulling swap prices
11 from 2015.
12 A. No, not for other years. Right, we are
13 pulling prices for that specific period, yes.
14 Q. Okay. And at least in the way that
15 Mr. Baker did the calculation, there was no -- there
16 were no individual year calculations.
17 A. That's correct.
18 Q. In your current Exhibit, LJT-3 and 4,
19 have you calculated the values for the put and the
20 call? You've indicated before that this is a total
21 risk calculation. Have you made a calculation of the
22 components?
23 A. No, I haven't.
24 Q. One of the things that you've done -- do
25 you know whether or not anybody else has made that

1 calculation? I know that you didn't -- that you have
2 some assistance in making these calculations.
3 A. Not to my knowledge, no.
4 Q. Okay. So no one -- as far as you know,
5 that number is not available currently?
6 A. That's correct.
7 Q. Okay. At pages 13 and 14 in your
8 testimony you indicate you have done some updating to
9 the model.
10 A. Yes.
11 Q. And the purpose of this updating is as I
12 understand it to help -- to further refine it and
13 while -- let's stop there. You are in the process of
14 refining the model, correct?
15 A. Yes. The model was refined to include
16 the switching constraints, you know, as part of any,
17 you know, process to continuously try to improve.
18 Q. Right. You are adding information as
19 you -- as you can to better reflect the reality of
20 the marketplace that you are operating in, correct?
21 A. That's correct.
22 Q. And that's generally true of most
23 econometric models, you try to make it as close as
24 you can, make your assumptions as close as you can to
25 the world out there at large?

A. Yes.

Q. In making decisions about whether you are close enough, is there a design model, a test, that you use to determine whether or not you're close enough?

A. Nothing specific that I'm aware of.

Q. So there is some subjectivity involved in terms of designing the model, correct?

A. Yes. The model is designed to try to capture as closely as possible what the companies' POLR -- the cost of the companies' POLR risk is and reflect that cost.

Q. And one of the things that you've done here both in the remand testimony and in your testimony in the pending ESP, folks have been calling ESP2, is try to define that a little bit more to reflect at least within the paradigm that you use, the Black-Scholes or the Black model, what you believe the option price should look like?

A. That's correct.

Q. This group that you referred to that makes the calculations or assisted you in the calculations of the POLR, did you -- do you know whether or not they were involved at all with the determination of the bid prices for any of the bids

1 that your company has made to -- in auctions for
2 third parties? Other EDU auctions to be specific.
3 A. I don't believe they were.
4 Q. Okay. Do you know who within your
5 company would have been responsible for that?
6 A. I believe that would have been people
7 within our commercial operations department, but I
8 don't know who specifically.
9 Q. Okay. And can you identify what you mean
10 by commercial operations department?
11 A. The commercial operations department is
12 the department that has responsibility for the
13 sales -- sales, generation trading, and marketing on
14 behalf of the regulated utilities.
15 Q. Uh-huh. Often in the literature people
16 talk about the Black model or Black-Scholes model as
17 being a risk-free model. Have you seen that?
18 A. Yes.
19 Q. And to your -- to you what does that
20 mean?
21 A. Basically that it covers the cost, that
22 you are looking at it over a period of time. You are
23 using an interest rate to basically look at what
24 is -- what is the -- what is the cost that basically
25 you remove the risk from -- from the analysis by

capturing the cost of that risk.

Q. And in the instance of your use of this risk-free approach, this is designed to hold whom free of risk?

A. The company.

Q. The company. So essentially what you are trying is attempting to price out the risk of a customer leaving or a -- and/or that customer coming back?

A. It's pricing out the costs of the risks that the company incurs in having to allow customers to switch and come back and to do that where customers can come back to the standard service offer generation price over the period.

Q. We talked very briefly earlier, when you were having some discussions with Ms. Grady, you mentioned that you have some familiarity with the companies' responsibility as an FRR entity in the PJM system. Can you describe what your understanding of that is?

A. In general the company has to plan for capacity to serve customers in its -- in its service territory unless that capacity is provided by other suppliers.

