BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

\- - -

In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to Its Corporate Separation Plan; and the Sale or Transfer of Certain Generating 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

\- - -

PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 10 a.m. on Tuesday, July 19, 2011.

\- - -

VOLUME II

\- - -

ARMSTRONG & OKEY, INC.
222 East Town Street, Second Floor
Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481
Fax - (614) 224-5724

\- - -

APPEARANCES:

American Electric Power Service Corporation
By Mr. Steven T. Nourse
and Mr. Matthew Satterwhite
One Riverside Plaza
Columbus, Ohio 43215

and

Porter, Wright, Morris & Arthur, LLP
By Mr. Daniel R. Conway
41 South High Street
Columbus, Ohio 43215

On behalf of the Applicants.

Janine L. Migden-Ostrander,
Ohio Consumers' Counsel
By Ms. Maureen R. Grady
and Mr. Jeffrey Small,
Assistant Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On behalf of the Residential Customers of Columbus Southern Power Company and Ohio Power Company.

Vorys, Sater, Seymour & Pease, LLP
By Mr. M. Howard Petricoff
and Ms. Lija Kaleps-Clark
52 East Gay Street
P.O. Box 1008
Columbus, Ohio 43216-1008

On behalf of the Constellation NewEnergy Company and Constellation Energy Commodities Group, Inc.

McNees, Wallace & Nurick, LLC
By Mr. Samuel C. Randazzo,
Mr. Joseph E. Oliker,
and Mr. Frank P. Darr
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215-4228

On behalf of IEU-Ohio.

APPEARANCES: (Continued)

Mike DeWine, Ohio Attorney General
By Mr. William L. Wright,
Section Director
Public Utilities Section
Mr. Werner L. Margard, III
and Mr. John Jones
Assistant Attorneys General
180 East Broad Street
Columbus, Ohio 43215

On behalf of the Staff of the PUCO.

Ohio Partners for Affordable Energy
By Mr. David C. Rinebolt
and Ms. Colleen L. Mooney
231 West Lima Street
Findlay, Ohio 45840

On behalf of the Ohio Partners for Affordable Energy.

Sonnenschen, Nath & Rosenthal LLP
By Ms. Emma Hand,
Mr. Clinton A. Vince,
and Mr. Presley R. Reed
1301 K Street NW
Suite 600 East Tower
Washington, D.C. 20005

On behalf of the Ormet Primary Aluminum Corporation.

Chester, Willcox & Saxbe, LLP
By Mr. Mark S. Yurick,
Mr. John W. Bentine,
and Mr. Zach Kravitz
65 East State Street, Suite 1000
Columbus, Ohio 43215

On behalf of The Kroger Company.

\- - -

APPEARANCES: (Continued)

Boehm, Kurtz & Lowry
By Mr. David F. Boehm
and Mr. Michael Kurtz
36 East Seventh Street, Suite 2110
Cincinnati, Ohio 45202

On behalf of the Ohio Energy Consumers Group.

Bricker & Eckler, LLP
By Mr. Matthew W. Warnock
100 South Third Street
Columbus, Ohio 43215-4291

On behalf of the Ohio Manufacturers Association.

Bricker & Eckler, LLP
By Mr. Matthew W. Warnock
and Mr. Thomas J. O'Brien
100 South Third Street
Columbus, Ohio 43215-4291

and

Ohio Hospital Association
By Mr. Richard L. Sites
155 East Broad Street, 15th Floor
Columbus, Ohio 43215

On behalf of the Ohio Hospital Association.

- - -

INDEX

- - -

- - -

Tuesday Morning Session,
July 19, 2011.

- - -

EXAMINER SEE: Scheduled for hearing today at this time is Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, being entitled in the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan including related accounting authority and an amendment to its corporate separation plan, as well as the sale and transfer of certain generating assets, and in the Matter of the Application of the Ohio Power Company for Approval of its Electric Security Plan including related accounting authority and amendment to its corporate separation plan.

The attorney examiners assigned to the case are Greta See and Sarah Parrot, and at this time I'd like to take brief appearances of the parties present today.

Counsel for the company.

MR. NOURSE: Thank you, your Honor. Steven T. Nourse, Matthew J. Satterwhite, Daniel R. Conway. Is that what you had in mind with brief?

EXAMINER SEE: Yes.

MR. NOURSE: Thank you.

EXAMINER SEE: We've already entered appearances. I just want to make sure the record reflects who's in the room today.

MS. GRADY: Thank you, your Honor, on behalf of the Consumers' Counsel, Maureen R. Grady and Jeffrey L. Small.

MS. MOONEY: Colleen Mooney on behalf of Ohio Partners for Affordable Energy.

MR. DARR: Sam Randazzo and Frank Darr on behalf of IEU-Ohio.

MR. MARGARD: Werner Margard and John Jones on behalf of Commission staff.

MR. PETRICOFF: Howard Petricoff on behalf of Constellation NewEnergy and Constellation Energy Commodities Group.

MS. HAND: Emma Hand on behalf of Ormet Primary Aluminum Corporation.

MR. YURICK: Mark Yurick on behalf of the Kroger Company, your Honor.

MR. O'BRIEN: Tom O'Brien on behalf of the Ohio Hospital Association, and Richard Sites will be joining us later.

MR. WARNOCK: Matt Warnock for the OMA.

EXAMINER SEE: Okay. Mr. Nourse, your next witness, please.

MR. NOURSE: Mr. Conway is calling the first witness.

EXAMINER SEE: I'm sorry. First, before we do that, some of you may have received the entry by e-mail. If you did not see it, this is the entry addressing the motion to strike. Ms. Parrot is providing copies to be circulated around the room at this time.

Mr. Conway.

MR. CONWAY: Thank you, your Honor.

EXAMINER SEE: Ms. LaCasse, would you raise your right hand, please.

(Witness sworn.)

EXAMINER SEE: Thank you.

MR. CONWAY: Thank you, your Honor. As you anticipated, the companies are calling Dr. LaCasse as their first witness today.

\- - -

CHANTALE LaCASSE

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

DIRECT EXAMINATION

By Mr. Conway:

Q. Dr. LaCasse, would you give your full name for the record, please?

A. My name is Chantale LaCasse.

EXAMINER SEE: Ms. LaCasse, we are going to need you to use the mic today.

Q. And, again, your full name for the record?

A. Chantale LaCasse.

Q. And, Dr. LaCasse, by whom are you employed?

A. By NERA Economic Consulting.

Q. And what is your position at NERA?

A. I am a senior vice president.

Q. And did you prepare testimony on behalf of Columbus Southern Power Company and Ohio Power Company that was prefiled in this docket on June 6th?

A. Yes, I did.

Q. And do you have a copy of your prefiled testimony with you today?

A. I do.

Q. Dr. LaCasse --

MR. CONWAY: Well, first of all, your Honor, at this time I'd like to mark as Companies' Remand Exhibit No. 3 Dr. LaCasse's prefiled testimony.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. LaCasse, do you have any corrections or modifications to make to your prefiled testimony?
A. I do not.
Q. And if I were to ask you, Dr. LaCasse, the questions that are contained in your prefiled direct testimony which has been marked as Companies' Remand Exhibit No. 3 today, would your answers be the same as they appear in that document?
A. Yes, they would.
Q. And are those answers in your testimony true and correct to the best of your knowledge and belief?
A. Yes, they are.
MR. CONWAY: Your Honors, at this time we would move for the admission of Dr. LaCasse's prefiled testimony, Companies' Remand Exhibit No. 3, into evidence and make Dr. LaCasse available for cross-examination. Thank you.
MS. GRADY: Your Honor, would now be an appropriate time to hear the motion to strike?
EXAMINER SEE: Yes, it would be.
MS. GRADY: Thank you, your Honor.
OCC makes the following motion to strike with respect to Dr. LaCasse's testimony. Beginning on page 18, line 12 through page 20, line 7.

MR. CONWAY: That's page 18, line?

MS. GRADY: Twelve, through page 20, line 7.

Along with Exhibit CL-2, pages 1 and 2.

MR. CONWAY: That's CL-2?

MS. GRADY: That's correct.

MR. CONWAY: That's both pages of CL-2 that you're moving to strike?

MS. GRADY: That's correct.

Yes, your Honor, the testimony is directed specifically to discussing the results of several studies that conveyed price bid information submitted by bidders at SSO auctions. The two studies mentioned are the NorthBridge Study and the post-auction public report of the staff of Illinois. Both of these studies, your Honor, purport to show results from a premium analysis that includes the cost of bearing the POLR risk.

However, your Honors, the studies capture all risks faced by the SSO supplier including risk of uncertainty of demand, cost component risk, and a whole host of other risks. As Dr. LaCasse testifies on page 9, lines 19 through 20, the price bid does not separately estimate the shopping related risk.

Additionally, the studies did not present the methodology used to calculate the bidder's risk because such information is proprietary to the bidder. Under Ohio Rule of Evidence 402 evidence that is not relevant is inadmissible. Rule 401 defines relevant evidence as any evidence having the tendency to make the existence of any fact that is of consequence to the determination of the action more probable or less probable without the evidence.

Here the testimony is not relevant, it does not separately estimate the shopping related risk, nor explain or present the methodology to calculate that risk. It is of no consequence to the issues in this case. The issues at hand being what is the appropriate POLR risk that AEP bears and what is the appropriate tool to measure that risk.

Even Dr. LaCasse can only muster lukewarm support for the testimony saying that it is at least informative. She makes the statement on page 19, line 9. But informative as to what? It does not support AEP's POLR calculation nor its methodology because the shopping risk premium and the tools to calculate the premium cannot be discerned through the studies presented in the testimony. It is irrelevant and thus inadmissible.

And, furthermore, the testimony on these two studies is not the subject of proper expert testimony. Under Rule 702 of Ohio Rules of Evidence, experts may testify in the form of opinion if, among other things, the testimony is based on sufficient facts or data. Here the facts and data are not sufficient. We move to strike.

EXAMINER SEE: Mr. Conway, did you wish to respond?

MR. PETRICOFF: Your Honor --

EXAMINER SEE: I'm sorry.

Mr. Randazzo.

MR. RANDAZZO: Your Honors, IEU would join in the motion to strike and add one additional grounds and that is that this individual does not testify that she had anything to do with either of the cited studies. The people who are responsible for the studies are not here to be cross-examined, therefore, it's impossible for us to have a fair day, fair hearing on this subject through cross-examination and for that reason, in addition to those cited by Ms. Grady, I would urge the Bench to remove this testimony from the prepared testimony.

EXAMINER SEE: Mr. Petricoff.

MR. PETRICOFF: Your Honors, Constellation would also like to join in the motion and probably this is in the same vein as Mr. Randazzo's additional defense and that is it's hearsay. This is testimony being presented by someone other than the witness for the truth of the statement and it doesn't fall into any of the usual hearsay exceptions such as done in the regular course of business or a published report. This is particularly true of the NorthBridge Study. Thank you.

EXAMINER SEE: Mr. Conway.

MR. CONWAY: Thank you, your Honor. Dr. LaCasse has reported the results of these studies in support of her opinion that there is shopping risk, that it's real, that it's actual, and that it's significant. And so it clearly is relevant to the issues on remand. And it forms the basis in part of her opinions and so she's allowed, I think, to provide what the basis is for her opinions on those matters and these items provide part of that basis.

As far as the extent of her familiarity with the studies, that is certainly something that the parties can develop in cross-examination. I think it goes more to the extent of her familiarity, goes more to the weight the Commission might provide to the testimony in these regards, not to whether or not it's relevant or admissible.

And with regard to Mr. Randazzo's argument that it's hearsay, again, I would -- and Mr. Petricoff's, I would just note she has indicated she is familiar with the studies, they are published studies that are available, and she is entitled to rely upon what she does rely upon, it's common practice at this Commission for experts to rely upon such materials to support their conclusions, and I think that the criticisms that we've heard here all go to what weight should be accorded to the opinions that she has derived based in part upon these items.

I don't think it's proper to strike the testimony. I think it's of value to the Commission in its consideration of the issues in the case and I think it should be allowed. Thank you.

EXAMINER SEE: Okay. First, are there any other motions to strike Dr. LaCasse's testimony?

(No response.)

EXAMINER SEE: Ms. Grady, after reviewing the content of your request for your motion to strike, motion is denied.

MS. GRADY: Thank you, your Honor.

EXAMINER SEE: Ms. Grady or Mr. Small, who's going to be cross-examining the witness?

MS. GRADY: Thank you, your Honor, I would be doing cross.

- - -

CROSS-EXAMINATION

By Ms. Grady:

Q. Good morning, Dr. LaCasse.

A. Good morning.

Q. Could you go to page 3 of your testimony, lines 15 through 22. Now, there you discuss the purposes of your testimony; do you not?

A. I do.

Q. And the first purpose that you list is to examine the nature of the shopping risk faced by any SSO provider whether it's an EDU or a winning supplier such as a CRES; is that correct?

A. The winning suppliers here would be the winning supplier at an SSO auction, not a CRES provider that would be providing alternate service to the SSO.

Q. And a second purpose of your testimony is to discuss the methods by which the costs associated with shopping risk may be quantified?

A. Yes.

Q. And one of -- the third purpose of your testimony is to explain the valuation of an option or to explain that the valuation of an option is an appropriate method to measure cost; is that correct?

A. That's correct.

Q. And, finally, another purpose of your testimony is to describe additional analyses associated with shopping risk; is that correct?

A. Yes.

Q. Now let's go to your testimony at page 2, lines 2 through 9 where you refer to your consulting experience at NERA. You say on page 2, lines 2 to 3, that your consulting at NERA has principally consisted of designing and implementing competitive bidding processes for the procurement of default service for electric utilities; do you not?

A. Yes.

Q. Now, in your role at NERA you did not analyze the different methods that were used by the suppliers to determine their shopping risks, did you?

A. No.

Q. And you were not aware specifically of how any particular bidder would have quantified the risk of shopping, correct?

A. Correct.

Q. And that information would have been proprietary information that would depend on how each of the bidders managed their risk; would it not?

A. Yes. I explain that in my testimony and state that bidders in an SSO auction would use different sophisticated and proprietary strategies to manage those risks, including the shopping-related risk, and that their quantification would depend on those methods.

Q. So you did not look at how the risks were quantified or whether the quantification of the risks by the buyers were appropriate; is that correct?

A. Can you repeat the question, please?

Q. Yes. You did not in your role as a -- in your experience with NERA you have not looked at how risks were quantified or whether the quantification of the risks by the buyers were appropriate in the bids that you were -- or in the analysis that you undertook.

A. The auctions that I design and manage are -- for sellers and not buyers in these SSO auctions, and I did not look specifically at -- they did not tell me specifically how they made those analysis. I am aware they are concerned about shopping-related risks by the type of questions and data requests that they gave me as auction manager.

Q. And did you not look in your role as a consultant at NERA, you wouldn't have looked at, for instance, whether the valuation of an option was through an appropriate method?

A. I don't understand the question.

Q. In your role as a -- in your experience at NERA you wouldn't be looking at whether the option was valued by an appropriate method, would you? That was not part of your analysis in your role at NERA.

A. Not specifically with these auctions, no.

Q. Now let's look -- let's talk now about your experience with the Ohio market test auction for FirstEnergy. You discuss that on page 2, lines 10 through 11, as being involved in the FE descending-price clock auction that was a market test. Do you see that?

A. I do.

Q. And you were auction manager there, correct?

A. I was.

Q. And in that role as auction manager you did not examine the nature of the shopping risk that was faced by the participants to the auction, did you?

A. No.

Q. And you also, Dr. LaCasse, did not

examine the shopping risk that was faced by FirstEnergy related to the auction.

A. No.

Q. And you did not quantify or examine the costs incurred by the suppliers or by FirstEnergy associated with the shopping risk.

A. Again, as auction manager I would not quantify those risks, but I would be aware that suppliers were worried about migration risks through the questions and data requests that they would have of me as auction manager.

Q. And you did not examine the methodologies used to measure the costs associated with shopping in that particular instance, did you?

A. No.

Q. And you would not have examined any analysis by FirstEnergy or of the CRES suppliers associated with the auction that pertained to shopping-related risks.

MR. CONWAY: Could I have that question reread, please?

(Record read.)

MR. CONWAY: I think I object to the question. I don't think she said there were CRES suppliers participating in the FirstEnergy auction.

MS. GRADY: I can make that qualification.

EXAMINER SEE: Okay.

Q. You did not examine any analysis by FirstEnergy or by any of the suppliers associated with the auction that pertained to shopping-related risks.

A. Correct.

Q. And you did not examine whether the valuation of an option was an appropriate way to measure shopping, correct?

A. Within the Ohio auction, no.

Q. Let's go to CL-1, if you would, please. And let's specifically focus on your consulting experience that begins on page 3 of that exhibit. Now, none of the experiences that you have listed on that exhibit pertain to consulting where you specifically examined the nature of the shopping risks that were faced by an EDU or a supplier; is that correct?

A. Correct.

Q. And none of your experience as listed on that exhibit pertain to examining the costs incurred related to shopping that an electric distribution utility or a supplier might incur; is that correct?

A. Can you repeat the question, please?

Q. Yes. None of the experiences listed on this exhibit pertain to examining the costs incurred related to shopping that an electric distribution utility or a supplier might incur.

A. That's right.

Q. And none of your experiences listed on this exhibit pertains to examining the methods by which costs associated with shopping risks were quantified by the electric utility or supplier; is that correct?

A. That's correct.

Q. And none of the experiences that you have listed here would have been with examining the valuation of an option as a method for measuring costs associated with shopping risk, correct?

A. Correct.

Q. Now, with respect to CL-1, let's focus on the "Testimony" portion of that exhibit, which I believe begins on CL-1, page 6. Now, none of the testimony you have listed here or submitted pertains to consulting where you specifically examined the nature of shopping risks that was faced by an electric distribution utility or a supplier; is that correct?

A. That's correct.

Q. And none of the testimony submitted that is listed on this exhibit pertains to examining the costs incurred related to shopping that an electric distribution utility or supplier might incur.

A. That's correct.

Q. And none of the testimony submitted pertains to examining the tools to measure the costs incurred regarding shopping risks for an electric utility or a supplier; is that correct?

A. That's correct.

Q. And none of the testimony submitted pertains to examining ways to measure shopping-related risks.

A. Can you repeat the question?

Q. None of the testimony submitted that is listed on CL-1 pertains to examining ways to measure shopping-related risks.

A. That's correct.

Q. And none of the testimony listed on CL-1 would have addressed the valuation of an option and whether that methodology is an appropriate method to measure the cost associated with shopping risk; is that correct?

A. That's correct.

Q. Let's go now to the "Publications" section of CL-1. That is contained on page 8 of Exhibit CL-1. None of the publications that you have authored pertain to the nature of shopping risks that are faced by an EDU or a supplier; is that correct?
A. That's correct.
Q. And none of the publications that you have authored pertain to the costs incurred related to shopping that an electric distribution utility or a supplier might incur, correct?
A. That's correct.
Q. And none of the publications that you have authored pertain to tools to measure the costs incurred regarding shopping risks for the electric utility or the supplier.
A. That's right.
Q. And none of the publications that you have authored pertain to examining ways to measure shopping-related risks, correct?
A. That's correct.
Q. And none of the publications would have addressed the valuation of an option as an appropriate method to measure the costs associated with shopping risk.
A. That's correct.

Q. Let's go to your testimony at page 5, line 14. There you describe the nature of the shopping-related risk and the costs that an EDU assumes as part of its POLR obligation. Do you see that?

A. Yes.

Q. And you define shopping risk as a costly risk, do you not, as is listed on lines 17 through 18?

A. Yes.

Q. You define shopping risk as two parts; is that correct?

A. Yes.

Q. In the first part you speak of the market price falling and customers switching to a CRES as part of the shopping risk; do you not?

A. That's one side of the shopping risk is if the market prices fall sufficiently so that the CRES provider can beat the SSO price and customers have an incentive to leave and that imposes a cost on the EDU.

