

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 : Case No. 08-917-EL-SSO
Amendment to Its Corporate:
Separation Plan; and the :
Sale or Transfer of :
Certain Generating Assets.:
:

In the Matter of the :
Application of Ohio Power :
Company for Approval of :
Its Electric Security : Case No. 08-918-EL-SSO
Plan; and an Amendment to :
Its Corporate Separation :
Plan. :

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PROCEEDINGS

before Ms. 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 Thursday, July 28, 2011.

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VOLUME V - REBUTTAL TESTIMONY

- - -

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1 Thursday Morning Session,

2 July 28, 2011.

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4 EXAMINER PARROT: The Public Utilities
5 Commission of Ohio has called for hearing at this
6 time and place Case No. 08-917-EL-SSO, being in the
7 Matter of the Application of Columbus Southern Power
8 Company for Approval of an Electric Security Plan, an
9 Amendment to its Corporate Separation Plan, and the
10 Sale or Transfer of Certain Generating Assets, as
11 well as Case No. 08-918-EL-SSO, being in the Matter
12 of the Application of Ohio Power Company for Approval
13 of an Electric Security Plan and an Amendment to its
14 Corporate Separation Plan.

15 Good morning, everyone. My name, again,
16 is Sarah Parrot. With me today is Greta See, and we
17 are the attorney examiners assigned by the Commission
18 to hear these cases.

19 Let's go around the room and take brief
20 appearances beginning with the companies.

21 MR. NOURSE: Thank you, your Honor. On
22 behalf of Ohio Power Company and Columbus Southern
23 Power Company, Steven T. Nourse, Matthew J.
24 Satterwhite, Daniel R. Conway.

25 EXAMINER PARROT: Ms. Grady.

1 MS. GRADY: Thank you, your Honor. On
2 behalf of the residential customers of the Columbus
3 Southern Power Company and the Ohio Power Company,
4 Janine L. Migden-Ostrander, Consumers' Counsel, by
5 Maureen R. Grady and Jeffrey L. Small.

6 EXAMINER PARROT: Thank you.

7 Ms. Kyler.

8 MS. KYLER: Thank you. On behalf of Ohio
9 Energy Group, Jody M. Kyler.

10 MS. MOONEY: On behalf of Ohio Partners
11 for Affordable Energy, Colleen L. Mooney.

12 MR. DARR: On behalf of IEU-Ohio, Sam
13 Randazzo and Frank Darr.

14 MR. MARGARD: On behalf of the Commission
15 staff Warner L. Margard and John H. Jones, Assistant
16 Attorneys General.

17 MR. PETRICOFF: On behalf of
18 Constellation NewEnergy and Constellation Energy
19 Commodities Group, Howard Petricoff and Liya
20 Kaleps-Clark.

21 MS. HAND: On behalf of Ormet Primary
22 Aluminum Corporation, Emma F. Hand.

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

25 MR. O'BRIEN: On behalf of the Ohio

1 Hospital Association, Richard L. Sites and Thomas
2 O'Brien.

3 EXAMINER PARROT: Thank you, everyone.
4 Mr. Nourse.

5 MR. NOURSE: Mr. Conway will call our
6 first witness.

7 EXAMINER PARROT: I'm sorry, Mr. Conway.

8 MR. CONWAY: Thank you, your Honors. At
9 this time the first rebuttal witness the companies
10 call is Dr. LaCasse.

11 EXAMINER PARROT: Dr. LaCasse, I remind
12 you you are still under oath. Please have a seat.

13 MR. CONWAY: Your Honors, at this time we
14 will mark as Companies' Remand Exhibit No. 5
15 Dr. LaCasse's rebuttal testimony that was prefiled on
16 July 25th.

17 EXAMINER PARROT: So marked. Thank you.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 MR. CONWAY: Thank you, your Honor.

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25

1 CHANTALE LaCASSE

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

4 DIRECT EXAMINATION

5 By Mr. Conway:

6 Q. Dr. LaCasse, good morning.

7 A. Good morning.

8 Q. Dr. LaCasse, you previously provided
9 direct testimony in this proceeding; is that correct?

10 A. That's correct.

11 Q. And if you'd just review for us your full
12 name and by whom you are employed.

13 A. My full name is Chantale LaCasse,
14 C-H-A-N-T-A-L-E L-A-C-A-S-S-E, I'm a senior vice
15 president with NERA Economic Consulting.

16 Q. Dr. LaCasse, do you have with you today a
17 copy of your prefiled rebuttal testimony on remand
18 which has been marked as Companies' Exhibit No. 5?

19 A. Yes, I do.

20 Q. Dr. LaCasse, if I were to ask you --
21 well, first of all, let me back up a little bit. Do
22 you have any additions or corrections to make to your
23 prefiled rebuttal testimony at this point?

24 A. I do not.

25 Q. Okay. Dr. LaCasse, if I were to ask you

1 the questions contained in your rebuttal testimony on
2 remand, Companies' Exhibit No. 5, today, would your
3 answers be the same as they appear in that document?

4 A. Yes, they would.

5 Q. And would those answers be true and
6 correct to the best of your knowledge and belief?

7 A. Yes.

8 MR. CONWAY: Your Honor, at this time I
9 would move for the admission of Companies' Remand
10 Rebuttal Testimony of Dr. LaCasse, Companies' Exhibit
11 No. 5, into the record, and Dr. LaCasse is available
12 for cross-examination.

13 EXAMINER PARROT: Thank you, Mr. Conway.

14 Ms. Grady?

15 MS. GRADY: Yes, your Honor. Would now
16 be the appropriate time to entertain a motion to
17 strike?

18 EXAMINER PARROT: It would.

19 MS. GRADY: Your Honor, let me begin the
20 motion to strike starting on page 1, we would move to
21 strike lines 9 through 15. The sections of this
22 testimony merely explain what her direct testimony
23 was. Repeating positions that were previously taken
24 by the companies in direct testimony is not proper
25 rebuttal.

1 Second motion to strike begins on page 2
2 beginning on line 21 and runs through page 4, line
3 10. There Dr. LaCasse testifies to the use of
4 historical volatilities and implied volatilities with
5 respect to inputs to the option valuation model.
6 Dr. LaCasse's experience and qualifications relate to
7 her serving as an auction manager where she designed
8 and implemented competitive bidding processes. She
9 is not an expert on option-pricing models or on the
10 quantification of the risks through an option-pricing
11 model. She doesn't work with the Black-Scholes model
12 regularly and has never worked with an option model
13 that was used to price shopping risks.

14 I have taken the liberty of copying the
15 transcript to the cross of Dr. LaCasse which
16 illustrates these points. She did not test the
17 inputs to the Black-Scholes model including the
18 volatility input. She merely accepted it. She has
19 no experience in binomial models which is what the
20 constrained model is.

21 These areas of testimony require
22 specialized knowledge to assist in understanding.
23 Dr. LaCasse is not qualified as an expert in this
24 area, although there are certainly other areas of
25 which she is undoubtedly an expert. Since she is not

1 an expert she must be considered a lay witness and
2 the scope of the testimony does not qualify as lay
3 testimony which is limited to opinions and inferences
4 which are based on the witness's perception and not
5 on specialized knowledge. And that is consistent
6 with Rule 701 of the Ohio Rules of Evidence.

7 The next motion to strike, actually
8 contained within that material, on page 3, lines 10
9 to 23. Here Dr. LaCasse cites to material and it
10 appears from the material cited that this is an
11 excerpt with ellipsis indicating that material has
12 been omitted. We would move to strike this entire
13 passage unless the remainder of the passage omitted
14 is produced for inspection and parties are able to
15 determine whether the omitted portions should, in all
16 fairness, be part of the record.

17 My next motion to strike, your Honor --

18 MR. CONWAY: Just a second, your Honors.

19 MS. GRADY: I'm sorry.

20 MR. CONWAY: Let me just write down where
21 you've progressed so far, Ms. Grady.

22 MS. GRADY: Yes.

23 MR. CONWAY: And again, the last motion
24 to strike is of the excerpt from Mr. Gibson's text
25 that she has included in her answer on page 3?

1 MS. GRADY: Correct.

2 The next motion to strike begins on page
3 7 beginning on line 9 and runs through page 11, line
4 11. On page 7 in lines 20 through 22 we move to
5 strike on the basis of the fact that Dr. LaCasse is
6 not an expert on option valuation methodology.
7 That's a continuation of the theme of the earlier
8 motion to strike.

9 Now, the remaining motion to strike is on
10 the basis of the fact that the testimony is not
11 proper rebuttal testimony, and this is the testimony
12 that we see with respect to supposedly addressing
13 Dr. Lesser's comments in his testimony. The scope of
14 rebuttal testimony is limited to evidence that is
15 voluntarily offered by an opposing party. It is not
16 the equivalent of introducing evidence in a party's
17 case in chief. Rebuttal is not appropriate where it
18 could have been presented as part of the party's
19 direct case.

20 The PUCO has routinely limited rebuttal
21 to testimony that a party could not have presented as
22 part of their direct case, and for your edification
23 purposes I included in the materials a citation to
24 the Commission's entry in the matter of the review of
25 Ameritech-Ohio's Economic Cost for Interconnection,

1 Unbundled Network Elements, and Reciprocal
2 Compensation for Transport and Termination of Local
3 Telecommunications Traffic, Case No. 96-922-TP-UNC
4 entry at 8 dated January 29th, 2001.

5 Dr. LaCasse's testimony focused on the
6 fact that she has used a Monte Carlo model and
7 presents it as purporting to rely on IEU Witness
8 Lesser's assertion that the option valuation
9 methodology used by AEP is inappropriate and that
10 options cannot be valued under Black-Scholes when
11 there is a correlation between the strike price and
12 the underlying asset.

13 Proper rebuttal to that point would be
14 presenting testimony on how the Black-Scholes models
15 can be used to do so and why Dr. Lesser is wrong.
16 Instead, Dr. LaCasse backdoors in the Monte Carlo
17 analysis that proves Lesser's point, that point being
18 that AEP's purported POLR charge is overstated by 20
19 to 24 percent as shown on CL-3.

20 An alternative analysis to support the
21 reasonableness of AEP's Black-Scholes model is not
22 proper rebuttal. It is evidence that should have
23 been and could have been submitted as part of AEP's
24 direct case.

25 AEP was well aware of the court's

1 concerns regarding POLR and was directed by the
2 Commission that if it intended to seek a
3 noncost-based POLR or a POLR charge based on cost, it
4 was to make an appropriate filing. This was by the
5 Commission's May 4th, 2011, entry.

6 The company then filed an initial merit
7 brief in response to the PUCO's directive, and in
8 that merit brief filed May 20th, 2011, it indicated
9 that it intended to support the reasonableness of the
10 current POLR charge through the presentation of
11 additional cost-based approaches, this can be seen in
12 the merit brief at 27.

13 In that filing it mentioned that NERA is
14 working with AEP-Ohio to evaluate and develop other
15 methods of determining the cost of the shopping risk.
16 These other methods, in that affidavit, included the
17 Monte Carlo method as contained in the affidavit of
18 Dr. LaCasse which was attached as Exhibit A.

19 Additionally, your Honors, OCC deposed
20 Dr. LaCasse on June 16th, 2011, and sought to inquire
21 into the work being done on the Monte Carlo modeling,
22 and counsel for the company would not permit OCC to
23 delve into the modeling and, in fact, instructed
24 Dr. LaCasse not to answer OCC's questions in this
25 regard.

1 There is no reason, your Honors, that the
2 companies could not have presented the Monte Carlo
3 model as part of their direct case. It could have
4 and should have, and that would have permitted
5 parties a fair opportunity to challenge it.

6 The notion that the Black-Scholes option
7 model is not an appropriate tool to evaluate AEP's
8 POLR option is not a new issue; it was raised by the
9 intervenors in the first phase of this proceeding in
10 2008. We would now direct your attention to the
11 supplemental response to OCC Discovery 1-2 where the
12 company provided a copy of information that was
13 presented to Dr. LaCasse including the intervenor
14 2008 arguments against POLR costs. Item 3
15 specifically states: The Black-Scholes option model
16 is not an appropriate tool to cost out the value of
17 AEP's POLR option.

18 Your Honor, in summary, the information
19 presented by Dr. LaCasse on the Monte Carlo method is
20 not proper rebuttal and it should not be allowed.

21 EXAMINER PARROT: Ms. Grady, just to
22 clarify, you're moving to strike the last question
23 and answer on page 11?

24 MS. GRADY: If your Honor would give me a
25 moment.

1 EXAMINER PARROT: Sure.

2 MS. GRADY: No, your Honor. That could
3 remain.

4 EXAMINER PARROT: I thought it might. So
5 page 11 through line 9.

6 MS. GRADY: Yes.

7 EXAMINER PARROT: Thank you for that
8 clarification.

9 Mr. Darr.

10 MR. DARR: I'd like to add a couple of
11 items to the rather comprehensive motion to strike
12 that OCC's presented, and we join in OCC's motion as
13 well for many of the same reasons.

14 With regard to page 3, lines 5 through
15 22, at best this is a hearsay statement. Reliance on
16 a treatise is only available to the company in this
17 particular instance if it's established as a reliable
18 authority or the admission of a witness or by other
19 expert testimony or by judicial notice. There's
20 nothing in the record at this point that would
21 support any of those and that section should be
22 stricken.

23 With regard to page 7, line 9 through 11,
24 line 9, I would also point out that under the
25 applicable rule testimony it does not demonstrate

1 that the procedures were conducted in the way that
2 would yield an accurate result.

3 MR. CONWAY: Excuse me, Mr. Darr. I'm
4 sorry to interrupt you. But could you give me again
5 the section that you're addressing right now?

6 MR. DARR: Sure. Page 7, line 9 through
7 page 11, line 9. This is the Monte Carlo testimony.

8 MR. CONWAY: I'm sorry.

9 MR. DARR: There's no demonstration as to
10 the methodology and how it was tested. There is no
11 demonstration that the witness was qualified to test
12 as pointed out by Ms. Grady.

13 And then with regard to that same section
14 it appears that all of the testimony is directed at
15 proving up in the final analysis that the constrained
16 model is somehow accurate. Unfortunately for the
17 company they have sponsored, according to Ms. Thomas,
18 the unconstrained model so it's not even relevant.

19 For those additional reasons we'd ask
20 that the items that have been identified by OCC and
21 by IEU be stricken from this testimony.

22 EXAMINER PARROT: Thank you, Mr. Darr.

23 MS. MOONEY: Your Honor, OPAE joins in
24 these motions to strike.

25 MR. PETRICOFF: As does Constellation,

1 your Honor.

2 MR. O'BRIEN: As does the Hospital
3 Association.

4 EXAMINER PARROT: Mr. Conway?

5 MR. CONWAY: Thank you, your Honor. I'll
6 do my best to try to tick through the long list of
7 arguments that have been raised and if there's any
8 particular argument that struck you that you'd like
9 to have some particular response to, please let me
10 know.

11 With regard to the introductory material
12 that was mentioned by Ms. Grady on page 1, I think
13 it's appropriate as context for the rebuttal
14 testimony. I don't think it burdens the record or
15 confuses the record or is unduly duplicative. So I
16 think in order to provide a context for the rebuttal
17 and to introduce the rebuttal material, it's
18 appropriate to provide a very brief summary of what
19 her prior role has been in the case.

20 With regard to the volatility testimony
21 on pages 2 through 4 that OCC and others have moved
22 to strike, I would note that Dr. LaCasse is not here
23 to testify as to what the precise value of the
24 volatility input should be. She's really here to
25 testify based on her expertise as an economist, which

1 has been adequately documented and presented by the
2 company, her qualifications, as to the appropriate
3 methods that one might use to establish a reasonable
4 volatility input for use in the model such as the
5 companies' Black or Black-Scholes models.

6 So I think her background is obviously
7 and readily demonstrated as adequate to be able to
8 comment on that topic, and so I think that the motion
9 is very overreaching to state that she's not
10 qualified to, in a conceptual way, explain what the
11 various methods that may be used to estimate
12 volatility might be.

13 With regard to the excerpt from the
14 treatise that she includes in her discussion of the
15 appropriate ways in which volatility may be estimated
16 and the circumstances in which the various methods
17 may be more or less appropriate to use by the
18 modeler, the excerpt forms a basis or a part of the
19 basis for her position on the issue and I think it's
20 helpful for the Commission to know what the witness's
21 position is and what supports it, and I think that
22 it's common practice and it's been common practice in
23 this case as a matter of fact for experts to cite to
24 treatises upon which they rely upon which to support
25 and explain their position. So I think it's a very

1 appropriate piece to include within her testimony.

2 If the argument is that this is a hearsay
3 problem, if that's what the argument is, it's a
4 learned treatise, it's an exception to the hearsay
5 rule, and in any event, again, as I mentioned at the
6 outset, it explains what the basis is, at least in
7 part, for her position. And I think it's useful to
8 the Commission to know what it is the experts
9 testifying in front of it are relying upon to come to
10 the conclusions that they arrive at. So I think it's
11 appropriate for that purpose.

12 I think that to the extent that the
13 parties or counsel for the parties think that she
14 somehow is not qualified to comment on appropriate
15 measures of volatility, what they might be, the
16 circumstances in which they might be utilized, the
17 various ways to do it, they're free to examine her
18 and then the Commission will have whatever diminution
19 or diminishment of her testimony their
20 cross-examination might reveal. I'm confident that
21 they will not be successful if they attempt such a
22 line of cross-examination, but of course they're
23 welcome to try to do it.

24 So I think the volatility testimony is
25 appropriate and it's clearly rebuttal to the

1 criticisms that we've gotten both from the IEU and
2 the OCC and the witnesses on the proper volatility
3 value and methods for arriving at the proper
4 volatility value that can be inputted into the option
5 models that the company has sponsored as its primary
6 and chief way of estimating the costs to it of
7 providing the POLR optionality.

8 With regard to -- just to make sure that
9 I didn't neglect to make a point, I think I did, but
10 in case I did not, specifically Dr. Lesser and
11 Dr. Duann relied upon treatises and other published
12 materials to support their testimony and it's been
13 admitted into the record for the weight that it might
14 carry.

15 I'm reminded that in connection with the
16 volatility testimony that a chief part of
17 ascertaining the probative value of expert testimony
18 under the Rules of Evidence, specifically 701, is
19 whether the material advanced, the test or procedure
20 advocated by the expert, is supported by widely
21 accepted knowledge, facts, or principles, and looking
22 to a learned treatise like Dr. LaCasse has done
23 certainly helps to advance the treatment of and the
24 acceptance of her testimony because the treatise, of
25 course, indicates that, demonstrates, supports that

1 her views are widely accepted. So I think that
2 that's an additional very significant point to be
3 made in that regard.

4 With regard to the arguments concerning
5 the Monte Carlo simulation that Dr. LaCasse has
6 sponsored here today, a number of points are worth
7 making. First of all, with regard to the statements
8 that the company made in its initial merit filing, I
9 would just note that the company did provide
10 testimony in this case of the constrained POLR
11 optionality costing method that Ms. Thomas sponsored
12 and which Dr. LaCasse has supported as being a
13 reasonable approach, and that is a different costing
14 approach, although it does use the option valuation
15 technique, it is a different costing approach than
16 what we used in the original ESP hearings back in
17 2008 and which was the basis of the record that ended
18 up being discussed by the Supreme Court on the
19 appeal. So there's an alternative cost method there.

20 She also looked at, as you're aware of
21 from reading her testimony, her direct testimony in
22 this case, she also examined other sources of
23 information concerning the costing of providing POLR
24 optionality and she has identified other
25 circumstances, other studies, the Illinois Commission

1 report to refer to one, the NorthBridge Study to
2 another, and there may have been a third at which --
3 which tend to demonstrate that these costs are real
4 and that they are reflective of the risks that the
5 company takes on as the POLR provider.

6 So she did -- we did follow through on
7 the commitments that we made in our initial merit
8 filing in those respects.

9 The companies continue to maintain that
10 the Black model, particularly the constrained model
11 but certainly the original Black-Scholes
12 unconstrained model, are an appropriate means for
13 estimating the costs that they incur for bearing POLR
14 risk. That's their primary position.

15 We have gotten much testimony, much
16 criticism in this case for the use of the Black and
17 the Black-Scholes model that we have presented, both
18 in this case and earlier in the original case for the
19 ESP proceeding. The argument that we could have
20 presented the Monte Carlo results earlier is I think
21 subject to two responses, one, as I just said, the
22 Black and the Black-Scholes models, the constrained
23 and unconstrained models that we previously advanced
24 for pricing, for valuing the cost to us of bearing
25 the POLR obligation remain our primary purpose, our

1 primary means of showing that and we continue to rely
2 upon it.

3 And the comment that the Monte Carlo
4 model could have been presented earlier, there's no
5 basis for that statement by counsel and, in fact,
6 Dr. LaCasse at her deposition, which Ms. Grady refers
7 to, indicated that she had not conducted an
8 alternative costing methodology, which Ms. Grady will
9 be free to examine her here about as to whether or
10 not she had done a Monte Carlo modeling earlier.

11 But the point of it is that we got a lot
12 of testimony, a lot of argument that our option model
13 approach to estimating our cost of being the POLR
14 provider are flawed, is or are flawed in various
15 respects, and one of the respects is, as Dr. Lesser
16 made in his testimony, is that it's flawed because it
17 doesn't take into account certain characteristics
18 that a model such as the Monte Carlo model would take
19 into account, and the implication of his testimony is
20 that as a result of that, the option modeling
21 approaches that we have used produce inaccurate,
22 unreasonable results.

23 And so we conducted a Monte Carlo
24 simulation to see what the results of that would be,
25 and Dr. LaCasse has presented the results of the

1 simulation in her testimony, and results are that it
2 provides a value which is similar to the values that
3 our prior modeling approaches using the POLR option
4 cost methodology produced.

5 And so we think that the Monte Carlo
6 approach not only responds to the criticism that our
7 primary way of costing the POLR risk is flawed, it
8 responds to that criticism, it refutes it, and it
9 confirms that the values that we previously produced
10 are reasonable and accurate. And that's the purpose
11 of it.

12 In response to the criticisms that we got
13 in the direct testimony of Dr. Lesser and others, and
14 notably, while throwing rocks at us for not using
15 Monte Carlo, he didn't do it himself, so we did.

16 Secondly, it also responds to criticisms,
17 particularly from Dr. Lesser, that we didn't use an
18 approach that costed out hedges of risk that should
19 have been taken into account by the model, he says,
20 that might be used to ultimately determine what the
21 cost of the POLR obligation is for the companies.

22 It turns out that the Monte Carlo
23 approach also takes into account that factor and, lo
24 and behold, the result it produces again, as I just
25 mentioned, is a result that's very similar to the

1 result that we've produced using our option modeling
2 approach.

3 As far as the capability, the expertise
4 of Dr. LaCasse to sponsor a Monte Carlo approach, I
5 take exception to OCC's comments that she's not
6 qualified, and I don't think that there's any
7 testimony that the doctor has provided previously
8 either in deposition or in the hearing which would
9 disqualify her from presenting the results of the
10 Monte Carlo analysis, but by all means if you think
11 that she's not qualified to provide this testimony,
12 ask her about it. I think that criticism is one
13 that's reserved for OCC's cross-examination.

14 Ultimately, I am highly confident that
15 upon cross-examination Dr. LaCasse's ability to
16 sponsor this material will be demonstrated.

17 With regard to Mr. Darr's arguments that
18 the material that's excerpted from the learned
19 treatise is hearsay and not appropriate, I think my
20 comments I already made address that point.

21 With regard to his comment that the Monte
22 Carlo testimony does not have underlying a
23 demonstration that the method that was used was
24 tested, well, I think we did. We respectfully
25 disagree with Mr. Darr. We think it was tested

1 properly, it was supported properly, but if he
2 disagrees, he has an opportunity on cross-examination
3 to demonstrate his contrary view on that point.

4 With regard to his criticism of her
5 qualifications, I would just repeat what I just said.
6 She's an eminently qualified economist and to the
7 extent that he thinks that there's some shortfall in
8 her expertise in regard to the Monte Carlo simulation
9 that she presents here as confirmation of the base
10 results, base case results that the companies have
11 advocated which is the Black and Black-Scholes cost
12 methods, he's free to cross-examine her on those
13 points also.

14 So I'm sorry to take that much time, your
15 Honor, it was a lengthy motion to strike, and I thank
16 you very much for your patience.

17 EXAMINER PARROT: Thank you, Mr. Conway.

18 MR. DARR: May we respond, your Honor?

19 EXAMINER PARROT: I think we've heard
20 enough, thank you, Mr. Darr.

21 At this point we'd like to take just a
22 brief break to consider the pending motion. Give us
23 five to ten minutes.

24 Let's go off the record.

25 (Recess taken.)

1 EXAMINER PARROT: Let's go back on the
2 record. Upon consideration of OCC's motion that was
3 joined by IEU-Ohio and numerous other parties today
4 the Bench has considered the argument on both sides
5 of this issue and has decided to deny the motion to
6 strike in its entirety. The Commission will give
7 this testimony its proper weight.

8 MR. CONWAY: Thank you, your Honor.

9 EXAMINER PARROT: Are there any other
10 motions to strike with regards to the rebuttal
11 testimony of Dr. LaCasse before we proceed?

12 (No response.)