Q. And that's true of all the load on your

1 system, correct?
2 A. Yes.
3 Q. And that's on a daily basis that you have
4 to be ready to serve every person on the system.
5 A. Yes.
6 Q. And that's true of both the customers
7 that are paying retail to you and the customers that
8 are paying a -- that are contracted with one of your
9 competitors?
10 A. Unless those suppliers provide their own
11 capacity and energy.
12 Q. Are you aware of any that are? If you
13 don't know, that's fine.
14 A. I don't believe there are any that are
15 supplying their own capacity.
16 Q. Okay. So your answer is as you
17 understand it right now zero?
18 A. I'm not sure.
19 Q. One last thing about the Black-Scholes,
20 when you were discussing the decision making process
21 of a customer, the decision making process in the
22 Black or Black-Scholes model assumes that the
23 customer rationally responds to the price signal,
24 correct?
25 A. Yes. It assumes that when the economics

are such, that the customer will choose to shop.

Q. Isn't it more narrow than that? The economic signal is the price.

A. Yes.

Q. And it just assumes go, no go in the decision; isn't that correct?

A. That's correct, by looking at prices over the period, yes.

Q. So any other factors that might affect the go, no go decision are not incorporated into the model, are they?

A. That's correct.

MR. DARR: Okay. That's all the questions I have. Thank you. Unless -- do you have anything? Okay. He saved you from another question. There you go. Thank you very much.

- - -

EXAMINATION

By Mr. Petricoff:

Q. Well, I guess I have to say good afternoon, Ms. Thomas.

A. Good afternoon.

Q. I am Howard Petricoff, and I am here on behalf of Constellation NewEnergy and Constellation Energy Commodities Group. And I want to pick up, I

1 think, with the conversation that Mr. Darr just asked
2 you in terms of the -- of the FRR obligation. You
3 would agree with me that -- and I'll call it AEP
4 Ohio; that refers to both Ohio Power and Columbus
5 Southern Power -- that AEP Ohio must supply the
6 capacity to any CRES, competitive retail electric
7 supplier, who is serving customers within the AEP
8 Ohio service territory.
9 A. Yes, that's correct except if -- except
10 the supplier can choose to bring their own.
11 Q. Right. And are you familiar with the
12 process of what a supplier has to do in order to
13 bring their own capacity?
14 A. No, I'm not.
15 Q. Okay. Let's assume that Section 8D of
16 the PJM rules require that you have to give 36 months
17 advanced notice in order to -- in order to bring your
18 own -- your own authority -- I'm sorry, your own
19 capacity. Assuming that -- I'm sorry. Assuming that
20 no one has filed that type of notice, can we assume
21 then that every CRES must be buying capacity from AEP
22 Ohio?
23 MR. CONWAY: Objection. You assumed two
24 premises and the conclusion and asked her to agree
25 with it, so I think it's -- it's just out of bounds,

1 Howard. She said she wasn't -- she wasn't intimately
2 familiar with the FRR mechanism. And on top of that
3 you asked her to assume all these things including
4 the conclusion, and I just think it's not -- not
5 appropriate.
6 MR. PETRICOFF: I will -- worse than that
7 it may not even be useful at hearing so let me
8 rephrase. Let me rephrase the question. Withdraw
9 the question and start again.
10 Q. So at this time, if I understood your
11 last question -- your last answer correctly, you are
12 not aware of any customer -- of any CRES whose buying
13 their own capacity, correct?
14 A. Not that I know of.
15 Q. Right. And assuming that a CRES does not
16 bring their own capacity, then they would be
17 purchasing capacity from AEP Ohio in order to serve
18 the retail customers in the AEP Ohio service
19 territory?
20 A. Yes. They would be purchasing if they
21 are not bringing their own.
22 Q. Is there any adjustment that was made in
23 the Black model that you looked at that accounted for
24 the fact there would be capacity payments that were
25 going to come back to AEP Ohio because of the sale of

capacity to CRES if a customer migrated?

A. No. The model calculated the cost of the POLR risk which is providing service to the customer at the SSO generation rates to retail customers.