Q. And you state that in that situation, AEP-Ohio will find that a portion of its output that is expected to be used to serve the SSO customers would instead need to be sold at below expected

prices leading to a loss in revenue; is that correct?
A. That is correct.
Q. The second part of the shopping risk that you define is when -- is a shopping risk associated with customers returning to the EDU and that you speak of on line 23, page 5, carrying over to page 6, lines 1 through 3. Do you see that reference?
A. Yes.
Q. And then you state that if the market prices rise, customers that are taking service from the market may find it advantageous to go to the SSO. Is that correct?
A. Yes. That assumes that the prices have first fallen sufficiently that the SSO customer would take service from a CRES provider and then, subsequently, that prices rise sufficiently that customers find it advantageous to return to the SSO price.
Q. And in that instance the electric distribution utility would be required to divert a portion of its output of its own generation or purchase from the market to meet its SSO obligation at the higher cost; is that correct?
A. That's correct.
Q. And these situations you describe are

what you define as the cost of POLR, correct?

A. Yes. The cost of POLR is comparing a situation where customers would not shop and, therefore, the EDU would sell at the SSO price to all of its customers, compared to a situation where customers can shop, the market price can vary and, therefore, the EDU is facing those two risks and the costs associated with these risks.

Q. And these are risk costs, are they not, in your opinion?

A. These are? Excuse me, I didn't hear that.

Q. You described these as risk costs; is that correct?

A. As costly risks, yes.

Q. Now, you said that the obligation to maintain the standard service offer prevents the EDU from optimally managing its generation on a forward basis, correct?

A. Correct.

Q. And that imposes costs on the EDU in conditions of both rising and declining market prices, correct?

A. Correct.

Q. Would you agree that the costs that you are describing are lost revenue costs?

A. They are differential in revenues between a situation where the EDU would sell to all its SSO customers at the ESP price compared to a situation where the EDU does face shopping from its customers and, therefore, has less revenue.

Q. Now, on lines 14 through 15 at page 6 you state that without the POLR obligations, an EDU would be in a position to manage its generation output optimally on a forward basis. Do you see that statement?

A. Yes.

Q. And why do you say "optimally"?

A. In this situation optimally means without constraint where, as I mention, the EDU would be able to look at current market conditions and decide what hedges to put in place when the EDU has an SSO obligation. The fact that those SSO customers may shop means that the ESP does not provide that firm hedge because customers may leave.

Q. Do you mean that an EDU with a POLR can still hedge? It just cannot optimally hedge.

A. Well, hedge in the context of the ESP, and I explain that in my testimony, if an EDU were to hedge within the context of an ESP making forward sales outside of the ESP, this could be risky as when customers leave and the EDU is no longer making these sales, if the EDU were to hedge by making forward sales at that point at a lower market price, lower than the ESP price, then should market prices rise again and customers return, then that generation is not available to serve the SSO customers and then the EDU would have to purchase additional supply from the market to serve those SSO customers.

Q. Now, Dr. LaCasse, you mentioned that an EDU can hedge by forward sales. You mentioned that in your answer. And I guess my question is can an EDU hedge by other means other than forward sales?

A. Yes.

Q. Now, on page 6, line 14 and carrying over to page 7, line 6, you're discussing hedging opportunities. Now, the hedging opportunities for the EDU that you describe would be sales to retail customers that are not SSO customers? Is that correct?

A. The sales to retail customers is one possibility, and within the model that the companies use to estimate the POLR risk the assumption is that the alternate sales from the EDU would be retail sales.

Q. And by "retail sales" are you characterizing that as nonjurisdictional sales for purposes of Ohio?
A. It would be sales outside of its territories in other auctions, for example, for full-requirements service or other retail sales.
Q. Dr. LaCasse, do you know if the competitive retail functions within AEP have access to the generation we're talking about?
A. I don't know.
Q. Have you reviewed the AEP pool agreement?
A. No.
Q. So is it safe to say that you did not factor the AEP pool agreement into your analysis?
A. Yes.
Q. You did not examine the pool agreement to determine whether there are, in fact, limitations on AEP's ability to manage its generation output optimally on a forward basis, correct?
A. Correct.
Q. You are generally familiar, are you not, with the PJM reliability agreement?
A. Yes.
Q. And you are generally familiar with the fixed resource requirement option?

A. Generally, yes.
Q. Do you know whether AEP has implemented a fixed resource revenue requirement option?
A. Yes, it has.
Q. And has it?
A. Yes.
Q. Do you know of any restrictions on AEP-Ohio's ability to sell capacity that has been identified as a resource to fulfill its FRR commitment?
A. I don't know.
Q. And you have not factored AEP's FRR capacity commitments into your analysis, correct?
A. Can you repeat the question?
Q. You have not factored AEP's FRR capacity commitments into your analysis; is that correct?
A. Yes.
Q. That is, you did not examine AEP's FRR capacity commitments to determine if there are limitations built in that limit AEP's ability to optimally manage its generation output on a forward basis, correct?
A. Yes.
Q. To your knowledge, was the AEP FRR capacity commitment factored into AEP's option

analysis?

A. Well, the option analysis assumes that alternative sales are at retail and, therefore, that AEP would get the capacity components from that sale when it made the alternative sales.

MR. PETRICOFF: Your Honor, could I have that answer read back?

EXAMINER SEE: Yes.

(Record read.)

Q. Now, on page 5, lines 18 through 23, you speak of the nature of shopping risks that an EDU takes on under its POLR; do you see that?

MR. CONWAY: Could I have that question reread, please?

(Record read.)

A. Yes.

Q. How is the risk that an EDU faces of losing a customer to competition different from the competitive risk that a CRES or a supplier faces?

A. For an EDU any customers -- any customer can shop and leave SSO. For a CRES provider, a CRES provider would contract specifically with specific customers, may have a certain term for that contract for providing that service, may have other features in their contracts such as penalties for leaving and, therefore, a CRES provider does not face the same risks in terms of customers leaving the service.

If by SSO supplier we also mean, for example, bidders at SSO or at auctions to provide SSO supply, those suppliers would face the same kind of risks in the sense that customers are able to shop from the SSO.

Q. When a CRES supplier loses a customer to a competitor, does the CRES supplier typically receive a capacity payment from that competitor?

A. I don't know.

Q. Now, Dr. LaCasse, you don't work with the Black-Scholes model regularly; is that correct?

A. That's correct.

Q. Have you ever worked with the Black-Scholes model before this case?

A. No.

Q. The Black-Scholes model is an option model; is that correct? It prices options.

A. Yes.

Q. Have you ever worked with an option model to price shopping risks?

A. Can you repeat the question?

Q. Have you ever worked with an option model that was used to price shopping risks?

A. No.

Q. Let's discuss for a moment the steps that you took to review the company's model, both the constrained and the unconstrained model and let's start with the unconstrained model. When I use the term "unconstrained model," I'm referring to the original Black-Scholes model that was used by Mr. Baker in the first portion of this proceeding. Is that sufficient for your understanding?

A. It is, thank you.

Q. Now, you were given an electronic spreadsheet for the model, is that correct, for the original unconstrained model?

A. Yes.

Q. And you looked at the inputs to the model and you looked generally at the model to see what it was used for; is that correct?

A. Yes.

Q. You did not prove the formula, did you?

A. No.

Q. Did others at NERA prove the formula in the spreadsheet that you were given?

A. Not that I know of.

Q. And you didn't test alternative assumptions or inputs under the electronic spreadsheet you were given; is that correct?

A. That's correct.

Q. You merely accepted the electronic model as it was provided to you.

A. Yes.

Q. And no one else at NERA did anything with the spreadsheet either beyond looking at the inputs; is that correct?

A. I don't know.

Q. Now let's move to the constrained model. When I use the term "constrained model," do you understand that that term is being used to mean -- to mean the new ESP II model where the company is using the Black-Scholes model and incorporating switching constraints in the model that were not present in the original model?

A. I understand that.

Q. You didn't run the new constrained model; is that correct?

A. That's correct.

Q. And you didn't look at the coding for the newer model.

A. I did not.

Q. You do not, Dr. LaCasse, have any hands-on experience developing binomial models, correct?

A. I do not.

Q. And the constrained model is a binomial model, is it not?

A. That's right.

Q. You looked at some of the inputs in the model to determine whether those inputs would generally overstate or understate the POLR charge; is that right?

A. That's right.

Q. Were you directed which inputs to look at in that regard?

A. No.

Q. You did not calculate the option values independently of the company; is that correct?

A. That's correct.

Q. Now, on page 12 of your testimony let's focus on lines 20 through 22. There you testify, Dr. LaCasse, that the expected cost is the relevant measure when measuring the price of an option. Do you see that?

A. Yes.

Q. Are you saying that the actual cost is irrelevant to determining POLR risk in this proceeding?

A. I'm saying that the POLR risk is being measured and evaluated ex-ante so that it can be part of the SSO price given that the SSO price that is being given to customers is a price that should be mostly fixed.

Q. And in an ex-ante view of the POLR risk, actual cost is not relevant; is that correct? In your opinion.

A. That's correct.

Q. Are you accepting the option model as an appropriate tool to price POLR?

A. In my view it's an appropriate tool to measure the POLR cost given that it, in effect, calculates the expected value that customers derive from the difference between the ESP price and the market price and that difference is also what drives the cost to AEP, that is the difference from a situation where there would be no shopping and AEP would be able to sell to all SSO customers at the ESP price in a situation where customers shop and where the revenue is less.

Q. Now, on page 13, line 2, you refer to an ESP price that is mostly fixed. And I believe in your answer you made reference to the fixed portion of the ESP price; is that correct?

A. I'm not sure I said the fixed portion of the ESP price, but I do say that the ESP price is mostly fixed.

Q. When you say "mostly," can you tell me what you mean by mostly? Can you define that?

A. The ESP price has, as filed, changes from year to year and there are other adjustments that the companies can make to the ESP price.

Q. And what are the other adjustments that you understand that the companies can make to the ESP price?

A. I don't know all of them. One would be the fuel adjustment clause, for example.

Q. Would there be a number of different riders that would be what we would consider adjustments to the ESP price?

A. I do not know those specifically.

Q. Do you know generally if there are a number of riders that exist under the ESP whereby the company could make adjustments to the ESP price?

A. Generally.

Q. And do you know what percentage of the ESP price is affected by the use of those riders?

A. I do not.

Q. Is it safe to say that you did not factor the existence of riders into your analysis of the POLR risks to the companies?

A. Yes.

Q. Now, you mentioned the fuel adjustment clause rider. Are you familiar with what that rider does and what it allows the company to do?

A. Generally.

Q. And what is your general understanding of what is permitted to be collected through the FAC rider?

A. Changes in fuel costs, initial costs that arise because of changes in the price of fuel or purchased power.

Q. Is it your understanding that the fuel adjustment clause allows the company to collect energy and capacity costs?

A. Yes.

Q. And, Dr. LaCasse, the fact that the company is able to collect fuel and purchased power costs including energy and capacity costs, would that impact the company's POLR risk, if you know?

A. It would impact the POLR risk, but it doesn't mean that the POLR cost that was estimated is overstated for that reason because the fuel adjustment clause would really only enter into consideration in the case where first the SSO customers were all on the SSO after prices decrease, SSO customers then have an incentive to shop and would take service from a CRES provider, and prices rise again.

And at that point when prices had dropped the company had made some forward sales, customers returned when prices increased and then the company has to purchase power to serve those customers. So it would only be in that circumstance that I could see the fuel adjustment clause coming into play, and the companies did not include that type of cost in their analysis. So to that extent it would be understated and --

Q. And that would be specific -- I'm sorry, I didn't mean to cut you off. Were you finished?

A. I was.

Q. So the fuel adjustment clause affects the returning customers, that portion of the shopping risk that you define as the second portion where customers return to the SSO when the market price rises above SSO price, correct?

A. That, that is the customers returning, plus for there to be purchased power there would have to be that the EDU had hedged when prices had dropped. So prices drop first, the EDU makes some forward sales, then when customers return, it would need to purchase power to be able to supply the returning customers.

Q. And your assumption there is that the utility, in fact, did hedge and make forward sales, correct?

A. Correct.

Q. And would it be your -- strike that.

Is it your understanding that the reduced risk associated with the fuel adjustment clause recovering purchased power is not factored into the POLR value that was produced under the company's constrained model?

MR. CONWAY: Objection. Objection, your Honor.

EXAMINER SEE: What basis?

MR. CONWAY: The basis is I think it assumes a fact that's not been testified to by the witness, the reduced risk. I think she said, in the scenario just discussed with counsel she indicated the consequence of the operation of the clause in that circumstance would be to cause the company's use of the model to create an understated result which I think is in the opposite direction of where her premise of this current question is going. So I object to the question, it doesn't have a foundation.

MS. GRADY: I can rephrase the question.

EXAMINER SEE: Thank you, Ms. Grady.

MS. GRADY: Thank you.

Q. (By Ms. Grady) Now, we talked about the fuel adjustment clause to allow recovery of fuel and purchased power and we talked about it in relation to the returning customers. Would you agree with me that if the fuel adjustment clause allows -- let me strike that.

Since the fuel adjustment clause allows the company to recover fuel and purchased power including energy and capacity, it reduces the risk associated -- the POLR risk associated with returning customers, correct?

A. Yes.

Q. And would that reduced risk that's associated with the fuel adjustment clause recovering purchased power costs, that reduced risk is not factored into the POLR value that's produced under the company's constrained model; is that correct?

A. The risk of returning customers in scenarios where the price is reduced to market price falls first, the customers migrate, then the price rises again and the customers come back, that risk of the return is not quantified in the model.

Q. And it's not -- and that risk is not shown to be mitigated by the fuel adjustment clause, is it, in the model?

A. It's not there at all.

Q. And is the same statement true for the unconstrained model, that the reduced risk associated with the fuel adjustment clause recovering purchased power would not be factored into that POLR value produced under the unconstrained model?

A. Again, the costs are not overstated because they do not consider that risk. If we were to consider that risk and put the mitigating, potentially mitigating factor, the fuel adjustment clause, it would increase the POLR costs and risks compared to what the companies put forward.

EXAMINER SEE: What was the last part of that answer?

THE WITNESS: Has put forward.

EXAMINER SEE: Okay, I need you to speak into the mic.

THE WITNESS: I'm sorry, your Honor.

Q. Now, on page 13, line 18, you state that these constraints must be modeled carefully. Do you see that reference?

A. I do.

Q. And there are you referring to the switching constraints that are placed on customers under the companies' tariffs?

A. Yes, I am.

Q. Would you agree that the options that customers have in the model should or must reflect any restrictions that are in the companies' tariffs for the switching of customers?

A. It is a model so there are going to be simplifying assumption but the closer it is to what's in the tariff the more accurate the results.

Q. Are you aware if there's other restrictions on a customer's -- let me strike that.

If there are other restrictions on a customer's ability to shop, would you agree that that would be an additional constraint that could be added to the model to make the model more accurate?

A. Yes.

Q. Would you agree that it should be -- let me strike that.

Can you assume that there are particular customers, for instance percentage of income payment customers, that have no ability to shop by Commission regulation?

MR. CONWAY: Could I have that question reread also, please?

(Record read.)

MR. CONWAY: Objection. There's been no demonstration that the PIPP customers have no ability to shop.

MS. GRADY: Your Honor, I was creating an assumption. I said can you assume, assume for a moment that there are particular customers.

EXAMINER SEE: Okay. I'll allow the question.

Q. Isn't that the type of restriction or constraint that the model should take into account in order to be more accurate?

A. It could.

Q. Can you assume for a moment that there are particular customers, for instance special contract customers, who have given up the ability to shop by agreement with the companies? Isn't that the type of restriction or constraint that the model could take into account to be more accurate in its calculation of POLR?

A. It could, and, again, no one expects a model to necessarily completely reflect reality and having some simplifying assumptions to be able to make the estimates is generally how a model operates.

Q. Now, on page 14 of your testimony you testify that there are factors associated with the option valuation used by AEP-Ohio that would either tend to overstate or understate POLR charge. Do you see that testimony in general?

A. I do.

Q. And for each of the factors that you have listed you have not undertaken an analysis to quantify how much understatement or how much overstatement has occurred.

A. I have not.

Q. Now, beginning on page 18 you discuss other methods to estimate the cost of shopping. Do you see that general section?

A. I do.

Q. And on page 20, lines 4 through 7, you state that "NERA has previously used a statistical analysis to quantify explicitly the cost of shopping-related risk." Do you see that?

A. Yes.

Q. And that NERA study that you referred to did not use the Black-Scholes model or any other optionality model to measure the cost of shopping?

A. That's correct.

Q. That model was a statistical model that looked at the portfolio of supply under various options, correct?

A. Correct.

Q. And it looked at the volatility of prices and shopping risks for various ways of providing supply to the equivalent SSO customers?

A. Yes.

Q. And the study that you referred to there, was that the October 1st, 2008, evaluation prepared for Allegheny Power and Baltimore Gas & Electric?

A. That's right.

Q. Is it your understanding, Dr. LaCasse, that that model assumed that there's a certain amount of price difference that exists before customers switch?

A. That's correct.

Q. And the threshold under that model, the threshold of 5 percent must exist, and at that level migration is assumed to be zero?

A. I do not recall the specific numbers.

Q. Would you accept, subject to check, that that model assumed that the threshold of 5 percent must exist and at that level migration is assumed to be zero?

A. Subject to check.

Q. That model also assumed an upper limit of switching of 80 percent; did it not?

A. I don't know.

Q. Would you accept, subject to check, that that model did assume an upper limit of switching of 80 percent?

A. Subject to check.

Q. In other words, the model that was done -- let me strike that.

In other words, 20 percent of the customers were assumed not to switch regardless of the level of available savings; is that correct?

MR. CONWAY: Your Honor, at some point I think an objection is appropriate. She asked her, counsel asked the witness to assume, subject to check, that the initial value was 80 percent cap and now she's following up yet another degree of separation from that premise and asking her to accept, I guess subject to check, whatever it is that she believes is the case. At some point I think it's -- the witness has to have some familiarity with it to be able to advance the cause.

EXAMINER SEE: Okay. Go ahead,

Ms. Grady.

MS. GRADY: Thank you, your Honor. May I approach the witness?

EXAMINER SEE: Yes.

Q. Dr. LaCasse, I'm going to show you a document that's entitled "Evaluation of Longer Term Procurement Plans Prepared for Allegheny Power and Baltimore Gas & Electric" with a NERA logo on it. Is that the study that you -- in your testimony that you present as part of your analysis in this case, if you know?

A. I didn't present it as part of the analysis. I mentioned that NERA had conducted that study.

Q. So it is the study that you mention in your testimony; is it not?

A. It is that study, yes.

Q. And I would like to direct your attention to page 25 of that study and ask you to take a look at that, specifically at the bottom of the page where it discusses the assumptions made with respect to shopping.

Now, Dr. LaCasse, did that study assume that 20 percent of the customers would not switch regardless of the level of available savings?

A. Yes, it did, and I explain or discuss in my testimony that factor and how it was not taken directly into consideration as a simplifying assumption by the companies to say that I do recognize that it would overstate the POLR charge, the fact that the model used by the company assumes that everyone would switch once there was economic advantage for customers to shop, and that is a factor that or assumption of the model that continues both in the unconstrained and the constrained model, but that countervailing to that is the possibility in Ohio for opt-out aggregation which means that there are -- there are the possibility of large amounts of customers switching all at once.

Q. Now, when you said that the model, the constrained and the unconstrained model assumes that switching will occur when there's an economic advantage, is it your understanding that under the constrained and the unconstrained model that once there is a penny difference between the standard service offer and the market price, a penny per megawatt-hour, that the model assumes that customers will switch?

A. That's correct.

Q. And it assumes that a hundred percent of customers will switch, does it not, at that level?

A. It does.

Q. Now, with respect to the NERA report that we've been discussing, are you aware that one of the insights drawn from the model is that there will be nonmigrating customers?

A. No. I don't understand that.

Q. Would you agree with me that there are customers that may be unable to migrate due to credit or payment issues or lack of knowledge?

A. Yes.

Q. Now, you would agree with me, Dr. -- let me strike that.

Would you agree, Dr. LaCasse, that there are transaction costs across different customers associated with switching?

A. Yes. I explain that in my testimony, that there are transaction costs that may vary depending on the customers and these transaction costs would imply that at any given point in time when prices have fallen, some, but not necessarily all, customers would switch at that point.

Q. And would you agree with me that different customers need more or less of a differential depending upon how costly it is for them to switch to CRES providers?

A. That's correct.

Q. Now, you mention on page 18 that there are other methods to estimate the costs associated with the shopping risk, do you not, besides the option method used by the companies, correct?

A. Can you repeat the question?

Q. Let me rephrase it. On page 18 through 20 you testify that there are other methods to estimate the costs associated with shopping-related risks besides the option approach used by the company; is that correct?