13 EXAMINER PARROT: Ms. Grady.

14 MS. GRADY: Thank you, your Honor.

15 - - -

16 CROSS-EXAMINATION

17 By Ms. Grady:

18 Q. Good morning, Dr. LaCasse.

19 A. Good morning.

20 Q. Dr. LaCasse, part of your testimony is
21 focusing on responding to IEU Witness Lesser and his
22 implication that a Monte Carlo method would yield a
23 different result; is that correct?

24 A. That's correct.

25 Q. And that would begin on page 7 of your

1 testimony?

2 A. Yes.

3 Q. Let's talk for a moment about your
4 background as it pertains to Monte Carlo modeling.
5 In your consulting experience at NERA did you analyze
6 shopping risk of an EDU or a CRES using the Monte
7 Carlo method?

8 A. No. I am familiar with the statistical
9 techniques that underlie the Monte Carlo models.
10 I've seen them applied in other contexts, not
11 specifically to the context of shopping for risk for
12 an EDU.

13 Q. And in your experience with the
14 FirstEnergy Ohio market test auction you didn't
15 analyze the shopping risk of an EDU or a CRES using a
16 Monte Carlo method, did you?

17 A. That's correct.

18 Q. And if we go to your direct testimony,
19 Exhibit CL-1, and we focus on your consulting
20 experience, would you agree with me that none of the
21 experiences listed pertain to consulting where you
22 specifically analyzed the shopping risk of an EDU or
23 a CRES using a Monte Carlo modeling method?

24 MR. CONWAY: Just a moment. Your Honor.
25 Counsel, are you referring to Exhibit

1 CL-1 to the direct testimony? You may have said that
2 and I just didn't catch it.

3 MS. GRADY: Yes, that would be Remand
4 Exhibit No. 3.

5 MR. CONWAY: Okay. Thank you.

6 A. I apologize, could you repeat the
7 question, please?

8 Q. Doctor, with respect to Exhibit CL-1 in
9 Remand Exhibit No. 3, going to the consulting
10 experiences listed on that exhibit, none of those
11 experiences pertain to consulting where you
12 specifically analyzed the shopping risk of an EDU or
13 a CRES using a Monte Carlo modeling method.

14 A. That's correct.

15 Q. And if we focus on the testimony that's
16 listed on Exhibit CL-1, none of the testimony listed
17 pertains to testimony where you specifically analyzed
18 the shopping risk of an EDU or a CRES using a Monte
19 Carlo modeling method.

20 A. That's correct.

21 Q. And if we go to the publication section
22 of Exhibit CL-1, none of the publications you have
23 listed pertain to analyzing an EDU or CRES shopping
24 risk or POLR obligation using a Monte Carlo method.

25 A. That's correct.

1 Q. Do you work regularly with Monte Carlo
2 models?

3 A. I work regularly with models as part of
4 my consulting work, and I understand the methods that
5 underlie Monte Carlo models. I have been on teams
6 where Monte Carlo models have been used in the
7 analysis.

8 Q. Let me ask the question again. Do you
9 work regularly with Monte Carlo models specifically?

10 A. No.

11 Q. Do you have hands-on experience with
12 Monte Carlo models?

13 A. I do for this.

14 Q. Is this the first time you've had
15 hands-on experience with the Monte Carlo model?

16 A. Yes.

17 Q. Now, you mentioned your experience with
18 NERA where you were on teams where Monte Carlo
19 methods were -- let me strike that.

20 Now, would you agree with me that,
21 Dr. LaCasse, up until this proceeding you have not
22 examined any option valuation model for measuring the
23 costs associated with shopping risks?

24 A. Yes.

25 Q. Do you consider yourself a practitioner

1 as it relates to option valuation models?

2 A. No.

3 Q. Now, on page 3 of your testimony you have
4 listed on lines 9 through 23 a quote from a 1991
5 book; is that correct?

6 A. That's correct.

7 Q. And can you tell me on line 12 following
8 the word "time" whether the gap given and the dots
9 indicate that material has been omitted from that
10 quotation.

11 A. That's correct.

12 Q. And would you also agree that on line,
13 looks to be line 17 after the word "equal" that
14 material has been omitted from that quotation as
15 well?

16 A. Yes.

17 MR. CONWAY: Your Honor, at this point
18 I'd just interject with regard to this point which
19 was also raised in the motion to strike, that if
20 counsel for OCC is unable to find whatever it is
21 that's not included in the excerpt that's reflected
22 by the ellipses, that we'd be happy to provide it to
23 OCC and to the Bench and to anyone else who wants it.
24 There's nothing being hidden here.

25 And I also would point out that nobody

1 asked us either informally or formally for the
2 information between the time the testimony was filed
3 on Monday and today. It's the first we're hearing
4 about some issue I guess that OCC thinks is generated
5 by the ellipses.

6 EXAMINER PARROT: I'm not sure we've
7 gotten to a point at which it's clear to me anyway
8 whether or not there is an issue, so I guess I would
9 allow Ms. Grady to continue with her questions and if
10 it gets to that point, then we'll deal with it then.

11 MS. GRADY: Your Honor, a very quick,
12 brief response. In my motion to strike I indicated
13 that we believed that the material should be stricken
14 unless the company would provide -- would be willing
15 to provide us with whatever information it's missing
16 and on that basis we would then make a determination
17 as to whether it should in all fairness be considered
18 as part of this testimony. So to the extent that we
19 made that request, I think the record does reflect
20 that.

21 And we would ask that if there is an
22 appropriate time for a break, that we be permitted to
23 see what information is omitted and determine -- make
24 a determination of whether it is appropriate to put
25 that in the record.

1 MR. CONWAY: We have no objection, your
2 Honor. I guess I should ask Dr. LaCasse whether it's
3 readily available, but let's go off the record for a
4 moment.

5 EXAMINER PARROT: Yes, please go off the
6 record.

7 (Discussion off the record.)

8 EXAMINER SEE: We'll go back on the
9 record. Is the information available?

10 MR. CONWAY: I assume it is.

11 THE WITNESS: I don't have it with me
12 right now, your Honor, but --

13 MR. CONWAY: They could have asked us for
14 it on Monday, Tuesday, yesterday.

15 EXAMINER PARROT: All right. So,
16 Mr. Conway, I think you've made an offer to retrieve
17 this material and make it available to the parties;
18 is that correct?

19 MR. CONWAY: That's correct, your Honor.

20 EXAMINER PARROT: And at what point do
21 you think you might be able to do that?

22 MR. CONWAY: As soon as Dr. LaCasse is
23 finished with her cross-examination, I think she
24 can -- she would be able to go retrieve it.

25 MS. GRADY: Your Honor, we would ask that

1 it -- if information is retrieved, we be given the
2 opportunity to cross-examine on it if we believe it
3 raises issues in terms of the excerpt and the
4 accuracy of the excerpt and whether it's -- in all
5 fairness the omitted material should be considered as
6 part of the testimony.

7 MR. CONWAY: There's been two days at
8 least, maybe a little bit more than two days where
9 this issue could have been raised, if you want -- and
10 I think it's inappropriate to be doing discovery now,
11 but we did offer informally to provide the
12 information. If they think it is somehow pertinent,
13 they can submit it as a late filed cross-examination
14 exhibit. And I don't think it's appropriate to --

15 EXAMINER SEE: Thank you, Mr. Conway.

16 EXAMINER PARROT: All right. I think the
17 Bench has agreed that if -- Dr. LaCasse. When you're
18 finished with your cross-examination this morning, if
19 you could please retrieve the material, make it
20 available then to the rest of the parties and -- oh,
21 will you be here the rest of this day?

22 THE WITNESS: I will, your Honor.

23 EXAMINER PARROT: All right. So then
24 that will give the parties time over the lunch break
25 to review the material and then, if necessary, the

1 companies will make you available for further
2 cross-examination on the material --

3 THE WITNESS: Yes, your Honor.

4 EXAMINER PARROT: -- later today. Thank
5 you.

6 MS. GRADY: Thank you, your Honor.

7 Q. (By Ms. Grady) Dr. LaCasse, when were you
8 retained by the companies for purposes of this
9 proceeding?

10 A. Shortly before the filing of the
11 affidavit and the initial merit filing.

12 Q. Is it your understanding that the initial
13 merit filing was May 20th, 2011?

14 A. I believe that's true.

15 Q. Now, the scope of the work that you were
16 retained for was to evaluate the different methods of
17 quantifying shopping-related risks and potentially
18 develop methods of quantification; is that correct?

19 A. That was part of it, yes.

20 Q. And in your affidavit dated May 20th --
21 let me strike that.

22 In the initial merit brief filing you
23 provided an affidavit, did you not, that was filed
24 with that?

25 A. I did.

1 Q. And in your affidavit of May 20th, 2011,
2 you indicated there that NERA is working with
3 AEP-Ohio to evaluate and develop methods of
4 quantifying the shopping-related risks?

5 A. That's correct.

6 Q. And you indicated in the affidavit that
7 the methods could include examining the costs that
8 would be incurred to hedge risk using Monte Carlo
9 modeling to estimate hedging risks?

10 A. Yes.

11 Q. And in that same paragraph in the
12 affidavit you mentioned that the NERA statistical
13 analysis -- to quantify explicitly the cost of
14 shopping-related risk which was done for Allegheny
15 Power and Baltimore Gas & Electric Company?

16 A. Could I have a copy of the affidavit,
17 please?

18 MS. GRADY: May I approach, your Honor?

19 EXAMINER PARROT: You may.

20 Q. Do you need the question reread,
21 Dr. LaCasse?

22 A. I do, please.

23 Q. In the very same paragraph in the
24 affidavit you mention that the NERA statistical
25 analysis that was used to quantify the cost of

1 shopping-related risks done for Allegheny Power and
2 Baltimore Gas & Electric Company?

3 A. What I say in the affidavit is that I
4 anticipated that this method could include the cost
5 they would incur to hedge a risk using a Monte Carlo
6 modeling, and I do mention that NERA had previously
7 used a similar statistical analysis to explicitly
8 identify those shopping risks for Allegheny Power and
9 Baltimore Gas & Electric and that was presented to
10 the Maryland Public Utilities Commission.

11 Q. Was that analysis based on Monte Carlo
12 modeling, if you know?

13 A. Yes.

14 Q. Now, you state in your affidavit that
15 methods to quantify these costs exists that would --
16 that would address and satisfy the concerns set forth
17 in the Supreme Court's April 19th decision. Do you
18 see that reference?

19 A. Yes.

20 Q. Can you identify for me what "these
21 costs" are?

22 A. In this passage the costs are the costs
23 that are incurred for the shopping-related risk.

24 Q. And are those the costs that you
25 testified to in your direct testimony, Remand Exhibit

1 No. 3?

2 A. That's correct.

3 Q. Can you identify for me what the concerns
4 that you understand the Supreme Court set forth in
5 its April 19th decision?

6 A. I'm not an attorney. My lay
7 understanding is that one of the main concerns was
8 the correspondence between the costs to the company
9 on the one hand and the option valuation that were
10 used by the companies to estimate those risks.

11 Q. Were there other concerns of the Supreme
12 Court, if you know, in your lay understanding,
13 besides that concern?

14 MR. CONWAY: Your Honors, two objections,
15 one, it's pretty open-ended and vague and, secondly,
16 I think at this point we're beyond the scope of the
17 rebuttal testimony.

18 EXAMINER PARROT: Your objections are
19 overruled, Mr. Conway.

20 A. My understanding is that the concern was
21 to -- that the method used by the companies had not,
22 to that point, specifically identified the cost
23 related to shopping-related risk.

24 Q. Now, Dr. LaCasse, when was the Monte
25 Carlo analysis that you present in your rebuttal

1 testimony done?

2 A. I started working with the Monte Carlo
3 model for the purposes of presenting the results in
4 rebuttal testimony Friday, July 22nd. I am aware
5 that counsel for AEP-Ohio had potentially been making
6 such an analysis with other experts at NERA prior to
7 that.

8 Q. And what is your understanding when the
9 other experts at NERA had begun work on the Monte
10 Carlo analysis?

11 A. I don't know precisely when that was. It
12 would be potentially some weeks before I was aware of
13 the work. I know that when I did the deposition for
14 the direct, that work had not started.

15 Q. Dr. LaCasse, you said you started working
16 on the Monte Carlo analysis Friday, July 22nd, 2011.
17 What work were you doing on that Monte Carlo
18 analysis?

19 A. I reviewed in the logic of the model,
20 reviewed the workings of the model on how the price
21 path was determined, on how the cost related to
22 shopping-related risk to the companies were
23 evaluated, on the manner in which the consumer, the
24 customer, were incorporated into the model, and on
25 ensuring that the inputs that were used into the

1 model corresponded to the inputs that had been used
2 by the company in the constrained model and looking
3 at the results from there.

4 Q. When was the analysis complete as far as
5 you know?

6 A. I believe it was late morning on Monday.

7 Q. Now, on page 8 of your testimony you
8 begin discussing the Monte Carlo analysis, and would
9 I be correct in saying you personally did not perform
10 the Monte Carlo analysis but others at NERA performed
11 that analysis?

12 A. That's correct.

13 Q. Is the Monte Carlo modeling a perfect
14 model, in your opinion?

15 A. Could I ask you to rephrase the question?

16 Q. Are there any problems that you're aware
17 of or issues with Monte Carlo modeling, in using
18 Monte Carlo modeling for the purpose of calculating a
19 shopping risk for an electric distribution utility?

20 A. In the particular Monte Carlo that we're
21 using here, certainly the way in which we are
22 representing the customer decision to shop or not to
23 shop is an approximation of reality and is a bit
24 different from what the companies used in the
25 constrained model. So that the customers don't

1 necessarily switch when they're, if they were
2 perfectly rational, it would see that there's an
3 advantage to do so, so there's some heuristic rules
4 that are used that are approximations and in the same
5 way the customers in the model may make decisions to
6 switch when, in hindsight, they would have been
7 better off not to.

8 Q. What does the Monte Carlo model calculate
9 as it relates to this case and as it relates to the
10 POLR?

11 A. In this case the Monte Carlo model is
12 calculating the costs to each of the companies of the
13 customers shopping. So what the model does is it
14 projects prices into the future, given the prices
15 into the future that CRES providers could be offering
16 for services to customers, customers make decisions
17 whether or not to take service from a CRES provider.
18 If they do take service from a CRES provider, then
19 the company sells forward its power in those months
20 where customers are going to be shopping.

21 The model then calculates the cost that's
22 associated with that forward sale by assumption, if
23 customers are shopping, prices have come down and
24 customers have had an advantage to taking service
25 from a CRES provider in a particular month, say one

1 month one year from now. For that month the company
2 now knows that it will not be able to sell all of its
3 supply to its SSO customers and, because it knows
4 that, it will instead make a sale forward for that
5 month.

6 The cost is the difference between the
7 SSO price that they would have obtained selling to
8 SSO customers compared to what it needs to do now
9 because customers have shopped, which is selling at
10 this lower price. That cost is calculated.

11 And same thing, if customers were to
12 return, then the cost from serving returning
13 customers through purchases at higher market prices
14 are calculated as well.

15 So the model calculates this cost for
16 every month of the ESP period given changes in market
17 conditions, so each month the prices can change
18 again. The situation can change. And so the costs
19 are then calculated over the entire 36-month period
20 given changes, potential changes in market conditions
21 every month, and the model is run over 20,000
22 iterations and the average of the cost to the company
23 taken on a per megawatt-hour basis are averaged to
24 provide the results.

25 Q. Thank you, Dr. LaCasse.

1 Essentially, and I'm going to try to boil
2 your answer down to one or two phrases, essentially
3 what the Monte Carlo method does is it calculates
4 expected lost revenues; is that correct? That the
5 company will experience on both ends of the POLR
6 risk, that is, it calculates lost revenues associated
7 with customers leaving the company and it also
8 calculates lost revenues with respect to the
9 customers returning to the company; is that correct?

10 A. That's what the model does to estimate
11 the cost of shopping-related risk, so comparing the
12 situation where the EDU would have all customers on
13 SSO service and a situation where it faces the risk
14 that customer will shop in response to changing
15 market conditions.

16 Q. It does not calculate out-of-pocket
17 costs; isn't that correct?

18 A. It's intended just like the model for the
19 companies, that -- the constrained models from the
20 companies, it's intended as an ex-ante analysis. So
21 it's an expected view of what would happen into the
22 future.

23 Q. And that means it does not calculate
24 out-of-pocket costs, actual out-of-pocket costs
25 incurred, correct?

1 A. If you mean after everything has
2 happened, no. It's an ex-ante calculation, expected
3 average calculation.

4 Q. Do you know how much of the Monte Carlo
5 results is attributable to the migration, the lost
6 revenues associated with customer migration only?

7 A. I am not sure I understand the question.

8 Q. The Monte Carlo model that the folks at
9 NERA ran came up with a POLR cost, correct? A value.

10 A. Yes.

11 Q. Do you know how much of that total value
12 relates to lost revenues associated solely with the
13 migration risk, that is customers leaving the
14 company?

15 A. The model does not calculate that
16 specifically and for there to be the other cost,
17 namely the cost for the customer returning, customers
18 first have to leave, so I'm not sure conceptually I
19 would know how to do that.

20 Q. So conversely, then, you wouldn't be
21 aware of how much of the Monte Carlo -- the value of
22 POLR produced under the Monte Carlo method is
23 attributable to the return risk, correct?

24 A. That's correct.

25 Q. Would you agree with me that the Monte

1 Carlo modeling shows the cost of hedging for the
2 company via forward sales assumptions?

3 A. The model assumes that the company uses
4 particular hedging strategy by which I mean that if
5 you look into the future, and knowing the rules by
6 which customers take service from a CRES provider, if
7 the company can anticipate that its customers will be
8 shopping in some month into the future, the company
9 makes a forward sale now.

10 There are other strategies that would be
11 available like waiting to see whether it's really
12 going to happen, see further price changes, not do
13 anything, sell at the spot market. So it's a
14 particular strategy that is intended, again, to
15 qualify the costs that are associated with
16 shopping-related risk that is the difference between
17 a situation where an EDU does not face that shopping
18 risk, where all the customers would stay on SSO, and
19 a situation where customers can and do shop.

20 Q. Now, the Monte Carlo modeling assumes an
21 optimal strategy, hedging strategy, by the utility;
22 does it not?

23 A. No.

24 Q. You mentioned that, in your response,
25 that there are a number of hedging activities but

1 that the model captures only one of them and that is
2 where the utility is assumed to use a hedging
3 strategy, correct?

4 A. The company is assumed to take action to
5 sell forward as soon as it knows that looking into
6 the future customers would leave in a particular
7 month in the ESP period, so -- and that means, for
8 example, let's say that prices have decreased this
9 month compared to what they were last month and now
10 the company would anticipate that SSO customers would
11 shop in the next year, and some class of customer,
12 let's say commercial customers.

13 The company then sells forward the
14 equivalent megawatt-hours for those customers in
15 those months. It may be that two months from now
16 prices go back up and customers return and then the
17 company would purchase, or it's possible that the
18 prices would go down even further.

19 If the company had waited to sell its
20 supply forward and prices had gone down even further,
21 there would have been a larger cost, so what the
22 model assumes is the moment that there is the
23 expectation of shopping, that the company sells
24 forward at that point.

25 Q. And the model also assumes, does it not,

1 that the expectation of shopping, that the company
2 will have full knowledge of whether its customers
3 will shop at any particular point in time, correct?

4 A. That's correct. The model assumes fairly
5 simple decision rules by customers that takes into
6 account the switching restrictions that are in the
7 company's tariff, but it's a fairly myopic rule for
8 commercial/industrial customers, for example, the
9 customer migrates if or will take service from a CRES
10 provider if over the 13 months that are coming up, so
11 roughly a year look forward, it is economically
12 advantageous to switch to take service from a CRES
13 provider, the price is lower than the price from the
14 company. So that's what the model incorporates.

15 Q. Now, going back a few answers you said
16 that one -- you mentioned that the model assumes that
17 the company does take action to sell forward and my
18 question is, is that an assumption or -- let me
19 strike that.

20 Are you aware of whether the company
21 during the period of the ESP took any action to sell
22 forward?

23 A. I'm not aware of that. As I said, there
24 would be various, various strategies that the
25 companies could use. This is just using one such

1 strategy to make the estimation on an a priori basis
2 of what the costs that are associated with
3 shopping-related risks are.

4 Q. So the model could have assumed a
5 situation where the company did nothing; isn't that
6 correct? You could have modeled that situation.

7 A. Yes. And if the model -- if the
8 companies did nothing and did no sales forward, then,
9 as I said, for example if we know that the company
10 had an -- in the Monte Carlo model that I'm
11 presenting sold forward because prices have come down
12 and customers are taking service from a CRES provider
13 and the company did nothing, it's exposed to the spot
14 market and to potentially even further down movements
15 in the price, in the market price. If the market
16 price falls even further, then the costs to the
17 company are even greater. And there are also risks
18 that's associated with having such exposure to the
19 spot market.

20 So we could have modeled differently,
21 there would have been other costs and in
22 circumstances greater costs to the company by doing
23 nothing rather than hedging.

24 Q. Does the model determine the cost -- let
25 me strike that.

1 Does the model determine the value of the
2 shopping option to customers?

3 A. In both the case of the value of the
4 shopping options to customers and the way in which
5 the costs are calculated in this model, it's as a
6 function of the expected difference between the SSO
7 price and the market price. So in that way it's on
8 the same basis and it really gives the same result.

9 Q. Let me ask you again, does the Monte
10 Carlo model that you are presenting calculate the
11 value of the shopping option to customers?

12 A. Yes.

13 Q. Does the Monte Carlo model, in your
14 opinion, calculate the costs of shopping risks to
15 AEP?

16 A. It calculates the cost of
17 shopping-related risks, yes.

18 Q. Dr. LaCasse, does the Monte Carlo method
19 or model that is presented in your testimony
20 incorporate the impact of the fuel adjustment clause
21 that's in place for Columbus Southern Power and Ohio
22 Power?

23 A. No, it does not.

24 Q. Does the Monte Carlo model that you
25 present in your testimony model the terms of the AEP

1 pool agreement?

2 A. No, it does not.

3 Q. Does the Monte Carlo model that you have
4 presented in your testimony incorporate assumptions
5 on the price differential that must exist before
6 customers switch?

7 A. Yes.

8 Q. And what is the threshold price
9 differential that must exist under the Monte Carlo
10 model that you present before customers switch?

11 A. As I said, I want to be careful in that
12 the way in which the customers make their decision to
13 switch incorporates a certain horizon going forward.
14 So for commercial and industrial customers, before a
15 customer will switch from SSO to a CRES provider the
16 customer will look at the anticipated prices over the
17 next 13 months and at that point any difference
18 between that comparison, so the ESP price over the
19 future 13 months and the prices that a CRES provider
20 would offer over the next 13 months, the customer
21 takes the cheapest of the two options.

22 For residential customers, a residential
23 customer takes into account the restrictions under
24 the company's tariff that if they return in the May
25 to September time frame, they would have to remain

1 until the next April and, therefore, if a residential
2 customer is considering whether to take service from
3 a CRES provider from September to March, they
4 consider the current month only and, again, if the
5 CRES provider's price is cheaper, they switch, if
6 it's not, then they remain on SSO.

7 And for the remainder of the months from
8 April to August where they would not be subject to
9 that stay -- no, where they are subject to that stay
10 and they look at the current month through to the
11 following April.

12 Q. So it's a 1 cent per megawatt-hour
13 differential over a 13-month period.

14 A. For that horizon, that's correct.

15 Q. And that's for a residential customer.
16 That's the assumption you make, they will switch when
17 there's a 1 cent per megawatt-hour difference between
18 the SSO and the market price.

19 MR. CONWAY: Objection. You're mixing
20 what she explained was the constrained for the
21 industrial and commercial customers with constrained
22 that she described for the residential customers. So
23 I object.

24 EXAMINER PARROT: I believe in your
25 question, Ms. Grady, you specifically mentioned

1 you're referring to the residential class; is that
2 correct?

3 MS. GRADY: Yes.

4 EXAMINER PARROT: So with that
5 understanding please answer the question,
6 Dr. LaCasse.

7 MR. CONWAY: Well, if your Honor please,
8 could I have the question reread because I think she
9 also mentioned either at that point or shortly before
10 that that there was a 13-month horizon associated
11 with that view of the residential customer.

12 EXAMINER PARROT: And I think Dr. LaCasse
13 can clarify that in her answer.

14 A. So for the residential customer, a
15 residential customer considers the switching
16 restriction under the company's tariff. So to the
17 extent that should they come back to SSO, they would
18 not be prevented from switching again to a CRES
19 provider immediately, so outside of the May to
20 September period the residential customer considers
21 the current month only.

22 If they would be subject to staying on
23 SSO from that point until the next April, then they
24 consider that too, so between April and August they
25 consider the current month through the following

1 year.

2 Q. So, Dr. LaCasse for whatever horizon the
3 residential customer is looking at, the model assumes
4 that they will switch if there is just one penny per
5 megawatt-hour differential over the whole period; is
6 that correct?

7 A. That's correct.

8 Q. And when that threshold is reached, how
9 much shopping is assumed by the residential
10 customers? Is it 100 percent of residential
11 customers switch?