Q. That's what is calculated by the POLR model and the POLR risk you are calculating, you being AEP Ohio, is -- is what the revenue or financial risk is to AEP Ohio by having this POLR obligation?

A. Yes. It is the cost of the risk of having the POLR obligation.

Q. In that case wouldn't you have to account then for the capacity revenue that's going to come back if customers migrate but the CRES supplier has got to make payments to AEP Ohio?

A. No.

Q. And why not?

A. The POLR cost is not the cost of capacity. It is the risk of having to provide service to customers at the SSO generation price. It is not the cost of capacity. An energy customer pays the SSO price for capacity and energy when they take service from the company. They pay their CRES provider for capacity and energy when they take from a CRES provider.

Q. Let me approach it this way, let's -- if you would turn to -- to Exhibit 3 of your -- of your testimony, LJT-3. Now, my understanding is that we have -- we have this Black model that -- that is -- has been designed to capture the cost of the -- of the risk to AEP Ohio for customers migrating. And the variables that we put into the -- into the model are those that are shown here, just these -- these five variables that are shown here in the model inputs; is that correct?

A. The -- I don't believe your statement of the model is correct.

Q. Okay. Correct my statement then. What are the variable inputs that go into the Black model as was used to make the calculations in your testimony?

A. These are the correct inputs, but the POLR model is capturing the cost of the risk of providing service at standard service offer generation risks -- costs while customers can come and go.

Q. Right. And -- and these four items, strike price -- I'm sorry, five items, strike price, maturity, market rate, volatility, interest rate, those are the variables that you put into the model?

A. Yes. Those are the five variables.

Q. Right. And to your knowledge are there any other variables that go into the model in order to make the calculation?

A. No. These are the only -- these are the input variables.

Q. And so you would agree with me that within the model that -- the Black model as was used in making your calculations, to your knowledge there is no adjustment that is made for capacity payments that CRES would make to AEP Ohio?

A. It is not included because it would not be appropriate to include it.

Q. Let's see if we can break that answer down. You would agree -- am I correct in saying that there is no -- there is no adjustments for capacity payments?

A. Yes, there is no adjustment for capacity payments that are -- it is strictly these variables that are included.

Q. Okay. And -- and would you agree with me that there might be a difference of opinion as to whether it is appropriate or not appropriate to account for that revenue stream?

MR. CONWAY: Objection. If you want to

disagree, you are welcome to do it. You don't need to suppose about your ability to disagree.

MR. PETRICOFF: Are you instructing her not to answer?

MR. CONWAY: No.

Q. Okay.

A. I can only speak to my view that it is not appropriate to account for that in the model.

Q. Okay. Now, let's -- let's continue on here. The -- looking at LJT-3, the first item is the ESP strike price and that was -- for residentials was $50. Okay. And how was that strike price determined?

A. That is the un -- are you referring to Exhibit LJT-3?

Q. Right. And I should have been more specific, in the Columbus -- CSP model strike price residential first -- first row.

A. That's the average residential realization for 2009 as approved by the Commission.

Q. Okay. When you say "realization," what do you mean?

A. Average set -- in this case dollars per megawatt hour, cents per kilowatt hour.

Q. Okay. And was that a weighted average?

A. Yes, it's the weighted average for the residential class.

Q. So basically that was -- this was for calendar year 2009?

A. Yes, the approved rate for 2009.

Q. Okay. And then we used the actual -- the actual consumption in kilowatt hours and demand to come up with that calculation?

A. That comes from as derived in workpaper H which ties back to all of the parameters from the ESP case. So it's based on the rates that were put in place for 2009 based on all of the billing units and everything from the case as utilized in the final rates that were approved by the Commission.

Q. Okay. I just want to funnel this down for my own understanding. I understand the rates. Am I correct that in order to come up with the weighted average cost that you would have to know what the sales were to come up with the price -- and well, let me just stop there. Is that correct?

A. That -- well, as shown on workpaper --

MR. CONWAY: Just a second. Did you -- you heard her answer which is she referred you to page H of her workpapers. Maybe you should look at them.