A. I mention that there are other analyses that quantify risks including the shopping-related risk.

Q. And you mention the NorthBridge Group Study, do you not, as one of those studies that uses an alternate approach to quantifying shopping-related risk, correct?

A. The NorthBridge Study compares the prices from a competitive procurement to a build-up of visible costs to provide that supply and the difference between the two are the risks that these suppliers that bid into these auctions to supply these customers will face.

Q. And that was not a NERA study, correct?
A. Correct.
Q. And the study looked at the overall risk of the bids including the shopping risk?
A. That's correct.
Q. If you go to CL-2 for a moment, you present the results of the NorthBridge Study; is that what that shows?
A. That's correct. It presents the, what's called the premium which is that difference between the price that's obtained in the competitive procurement and the sum of the visible costs of the underlying supply, and that measures risk as a percentage of the price.
Q. Now, the NorthBridge Study did not estimate the value of the costs and risks, but merely shows a residual mathematical calculation of what's left after identifying the value of cost components; is that correct?
A. That's correct. And logically, given what suppliers are going to include in their bids, the difference between that winning bid price and the visible market prices for the components like energy, capacity, and ancillary service, that difference would be what suppliers have included in their bids

for those risks.

Q. Would you agree that the premium that's shown on the NorthBridge Study chart, CL-2, represents a residual compensation value for eight different costs and risks and is not necessarily inclusive of the risks that were faced by the bidders in this case?

A. Are you quoting from the study?

Q. I believe that that's a statement that's made in Mr. Fisher's testimony. Are you familiar with Mr. Fisher's testimony?

A. I am generally familiar.

Q. Let me ask you -- do you need a reference to that?

A. I have the reference, thank you. There are various costs and risks that are included in that calculation. The list -- and there are eight risks that are presented, the first one is customer migration and I think that indicates that that's one of the important risks that is included in that calculation.

Q. And would you also agree with Mr. Fisher's characterization that these eight do not necessarily represent an all-inclusive list?

A. Yes.

Q. So the shopping risk or the customer migration risk that you mention, that is one of eight potential costs and risks that are shown in the residual premium value in the results represented on CL-2?

A. Yes.

Q. And is it your understanding, Dr. LaCasse, that the NorthBridge Study did not specifically identify the specific value of the shopping risk alone?

A. That's right.

Q. And it did not identify the percentage of the premium that applies to shopping risk?

A. That's correct.

Q. And the other risks that would be included as part of the residual premium are unexpected congestion, usage and price uncertainty, adverse selection, holding bids open, potential changes in laws and regulations, administrative and legal costs, and the satisfaction of alternative energy portfolio standards; is that correct?

A. Those are the additional risks that the study identifies and, again, in my experience as auction manager most of the questions that suppliers would ask with respect to those risks and ask questions, clarifications, and data would be concerning the customer migration.

Q. And the costs and the values of these other risks that comprise the residual premium were not identified in the study, correct?

A. That's correct.

Q. Now, the data in the study was based on prices and solicitations made between November of 2007 and March of 2008, correct?

A. That's correct.

Q. And you have not analyzed the changes in the wholesale market conditions that have occurred since that date that the winning bids were made for the utilities contained in Exhibit CL-2?

A. Not specifically.

Q. And NERA had no role in the NorthBridge Study; is that correct?

A. That's correct.

Q. And with respect to the proceeding that the case was presented in, that case was settled; was it not?

A. Yes. I was a witness in that proceeding and the case was settled, that's correct.

Q. So the Commission did not adopt the premium values that are presented on CL-2, correct?

A. The premiums weren't put forward for the Commission to accept. They were put forward to explain how bidders would price these risks in full requirements solicitations.

Q. Now, the NorthBridge Study does not indicate how each of the bidders that are represented on CL-2 developed a premium component to reflect their default service obligations, does it?

A. No, it does not.

Q. With respect to the customer classes that were supplied through each of the solicitations that are listed on CL-2, are you aware of whether there are limitations on the customers that are eligible for the default solicitations?

A. Can you rephrase the question?

Q. I can try. Now, the bidders that are shown on CL-2 supplied bids to meet the needs of certain customers, correct?

A. That's correct.

Q. And the customers -- are you aware if there were any limitations on what customers these bids were responding to?

A. The customer classes are shown in the exhibit. Generally it's either small commercial and industrial or residential and small commercial and industrial, so on the exhibit there the classes that are represented are found below the name of the utility concerned like ACE and JCP&L and PSE&G.

Q. Are you aware, Dr. LaCasse, on limitations on the amount of usage associated with those customer classes? For instance, are you aware that under the JCP&L bids shown that the customers using over 400 kW were excluded?

A. Yes.

Q. And are you aware that with respect to the -- are you aware of any other limitations related to usage for the customers served under the New Jersey bids?

A. So for the New Jersey bids and elsewhere is that there is another auction that occurs for procuring supply for the larger customers. In New Jersey, for example, there's a second auction where the service is really an hourly priced service rather than a fixed price service. So these results show fixed price services as that's what's relevant to comparison here with SSO price that's mostly fixed.

Q. And the New Jersey bids would be shown in what columns, if you could?

A. The New Jersey utilities are Atlantic

City Electric, ACE, Jersey Central Power & Light, JCP&L, PSE&G, Public Service Electric & Gas, and Rockland Electric, RECO, so in the middle of that chart.

Q. That would be the four that -- the third fourth, fifth, and sixth bars on that chart?

A. That is correct.

Q. And that would indicate that the, as I understand it, that the New Jersey customer classes that those bids were responding to were supplied through fixed prices and excluded customers using over a thousand kWh?

A. To the best of my recollection, yes.

MR. CONWAY: Excuse me, could I have the question reread?

(Record read.)

MR. CONWAY: Thank you.

Q. Are there any other limitations as to the customers who could be served under the solicitations shown on CL-2, if you know?

A. I believe that that's it for all of the solicitations, the way the customer classes are defined has, in general, an upper limit on demand. So some are 400 kW, some are a thousand, et cetera.

Q. Now, in the AEP-Ohio instance are you aware that all customers are eligible for SSO service? Is that your understanding?

A. That's my understanding.

Q. Let's talk about the Illinois study for a moment, and you reference the Illinois study on page 19 of your testimony. And you show -- with respect to that study you show premiums ranging from 7 percent to 25 percent. Do you see that chart on page 20?

A. I do.

Q. Do you know what risk premiums were included in the resulting auction prices?

A. The calculation that the staff of the Illinois Commerce Commission makes here calculates that overall risk premium. So, again, it calculates a projection without risk premium by adding visible market prices for the cost components of the supply and then compares that to the auction prices and deduces that in premium that's just a difference between the auction price and the sum of the component costs that have visible prices. So those are the premiums for the risks.

Q. So this is a residual calculation as well, similar to the NorthBridge Study which identified visible cost components and then anything else was put -- lumped into this premium category; is that correct?

A. It's the difference between the bid prices that would include all the risks and the visible cost components priced to the market.

Q. Is it your understanding that the study did not individually quantify the risks that make up the implied premium?

A. That's correct.

Q. And that shopping risks alone cannot be identified from this study?

A. That's one of the risks that's cited by the study but cannot be separately identified.

Q. Do you know what other risks were cited by the study that make up the implied premium percent?

A. I do not recall specifically. I do recall specifically that the study mentioned shopping risk as being an important factor.

Q. When there is the characterization of it as an implied premium, is that -- can you explain to me why the term "implied" is being used there?

A. It means given the price that was bid and given the costs, adding up all the costs of the component, the implied premium is just the difference. So bids imply that the amount that bidders were adding in for those risks is the difference between what they bid in the auction and what they could have purchased the component costs of the supply for at that point in time.

Q. And is it also correct that NERA had no role in that Illinois study?

A. That's correct.

Q. Now, the Post-Auction Report of the Staff is what you refer to where the results that you present on page 20 came from?

A. Yes.

Q. And the Post-Auction Report of the Staff was filed for informational purposes only; is that correct?

A. To the best of my recollection it was a requirement of the tariff, so the auction structure was in the tariff of the companies and one of the requirements for staff and for the auction manager was to file and make public this report on the auction and the results of the auction.

Q. Is it your understanding the Post-Auction Report was not filed in the context of a contested proceeding?

A. That's correct.

Q. And that it was ruled upon by the Illinois Commission; if you know?

A. No.

Q. It was not ruled upon.

A. It was not ruled.

MS. GRADY: Thank you, Dr. LaCasse, that's all the questions I have.

Thank you, your Honor.

THE WITNESS: Thank you.

EXAMINER SEE: Ms. Mooney?

MS. MOONEY: No questions.

EXAMINER SEE: Mr. Boehm?

MR. BOEHM: No questions.

EXAMINER SEE: Mr. Randazzo?

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

\- - -

CROSS-EXAMINATION

By Mr. Randazzo:

Q. Dr. LaCasse, my name is Sam Randazzo and I have a few questions for you. You'll be glad to know that Ms. Grady has taken some of the questions off of my list so I'll try not to duplicate. Please let me know if you can't hear me or if you don't understand one of my questions.

Now, you touched on this subject a bit in your discussion with Ms. Grady, and it deals with the references in your testimony to the ESP price being a fixed price, substantially fixed, mostly fixed are the words that you used in your testimony, correct?

A. That's correct.

Q. Now, in the case of an auction where you have seen auctions determine the price for standard service offer or default generation supply, how much of that price is fixed?

A. Well, there are two different types of auctions. I think I was mentioning previously in response to Ms. Grady's question that there are auctions where for smaller customers the supply is at a fixed price so it would be fixed for the term. The price that's determined in the --

Q. Okay. Could we just stop you there and interrupt you just to ask a question to clarify. For that type of fixed price for the residential and smaller customers, there will be no ability of the supplier to make an adjustment for -- in fuel costs, for example, correct?

A. That's correct. But the price determined in the auction is not necessarily the price that's paid to the supplier, for example, there are seasonal adjustment factors where although there's a price of 5 cents per kilowatt-hour that's determined in the auction, that the supplier would be paid 1.2 times, for example, that amount during the summer to go with higher summer costs and a lower price in the winter.

Q. Okay. Now, the -- I will come back to that in a minute.

At page 4 of your testimony beginning at line 3 you say you're familiar with the Commission's order authorizing an increase in the POLR charge, right?

A. Yes.

Q. Okay. For purposes of preparing your testimony did you examine the other elements of the ESP as modified by the PUCO, by the Public Utilities Commission of Ohio?

A. I reviewed the order, the 2009 final order.

Q. Do you know the other elements in the rates other than the POLR that were approved by the Public Utilities Commission of Ohio for purposes of Columbus Southern and Ohio Power's ESP?

A. I'm not specifically familiar with that.

Q. And did you examine whether or not the other elements, other rate elements, of the ESP include provisions relating to the supply and pricing of electric generation service? The non-POLR elements I'm referring to here.

A. Can you repeat the question, please?

Q. Sure. Did you examine whether the non-POLR charge rate elements that were approved by the Commission for purposes of establishing Columbus Southern and Ohio Power's electric security plan include provisions relating to the supply and pricing of electric generation service?

A. My understanding is that there is the ESP price that is mostly fixed and that is what was filed with increases during the term of the ESP.

Q. Okay. But that's not what I asked you.

MR. CONWAY: Objection.

Q. The question I put to you was whether or not you examined the non-POLR charge elements of the ESP rates to determine whether or not any of those non-POLR elements relate to the supply and pricing of electric generation service.

MR. CONWAY: Objection. That's asked and answered. She did respond to your question. She said she was familiar with the ESP prices and she said she was aware that they increased over the term of the ESP. So your --

MR. RANDAZZO: Now you're making stuff up, Dan.

MR. CONWAY: Your commentary about her answer is inaccurate.

EXAMINER SEE: And I'm going to let the witness answer if she knows.

A. I don't know.

Q. You don't know whether you examined the non --

A. I don't understand the question, I'm sorry.

Q. Okay. Are you aware that there are other rate elements in the ESP prices?

A. Generally, yes.

Q. Okay. And those other rate elements that I'm referring to are beyond the POLR charge itself; is that the way you understood the question?

A. Yes.

Q. And you don't know whether or not there are other rate elements that pertain to or relate to the supply of generation service; is that correct?

A. That's correct. No.

Q. Now, if you know, did Ohio Power and Columbus & Southern originally provide the POLR charge as a distribution service charge?

A. I know that they -- that the original filing was to have the POLR charge be nonbypassable.

Q. Do you know whether or not it was characterized by the applicants, Columbus Southern and Ohio Power, as a distribution charge?

A. I do not know.

Q. Is the POLR risk a risk of an electric distribution utility, as you understand it?

A. Yes.

Q. Would that be part of the overall business and financial risk for which the electric distribution utility is compensated through its rates and charges?

A. I did not hear the question.

Q. Is the POLR risk that you discuss in your testimony or the shopping risk, if you will, that you discuss in your testimony part of the overall business and financial risk for which the electric distribution utility would receive compensation through its rates and charges?

A. My understanding is that the Commission approved the POLR charge for that purpose.

Q. Okay. Your testimony reads as though you believe that the Commission can impose an electric security plan on an electric distribution utility.

Is that your understanding?

MR. CONWAY: Objection to the premise.

MR. RANDAZZO: I'll restate it.

MR. CONWAY: That's his testimony, not hers.

MR. RANDAZZO: I'll withdraw the question and restate it.

EXAMINER SEE: Okay.

Q. (By Mr. Randazzo) Is it your understanding that the Public Utilities Commission of Ohio can impose an electric security plan on an electric distribution utility?

A. I am certainly not a lawyer. My general understanding is that the company can propose an ESP, that there are standards to determine whether the ESP is on balance better than a market rate option, and that the Commission can modify aspects of the ESP.

Q. Okay. But do you have any understanding as to whether or not if the Commission modifies and approves a proposed ESP, the electric distribution utility can terminate and withdraw the ESP, thereby, nullifying the Commission's action? Do you have any understanding with regard to that subject at all?

A. I do not.

Q. At page 5 of your testimony beginning at line 16 you respond to a question about the nature of shopping-related risks and there you indicate that AEP-Ohio is a utility that uses its own generation assets to meet its SSO obligation. Do you see that part of your testimony?

A. I do.

Q. Now, when you use "AEP-Ohio" there, who are you referring to?

A. That's explained on page 4, lines 6 and 7, of my testimony, so Columbus Southern Power Company and Ohio Power Company, collectively I refer to them as either the companies or AEP-Ohio.

Q. Okay. I just wanted to make sure that's the same definition that you're using where you use AEP-Ohio throughout your testimony.

Is it your understanding that AEP-Ohio, Columbus Southern, and Ohio Power, manage the use of the generating assets that they own?

A. Yes.

Q. What is that understanding based on?

A. It's based on my review of the testimony in the original case, and I'm sure there are other references, the one reference that I remember is the -- that I recall at this very moment is talking about separation and whether the generation was

within AEP-Ohio or not.
Q. Are you talking about corporate separation now?
A. I don't recall specifically.
Q. Yeah. Well, separate and apart from corporate separation are you aware that the generating assets of Ohio Power and Columbus & Southern are actually managed by an affiliate of those two companies?
A. I'm not.
Q. Are you aware of that?
A. I'm not.
Q. Did you review the cross-examination of the AEP witnesses and answers to that cross-examination that is provided in the portion of the record that precedes this phase of this proceeding?
A. No.
Q. Are you aware that the entity that manages the generating assets of Ohio Power and Columbus & Southern bids those generating assets into the PJM market on a day-ahead basis?
A. Not specifically.
Q. Did you have any conversations with AEP or any representatives of AEP or other consultants of

AEP to determine what the optimum generation management strategy is for AEP?

A. I did not.

Q. Are you aware of anything that requires an electric distribution utility that owns generating assets to use those assets for purposes of satisfying its standard service offer obligation?

A. I apologize, can you repeat the question?

Q. Sure. Are you aware of anything that requires an electric distribution utility that owns generating assets to use those assets for purposes of satisfying its standard service offer obligations?

A. I believe that there are such obligations, but I cannot provide a specific reference for them.

Q. So it's your understanding that there are obligations imposed on electric distribution utilities that use its own generating assets to satisfy its standard service offer obligation?

A. Yes.

Q. Are you aware of whether the Commission has permitted Columbus Southern and Ohio Power to pass on the cost of incremental market-based purchased power to serve a returning customer?

MR. CONWAY: Could I have that question

reread, please?

(Record read.)

A. My understanding is that that's allowed by the fuel adjustment clause.

Q. Are you aware of any actual circumstances in which the Commission has permitted Columbus Southern and Ohio Power to do just that such as in the case of Ormet?

A. I'm not aware.

Q. Are you aware of any circumstances in which the Commission has permitted Columbus Southern or Ohio Power to pass on market based cost of purchased power in circumstances where a large block of customers become customers of Columbus Southern or Ohio Power such as in the case of the Monongahela Power customers?

A. I'm not aware of that.

Q. Are you aware that Ohio Power and Columbus & Southern both received authority from the Public Utilities Commission of Ohio to transfer their generating assets to an unregulated affiliate?

A. No.

Q. Is it your view that an electric distribution utility that might elect to use its own generating assets to satisfy its SSO obligation should be treated differently than is the case where the electric distribution utility competitively sources its standard service offer generation supply?

MR. CONWAY: Could I have that question reread, please?

(Record read.)

MR. CONWAY: I'll object to the question on the grounds of vagueness, what is meant by "differently." Treated differently in what respect?

MR. RANDAZZO: If the witness doesn't understand the question, we can deal with that, Mr. Conway.

MR. CONWAY: Well, my objection --

MR. RANDAZZO: I'm delighted that you don't.

MR. CONWAY: My objection is that it's vague and ambiguous, it's not a suitable question.

EXAMINER SEE: And I'll allow the witness to answer the question to the best of her ability.

A. The difference between the two is that if an EDU competitively bids out to obtain supply for its customers, it transfers the shopping-related risk and the POLR risk to the suppliers that will take on that obligation while an EDU under an ESP that uses its own generation faces those costs and risks itself.

Q. Okay. So in the case where the electric distribution utility competitively sources the generation supply through a competitive bidding process, it would be inappropriate to add to that price an extra charge for what you referred to as the POLR, right?

MR. CONWAY: Again, I'll object to the question. It's ambiguous. Whose price? Are we talking about a wholesale price or a retail price? So I object.

EXAMINER SEE: Objection overruled.

You can answer the question, Dr. LaCasse.

A. So the POLR charge in the case of AEP is for those risks that would be transferred with the equivalent of a full requirement auction to competitive suppliers. I don't know whether the Commission has allowed other costs within a POLR charge for other EDUs in Ohio.

For example, there is an additional obligation on the EDU that there is a default or a problem with the suppliers that are providing supply for those SSO customers, that ultimately it's the EDU that has the obligation to step in, so even if those -- if the responsibility for POLR were transferred to competitive suppliers bidding in an auction, I could see that other part of the POLR obligation, so if there is a default from those suppliers, that the EDU would still be responsible even if it had bid out that supply and, therefore, there might be a potential adjustment for that.

Q. Okay. As I understand your testimony from a bigger picture perspective, you're essentially saying that the POLR charge is warranted because the revenue that the EDU may collect may be less because of shopping; is that correct?

A. It would be less if there is shopping than not, yes.

Q. Right. Now, do you know whether or not the Ohio General Assembly has spoken to the question of whether or not there should be shopping in the state of Ohio?

A. Whether there should be shopping?

Q. Do you know whether our laws have spoken to the question of whether or not there should be shopping?

A. Yes.

Q. Yeah. And it's your understanding that our laws favor shopping, correct?

A. They allow shopping, yes.

Q. Not only allow, favors shopping; is that correct?

MR. CONWAY: Objection.

Q. Do you know?

MR. CONWAY: Now it's calling for a legal conclusion.

MR. RANDAZZO: I'll withdraw the question.

Q. Do you know if the state of Ohio has a policy that it has adopted in favor of shopping?

MR. CONWAY: That's a completely unqualified statement so I object to it. The law does not -- we can argue about it but the law doesn't call for -- promote shopping in all circumstances without regard to the rationality of the shopping, for example. I think this is better off with a brief, not with a witness.

EXAMINER SEE: The objection is sustained.

Q. Have you reviewed the policies of the state of Ohio for purposes of preparing your testimony?

A. I reviewed the legislation as it relates to the MRO and the ESP options for SSO.

Q. In that review did you identify the

policies of the state of Ohio?