12 A. Yes. All the customers within a given
13 class make the same decisions.

14 Q. Does the model assume an upper limit of
15 switching or a cap as to the percent of customers who
16 will switch?

17 A. It does not.

18 Q. And could that assumption have been
19 modeled into the Monte Carlo method?

20 A. Yes.

21 Q. And wasn't that, in fact, an assumption
22 that was modeled into the Baltimore Gas & Electric
23 study that was done by NERA where Monte Carlo
24 modeling was used?

25 A. That's correct. Here really to do the

1 Monte Carlo model and be able to have the results be
2 confirmatory to the company's results under the
3 constrained model we wanted to have or it was
4 necessary to have as much as we could the same type
5 of assumptions in the model, and we did that to the
6 extent possible so that the only variation was
7 looking at Monte Carlo model first and, second,
8 looking from the perspective of the costs to the
9 company so that those two estimations would be as
10 much as possible an apples-to-apples comparison.

11 In the other study from NERA, although I
12 do not know the details of that study, it's my
13 understanding that there were differences in
14 jurisdictions so, for example, that in Maryland there
15 was not opt-out aggregation, and I think when the
16 assumptions were put into that model for the purposes
17 of that study, that the phenomenon of opt-out
18 aggregation was not as prevalent as it is now.

19 Q. So you did not change or you wanted the
20 results of the Monte Carlo model to be consistent
21 with the -- let me strike that.

22 You wanted the inputs to the Monte Carlo
23 method in terms of shopping assumptions to be
24 consistent with what was used in the Black-Scholes
25 model in the constrained as well as the

1 unconstrained. Let me strike that.

2 Did you run sensitivities to the
3 volatility inputs?

4 A. No.

5 Q. Did anyone at NERA run sensitivities to
6 the volatility inputs that you used in the Monte
7 Carlo method?

8 A. I don't believe so.

9 Q. Now, in your testimony you compare the
10 Monte Carlo model to the constrained model results;
11 do you not?

12 A. Yes.

13 Q. Is it your understanding that the
14 company's request is based on the results of the
15 unconstrained model?

16 A. Could you clarify what you mean by the
17 company's request?

18 Q. Are you aware that the -- are you aware
19 of the level of POLR charge that's being asked to be
20 approved as a result of this proceeding?

21 A. Yes.

22 Q. Okay. And is that -- is the value of the
23 POLR the result of the running of the original
24 Black-Scholes model which did not contain
25 constraints?

1 A. Yes. And I believe there were other
2 changes too to the inputs in response to some of the
3 staff testimony, for example.

4 Q. Now, when we compare the results of the
5 Monte Carlo modeling that you present to the
6 Commission's approved POLR rates, that is what is in
7 effect as a result of the original unconstrained
8 model, the percentage that you show that the Monte
9 Carlo results are below -- let me strike that.

10 In your testimony, let's go to CL-3, page
11 1 of 1. You show the model results by company and,
12 if I zeroed in on the last line, you show a line that
13 shows difference. Do you see that part of your
14 testimony?

15 A. I do.

16 Q. And this line would indicate that the
17 Monte Carlo results differ from the results assumed
18 in the -- or results produced in the constrained
19 model at least in CSP showing a 20 percent
20 differential; is that correct?

21 A. Yes. And as I explained in my testimony,
22 I believe that a big or certainly one source for this
23 difference is the fact that although as much as
24 possible we try to have the inputs the same, we do
25 not model the customer in a manner that's as

1 sophisticated as the constrained model does, in
2 particular the customer decision here does not really
3 take into account that there may be future price
4 movement in the future, it does not try to integrate
5 the uncertainty that there is with market condition
6 into the customer decision.

7 Q. Now, Dr. LaCasse, if we used -- instead
8 of the comparison that you use between the
9 constrained model and the Monte Carlo results, if we
10 use the unconstrained model cost of POLR as found in
11 the company's filing, would the difference between
12 the Monte Carlo result and unconstrained model be
13 greater than 20 percent, if you know?

14 A. I've not made that calculation. I do
15 remember, I don't know if it holds for all the
16 classes and companies, that generally the results
17 under the unconstrained model yielded a higher cost.

18 Q. So under the unconstrained model with the
19 higher cost or higher POLR, the difference between
20 the Monte Carlo and it would be greater than
21 20 percent; isn't that safe to assume?

22 A. That's safe to assume.

23 Q. Now let's go to page 9, line 20 of your
24 testimony. Do you have that reference?

25 A. I do.

1 Q. You were asked in -- you're being asked a
2 question of whether the results of the Monte Carlo
3 support the view that the costs related to shopping
4 risk that was calculated by the constrained model is
5 reasonable. Is that a correct characterization of
6 that question?

7 A. Yes.

8 Q. And you go on to say yes, it does support
9 that view. Correct?

10 A. Yes.

11 Q. You say that the Monte Carlo model
12 results support the magnitude of the costs associated
13 with the shopping risk produced by the constrained
14 model, correct?

15 A. Yes.

16 Q. And in your opinion it's, the Monte Carlo
17 results support it because it shows a difference of
18 20 to 20 percent or -- let me strike that.

19 The Monte Carlo results support the
20 constrained model calculation of POLR because there's
21 a 20 percent difference between the POLR cost
22 produced under both of those models; is that correct?

23 A. I believe that it supports the magnitude
24 because we have used the same inputs in both models.
25 Aside from the way in which the customers make

1 decisions how the results would change if we put
2 the -- if we were able to enhance the model to put
3 the same kind of customer decisions that it would, in
4 my view, increase the cost that the model estimates
5 and, therefore, I believe that the results that we
6 present do support the magnitude of the cost. As
7 everything is held the same in terms of inputs except
8 for one modeling issue on the customer decision and
9 that would tend to produce lower results so,
10 generally speaking, the magnitude of the costs does
11 support the calculation of the shopping-related risks
12 and the costs to the company that is produced by the
13 constrained model.

14 Q. What differential would have to exist
15 before you would say that the results of the Monte
16 Carlo do not support the POLR cost produced under the
17 companies' model?

18 A. I'm not sure I've thought about that
19 question.

20 Q. Now, on page 11, lines 8 through 9, you
21 state that "The customer's decision making process
22 will tend to understate the POLR cost compared to the
23 calculation of those costs under constrained model."
24 Do you see that reference?

25 A. Yes.

1 MR. CONWAY: I'm sorry, could I have the
2 reference again?

3 MS. GRADY: Yes. That would be page 11,
4 lines 7 through 9.

5 MR. CONWAY: Could I have the question
6 reread.

7 MS. GRADY: I can rephrase the question.

8 Q. You state, Dr. LaCasse, do you not, that
9 "The customer's decision making process will tend to
10 understate the POLR cost compared to the calculation
11 of those costs under constrained model." Do you see
12 that?

13 A. I do.

14 Q. Can you tell me by how much the Monte
15 Carlo method understates the POLR compared to the
16 cost of the constrained model used by AEP?

17 A. What I understand the question is asking
18 is whether I can quantify if we did enhance the model
19 to the point where we had the same customer decision
20 rules, what would be the results, and I don't know
21 what the results would be. We haven't done that
22 analysis. But I do believe that it would increase
23 the expected cost that's calculated to the model and
24 bring it to either closer or higher than the level of
25 the POLR cost that's calculated by the model by the

1 company.

2 Q. But you haven't quantified how much.

3 A. I have not.

4 Q. And is it your testimony that the Monte
5 Carlo method or the Monte Carlo model that you
6 present in your testimony understates POLR with
7 respect to the unconstrained model as well?

8 A. Yes.

9 Q. And by how much does the Monte Carlo
10 model that you present in your testimony understate
11 POLR with respect to the unconstrained model?

12 A. I've not done that analysis.

13 MS. GRADY: That's all the questions I
14 have, Dr. LaCasse, thank you very much.

15 THE WITNESS: Thank you.

16 EXAMINER PARROT: Ms. Kyler?

17 MS. KYLER: No questions, your Honor.

18 EXAMINER PARROT: Ms. Mooney?

19 MS. MOONEY: No questions.

20 EXAMINER PARROT: Mr. Darr?

21 MR. DARR: Thank you, ma'am.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Darr:

25 Q. First of all, I'd like to follow up on a

1 couple of questions that Ms. Grady asked you. In
2 response to a question about calculating the amount
3 attributable to migration loss, you indicated that
4 you did not know how much of the resulting value was
5 or represented the migration amount; is that correct?

6 A. The costs that the model calculates are
7 all costs related to shopping-related risks and as I
8 responded in response to Ms. Grady's question, we did
9 not perform any kind of finer calculations than that
10 in terms of separating those two sides of the
11 shopping-related risk, and I'm not sure as I sit here
12 that I would know how conceptually to do that given
13 that to return customers have to first leave.

14 Q. I understand that. But in terms of
15 migration, do we both understand that that means that
16 a customer -- it's the cost attributed to the
17 customer leaving?

18 A. That's the way -- if that's the way
19 you're using the term. In my testimony I use
20 shopping-related risk as encompassing all the risks
21 that are taken by the company related to customers
22 shopping.

23 Q. Okay. Let's take a step back then. The
24 risk is two parts, correct?

25 A. Yes.

1 Q. That you're calculating. And would you
2 identify for us the first part that you're
3 calculating.

4 A. Well, we are calculating both the cost of
5 customers so when prices, market prices are
6 decreasing, the load, the level of the SSO price and
7 customers, given the decision process we have in the
8 model, may have opportunity and incentive to take
9 service from a CRES provider and then the model
10 assumes that the company would immediately make a
11 forward sale for those months in which customers are
12 shopping.

13 Q. And the company assumed at that point to
14 have lost some money, correct?

15 A. And the cost is calculated as the
16 difference between the SSO price where it would have
17 sold to those SSO customers and the current market
18 price where it makes the forward sale.

19 Q. And that would be -- is that the end of
20 your answer, ma'am?

21 A. No. And, therefore, the cost is the
22 difference between those prices on all the
23 megawatt-hours corresponding to the customers that
24 have left.

25 Q. And if I understand your testimony

1 correctly, you or the folks that you work with at
2 NERA have not calculated the proportion of that
3 amount to the total amount that you've identified as
4 the cost generated by this model; is that correct?

5 A. Can you repeat that? I'm sorry.

6 Q. Sure.

7 A. Could I get you to speak into the
8 microphone if I could be so bold.

9 Q. Can you hear me now?

10 A. Yes.

11 Q. Am I correct in understanding that you
12 and NERA have not calculated the percentage of the
13 total amount that you calculated as the cost of
14 migration that represents the cost to the company as
15 you defined it for customers leaving?

16 A. That's correct.

17 MR. DARR: If I stand up, I'll probably
18 solve this problem. Okay. As my daughter knows from
19 many years ago, I tend to be a little louder when I'm
20 standing up.

21 Q. In response to another question that
22 Ms. Grady asked you, you said that the
23 decision-making process that you imposed on the model
24 or built into the model was a, and I wrote it down as
25 exactly as I could, "a fairly myopic role." Now

1 pardon me for asking this, but what did you mean by
2 "a fairly myopic role"?

3 A. What I meant by "myopic" is that the
4 customer doesn't consider all the factors that could
5 go into determining the prices that it is paying, so
6 there is a set horizon, particularly for customers in
7 the commercial and industrial class, the customer's
8 looking at a given horizon.

9 Q. Thirteen months.

10 A. Thirteen months. So, for example, let's
11 say that over the course of the next 13 months the
12 SSO price on average is better than the price this
13 month, it's better than the prices that CRES
14 providers are offering to customers. That may well
15 be true, but it may be that next month the customer
16 could have let's say \$10 savings by going to a CRES
17 provider, if it were willing to come back, because
18 the month after that CRES provider's price is let's
19 say \$8 higher and it's the same, let's say, on the
20 rest of the horizon.

21 So let's say the price is \$70 for both
22 the SSO and the CRES provider. But in the first
23 month it's \$60, so it's \$10 below for the CRES
24 provider, it's \$8 above for next month, and it's the
25 same for the rest, the customers would not switch

1 looking at the 13-month horizon, but if the customer
2 had less of a broad heuristic general rule of thumb
3 within the model, it would switch.

4 And same thing the other way around, we
5 could construct an example where they're switching,
6 they really shouldn't switch, so they're not looking
7 with perfect sight at the whole path that they could
8 take. They're not looking with perfect knowledge at
9 the fact that prices will change again next month so
10 maybe they shouldn't switch now. So there's a broad
11 rule that is meant to be representative of the
12 switching restrictions but is not meant to be as
13 sophisticated terms of making optimal, perfect
14 foresight decision as the companies' constrained
15 model.

16 So by opposition to thinking about a
17 perfect sight into the future, I was making the
18 analogy that this is a bit more myopic, looks at
19 fewer considerations and factors in making that
20 decision.

21 Q. If I understand your description
22 correctly, if there's an advantage to move in a
23 particular month, regardless of the horizon, the
24 customer is assumed to make that move that's
25 advantageous to himself; is that correct?

1 A. Yes.

2 Q. A few questions about the modeling that
3 you did. In your testimony you describe a
4 calculation I believe on page 9 as a calculation of
5 lost revenues both when the customer leaves and when
6 a customer comes back. I'm looking now specifically
7 at lines 8 and 9 on page 9 and 14 and 15 on page 9.
8 Have I summarized that correctly?

9 A. The model calculates cost as the
10 difference between the ESP price where AEP-Ohio would
11 have sold absent shopping and the prevailing retail
12 price, that price is lower, where it would sell as an
13 alternate sale when those customers are shopping and
14 taking service from a CRES provider.

15 Q. Definitionally, and I'm using that term
16 very specifically, the measurement here is something
17 different, is it not, from what is calculated under
18 the Black-Scholes model?

19 A. It's different, but conceptually should
20 get to the same result in that in both cases the
21 models rely on the expected difference between the
22 SSO price now and the prevailing market price as it
23 may change. This is from the point of view of the
24 company looking at their cost as those differences in
25 the prices and the option valuation model looks from

1 the point of view of the customer decision as a
2 function of those differences in prices as well.

3 MS. GRADY: Can I have that answer
4 reread, please?

5 (Record read.)

6 Q. Parties were provided workpapers. Were
7 you aware of that, workpapers that indicated that
8 they were your background materials for this
9 testimony? Are you aware of that?

10 A. For the rebuttal testimony?

11 Q. Yes, ma'am.

12 A. Yes.

13 Q. And one of those workpapers was an Excel
14 spreadsheet. You're familiar with that as well?

15 A. Yes.

16 Q. This spreadsheet is, as we understand it,
17 the method by which you ran the simulation; is that
18 correct?

19 A. That's correct.

20 Q. Who prepared that worksheet?

21 A. Pardon me?

22 Q. Who prepared that worksheet? Let me, is
23 it -- Mr. Randazzo indicated that I should ask you
24 who prepared that spreadsheet that was submitted.

25 A. It's someone at NERA.

1 Q. Could you identify that person for us,
2 please?

3 A. Willis Gifford.

4 Q. Do you know specifically when Mr. Gifford
5 began preparing those materials?

6 A. For purposes of providing it in the -- as
7 a workpaper sometime during the weekend.

8 Q. That's not exactly what I asked, ma'am.
9 Do you know when he began working on this project?

10 A. No.

11 Q. Did Mr. Willis -- did I get the name
12 right?

13 A. Gifford.

14 Q. Mr. Gifford, excuse me. That's what I
15 get for not writing it down.

16 Did Mr. Gifford write the code that
17 constitutes the macro, the program, that is used to
18 do the calculation?

19 A. I believe he did.

20 Q. Did you participate at all in preparing
21 that macro?

22 A. No.

23 Q. Did you participate at all in testing the
24 macro?

25 A. No.

1 Q. And you understand what I mean by the
2 macro.

3 A. The Visual Basic that's underlying the
4 model, is that what you mean?

5 Q. I think we're on the same page.
6 Have you observed, that is have you
7 looked at that code?

8 A. Yes.

9 Q. And what was the process that you used to
10 review that code?

11 A. There's a function within the Excel
12 spreadsheet that allows you to look at the code.

13 Q. And so you called up the macro and looked
14 at it?

15 A. That's right.

16 Q. And in the process of looking at that did
17 you make any changes to it?

18 A. No.

19 Q. Did you request to have any changes made
20 to the coding?

21 A. No.

22 Q. Do you know if anyone else had requested
23 any changes to the code?

24 A. I'm not sure from what to what. I'm not
25 sure I understand the question.

1 Q. Well, was there anyone else who asked for
2 changes in the coding?

3 A. I don't know.

4 Q. Do you know whether or not AEP
5 specifically requested any changes in the coding?

6 A. No.

7 Q. I may need to ask that question again.
8 Did AEP request any changes to the coding, if you
9 know?

10 A. Not to my knowledge.

11 Q. Thank you. In terms of what Mr. Gifford
12 did with regard to the code, did you participate at
13 all in the debugging process?

14 A. No.

15 Q. Do you know if -- what steps Mr. Gifford
16 took to debug the code?

17 A. No.

18 Q. Let me ask it another way. Do you have
19 any personal knowledge as to what Mr. Gifford did to
20 debug the code?

21 A. No.

22 Q. What is the relationship between,
23 professional relationship between you and
24 Mr. Gifford?

25 A. I'm not sure what you're asking.

1 Q. Does he report to you?

2 A. No.

3 Q. To whom does he report?

4 A. Gene Meehan.

5 Q. And do the two of you report to

6 Mr. Meehan?

7 A. Pardon me?

8 Q. Do the two of you report to Mr. Meehan?

9 A. No.

10 Q. Obviously there's something about the
11 structure at NERA that you're familiar with which I'm
12 not which causes you to find that question
13 interesting. Would you like to explain that to us?

14 A. Not at all. Both Gene Meehan and I are
15 senior Vice Presidents and we work closely together.
16 I used to report to Mr. Meehan, now I do not anymore.

17 Q. So what that triggered was a little bit
18 of history.

19 A. Yes. I apologize.

20 Q. Not a problem. Could you tell us the
21 first time you saw results of the modeling?

22 A. It would be Friday last. Friday last.
23 The 22nd.

24 Q. In terms of the inputs, reviewing your
25 model and the description it appears that you used

1 the same volatility calculation as used by the
2 company; is that correct?

3 A. That's correct.

4 Q. Is it also correct that you used the same
5 ESP prices as used by the company?

6 A. We did.

7 Q. And is it also correct that you used the
8 same competitive benchmark price as the company?

9 A. Market rates, yes. The market rates in
10 the model, in the Monte Carlo model, are shaped to
11 reflect the forward curve as of December 2008.

12 Q. The starting point for creating that
13 shape is the competitive benchmark --

14 A. That's correct.

15 Q. -- used by the company; is that correct?

16 A. That's correct.

17 MR. DARR: Could you give me a moment,
18 your Honor, I'm checking to see how much overlap
19 there was between mine and Ms. Grady's quickly going
20 through this.

21 Q. As part of the work that you did with
22 regard to the model, was there any attempt to look at
23 actual switching or actual costs incurred by the
24 company for that switching in either 2009 or 2010?

25 A. No. The model was just used as an

1 analysis of the ex-ante cost as if we were at the
2 start of the ESP period.

3 Q. So there was no attempt to look at what
4 actually happened in 2009 in terms of customers
5 switching; is that correct?

6 A. That's correct.

7 Q. And there was no attempt, if I understand
8 it correctly, to look at what the companies actually
9 incurred or identified as having incurred with regard
10 to migration; is that correct?

11 A. That's correct.

12 Q. Now, have you or anyone else at NERA been
13 retained to use the Monte Carlo method for evaluating
14 shopping risks for purposes other than this remand
15 proceeding?

16 A. I'm sorry, I didn't hear the question.

17 Q. My apologies. Have you or anyone else at
18 NERA been retained to use the Monte Carlo method of
19 evaluating shopping risks for any purpose other than
20 this remand proceeding?

21 A. I apologize, can I have the question
22 reread?

23 Q. Sure. Has NERA or you been retained by
24 anyone else for the purpose of using the Monte Carlo
25 method to estimate shopping risk?

1 A. No.

2 Q. Did you look at any other methods other
3 than the Monte Carlo method, the Black-Scholes
4 method, or the Black method to estimate shopping
5 risk?

6 A. Not in the rebuttal testimony. I do
7 present analyses of risks that are assumed by
8 suppliers for SSO customers and direct, so the two
9 studies, the NorthBridge and the study by the
10 Illinois Commerce Commission staff.

11 Q. I guess the question then is is that the
12 full range of things that we should be aware of?

13 A. Yes.

14 Q. There aren't any more.

15 A. No.

16 Q. The purpose of running the Monte Carlo,
17 was that requested by the companies to confirm the
18 validity of their Black-Scholes or Black
19 methodologies?

20 A. The model was ran as rebuttal for the
21 implication of Dr. Lesser's testimony that the
22 results would be different using a Monte Carlo model.

23 Q. Pardon me. Did I understand correctly
24 that this process occurred -- began sometime before
25 Dr. Lesser presented his testimony last week?

1 A. That's correct. It was part of the
2 assignment not just to look at the reasonableness of
3 the company's constrained model for purposes of
4 evaluating the company's cost from the
5 shopping-related risk, but also to potentially look
6 at other methods that could be used to assess this
7 risk.

8 Q. So it was more than just merely
9 conforming -- or, confirming the results of
10 Black-Scholes and Black.

11 A. It's not a question of kind of
12 confirming. It's a question of looking at other
13 sources of information that also quantify the
14 shopping-related risk and that the Commission could
15 consider in its decision.

16 Q. Did you and Mr. Gifford secure
17 independently any values that were used in your
18 calculation using the Monte Carlo method?

19 A. I don't understand "secure
20 independently."

21 Q. Did you go out and look at market prices,
22 for example?

23 A. The inputs to the analysis were chosen so
24 that there could be a comparison between the results
25 of the constrained model and the Monte Carlo model.

1 Q. Let me ask the question again. Did you
2 or Mr. Gifford secure any independent information as
3 inputs into this model, meaning the Monte Carlo
4 model?

5 A. Right. So there are inputs in terms of
6 shaping the market rates to be able to establish the
7 forward curves of price, so in the model the prices
8 that the customers see that are offered by CRES
9 providers vary by month, so we did then look at the
10 forward curve for PJM in December 2008 and there is a
11 process by which some of this forward curve may not
12 be quoted in every month so we secured on average
13 spot prices for the Cinergy hub to be able to assign
14 a price for each month on the basis of packages of
15 quotes for forward prices.

16 Q. So you went outside to secure for the
17 forward curve information that was not provided by
18 the company.

19 A. That's correct.

20 Q. Is there any other thing that you used
21 that was not provided by the company in making the
22 model run?

23 A. That's all I can recall.

24 MR. DARR: Thank you. I have nothing
25 further at this time.

1 EXAMINER PARROT: Mr. Margard.

2 MR. MARGARD: Thank you, your Honor. If
3 I may, just a couple of quick questions.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Margard:

7 Q. Good afternoon, Dr. LaCasse.

8 A. Good afternoon.

9 Q. There are a number of different inputs to
10 the Black model, correct?

11 A. Pardon me?

12 Q. There are a number of different inputs
13 into the Black model, correct?

14 A. Correct.

15 Q. And volatility is one of those?

16 A. Yes.

17 Q. Do all of the inputs -- are all of the
18 inputs equally sensitive?

19 A. Could you explain your question, please?

20 Q. Do changes in the different inputs have
21 similar or comparable impacts on the outcome?

22 A. No. Probably not.

23 Q. And is volatility, in your opinion,
24 particularly sensitive in this model?

25 A. I did not test that. I did not test

1 that.

2 Q. You don't have an opinion as to the
3 relative sensitivities of the different inputs.

4 A. That's correct. I would assume that the
5 different inputs, if you vary them, will have
6 different impacts on the outcome, but I did not make
7 that analysis specifically.

8 Q. That's fair. Thank you.

9 I want to clear up some of the language
10 and terms just to make sure we're all on the same
11 page. If I can direct your attention to page 4 of
12 your testimony. Now, the company's option valuation
13 you referred to a number of times as an ex-ante
14 evaluation, correct?

15 A. Do you have a specific reference?

16 Q. Just a general reference. This is an
17 ex-ante methodology.

18 A. Yes.

19 Q. We're not talking about out-of-pocket
20 costs at all.

21 A. Talking about an evaluation of those
22 costs before the fact so that they can, in this case
23 so that the application of the company to include
24 that in those rates can be done ahead of time and
25 customers have that knowledge.

1 Q. There's no effort to recover actual
2 out-of-pocket costs at all here, is there?

3 A. The calculation is ex-ante.

4 Q. Thank you.

5 Now, Ms. Grady asked you some questions
6 earlier about this lost revenue. Do I understand
7 your testimony to equate lost revenue to customer
8 benefit?

9 A. What I'm equating is the calculation of
10 the expected cost of the company that's based on that
11 on differences between the SSO price and the market
12 price to the value that the customer has to shop
13 which is also based on that same difference.

14 In some of the examples I give I make a
15 more specific equation in terms of saying if the
16 customer is shopping at this moment because the price
17 has fallen, price per megawatt-hour, by \$10 per
18 megawatt-hour and the customer can get the additional
19 benefits of shopping at this new price, then the
20 company has, in effect, no longer that sale to the
21 customer and in the Monte Carlo model, for example,
22 would be making a forward sale at that lower price.