1 MR. PETRICOFF: Right. And I didn't have
2 the workpapers with me but I do now.
3 MR. CONWAY: All right.
4 MR. PETRICOFF: I still want to continue
5 down these questions because it's fairly simple.
6 MR. CONWAY: She's answered the question
7 once.
8 MR. PETRICOFF: Well, she hasn't answered
9 the question.
10 Could I have the pending question.
11 MR. CONWAY: She hasn't answered the same
12 question twice yet, but you have asked it twice, the
13 same question.
14 MR. PETRICOFF: Well, I think rather than
15 arguing over that let's just have the question
16 reread.
17 (Question read.)
18 MR. CONWAY: Just read the prior answer.
19 MR. PETRICOFF: I am going to withdraw
20 the question.
21 MR. CONWAY: She used the information --
22 MR. DARR: Mr. Conway, I think he just
23 withdrew.
24 Q. Now that I have been handed this exhibit,
25 it's going to be easy. If you would turn to the

1 reference that you just gave me on the workpaper.
2 A. Yes.
3 Q. And at the top it says "revenue class"
4 and it has kilowatt hours and we have 7.4 billion
5 kilowatt hours.
6 A. Yes.
7 Q. Where did the 7.4 billion kilowatt hours
8 come from? Is that a projection from the rate case,
9 or is that the actual 2009 number?
10 A. These are the rate case numbers that were
11 used to design the rates that were approved by the
12 Commission.
13 Q. So the actual 2000 number could be much
14 different?
15 MR. CONWAY: 2009.
16 Q. 2009, the actual consumption in 2009, the
17 kilowatt hours.
18 A. Actual consumption would be different
19 than the test year numbers, yes.
20 Q. Do you happen to know whether or not
21 there were more or less kilowatt hours sold in 2009
22 than the projection?
23 A. I don't know.
24 Q. So basically when we are looking -- now,
25 I am back to LYT-3 when we are looking at -- at this

1 $50, basically that -- that's what's coming out of
2 the -- of the 07-917 rate case? That's not actual
3 2009 numbers?
4 MS. GRADY: Correction, for the record
5 it's 08-917.
6 MR. PETRICOFF: Thank you, 08.
7 MR. CONWAY: LJT-3.
8 A. The average price is the Commission
9 approved rate applied to the kilowatt hours from the
10 case, and it may be slightly different if you used
11 test -- if you applied those rates to actual kilowatt
12 hours, it could be -- it could be slightly different.
13 Q. Okay. How come the company -- how come
14 when you prepared your testimony you didn't just
15 do -- do -- well, let me withdraw that.
16 Has the company ever run similar
17 calculations using the actual kilowatt hours and
18 actual revenue numbers?
19 A. No.
20 Q. Okay. Now, you -- you were making a -- a
21 recommendation to the Commission on what they should
22 set the POLR charge on for the rest of 2011, correct?
23 A. Yes.
24 Q. Okay. Is there a good reason why you
25 wouldn't redo all of the variables and use

1 projections as of, you know, May or June of 2011?
2 A. Well, the POLR charging that would be in
3 place for the remainder of 2011 is part of the
4 companies' standard service offer commitment for the
5 entire period of 2009 through 2011 so utilizing the
6 same data as was used to develop the POLR charge that
7 has been in effect for the last two and a half years
8 would be appropriate to utilize that for the purposes
9 of determining had a run been done at that time that
10 merely reflected the ESP price, what we were trying
11 to show here was that had we substituted the final
12 ESP price for 2009 rather than the proposed price for
13 2009, this is what the model would have produced.
14 Q. Okay.
15 A. So for the purposes of what we are trying
16 to show here this was appropriate.
17 MR. PETRICOFF: May I have just a
18 2-minute break? It's 1:30, and I have got to do some
19 schedule rearranging, but I'll be right back.
20 MR. ALEXANDER: Miss Thomas, my name is
21 Trevor Alexander, and I represent FirstEnergy
22 Solutions. I understand Mr. Conway has something he
23 would like to say.
24 MR. CONWAY: It's my understanding based
25 on the entry that was issued today by the Attorney