A. No.

Q. Do you understand that the POLR charge can be avoided by a customer if the customer elects to come back at a market price?

A. I do.

Q. And when the shopping customer elects to avoid the POLR charge, the electric distribution utility, Ohio Power and Columbus & Southern in this case, is not entitled to be compensated for any of what you'd call shopping risk; is that correct?

A. The portion of the return of the customer, there is no compensation for that, that's correct.

Q. And you mentioned community aggregation and specifically opt-out aggregation in your testimony. Are you familiar with the process that a community must follow before it can engage in opt-out aggregation?

A. No.

Q. Do you know how long it takes for a community to establish an opt-out aggregation program?

A. I do not.

Q. Do you know what kind of regulatory

requirements attach to the ability, regulatory requirements established by the Public Utilities Commission of Ohio, that attach to the ability of a community to engage in opt-out aggregation?

A. I do not.

Q. Do you know how many communities have established opt-out aggregation programs in the service areas of Ohio Power and Columbus & Southern?

A. I do not.

Q. And in circumstances where a customer would agree not to shop during the term of an electric security plan, would it be appropriate to not charge that customer a POLR charge?

A. Yes.

Q. The shopping risk that you discuss in your testimony, do you know when that was created?

A. I'm sorry. Can you repeat the question?

Q. Do you know when the shopping risk was created? Let me withdraw the question.

Is it your understanding that the risk of shopping was created in the electric security plan that was approved for these two utilities by the PUCO?

A. The shopping risk comes from ultimately the customer's ability to choose service from a CRES provider and to return from the SSO. My understanding is that's not part of this proceeding. That comes from the ability and the rights of customers under -- in Ohio and comes from the greater context, so to speak.

Q. Okay. And do you know when that right was established, approximately? Would you accept the beginning of 2001?

A. I don't know, but I know that it was in effect when I was auction manager for the FirstEnergy auction in 2004, so...

Q. All right. Are you aware that Ohio had a, what were called transition plans that were required of each of the utilities as we moved from the prior form of regulation to the Customer Choice model which is currently in place?

A. I do not.

Q. Are you aware that Columbus & Southern and Ohio Power were permitted to request transition revenues to compensate them for the difference between the market value of their generation fleet and the rates that were established previously by regulation?

A. I am not.

MR. CONWAY: Objection. Your Honors, at

this point it's beyond relevance and it's also beyond the witness's testimony. She already said she was not familiar with the transition plan proceedings in Ohio for these companies. It just amounts to more testimony from Mr. Randazzo.

EXAMINER SEE: I'm sorry, I can't hear you, Mr. Conway.

MR. CONWAY: I said at that point it just amounts to testimony from Mr. Randazzo. The witness is not the conduit here for that information, she already said she did not have familiarity with the transition plan proceedings from the companies.

EXAMINER SEE: Yes, she did, so let's --

MR. RANDAZZO: Yeah, she did, but I'm entitled to test the quality of her knowledge with regard to her testimony and her lack of understanding regarding the things that have been done prior to this proceeding to compensate the utilities for uneconomic costs I think is entirely relevant to the subject matter of this proceeding.

MR. CONWAY: It would have been relevant ten years ago maybe.

MR. RANDAZZO: It was actually argued.

MR. CONWAY: Eleven years ago.

MR. RANDAZZO: It's actually an issue

that was briefed and discussed in this proceeding.

MR. CONWAY: Well, the fact that it was briefed and discussed, your Honors, doesn't make it relevant and I don't know, I'm not sure which briefing he's talking about, but I don't believe it was mine or ours, so she said she doesn't know anything about the topic and beyond that it's not -- in our view it's not relevant. Thank you.

EXAMINER SEE: The witness has already indicated that she's not familiar with the ETP, let's move on, Mr. Randazzo.

Q. (By Mr. Randazzo) For purposes of preparing your testimony did you ask the companies, Columbus Southern and Ohio Power, if they had entered into any settlements that affected their ability to charge shopping customers lost generation-related revenue charges?

A. No.

Q. Now, at several places in your testimony you talk about -- you talk about the expected revenue that the utilities might receive from the ESP if there were no shopping, correct?

A. Correct.

Q. Now, at what point in time should we measure that expectation?

A. That expectation is set out in the application from AEP-Ohio where there is an SSO price and a revenue attached to that SSO price.

Q. I'm not sure that answers my question. Did you ask AEP or Columbus Southern or Ohio Power what their revenue expectations were for purposes of preparing your testimony?

A. For purposes of preparing the testimony and in identifying the costs that's related to shopping, the comparison is between a situation where there is no shopping and the revenue that would result from that particular situation. So all customers taking service from the EDU at the SSO price and a situation where customers are shopping.

Q. Okay. So if the companies, Columbus Southern and Ohio Power, at the point in time when the original ESP was being considered, did not expect there would be any shopping, would it be appropriate in that circumstance to have a POLR charge?

A. I don't think it's a question of whether there was an expectation that there was shopping, but in identifying what the cost on an ex-ante basis would be from shopping the relevant comparison is from a situation where there is no shopping to one where there is.

Q. Okay. And the relative comparison, again, is for purposes of identifying the revenue difference between those two scenarios, right?

A. That's correct.

Q. Did you inquire of Columbus & Southern or Ohio Power about what their shopping expectations were at the point in time when the Commission modified and approved the ESP?

A. No.

Q. Are you familiar with AEP-East as a descriptive term within the AEP system?

A. I'm not.

Q. Do you hold yourself out as an expert in the PJM market?

A. I have familiarity with the PJM markets as a function of what I do, but I'm not an expert in the PJM markets.

Q. Now, I'd like for you to assume for a moment a residential electric customer of Columbus & Southern presently using electricity for water heating purposes and that customer switches to natural gas because natural gas is less expensive. In other words, the competitive response Columbus & Southern seeks to higher electric rates is not shopping to a competitive electric supplier but shopping to a competing energy form. Are you with me?

A. I'm with you.

Q. In that case would it be your view that Columbus & Southern should be compensated for the difference between the revenue that it may have expected but for the competing energy form and the revenue that it actually collects?

A. I don't have an opinion on that.

Q. Are you aware that within Columbus & Southern's service territory customers of Columbus & Southern can switch to municipal utilities?

A. I don't know the specifics of that, no.

Q. Are you aware that within Columbus & Southern's service territory there are customers who can also switch to rural co-ops?

A. I don't know that.

Q. Are you aware that if neither Ohio Power nor Columbus & Southern had generating assets that could be used to satisfy the demand of standard service offer customers, that PJM would dispatch generating resources of other generating owners to satisfy the standard service offer demand?

A. It would do that. It wouldn't do that for free, however, but you could purchase -- if your question is can you purchase from the wholesale market? Yes, you could.

Q. And are you aware that PJM controls the operation and use of the generating assets that are owned by Columbus Southern and Ohio Power?

A. They are part of the PJM footprint; yes.

Q. So that PJM controls the operation and use of those generating assets; is that correct?

A. For dispatch, yes.

Q. Now, you were asked by Ms. Grady some questions about the pool agreements, AEP pool agreements. What is your understanding of the AEP pool agreements, their purpose?

A. I believe that in response to the previous question on that I said I was not familiar with the AEP pool agreement and I had not reviewed it.

Q. Okay. And if we were to confine our discussion to areas where you may have had some direct involvement in establishing prices for default generation supply, would it be fair to say that your direct experience is limited to the use of competitive bidding?

A. Can you repeat that?

Q. Sure. If we were to confine our

discussion to areas where you may have had some direct involvement in establishing prices for default generation supply service, would it be fair to say that your direct experience is limited to the use of competitive bidding?

A. The use of competitive bidding meaning managing competitive procurement processes where suppliers bid to be able to provide that supply, yes.

Q. Yes, ma'am. So the answer would be yes with that explanation?

A. Yes.

Q. Did you review the switching rules and rate elements and riders for the other utilities that you identify in the portion of your testimony where you're talking about the premium that is embedded in the competitively bid prices?

A. Can you be more specific?

Q. Yeah, we'll get to it in a second.

First of all, you do agree that it is critically important to correctly identify all the restrictions and limitations that may affect shopping and the return of customers to standard service offer, correct?

A. What I testified to is that the degree to which the method of estimating the POLR cost is precise depends on many factors, one of which is the accuracy with which constraints associated with the option can be modeled where the constraint associated with the option here is the possibilities of customers switching.

Q. Okay. Let's take -- your testimony at page 20 where you've inserted the table at the top of the page. For purposes of your analysis did you take a look at the switching restrictions that applied to Commonwealth Edison?

A. I certainly knew them at the time where I was auction managers for these utilities. I do not recall precisely what they are right now.

Q. For purposes of your analysis did you compare the switching restrictions that existed for Commonwealth Edison against the switching restrictions that apply in the case of Ohio Power and Columbus & Southern?

A. No.

Q. And if I were to ask you the same thing about Ameren and Columbus & Southern and Ohio Power, would your answer be the same?

A. The answer is the same. The analysis is to show that shopping risk has been identified in other studies and other jurisdictions where the suppliers faced the same possibilities of customers leaving and returning.

Q. And if I were to ask you the same questions about the utilities that are identified in your Exhibit CL-2, would your answer be the same? You've not compared the shopping restrictions that exist between those identified utilities in CL-2 and those that apply to Columbus Southern and Ohio Power.

A. I know generally the shopping restrictions that -- for the utilities, these are New Jersey utilities in CL-2, and I know generally the shopping restrictions for Ohio and Columbus Southern was not part of the analysis to make a comparison between the two.

Q. Correct. Now, let's talk a little bit about the Post-Auction Public Report of the Staff of the Illinois Commerce Commission which you reference, cite, at page 20 of your testimony. Are you with me?

Actually, you start on page 19.

A. I'm there.

Q. Okay. Now, is this the only report that was issued by the staff of the Illinois Commission on this subject?

A. Yes. The tariffs for comment in Ameren I expect that those will be a single report, Post-Auction Report for a given auction.

Q. So it's your recollection that there wasn't a confidential report that was submitted prior to the one you referred to in your testimony? A nonpublic report.

A. There were confidential reports that were submitted to the Commission prior to the approval or the decision of the Commission on the results of the auction.

Q. Yeah. And the report that you cited is the public version of the Staff Report, correct?

A. It's not a public version. It's a public report that has another purpose.

Q. And what was the purpose of the public report?

A. To review the results of the auction and to prepare for another auction or other method of procuring supply for customers.

MR. RANDAZZO: Could I have the answer read back, please?

(Record read.)

Q. Okay. So the report that you reference in your testimony, as far as you understand it, the purpose of it was to make recommendations to the Illinois Commission on how it could improve the auction process going forward, correct?

A. To the best of my recollection it was that and providing the results of the auction as well.

Q. Okay. And this report was submitted after the Illinois Commission had already approved the auction outcomes, correct?

A. That's correct.

Q. Am I correct that in Illinois the vertically integrated electric utilities had spun off their electric generating assets and the auction results in Illinois to which this Illinois Staff Report pertains had nothing to do with a situation where an electric distribution utility retains generating assets and that elects to use those generation assets for purposes of meeting its standard service offer obligation?

A. As I testify, an EDU that uses its own generating assets to meet SSO obligation, there are shopping-related risks to the same degree or in a similar fashion as winning bidders in a competitive solicitation. So although the shopping risks that are included in those premiums are not for an EDU that faces POLR risk, they are for those winning bidders in a competitive solicitation to provide that supply to customers.

Q. I appreciate your answer, but my question had to do with something else. My question had to do with the situation in Illinois versus the situation we have here. Will you agree that in Illinois that the restructuring law in Illinois resulted in the vertically integrated electric utilities spinning off their generating assets?

A. Yes.

Q. And that that had occurred prior to the Post-Auction Public Report that you reference in your testimony.

A. That's correct.

Q. Am I correct that the staff of the Illinois Commission cautioned against the use of the report which you cite in your testimony?

A. I don't know that.

Q. Do you have the report?

A. I do.

Q. Would you turn to page 11 of 49. Do you see the sentence under the first full paragraph that begins with "at the outset"?

A. Sorry. On page 11?

Q. Eleven of 49, correct.

MR. CONWAY: Your Honor, would it be

possible for me to look over her shoulder just to see what it is that she's reading?

EXAMINER SEE: Yes.

MR. CONWAY: I don't have a copy of the report, I apologize.

MS. GRADY: Dan, I've got a copy of it.

MR. CONWAY: Thank you.

And then, again, I apologize, but could I have the last question reread, please?

(Record read.)

A. I do.

Q. Okay. And there the staff of the Illinois Commission is talking about comparing the results of the auctions to other wholesale market prices, correct?

A. Correct.

Q. And staff there cautions that creating benchmarks of this kind relies upon many assumptions, therefore, any such benchmarks should be interpreted cautiously. Is that correct?

A. Correct.

Q. Now, are there any other cautions that the staff made in the Illinois report to which you cite in your testimony about relying on information contained in that report?

A. On this same paragraph I think staff clarifies that the caution relates on second-guessing the auction results using those benchmarks and that participation in the auction would have been adversely affected by that second-guessing. I believe that's the concern staff is expressing here.

Q. Was AEP a successful bidder in this auction?

A. I don't recall.

Q. Would you turn to page 8 of 49.

A. I'm there.

Q. Would you review that page and see if that refreshes your recollection as to whether or not AEP was a successful bidder in this auction?

A. Yes.

Q. And am I correct that the bid price that AEP prevailed on was $63.96 a megawatt-hour?

A. The price you're quoting is for one of the common products.

Q. Yes.

A. And that is a uniform price for all the bidders in the auction.

Q. Right. That's the price that AEP received for being a successful bidder; is that correct?

A. That's correct.

Q. And based on your testimony that price would reflect all the shopping risks associated with standard service offer supply, correct?

A. Yes.

Q. Now, the table that you have inserted in your testimony at page 20 is from the Illinois staff report at page 17 of 49, correct?

A. That's correct.

Q. And am I correct that the Illinois staff inserted the following sentences, just following just below the table that you've taken from the Illinois report and inserted in your testimony at page 20, there was a heading "C, Reasonableness of the Implied Risk Premiums," and then the Illinois Commission staff said "At this stage the natural question is whether the implied risk premiums shown in the table above are low, reasonable, or excessive. At this time staff does not have a definitive answer to this complex question."

Have I quoted the report correctly?

A. You have.

Q. As part of your review of -- the review that you conducted to develop the opinions reflected in your testimony, did you ask Ohio Power, Columbus

Southern, or any affiliate that may manage their generation about the prices that they may have bid into the competitive bidding processes to identify the generation supplier for SSO service in Ohio?

A. Can you repeat the question?

Q. Sure. Did you, for purposes of preparing your testimony, inquire of Ohio Power and Columbus Southern or any affiliate that may manage their generation assets about prices that they have bid into competitive bidding processes associated with standard service offer in Ohio?

A. No.

Q. Why not?

A. Because that was not part of what I was reviewing. I was reviewing whether the method that the companies have used to evaluate on an ex-ante basis the POLR cost associated with the POLR risk was reasonable or not.

Q. Are you aware that AEP is providing standard service offer generation supply in the service areas of Ohio Edison, Toledo Edison, and Cleveland Electric Illuminating Company pursuant to the results of a competitive bidding process conducted under the oversight of this Commission?

A. I did not look at the results of that process.

Q. Are you aware that they are providing standard service offer generation supply in that circumstance?

A. Not specifically.

Q. Are you aware or did you inquire of any offers that Columbus & Southern and Ohio Power may have received from unaffiliated generation suppliers to provide energy or capacity to satisfy Ohio Power and Columbus & Southern's standard service generation supply obligations?

A. No.

Q. Have you made any recommendations to Columbus & Southern, Ohio Power, or any affiliate that they use a competitive bidding process to establish a price for standard service offer service?

A. No. Again, what I'm doing in this testimony is looking at the method that the companies use to evaluate the POLR risks and costs on an ex-ante basis and that I find that that's reasonable and that's what I looked at.

Q. Okay. Now, just one question I got curious about, if you'll excuse my curiosity, and that's all it is. If you would turn to CL-1 --

MR. RANDAZZO: And this is my last

question, for the Bench.

Q. First page of CL-1. Go down to line 7 in the text and start on the right-hand side of line 7 where the word "developed" appears. Are you with me?

A. Sorry, which page?

Q. The first page of CL-1.

A. Okay.

Q. With your name and your title on the page. Are you with me?

A. Uh-huh.

Q. Go down to line 7 where the word "developed" appears. And come in from there to the word "for." In between "for" and "and," it appears to me that something may be missing. Is there something missing there?

A. Yes. You said it was your last question.

(Laughter.)

Q. Fair enough, we'll leave it there. Thank you very much.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No, thank you.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: Just a few, your Honor, thank you.

EXAMINER SEE: Let's go off the record

for just a second.

(Recess taken.)

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

Mr. Petricoff.

MR. PETRICOFF: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good morning, Dr. LaCasse.

A. Good morning.

Q. I'm Howard Petricoff and I represent Constellation NewEnergy and Constellation Energy Commodities Group. Since I think you have been questioned extensively and have had a little break here I've just narrowed this down to just a few questions that I'd like to get on the record with you to explore your testimony in the nature of the study that you have done.

Let's start with are you familiar with the time period that we are reviewing here in this proceeding?

A. Yes.

Q. And you'd agree with me that's calendar year 2009 through 2011?

A. Yes.

Q. Is it fair to say that 5/6 of that time period has come and gone?

A. Yes.

Q. Would it be possible, then, to look for calendar year 2009 and measure to see in your first risk what the company lost in lost opportunity costs from customers who had migrated to shopping and the company had to sell the power to someone else?

A. May be possible, but the POLR charge is a charge that would be established ex-ante looking forward to the three-year period at the point where the ESP price is determined.

Q. I was just wondering, so if I understand your answer correctly, there's no reason that a study couldn't have been done to look to see what the lost opportunity costs would have been to the company in calendar year 2009 for customers who have migrated should such a study have been conducted.

A. I'm sorry, can you repeat that?

MR. PETRICOFF: Read the question back, please.

(Record read.)

A. I don't understand the lost opportunity cost in your question.

Q. Sure. You've identified in your testimony that there is a, I think you called it risk cost, there's a risk cost to AEP-Ohio if a customer leaves standard service and then AEP-Ohio has to sell the energy somewhere else, correct?

A. Correct.

Q. And I've identified that as a lost opportunity cost. But for the customer leaving, the company would have gotten the SSO revenue, instead it got the market revenue. Are you comfortable with calling that a lost opportunity?

A. It's a difference between the revenues without and with shopping, yes.

Q. And the reason I called it a lost opportunity is because I want to distinguish it from the situation where the company took the power that would have been sold to the SSO customer and sold it in the market and sold it above its cost; that scenario is possible, isn't it?

A. What's relevant here to the POLR cost is whether the alternate retail sale or alternate sale is made at a price that's higher -- market price that's higher or that's lower than the SSO. If you are considering a situation where the SSO customer has left and has started taking service from a CRES provider, then the SSO customer would have an incentive to do that if the prices had fallen. So the alternate sale in that circumstance would be at a market price that's lower than the SSO price.

Q. I'm just looking for an answer as to whether it is possible that AEP-Ohio could have taken the power that would otherwise have been sold to the shopping customer, sold it in the market above its actual cost, and made a profit even though that sales price was below the SSO cost. Is that possible?

A. It's possible.

Q. All right. And that's not something that you measured nor is that picked up in the Black-Scholes model.

A. What's being compared and what's being picked up by the Black-Scholes model is the differential in the position of the EDU when there is shopping and when there is not.

Q. All right. And basically what we're measuring here is the lost opportunity, what the company would have made had it been able to sell to the customer that was shopping at the SSO price.

A. What we are seeing is the difference in revenue between those two situations, yes.

Q. So the answer to the question is yes.

A. Yes.

Q. Now, wouldn't it have been a great way to demonstrate that the 2008 Black-Scholes model was an excellent predictive tool by comparing to what the actuals were in 2009 and 2010 and using that to verify the model?

A. The calculation of the Black-Scholes model is done on an ex-ante basis. When something is done on an ex-ante basis, it's understood that costs could be above or below the costs, the actual costs that are measured by the Black-Scholes model.

Q. I just asked you would it be an effective tool to verify the quality of the model to compare something that had been predicted against the actual?

A. No, because it would have been unsurprising that it would be different from that. It's an expectation there's an average, if you want, given the possibility of how the market prices would move in the future and that is an expectation that's on an ex-ante basis and it may differ in both directions from actual costs.