23 Q. Thank you.

24 What I'm looking for is the relationship
25 between value of the option, benefit to the customer,

1 and cost to the company. We've had a number of
2 questions and responses that discuss the value of the
3 option. And I understand your testimony to equate
4 the value of the option to the benefit to the
5 customer, and that that benefit then is the cost to
6 the company. Is that a fair characterization or do
7 you wish to clarify?

8 A. That's correct.

9 MR. MARGARD: That's all I have. Thank
10 you, your Honor.

11 EXAMINER PARROT: Mr. Petricoff?

12 MR. PETRICOFF: Yes, your Honor, thank
13 you, just a few questions.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Petricoff:

17 Q. Good afternoon, Dr. LaCasse. Can you
18 hear me?

19 MR. DARR: I'm having trouble hearing
20 you.

21 MR. PETRICOFF: I'll take a page out of
22 your book, I'll stand up as well because I don't
23 think we have microphones at this end.

24 Q. In the Monte Carlo -- I'm going to ask
25 you a series of questions about the Monte Carlo study

1 that you ran. And as I understand it, the Monte
2 Carlo study that you ran was, you used the inputs
3 that were used in the company's unrestrained Black
4 model; is that correct?

5 A. The inputs for the company's constrained
6 model.

7 Q. Constrained model. Thank you.

8 And that would include the market price
9 that was established by Staff Witness Johnson in the
10 09-917 hearing?

11 A. I believe that's correct.

12 Q. And was that market price presented by
13 Mr. Johnson done on an annual basis or a monthly
14 basis for the three years of the ESP I?

15 A. I believe it's annual.

16 Q. And the Monte Carlo analysis that you
17 ran, the time points in the study, those are monthly?

18 A. That's correct.

19 Q. How did you break down the annual price
20 into monthly price? How did you smooth that out for
21 purposes of the Monte Carlo study?

22 A. For purposes of the Monte Carlo study on
23 a high level we did two things, we took that annual
24 price and we shaped it so that prices would be higher
25 in July and would be lower in March, for example. So

1 we took the PJM forward curve and used that to shape
2 the annual price into monthly prices. And then we
3 made sure that the average of the prices over that
4 year, once they were shaped, still provided the same
5 number when you took the average that the annual
6 price was.

7 So we made sure that on average the
8 prices were the same, but we provided the shape to
9 show the differences between the month and we based
10 that on a PJM forward curve as of December 2008, so
11 just at the start of the ESP period.

12 Q. Now, the PJM forward curve that you used,
13 was that specific to a load zone in PJM or was it PJM
14 in general, for the whole 11 or 14 states?

15 A. I don't know.

16 Q. And wouldn't you agree with me that the
17 PJM, a forward curve is energy only, not capacity?

18 A. It's energy only, that's correct.

19 Q. One last question and that is in the
20 Monte Carlo study did you make any adjustment for the
21 fact that customers could have waived the POLR fee
22 and only come back at market?

23 A. No.

24 MR. PETRICOFF: No further questions.
25 Thank you.

1 EXAMINER PARROT: Ms. Hand?

2 MS. HAND: No questions, your Honor.

3 EXAMINER PARROT: Mr. Yurick?

4 MR. YURICK: I just have a couple, your
5 Honor, if that's okay.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Yurick:

9 Q. Good afternoon. Ma'am, could you turn to
10 page 3, and I wanted to ask you a couple of questions
11 about the excerpt on lines 10 through 22 and a
12 footnote you say that's from a book called "Option
13 Valuation: Analyzing and Pricing Standardized Option
14 Contracts," right?

15 A. Right.

16 Q. And do you know if that publication was
17 subject to peer review?

18 A. Given that it's McGraw-Hill, I would
19 assume yes.

20 Q. That's not my question, so if you could
21 just --

22 MR. CONWAY: Objection.

23 Q. -- listen to me and answer the question
24 that I'm asking you. Do you know whether this
25 publication was subject to peer review?

1 A. Not this particular publication, no.

2 Q. Okay. And are you personally familiar
3 with this, I don't know how to say that first name,
4 in fact I'm not familiar with this person at all, but
5 are you familiar with this person's academic
6 background?

7 A. Generally, yes.

8 Q. Do they have a doctorate in something?

9 A. Yes.

10 Q. In what?

11 A. I believe she's a professor of finance,
12 so --

13 Q. Again, sort of not my question, ma'am.
14 Do you know if --

15 MR. CONWAY: Objection.

16 Q. -- this person has --

17 MR. CONWAY: Your Honor, I object to his
18 tone and his treatment of the witness. If he has a
19 question, ask it. If he thinks that she hasn't
20 answered it, he can ask for an instruction to answer,
21 if he thinks there's some flaw in it, without
22 interrupting.

23 EXAMINER PARROT: Mr. Yurick, can you ask
24 your question one more time, please?

25 Q. Yes. My question is do you know whether

1 Ms. Gibson has a doctorate in something?

2 A. That's my assumption, but I don't know.

3 Q. Okay. So you don't know whether this
4 person has a doctorate, correct?

5 A. Correct.

6 Q. And are you familiar with anything that
7 happened in the financial markets since the year 1991
8 that would lead you to believe that banks and
9 financial institutions don't always value financial
10 instruments accurately?

11 A. I don't know how to answer your question.

12 Q. Say around about 2007 was there any
13 indication, based on your knowledge, experience, and
14 training, that perhaps some financial institutions
15 may have misvalued credit default swaps?

16 MR. CONWAY: Objection. Relevance. This
17 is beyond the scope of the rebuttal.

18 EXAMINER PARROT: Do you have a reply.

19 MR. YURICK: Your Honor --

20 MR. CONWAY: We are going to get into the
21 2007 to --

22 MR. YURICK: Who's interrupting who now?

23 EXAMINER PARROT: Mr. Conway.

24 Mr. Yurick, do you have a reply to the
25 objection?

1 MR. YURICK: I do have a reply, and that
2 is that in response to the motion to strike
3 Mr. Conway said that all of the parties would have
4 ample opportunity to cross-examine this witness about
5 the basis and her knowledge of this passage. We
6 don't have the book. I think I'm allowed or I should
7 be allowed to question this witness as to her
8 knowledge of the accuracy and the origin of this
9 passage.

10 Frankly, I don't think this witness knows
11 whether this publication was written during a stint
12 in rehab, and I think I ought to be able to
13 demonstrate that lack of knowledge and the fact that
14 her lack of knowledge about the passage means, as
15 opposed to bolstering this witness's credibility and
16 her conclusion, actually it shows that this witness
17 doesn't really have a lot of knowledge about this
18 passage and that this passage is essentially useless.

19 MR. CONWAY: My objection went to the
20 line of questioning, not his speech now which is
21 apparently some reiteration of the prior motion which
22 has already been denied, but rather my objection was
23 to the relevance of getting into the events of 2007
24 and 2008 which he's made no connection to the passage
25 or let alone his credibility of her.

1 MR. YURICK: Well, in response, your
2 Honor --

3 EXAMINER SEE: Thank you.

4 EXAMINER PARROT: I kind of agree with
5 Mr. Conway here, Mr. Yurick. Do you have a
6 connection?

7 MR. YURICK: I do.

8 EXAMINER PARROT: Can we please make it.

9 MR. YURICK: The article was written in
10 1991, okay, and since 1991 there have been numerous
11 things that have happened in financial markets that
12 show that, and I quote, banks and financial
13 institutions who apparently have a variety of
14 homemade estimations for valuing financial products
15 make huge mistakes all the time. And if this witness
16 doesn't know that, then I think that's totally
17 relevant to the relevance of this passage and her
18 knowledge of the passage.

19 MR. CONWAY: If Mr. Yurick's --

20 EXAMINER PARROT: Okay. Mr. Conway's
21 objection is sustained.

22 MR. YURICK: Okay.

23 Q. (By Mr. Yurick) Are you aware of anything
24 in financial markets that would indicate, anything
25 that's happened since 1991 that would indicate that

1 banks and financial institutions don't accurately
2 value financial instruments all the time? If you're
3 not, can you say no.

4 MR. CONWAY: Same objection.

5 EXAMINER PARROT: Sustained.

6 MR. YURICK: I don't have any further
7 questions. That's fine.

8 EXAMINER PARROT: Mr. O'Brien?

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

10 EXAMINER PARROT: Mr. Conway?

11 MR. CONWAY: Could we take a few moments,
12 your Honor?

13 EXAMINER PARROT: Let's take a
14 five-minute break and go off the record.

15 (Recess taken.)

16 EXAMINER PARROT: Let's go back on the
17 record. During the break the companies made
18 available copies of the excerpt of Ms. Gibson's
19 treatise which is referred to on page 3 of
20 Dr. LaCasse's rebuttal. Companies made that
21 available with the assistance of staff. Thank you,
22 staff.

23 At this point we are going to take a
24 roughly one-hour break for lunch and reconvene at
25 2 o'clock. At that point the companies will resume

1 with redirect and then we will have recross and that
2 will incorporate any questions that parties have in
3 light of this material that's been distributed.

4 We are off the record.

5 (Thereupon, at 12:51 p.m., a lunch recess
6 was taken.)

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1 Thursday Afternoon Session,
2 July 28, 2011.

3 - - -

4 EXAMINER PARROT: Let's go back on the
5 record.

6 Mr. Conway.

7 MR. CONWAY: Thank you, your Honors. At
8 this point, your Honors, I'd like to mark for
9 identification purposes as Companies' Exhibit No. 6
10 the excerpt from the Gibson article treatise from
11 which Dr. LaCasse quotes at page 3.

12 EXAMINER PARROT: It will be marked as
13 Companies' Remand Exhibit 6.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 - - -

16 REDIRECT EXAMINATION

17 By Mr. Conway:

18 Q. Dr. LaCasse, over the break have you had
19 a chance to review the excerpt from the Gibson
20 treatise that has been marked as Companies' Remand
21 Exhibit No. 6?

22 A. Yes, I did.

23 Q. And does this contain a portion of the
24 treatise from which the excerpts that appear in your
25 testimony at page 3 were derived?

1 A. That's right.

2 Q. And after having reviewed the portion of
3 the treatise from which your quoted excerpts were
4 taken, do you believe that the portions of the
5 treatise which you quote at page 3 of your testimony
6 are an accurate portrayal of that portion of the
7 treatise?

8 A. Yes, I do.

9 Q. And do you have an opinion as to whether
10 or not the remaining portions of the section from
11 which you developed your or obtained your excerpts
12 from that you don't quote in your testimony that, by
13 not quoting them also, you have somehow
14 misrepresented or rendered an inaccurate portrayal of
15 the portion of the treatise from which your excerpts
16 are derived?

17 MR. YURICK: Objection. Form of the
18 question.

19 EXAMINER PARROT: Objection's overruled.

20 A. No, I don't think that the excerpt is
21 inaccurate. The portions that are not included in my
22 testimony at page 3 provide details of the
23 calculations for historical variance and generally
24 the portions that are quoted make the main points in
25 terms of having first the historical volatility as

1 being one estimate and talks about then the advantage
2 and drawbacks of having an implied volatility method.

3 Q. Thank you, Dr. LaCasse.

4 And over the break have you been able to
5 confirm whether Ms. Gibson, the treatise's author,
6 does, in fact, have an advanced degree?

7 A. Yes, I did confirm that Ms. Gibson is
8 Dr. Gibson and that she has a PhD in economics with
9 specialization in finance.

10 Q. Thank you, Dr. LaCasse.

11 Dr. LaCasse, do you recall some questions
12 that dealt with actual -- I think the context or the
13 terminology was "actual out-of-pocket costs"? Do you
14 recall questions from various of the attorneys on
15 that subject?

16 MR. DARR: Your Honor, if I may
17 interject, I thought the process that we were going
18 to use was that we would have an opportunity to have
19 this exhibit put in, then we would cross-examine with
20 regard to this exhibit and then the company would be
21 given an opportunity to do its redirect. If we do it
22 this way, any opportunity to address some of the
23 issues that might come up may be otherwise lost.

24 EXAMINER PARROT: I think the process the
25 Bench had in mind was that we would do the redirect

1 in a consolidated fashion, but we will give the
2 parties leeway on recross to ask questions with
3 respect to the exhibit that's been marked.

4 MR. DARR: Thank you, ma'am.

5 MR. CONWAY: Thank you, your Honor.

6 Q. (By Mr. Conway) Dr. LaCasse, let me go
7 back and repeat my initial question on this topic.
8 Do you recall in the course of your cross-examination
9 questions regarding actual out-of-pocket costs in
10 connection with a discussion of the models that the
11 company has presented to provide estimates of the
12 costs of providing the POLR optionality?

13 A. Yes, I do.

14 Q. Are after-the-fact out-of-pocket costs
15 relevant to an ex-ante estimate of the costs of
16 providing the POLR, bearing the POLR obligation?

17 A. No.

18 Q. And do you regard that the ex-ante costs
19 or the costs that the company has developed on an
20 ex-ante basis of discharging the POLR obligation to
21 be a real and actual cost to them?

22 MR. DARR: Objection.

23 MS. GRADY: Objection.

24 EXAMINER PARROT: Objection's overruled.

25 A. Yes.

1 Q. Do you recall questions that were posed
2 regarding whether you, I believe the word that was
3 used was "performed," whether you performed the Monte
4 Carlo analysis?

5 A. Yes.

6 Q. Did you run the Monte Carlo model that
7 you sponsor in your rebuttal testimony here today?

8 A. Yes, I did.

9 Q. And did you assure yourself that it
10 functioned in an appropriate manner?

11 A. Yes, I did.

12 Q. And are you confident that the Monte
13 Carlo simulation that you are sponsoring on rebuttal
14 was performed in a professional and accurate manner?

15 A. I am.

16 Q. And then I believe Mr. Margard posed
17 several questions to you, Mr. Margard is the staff's
18 counsel, he's not here right now, Mr. Jones is, who's
19 co-counsel, and I believe it was Mr. Margard who
20 questioned you earlier and had several questions
21 regarding the cost to the companies of providing the
22 POLR optionality and the value to customers who
23 receive the benefit of the POLR optionality. Do you
24 remember the line of questions along those lines?

25 A. I do.

1 Q. Dr. LaCasse, do all customers, in your
2 view, benefit from having the POLR optionality?

3 A. Yes, they do.

4 Q. And do the costs that the companies
5 incur, in your view, to provide that POLR optionality
6 benefit all customers?

7 A. Yes.

8 Q. And then, Dr. LaCasse, again, the
9 company's approach to determining the cost of
10 providing the POLR optionality involves determining
11 on an ex-ante basis the costs that they incurred to
12 do so, correct?

13 A. That's correct.

14 Q. And it turns out that the value of the
15 benefit of the optionality to customers is equal to
16 the costs that the companies incur; is that right?

17 A. That's right.

18 MR. CONWAY: Thank you, your Honors. I
19 have no further questions at this time.

20 EXAMINER PARROT: Ms. Grady?

21 MS. GRADY: Thank you, your Honor.

22 - - -

23 RECROSS-EXAMINATION

24 By Ms. Grady:

25 Q. Dr. LaCasse, I'm going to focus my

1 questions on what has been marked as Companies'
2 Remand Exhibit No. 6. You have a portion of that --
3 you have excerpted a portion of that exhibit in your
4 rebuttal testimony on page 3. My first question is,
5 how did you determine -- first of all, how did you
6 determine that practitioners use historical
7 volatility to develop -- and develop proprietary
8 methods to blend historical and implied volatilities?

9 A. I determined that from a review of some
10 text relating to the use of volatility and my
11 experience with colleagues at NERA have performed
12 studies such as these that historical volatility is
13 one way to estimate the volatility.

14 Q. And how did you determine that you should
15 review -- how did you determine what texts you should
16 review that relate to use of volatility, different
17 measures of volatility?

18 A. I spoke to other colleagues at NERA who
19 perform these analyses on a regular basis.

20 Q. And at whose direction did you insert the
21 quotation that's found on page 3?

22 A. No one.

23 Q. And how did you determine that this
24 quotation should be used? How did you make a
25 determination that it would make sense to put this

1 quotation in your testimony?

2 A. Well, I looked at several sources that
3 discussed the volatility measure and discussed both
4 historical and implied volatility and determined
5 that, this was a good summary of what was in those
6 sources.

7 Q. Would it be safe to say that your
8 colleagues at NERA were the ones that pointed you to
9 the sources?

10 A. Some of them.

11 Q. And did your colleagues at NERA point you
12 to this in particular source, this option valuation
13 by Ms. Gibson?

14 A. Yes.

15 Q. And did your colleagues at NERA prepare
16 the inserted, the language that should be inserted
17 and shown from that particular text or did you
18 determine that on your own?

19 A. It was not prepared by me.

20 Q. And who was it prepared by, if you know?

21 A. Jonathan Faulk.

22 Q. So he made the determination about what
23 excerpts would be put in the testimony to support
24 your challenge to the use of the implied volatility;
25 is that correct?

1 A. No. I looked at several sources and
2 explanations of the use of volatility and chose this
3 excerpt as being the best summary of the comparison
4 between historical and implied volatility.

5 Q. Let's talk for a moment about this
6 excerpt. Does this excerpt deal with the European
7 call pricing formula or an American call pricing
8 formula, if you know?

9 A. It refers to a European call formula.

10 Q. And is it your understanding in this case
11 that the Black-Scholes model that was used by the
12 company is a European call pricing formula or an
13 American call pricing formula?

14 A. It's a European call formula.

15 Q. And do you know, if you look at the --
16 page 1 of the excerpt, Remand Exhibit No. 6, do you
17 see the reference to the historical variance of stock
18 returns? Do you see that?

19 A. Yes.

20 Q. And you reviewed the discussion of how
21 those historical stock returns are to be computed,
22 have you not, according to this article?

23 A. Yes.

24 Q. And do you know whether or not the
25 constrained model that the company used computed the

1 historical value of the market prices in this same --
2 in this very same manner?

3 A. No, I don't know that. This is a
4 standard formula for variance of the sample, there's
5 nothing magic about it aside from the fact that the
6 example applies it to stock returns.

7 Q. But it is a treatise, is it not, on how
8 to in particular compute the historical variance of
9 stock returns? Correct?

10 A. One of the topics, yes.

11 Q. Now, if you turn to page 2 or page 115 of
12 Remand Exhibit No. 6, going down to the bottom
13 paragraph it says that "Assuming that the standard
14 deviation (or the variance) of stock ABC's return
15 will indeed remain constant over time and equal to
16 12.35 percent per year, we can then use it in
17 conjunction with the Black and Scholes pricing
18 formula." Do you see that reference?

19 A. Yes.

20 Q. Do you know if the standard deviations of
21 the market price used in the Black-Scholes
22 constrained model remain constant over time during
23 the period the company looked at the pricing?

24 A. No.

25 Q. Now, let's go to page 116 of Remand

1 Exhibit No. 6. Can you review that first paragraph.

2 Can you take a moment to look at that.

3 A. Yes.

4 Q. Do you see the statement that "Generally,
5 one would rely on one year of weekly data (or 52
6 price observations) to compute the historical
7 variance. However, going so far into the past may be
8 very misleading for some cyclical or growth stocks"?
9 Do you see that?

10 A. Yes.

11 Q. Do you know for purposes of the
12 Black-Scholes model whether or not -- are you aware
13 of whether or not the company actually used a much
14 longer period of three years to look at data to
15 compute the historical variance?

16 A. I do believe they used a three-year
17 period. It's not, however, cyclical or growth stock
18 as quoted in the passage, and as I say in my
19 testimony, there's no single method here so there are
20 benefits to the historical volatility method as well
21 for the case that we're concerned with here.

22 Q. And would you agree with me that the
23 treatise that you're quoting from indicates that
24 "Even for very stable stocks, the procedure can be
25 criticized since long time spans increase the

1 probability of general shifts in the economy and
2 hence systematically induced changes in the stock's
3 variability." Do you see that?

4 A. Yes.

5 Q. And do you see the reference in the
6 following paragraph that says that "We may expect
7 that such a recently computed historical volatility
8 will be more appropriate to price options"? Do you
9 see that reference? Instead of using 52 daily price
10 observations.

11 A. Yeah, I see that.

12 Q. Now, going further into the article --
13 let's go to the treatise. Let's go to page 119 of
14 Remand Exhibit No. 6. And I'm going to direct your
15 attention to the bottom paragraph of that exhibit.
16 Do you see the notation that "Empirical studies by
17 Latane' and Rendleman and Beckers have indeed shown
18 that implied standard deviations are better suited
19 than historical standard deviations to predict a
20 stock's future variability and hence to price stock
21 options"? Do you see that?

22 A. I see that, and again this is for the
23 purposes of the stocks, a stock's future variability
24 and to price stock options and, as is pointed out in
25 the treatise and as I say in my testimony, this

1 implied volatility may or may not be more accurate
2 depending on whether there are liquid markets in
3 which trades are made.

4 Q. Do you know if there was an assumption
5 made in the Black-Scholes model that the variance in
6 the market price was constant over the period
7 studied?

8 A. Could you rephrase the question, please?

9 MS. GRADY: Can I have the question
10 reread, please?

11 (Record read.)

12 Q. Can you answer that?

13 A. One of the assumptions of the
14 Black-Scholes model, is that what you're asking?

15 Q. In the Black-Scholes model that was used
16 by the company for purposes of this proceeding was
17 there -- was the market price used constant over the
18 period of time that was looked at, the three-year
19 period?

20 A. The market price?

21 Q. Yes. The variance.

22 MR. CONWAY: Wait a minute. Which is it?

23 Q. The variance of the market price.

24 A. It was a single value used and that's my
25 understanding of what needs to be done for the model.

1 Q. So you're saying the market price
2 variance was constant over the entire three-year
3 period.

4 A. I'm saying there was one value that was
5 calculated for purposes of using it in the model.

6 Q. So are you saying they assumed a constant
7 variance for the model? Is that what you're saying?

8 A. I don't know how they made the
9 calculation and how they chose the period in
10 question. To the extent that the price movements
11 were relatively stable or similar over that period,
12 that would give a -- that would explain using that
13 period to obtain the single volatility value that was
14 used in the model.

15 Q. So you can't independently verify, can
16 you, Dr. LaCasse, that the data conformed to the
17 assumptions required by the Black-Scholes model?

18 MR. CONWAY: Your Honor, at this point
19 I'm going to interpose an objection. I think it's
20 getting past the scope of both the rebuttal as well
21 as the redirect. This is -- these are topics that
22 were explored during the direct case and getting into
23 the nuts and bolts of how the company calculated the
24 volatility value is not something that she's
25 addressing on either, let alone redirect.

1 EXAMINER PARROT: Do you have a response,
2 Ms. Grady?

3 MS. GRADY: Your Honor, the treatise goes
4 into many aspects of calculating volatility and
5 whether historical or implied is appropriate and the
6 disadvantages and advantages, and I'm trying to test
7 the statements in the treatise versus what was done
8 with the Black-Scholes model in this case.

9 EXAMINER PARROT: Okay. I'll allow the
10 question.

11 THE WITNESS: Could I have the question
12 reread, please?

13 (Record read.)

14 A. No.

15 MS. GRADY: That's all the questions I
16 have. Thank you.

17 EXAMINER PARROT: Ms. Kyler?

18 MS. KYLER: No questions, your Honor.

19 EXAMINER PARROT: Ms. Mooney?

20 MS. MOONEY: No questions.

21 EXAMINER PARROT: Mr. Darr?

22 MR. DARR: Thank you, ma'am.

23 - - -

24

25

1 RECROSS-EXAMINATION

2 By Mr. Darr:

3 Q. Ms. LaCasse, with regard to company
4 Remand Exhibit No. 6, do you have that in front of
5 you again?

6 A. I do.

7 Q. Starting at page 114 it appears that
8 whatever preceded this discussed the lognormal stock
9 price. Do you happen to know what preceded page 114
10 and what it said about the lognormal stock price?

11 A. I do not recall. I don't know.

12 Q. The first quotation which we have leaves
13 out the words "constant," "instantaneous," and "of
14 the stock's returns," is that correct?

15 A. That's correct.

16 Q. And these weren't relevant to the
17 discussion that you put into your testimony; is that
18 what we're to take away from that?

19 A. Yes.

20 Q. So the fact that this whole discussion
21 deals with stock options and stock returns, excuse
22 me, wouldn't be relevant to the fact that what we're
23 talking about here is electric and purchases within
24 an electric market?

25 MR. CONWAY: Could I have that question

1 reread, please?

2 (Record read.)

3 A. I believe that the excerpt as it appears
4 on the testimony does make the point that it's on
5 stock return data, so the variance quote is to simply
6 rely on past stock return data. And as I think I
7 answered in response to a previous question this
8 is -- much of the discussion in this section is about
9 estimating variance. When talking about estimating
10 variance on the basis of a sample, here the author is
11 speaking specifically about cost return but the
12 points that are made that are based on observations,
13 that are based on the discussion of whether the
14 estimate is biased or unbiased which means that on
15 average it gives you the right result, would be the
16 same for other types of data than stock returns.

17 Q. So basically variance is variance; is
18 that what you're telling us?

19 A. Variance is variance.

20 Q. Now, variance for purposes of
21 Black-Scholes has to be lognormally distributed,
22 correct?

23 A. One of the assumptions of the
24 Black-Scholes model is on the distribution of the
25 underlying price. The variance is a moment of that

1 distribution and the assumption is that it is
2 lognormal, that's one of the assumptions of the
3 model.