1 Examiner in this remand proceeding that FirstEnergy
2 Solutions, the Appalachian Peace and Justice Network,
3 and the Exelon motions to intervene in this remand
4 proceeding were denied as being untimely, and as a
5 result, the companies object to any deposition
6 examination by counsel for those entities and will
7 not permit it.
8 MR. ALEXANDER: So that the record is
9 clear FirstEnergy Solutions is prepared to go forward
10 with Ms. Thomas' testimony today, the date that was
11 agreed to by counsel. We are moving for
12 reconsideration of the entry that was put on earlier
13 this morning and will be noticing Ms. Thomas'
14 deposition for a later day since counsel has refused
15 to allow us to go forward today.
16 MR. SMALZ: I would add that the
17 Appalachian Peace and Justice Network also has some
18 questions, limited number of questions, to ask of
19 this witness. It is also very likely that we will
20 move for reconsideration of the PUCO entry.
21 MS. GRADY: To make the record clear it's
22 an Attorney Examiner entry. It's not a Commission
23 entry.
24 MR. ALEXANDER: Did I say Commission?
25 MS. GRADY: So you are going to take an

1 interlocutory appeal.
2 MR. ALEXANDER: Yes. We may have already
3 done so.
4 MS. GRADY: As opposed to
5 reconsideration.
6 MR. ALEXANDER: Uh-huh.
7 MS. GRADY: Minor point. Just want to
8 make sure we follow the right process.
9 MR. ALEXANDER: Well, I am sure -- so
10 that we are clear I am not sure if it's a motion for
11 reconsideration or motion for interlocutory appeal.
12 MR. CONWAY: Are you on the record still?
13 Your comments are on the record, if that's all right.
14 MR. PETRICOFF: I'm sorry. Which
15 comments?
16 MS. GRADY: Our discussion.
17 MR. CONWAY: Mr. Alexander's.
18 MR. ALEXANDER: That's fine.
19 MR. PETRICOFF: Shall we -- are we ready
20 to continue?
21 MR. CONWAY: Yes.
22 MR. PETRICOFF: Okay. Thank you for
23 allowing me to have a quick break.
24 Q. (By Mr. Petricoff) I want to return to --
25 to -- to your LJT -- LJT-3 exhibit. Could you have

1 taken the same model and run the current strike price
2 with current prices as of June, 2011, and the
3 maturity date would have remained the same, the
4 market rate being whatever the market rate in May or
5 June at -- and run the -- run the model just using
6 currents numbers going forward for the last six
7 months of the ESP1?
8 A. Theoretically you can run a model varying
9 certain inputs, but I don't believe that that would
10 be correct.
11 Q. Okay. And, once again, your reasons for
12 not using the current pricing to develop the POLR,
13 for the current POLR being the POLR period to be
14 charged in the remainder of 2011, would you mind
15 explaining why you think that would be -- it would be
16 better to use the historic numbers?
17 MR. CONWAY: It's been asked and answered
18 so I object. But go ahead one more time.
19 A. The company committed at the beginning of
20 the ESP period to providing POLR service for and
21 computed the cost of its POLR obligation over the
22 three-year period and, therefore, to be consistent
23 with what the companies' obligation was, it was
24 appropriate to use the data as of the time of the --
25 not to change those parameters at the time of the

1 analysis. It was appropriate to put in the approved
2 prices that result from the rates approved by the
3 Commission.
4 Q. Okay. Has the company done any studies
5 to go back and see how closely the projections that
6 came out of the 08-917 case came to the actual risk
7 or cost?
8 MR. CONWAY: Objection. Request for
9 clarification. What -- in what respect are you
10 inquiring? Close in what terms, of what? In terms
11 of the kilowatt hours or something else?
12 Q. Did the company ever engage -- I will
13 rephrase the question. Did the company ever engage
14 or make a study to compare the revenue that they
15 received from the POLR charge with what perceived
16 actual cost was for providing the POLR service?
17 A. No. The company computed the cost of the
18 POLR obligation which is determined at the beginning
19 of the period.
20 Q. Did the company ever compare the POLR
21 cost with what either a put or call option in the
22 market could have been obtained for the ESP1 period?
23 A. No.
24 Q. I've got some odds and ends questions for
25 you just going through your -- your testimony. The

first is on page 1 you give us your educational background. Have you done any work in -- in econometrics? When I say any work, have you taken any advanced courses in econometrics?