Q. So your advice to this Commission is when you review the Black-Scholes model, don't expect it to actually predict what the prices are going to be with the future because the prices may go up or down.

A. Can you repeat the question?

MR. PETRICOFF: Please read it back.

(Record read.)

MR. CONWAY: Your Honor, at this point I'm going to object because there's never been a foundation laid that the purpose of the Black model is to predict what the future prices are going to be.

MR. PETRICOFF: Your Honor, I will take that as an admission. If the company wants to offer that, I will withdraw the question.

EXAMINER SEE: Did you want to respond to that, Mr. Conway?

MR. CONWAY: Excuse me?

EXAMINER SEE: Did you want to respond to that?

MR. CONWAY: No.

EXAMINER SEE: The objection is overruled and I'm going to ask the witness to answer the question to the best of her ability.

THE WITNESS: Could I ask the question be reread, please?

(Record read.)

A. I'm not sure I'm presenting advice to the Commission. What I can say is that the Black-Scholes model is not for the purposes of predicting what the price will be. It's for the purposes of given the volatility in prices in the future, to calculate what the magnitude of the actual cost, the POLR cost, to the companies would be.

Q. And you did no studies at this point to compare the results from the, either the constrained or the unconstrained model with any of the actuals to date.

A. That's correct.

Q. Earlier in the questioning I think by Ms. Grady, or maybe it was Mr. Randazzo, you had indicated that you were familiar with the FRR that AEP-Ohio has for its service territory for Columbus Southern Power and Ohio Power?

A. I said that I was generally familiar with the concept of the FRR.

Q. And is it fair to say that Columbus Southern Power and Ohio Power will provide the capacity for any CRES, certified retail electric supplier, serving retail customers in this area for the established capacity price?

A. My understanding is that if the CRES provider does not have itself qualified capacity, then the companies would sell the capacity to the CRES provider.

Q. And, to your knowledge, does any CRES who's certificated in Ohio have an FRR for the Columbus Southern Power or Ohio Power service territory?

A. I do not know.

Q. And do you know the length of time it would take for one to get an FRR for the Columbus Southern Power or Ohio Power service territory?

A. I believe that it's three years ahead of the supply period.

Q. So we can say safely that unless someone had an FRR, someone -- I'm sorry. Let me retract that.

Unless a CRES had an FRR going into this ESP period, capacity would have to be purchased from Columbus Southern Power or Ohio Power for retail sales.

A. That's my understanding.

Q. With that in mind, would you agree with me, then, that if a customer migrates from SSO service to a CRES supplier, AEP-Ohio will get the capacity payments regardless of the migration?

A. That's correct. And that's incorporated into the company's model to the extent that alternate sales that are made when customers shop under the model are at the benchmark retail price and that has that component for capacity included in that price.

Q. So your understanding is that the capacity cost has been taken out of the benchmark price.

A. No. That it's included in it.

Q. If the capacity is included in the benchmark price -- let me withdraw that. Let me approach it another way.

You'll agree with me that AEP-Ohio is not at risk for capacity payments because of shopping.

A. Correct.

Q. And so what AEP-Ohio is at risk, then, if a customer migrates, it would just be the energy portion of the power sale.

A. No, I don't think I agree with that. There are potentially other components that go to providing supply for their customers, and what the companies are at risk for is that if the customers are migrating and taking service from a CRES provider, it means that general market prices have come down so that it is to the benefit of the customers to shop. So even if the capacity component were the same, it means the other components have decreased sufficiently that it's profitable or in the best interest of the customers to take service from a CRES provider.

Q. Could you list for me the kinds of costs that the company would have when a customer migrates? You know, specifically. Let me leave it that way. Let me try again.

If a customer migrates, would the company have a fuel cost?

A. If a customer migrates, the cost of the companies are identified by looking at an alternate sale compared to the sale that it would have made with the SSO customer, and it's that difference that's identified as the cost that's associated with the shopping risk.

Q. And that would give us the lost opportunity cost. I want to take it down one level, one gradation down. Can you identify for me the kinds of costs that would -- that the company would be at risk for? Would they have operation and maintenance costs? Would they have supervisory costs? What kinds of costs are going to be potentially borne by the company if a customer shops?

MR. CONWAY: Objection. She's answered this question about three times now. She's already explained that the cost that's being measured is the difference between the SSO price and what the next-best opportunity is, the retail market price that the companies get. She has not agreed that there's some other cost basis which the companies are having to recover or lose as a result of this transaction. She's already explained it three times so I object to it. It's been asked and answered.

EXAMINER SEE: And I'm going to again allow the witness to respond to the question. Objection overruled.

THE WITNESS: Could I please ask for the question to be repeated?

EXAMINER SEE: Yes.

(Record read.)

A. So if the customer shops and the companies make an alternate sale, they will have the same kinds of costs that they would to provide supply to the SSO customer.

Q. I'll now move on to the other risk you identified and that is where the customer comes back. You'll agree with me if the customer comes back, the company would be indifferent to the capacity costs. They would collect the same revenue.

A. I agree with that.

Q. And if the customer comes back and there are increases due because of fuel, the company should be able to collect that back through the fuel adjustment clause, correct?

A. The risk for the customer returning basically assumes that to be able to return the customer must have first left. So when the customer or customers left in the first place, it was because there was a reduction in the market price so that there would be an advantage for customers to shop.

And then it depends at that point what the companies did in terms of alternate sales, so the circumstance where, in my view, the fuel adjustment clause would be operative is one where once the prices have decreased and the customers have shopped, that the companies made some kind of forward sales at those lower prices so that when customers return, the companies would have to purchase power to serve the returning customers at that higher market price, so at a price that would be higher than the SSO price, which is the only time customers would come back.

And then the companies would be able to, my understanding is, to recover those power purchase costs through the fuel adjustment clause.

Q. And the fuel adjustment clause also includes power purchases and what we'll call consumables, materials that are used for like the pollution-control devices.

A. I don't know those details.

MR. PETRICOFF: Your Honor, I have no further questions.

Thank you, Dr. LaCasse.

EXAMINER SEE: Ms. Hand?

MS. HAND: No questions, your Honor.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions at this time your Honor, thank you.

EXAMINER SEE: Mr. O'Brien?

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

EXAMINER SEE: Mr. Warnock?

MR. WARNOCK: No questions, your Honor.

EXAMINER SEE: Mr. Conway, redirect?

MR. CONWAY: Could we have a short break, your Honor?

EXAMINER SEE: Let's go until 1:15.

(Recess taken.)

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

Mr. Conway.

MR. CONWAY: Thank you, your Honor. Just two or three questions.

- - -

REDIRECT EXAMINATION

By Mr. Conway:

Q. Dr. LaCasse, do you recall questions from the cross-examining lawyers regarding the reports, studies that you have referenced in your testimony?

A. Yes, I do.

Q. And I believe that in the course of the discussion there was some commentary, some focus on the variance in assumptions that underlie the various reports; do you remember that?

A. I do.

Q. And there were some differences, I believe, in the assumptions that underlie the various reports and also the Black methodology that the companies have used in this case, right?

A. Correct.

Q. Okay. Notwithstanding the differences in those assumptions, do you believe that the reports that you referenced in your testimony nevertheless are informative regarding the nature and the materiality of the POLR costs that AEP-Ohio faces?

A. I do. There are differences, for example, in the exact rules to which customers are subject when they shop in the various jurisdictions and there may be other differences in the jurisdictions as well, but what the studies show is that for those suppliers that bid these auctions and that take on POLR risks and all of the risks that go with providing supply to those customers, that there is a way to -- a method to identify the risks that they take, they include those into their bid prices and by comparing that with the visible market costs we can determine what the level of that risk premium is.

And one of the risks that is cited by these studies is the shopping risk, so that the suppliers that do bid in these auctions and take on the POLR responsibilities are compensated for these risks including shopping risks and, similarly, an EDU like AEP-Ohio is in a similar position in that it does take those POLR risks as well and the POLR charge that is estimated with the model is then compensation for assuming that risk.

MR. CONWAY: Thank you, Dr. LaCasse.

Your Honor, I have no further questions on redirect.

EXAMINER SEE: Ms. Grady?

MS. GRADY: No, your Honor.

EXAMINER SEE: Mr. Boehm?

MR. BOEHM: No questions, your Honor.

EXAMINER SEE: Mr. Randazzo?

MR. RANDAZZO: Just maybe a couple. Not to limit myself to one, because the witness is very good at holding me to that.

\- - -

RECROSS-EXAMINATION

By Mr. Randazzo:

Q. Would the premium that you discussed with your counsel and which you describe or reference in your testimony that you've observed based upon the studies cited in your testimony compensate the suppliers in the competitive bidding process for the difference between the revenue that they would have received without shopping and with shopping?

A. I think bidders and suppliers in those auctions, when they quantify the shopping-related risk, would use their own methods and would also consider the particular strategies that they have to face those risks.

Q. So you're saying in that circumstance, in a competitive bidding process, that premium is not designed to compensate the bidders for the difference between the revenues that they would have obtained with shopping and without shopping; is that correct?

THE WITNESS: Can you repeat the question?

(Record read.)

A. The premium is designed to compensate them for the risks that they face from providing the service and in particular for the potential revenues that they would lose for customers to shop.

Q. Okay. And so when AEP bid into the Illinois auction and was a winning bidder at $63 and some change per megawatt-hour that we discussed earlier, AEP was receiving some compensation for what you call your shopping risk in your testimony; is that correct?

A. Yes.

Q. And is that considered by the Black model or the Black-Scholes model or the Scholes-Black model or whatever version of the optionality model you want to attribute to Mr. Black?

MR. CONWAY: I'm going to object for the purpose of ambiguity. I'm not sure --

MR. RANDAZZO: I'll withdraw the question. I'll withdraw the question. Thank you.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No, thank you.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: No questions, your Honor.
EXAMINER SEE: Ms. Hand?
MS. HAND: No questions, your Honor.
MR. YURICK: No, thank you.
EXAMINER SEE: Mr. O'Brien?
MR. O'BRIEN: No.
EXAMINER SEE: Mr. Warnock?
MR. WARNOCK: No questions.
EXAMINER SEE: Thank you.
I'm sorry, you're standing, Mr. Conway?
MR. CONWAY: I was anticipating. I didn't mean to interrupt your --
EXAMINER SEE: The Bench doesn't have any questions for the witness.
MR. CONWAY: If you have no questions, I was simply going to again offer or request that the testimony be accepted into the record.
MS. GRADY: And, your Honor, at this time I would renew my motion to strike.
EXAMINER SEE: And your renewed objections are --
MR. RANDAZZO: Renewed as well, your Honor.
EXAMINER SEE: Same for you, Mr. Petricoff?

MR. PETRICOFF: The same, thank you.

EXAMINER SEE: Your objections are so noted. They are again overruled. If there are no further objections to the admission of Dr. LaCasse's testimony, it's admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

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

(Discussion off the record.)

EXAMINER SEE: Mr. Randazzo?

MR. RANDAZZO: This can be off the record.

EXAMINER SEE: Okay. We'll resume at 2:30.

You're dismissed, Dr. LaCasse. We'll resume at that time with Ms. Thomas.

(Thereupon, at 1:21 p.m., a lunch recess was taken.)

\- - -

Tuesday Afternoon Session,
July 19, 2011.

- - -

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

Mr. Nourse.

MR. NOURSE: Thank you, your Honor. The companies call Laura J. Thomas to the stand.

EXAMINER SEE: Ms. Thomas, if you'd please raise your right hand.

- - -

LAURA J. THOMAS

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Ms. Thomas, can you state and spell your name for the record, please?

A. Yes. My name is Laura J. Thomas, L-A-U-R-A, middle initial J, T-H-O-M-A-S.

Q. By whom are you employed and in what capacity?

A. I'm employed by American Electric Power Service Corporation as the managing director of regulatory projects and compliance.

MR. NOURSE: Your Honor, I'd like to mark the prefiled direct testimony of Laura J. Thomas as Companies' Remand Exhibit No. 4.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Ms. Thomas, do you have the document just marked as Companies' Remand Exhibit No. 4?

A. Yes, I do.

Q. And is this your prefiled direct testimony prepared by you or under your direction?

A. Yes, it is.

Q. Do you have any changes, additions, or corrections you'd like to make this afternoon?

A. No, I do not.

Q. If we were to ask you the same questions today under oath, would your answers be the same?

A. Yes, they would.

Q. Thank you.

MR. NOURSE: Your Honor, I'd move for the admission of Companies' Remand Exhibit No. 4 subject to cross-examination.

EXAMINER SEE: Okay. Ms. Grady.

MS. GRADY: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Ms. Grady:

Q. Good afternoon, Ms. Thomas.

A. Good afternoon.

Q. Drawing your attention to page 2 and carrying over to page 3 of your testimony you state that you are addressing the appropriate charges for the companies' POLR for the remainder of 2011; do you not?

A. That's correct.

Q. And you conclude, Ms. Thomas, that the amount of the POLR charges that was previously approved by the Commission in this ESP case is appropriate; is that correct?

A. Yes, based on my review and further analysis.

Q. Now, the ESP -- strike that.

The POLR that was approved in the ESP case was based on the Black-Scholes unconstrained model run that was presented by Witness Baker; is that correct?

A. That's correct.

Q. For purposes of the ESP II you present testimony with a Black-Scholes model that is constrained for POLR charges; is that correct?

A. Yes. I used a constrained model that utilizes the Black formula but also incorporates switching constraints into the model.

Q. And that constrained model is appropriate, in your opinion, to use on a going-forward basis to compute POLR for the proposed ESP in effect from 2012 through 2014.

A. That is what I have proposed in my testimony in that ESP as well as using that model in this case to basically go back and look at the POLR charges that the Commission had previously approved to say now that I have an improved model, do those results confirm what the Commission had previously approved.

Q. Now, let's focus for a moment on the unconstrained model or the model that was used by Mr. Baker. That unconstrained Black-Scholes model calculated the risk of providing standard service offer prices to customers throughout the ESP period; is that correct?

A. It calculated the cost of the risk of providing SSO prices for the period of the 2009 through '11 ESP period while customers have the freedom to come and go to the company's standard service offer subject to the switching constraints.

Q. Now, the risk of providing the standard service offer prices to customers is not equivalent to the out-of-pocket costs of POLR; would you agree to that?

A. Yes, I would agree because what we're capturing is the cost of the risk to the company that ties to the commitment made for the period of the SSO.

Q. And when I use the term "out-of-pocket cost," I mean cash payments for POLR.

A. Yes.

Q. Now, you believe at some point, do you not, Ms. Thomas, that the cost of the risk will result in out-of-pocket costs to the utility? Is that correct?

A. It could or, as Dr. Makhija testified, it could -- it translates into an ultimate cost to the company in terms of the cost of equity.

MS. GRADY: May I have that answer reread, please.

(Record read.)

Q. Now, you referenced Dr. Makhija. Are you talking about the risk premium concept that is found in Dr. Makhija's testimony?

A. I'm referring to his testimony where he explained how that the cost of -- that there is a cost to the POLR that, ultimately, if uncompensated, will result in cost of equity costs.

Q. And that's the cost of equity that would be borne by shareholders; is that correct?

A. That's correct.

Q. And it's also your testimony, Ms. Thomas, that there could possibly be no out-of-pocket costs if the company chooses to absorb the risk itself?

A. Well, the company can choose to or effectively self-insure it in which case you would not see a specific cost on the books in terms of an out-of-pocket. It doesn't mean that it isn't a cost that is borne by the company.

Q. And the company has chosen, in your opinion, to self-insure over the past two-and-a-half years; is that correct?

A. Because the company did not enter into specific actions to lay that risk off on another party, it did itself insure it.

Q. And part of the self-insurance was that customers of the company were picking up the costs of the POLR through the POLR rider; is that correct?

A. Yes. The POLR was charged to customers to cover the cost of the risk of providing POLR service.

Q. Ms. Thomas, is it your testimony that the unconstrained Black-Scholes model calculates the company's opportunity cost associated with providing POLR service?

A. The model calculates the cost of the risk of providing a -- providing the SSO service at the prices committed to by the company where customers have the freedom to shop and return to that standard service offer price.

Q. When I use the term "costs, I'm using it in terms of a foregone opportunity or a loss, and let me ask you that question again. Do you believe that the unconstrained Black-Scholes model calculates the company's opportunity costs associated with providing POLR service?

A. It calculates the cost of the risk of providing the POLR service.

Q. And the cost of the risk is equal to the opportunity cost, is it not, associated with providing POLR service?

A. It can be an opportunity cost. It can be a number of things. But it is the cost of the risk of providing that service to customers over the period.

Q. What other costs can it be, Ms. Thomas, beyond the opportunity costs?

A. As I referred to earlier, Dr. Makhija testified as to the costs that the company would incur in terms of a cost of equity if the POLR risk were not compensated for.

Q. Could it be the cost of lost revenue as Dr. LaCasse testified this morning?

A. The cost to the company could be looked at in terms of that, but it needs to be on a going-forward basis in terms of looking at what is that cost that is incurred at the outset when the commitments are made as to the pricing, and the model utilizes both an ESP price and a market price to determine what that cost is.

Q. Is it your testimony, Ms. Thomas, that the unconstrained Black-Scholes model calculates the value of the POLR option to customers?

A. It calculates the cost of the risk to customers that can be equal to the value to customers, but it is calculating the cost to the company.

MS. GRADY: I'm sorry, may I have that question -- or answer reread, please?

(Record read.)

Q. Now, you indicated that, in your response, that it calculates the risk that can be equal to the value of the POLR option to customers; is that correct?

A. Yes. And I think the word value, you know, we're valuing the POLR option and in valuing the option that's what determines the cost to the company. The customer has value from the POLR which is the safety net that the POLR service provides to the customers to come and go and so there is a value to the customer in the POLR service.

Q. Is it your testimony that the value in this instance calculated by POLR is equal to the cost to the company?

A. Yes.

Q. Now let's talk about the constrained model for a moment. In your testimony you indicate that you are presenting the constrained model for purposes of calculating the POLR in the ESP II and for purposes of confirming the unconstrained model results; is that correct?

A. I believe my testimony in this case is just limited to this case. The use of that particular model that is an improved model, and had we had that model back at the time of the ESP case that we're talking about here, what would those results have been had we had that improved model at the time. And I used that to basically confirm that the rates approved by the Commission were reasonable rates relative to what we can calculate today.

Q. When you used the term "improved model," you're talking about the fact that in the constrained model you have included some of the switching rules that apply to customers; is that correct?

A. Yes. The constrained model incorporates the switching rules and it is a binomial model that takes into account customer choices throughout the period.

Q. And the unconstrained model was not a binomial model; is that correct?

A. That's right. The unconstrained model is a single option that looks at the cost of the risk over the three-year period by looking at a single option.

Q. And the constraints that you modeled in the -- the constraints that you modeled in the constrained model relate to the tariff provisions and those are summarized in your testimony on page 14?

A. Yes. I summarize the switching rules on page 14.

Q. And, Ms. Thomas, you believe, do you not, that the constrained model calculates the company's cost of providing POLR service?

A. Yes, it does.

Q. And by cost of providing POLR service you are talking about calculating the risk that the companies bear with respect to their POLR responsibilities?

A. Yes. It is the cost of the risk of providing the POLR service to customers when customers have the ability to come and go and return to SSO -- to take service at SSO prices, to leave, and return to SSO prices.

Q. And the constrained model calculates the cost of the risk in the same manner as the unconstrained model but reflects switching constraints modeled in the program, correct?

A. I believe, as I explained a few minutes ago, that the constrained model is a binomial model and is able to take into account customer choices throughout a 36-month period, whereas the unconstrained model is a single option for a 36-month period.

Q. Now, Ms. Thomas, you have not identified, have you, any out-of-pocket expenses associated with

POLR? Correct?

A. No, I have not.

Q. And to your knowledge there is no company witness that is being presented in this proceeding that identifies any out-of-pocket expenses associated with the companies' POLR responsibilities, correct?

A. Right. We have not done such a calculation because that is not an appropriate way to look at the cost of providing POLR service to customers.

Q. And there was no witness in the original proceeding that identified it, and when I say "original proceeding," in the first phase of this proceeding, that identified any out-of-pocket expenses associated with the companies' POLR responsibilities, correct?

A. That's correct, because you're looking forward over a future period to what is the cost of the risk of providing that service over a forward period, not a backward period.