4 Q. And going back to the question that
5 Ms. Grady asked you, you have not looked to see
6 whether or not the prices and the distributions of
7 prices are lognormally distributed for the PJM data;
8 is that correct? I'm only asking if you looked at
9 it.

10 A. That's correct.

11 Q. Now, from the point that you quoted on
12 page 114 we have to go three more pages to page 117
13 to find the next quotation; is that correct?

14 A. That's correct.

15 Q. And, again, you've left out the reference
16 to stock returns out of that quotation, correct?

17 A. Correct.

18 Q. Now, with regard to the next quotation,
19 we find that on page 118; is that correct?

20 A. That's correct.

21 Q. And in between is a discussion of the
22 implied standard deviation method -- there's further
23 discussion about the implied deviation method,
24 correct?

25 A. Where are you?

1 Q. Top of page 118.

2 A. That paragraph just explains what implied
3 volatility means, namely --

4 Q. A method of calculating it, correct?

5 A. No. It just says what it is which is
6 just inverting the formula once the price is known
7 and the variance is unknown, then one can either
8 explicitly or by iteration get to the value of the
9 volatility that's within the equation.

10 Q. Essentially, if you could observe a
11 current call price, you can reverse that and obtain a
12 calculation of the volatility. Am I reading that
13 correctly or not?

14 MR. CONWAY: I think she said "reversed."

15 MR. DARR: Well, the word in there is
16 "invert."

17 A. Yes, the moment you have one number, you
18 would want to use that method when the data on prices
19 is sufficiently reliable to be able to get a reliable
20 estimate of the volatility that's implied by that
21 price.

22 Q. And, again, if we look at footnote No. 10
23 at the bottom of the page, this is clearly referring
24 to the calculation of a Black-Scholes European put
25 option. Is that also correct?

1 A. Yes.

2 Q. And it specifically indicates there that
3 an American option cannot be calculated using this
4 method. Is that also correct?

5 A. Yes.

6 Q. Now, turning to page 119, at the end of
7 the page, last paragraph, excuse me, am I correct in
8 summarizing that Dr. Gibson indicates that empirical
9 studies by Latane' and Rendleman and Beckers at
10 specific dates listed have indeed shown that the
11 implied standard deviations are better suited than
12 historical standard deviations to predict a stock's
13 future variability and, hence, to stock price
14 options. Pardon me for my sloppy reading.

15 A. Yes. And I believe that I testified that
16 I too would assume that the implied volatility is the
17 best available estimate of volatility because it
18 represents the current market view. However, when
19 there's not sufficient data, sufficiently reliable
20 data to do that, then the historical volatility is
21 also a method that can be used to estimate -- to
22 provide an estimate.

23 Q. And as between the two, your source,
24 Dr. Gibson's book, would indicate that using the
25 implied would be the better alternative, correct?

1 MR. CONWAY: Objection. She's already
2 explained that it depends on the circumstances and
3 it's not --

4 MR. DARR: Excuse me, your Honor.

5 EXAMINER PARROT: Allow him to finish.

6 MR. DARR: Mr. Conway at this point is
7 testifying on behalf of the witness.

8 MR. CONWAY: I object to the misleading
9 nature of the question, then.

10 EXAMINER PARROT: The objection is
11 overruled.

12 A. It does say that it's a powerful approach
13 and goes on to talk about the potential drawbacks of
14 that method.

15 Q. Do you have in front of you Dr. Lesser's
16 testimony?

17 A. Pardon me?

18 Q. Do you have in front of you Dr. Lesser's
19 testimony?

20 A. I have it with me, yes.

21 Q. Would you turn to page 21, lines 7 and 8.

22 MR. CONWAY: Can you give me the citation
23 again, counselor?

24 MR. DARR: 21, lines 7 and 8.

25 A. Yes.

1 Q. It would appear that Dr. Lesser is saying
2 here that from an option pricing standpoint we want
3 to use the Black model -- we want to use in the Black
4 model future volatility of the asset, correct?

5 MR. CONWAY: Your Honor, I'm going to
6 interpose yet another objection. I apologize for
7 burdening the process but this is now redirect of
8 rebuttal. We're not in the direct case, we're not
9 even in the rebuttal phase, we're on redirect of
10 rebuttal and this is far, far afield from the
11 question I asked the witness about the completeness
12 of the accuracy of the statement she included in her
13 rebuttal testimony extracted from the article. Now
14 we're off on a, relatively, a tangent and I object to
15 it. It's beyond the scope of the redirect. It's
16 beyond the scope of rebuttal, but it's certainly
17 beyond the scope of the redirect.

18 MR. DARR: Ma'am, if I may address this.
19 When this process started early this morning, we
20 indicated our concern about the items that might not
21 have been included in the quotation. We finally got
22 access to the rest of the quotation this afternoon.
23 As you indicated when I raised the question about the
24 order, you indicated that you would give us some
25 liberality. These are the kinds of questions, had we

1 had the document, that we would have asked, and so I
2 ask for a little bit of leniency here.

3 EXAMINER PARROT: Leeway; the Bench did
4 say we would give the intervenors leeway on the
5 exhibit that's been marked as Companies' Remand
6 Exhibit 6. So the objection is overruled.

7 Q. (By Mr. Darr) Do you see that testimony?
8 Yes, ma'am?

9 A. Yes, I believe, and I quote the testimony
10 on lines 17 to 20 of my testimony, page 2, to say
11 that, yes, the volatility input does represent future
12 volatility of the asset.

13 Q. And finally looking at page 120 of the
14 portion that we received today, in your quoted
15 section you draw from the first paragraph up to the
16 point it refers to a "stock's future riskiness." Do
17 you see that?

18 A. Yes.

19 Q. And you have left out the portion that
20 refers specifically to "the stock's future
21 riskiness." Is that also correct?

22 A. Yes.

23 Q. You have also not included the following
24 paragraph; is that correct?

25 A. Yes.

1 Q. And that paragraph indicates that, quote,
2 "As a conclusion of this rather delicate task of
3 estimating a stock's future variance from past or
4 current market data, we should remember that the
5 historical variance method and the implied standard
6 deviation method both assume that the stock's
7 variance remains constant over time. Of course, if
8 this assumption is violated, the validity of the
9 variance estimation techniques presented in this
10 section as well as of the Black and Scholes formula
11 become a highly controversial issue." Did I quote
12 that correctly?

13 A. Yes. And I believe it says that the
14 criticism that the variance may not be constant over
15 time is equally applicable to the historical
16 volatility as well as the implied volatility method.

17 Q. Which implies that if you don't have good
18 data with regard to either the volatility on a
19 historical or a future basis, or you cannot
20 demonstrate that, the Black model or the
21 Black-Scholes model should not be used; is that
22 correct?

23 A. No.

24 Q. It's just controversial?

25 A. For --

1 MR. DARR: You needn't answer that
2 question. Thank you.

3 EXAMINER PARROT: Mr. Jones?

4 MR. JONES: No other questions, your
5 Honor.

6 EXAMINER PARROT: Mr. Petricoff?

7 MR. PETRICOFF: Just a couple.

8 - - -

9 RECROSS-EXAMINATION

10 By Mr. Petricoff:

11 Q. Good afternoon, Doctor. If you would,
12 turn to -- what I'd like to do is have you put
13 Exhibit 5 and Exhibit 6 in front of you because I
14 want to go back and forth between the two. There are
15 just a couple of questions.

16 The first one is I want you to take a
17 look at Exhibit 5, your testimony, page 3, line 10.
18 Do you have that?

19 A. I do.

20 Q. And you see, if you'll look at line 10,
21 it ends with the words, "simply rely on past data.

22 Now, if you look on page 114 of Exhibit
23 6, the highlighted portion says "Simply rely on past
24 stock return data." Technically should we have a
25 couple of dots there between "past" and "data" to

1 indicate that "stock return" has been taken out?

2 A. Yes, I believe that's correct.

3 Q. And then likewise if we turn to the quote
4 on Exhibit 6, page 117, it starts with the section
5 that's in bold "The Implied Standard Deviation
6 Method" and we have basically four lines quoted, and
7 one word that's -- or the three words that are left
8 out here are "the stock returns"?

9 A. Yes.

10 MR. PETRICOFF: Actually, I have no
11 further questions. Thank you very much.

12 THE WITNESS: Thank you.

13 EXAMINER PARROT: Ms. Hand?

14 MS. HAND: No questions, your Honor.

15 EXAMINER PARROT: Mr. Yurick?

16 MR. YURICK: I think just a couple, your
17 Honor. Shouldn't be more than ten minutes.

18 - - -

19 RECROSS-EXAMINATION

20 By Mr. Yurick:

21 Q. Ma'am, you said in response to a redirect
22 question by your lawyer that you have at this point
23 verified that this is Dr. Gibson who wrote this
24 treatise, correct?

25 A. Correct.

1 Q. Okay. And how did you confirm that?

2 A. We looked at her web page.

3 Q. So when you say "we," who do you --

4 A. I looked. Unfortunately I didn't have my
5 own Blackberry on so we looked at a Blackberry, we
6 were able to access her web page and look at the
7 description of her qualifications.

8 Q. Okay. So you got the information through
9 the internet. Is everything that you read on the
10 internet, in your experience, true?

11 A. I guess I would tend to put some credence
12 into a web page from a university stating the
13 credentials of their faculty. But in general I'm
14 sure there are things on the internet that are not
15 true.

16 Q. Now, the other question I asked you,
17 since your lawyer asked you to verify these things,
18 was whether or not you knew whether this treatise was
19 peer reviewed, correct? Do you remember that
20 question?

21 A. I remember.

22 Q. Okay. And you would agree with me, would
23 you not, that peer review is an important indicia of
24 reliability in terms of whether or not to rely on a
25 scholarly treatise, correct?

1 MR. CONWAY: Your Honor, I did not, I'll
2 object. I didn't get into that topic on redirect.
3 This is beyond the scope at this point.

4 MR. YURICK: He did get into asking this
5 witness to do her homework sort of after the fact.
6 So I think I should be able to determine whether or
7 not he asked her to verify other homework.

8 MR. CONWAY: That's not accurate.

9 EXAMINER PARROT: The objection is
10 overruled.

11 Q. Ma'am, did you try to verify whether or
12 not this treatise was peer reviewed?

13 A. And I don't know and I don't think there
14 would be any way to do that. And for an academic
15 publication in a reputable publisher like
16 McGraw-Hill, it's probably unthinkable that it's not
17 peer reviewed.

18 Q. But you don't know whether it's peer
19 reviewed, correct?

20 MR. CONWAY: Objection. She gave him the
21 answer. He doesn't like it, now he's grasping at
22 straws.

23 EXAMINER PARROT: The objection's
24 sustained, I believe we've already covered this
25 territory this morning.

1 Q. So your lawyer didn't ask you to try to
2 verify whether or not this was peer reviewed?

3 MR. CONWAY: Objection.

4 EXAMINER PARROT: Overruled.

5 A. No. As I said, it's like asking whether
6 an article in the American Economic Review is peer
7 reviewed. Everybody knows it is.

8 Q. Are you familiar with all the articles
9 that Dr. Gibson's written since 1991?

10 MR. CONWAY: Objection. It's beyond the
11 scope of redirect.

12 EXAMINER PARROT: Overruled.

13 A. No.

14 Q. You don't know whether Dr. Gibson still
15 believes any of this is correct, you yourself.

16 A. I'm not sure it's a matter of belief, but
17 I don't know whether she has written other articles
18 on this same topic, no.

19 Q. So to your knowledge she might have
20 written articles since this that said, you know, I'm
21 altering my opinion a little bit based on the --
22 based on my continued studies and what I said in 1991
23 isn't absolutely correct; you don't know that.

24 MR. CONWAY: And, your Honor, I object
25 again. He's asking her to speculate. She already

1 explained that she hasn't reviewed other articles
2 that Dr. Gibson has written since then and it's
3 objectionable.

4 EXAMINER PARROT: Overruled.

5 A. Could you repeat the question, please?

6 MR. YURICK: Could I have the question
7 read back, please?

8 (Record read.)

9 A. No, I don't know that. For all I know
10 she thinks that historical volatility is the only way
11 to do it now.

12 MR. YURICK: I have no further questions
13 at this point. Thank you, your Honor.

14 EXAMINER PARROT: Mr. O'Brien?

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

16 EXAMINER PARROT: Mr. Conway?

17 MR. CONWAY: Thank you, your Honor. If
18 we are finished with the redirect and the recross,
19 then I would move for the admission of Companies'
20 Exhibit No. 5, again, and thank you very much for
21 your patience.

22 MS. GRADY: Your Honor, I would --

23 EXAMINER PARROT: Any objections?

24 MS. GRADY: Yes, I would renew my motion
25 to strike, especially on the testimony of Dr. LaCasse

1 on the Monte Carlo methodology and the Monte Carlo
2 modeling given her responses to the questions on
3 cross-examination indicating a lack of personal
4 knowledge with respect to the modeling and lack of
5 specific experience with that modeling.

6 MR. DARR: We would also renew our
7 objections for the same reasons that we outlined
8 earlier.

9 MR. PETRICOFF: Your Honor, we would, I
10 guess, renew the objections that we have but
11 particularly to page 3, the quote from lines 10 to
12 22, I think it's clear now that we've seen the source
13 material that it does not meet the hearsay example.
14 It has been edited over, it's over six pages,
15 contains words dropped out that reference the stock
16 returns which is what it's really about. It just --
17 the author's not here for cross-examination and it's
18 clear this is not a text that's exactly on the topic
19 the way it has been edited. It ought to be removed.

20 MS. MOONEY: OPAE joins both of those
21 motions to strike the testimony that Ms. Grady
22 renewed and that Mr. Petricoff's motion to strike is
23 on the basis of what we just heard, that one quote
24 there.

25 EXAMINER PARROT: And the motions are

1 again denied.

2 Any other objections to the admission of
3 Companies' Remand Exhibit 5?

4 (No response.)

5 EXAMINER PARROT: Seeing none, Companies'
6 Remand Exhibit 5 is admitted.

7 (EXHIBIT ADMITTED INTO EVIDENCE.)

8 MR. CONWAY: Thank you, your Honor.

9 EXAMINER PARROT: Dr. LaCasse, thank you
10 very much. You're excused.

11 THE WITNESS: Thank you, your Honors.

12 MS. GRADY: Your Honor, is the company
13 moving for admission of Exhibit No. 6? And if it
14 does not, we will move for admission of Exhibit 6.

15 MR. CONWAY: Your Honor, I offered before
16 and Ms. Grady said she wasn't sure she wanted to have
17 it in. After hearing Dr. LaCasse's explanation of
18 the context of the article, I was satisfied with her
19 oral answers and didn't see the need, but if OCC
20 wants to have it admitted, we would not object to it.

21 EXAMINER PARROT: Any other objections --
22 or, I'm sorry, any objections to Companies' Remand
23 Exhibit 6?

24 (No response.)

25 EXAMINER PARROT: Seeing none, it is

1 admitted.

2 (EXHIBIT ADMITTED INTO EVIDENCE.)

3 EXAMINER PARROT: Mr. Conway, do you need
4 a moment?

5 MR. CONWAY: Just a moment, your Honor.

6 At this time, your Honor, the companies
7 would call Mr. Mitchell, and Mr. Satterwhite will be
8 conducting the direct exam.

9 EXAMINER PARROT: Please raise your right
10 hand.

11 (Witness sworn.)

12 EXAMINER PARROT: Please be seated.

13 - - -

14 THOMAS E. MITCHELL

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

17 DIRECT EXAMINATION

18 By Mr. Satterwhite:

19 Q. Good afternoon, Mr. Mitchell. Can you
20 please state your name and business address for the
21 record?

22 A. Yes. It's Thomas E. Mitchell, 1
23 Riverside Plaza, Columbus, Ohio, 43215.

24 Q. Do you have in front of you the testimony
25 that was caused to be filed under your name on

1 July 25th, 2011?

2 A. Yes.

3 MR. SATTERWHITE: Your Honor, at this
4 time I'd like to mark his testimony as Companies'
5 Remand Exhibit 7.

6 EXAMINER PARROT: So marked.

7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 Q. Mr. Mitchell, do you have any corrections
9 to make to this testimony today?

10 A. No, sir.

11 Q. If we were to ask you all these same
12 questions today, would your answers be the same?

13 A. Yes, sir.

14 MR. SATTERWHITE: Your Honor, I offer the
15 witness for cross-examination.

16 EXAMINER PARROT: Thank you,
17 Mr. Satterwhite.

18 Ms. Grady?

19 MS. GRADY: Your Honor, my strong
20 preference is that we go in reverse order.

21 MR. RANDAZZO: I'll go first.

22 EXAMINER PARROT: We'll start on this end
23 here.

24 MR. RANDAZZO: Okay.

25 EXAMINER PARROT: Mr. Yurick?

1 MR. YURICK: No questions, your Honor,
2 thank you.

3 EXAMINER PARROT: Ms. Hand?

4 MS. HAND: No questions, your Honor.

5 EXAMINER PARROT: Mr. Petricoff?

6 MR. PETRICOFF: No questions, your Honor.

7 EXAMINER PARROT: Mr. Jones?

8 MR. JONES: No questions, your Honor.

9 EXAMINER PARROT: All right, you are up,
10 Mr. Randazzo.

11 MR. RANDAZZO: I'll go first.

12 EXAMINER PARROT: You are.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Randazzo:

16 Q. Mr. Mitchell, my name is Sam Randazzo, I
17 represent the Industrial Energy Users. Welcome to
18 our remand phase of this proceeding which started
19 several years ago.

20 If you would turn to page 1 of your
21 testimony and line 11, it indicates there that you're
22 employed by American Electric Power Service
23 Corporation. What is American Electric Power Service
24 Corporation?

25 A. It's a subsidiary of AEP and employs

1 individuals with technical skills to provide services
2 to operating companies.

3 Q. Does the service company also -- and if I
4 refer to that as the service company, will you
5 understand what I mean?

6 A. Yes, sir.

7 Q. Okay. Does the service company also
8 provide services to the parent company?

9 A. I believe they do.

10 Q. And as your testimony indicates on line
11 13, AEP or American Electric Power is the parent
12 company for Columbus Southern Power and Ohio Power,
13 right?

14 A. Yes.

15 Q. Okay. And when you say that AEP is the
16 parent company of both of those utilities, Columbus
17 Southern and Ohio Power, it's the same as saying that
18 AEP is the sole shareholder of Ohio Power and
19 Columbus Southern, right?

20 A. Subject to check.

21 Q. You don't know that?

22 A. My testimony is with regard to the
23 regulatory accounting in this case.

24 Q. Okay. What did you mean there when you
25 say "parent company"?

1 A. It means they consolidated.

2 Q. Okay. So you don't know if AEP is the
3 sole shareholder of Columbus Southern and Ohio Power?

4 A. I believe they are, but --

5 Q. That's fair enough. Fair enough.

6 Now, on the bottom of page 1 you indicate
7 that your primary responsibilities include providing
8 the AEP system operating subsidiaries, and I'd like
9 to stop there and ask you who are the AEP system
10 operating subsidiaries?

11 A. They are the primary companies who are
12 the operating companies such as Public Service of
13 Oklahoma, SWEPCO, Appalachian Power, Kingsport,
14 typically the registrants in the 10-K.

15 Q. Okay. So those operating subsidiaries
16 would be those identified in the 10-K which is filed
17 with the Securities & Exchange Commission?

18 A. As well as we have other subsidiaries who
19 do not need to file with the 10-K.

20 Q. Okay. Which subsidiaries are you
21 referring to there on line --

22 A. I'm referring to any subsidiary for which
23 the service corporation provides services.

24 Q. And are all of those operating
25 subsidiaries identified in the 10-K?

1 A. No.

2 Q. Which ones are not identified in the
3 10-K?

4 A. AEG Company and Kentucky Power.

5 Q. What does AEG do?

6 A. They provide power to Kentucky Power and
7 Indiana and Michigan.

8 Q. Do they have any relationship to Columbus
9 & Southern?

10 A. It's conceivable they could provide some
11 services, but I'm not aware of, directly, services
12 that they provide.

13 Q. All right. Are they a generation supply
14 company, AEG?

15 A. They provide power through purchased
16 power contracts, yes.

17 Q. Okay. And you mentioned AEG and one
18 other one that --

19 A. Kentucky Power.

20 Q. Kentucky Power. And why isn't Kentucky
21 Power recognized as an operating subsidiary?

22 A. It is an operating subsidiary. We were
23 just speaking about the ones that are not required to
24 be put in the 10-K.

25 Q. I'm sorry. I misunderstood. You

1 indicated that AEG is one of the ones that's not
2 required to be identified in the 10-K, correct?

3 A. Right.

4 Q. What are the others?

5 A. Kentucky Power Company.

6 Q. Okay. All right. Any others that you're
7 aware of?

8 A. I would say that that is -- those are the
9 two who are the operating subsidiaries.

10 Q. All right. But Columbus Southern and
11 Ohio Power are operating subsidiaries that are
12 identified in the 10-K.

13 A. Yes.

14 Q. And the 10-K, just so the record reflects
15 enough information for people who may not be familiar
16 with a 10-K to understand what the 10-K is, would you
17 describe what the 10-K is?

18 A. It's the annual form of information
19 required by the Securities & Exchange Commission for
20 those registering companies who either have debt or
21 equity that is listed in one way or another and it's
22 required by the SEC.

23 Q. Okay. And now with regard to page 1
24 again, lines 16 to 17 of your testimony, you indicate
25 that you provide accounting support there. Do you

1 determine -- are you responsible for making decisions
2 regarding accounting treatment?

3 A. I am a member of a group who supports the
4 chief accounting officer and in that regard we
5 recommend decisions that are made to the chief
6 accounting officer.

7 Q. Okay. So there is a process beyond your
8 responsibility that deals with setting accounting
9 policy within AEP, correct?

10 A. Yes. I do not set accounting policy for
11 AEP.

12 Q. Who does?

13 A. That's set by the chief accounting
14 officer.

15 Q. And does the chief accounting officer
16 take guidance from the board of directors?

17 A. The chief accounting officer reports to
18 the audit committee of the board of directors.

19 Q. Okay. And so the chief accounting
20 officer would interface with the accounting committee
21 of the board of directors for purposes of making
22 accounting policies, correct?

23 A. If necessary, and as necessary.

24 Q. And are you involved in that process?

25 A. To the extent, going back to my testimony

1 here, of regulatory filing accounting policies.

2 Q. Okay. So you would be on the
3 implementation side once accounting policies are
4 made.

5 A. Right. And I also recommend.

6 Q. Okay. But your primary responsibility
7 would be on the implementation side of accounting
8 policies?

9 A. Yeah. Just to clarify here --

10 Q. If I can I finish, okay? And then I'll
11 give you as much room as you want to say what you
12 need to say.

13 A. Okay.

14 Q. For me and you this is a conversation and
15 I want to hear what you have to say.

16 Your primary responsibility, as I
17 understand it, is focused on the implementation side
18 of accounting policy; is that correct?

19 A. That is not correct.

20 Q. Okay. Correct me.

21 A. My primary responsibility is to assist
22 the operating companies in the filings of regulatory
23 filings and in the clarification of questions related
24 to regulatory accounting, I also provide input around
25 regulatory questions and decisions to people in the

1 Rate department as well as chief accounting officer.
2 I liaise on all rate matters with our external
3 auditors and so it's in that regard that I submit
4 that I was not able to agree with you.

5 Q. Okay. Fair enough.

6 Now, let's talk a little bit about the
7 purposes of accounting. You've got a fair amount of
8 material in your testimony quoting materials from the
9 accounting standards folks, right?

10 A. The Financial Accounting Standards Board.

11 Q. Yeah. Okay. The Financial Accounting
12 Standards Board. You have a fair amount of material
13 in your testimony from the Financial Accounting
14 Standards Board, correct?

15 A. Yes.

16 Q. And does the Financial Accounting
17 Standards Board also identify objectives for
18 accounting?

19 A. You're asking me do they identify
20 objectives for accounting?

21 Q. Yep.

22 A. I think they have broad policy views on
23 what is accounting objectives, but in general they
24 lay out the rules and regulations and accounting
25 principles that are followed. And my testimony deals

1 specifically with a particular rule related to
2 regulatory assets, that's why I'm here.

3 Q. Yeah, I understand. But you're also
4 talking about how that rule should be applied by the
5 Commission, right?

6 A. Right. That rule was referenced in an
7 order of this Commission and that rule is in a law.

8 Q. Okay. Like I said, you can say as much
9 as you want --

10 A. That's good.

11 Q. -- as long as you answer my questions.

12 A. Absolutely.

13 Q. Okay. Now, what does the Financial
14 Accounting Standards Board say is the purpose of
15 accounting?

16 A. I would say that they --

17 Q. If you know.

18 A. They focus on accuracy and
19 reasonableness.

20 Q. Do they have -- have they articulated
21 specific objectives that are to be served by
22 accounting professionals?

23 A. I'm not testifying to that in this case.

24 Q. Are you aware of whether or not the
25 Financial Accounting Board specifies criteria that

1 identifies the objectives that accounting
2 professionals should serve in conducting their
3 activities?

4 A. Are you referring to auditors?

5 Q. No.

6 A. Good. I previously said that I'm aware
7 of broad policy statements they make with regard to
8 theories of accounting.