A. I believe I took some when I was in college but --

Q. Okay.

A. -- I don't recall.

Q. And when was the Black model developed?

A. Are you referring to the Black model in general?

Q. Yes, the Black model or the Black-Scholes Model.

A. I don't recall the exact year.

Q. Roughly speaking 1970s? 1980s?

A. I don't recall.

Q. Okay. Was it something that you studied when you were at Ohio State in the graduate program in mathematics?

A. I don't believe it was part of my graduate studies.

Q. Okay. And have you ever had the responsibility for -- for American Electric Power to do a Black or Black-Scholes model for commercial purposes outside of this case?

A. No.

Q. Okay. I may get this wrong and, if so, please feel free to correct me, but the section that was involved in developing the Black model was the market risk analysis group?

A. Analytics.

Q. Analytics group, okay. Is the market risk analytics group part of AEP Ohio, that is, is it part of either Columbus Southern Power or Ohio Power or is it in another subsidiary of AEP?

A. It is a part of the service corporation.

Q. Okay. So it's not part of the operating utilities?

A. No. It's part of the service corporation.

Q. Okay. And so is the relationship then between the market risk analytics and -- and AEP Ohio one basically of a -- of hiring a consultant?

A. I don't believe I characterize it as a consultant. You know, groups in the service corp. routinely do work with the operating companies.

Q. Does the -- if you know, does market risk analytics group have responsibility for commercial wholesale trading?

A. They do not do trading.

1 Q. Okay. Here's a topic that we have had
2 some discussion on, so I think maybe I can just sort
3 of sum it -- sum it up with your help, I am looking
4 on page 3 of your testimony, lines 10 to 13, and on
5 line 10 you make the statement that "the Companies
6 incur a POLR obligation because all customers are
7 free to switch to generation service from -- from a
8 CRES." I take it in that statement "all customers"
9 may not include customers who are engaged in the PIPP
10 program or have a special contract or are ineligible
11 to shop.
12 A. Yes.
13 Q. Okay. And at this time you're not aware
14 of either how much load or what percentage of
15 customers fall in the category that are not free to
16 switch to a CRES?
17 A. No, I don't know.
18 Q. And similarly the Black model that was
19 used made no adjustment for customers who would be
20 ineligible to buy from a CRES?
21 A. In the weighted averaging of the results
22 by residential, commercial, and industrial, there was
23 no adjustments for that --
24 Q. Okay.
25 A. -- to my knowledge.

Q. Now, on line 13 on page 3, you say that "In addition, customers are free to return," okay? And I want to focus in on the word "free." Free in terms of the obligation of AEP Ohio to serve those customers; is that correct?

A. It's -- the phrase refers to that customers can return, it's their option, not the customers -- the companies' option in terms of when they return to us.

Q. Right. So it could well be that customers are not free to return because they have contract obligations with a CRES or -- or they are in a governmental aggregation group?

A. Yeah. Customers may enter into contracts that have those limitations.

Q. All right. And the Black-Scholes model or the Black model that we used makes no adjustment to the fact that some customers because of their contractual or other obligations may not be able to return to SSO service.

A. The company would have no way of knowing what commitments customers make.

Q. And for that reason no adjustment was made to the model.

A. That's right.

Q. Now, I would like to draw your attention to or focus your attention on page 5, line 10. And there the line says "when customers receive a consolidated bill from either the Company or a CRES provider." Do you see where I'm referring to?