Q. Is it your testimony, Ms. Thomas, that you can't determine the out-of-pocket costs on a forward basis and you can't determine the out-of-pocket costs related to POLR on a backward basis or a historic basis?

A. That's correct, because, you know, when you're looking at the commitment that you're making forward over a three-year period, you're looking to what is the cost of that risk over a three-year period. And then if you're looking backward, you would have to say, well, what would I have done differently had I known that customers were shopping at some specific point in the future.

And so, you know, you would have to go through, you know, so many different potential assumptions that you really don't end up with anything that makes a lot of sense in terms of what is the actual POLR cost and that is looking forward over the three-year period and what is the cost of that risk.

Q. And, Ms. Thomas, you cannot identify or categorize any out-of-pocket costs that are associated with POLR on a backward or a forward basis, correct?

A. We have not done such a calculation.

Q. You cannot do such a calculation.

A. I don't believe it would make sense to do such a calculation.

Q. Can you do such a calculation?

A. Like I just explained, there are so many assumptions and everything that it would not be an appropriate calculation to make.

Q. Now, Ms. Thomas, let's turn to page 7, line 17, and going on to page 8 through line 4. You testify that customers have recognized the benefit of retaining the option to return to service from the companies at SSO prices. Do you see that?

A. Yes.

Q. And your testimony is based upon the fact that you look at the statistics that say that 98 percent of customers have elected to continue to pay the POLR charge rather than to return to the company at market rates, correct?

A. Yes. Customers have the choice that when they switch to another supplier, they may waive the POLR charge and nearly all customers have, rather than waive the POLR charge and take the risk of returning at market price, they have chosen to pay -- continue to pay the POLR charge while they are shopping.

Q. And your testimony assumes, does it not, that all the customers in your statistics were aware that they had the option to not continue to pay POLR if they agreed to return at market? Is that correct?

A. This is based on actual statistics based on customers' actual choices. The choices that customers have are known to their service providers, they are stated in tariffs, and when a customer is looking to potentially waive, there is paperwork that they are given as well and so I believe that all of that would lead to, you know, informing customers.

Q. Now, with respect to the paperwork you mention, is it true that they're only given the paperwork if they express an interest in waiving POLR?

A. If they express an interest in waiving POLR or an interest in understanding what waiving POLR might mean. And so if a customer inquires, they are provided the paperwork.

Q. But the customers would have to know that that option is out there, correct?

A. Those options to customers are stated in the companies' tariffs.

Q. And so customers would have to know that, or the customer would have to be familiar with that portion of the company's tariffs that states that they can waive that charge; is that correct?

A. Customers and/or their suppliers would need to be aware of those provisions.

Q. And what section of the tariffs in

particular is this provision contained in, if you know?

A. I don't recall whether it is in the specific tariff or within the terms and conditions of service, but it is all part of the company's tariff.

Q. Do you know if, for instance, a residential customer would, if they went to the, let's say they take service under R-1, do you know if they went to that schedule it would contain a reference to the ability to waive POLR if they agreed to return at market?

A. As I said previously, I don't recall whether it's in the specific rate schedule or whether it is in the terms and conditions of service.

Q. Now, Ms. Thomas, you reviewed the values that Mr. Baker input into the unconstrained model; did you not?

A. Yes, I did.

Q. And you used the same volatility values that Mr. Baker did in order to produce the POLR charges that you show on LJT-3, correct?

A. I used the same volatility value as Mr. Baker did to produce the results in both Exhibit LJT-3 and LJT-4. That is a conservative assumption by using an annual average amount as opposed to deconstructing it and looking at varying volatilities for the components.

MS. GRADY: Your Honor, I would move to strike the last portion of that answer beginning with that is a conservative element.

EXAMINER SEE: It completes her answer.

Q. Is it your understanding, Ms. Thomas, in using the original unconstrained model the companies calculated the value of a European option?

A. Yes. The companies computed a single European option for the 36-month period.

Q. Now, a European option can be exercised at the end of the option period; is that your understanding?

A. Yes. By using a European option it was also conservative in that in another kind of option would have provided more optionality to the customer which would have increased the cost of the POLR charge.

MS. GRADY: Your Honor, I move to strike beginning with after she answered my question "yes," the rest of the answer being self-serving and not applicable to the question asked.

MR. NOURSE: Your Honor, I think Ms. Thomas is explaining her position and it's part of her full answer that she thought would be necessary to explain to be responsive.

EXAMINER SEE: And I'll allow it as part of her answer.

Q. Ms. Thomas, does either the constrained or the unconstrained model reflect the impact of the FAC rider on the company's ability to recover POLR costs associated with a returning customer?

A. The models look at the total, particularly the constrained model looks at the total choices for a customer to come and go. A customer would have to first leave and then return in order to do that, but there is no explicit adjustment for the fuel adjustment factor other than the fact that fuel is included effectively in both the market price and in the ESP price that are used for -- in the model. You effectively have fuel on both sides.

Q. Does the POLR model, either the constrained or the unconstrained model, take into account the ability that the company has to collect purchased power expenses associated with returning customers through the fuel adjustment clause?

A. My answer would be the same as it relates to fuel costs basically embedded in both sides of the pricing within the model.

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

A. I can't speak for individual customers and what would drive their abilities to switch. I believe that models should take into account those things that you can actually model, things like price, things like cost, as opposed to emotional factors.

Q. Are you implying that there are only emotional factors that would influence a customer's decision to switch?

A. No.

Q. Are there more than emotional factors that would influence a customer's decision to switch?

A. I can't speak to all the reasons why a customer might choose to switch or may not choose to switch.

Q. Do customers have transaction costs associated or related to switching, if you know?

A. They may or they may not, I don't know.

Q. Does either the constrained or the unconstrained model incorporate such things as transaction costs which could influence a customer's decision to switch?

A. Transaction costs are not part of the model because of the fact that the company would have no way of knowing what an individual customer's transaction costs may or may not be. There may be some, there may not be any, but we would have no way of knowing what those individual customer costs would be.

Q. Now, let's go to LJT-2, page 3, where you show that switching has occurred for other Ohio utilities. Do you have that?

A. Yes, I do.

Q. For these utilities that you have listed you have not computed the cost of the POLR obligation or the POLR risk, have you?

A. No, I have not computed that.

Q. So you don't know whether the POLR risk faced by these utilities is the same or similar to the POLR risk being faced by the companies, correct?

A. I would say that the type of risk -- EDUs have a risk of providing the POLR service. There will be some differences based on, you know, specific prices in those different utilities, but the EDUs other than FirstEnergy all currently have the same POLR obligation to provide SSO service to customers. So the obligation is the same.

Q. Would you agree with me, Ms. Thomas, that the POLR risk is primarily concerned with the distance between the market price and the tariff rate?

A. The difference between those two prices is a key determinant in determining what the company's cost of providing POLR service.

Q. I'm sorry, I didn't mean to interrupt. Were you done?

A. I'm finished.

Q. And the distance is one of the major drivers of the cost of POLR, isn't it?

A. Yes, it is.

Q. And you have not looked at the distance between the market and the tariff for each of these particular utilities to determine the exact POLR risk being faced by these utilities, have you?

A. No, I have not looked at the cost for those utilities of the risk, but as I explained previously, they all still have a POLR obligation to provide some form of standard service offer as a safety net to customers.

MS. GRADY: That's all the questions I have. Thank you, Ms. Thomas.

MR. BOEHM: No questions.

EXAMINER SEE: Mr. Darr?

MR. DARR: Yes, ma'am, thank you.

- - -

CROSS-EXAMINATION

By Mr. Darr:

Q. I'm going to go back to the question that Ms. Grady asked you to start out. If I understand correctly, your testimony is basically you looked at the Baker calculation, you looked at your modifications, so-called constrained model that you're sponsoring in ESP II, and because they came out with generally the same results, there are some differences mentioned in your testimony in terms of the overall calculation, but because they came out to generally the same results you used one to confirm the other; is that correct?

A. Yes. We incorporated in the numbers that are shown in my Exhibit 4 which uses the constrained model which is an improved model.

Q. I understand that's an improved model, and I don't want to interrupt your answer, but I want to make sure I understand this correctly. You're using the constrained model to verify that the unconstrained model is in the ballpark.

A. I'm using the constrained model to

reflect had we had that model at the time of the prior case, what the results would have been reflecting that we have an improved model that reflects additional things like switching constraints, uses a binomial approach, those kinds of things, and that those numbers, one company being just minimally higher, another one minimally lower, are very close to what the Commission approved, thereby saying that we believe that once you incorporate these other things, that the Commission's rate as they put into effect was reasonable.

Q. That it was close enough --

A. Yeah.

Q. -- to what you would have generated using the more complicated approach that you're sponsoring in the pending dispute.

A. Yes, taking into account the improvements that the company made as well as taking into account the market prices that the Commission ended up relying on in the ESP as well as the final ESP rates and when you take all of that into account shows that the initial rate approved by the Commission, that those are very reasonable.

Q. Okay. Now, you have had, since the initiation of this case back in 2008, the opportunity to look at the amount of migration from your system, the amount of return to your system, so you have three years of data, correct?

A. Well, it's been since the beginning of 2009 when the ESP period began.

Q. Granted. But you also have data that precedes that because you've been providing standard service offer service since 2001, correct?

A. I guess it's sort of your definition of what standard service offer is.

Q. Well, it's the one in the statute that says --

MR. NOURSE: Your Honor.

EXAMINER SEE: Mr. Darr.

MR. DARR: Yes, ma'am.

EXAMINER SEE: If you pose a question to the witness, give her an opportunity to answer.

MR. DARR: I thought she had, your Honor, and I apologize for interrupting her.

EXAMINER SEE: Go ahead with your response.

THE WITNESS: Okay, could you read me the question, please?

(Record read.)

A. The company has been providing service to customers, yes, through that entire period of time. What we're talking about here in the remand is for standard service offer with the commitments that go along with that, that started in 2008, and so, you know, that's really the period that we're looking -- or 2009, I'm sorry. That's the period that we're looking at in this proceeding is really what is the cost of the risk of providing standard service offer during this period.

Q. When Mr. Baker presented his testimony to the Commission back in 2008, first of all, have you reviewed that testimony?

A. I have read his testimony, yes.

Q. And I believe in his testimony he refers to the optionality calculation as providing the value of that to customers. Do you recall that?

A. I recall reading that in his testimony.

Q. And essentially if we adopt the calculation that you have sponsored today, we would essentially be, again, affirming that the customers would be paying for the value of the optionality; is that correct?

A. No. I would say that what we would be doing is the model is determining what the cost of the company's risk of providing POLR service, that's what the model calculates. And that we would be confirming that the numbers, the rates, that were in effect do compensate the company for the cost of its POLR risk.

Q. Do you not in your testimony, ma'am, indicate to the Commission that the value of the optionality to customers is the cost to the company?

A. Could you give me a reference there, please?

Q. I thought I just heard it in your responses to Ms. Grady, but I believe it's also, if you'd like...

Ma'am, do you have your deposition in front of you?

A. No, I do not.

MR. DARR: Do you have a copy of it for her or I can give her mine?

MR. NOURSE: I do.

MS. GRADY: I've got a copy.

MR. NOURSE: Can we use that one and give you this?

Q. If you would, turn to page 24 starting at line 6 -- excuse me, starting at line 7. Were you not asked during the deposition: "Does the unconstrained Black-Scholes model that was utilized in ESP I, does that calculate the value of the POLR option to the customer?" Was not your answer: "Yes, which was equal to the cost to the company"?

A. Yes, that's what the deposition says, and I believe as I explained earlier that the option, it's a valuation of the option which determines the cost to the company which is also the value to the customer.

Q. Now, do you understand that the Black-Scholes model -- you seem to draw a distinction between a binomial model and a nonbinomial model. Do you recognize the Black-Scholes model, the basic model, as being a binomial model?

A. Well --

Q. Or do you have a different understanding?

A. The unconstrained model that the company used was a single option for the customer looking at the option to the customer 36 months out. In the constrained model, which is a binomial model, which takes into account the choices that customers can make all along the way in that 36-month period in terms of switching or returning subject to the switching rules.

And so the constrained model is a binomial model and the unconstrained is a single option.

Q. You don't perceive that as being a binomial model as you define it?

A. No. That's where I would draw a distinction between the two.

Q. And what mechanically is the difference between the two?

A. Well, like I said, in the constrained model you are looking at all of the different choices that a customer can make and you're looking at, if you think of it as a binomial tree, so if you think of a tree with its many branches in terms of prices can move up, prices can move down, at every node along the way the customer will make decisions, you know, you look at all those different price paths that a customer can follow and look at what those choices are in terms of as prices move up or prices move down over throughout the tree, you're look at, you know, as a customer, would it be in their economic interest to switch suppliers, and then should they return and subject to the switching rules.

So there are all those decision points which is really what helps distinguish it in terms of a binomial model.

Q. So am I to understand that the unconstrained model is not a binomial model by your definition?

A. It is a single option that was valued -- that the valuation of the single option to determine the cost of risk to the company, it's a single option.

Q. Let me ask the question again and I think it just requires a yes or a no. By your definition is the unconstrained model a binomial model?

A. The unconstrained wouldn't be, no; the constrained would be, yes.

Q. Thank you.

Currently in your tariffs you have a provision, as I understand it, this allows at the election of the customer, allows the waiver of the POLR charge at the election of the customer; is that correct?

A. Yes, the customer has that option.

Q. Now, in your testimony, and I'm looking specifically at page 5, lines 6 and 7, you seem to be arguing that this charge should be nonbypassable. Is that correct?

A. Yeah. I think it's a terminology issue here. You know, nonbypassable generally means when a customer switches to another supplier, they would have to pay that. Bypassable would mean it's sort of an automatic when a customer switches to another supplier. I guess I've kind of distinguished that this is a charge that even though it's nonbypassable, the customer has the right to waive paying the POLR charge, but it's an affirmative commitment to where the customer is saying I choose not to pay that in exchange for returning at market-based rates.

Q. You're not asking the Commission to change the current structure of whether or not a customer can waive, are you?

A. No, we are not.

Q. At page 6, line 19, beginning at line 19, you state as follows "In exchange for payment of POLR charges, customers receive the option or right, but not the obligation, to switch suppliers and return to service from the Companies at the standard service offer generation rates when they choose to do so, subject to the switching limitations contained in the Companies' tariffs."

You use the term "exchange" here. What sort of exchange are you describing?

A. I'm basically describing that the customer pays the POLR charge and by paying that POLR charge, you know, they have that ability to, you know, switch and return at SSO rates. If a customer was not paying that POLR charge after they switched, then what they are doing is they are agreeing to come back at market-based rates as opposed to standard service offer rates.

Q. Would you agree with me that at this point in time a customer, regardless of whether or not the company has a POLR charge, has a right to switch?

A. The customer has the right to switch, and the company's POLR charge is to compensate the company for the risk associated with that right that customers have.

Q. You've described the model proposed by Mr. Baker and by yourself for evaluating or valuing this POLR charge as a risk-free model. Who is being protected from the risk?

A. Could you point to me where the reference to risk-free model?

Q. Sure. Going to your deposition, page 110, lines 2 through 5.

A. I'm sorry, could you repeat that, please?

Q. Page 110, lines 2 through 5.

A. I see the reference, however, the

question is referring to a risk-free interest rate as opposed to a risk-free model.

Q. Did you understand in the context of our discussion when we took this question and answer that the calculation of the model was to produce a risk-free result?

A. Could you repeat that?

Q. Sure. In terms of option pricing, going back to -- well, let's go back to, since you brought it up, line 15 on page 109. Take a look at that, please.

A. Yes, I see the reference.

Q. Okay. Did you understand the context of my question at that time as to whether or not the model itself provided a risk-free result?

A. I believe based on the answer I gave I thought you were referring to the interest rate.

Q. Is it your belief that the model basically protects the company from the risk of, as Dr. LaCasse seemed to suggest this morning, the loss of revenues associated with customers coming and going?

A. The model computes a value that is the cost of the risk to the companies and Dr. LaCasse maybe used different, slightly different terms, but it is the cost to the company of the risk of providing standard service offer.

Q. Now that risk, as I understand it, that you're trying to calculate is the risk of the customer leaving, correct?

A. We are looking at the risk, the cost of the risk of providing standard service offer at the prices committed to by the company relative to the customers' options to come and go to that price.

Q. So is it the risk of that customer leaving or the risk of that customer coming back?

A. There are two components to the cost of that, and one component is the customer leaving and the other component is the customer returning. They're both components of the POLR risk.

Q. And so the calculation that you're doing is trying to assess or put a dollar amount on the risk of leaving, correct? The risk of a customer leaving.

A. Right. The cost of the risk of the megawatt-hour leaving or coming back.

Q. And the risk of the customer coming back as you just mentioned, correct?

A. Yes.

Q. What about the situation of a customer who leaves and does not come back?

A. Well, every circumstance will be different for an individual customer, and that's why in the terms of the constrained model we were looking at those, you know, price movements up and down all throughout the 36-month term to, you know, see if -- some customers may leave and not return, some may leave and return and leave again, and all of those combinations are considered within the constrained model.

Q. I appreciate that. Does that also apply to the unconstrained model?

A. No, it does not. It's a one-time -- the unconstrained model is a one-time option for the customer to exercise that. And so because it is a single one-time option, it's actually conservative in that you're only looking at a single exercise of an option.

Q. And that exercise of the option would be what? What would the customer do?

A. Would be that the customer has the option to exercise to leave during the --

Q. It would be, wouldn't it, it would be leaving one time; is that correct?

A. And I believe, as Dr. Makhija testified the other day, that the additional return was not included in the unconstrained model and, therefore, would be conservative and understate the POLR obligation.

Q. And again, I appreciate your qualification that it may be conservative. What I'm trying to understand, ma'am, is the election that you are trying to measure assumes that the customer is on the system and then leaves, correct?

A. Under the unconstrained model it is a single option where we have looked at the customer leaving. In the improved and constrained model we are looking at customer leaves and returns back and forth, and like I said, that is an improvement that was made to the model to capture that additional optionality that the customer has.

Q. Now, you've also, and I think you did it again today, referred to the POLR as a form of self-insurance. Do you recall saying that to Ms. Grady a few minutes ago?

A. Well, if the cost of the -- if the risk of the providing POLR service is not specifically laid off on a third party, then it is effectively self-insured by the company.

Q. And I know that we've -- at a question

previously about whether or not your company has
self-insured, is it your position that it has?
A. Yes.
Q. And if I looked at the company's books, would I find a reserve account for POLR costs that the company may have to pay out?
A. You would not see anything specific on the books, but, again, that is a cost to the company that doesn't necessarily show up in an accounting sense.
Q. So you have a risk which you call insurable, no reserve, and no identifiable costs if I understand your testimony today; is that correct?
A. Well, it's not insurable in the traditional insurance sense. Basically the company retained that risk.
Q. Are you aware of any accounting or financial reporting requirements that attach to self-insurance programs?
A. No. I'm not an accounting expert.
Q. Part of the risk that you identify that the company absorbs as being the standard service offer provider is the risk of nonpayment. And you identify that I believe on page 5 of your testimony. Now, inherent in this are the possibilities of slow

payment and you identify the possibility a higher risk of nonpayment; is that correct?

A. Yes. That's based upon the priority of payment provisions to CRES providers versus the company.

Q. Now, as an electric distribution utility you also have a distribution rate, correct?

A. Yes, we have distribution rates.

Q. And are you aware of the current filing in Case No. 11-351-EL-AIR, your distribution case that's currently pending in front of the Commission?

A. I'm generally aware that we have such a case pending.

Q. And are you aware that as part of the expenses identified by the company, companies actually, they are seeking recovery of uncollectible expenses?

A. I have not been involved in the details of that case, but uncollectible is a typical cost. I think that this reference here in my testimony is, as it relates to generation service and that for the generation service just, you know, trying to point out the differences that exist between CRES providers and the company.

Q. Well, do you know whether or not a CRES provider can come to the state of Ohio and make a request to specifically have an allocation or a recognition of uncollectible expenses?

MR. NOURSE: Your Honor, I object. There's no foundation, he just asked about a distribution service uncollectible expense, then he's trying to draw it back to the parallel relating to generation service and POLR costs.

MR. DARR: If I may, your Honor, there's an allocation percentage allowed in their distribution case of a hundred percent. It would appear that this would be their uncollectibles for the EDU.