9 Q. Are you aware of whether or not the
10 Financial Accounting Standards Board identifies
11 constraints that should be applied by accounting
12 professionals when they engage in their profession?

13 A. Are you referring to auditing standards?

14 Q. I'm referring to constraints. Are you
15 aware of whether they identified any constraints?

16 A. They focus on materiality.

17 Q. Well, if I were to ask you if the
18 Accounting Standards Board has a rule that suggests
19 that when there are two accounting options, the
20 accounting professional should pick the one that
21 results in the lowest level of income, would that
22 sound familiar to you?

23 A. That is a -- if you're referring to
24 conservatism.

25 Q. Yes.

1 A. Is that what you're referring to?

2 Q. Yes.

3 A. I do not believe that that is held in as
4 high a regard today as accountants like me grew up
5 with. What we are supposed to do today is follow the
6 rules and we cannot err either liberally or
7 conservatively, we have to do the right thing.

8 Q. Okay. But you're aware of the principle
9 of conservatism and the principle of conservatism as
10 articulated by the Financial Accounting Standards
11 Board --

12 A. I am aware of the principle of
13 conservatism which is compacted within the
14 constraints of the rules and we follow the rules.

15 Q. All right. Fair enough. Now --

16 MR. RANDAZZO: Your Honors, at this time
17 I would like to have marked as IEU Remand Exhibit No.
18 4 a multipage document that I believe will be
19 self-explanatory, it refers to Financial Accounting
20 Standards Board rules that are mentioned by the
21 witness.

22 EXAMINER PARROT: So marked.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 Q. Mr. Mitchell, do you have what's been
25 marked as IEU Exhibit No. 4 before you?

1 A. I got an IEU remand exhibit.

2 Q. Four.

3 A. Right.

4 Q. It should be 4.

5 A. Four. Okay.

6 Q. Would I be correct that this packet
7 contains the rules, many of the rules that are cited
8 in your testimony from the Financial Accounting
9 Standards Board? Excuse me. Would I be correct that
10 this IEU Remand Exhibit No. 4 contains the rules for
11 the Financial Accounting Standards Board that deal
12 with discontinuation of regulatory accounting?

13 A. Yes, it appears to do that. It does not
14 relate to my testimony.

15 Q. Well, isn't this rule from the same
16 section of the Financial Accounting Standards Board's
17 rules that you cite from?

18 A. It's from the same section, but it's not
19 relevant because we are regulated in our FAC.

20 Q. Okay. Well, but you agree that this is
21 the rule that's been issued by the Financial
22 Accounting Standards Board, right?

23 A. Absolutely.

24 MR. RANDAZZO: Your Honors, I would like
25 to have marked for identification IEU Exhibit No. 5,

1 another set of Financial Accounting Standards Board
2 rules.

3 EXAMINER PARROT: So marked.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 Q. Mr. Mitchell, do you have before you what
6 has been marked as IEU Remand Exhibit No. 5?

7 A. Yes.

8 Q. Now, am I correct that IEU Remand Exhibit
9 No. 5 contains the rules that you cite in your
10 testimony?

11 A. Yes.

12 Q. And on the first page of IEU Remand
13 Exhibit No. 5 we see articulated the criteria that
14 apply for purposes of determining when regulatory
15 accounting should be applied, correct?

16 A. Yes. Those are the criteria that I
17 listed in my testimony.

18 Q. Right. Now, the Financial Accounting
19 Standards Board has rules that deal with entities
20 that are regulated and entities that are not
21 regulated, correct?

22 A. It has rules that deal with entities that
23 are regulated and not regulated. It also has those
24 rules that are applicable to portions thereof of
25 entities such as the fuel adjustment clause.

1 Q. Okay. All right. Now, when you talk
2 about the fuel adjustment clause, you're talking
3 about the fuel adjustment clause for Ohio Power and
4 Columbus & Southern?

5 A. Yes. The one that has approximately 5 to
6 600 million dollars of assets that are on our books
7 in good faith as a regulatory asset.

8 Q. All right. Now, if you are a regulated
9 entity under the Financial Accounting Standards
10 Board, you have an opportunity to defer expenses if
11 they're probable for future recovery and create a
12 regulatory asset, correct?

13 A. Absolutely correct.

14 Q. Okay. Thank you.

15 Now, if you are not eligible for
16 regulatory accounting under the Financial Accounting
17 Standards Board rules, is there an opportunity to
18 defer an expense for future recovery?

19 A. No.

20 Q. And what happens in that circumstance?
21 In other words, what's the accounting? You would
22 expense the item?

23 A. You would just recognize the expense and
24 credit cash, so you'd be out of pocket. The
25 distinction where you're regulated is what we've done

1 with the fuel, as in accordance with Commission
2 order, was to defer it for collection.

3 Q. Okay. But there are circumstances,
4 according to the Financial Accounting Standards Board
5 rules, the same ones that you rely upon, under which
6 one should discontinue regulatory accounting,
7 correct?

8 MR. SATTERWHITE: Objection, your Honor.
9 I think the witness earlier stated he wasn't relying
10 on Exhibit 4. Are you referring only to Exhibit 5 in
11 your question?

12 MR. RANDAZZO: No, I'm referring to the
13 Financial Accounting Standards Board rules and the
14 question is does the Financial Accounting Standards
15 Board rules require you to discontinue regulatory
16 accounting in certain circumstances.

17 MR. SATTERWHITE: The witness earlier
18 stated that Exhibit 4, which I think he's referring
19 to in the glomerate of the question, isn't
20 applicable.

21 EXAMINER PARROT: And, if necessary, I
22 believe the witness can clarify that in his response.

23 A. Yeah, the Remand Exhibit 5 dealing with,
24 let's see, I'm sorry, Remand Exhibit 4 dealing with
25 discontinuance of rate regulated accounting indicates

1 that there are certain circumstances when you become
2 deregulated that -- what you do.

3 So if the Commission honors the reg
4 assets you have, you may be able to keep them on and
5 pay them off, and if they don't honor them, then you
6 have to get rid of them. But basically once you're
7 off of the regulation, you wouldn't put any more reg
8 assets back on unless there was a specific promise to
9 pay in which case, like the FAC, you would have a
10 slice of the business that is regulated.

11 Q. Okay. Now, if you would turn to page 4
12 of your testimony and specifically the sentence that
13 starts on line 3 going over to line 4 there, I take
14 it from your testimony that you're primarily focused
15 on the deferral of expenses; is that correct?

16 A. Right. I'm here to dispel the notion
17 that we're deferring revenues, you can't do that for
18 fuel costs.

19 Q. Okay. Do you have an understanding of
20 what the words "phase-in deferral" mean?

21 A. Yes.

22 Q. And how would you define phase-in
23 deferral?

24 A. Phase-in deferral is allowing the
25 company, following the law, to defer the expenses

1 which are not currently being recovered for future
2 recovery in accordance with the GAAP that we've been
3 discussing as a regulatory asset for the
4 nonbypassable rider that's going to be recovering
5 those dollars in the future.

6 Q. Right. Now, on page 5 of your testimony
7 beginning at line 22 you refer there to, at the end
8 of that line, to AEP-Ohio, and I believe that's the
9 time AEP-Ohio shows up in your testimony. Who is
10 AEP-Ohio?

11 A. It's kind of an operative term for CSP
12 and Ohio Power Company both. Both those companies.

13 Q. All right.

14 A. It's the name you see on the trucks
15 driving around out there.

16 Q. Okay. So where you're using AEP-Ohio,
17 you're really referring there to Columbus & Southern
18 and Ohio Power in the aggregate.

19 A. Yes, sir. Well, actually, either.
20 Either in the singular or the aggregate. But they
21 keep separate books so, you know, I'm just really
22 saying both of them.

23 Q. Okay. You say they keep separate books,
24 Ohio Power and Columbus Southern?

25 A. Yes. They were in the 10-K and they have

1 separate numbers.

2 Q. Okay. And do they have, let's just talk
3 about Ohio Power, does Ohio Power have different
4 ledgers for the distribution business and the
5 generation business?

6 A. Yes.

7 Q. And how do you determine, for example,
8 whether POLR revenue goes on the distribution books
9 or the generation ledger?

10 MR. SATTERWHITE: Objection, your Honor.
11 I think the purpose of his testimony is to discuss
12 the mischaracterization from Mr. Bowser's testimony.
13 I think we're getting into something else, the
14 booking and the accounting of POLR versus just the
15 concept of whether this deals with deferrals and
16 revenues and deferrals and expenses.

17 EXAMINER PARROT: I'll allow the
18 question.

19 A. The nature of the item determines which
20 books it's on.

21 Q. Okay. And would fuel revenue be on the
22 generation ledger or the distribution ledger?

23 A. Should be on the generation ledger.

24 Q. And do you have some understanding in
25 Ohio whether or not the generation business is

1 competitive?

2 A. I have a general understanding.

3 Q. And what's your understanding?

4 A. My understanding is it's generally
5 competitive.

6 Q. Okay. And do you have an understanding
7 of whether or not generation prices are based on
8 cost-based ratemaking?

9 A. Generation prices for the fuel adjustment
10 clause are based on cost-based rates.

11 Q. And the fuel adjustment clause is a
12 portion of the generation price, right?

13 A. Yes.

14 Q. I'm talking about the total generation
15 price. Is the total generation price based on
16 cost-based ratemaking?

17 A. It is not, in my understanding. The
18 piece excluding fuel.

19 Q. Well, now my question was directed to the
20 total generation rate.

21 A. Yeah, I'm not an expert on competition.
22 I'm only here to say that the fuel adjustment clause
23 for these two companies is regulated. That's my
24 forte here today.

25 Q. Yeah, I understand your interest in that

1 subject. What I'm trying to get is an understanding
2 of how it is that you have come to conclude that the
3 specific accounting rules that you cite in your
4 testimony apply. So if you'll indulge me.

5 Is it your understanding that the total
6 generation price, including the fuel component, is
7 not based on cost-based ratemaking?

8 MR. SATTERWHITE: Objection, your Honor.
9 I think that's been covered. I know Mr. Randazzo
10 would like to be indulged further, but I think the
11 witness has already stated the purpose of what he's
12 testifying to and the scope of the FAC which is
13 regulated. I think we're getting into areas beyond
14 what the witness has already said he can't answer.

15 EXAMINER PARROT: Mr. Mitchell, if you
16 know, you may answer the question.

17 A. I don't feel comfortable going beyond
18 saying the fuel for our two companies is regulated.

19 Q. Okay. Let's review the bidding here, the
20 criteria that you set forth in your testimony on page
21 4 and the criteria that are reflected in IEU Remand
22 Exhibit No. 5 require regulated rates that are
23 designed to recover for specific entities cost of
24 providing the regulated services or products.
25 Correct?

1 A. Yes.

2 Q. And are the generation prices that
3 Columbus & Southern charge including the fuel
4 component in total based upon cost-based ratemaking?

5 A. I previously answered that question.

6 Q. You said you didn't feel comfortable.

7 A. I indicated that the fuel portion -- as I
8 previously indicated, FASB are applied to portions of
9 operations, the fuel is a regulated portion, it was
10 indicated in the order in March of '09 and it's in
11 the law and we're following the GAAP. That's what my
12 answer was.

13 Q. Okay. And if I were to ask you if the
14 generation price including the fuel adjustment clause
15 is based on cost-based ratemaking, what would your
16 answer be?

17 MR. SATTERWHITE: Objection. Your Honor,
18 that's, if you read back, it's the exact same
19 question before, he just gave his clarification of
20 why he already answered that.

21 EXAMINER PARROT: I agree with
22 Mr. Satterwhite.

23 Q. Now, on page 6 of your testimony
24 beginning at line 19 you talk about the fact that
25 both Columbus Southern and Ohio Power have separate

1 FAC riders, and that's the fuel adjustment clause
2 riders, right?

3 A. Yes, sir.

4 Q. You have separate riders for other
5 charges, right?

6 A. Yes, sir.

7 Q. You have separate riders for POLR,
8 correct?

9 A. Yes.

10 Q. Is POLR cost-based ratemaking?

11 MR. SATTERWHITE: Objection, your Honor.
12 I think we're just trying to get to the same question
13 now just taking it piece by piece.

14 EXAMINER PARROT: I'll allow the
15 question.

16 A. We don't record any regulatory assets or
17 liabilities related to POLR.

18 Q. Okay. You have separate rates for other
19 charges in addition to the FAC, correct?

20 A. Yeah. We just asked that question.

21 Q. Well, I asked it with regard to POLR.

22 A. Is this a different question than the one
23 you just asked?

24 Q. Yes, it is.

25 A. Could you --

1 Q. Do you have other separate -- other than
2 the FAC and the POLR, do you have other separate
3 charges?

4 A. For POLR?

5 Q. Other than POLR --

6 A. Oh, other than POLR. Yes, we have a base
7 rate, we have a gridSMART rate for ESP, we have other
8 tariffs the Commission has approved.

9 Q. And is the base rate you referred to, is
10 that the base generation charge?

11 A. Yes.

12 Q. Is that cost based?

13 A. We do not record regulatory assets or
14 liabilities for that.

15 Q. And the revenue associated with the base
16 generation charge, would that be on the distribution
17 ledger or the generation ledger within Ohio Power and
18 Columbus Southern?

19 A. Generation ledger.

20 Q. Now, how does the accounting work between
21 the generation and the distribution ledgers within
22 the operating company?

23 MR. SATTERWHITE: Sorry, have you
24 finished the question?

25 MR. RANDAZZO: Yes.

1 MR. SATTERWHITE: I'll object, again, I
2 think the purpose of the testimony is to respond to
3 the difference between deferring revenues and
4 deferring expenses and now we're trying to get to the
5 interworkings on how things are booked on ledgers of
6 the company.

7 EXAMINER PARROT: I'll allow the
8 question.

9 THE WITNESS: Would you mind repeating
10 the question?

11 Q. Let me withdraw the question.

12 MR. SATTERWHITE: Thank you.

13 Q. Let's, first of all, the distribution
14 utility, the electric distribution utility collects
15 all the revenue, right?

16 A. Yes.

17 Q. All right. Now, some of that revenue
18 ends up being recorded on the generation ledger; is
19 that correct?

20 A. Yes.

21 Q. And then as we've already discussed, the
22 fuel expense would also be recorded on the generation
23 ledger.

24 A. Yes.

25 Q. Where would the POLR revenue that's

1 collected by the distribution utility be recorded, on
2 the distribution ledger or the generation ledger?

3 A. I thought we had already answered that
4 question and the answer was generation.

5 Q. Okay. Thank you, I'm sorry.

6 And what is -- do you record an expense
7 on the generation ledger in conjunction with the POLR
8 revenue that's recorded there?

9 A. When we transfer the money from the
10 distribution company related to POLR, we record an
11 expense to have that intercompany transfer.

12 Q. And what is the expense that you record?

13 A. Purchased power.

14 Q. Okay. So in effect what you're doing is
15 treating the generation ledger as a seller of
16 electricity to the distribution ledger, correct?

17 A. We have to have some way to move the
18 money over between the ledgers.

19 Q. Is my statement correct?

20 A. Would you mind stating that again?

21 Q. Yeah. In effect, what you're doing is
22 you're treating the generation ledger as a seller of
23 generation supply to the distribution ledger; is that
24 correct?

25 A. I would say that's not our complete

1 intent, but, you know, that's a way to look at it.

2 Q. Okay. And, if you know, are there
3 corporate separation requirements that attach to the
4 operation of the generation side of the business
5 versus the distribution side of the business? If you
6 know.

7 A. I'm not really familiar with corporate
8 separation --

9 Q. Okay.

10 A. -- ideas.

11 Q. All right.

12 MR. RANDAZZO: At this time, your Honors,
13 I would like to have marked for identification
14 purposes IEU Exhibit 6, IEU Remand Exhibit 6. Excuse
15 me.

16 EXAMINER PARROT: So marked.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 Q. Mr. Mitchell, do you have before you
19 what's been marked for identification purposes as IEU
20 Remand Exhibit 6?

21 A. Yes.

22 Q. Now, this is the 10-K form that we were
23 talking about earlier, right?

24 A. Yes.

25 Q. And within this form, it's filed

1 annually, American Electric Power Company and each of
2 the operating subsidiaries provide information on
3 accounting policies, income statements, and balance
4 sheet data as well as identifying business and
5 financial risks; is that correct?

6 A. Yes.

7 Q. Now, would you accept, subject to check,
8 that this is a Form 10-K that was filed with the
9 Securities & Exchange Commission for the year 2010?

10 A. Sure.

11 Q. Are you familiar with that document?

12 A. I am.

13 Q. Now, as an indication of the types of
14 disclosures that are provided in the document, if
15 you'd turn to right at the beginning, Roman numeral
16 iv at the bottom, it says, at the top it says
17 "Forward-Looking Information."

18 A. Okay.

19 MR. SATTERWHITE: I'm sorry, where are
20 we?

21 MR. RANDAZZO: Roman numeral iv. At the
22 top it says "Forward-looking information."

23 MR. SATTERWHITE: Are you on 48 or are
24 you --

25 MR. RANDAZZO: Roman numeral iv.

1 THE WITNESS: Like the fourth or fifth
2 page.

3 MS. GRADY: Iv, the small iv.

4 MR. RANDAZZO: Small iv, thank you.

5 MS. GRADY: Thank you, part one.

6 MR. RANDAZZO: It has "Forward-Looking
7 Information" at the top. Everybody there?

8 MS. GRADY: Yes, thank you.

9 MR. RANDAZZO: I know you're looking
10 forward.

11 Q. (By Mr. Randazzo) All right. Are you
12 with me, Mr. Mitchell?

13 A. I am.

14 Q. And this is a list of all the things that
15 has been identified that may affect the difference or
16 may cause differences between what is expected to
17 happen and what actually happens, right?

18 A. And things that could affect the balance
19 sheet items such as regulatory assets.

20 Q. Sure. And on -- now we're going to
21 Arabic numerals, on part 1, page 3 --

22 MR. RANDAZZO: And for those of you that
23 are looking at the copies, it's double-sided. Just
24 so you don't think you're missing anything.

25 Q. If you go to page 3, page 3 at the bottom

1 it describes the services that are provided by the
2 service company, right?

3 A. Yes.

4 Q. All right. Now, would you turn to page
5 25? Actually, let's go to 22. And do you see the --
6 let me know when you're with me.

7 A. Yes.

8 Q. Okay. There's a paragraph titled
9 "Competition."

10 A. Yeah.

11 Q. And there it describes the structure in
12 Ohio, correct?

13 A. Yes.

14 Q. And it indicates that "Electric
15 generation is sold in the competitive market in
16 Ohio," correct?

17 A. That's what it says.

18 Q. And let's go to page 25, and on page 25
19 it identifies some of the regulatory risks associated
20 with Ohio Power, Columbus Southern, correct?

21 A. Yes, sir.

22 Q. And do you see the paragraph titled "Ohio
23 may require us to refund revenue that we have
24 collected"?

25 A. Yes.

1 Q. Is that an accurate statement?

2 A. Yeah, that statement refers to the annual
3 operation of the audit that the PUCO authorizes in
4 connection with the fuel adjustment clause which is
5 regulated.

6 Q. Okay.

7 A. There's been an audit so far in '09 and
8 '08.

9 Q. So we haven't completed the audit in
10 2009, correct?

11 A. The audit's completed, but I don't think
12 there's a resolution.

13 Q. Right. So the resolution of that 2009
14 audit may affect the regulatory asset balance,
15 correct?

16 A. True.

17 Q. And we've just begun, lucky us, the 2010
18 audit, right?

19 A. True.

20 Q. And the resolution of that proceeding may
21 affect the regulatory asset balance.

22 A. Right. Those are normal fuel-related
23 audits typically dealing with prudence and
24 procedures.

25 Q. Right. And we're going to have another

1 audit in 2011 that will be done, I suspect, sometime
2 in 2012, right?

3 A. Yes.

4 Q. But the same would be true with regard to
5 the 2012 audit, the outcome of that audit may affect
6 the regulatory asset.

7 A. Yes. Normal prudence issues.

8 Q. Well, it's not just prudence, is it?
9 Maybe accounting mistakes. Anything that would cause
10 a reconciliation adjustment that would reduce the
11 amount of revenue that is otherwise collected under
12 the FAC will reduce the regulatory asset balance,
13 correct?

14 A. And under the typical fuel I would say
15 what's envisioned certainly in regulation is it needs
16 to be a fuel item, not a nonfuel item that's
17 affecting the regulatory asset.

18 Q. Okay.

19 A. Otherwise we couldn't record a regulatory
20 asset.

21 Q. I understand your argument. I understand
22 your argument. We'll do a deal here, I'll let you
23 say anything you want to say if you answer my
24 question, all right?

25 MR. SATTERWHITE: Objection, your Honor.

1 I think the witness is trying to answer the question.

2 I don't like the characterization that he's not.

3 MR. RANDAZZO: I'll withdraw the
4 characterization.

5 MR. SATTERWHITE: Thank you.

6 Q. Now, is it true that the resolution of
7 these fuel audits may affect the regulatory asset
8 balance that's presently on your books?

9 A. Yes. As indicated --

10 Q. All right.

11 A. -- in our 10-K.

12 Q. Now, let's talk about -- we talked a
13 moment ago, you mentioned POLR in your testimony and
14 we talked a moment ago about the accounting as the
15 distribution ledger of Ohio Power and Columbus &
16 Southern and the generation ledger with regard to how
17 POLR is handled.

18 A. Are you asking did I refer to POLR in my
19 testimony?

20 Q. No. You did. I said, I made the
21 affirmative statement, you did.

22 A. Could you point that out to me?

23 Q. Sure. Page 8, bottom.

24 A. Thank you.

25 Q. Line 22. Is that all right?

1 A. Thank you. That was in relation to
2 Mr. Bowser.

3 Q. Yeah.

4 A. Mr. Bowser --

5 Q. I knew that.

6 A. -- was recommending that, okay.

7 Q. Okay.

8 A. Thank you.

9 Q. All right. So a moment ago we talked
10 about how the accounting works for POLR revenue as
11 between the distribution ledger and the generation
12 ledger for Ohio Power and Columbus & Southern, right?

13 A. Yes.

14 Q. All right. What is your understanding of
15 POLR? What is the revenue being collected for?

16 A. I understand it's an acronym for provider
17 of last resort.

18 Q. Beyond the acronym what functionality is
19 being provided for POLR?

20 A. I'm not here today to address your
21 question.

22 Q. Well, as part of the 10-K and the
23 information that you provide to the Securities &
24 Exchange Commission -- would you turn to page 31. Do
25 you see the section with the heading "Risk Relating

1 to State Restructuring"?

2 A. Yes.

3 Q. As part of the information that you
4 collect and report to the Securities & Exchange
5 Commission am I correct that you identify the amount
6 of customers that have actually shopped?

7 A. There's a citation here that through '010
8 we've lost 3 percent and I believe we keep
9 chronicling that in our updated queues as well.

10 Q. Then the 10-K, I was really trying to get
11 to something else, Mr. Mitchell, your response was
12 fine, it may have been my problem with the question,
13 but in the 10-K that's been marked as IEU Remand
14 Exhibit No. 6 part of the information that the
15 company provides to the Securities & Exchange
16 Commission includes information on the amount of
17 actual shopping that is taking place for Columbus &
18 Southern and Ohio Power, right?

19 A. Right. There's a reference here, right.

20 Q. Similarly, if you turn to page 35, part
21 of the information that Ohio Power and Columbus &
22 Southern and AEP Company assemble a report to the
23 Securities & Exchange Commission involves a
24 description of all their hedging activities, right?

25 MR. SATTERWHITE: Your Honor, I'm going

1 to object again. I don't think the purpose of this
2 rebuttal testimony was focused on everything that
3 goes into a 10-K. Again, it was about the deferral
4 of revenues versus deferral of expenses issue. I'm
5 trying to give leeway, but I think we're trying to
6 load the questioning with a bunch of things that
7 don't really apply to what we're really talking about
8 here.

9 MR. RANDAZZO: I'll withdraw the
10 question.

11 EXAMINER PARROT: Okay.

12 Q. Mr. Mitchell, the format of the 10-K
13 includes as a part of the 10-K annual reports for AEP
14 and then each of the operating subsidiaries, right?

15 A. Right. The ones who are the registrants.

16 Q. Ones that are the registrants.

17 A. Yes.

18 Q. Okay. And in the 10-K once you get to
19 the annual report section it starts to renumber the
20 pages; is that correct?

21 A. Yes.

22 Q. All right. So there's a divider, and I'm
23 holding it up to make it easier for others in the
24 room to follow it, there's a divider in the 10-K
25 that's about 15 percent in that has a 2010 annual

1 reports cover sheet with the AEP logo in the lower
2 right-hand corner, correct?

3 MR. SATTERWHITE: What's the closest
4 numbered page to that?

5 MR. RANDAZZO: It's not numbered.

6 MR. SATTERWHITE: What's the closest one
7 to it?

8 MR. RANDAZZO: E-16 is the preceding page
9 number.

10 A. Oh, you're -- okay. The annual, the
11 annual report.

12 Q. The annual reports section, yes. Are you
13 with me?

14 A. Yes, sir.

15 Q. And, again, this is part of IEU Remand
16 Exhibit No. 6, correct?

17 A. Right.

18 Q. And, again, in that section, and if you
19 would turn to page 4 of the first annual report,
20 there the company, under Ohio Customer Choice, is
21 reporting information that it has assembled regarding
22 the amount of customer switching that has occurred
23 for Columbus & Southern and Ohio Power in 2009 and
24 '10 as well is what is expected in 2011, correct?