A. Yes.

Q. Okay. Are there any CRES providers who have the authority to bill for AEP Ohio?

A. I believe that there are providers doing consolidated billing.

Q. Where the provider bills for the wire charges for Ohio Power or Columbus Southern Power?

A. Yes.

Q. Okay. Do you have any idea how many or what kind of load?

A. No, I don't.

Q. Okay. Now, I would like to draw your attention to page 11, lines 9 to 14. We say "in the model," we are talking about the Black model, "it is not the absolute values of these two prices, but rather the difference between the two prices that is the key driver in determining the POLR value." And with that in mind what would cause the POLR value to go up when the market value is closer to the utility's strike price or when it's farther away?

A. A greater POLR value would occur when the ESP price is closer to the market value.

Q. Okay. So the closer -- the more similar the market price is with the -- with the strike price, the greater the fee -- the greater the POLR fee the customer has to pay to AEP Ohio?

A. Yes, the greatest the POLR cost to the company and the charge to the customer.

Q. What happens when the -- when the POLR price -- I'm sorry. What happens when the strike price exceeds the -- the market price? Does that relationship remain the same?

A. Could you repeat that?

Q. Sure. In fact, let me -- let's use some examples, may make it easier. One would expect that if there was a $10 difference per megawatt hour between -- let's see, one would think that if the -- if the market price was $50 a megawatt hour and the strike price is $40 a megawatt hour and the POLR was -- was 5 mills, that if the strike price was -- was -- it shows you should always write your examples out first. Let me go back and write this out so I don't make this record any worse than it's probably going to be.

Let's start we are going to assume that

1 the market price is $50 and the strike price is $40
2 and the POLR fee when we run the model comes out to
3 be 1 mill, we would expect then given your last
4 answer that if the market price was $50 and the
5 strike price was $45, that the POLR would go up; it
6 would be higher than 1 mill all else being the same.
7 All else being the same.
8 A. Yes.
9 Q. Okay. Now, what happens if the -- if the
10 strike price is -- is $40 but the market price drops
11 to -- to $40 so now they are both at $40, would we
12 expect the POLR then to be even higher than 2 mills?
13 A. I don't know about what is the 2 mills.
14 Q. The 2 mills was the -- was the -- was the
15 price when there was a $10 beneficial spread in favor
16 of the strike price.
17 A. Okay. Earlier you said it was 1 mill.
18 I'm confused by your example.
19 Q. Okay. Yeah. 2 mills was when there was
20 a $5, you are correct. If there is a -- when there
21 was a $5, 2 mills. Now, we have got them matched up
22 the same. Would we expect that the POLR would go up
23 from 2 mills when they match up the same?
24 A. Yes, because they are closer together but
25 my recollection is at some point the POLR charge does

not continue to grow. It converges.

Q. Okay. And that's what I want to go to, the last example here. Let's assume the strike price remains 40 but market price now has gone to -- to $30 so there is a $10 gap, but the gap is going in the other direction where the market price is actually lower. What happens to the POLR fee there in our example? Would it -- would it -- would it go back down again because the gap is bigger?

A. No. It would -- it would ultimately converge, but I can't tell you exactly where. I haven't looked at that specifically.

Q. Okay. To your knowledge then the model -- the relationship between price of the POLR and the difference between the strike price and the -- and the market price remains the same whether or not the market price is below the strike price. It's just the distance between the two.

A. Could you repeat that.

Q. Actually let me try it a different way. If the idea was to compensate AEP for the risk of customers migrating, wouldn't you have to have a bigger POLR fee if the market price was more attractive?

A. Yes. And I believe that's the direction

1 we were headed through your examples.
2 Q. Right. So basically the prices get
3 higher as -- as the prices converge, but if the
4 prices split apart but -- they split apart but the
5 market becomes a much more attractive value, what
6 happens to the POLR fee? Does it start going up
7 again?
8 A. I'm not sure I understand your question.
9 I guess I would need to look at some concrete
10 examples --
11 Q. Okay.
12 A. -- to be able to answer those
13 appropriately.
14 Q. Okay, okay. I have great sympathy for
15 anybody who is asked to do math on the -- on the fly
16 so I will -- we will leave that for probably future
17 discovery. I believe those are all the -- oh, no, I
18 do have a couple more questions. Let's go back to
19 the charts, if you will, and I just have a couple of
20 questions to finish off with you on the -- on the
21 charts. The first one I want to go to chart LJT-2.
22 And this is the one that shows percentage of load
23 served by competitive suppliers.
24 A. Page 1?
25 Q. I'm sorry. This is Exhibit -- yes, 1 of