MR. NOURSE: Your Honor, Mr. Darr is, you know, stating facts as he understands it but the witness already stated she was not familiar with that filing or that particular aspect of the filing.

MR. DARR: And I believe the question that he objected to, your Honor, if I may, was whether or not a CRES had an opportunity to come in and ask for an uncollectible expense.

EXAMINER SEE: I'm going to let the witness answer if you know.

A. I guess it would be my understanding that a CRES provider, because they have the ability to choose which customers they want to serve or not to serve as opposed to the requirement to serve all customers who choose to take from a utility, that that would create a difference in -- a very distinct difference in uncollectible accounts for the different parties. And this provision refers to the fact that to the extent that a CRES provider has an uncollectible amount, that if a customer makes a payment, that that payment first goes to the CRES provider so they are made whole first.

Q. So it's a timing difference.

A. There could be a timing difference, yes.

Q. Your company hasn't purchased any hedges for the so-called POLR risk, has it?

A. Not to my knowledge, no.

Q. And are you aware of any attempt to bid out to third parties the SSO service of the company?

A. Are you referring to the full standard service offer or are you -- basically all generation service, is that what you're referring to?

Q. Your default service. Has the company made any attempt to bid out its default service?

A. I don't believe so because as part of this ESP the Commission approved that the company would provide the SSO service and not other suppliers.

Q. Going back to the model for just a moment, there's always a danger of getting lost in the weeds on this one as we all well know, the assumption that the unconstrained and the constrained model makes is that the customer is essentially economically rational, correct?

A. Yes. It assumes that the customer would make economically rational decisions, yes.

Q. And as Dr. LaCasse indicated this morning, the assumption of the model is if there's a 1 cent a megawatt difference, the customer will react to that, correct?

A. Yes.

Q. One cent per megawatt hour.

A. Yes, but with the qualification that, you know, in the constrained model you're not looking at every time a price moves a penny that a customer would continuously jump back and forth. You're really looking at over that 36-month term based on the changes in prices what would be best for the customer overall.

So I wouldn't characterize it as the customer would continuously jump for a penny, but we're really looking at that, you know, what is the best economic decision over the period of the model.

Q. Let's go back to your definition of constraints. I thought that the constraints that you identified and put in the model had to do with whether or not a customer could move, that is whether he was permitted under your tariffs to move. Isn't that correct?

A. Permitted under the tariffs, but also responding to price movements.

Q. Right. And with regard to price movements, if there was any economic advantage, assuming that the customer was not otherwise constrained, the assumption of the model is the customer would move to the alternative.

A. Right. But with the caveat that if you're looking at a 36-month period for a customer and that maybe there is a 1 cent price movement in the first month but then over the -- and then it moves back 1 cent the other way, but then the customer is locked in for 12 months where prices may have gone even further. You're really looking at what is the best economic decision over that length of time. So that's why I say it's not every single penny movement in the constrained model.

Q. Ma'am, I thought that in your responses to Ms. Grady that you had no way of knowing how a particular customer would evaluate a decision or, in the alternative, collectively how your customers would evaluate a particular decision other than price.

MR. NOURSE: Your Honor -- okay. I withdraw the objection.

Q. Isn't that correct, ma'am?

A. That's right. But I'm saying based on price over that period you're looking at price movements over the period and it's still all based on price over that period for the best economic outcome for the customer.

Q. The constraint goes to whether or not the customer has a right under the tariff to move or not, correct?

A. But if that right restricts him from the best economic outcome under the model, it chooses the economic outcome under the model.

Q. So basically ignores the constraints? Is that what you're saying?

A. No. I'm not saying that. I'm saying it looks at the economics, the constraints in terms of coming back to the company and picks the best economic outcome for the customers.

Q. At the point where the constraint comes off, let's assume a customer is subject to a 12-month constraint, at the point that the constraint comes off, if moving back to the company is better than staying with the CRES by 1 cent per megawatt-hour, the model assumes that the customer moves; isn't that correct?

A. A constrained model also looks at that full price path all the way to the 36th month to determine whether that is an economic outcome -- better outcome for the customer or not. It takes it all the way out through the end of the period.

Q. Let me try it this way: If over the price gap there is a 1 percent advantage to changing, a 1 cent per megawatt-hour advantage of changing, does the model assume that the customer would move?

A. If that is the total economic outcome of that particular price path, yes.

Q. Thank you.

Now, there are certain customers that cannot at least under the current circumstances partake of switching; is that correct?

A. Could you explain which customers you're referring to?

Q. For example, a customer that's locked in on a ten-year contract.

A. If there are customers that are under specific contracts that have been approved by the Commission, those are subject to those terms and conditions of that contract in terms of shopping or no shopping.

Q. Are there any other customers that are similarly locked in that you're aware of? Customers that are not permitted either by contract or by rule to partake in Choice?

A. Not that I'm aware, no.

Q. Are there customers who are participating in certain programs that are precluded from, while they're in those programs, participating in Choice?

A. Again, can you be specific about what programs you're referring to?

Q. Universal service fund customer.

A. Well, all customers, it's my understanding that in Ohio all customers pay the universal fund fee which goes to help pay for the bills of customers who are on the PIPP plan is my understanding of how that works.

Q. What about the customers that are on the PIPP plan?

A. Well, customers who are on the PIPP plan, they have an economic choice to make as well. If switching to another supplier is more economically advantageous to them than retaining their PIPP benefits, then that's an economic choice that such a customer would need to make.

Q. If they choose to remain on the PIPP plan, do they have the option of going to Choice?

A. It's my understanding that the Ohio Department of Development can aggregate those customers at any time and shop them like any other aggregator would.

Q. Has it done so?

A. I don't believe it has done so, but it has that ability to do so.

Q. As things stand right now and as they stood for the last two-and-a-half years, has there been any attempt to place those customers in the Choice pool?

A. I don't know what efforts the Department of Development, who has that ability to do that, I don't know what action they have taken.

Q. A couple final questions. The decision to use an econometric model basically assumes that the model fits the situation; is that fair to say?

A. Well, I think as with any model, you

know, you try to, you know, have appropriate inputs and model the situation as best you can.

Q. You want it to look reasonably close to the reality that you're modeling, correct?

A. To the extent that you can.

Q. Well, if you're going to use it, you've made some assumptions that it's workable, that it models the reality that you're trying to measure, correct?

A. Sure.

Q. And to the extent that your model doesn't measure that reality, it's not a very good model, is it?

A. Well, I think in general, you know, you have to look at what's incorporated, what's not, and, you know, is it the best model that you can have.

Q. And so as the Commission is deciding this case, you want them to look at how closely the assumptions of your model, whether we're talking the Black model or the Black-Scholes model or the constrained or unconstrained, correctly reflect the realities that your customers face, correct?

A. Yes. And I believe that the model that the company has used reflects the obligation that the company has to provide standard service offer prices and the customers' ability to leave and return.

MR. DARR: Thank you. Nothing further.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No questions, thank you.

EXAMINER SEE: Mr. Petricoff?

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

\- - -

CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Ms. Thomas.

A. Good afternoon.

Q. I'm Howard Petricoff, I'm here for Constellation. I have a couple of questions for you. You have your testimony in front of you?

A. Yes. Mr. Petricoff, if you could please speak up a little, it's hard to hear you back here.

Q. Sure. Thank you. And by the way, if my voice drops and you can't hear me, please remind me and I will speak up.

If you would, turn to page 2 of your testimony, lines 22 and 23 and in particular I want you to look at line 23. You say there "The purpose of my testimony is to address the appropriate charges to the Companies as providers of last resort service to customers for the remainder of 2011."

Does that mean that your testimony here only covers what the proper charge should be from June of 2011 to the December billing cycle of 2011?

A. It's my understanding that what is the subject of this remand proceeding is the POLR charges for the remainder of 2011.

Q. Assuming that the remand from the Supreme Court was to look at the POLR for the entire period of the ESP I, should the Commission look at your testimony to gauge the POLR model for use during the whole period or just the last six months?

A. I believe it's appropriate in either case because, again, what we've done is to model the cost of the POLR obligation that was incurred starting in 2009 and that continues through the end of 2011.

Q. And if you know, how much has the company collected in POLR fees from the January 2009 commencement to today, or to the last billing month available?

A. I don't have that number with me in terms of what has been collected under the POLR charges to date.

Q. Can you tell me order of magnitude? Are we talking hundreds of millions?

A. I don't have that number. What I do have are the rates on Exhibit LJT-1 which are the POLR rates that are currently in effect that are being charged to customers.

Q. And if we multiplied that times the sales, we could have -- we could create that number of what's been paid in the POLR fee.

A. Yes.

Q. Now if you would turn to page 4, and on line 3 -- let me rephrase this.

The question is "Is the POLR obligation unique to Ohio electric distribution companies?" Do you see the question?

A. Yes, I see that.

Q. And your answer "Yes." And I want to ask you to qualify this. Are you speaking here only of in Ohio or is the POLR unique -- the POLR obligation unique to Ohio electric distribution companies versus all electric distribution companies?

A. This question and answer on page 4 was intended to distinguish in Ohio between an Ohio EDU's POLR obligation and that a CRES provider does not have that same obligation.

Q. So another way of answering the question would be that basically in Ohio the electric distribution utility has a monopoly over the POLR service.

A. Well, an electric distribution utility has the obligation to provide POLR service or to provide that standard service offer price to customers.

Q. And no one else can.

A. I guess I wouldn't say no one else can because currently for FirstEnergy they have, under their specific provisions of their plan, that they have basically competitively bid out their load and, therefore, the POLR service is being provided by winning bidders of the SSO load.

Q. And AEP-Ohio could do the same thing, it could, if it chose, bid this out?

A. Well, in this ESP, basically the Commission has determined in this ESP that the company would be providing that standard service offer and POLR obligation.

Q. And that's because the company had asked for that right in their application.

A. Right. But that's the situation we're dealing with here in this proceeding is the fact that the Commission determined that for this period of time the company would do that.

Q. And does the company see value in having the right to serve the POLR service?

A. I think the company sees a cost of providing that POLR service which is just looking to be compensated for the cost of providing that service.

Q. But isn't there a value of having those customers as well?

A. I guess I'm not sure.

Q. If I am a CRES customer and I get my certificate and I come into Ohio, how many customers do I have?

MR. RANDAZZO: Excuse me. Can I have the question read back, please?

(Record read.)

MR. PETRICOFF: Thank you, Mr. Randazzo.

Q. If I'm a CRES provider and I come into Ohio, how many customers do I have?

A. I don't know. I don't know how many customers you've chosen to serve.

Q. Well, I would have to go and get those customers. Wouldn't I have to solicit them and make offers and get them to sign contracts?

A. Sure.

Q. And as the POLR provider, doesn't the company start with every customer who hasn't elected to go contract with a CRES?

A. The POLR obligation requires the company to serve all customers who don't choose another supplier.

Q. And isn't that a benefit to the company to have those customers, they don't have to go out and solicit them?

A. Well, but at the same time the company does not get to choose which customers it serves or doesn't serve.

MR. PETRICOFF: Your Honor, I move to strike the last answer as nonresponsive.

MR. NOURSE: Your Honor, I would submit that the line of questioning is argumentative and Mrs. Thomas is just trying to respond the best she can.

EXAMINER SEE: And your motion to strike her response is denied.

Q. In your testimony you are comparing, on page 4, you're comparing the obligations that CRESs have to the EDU, the electric distribution utility. Wouldn't you agree with me that the EDU also has advantages as well as liabilities?

A. Can you be specific about what advantages you're referring to?

Q. For one, they start with all of the customers who haven't chosen to buy generation elsewhere.

A. And I guess I'm not in a position to say that that's an advantage or a disadvantage.

Q. The answer is you don't know.

A. That's right.

Q. I'll continue on this line about POLRs and let's talk about what other utilities do. Is there another utility in Ohio with a POLR obligation that has chosen to use a Black-Scholes model to price their POLR?

A. I'm not aware that any other utilities have chosen that particular method to determine what the cost is.

Q. And you've indicated before in your last answer that FirstEnergy has basically outsourced this in an auction, correct?

A. Because they are under a very different type of plan than the company is.

Q. And are you familiar with the POLR charge in Duke Energy of Ohio?

A. Just very generally.

Q. And do they use a model -- any type of model to determine what the price is for their POLR?

A. I believe, as I mentioned before, I'm not aware that anybody else is using the same model as the company for determining the cost of their POLR.

Q. Isn't it true that in Duke the only POLR payment is a 15 percent penalty if a customer returns before the end of the ESP period?

A. No. I believe they have an additional POLR charge as well.

Q. And what's the basis of that understanding?

A. I recall that they have a tariff POLR charge. I don't recall the details, but I recall that they do have a tariff POLR charge.

Q. On page 5, lines 2 through 6, you go back to the key distinctions between an EDU and a CRES. Does AEP-Ohio have its own CRES?

A. AEP-Ohio does not have a CRES. AEP has an entity, AEP Retail, that is a CRES provider in Ohio.

Q. And it's an affiliate of AEP-Ohio.

A. It's an affiliate of all the operating companies, yes.

Q. Now I'd like to talk to you a bit on page 5 on lines 10 through 19 about consolidated billing.

First of all, is consolidated billing an election that the CRES has with AEP-Ohio?

A. That's my understanding, yes.

Q. And do you know how many CRESs have elected to have consolidated billing?

A. No, I do not, but I do know that there are some who do consolidated billing.

Q. Do you know whether there are any who have consolidated billing other than the affiliated CRESs?

A. I believe they're unaffiliated, I mean, that there are other CRES providers in Ohio who are doing consolidated billing.

Q. And if I have an agreement, I'm a CRES and I have an agreement with AEP-Ohio to do consolidated billing, and the customer doesn't pay the bill, do I the CRES have to go out and institute efforts to get the bill paid?

A. I know that when the customer does make a bill payment, that when there is a consolidated bill under that, that the CRES provider would be paid first for any arrearages.

Q. Before we get to the allocation, you'll agree with me the allocation only takes place if there's a partial payment.

A. Yes.

Q. Let's say there's no payment. No payment. And I'm a CRES and I have consolidated billing. Do I have to institute my own collection effort to get paid?

A. It's my understanding that if there is no payment at all, then the customer is subject to the disconnect provisions of the distribution tariffs.

Q. Is that only for the utility service, for the wire service?

A. Well, if the customer is disconnected, it would be difficult for them to get generation service.

Q. And after they're disconnected, if I am the CRES, where do I go to get paid? Don't I have to have my own collection process?

A. Again, if there is any payment that comes to the utility because the customer wants to be turned back on, then those payments go first to the arrearages of the CRES provider.

Q. But we're at the part where there hasn't been a turnoff, just nonpayment. Doesn't the CRES have to have its own collection efforts to get paid?

A. I'm not understanding your example because if the customer does not pay his bill, ultimately, there's no payment at all, the customer will ultimately be disconnected.

Q. But that will not pay the CRES for its generation. The CRES is still at risk.

A. Right. But one would assume that at some point the customer would like to be reconnected, in which case there would need to be a payment, and the CRES provider would be paid first is my understanding.

Q. And if the customer just is a tenant and just skips out and doesn't pay, the CRES doesn't get paid, is that correct? AEP-Ohio isn't going to pay the CRES for the power, are they?

A. If the customer pays, then the CRES provider would be paid. If the customer never pays, then nobody gets paid.

Q. But let's follow that down. If the customer doesn't pay for the wire services, won't the utility be compensated as part of the distribution rate because there's a bad debt component in the distribution rate?

A. Yes. In general the distribution entity would ultimately be compensated depending upon the specific rate case process for setting distribution rates and what's rolled into distribution rates and it would just be subject to that whole regulatory process.

Q. And there's nothing similar for the generation portion that the CRES is providing.

A. Not that I'm aware of, but the CRES has the ability to, you know, manage some of that risk by the fact that they can choose the customers that they serve.

Q. So in your discussion here on page 5 you are only taking the small instance where there is a partial payment and when there is a partial payment, the CRES will get paid for their past due bill, correct? Past due portion?

MR. NOURSE: I object to the characterization as a small instance. There's no foundation for that.

EXAMINER SEE: Rephrase your question, Mr. Petricoff.

Q. I'll withdraw the question and reask it. All you're addressing on page 5 of your testimony is what the allocation is if a customer makes a partial payment.

A. What I'm addressing here is just, in addition to the other distinctions that I made, is that this is just another difference in terms of between, you know, the obligations of an EDU and the obligations and priorities of a CRES provider. So it is just one of several examples that I give in my testimony of the differences between those two entities.

Q. But I want to take you down one degree of gradation here in terms of detail. Isn't it true that there's a partial payment, that after the past due bill is paid, on the current bill the utility will come first and the CRES will come second under the Commission's rules?

A. The CRES provider is paid first when there are past due charges, but if there are current charges, then either everybody gets paid or, yes, there is a priority where the company would be paid first, but I think what, you know, this just shows is that there are different priorities.

Q. All right. So if there's no payment, the CRES is on their own. If there's a partial payment, the past due part goes first to the CRES, the current goes first to the utility, and that's the distinction that you're making on page 5 in your testimony.

A. The distinction I'm making is that there is -- that there are priorities in terms of payments that are different for the CRES provider and the company as one of several examples of differences between the CRES provider and the company.

Q. Now, on line 22 on page 5 and going over on page 6 we have a Partial Income Payment Plan, the PIPP program. And I think earlier you indicated that PIPP customers do have a choice, they can either stay in the PIPP plan or they can buy from a customer -- I'm sorry, buy from a CRES.

A. Yes, they have that economic choice that they can make.

Q. And if they're in the PIPP program, then their bill is limited to only a certain percentage of their income?

A. That is my understanding.

Q. And the rest of the bill is subsidized by the other customers who in turn pay the universal rider?

A. That's correct.

Q. And if the PIPP customer goes with a CRES, would there be a subsidy paid by anybody?

A. No. That's why I said it was an economic decision the customer would make in terms of, you know, looking at what their PIPP benefits are versus the discount that they might get from a CRES provider and customers would have to make that economic decision. Obviously, that becomes -- the smaller their PIPP benefit, the easier that decision becomes.

Q. And to your knowledge does any PIPP customer purchase from a CRES?

A. I really have no ability to look at whether that has happened or not.

Q. Okay. Now, if you would, I'd like you to direct your attention to page 7. I want to talk to you a bit about bypassing the POLR charge. If a customer elects to bypass the POLR charge, what steps do they need to take in order to accomplish that?

A. If a customer would like to waive the POLR charge, they contact the company and they are provided with appropriate -- with information and paperwork that allows them to do that.

Q. Let's talk about the information. If the -- is the customer told at that time that if they return to market service -- I'm sorry, they return to standard service having not paid the POLR, they will have to pay the higher of market or the standard service offer?

A. No. I believe that it says that the customer returns at market rates.

Q. What if the market rate is lower than the standard service rate? Do they get to pay something

less than the standard service rate?
A. They get market rates, yes.
Q. And that's your understanding of the tariff.
A. Yes.
Q. How long is that obligation that the customer has that if they return, they return at market rates?
A. Currently that obligation is through the end of this ESP period, through the end of 2011. There are proposals pending before the Commission as part of the company's ESP beginning in 2012 through '14, but currently it extends through the end of this ESP period.
Q. You indicated earlier that there was a form they would have to fill out.
MR. PETRICOFF: Your Honor, may I approach the witness?
EXAMINER SEE: Yes.
Q. If you know, Ms. Thomas, is this the form or sample of the type letter that a customer would have to fill out and submit to AEP-Ohio if they want to bypass the POLR?
A. I don't have the official company form with me so I can't confirm that this is exact. I

just don't know. I don't have that with me.

Q. Have you seen the official form?

A. Yes.

Q. Does it have something similar to the last sentence in the middle that says "I also understand at this time it is not known whether the terms of the AEP-Ohio's next standard service offer will require me to continue to pay a market-based price for generation service for some time period after the end of 2011"?

A. Yes. That statement, although I would -- I can't state affirmatively that this is the exact form, but what I can say is that the statement is referring to the fact that there are pending proposals for what would happen after the end of 2011 that are pending before the Commission, and we don't know what will happen after the end of '11.

Q. In your opinion, does a statement like that that indicates that the obligation not to come back at anything but market for an undetermined period in the future has a chilling effect on anyone exercising this right?

A. I can't speak to how someone might interpret this. I think it is stating the fact that we don't know because there are pending proposals, we don't know what the requirements will be beginning in 2012, and I think this is just merely stating that fact for the customer, that we don't know what will happen after the end of 2011.