25 A. Yes.

1 MR. SATTERWHITE: Objection. He answered
2 it.

3 MR. RANDAZZO: Your Honor, at this point
4 in time I'd ask the Commission to take administrative
5 notice of the Form 10-K for 2010 filed with the
6 Securities & Exchange Commission by American Electric
7 Power Company and the registrant subsidiary operating
8 companies identified in IEU Remand Exhibit No. 6.

9 MR. SATTERWHITE: If I may, your Honor.
10 This is obviously a very long document. I'm not sure
11 what purpose or relevance it really has, we've sort
12 of discussed it today, maybe we can talk about
13 individual pages where the witness has an opportunity
14 to respond to certain portions. But I don't know
15 that administrative notice of the entire thing is
16 really appropriate at this point in the proceeding.

17 EXAMINER PARROT: Mr. Randazzo, are there
18 particular portions of the 10-K for 2010?

19 MR. RANDAZZO: Your Honor, I was actually
20 trying to avoid going through all the places I've got
21 tabbed and also avoiding the criticism of selectively
22 picking out pieces of a document for the purposes
23 that may suit me.

24 It is a document that the witness has
25 identified as being the 10-K. He's indicated that it

1 provides information on the accounting policies and
2 the risks that are identified by Ohio Power and
3 Columbus & Southern as well as actual data on the
4 amount of shopping that has taken place, as well as
5 estimated shopping. So if nothing else I think the
6 information is extraordinarily useful to the
7 Commission to try to put some reality around some of
8 the claims that are being tossed about in this
9 proceeding.

10 MR. SATTERWHITE: If I may, your Honor, I
11 think that his last point is exactly why it's not
12 relevant at this point in the proceeding. We're
13 dealing with the question of the mischaracterization
14 of deferral of revenues versus expenses at this point
15 in the rebuttal. If IEU had sought to put this in
16 earlier with one of their witnesses and discuss it,
17 perhaps we can talk about the entire scope of the
18 case, but this witness is here for a very limited
19 purpose and the concern is what's not discussed. The
20 witness hasn't had an opportunity to discuss other
21 matters on other pages within here. It's really not
22 relevant and not appropriate at this point in the
23 proceeding.

24 EXAMINER PARROT: The Bench has decided
25 to deny the request to take administrative notice of

1 the exhibit that's been marked IEU Remand Exhibit 6.

2 MR. RANDAZZO: Okay.

3 MR. SATTERWHITE: Thank you, your Honor.

4 MR. RANDAZZO: We'll do it the hard way.

5 Q. (By Mr. Randazzo) Mr. Mitchell, if you
6 know, is the information contained in the 10-K
7 subjected to independent outside auditor review?

8 A. Yes.

9 Q. And, in fact, the outside auditors have
10 to submit an affidavit indicating that the
11 information in the 10-K is accurate, right?

12 A. They also issue an opinion.

13 Q. But the answer is yes?

14 A. Yes.

15 Q. Okay. Do you have any -- if I were to
16 ask you if the information in the 10-K is accurate,
17 would your answer be "Yes"?

18 A. Yes.

19 Q. All right. If you'd turn to page 4 again
20 in the annual reports section under the heading "Ohio
21 Customer Choice." Is it true that American Electric
22 Power has represented to the Securities & Exchange
23 Commission that in the Ohio service territory various
24 competitive retail electric service providers are
25 targeting retail customers by offering alternative

1 generation service?

2 MR. SATTERWHITE: Objection. Again, your
3 Honor, I think we're going to hear a lot of this if
4 we go through this line by line, but rebuttal
5 testimony is focused on the mischaracterization by
6 Witness Bowser, and now we're trying to get into
7 areas far afield of what this witness has testified
8 to on rebuttal.

9 MR. RANDAZZO: If I may.

10 EXAMINER PARROT: Yes.

11 MR. RANDAZZO: This witness has testified
12 that the fuel adjustment mechanism is recorded on the
13 generation ledger and that it is part of the
14 generation side of the business. I have had marked
15 for identification purposes IEU Remand Exhibit No. 4
16 which identifies, according to the Financial
17 Accounting Standards Board rules, the circumstances
18 under which regulatory accounting should be
19 discontinued. One of the things that causes a
20 discontinuation of regulatory accounting is change in
21 competition, change from cost-based regulation to
22 market-based regulation. That's the rules.

23 I believe that this information is
24 relevant to the application of the rules that are
25 identified in this witness's testimony.

1 MR. SATTERWHITE: If I may, your Honor.
2 I think Mr. Randazzo's asked the witness about the
3 rules and his understanding of the rules. I think
4 now we're getting into customers shopping, the rights
5 of CRESSs, the developments within the market, all of
6 this is beyond the scope of this rebuttal.

7 EXAMINER PARROT: The objection is
8 sustained.

9 Q. Mr. Mitchell, do the Accounting Standards
10 Board's rules that you quote in your testimony
11 include provisions dealing with the discontinuation
12 of regulatory accounting, and are those rules
13 contained in what has been marked as IEU Remand
14 Exhibit No. 4?

15 A. I think I previously indicated that these
16 rules did appear accurate and they are in the FASB
17 and they should be applied and, in fact, in
18 situations where regulatory accounting is
19 discontinued we implemented regulatory accounting
20 when the FAC was approved. Prior to that we were
21 deregulated.

22 So if your assumption is our accounting's
23 wrong and the external audit opinion is wrong, then
24 the regulatory assets that we have on the books are
25 not worth very much. We're here to say they're worth

1 a lot. We're following the rules, and it's a
2 regulated portion, Mr. Randazzo, of the business.
3 That's my testimony.

4 Q. And if you discontinued regulatory
5 accounting as we discussed before, then there would
6 not be any regulatory assets, right?

7 A. Unless the Commission provided a
8 transition recovery phase-in which is, in fact, what
9 they already did when we became deregulated.

10 MR. RANDAZZO: Your Honor, at this time
11 I'd like to have marked for identification purposes
12 IEU Remand Exhibit No. --

13 EXAMINER SEE: Seven.

14 MR. RANDAZZO: -- 7.

15 EXAMINER PARROT: So marked.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. Mr. Mitchell, do you have before you
18 what's been marked for identification purposes as IEU
19 Remand Exhibit No. 7?

20 A. Yes, sir.

21 Q. Mr. Mitchell, would you turn to page --
22 first of all, could you tell me what this is, please,
23 IEU Remand Exhibit No. 7?

24 A. It's a Federal Energy Regulatory
25 Commission annual report for utilities that report to

1 the FERC.

2 Q. Okay, and is this also the annual report
3 that's filed with the Public Utilities Commission of
4 Ohio?

5 A. I'm sorry, I couldn't quite hear that.

6 Q. Yeah, is this also the annual report
7 that's filed with the Public Utilities Commission of
8 Ohio?

9 A. I don't participate in those filings, but
10 I assume they have a copy of it.

11 Q. Okay. Do you know whether or not this
12 was an exhibit in your SEET, significantly excessive
13 earnings --

14 A. I believe it was.

15 Q. Yeah. Would you turn to page 123.7.
16 And, again, this is one of those regulatory documents
17 where the numbering can be confusing so let me know
18 when you're there.

19 A. I'm there.

20 Q. All right. And this is the FERC Form 1
21 for Ohio Power, right?

22 A. Yes.

23 Q. And this is the FERC Form 1 for Ohio
24 Power for 2009, right?

25 A. Yep.

1 Q. And am I correct that at the top of the
2 page there's a paragraph headed "Accounting for the
3 Effects of Cost-Based Regulation"?

4 A. Yes.

5 Q. And am I correct that the last sentence
6 of that section says that "Due to the passage of
7 legislation requiring restructuring and a transition
8 to customer choice and market-based rates, Ohio Power
9 Company discontinued the application of 'Regulated
10 Operations' accounting treatment for the generation
11 portion of its business"?

12 A. That is consistent with what I just
13 indicated to you, that prior to the regulation of the
14 FAC, which is discussed similarly on page 123.17,
15 that we discontinued the generation portion, but with
16 the implementation of the FAC pursuant to the
17 phase-in plan under the law of Ohio with the
18 Commission's approval we established regulatory
19 assets to be recovered between '12 and '18. Both
20 fact patterns are discussed in this document.

21 Q. Where is the other fact pattern?

22 A. The other fact pattern can be discussed
23 on page 123.17.

24 Q. Okay.

25 A. "Rate Matters." Ohio ESP. The FAC, it

1 talks about the FAC.

2 Q. Does anywhere else in this document
3 indicate that you returned to regulated accounting?

4 A. Well, the "Rate Matters" discusses that.
5 I think I could find other references here that
6 indicate that as well. The auditor's opinion
7 evidences that. We wouldn't be here today arguing
8 about it if we recorded these regulatory assets.

9 Q. Well, like you say, if you recorded them
10 wrongly, maybe they're worth nothing.

11 A. Well --

12 Q. So I'm asking --

13 A. Is that a question?

14 Q. No, it's not a question.

15 A. What was your question?

16 Q. My question was is there anyplace in this
17 document, this FERC Form 1 that's been identified as
18 IEU Remand Exhibit No. 7, that indicates that you
19 returned to regulatory accounting?

20 A. These documents are cumulative. We would
21 have indicated in the document beginning in '9 that
22 we established regulatory assets. In '10 we're
23 indicating here on page 123.17, which you have not
24 asked me about yet, that we were recording regulatory
25 assets.

1 Q. IEU Exhibit No. 7 is for 2009, right?
2 For Ohio Power. It's in the lower right-hand corner,
3 first page.

4 A. Yeah, I thought we were on '10. I'm
5 reading page 123.17, second paragraph under Ohio ESP,
6 it says the PUCO issued an order, established rates,
7 the order provides a FAC for the three-year period,
8 the FAC will be phased in, the FAC is subject to
9 quarterly increase. The order allows Ohio to defer,
10 defer, any unrecovered FAC costs resulting from
11 annual caps and to approve associated carrying charge
12 at Ohio's weighted average cost of capital.

13 Q. Right.

14 A. Reg asset balances are recovered through
15 nonbypassable charges between '12 and '18. I believe
16 that's fairly indicative of what we did.

17 Q. But you also state in that document that
18 you discontinued regulatory accounting, right?

19 A. That has to do with non-FAC.

20 Q. Anywhere in this document where it says,
21 qualifies the discontinuance of regulatory accounting
22 to the non-FAC portion?

23 A. Page 123.17.

24 Q. And that's your reading of what's on
25 1123.17.

1 A. That is absolutely the, not only is it
2 the truth, but it is a clear indication that we
3 established the regulatory assessment, you could also
4 look on the balance sheet.

5 Q. Mr. Mitchell, there is no question that
6 you've recorded a regulatory asset.

7 A. Thank you.

8 Q. Yeah. The question is whether or not
9 it's consistent with the accounting requirements that
10 you rely upon in your testimony.

11 A. Right. Well, we --

12 Q. That's the purpose of my question.

13 A. Okay.

14 MR. SATTERWHITE: Objection, your Honor.
15 I think the witness has given the answer to the
16 question multiple times on 123.17 in relation to
17 what's on 123.7.

18 MR. RANDAZZO: I'm ready to move on to a
19 different subject. I would ask that the FERC Form 1
20 for Ohio Power for 2009 be included in the record
21 through administrative notice. It's an annual report
22 to this Commission as well as the Federal Energy
23 Regulatory Commission.

24 MR. SATTERWHITE: Just to be consistent,
25 your Honor, I guess earlier the relevance of having

1 this whole document versus these few little issues, I
2 don't know why we need to put the whole document in.

3 MR. RANDAZZO: If I may.

4 EXAMINER PARROT: Again, the request is
5 denied.

6 MR. RANDAZZO: Your Honor, I will proffer
7 IEU Remand Exhibits No. 6 and 7 for purposes of the
8 arguing the ruling from the Bench.

9 Q. (By Mr. Randazzo) Mr. Mitchell --

10 MR. RANDAZZO: Is that proffer accepted?

11 EXAMINER PARROT: Yes.

12 MR. RANDAZZO: Okay. Thank you.

13 Q. Mr. Mitchell, are there circumstances
14 where regulatory requirements control accounting
15 requirements even where there's a rule from the
16 Financial Accounting Standards Board?

17 MS. GRADY: Can I have that question
18 reread, please?

19 MR. RANDAZZO: I'll withdraw it and
20 restate it.

21 Q. Are there circumstances, Mr. Mitchell,
22 where regulatory requirements supersede what might be
23 in a rule issued by the Accounting Standards Board?

24 A. No.

25 Q. So your view would be once the company

1 has recorded a regulatory asset, the Commission is
2 constrained by the accounting rules that you cite in
3 your testimony to follow the accounting rules; is
4 that correct?

5 A. No.

6 Q. Well, straighten me out.

7 A. The point I'm trying to make here,
8 Counselor, is that we wouldn't have recorded the
9 regulatory asset in the first place absent the
10 Commission order. The normal accounting, as we said
11 earlier, is to expense costs when you incur cash
12 payments for fuel. The only reason you can defer
13 them is if you have a Commission order and it meets
14 the requirements that revenue is going to be probable
15 of recovery for these incurred costs.

16 So we follow the Generally Accepted
17 Accounting Principles. Section 980 provides if the
18 Commission gives you a timing difference for
19 recovery, that you set up the regular assets if it's
20 probable. The law in Ohio says if you have a
21 phase-in plan and you're going to recover it, you
22 know, down the road, it follows GAAP. So that's what
23 we did.

24 Q. Okay. Now, earlier we had a discussion
25 about the FAC audits and the fact that the regulatory

1 asset balance associated with the phase-in deferral
2 will not be known until the completion of the fuel
3 audits. Do you recall that?

4 A. Right. We talked that they could have an
5 effect on the final amount.

6 Q. All right. So what is subject ultimately
7 to collection, notwithstanding the fact that you
8 record regulatory assets, is a function of the
9 Commission determinations yet to be made, right?

10 A. Right. If the Commission indicates that
11 a fuel item is not going to be collected, then we
12 would not be able to do that. On the other hand, if
13 the Commission indicates that a nonfuel item is going
14 to affect a fuel deferral, that's going to cloud and
15 throw into question future deferrals, whether or not
16 they're proper.

17 Q. Okay. Now, if, as the Commission
18 initially ordered, Ohio Power was to remove the POLR
19 and the FAC elements from its rates, am I correct
20 that mathematically what would happen in the case of
21 Ohio Power is that the fuel clause revenues would
22 increase?

23 MR. SATTERWHITE: Objection, your Honor.
24 Again, I think we've gone well over the cliff of what
25 Mr. Mitchell has testified to in his rebuttal. We

1 seem to be re-second-guessing or redoing the entire
2 opinion of the Commission in the original order here
3 versus discussing the mischaracterization of the
4 deferral as an expense or a revenue.

5 MR. RANDAZZO: I misstated the question
6 anyway. Let me restate the question correctly.

7 Q. Mr. Mitchell, if in the case of Ohio
8 Power Ohio Power was to remove the POLR and the
9 pre-2009 environmental carrying costs from its rates,
10 am I correct mathematically that what would happen in
11 the case of Ohio Power is that the FAC revenue would
12 go up?

13 MR. SATTERWHITE: Same objection, your
14 Honor.

15 EXAMINER PARROT: The objection is
16 overruled.

17 MR. SATTERWHITE: Thank you.

18 A. My understanding is that the POLR
19 revenues and the environmental -- the carrying
20 charges on environmental investments of 2001-2008 are
21 only open beginning June 2011 forward. And in that
22 sense I would assume if the Commission were to say
23 that those revenues should not have been collected,
24 they would be refunded, so there would be no impact
25 on the deferred fuel.

1 Q. If the Commission did not direct those
2 revenues to be refunded -- strike that.

3 If the POLR and environmental carrying
4 cost charge for the pre-2009 investment were removed
5 from Ohio Power's rates, am I correct that the FAC
6 revenue would be higher?

7 A. No.

8 Q. Why not?

9 A. The revenues have already been billed.
10 We wouldn't go back retroactively and restate
11 revenues.

12 Q. All right. We're going to -- I'll chase
13 you. Let's assume that the Commission stuck with its
14 original order and required the removal of the POLR
15 and the environmental carrying charges that we're
16 just spoken about from Ohio Power's rates.

17 A. Effective when?

18 MR. SATTERWHITE: I'm sorry, could I have
19 the question reread? You were walking away, it's
20 tougher to hear.

21 MR. RANDAZZO: Okay. Let's try it a
22 different way. I would ask that the document
23 entitled, well, it's an AEP filing dated May 11th,
24 2011, in these case numbers be marked as IEU Remand
25 Exhibit No. 8.

1 EXAMINER PARROT: So marked.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 Q. Do you have IEU Remand Exhibit No. 8 in
4 front of you, Mr. Mitchell?

5 A. Yes.

6 Q. Would you accept, subject to check, that
7 this is the filing that Columbus Southern and Ohio
8 Power made when the Commission ordered them to reduce
9 rates to remove the POLR and the pre-2009
10 environmental carrying cost charges?

11 A. I'm not involved in these filings, so I
12 don't really know.

13 Q. Have you seen this document before?

14 A. No.

15 Q. Would you turn to page 2.

16 MR. SATTERWHITE: Objection. Your Honor,
17 the witness stated he hasn't seen this document
18 before and isn't aware of it. I don't know why we
19 still continue to ask questions based on it.

20 MR. RANDAZZO: I haven't asked him a
21 question yet.

22 Q. Would you turn to page 2.

23 EXAMINER PARROT: Overruled.

24 A. Yes, I have it.

25 Q. You see 3c? Would you read that

1 paragraph?

2 MR. SATTERWHITE: I'll object here as
3 well, your Honor, we're reading stuff into the
4 record --

5 MR. RANDAZZO: I'm not asking him to read
6 it into the record.

7 Q. Read it to yourself.

8 A. I really need to read the whole document
9 to --

10 Q. That's fine. It's not very long. A page
11 and a half letter.

12 A. Okay.

13 EXAMINER PARROT: Mr. Randazzo.

14 Q. Have you read it, Mr. Mitchell?

15 EXAMINER PARROT: He said "Okay."

16 MR. RANDAZZO: I'm sorry, I didn't hear
17 him. I'm sorry. Thank you.

18 Q. Would you accept, subject to check, that
19 this is the compliance filing that Columbus Southern
20 and Ohio Power made following the Commission's order
21 to reduce the rates by --

22 A. Yeah, I think there was two filings. Is
23 this the second filing or the first filing?

24 Q. Well, this is the May 11th.

25 A. Yeah, I don't know. I think there was

1 two filings of tariffs.

2 Q. Well, would you accept, subject to check,
3 that this is the May 11th filing?

4 A. Sure. But there may be another one.

5 Q. Okay. Now, earlier I asked you if the
6 Commission reduced Ohio Power's rates by the POLR and
7 the environmental carrying charge for investment
8 prior to 2009, whether or not the FAC revenue would
9 increase. Do you recall that question?

10 A. Yes.

11 Q. Do you agree with me that the IEU Remand
12 Exhibit No. 7, page 2, at 3.c indicates from Columbus
13 & Southern and Ohio Power that if you were to remove
14 those rate elements from Ohio Power's rates --

15 A. Yeah, the reason I answered --

16 MR. SATTERWHITE: Can I object, your
17 Honor?

18 MR. RANDAZZO: Let me finish the
19 question.

20 THE WITNESS: We're all waiting. Go
21 right ahead.

22 Q. Thank you. If you were to remove those
23 rate elements from Ohio Power's rates, that the
24 maximum FAC would increase.

25 MR. SATTERWHITE: Are you finished?

1 MR. RANDAZZO: Yes, I am.

2 MR. SATTERWHITE: Could I have the
3 question reread, please?

4 (Record read.)

5 MS. GRADY: If I may, Remand Exhibit No.
6 9, is that what you were referring to?

7 MR. RANDAZZO: Yes, I'm sorry, Remand
8 Exhibit 9 and it's page 2, 3 --

9 EXAMINER PARROT: Excuse me, 8.

10 MR. RANDAZZO: Thanks, Maureen.

11 At page 2, it's 3.c. Not 2.3.c, 3.c.

12 MR. SATTERWHITE: If I can state my
13 objection now, it's kind of multitiered. First of
14 all, the witness stated that he's not familiar and
15 couldn't authenticate this document. That's the
16 first thing about answering questions and
17 authenticating and reacting to things within this
18 document.

19 Secondly, my original objection when
20 Mr. Randazzo said he would chase this down is that,
21 once again, we're far afield from the purpose of the
22 rebuttal testimony and apparently getting to what
23 Mr. Randazzo had the opportunity to present in his
24 initial testimony, he could have had a witness
25 sponsor this and he chose not to. It's improper at

1 this point in rebuttal to try to expand the scope of
2 what Mr. Mitchell has responded to and bring these
3 things into the record. And to the extent it
4 confuses the record, this is a prospective adjustment
5 versus a retroactive adjustment.

6 MR. RANDAZZO: My point precisely.

7 EXAMINER PARROT: I'll allow the
8 question.

9 Q. (By Mr. Randazzo) Do you recall the
10 question, Mr. Mitchell?

11 A. Yes. I previously answered that the
12 automatic reduction in fuel would not be applicable
13 because these rates are not put into effect.

14 Q. I asked you to assume that they were put
15 into effect.

16 A. They were not, so I can't make that
17 assumption. And I don't deal in hypotheses, I'm
18 sorry.

19 Q. I'm going to ask you to accept for me for
20 purposes of testing the math that the tariffs were
21 put into effect, okay, as filed. Are you with me
22 okay?

23 A. I hear your question. It's not factual,
24 though.

25 Q. If that were the case, would the FAC

1 charge for Ohio Power have increased?

2 MR. SATTERWHITE: Your Honor, could I
3 have a clarification of what period we are talking
4 about for the increase just so we're clear.

5 MR. RANDAZZO: From the point the tariffs
6 went into effect.

7 A. So we're talking June '11, is that your
8 hypothesis?

9 Q. Yes. If that helps, yes.

10 A. I just don't feel that given the fact of
11 the last paragraph, Mr. Randazzo, which says we're
12 not requesting these tariffs to be implemented, that
13 your hypothesis has any intent.

14 Q. I've asked you to accept my assumption
15 for purposes of illustrating the math. I take it
16 you're unwilling to do so; is that correct?

17 A. I don't think you can make generalities.
18 What happened is these tariffs were not put into
19 effect and, therefore, your predicate is not
20 appropriate.

21 Q. Would you turn to -- six pages in from
22 the back of IEU Remand Exhibit No. 8.

23 MR. SATTERWHITE: Page 80-1?

24 MR. RANDAZZO: Pardon?

25 MR. SATTERWHITE: Is that sheet 80-1?

1 MR. RANDAZZO: It is sheet 80-1 5th
2 revised.

3 MR. SATTERWHITE: Thank you.

4 MR. RANDAZZO: Canceling 4th revised.

5 Q. Are you with me, Mr. Mitchell?

6 A. That's the fuel adjustment clause rider.

7 Q. Yep. For Ohio Power, right?

8 A. Yes.

9 Q. And am I correct that in each case the
10 fuel adjustment clause rider value was increased in
11 this proposed tariff?

12 A. The tariff was not proposed. It was
13 simply filed.

14 Q. Okay.

15 A. The last paragraph --

16 Q. In this filed tariff am I correct that
17 the fuel adjustment clause amount increased?

18 A. The rates are higher.

19 Q. Okay. Now, if the fuel adjustment clause
20 rates were higher, would it reduce the amount of
21 deferrals that would otherwise be recorded as a
22 regulatory asset?

23 A. It depends on the fuel costs.

24 Q. Why would it depend on the fuel costs?

25 A. I mean, conceptually the revenues are

1 compared to the fuel costs, so, you know, if we have
2 a higher rate than conceptually, it would drive the
3 cost down, but we didn't.

4 Q. But if you had a higher fuel cost rate,
5 it would reduce the amount that you needed to defer,
6 correct?

7 A. Yes. If the customers had paid that.

8 Q. Right. And there's no question about
9 that mathematical relationship, right? A higher fuel
10 clause for Ohio Power reduces --

11 A. Right. The only question is is it
12 possible, and it is not possible given the fact these
13 tariffs were not implemented.

14 Q. Okay. Now, you understand, do you not,
15 that the rates that Ohio Power's currently collecting
16 and Columbus & Southern are collecting are subject to
17 refund, right?

18 A. Yes, that's what I was indicating.

19 MR. RANDAZZO: Your Honors, I would move,
20 based upon the witness's testimony with regard to IEU
21 Remand Exhibit No. 6 and IEU Remand Exhibit No. 7,
22 rather than administrative notice I'd simply move
23 them into the record as exhibits. The witness has
24 identified both of them, he's indicated their
25 purpose. He's indicated the scope of the materials

1 that are provided. He's indicated that the
2 information is accurate.

3 And, again, the information that's
4 contained in these documents I believe is relevant to
5 the positions that the company has taken, if nothing
6 else, are admissions against interest.