1 3. Thank you.
2 A. Okay.
3 Q. And I assume that these figures include
4 AEP's affiliated marketing company as well?
5 A. AEP retail is included in the suppliers
6 to which customers have switched.
7 Q. Right. As reflected in this chart.
8 A. Yes.
9 Q. And then now moving to page 2 of 3, here
10 we're looking at the customer so as May -- as of May,
11 2011, we have got 20,000 customers who have -- who
12 have switched.
13 A. That's correct, for Columbus Southern.
14 Q. For Columbus Southern. Can you tell me
15 that 20,000 is out of a universe of how many?
16 A. I don't recall how many customers the
17 companies have.
18 Q. Okay. And on both charts 1 and 2 we are
19 looking at Columbus Southern. Are there similar
20 charts for -- for Ohio Power?
21 A. I didn't prepare charts for Ohio.
22 Q. Would you agree that Ohio Power has had
23 much less shopping?
24 A. They have less shopping but it is
25 growing.

1 Q. Okay. Now, I want to take you to Exhibit
2 3 of 3. And here we have the percentage of loads
3 that are served by competitive suppliers, and then we
4 have -- we have shown the other major investor in
5 utilities in Ohio. And my first question to you for
6 the -- my first question to you is where -- what is
7 the basis of this -- of this chart? What's the data
8 this is based upon?
9 A. It comes from the data on the PUCO's
10 website.
11 Q. Okay. Is this the market monitoring
12 chart?
13 A. It's not a -- I am not sure what you mean
14 by market monitoring chart. There is a page on the
15 Commission's website that shows the switching
16 statistics --
17 Q. Right.
18 A. -- by quarter for each of the companies
19 and it's updated every quarter.
20 Q. And is that the one, if you recall, and I
21 think it was called the market monitoring or one time
22 was called that which is why I threw that in, do you
23 recall is this also -- this information also
24 available by -- by class in the website?
25 A. I don't recall.

MR. PETRICOFF: You don't recall, okay. I have no further questions. Thank you very much.

MS. GRADY: Is Colleen there? Colleen, are you there?

MS. MOONEY: Yeah, I am here, but I don't have any questions.

MS. GRADY: I'm sorry. I misunderstood. Do we have any other parties on the line that have questions?

I think we are done. Are you waiving signature or?

MR. CONWAY: We do not waive signature. We would like to take a look at it.

(Thereupon, the deposition was concluded at 1:55 p.m.)

- - -

State of Ohio :
: SS:
County of _____ :

I, Laura J. Thomas, do hereby certify that I have read the foregoing transcript of my deposition given on Thursday, June 16, 2011; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

_____
Laura J. Thomas

I do hereby certify that the foregoing transcript of the deposition of Laura J. Thomas was submitted to the witness for reading and signing; that after she had stated to the undersigned Notary Public that she had read and examined her deposition, she signed the same in my presence on the _____ day of _____, 2011.

_____
Notary Public

My commission expires _____, _____.

- - -

1 CERTIFICATE

2 State of Ohio :
: SS:
3 County of Franklin :

4 I, Karen Sue Gibson, Notary Public in and for the State of Ohio, duly commissioned and qualified,
5 certify that the within named Laura J. Thomas was by me duly sworn to testify to the whole truth in the
6 cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness,
7 afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the
8 testimony given by said witness taken at the time and place in the foregoing caption specified and
9 completed without adjournment.

10 I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any
11 attorney or counsel employed by the parties, or financially interested in the action.

12

IN WITNESS WHEREOF, I have hereunto set my
13 hand and affixed my seal of office at Columbus, Ohio, on this 17th day of June, 2011.

14

15 Karen Sue Gibson, Registered
16 Merit Reporter and Notary Public in and for the State of Ohio.

17

My commission expires August 14, 2015.

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(KSG-5373a)

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