Q. So you have no opinion on whether that would have a chilling effect or not.

A. No.

Q. I'm sorry, no, you don't have an opinion, or --

A. No, I do not have an opinion.

Q. Okay. Now, on page 8, line 22, you talk about aggregation. Are you referring there to governmental aggregation?

A. Yes, where entities can aggregate their customers for shopping purposes.

Q. Let me go back because I want to make sure we're all on the same page. On line 22 it says "In addition, the aggregation of customers in various municipalities is increasing." My question to you is are you talking there about governmental aggregation as opposed to other forms like an affinity aggregation?

A. Yes. I'm talking about where a township or a city or, you know, entity like that would aggregate its customers.

Q. And are you familiar with the process that a governmental entity would have to go through in order to have governmental aggregation?

A. Not the specifics, just only very generally.

Q. Would you agree with me that there has to be an issue placed on the ballot and the majority of the people in the governmental entity would have to approve it or a majority of those voting would have to approve it?

A. I believe so, but my recollection is also that a lot of municipalities will sort of do that in a fairly generic sense, that if an opportunity comes along, you know, do the residents want to be aggregated.

Q. Do you have any feel for how long it would take to go through the process of putting it on the ballot and having it approved by the citizens?

A. I don't know. What I do know is that where I live that happened a number of years ago where that happened in the event that they wanted to shop the load.

Q. At the moment are you aware of any governmental agency, I'm sorry, governmental entity in the AEP-Ohio service territory that has passed an ordinance like that?

A. It is my understanding, I think it's maybe four municipalities that are currently shopping their load and are in the process of switching customers that are located in the Ohio Power service territory.

Q. Now, if you would, I'd like for you to turn your attention, speaking of Ohio Power, turn your attention to your Exhibit LJT-2. And LJT-2 -- is there a chart for Ohio Power?

A. No. I did not include that in my testimony. I just used Columbus Southern as an example.

Q. Okay. If we were going to make up a chart right now for Ohio Power, is there any shopping in Ohio Power?

A. Yes, there is.

Q. And right now you said Columbus Southern has 16 percent. What would be the percentage for Ohio Power of its load that's shopping?

A. I believe that as of a month or so ago it was maybe 2, 3 percent, but growing.

Q. So is the reason you didn't put the chart in because it was such a small percentage?

A. No. I just used Columbus Southern as an example.

Q. But you'll agree there's a big difference in the amount of shopping going on in Columbus Southern versus Ohio Power at this time.

A. Yes. Ohio Power has less shopping currently than Columbus Southern. Like I said, it's growing.

Q. Now, if you would, I'd like you to turn to page 11 of your testimony, lines 11 to 14, I'm going to start a series of questions now with you about the Black model or the Black-Scholes model.

Your testimony on line 11 says that "the closer the ESP price is to the Competitive Benchmark price, the more likely customers are to exercise the option to migrate." Is it also true, then, that the POLR value from the Black model or the Black-Scholes model will be higher if the difference between the ESP price and the benchmark price are close?

A. Yes, there will be a higher cost of the risk of providing POLR service to customers. Yes.

Q. So the closer the benchmark price is to the ESP price, the higher the POLR fee, all other factors being equal.

A. That's correct.

Q. What happens when the ESP price crosses the competitive benchmark price?

A. Well, I think that's a situation that's not applicable here because what we're talking about is applying the model to look at what is the cost of risk over the period of the ESP, okay? And so because we're in an ESP and as the Commission determined in its order that the ESP was more favorable in the aggregate, the ESP price would be lower than the market price.

So we can talk about them moving closer together, but, you know, for the purposes of determining the cost, you know, otherwise we'd be in a very different situation.

Q. Just for my intellectual curiosity, mechanically under the model, if the price of the ESP went way past the benchmark price, would the POLR continue to go down? I mean would the calculation show the POLR going down mechanically?

A. Well, I don't think that -- you have to have reasonable inputs to your model, and in your example I don't believe that those are reasonable inputs that you can always get a number out of a model, but your inputs have to make sense.

Q. So to close out the question, then, basically one of the assumptions is that the ESP will always be lower than the benchmark price because otherwise the ESP wouldn't be approved.

A. That's correct.

Q. Now let's continue to talk about the model in general. The model has a benchmark price and it has a strike price and we're looking between the difference of the two in trying to figure out the value of the option between those two prices over time recognizing that the benchmark price will change.

A. We are recognizing in the model that the cost of the risk is a function of the various inputs which includes a market price with a volatility, that volatility reflects that that market price will move, it's not -- market is not going to be a constant over the period you're looking at, and that the market price will move and what is the cost of providing that ESP standard service offer price while the market is moving and customers have that ability to move back and forth.

Q. Right. And to run -- and the model actually runs scenarios, different scenarios with different pricing points that are possible, and that's how it comes up to determine the risk.

A. Yes. The constrained model calculates it that way, yes.

Q. Let's just talk about that model, the constrained model. And so basically one of the key variables that gets put into the model, then, is the volatility because that tells the computer its instructions to running the model about how many variations and how far to go with the variations on price, correct?

A. Right, the volatility is a measure of, you know, how much variability in price can occur.

Q. And in the model that you ran you used a benchmark price that included the capacity cost and an ESP price that included the capacity cost, correct?

A. Yes. Capacity cost is a component of both the ESP price and the competitive benchmark.

Q. Earlier today were you here for the cross-examination of Dr. LaCasse?

A. Yes.

Q. And do you agree with Dr. LaCasse that basically, assuming that no CRES goes and gets qualified for an FRR, there is no risk on the capacity payment to AEP-Ohio for the capacity cost?

A. Well, that's why we've included a capacity cost in each of those two components.

Q. We're on the same wavelength here.

But by including the benchmark price ahead, the capacity in both and running a volatility figure, isn't the model calculating a risk in the capacity cost but there is no risk in the capacity cost because it's -- AEP's going to get paid a flat amount regardless?

A. I would disagree with that. What AEP is paid for capacity through a CRES provider is a rate -- is currently a rate that is quite different than what's in the ESP price. That price is set through the RPM auction and will change and changes quite a bit from year to year and is not known, all those prices are not known at the beginning of the ESP period.

Q. So it's your testimony, then, that the capacity price is higher in the standard service offer than the capacity price that would be paid by the shopping customer.

A. Now, what I said is they are different and that you have capacity, although I can't tell you exactly what the capacity cost is that's embedded in the ESP rate, you have a market-driven capacity rate that the company's paid on the competitive benchmark side that does have volatility to it.

Q. If they're different, wouldn't you agree with me that one of them has to be higher and one of them lower, if they're not the same?

A. Assuming that you can put a specific number to it, yes.

Q. Which one's higher?

A. I've not deconstructed the ESP rate to tell you exactly, you know, what are the components. That rate is not based on a cost of service. So I can't tell you the capacity that is in the ESP rate.

MR. PETRICOFF: Your Honor, I have no further questions for the witness.

Thank you very much, Mrs. Thomas.

EXAMINER SEE: Ms. Hand?

MS. HAND: No questions, your Honor.

MR. YURICK: I actually do have a couple.

EXAMINER SEE: Okay. Go ahead.

\- - -

CROSS-EXAMINATION

By Mr. Yurick:

Q. Ma'am, could you turn to your testimony on page 7? I'm going to ask you a couple of questions about the question beginning line 17 through 19 and then the answer on lines 20 through 23 and then continuing lines 1 through 4 on page 8.

A. Yes. Could you speak up a little, please?

Q. I'll try.

Do you have the question and answer?

A. On page 7, yes.

Q. Page 7 and then it continues over to the beginning of page 8.

I'm going to ask you a hypothetical. Let's say I'm a customer and I sign a contract with a competitive retail electric supplier so that I can't switch back to AEP, okay? Can you assume that for me?

A. Okay. We'll see where this goes.

Q. So I'm with a competitive retail electric supplier. If I switch, I have to -- I'm penalized by the competitive retail electric supplier, okay, because I have a contract with them. Are we on the same page?

A. Okay.

Q. And then let's assume that I'm not all together, bright, or on top of things, which is not a huge assumption, ask anybody in this room, and instead of calling the company and getting a form I say, gosh, I don't want to read the tariff, I don't like forms, I don't want to call the company, and I just continue to pay the CRES -- or, I'm sorry, the POLR charge, okay, assume that.

A. Okay.

Q. Then the fact that I'm continuing to pay the POLR charge doesn't really mean that I find a benefit to a POLR charge, it just means that I'm not really all that together, correct?

A. Well, I think that while there may be some circumstances like that, the fact that the overwhelming majority, 98 percent of customers, continue to pay the POLR charge, I think we can derive from that that customers see value in being able to return to the safety net of POLR service as opposed to returning at market prices.

Q. Well, okay, but in my hypothetical it just means that I really don't know what's going on, right?

A. And while it's possible that there may be some customers in there --

Q. Well, just --

A. I think it would be --

Q. I'm sorry, ma'am, I don't mean to step on your answer but answer the question, please, that I've asked you first and then I'm sure you'll have plenty of opportunity to say whatever you're going to say, but in my hypothetical, okay, the only thing that the fact that I'm continuing to pay a POLR charge shows is I'm not really all that educated a consumer, correct? In my hypothetical.

A. Purely in your hypothetical there could be customers like that, but for us to assume that all of our customers are like that and the fact that the overwhelming majority, 98 percent of our customers, have chosen to pay the POLR charge, I don't think we can assume all our customers are like that.

Q. Okay. And I'm not asking you to assume all of your customers are like that. My hypothetical, I'm just asking you to assume that I'm like that which, again, is not that much of a stretch, okay?

So in my hypothetical all it really shows is I don't really understand the interplay between POLR charges and having a CRES contract in my hypothetical, it just shows that I really don't know what's going on, right?

MR. NOURSE: Your Honor, I object. It's asked and answered.

EXAMINER SEE: And I agree it has been answered.

Q. Okay. Happily I'm not asking you to

assume that all of your customers are like that, but some of them might be, right?

A. I guess it's possible there might be some customers.

Q. And you don't know what percentage of your customers of the 98 are really like that, do you? You have no studies, no empirical evidence, to show how many of your customers are like that, right?

A. I have no way of knowing, you know, the decision-making process that any individual customer would go through.

Q. Thanks, ma'am, that's my point.

And my second question which really doesn't relate to this testimony is do you ever get counteroffers on POLR charges?

MR. NOURSE: Objection.

MR. YURICK: Okay.

Q. So do you ever get a customer that calls up and says "You know, I would like the optionality to switch providers, but I've put some inputs into a Black-Scholes model and my numbers say, you know, this is worth about 3.5 cents, not 5 cents per kilowatt-hour, whatever that is. But it's worth about 3-1/2 so I'll give you 4." Do you ever get calls like that?

A. I have no way of knowing, but what I do know is that the POLR charge is a tariffed rate that is out there for customers.

Q. Right. So a tariff rate means if I counter, it doesn't really make any difference because that's your tariffed rate, right?

A. It's the tariff rate approved by the Commission.

Q. So it's a take-it-or-leave-it rate, right? There's no haggling involved.

A. No.

MR. YURICK: I have no further questions at this time. You'll be relieved to know, your Honor.

EXAMINER SEE: Mr. O'Brien?

MR. O'BRIEN: I have no questions, your Honor.

EXAMINER SEE: Redirect for the witness, Mr. Nourse?

MR. NOURSE: Could we have five minutes, your Honor?

EXAMINER SEE: Sure. We'll reconvene at 25 till 5.

MR. NOURSE: Thank you.

(Recess taken.)

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

Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

- - -

REDIRECT EXAMINATION

By Mr. Nourse:

Q. Ms. Thomas, you were asked questions earlier, I believe by Ms. Grady, about this returning at market and the process involved for a customer to bypass the POLR charge. Do you recall those questions?

A. Yes.

Q. And did you have an opportunity to check on the question about whether that opportunity for waiver is contained in the tariff or the terms and conditions or that they have to call to find out about that like the question was asking you?

A. Those provisions for the customer are stated in the POLR rider and the POLR rider is specifically mentioned as applicable to customers in each of the individual rate schedules.

Q. Okay. Thank you.

And Mr. Petricoff asked you some questions about the payment priority comment that you made in your testimony about the order of payment and the possibility that under some circumstances CRES providers may not get paid in full, so to speak. Do you recall that?

A. Yes, I do.

Q. Okay. And you had mentioned that CRES providers get to choose their customers they enter into contracts with. Did you recall any other additional points you wanted to make in that same regard?

A. Yes. In addition, the CRES provider has the opportunity to, either through the pricing or through the various terms and conditions, like take a security deposit or other type of mechanism, to protect themselves from that type of risk of nonpayment.

Q. Thank you.

And you got another hypothetical from Mr. Yurick near the end of your examination. Do you recall that hypothetical?

A. Yes, I do.

Q. And can you explain what, under that hypothetical, if the customer had paid the POLR charge during the period they shopped, from AEP-Ohio's perspective, the consequence of that would be?

A. As long as the customer has continued to pay the POLR charge, the company would be obligated to serve the customer at the SSO rates when the customer returns to the company, as long as they continued to pay the POLR charge.

Q. And can you address with respect to that same hypothetical and relative to whether, I think you made a comment to the effect that it may not be a rational scenario, how that relates to what was modeled in terms of the POLR costs that are captured in the model?

A. In the determination of the model we modeled that customers would make rational decisions in terms of price.

MR. NOURSE: Thank you, Ms. Thomas.

That's all I have, your Honor.

EXAMINER SEE: Ms. Grady?

MS. GRADY: Thank you, your Honor.

- - -

RECROSS-EXAMINATION

By Ms. Grady:

Q. Ms. Thomas, you mentioned in your responses to your counsel that you did check the tariffs and you were able to determine that the returning at market and bypassing the POLR charges was contained specifically in the POLR rider tariff, is that correct, as opposed to the general terms and conditions of the tariffs?

A. Yes. It's in the rider.

Q. And so if, for instance, a customer -- a residential service customer, well, first of all, a residential service customer would first have to know what service schedule they take under, correct?

A. Yes. And that service schedule would have a reference to the POLR rider in it.

Q. So if I was, for instance, a residential service customer under Columbus Southern Power Company, I would go to Schedule R-R, the tariff on page 10-4, and would see that there's the provisions of service and then would see a reference to a POLR rider on the second page of that tariff; is that correct?

A. That's correct.

Q. And then the customer would then have to say, okay, if I want to determine how these riders apply, the customer would then look at the individual tariff sheets and there's maybe 10 or 12 tariff sheets that apply, and would go through each one of those and then finally come upon the provider of last resort charge rider and then would pull up the provider of last resort charge rider and see as a provision of that 1 of 12 riders that they can elect to take service from a CRES provider and if they agree to return at market they could waive POLR; is that correct?

A. That a customer could look at the POLR rider, which is referenced in the specific rate schedule for the customer, there's a reference to the POLR rider and the words are on the POLR rider that the customer can see.

Q. For instance, for the residential customer under RR-1 for Columbus Southern Power, that rider is 1 of 13 riders; is that correct?

A. I don't know how many different riders are reflected on that. I was speaking to the fact that there is a reference to the POLR rider for the customer and that the statements are stated for the customer in the POLR rider.

Q. Ms. Thomas, if a customer contemplating waiving POLR, if that customer wants to figure out how his market rate would be calculated once he returns, is that a market rate -- is there a market rate tariff that he can examine or somewhere within the tariffs that explains what the market rate would be and how it's determined?

A. It's my recollection that the company has filed that market rate and it is pending before the Commission.

Q. So at this point in the current tariffs of the company and since the tariffs have been in place since 2009, that those customers would not be able to go to the tariff and determine how the market rate is calculated, correct?

A. I think at this point, you know, if the customer inquired about that, we would share with them the proposed tariff. I don't recall when it was filed, but it's been pending for some time.

MS. GRADY: Thank you, Ms. Thomas.

MR. BOEHM: Just one brief question.

\- - -

CROSS-EXAMINATION

By Mr. Boehm:

Q. Ms. Thomas, during the break after your initial testimony when you were talking to counsel, I know typically you check back and forth on statements that were made in your original testimony. Did you check with counsel to confirm your testimony that you don't -- you believe that Duke has a POLR charge? Did you talk about that, and were you able to confirm that?

MR. NOURSE: Your Honor, I object. It's beyond the scope of redirect and would be part of attorney-client communication.

Q. Do you still believe that Duke has a POLR rider?

MR. NOURSE: Asked and answered and it's beyond the scope of redirect.

MR. BOEHM: Okay.

EXAMINER SEE: That, it is.

Any other questions, Mr. Boehm?

MR. BOEHM: No other questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions, ma'am.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: None, thank you.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: Just one.

\- - -

RECROSS-EXAMINATION

By Mr. Petricoff.

Q. Ms. Thomas, do the tariffs permit AEP-Ohio under appropriate conditions to charge a security deposit to a retail customer?

A. I believe that there are certain conditions under which it can be charged, also provisions by which it has to be returned to customers, and so I believe that is a provision of the tariffs, yes.

MR. PETRICOFF: No further questions. Thank you.

EXAMINER SEE: Ms. Hand?

MS. HAND: None, your Honor.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: I apologize but I'll make it short.

EXAMINER SEE: Go ahead.

- - -

RECROSS-EXAMINATION

By Mr. Yurick:

Q. You said on redirect, you told your lawyer that your model assumes rationality, correct?

A. Yes.

Q. So that's an assumption that's built into your model, right?

A. The model makes its calculations assuming the customers will make economically rational decisions.

Q. That's my point. You made it much more articulately than I did so I appreciate that.

So you didn't actually inquire as to why the customers make the decisions that they do because your model assumed they act rationally, correct?

A. That's right. That's the premise of the model. We did not attempt to model behavior that would not be economically rational.

MR. YURICK: Based on those answers, your Honor, I have a motion to strike a question beginning at the bottom of page 7 beginning on line 17 and continuing over to the top of page 8 because the answer says that they assumed rational behavior. This answer suggests that customers made some sort of or that they made some kind of determination of what customers feel is a benefit or what customers feel is an option, and she's just testified that they just assumed that they made rational decisions. They don't have any basis for saying that customers place significant value on the option. They just assumed they do.

So the answer and the question completely lack a factual basis. It's an assumption they made, but to say how customers made this decision, they don't have any data, they don't have any basis for it, and the witness has testified that they didn't even make the inquiry.

MR. NOURSE: Your Honor, I think it's untimely to make a motion to strike after there's been various questions and examination about this passage. Furthermore, I think's clear what Ms. Thomas is saying and she explained it on cross and what the basis is for the statement.

EXAMINER SEE: And just to be clear, Mr. Yurick, you were making a motion to strike page 7, starting at line 17, to page 8, line 4?

MR. YURICK: Correct, your Honor, and I couldn't really make the motion to strike before the witness testified contrary to what her testimony was, but this is an assumption that they made and she had no basis for making this statement so I think it's timely.

MR. NOURSE: Well, again, your Honor, there had been questions about this, there has been testimony about it, there's nothing that's been brought out on redirect that goes to that point to begin with, so I think it's definitely untimely and otherwise inappropriate.

MR. YURICK: Quite to the contrary, your Honor.

EXAMINER SEE: Just a minute.

Counsel's motion to strike that portion of Ms. Thomas's testimony is denied.

Mr. O'Brien?

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

EXAMINER SEE: The Bench has no questions for the witness.

Mr. Nourse, I believe you were already --

MR. NOURSE: Thank you, your Honor, can I renew my motion for admission of Companies' Remand Exhibit No. 4?

EXAMINER SEE: Are there any objections to the admission of Companies' Remand Exhibit 4?

MR. YURICK: Other than my noting my motion to strike that portion of the testimony which I contend, with all due respect, has no basis.

EXAMINER SEE: And your motion is noted, and we will admit Companies' Remand Exhibit No. 4.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: With that, you're dismissed, Ms. Thomas.

THE WITNESS: Thank you.

EXAMINER SEE: And the hearing will resume tomorrow in this room at 10 a.m. Thank you.

(Thereupon, the hearing was adjourned at 4:47 p.m.)

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Tuesday, July 19, 2011, and carefully compared with my original stenographic notes.

____
Maria DiPaolo Jones, Registered
Diplomate Reporter and CRR and
Notary Public in and for the
State of Ohio.

My commission expires June 19, 2016.

(MDJ-3871)

- - -