7 EXAMINER PARROT: Mr. Randazzo, we'll
8 address the motion upon the conclusion of the
9 examination of the witness.

10 MR. RANDAZZO: Okay. I'm done. So, I'm
11 sorry, I should have said that. It might have saved
12 you the --

13 EXAMINER PARROT: Okay.

14 MR. RANDAZZO: Similarly, I'd move IEU
15 Remand Exhibit No. 8 and 4 and 5.

16 EXAMINER PARROT: Mr. O'Brien, did you
17 have any questions?

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

19 EXAMINER PARROT: Ms. Mooney?

20 MS. MOONEY: No questions.

21 EXAMINER PARROT: Ms. Kyler?

22 MS. KYLER: No questions.

23 EXAMINER PARROT: Ms. Grady?

24 MS. GRADY: No questions, your Honor.

25 EXAMINER PARROT: Mr. Satterwhite?

1 MR. SATTERWHITE: Maybe I can work
2 backwards, if that's okay, through the documents.

3 EXAMINER PARROT: First, did you have any
4 redirect?

5 MR. SATTERWHITE: I thought we were
6 moving these.

7 No.

8 EXAMINER PARROT: Okay. All right. Did
9 you have a response, then, to Mr. Randazzo's motion?

10 MR. SATTERWHITE: Yes, thank you. IEU
11 Exhibit No. 8, I guess we would oppose admission of
12 this as an exhibit as the witness said he had never
13 seen it before and -- the witness had not read it
14 before today and there was no foundation established
15 in the record to establish that exhibit, but we would
16 point out that it's a filing in this docket so to the
17 extent the Commission wants to recognize filings in
18 this docket, the company has no problem with that
19 administrative notice.

20 On IEU Rebuttal Exhibits No. 6 and 7 for
21 all the same reasons the Bench did not administrative
22 notice, we'd reiterate those. I would just point out
23 it wouldn't be proper to add these in as exhibits
24 after that and to the extent they were discussed in
25 the record the witness pointed out the issues in

1 there, so I don't think anything will be lost in the
2 record.

3 Exhibit No. 5 was those basis of the
4 rules that the witness has already put in his
5 testimony. There's no objection to that being
6 admitted.

7 But Exhibit No. 4, the witness stated
8 very clearly that it was not applicable, didn't rely
9 on them for his testimony, and it would be
10 inappropriate to put those in as exhibits, we would
11 oppose that as well.

12 EXAMINER PARROT: Any other responses to
13 Mr. Randazzo's motion from any of the other parties?

14 (No response.)

15 EXAMINER PARROT: Thank you for your
16 patience. IEU Remand Exhibits 4 and 5 shall be
17 admitted into the record.

18 (EXHIBITS ADMITTED INTO EVIDENCE.)

19 EXAMINER PARROT: IEU Remand Exhibits 6
20 and 7, we will admit the portions of those exhibits
21 that were specifically referred to in Mr. Randazzo's
22 questioning of the witness, but just with respect to
23 those portions.

24 And finally, with respect to IEU Remand
25 Exhibit 8, I agree with Mr. Satterwhite that this is

1 a company's filing that's already in the docket of
2 the case and so the motion is for that reason denied.

3 MR. RANDAZZO: Your Honors, I understand
4 the ruling, I don't want to argue the ruling but for
5 purposes of understanding the record, the document
6 was marked, it may make it easier to understand the
7 cross to have it at least allowed to be identified as
8 an exhibit and with the understanding that it's a
9 document in the filing. But if we refer to that
10 exhibit, it's going to be easier to talk about it in
11 a brief rather than to reference the filing of
12 May 11th.

13 MR. SATTERWHITE: Your Honor, it's in the
14 docket as the May 11th filing. I don't think there
15 will be much confusion.

16 EXAMINER PARROT: I agree with
17 Mr. Satterwhite.

18 MR. RANDAZZO: Okay. Thank you.

19 EXAMINER PARROT: Thank you very much,
20 Mr. Mitchell.

21 THE WITNESS: Thank you.

22 EXAMINER PARROT: Let's go off the
23 record.

24 (Discussion off the record.)

25 EXAMINER PARROT: Let's go back on the

1 record. At this point we're going to take a break
2 until 4:45 and then we will pick up with the next
3 witness.

4 (Recess taken.)

5 EXAMINER PARROT: Let's go back on the
6 record.

7 Mr. Nourse.

8 MR. NOURSE: Thank you, your Honor. The
9 companies call Laura J. Thomas.

10 EXAMINER PARROT: Ms. Thomas, I just
11 would remind you that you are still under oath.
12 Please be seated.

13 MR. NOURSE: Your Honor, could I have
14 marked as Companies' Remand Exhibit No. 8 the
15 rebuttal testimony filed on July 25th by Laura J.
16 Thomas?

17 EXAMINER PARROT: So marked.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 - - -

20 LAURA J. THOMAS

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

23 DIRECT EXAMINATION

24 By Mr. Nourse:

25 Q. Ms. Thomas, do you have the document that

1 is marked Companies' Remand Exhibit No. 8?

2 A. Yes, I do.

3 Q. And was that your rebuttal testimony
4 prepared by you or under your direction?

5 A. It is.

6 Q. Do you have any changes, additions, or
7 corrections that you would like to make to the
8 testimony?

9 A. No, I do not.

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

12 A. Yes, they would.

13 MR. NOURSE: Thank you. Your Honor, I'd
14 move for the admission of Companies' Remand Exhibit
15 No. 8 subject to cross-examination.

16 EXAMINER PARROT: Thank you, Mr. Nourse.
17 Ms. Grady.

18 MS. GRADY: Yes, your Honor, a motion to
19 strike. Earlier this morning I passed out materials
20 related to the motion to strike. The motion to
21 strike Ms. Thomas's testimony begins on page 2, line
22 1, and runs through page 4, line 9.

23 MR. NOURSE: Is there anything in the
24 packet that you gave us that relates to that?

25 MS. GRADY: Yes, the second half of the

1 packet.

2 MR. NOURSE: The second half.

3 MS. GRADY: Your Honor, this testimony
4 addresses when POLR should be determined, and
5 Ms. Thomas testifies that the cost of POLR cannot be
6 actual costs that are determined retrospectively. We
7 make this motion to strike on the basis that the
8 testimony is not proper rebuttal.

9 Rebuttal is inappropriate where it should
10 have been presented as part of the company's direct
11 case, we cite to the Commission order in Case No.
12 96-922-TP-UNC entry at paragraph 8 dated
13 January 29th, 2001. Ms. Thomas's testimony should
14 have been and could have been submitted as part of
15 AEP's direct case. There's no reason that it could
16 not have been presented. The notion that actual
17 costs determined on a retrospective basis versus the
18 Black-Scholes option model is not a new issue. It
19 was raised by the intervenors in the first phase of
20 this proceeding in 2008.

21 Referring to the companies' supplemental
22 response to OCC Discovery R-1-002, the company
23 provided a listing to Dr. LaCasse of the intervenor
24 2008 arguments against POLR items 1 and 4
25 specifically state, one, the cost of the POLR

1 obligation should be limited to the actual cost of
2 power used to supply returning customers. And item
3 4, any POLR charges should be based on actual
4 expenses and not hypothetical or forecast expenses.

5 As well on page 2 of that supplemental
6 response to OCC's discovery is the following
7 statement pertaining to the intervenors 2008
8 arguments: Rather than build the POLR risk into an
9 up-front premium the incremental cost of serving
10 returning customers at utility rates can be recovered
11 in a rider that would be designed to recover only
12 actually incurred costs for the term of the ESP.

13 The testimony in Phase I of this
14 proceeding confirms that these arguments were made
15 and were addressed. For example, see Kroger Witness
16 Higgins at 11 as well as the additional rebuttal
17 testimony of Company Witness Baker who addresses this
18 at page 14, line 17 carrying over to page 15 and line
19 20.

20 In summary, your Honors, the companies
21 could and should have made this part of their direct
22 case and because it should have it is not appropriate
23 rebuttal under the Commission's standards.

24 EXAMINER PARROT: Does anyone else have a
25 motion to strike or wish to join in OCC's motion to

1 strike?

2 MR. DARR: IEU joins the motion.

3 EXAMINER PARROT: Mr. Nourse, response?

4 MR. NOURSE: Thank you, your Honor.

5 First of all, with respect to the issues in the
6 initial phase of this proceeding there were a lot
7 of -- there was a lot of testimony, there were a lot
8 of arguments, I can agree to that, but the remand
9 directive was more specific and limited.

10 The companies didn't have the obligation
11 to anticipate that parties would make the identical
12 arguments under these new circumstances in the
13 present remand proceeding, but in fact they did and,
14 your Honor, the companies did present their case as
15 to their proposed constrained model being the best
16 way to measure POLR cost.

17 But the parties, as is referenced in
18 specific terms on page 2 of Ms. Thomas's testimony in
19 framing up context of the rebuttal, several
20 references there that parties -- the intervenor
21 witnesses are clearly now advocating in the context
22 of the remand that this ex-post approach should be
23 taken. So I would submit it as classic rebuttal,
24 we're responding to the specific arguments made that
25 undercut our primary recommendation and want to

1 address that on rebuttal through a very brief and
2 organized statement about the three main reasons to
3 support why that's not the proper way.

4 And I would also point out Ms. Grady, I
5 believe, improperly characterized the testimony as
6 saying that it's not possible or that it cannot be
7 done. You know, really the question on lines 14
8 through 16 indicates the debate is the proper way and
9 there are limits to what can be done, so that's what
10 she's trying to explain on rebuttal. I think it's
11 appropriate rebuttal.

12 EXAMINER PARROT: Thank you, Mr. Nourse.

13 The motion to strike filed by -- or, the
14 motion of Ms. Grady on behalf of OCC and joined by
15 IEU-Ohio is denied.

16 Ms. Grady.

17 MS. GRADY: Thank you, your Honor.

18 - - -

19 CROSS-EXAMINATION

20 By Ms. Grady:

21 Q. Good afternoon, Ms. Thomas.

22 A. Good afternoon.

23 Q. Let's go to page 2 of your testimony.

24 And I want to direct your attention to lines 20
25 through 22 where you address the fact that the POLR

1 charge should be set at the beginning of the ESP
2 period because that is when the companies make their
3 commitment to providing standard service offer. Do
4 you see that?

5 A. Yes, I do.

6 Q. And is it your testimony that the
7 companies made their commitment to providing SSO at
8 the beginning of the ESP period in this case?

9 A. It's my statement that, no, when the
10 commitment is made to those SSO rates, which the
11 company filed its proposal in '08 and then the
12 Commission subsequently ruled on that, that, you
13 know, when that commitment is made is when the
14 determination of the POLR cost should occur.

15 Q. I understand that's your testimony. My
16 question is, Ms. Thomas, is when was the commitment
17 made to providing stable, regulated SSO generation
18 rates?

19 A. I believe that that's a legal
20 determination that I'm not in a position to respond
21 to, but it's at the time that the commitment was made
22 by the company to, you know, to the SSO rates.

23 Q. And that's what I'm trying to find out.
24 From your perspective, when did the company commit to
25 make the SSO rates available?

1 A. The company made its filing for the SSO
2 rates that it was proposing in mid-'08 is my
3 recollection.

4 Q. So when it filed its 2008 application,
5 that point in time they were committed to providing
6 the SSO generation rates; is that your testimony?

7 A. The rates that they filed, yes.

8 Q. So at that point in 2008 the POLR charge
9 should have been set; is that correct?

10 A. And a POLR charge was proposed as part of
11 the company's proposal for SSO rates.

12 Q. What was the beginning of the ESP period,
13 if you know, for this ESP?

14 A. This ESP started at the beginning of
15 2009.

16 Q. Is that what the Supreme Court said? If
17 you know.

18 MR. NOURSE: Your Honor, I object. This
19 witness has already explained that she thinks she's
20 getting at a legal issue here and I believe that's
21 correct. As far as when the companies were
22 committed, she is clearly framing up the technical
23 issue, Ms. Thomas is, as to when the perspective of
24 when the -- whether it can be done ex-ante and should
25 be done ex-ante versus whether it could feasibly be

1 done ex-post and effectively done ex-post. This
2 distinction between the different dates that may be
3 months apart and whether the company is committed as
4 a matter of law, I'd submit, doesn't bear on her
5 testimony.

6 EXAMINER PARROT: I'm going to allow the
7 question.

8 Would you like it reread?

9 THE WITNESS: Yes, please.

10 (Record read.)

11 A. I don't know what the Supreme Court said.

12 Q. (By Ms. Grady) Would you agree with me
13 that the companies committed to the SSO rate at the
14 time the Commission approved a modified SSO?

15 MR. NOURSE: Your Honor, I object. She
16 already gave her best answer and these are things
17 that can be argued based on the Supreme Court brief
18 and the Commission's order. These are legal issues
19 that can be argued on brief.

20 EXAMINER PARROT: Overruled.

21 THE WITNESS: Can you repeat the
22 question?

23 MS. GRADY: If the question could be
24 reread, please.

25 (Record read.)

1 A. I don't know.

2 Q. Would you agree with me, Ms. Thomas, that
3 the company committed to an SSO rate at the time it
4 accepted the Commission's modifications to the
5 standard service offer?

6 MR. NOURSE: Your Honor, I would object.
7 I don't think there's anything in the statute about
8 accepting, and again, she just keeps asking the same
9 question after the witness is giving her best answer.

10 EXAMINER PARROT: Sustained.

11 Q. Ms. Thomas, on lines 22 through 23 you
12 say "It is at that time that the Companies'
13 obligations begin and the Companies take on the risk
14 of uncertainty." Do you see that?

15 A. Yes, I do.

16 Q. And what time are you referring to that
17 the companies' obligations for POLR begin?

18 A. I believe that that relates to the prior
19 sentence, when I say targets the time of the
20 commitment that we just discussed.

21 Q. And you don't know when that commitment
22 began, do you, for the companies?

23 A. I believe I stated that that's a legal
24 determination.

25 Q. So you don't know whether it began on

1 January 1st, 2009, or, for instance, April 1st, 2009?

2 MR. NOURSE: Your Honor, asked and
3 answered. I thought we moved on after you sustained
4 the objection.

5 EXAMINER PARROT: Sustained.

6 Q. Are you aware of filings that the company
7 might have made where it made statements that it was
8 not accepting the Commission's modifications to the
9 standard service offer? Are you aware of that fact?

10 A. No, I'm not. I was not involved.

11 Q. Would you accept, subject to check, that
12 there were filings that the company made where it
13 indicated it was not accepting the Commission's
14 modifications to the standard service offer?

15 A. No, I was not involved so I'm not in a
16 position to accept that.

17 Q. And if it was not accepting the standard
18 service offer, would you agree with me that they then
19 would not have made a commitment to providing it?

20 MR. NOURSE: Objection, your Honor.
21 We're still stuck on the legal definition of the
22 commitment here. I don't think there's any dispute
23 about the fact that the rates -- that the
24 Commission's order says the term began in January of
25 2009 and the rates went into effect and the company

1 was implementing the plan regardless of whether there
2 was any debate about acceptance or any basis in the
3 statute to even talk about acceptance.

4 EXAMINER PARROT: You may answer the
5 question if you know.

6 THE WITNESS: Could you repeat the
7 question, please?

8 (Record read.)

9 A. Again, I'm not knowledgeable about the
10 specifics of accepting and not accepting and what
11 that means.

12 Q. When was the company's new standard
13 service offer rate approved by the PUCO, if you know?

14 A. I believe the Commission issued an order
15 in the spring of 2009.

16 Q. Would that have been April of 2009? I'm
17 sorry, would that have been March 18th of 2009, if
18 you know?

19 A. I don't recall the exact date.

20 Q. When did the company's obligations with
21 respect to offering its standard service offer begin?

22 MR. NOURSE: Your Honor, I object.

23 EXAMINER PARROT: Sustained.

24 Q. Does the POLR charge that was put into
25 effect by the companies reflect that a commitment to

1 offer standard service offer -- let me strike that.

2 You state on page 3, line 6, that if
3 customers know the POLR cost up front, then they can
4 plan accordingly by determining their switching
5 options and savings. Do you see that?

6 A. Yes, I do.

7 Q. Ms. Thomas, would you agree that POLR is
8 just one piece of the equation for customers in order
9 to determine what their switching options and what
10 their savings would be?

11 A. Yes. A customer would look at a number
12 of things including the POLR and that sentence was
13 really, you know, kind of a lead in to the following
14 sentence that customers would need to know the POLR
15 so they can make that determination about whether or
16 not they should waive the POLR. It would be
17 difficult for them to know what they are waiving if
18 they don't know what the charge is.

19 Q. Okay. Wouldn't customers also have to
20 know the other components for service from the
21 company in order to be able to compare them to prices
22 that are being offered by the CRESSs?

23 A. I think that, you know, the customer
24 would know various provisions. They may not know
25 every exact number, but it's not that those numbers

1 change after the fact, it's that those numbers, you
2 know, would change at various points in time.

3 Q. Let me ask you the question again.
4 Wouldn't customers have to know, if they wanted to
5 compare their prices to the prices from CRESs, all
6 the components of the price to compare?

7 A. A customer would look at those pieces of
8 information that he knows and those pieces of
9 information that he doesn't know in order to make a
10 determination.

11 Q. Does the price to compare include other
12 elements besides POLR? Is that your understanding?

13 A. Yes.

14 Q. And that would include the base
15 generation charge and the fuel adjustment charge;
16 would it not?

17 A. That's correct.

18 Q. And it would also include the
19 environmental carrying charge cost rider, correct?

20 A. Yes.

21 Q. So the price to compare is composed of
22 multiple riders which then make up the SSO rate,
23 correct?

24 A. That's right. Although those riders, you
25 know, when they change, they change prospectively and

1 which makes them a little different than the POLR
2 cost which is really the cost of the risk that the --
3 the cost that's incurred up front in terms of
4 providing customers with those options.

5 Q. Let's talk about the fuel adjustment
6 clause and the environmental riders that are
7 components of the price to compare. Those riders are
8 subject to variation and true-up, are they not?

9 A. Yes, they are.

10 Q. And isn't it your understanding that, for
11 instance, the fuel adjustment clause is a large
12 portion of the price to compare? Much larger than
13 the POLR component.

14 A. Yes. The fuel is larger than the POLR
15 component, but I think the fuel rider is different
16 than what we're talking about for the POLR charge.

17 Q. The fuel rider, Ms. Thomas, is
18 approximately, if you know, \$30 a megawatt-hour which
19 is almost half of the price to compare; is that
20 correct?

21 A. I don't recall the exact number. But
22 it's a different type of cost than the POLR cost.

23 Q. And the POLR cost is somewhere around a
24 \$3 level as opposed to a \$30 level per megawatt-hour
25 for the FAC?

1 A. That's right, but again, the POLR is a
2 different type of rider because when the customer
3 waives the POLR, they are making a commitment that
4 when they return to the company, they would come back
5 at market rates as opposed to, you know, a rate that
6 is the SSO rate that they would otherwise return to.

7 Q. Are you testifying, Ms. Thomas, that an
8 after-the-fact analysis will not just focus on
9 out-of-pocket costs?

10 A. I don't believe that that would be
11 appropriate or would make sense because what you're
12 trying to do is capture the cost --

13 Q. Ms. Thomas, I'm asking if your testimony
14 is stating whether an after-the-fact analysis will
15 not just focus on out-of-pocket costs. That's my
16 question.

17 A. What my testimony is is that an
18 after-the-fact analysis, you know, would involve cost
19 estimation and modeling because of the type of cost
20 that you're looking at.

21 Q. Now, let's go to page 5 of your
22 testimony. You discuss there nonprice factors and
23 you state that there are offsetting factors as well,
24 and I'm focusing on lines 8 through 9. Do you see
25 that reference?

1 A. Yes, I do.

2 Q. Would you agree with me that these
3 offsetting factors apply to the migration risk only?

4 A. I would --

5 Q. And by "migration risk" I mean the risk
6 of customers leaving only.

7 A. Okay. I would believe that -- I believe
8 that as it relates to the risk of customers leaving,
9 opt-out aggregation would have an impact on that, but
10 some of the other factors would also influence a
11 customer returning and even opt-out aggregation --

12 Q. But I'm only asking --

13 MR. NOURSE: Your Honor, can she let the
14 witness finish, your Honor, please?

15 MS. GRADY: That would be fine if I could
16 move to strike and I would be successful in the move
17 to strike.

18 MR. NOURSE: She's trying to interrupt
19 and cut off the answers, obviously.

20 MS. GRADY: She's going way beyond my
21 questions.

22 EXAMINER PARROT: Ms. Grady, please allow
23 the witness to finish her answer and then if you feel
24 you need to move to strike, we can deal with that at
25 that point.

1 A. These factors would have an impact on
2 both customers leaving and customers returning back
3 to the standard service offer, and the reason that I
4 say that it would impact in both directions is, for
5 example, opt-out aggregation where you have a large
6 number of customers who would leave at once, either
7 when that contract was over or when a CRES provider
8 no longer provided service to those customers, you
9 could have that same large block of customers
10 returning to the company when they're no longer being
11 served by a CRES provider.

12 The same would hold true for the other
13 offsetting factors at the bottom of page 5 where you
14 may get customers who would leave to go to another
15 supplier because they either receive other benefits
16 or there's other considerations or just because they
17 want to try something different. Those same
18 customers, you know, you could have those same kinds
19 of things for customers returning to standard service
20 offer.

21 So I believe that these examples relate
22 to both portions of the POLR risk which is the
23 migration away from the company as well as the
24 return.

25 Q. Okay. Ms. Thomas, how much of an offset

1 does the opt-out aggregation produce to the nonprice
2 factors that are identified by Intervenor Witnesses
3 Thompson and Murray in determining the cost of POLR?

4 A. I believe, as I show on the top of page
5 6, you know, that these things are not known and,
6 therefore, were not quantified or modeled. These are
7 behavioral types of things in both directions that
8 were not included and, therefore, for modeling
9 purposes the assumption was that customers would be
10 price responsive.

11 Q. Now, are you aware, Ms. Thomas, of the
12 PUCO rules that pertain or set limits on aggregation,
13 on a term of aggregation?

14 A. I'm not sure what you mean.

15 Q. Are you aware of whether there's PUCO
16 rules that define how long aggregation can take place
17 over, how long a customer can be part of an
18 aggregation group?

19 A. No, not specifically familiar with that.

20 Q. Would I be correct in assuming that the
21 aggregation constraints would not be -- let me strike
22 that.

23 Are you aware of any aggregation
24 constraints that are contained in your tariff?

25 MR. NOURSE: Your Honor, could I get a

1 clarification? I think it's a vague question.

2 "Aggregation constraints," is this on the same
3 subject of the term, limiting the term?

4 MS. GRADY: Yes. We'll start with the
5 term. Yeah.

6 A. I'm not sure which provisions you're
7 referring to.

8 Q. So is it your understanding there are no
9 provisions in the tariff that deal with that -- set
10 forth aggregation terms in terms of length or
11 conditions for aggregation?

12 A. No, I don't believe what -- that's what I
13 said. I'm not sure what you are referring to.

14 Q. That's what I'm asking you, is there
15 anything in your tariffs that refer to aggregation
16 customers and put limits on aggregation customers in
17 any respect?

18 A. I don't know. I'm not sure what you're
19 referring to.

20 Q. So it would be safe to assume that the
21 aggregation, if there are limits on aggregations
22 either through -- let me strike that.

23 So it would be safe to assume that if
24 there are limits on aggregations that are established
25 in the Commission's rules, those would not have been

1 part of your constrained model; is that correct?

2 A. No. As I state on page 6, none of these
3 nonprice factors were included in the constrained
4 model because the company is not able to know these
5 or customers or groups of customers and, therefore,
6 they were not modeled.

7 Q. So the company is not able to know the
8 aggregation constraints that are contained in the
9 Commission's rules? Is that what you're testifying
10 to?

11 MR. NOURSE: Objection. It
12 mischaracterizes the testimony.

13 EXAMINER PARROT: Please rephrase,
14 Ms. Grady.

15 MS. GRADY: Can I have the question
16 reread?

17 (Record read.)

18 Q. You list the aggregation, the opt-out
19 aggregation, do you not, as a nonprice factor?

20 A. Yes.

21 Q. Is that correct? As an offsetting
22 factor.

23 A. That's correct.

24 Q. And you say that, in your testimony on
25 line 6, that the nonprice factors were not known and,

1 therefore, were not modeled. Do you see that
2 reference?

3 A. Yes.

4 Q. And when you mention nonprice factors
5 there, you're including in that the opt-out
6 aggregation, correct?

7 A. Yes, I am.

8 Q. Are you saying that if there are rules
9 related to limits on opt-out aggregation, they were
10 not known to the company and, therefore, they were
11 not modeled; is that correct?

12 A. Again, I'm not sure what you're referring
13 to and so, you know, to say something is known or not
14 known, given that I don't know what you're referring
15 to I can't answer that.

16 Q. Now, on lines 19 to 22 of your testimony
17 you state that "Besides community aggregation, there
18 are also other customers that will switch just
19 because they can." Do you see that?

20 A. I'm sorry, which page are you on?

21 Q. That would be page 5.

22 A. Yes.

23 Q. Would you consider that a behavioral
24 factor that will vary from customer to customer?

25 A. Yes.

1 Q. And you have testified, have you not,
2 Ms. Thomas, that you cannot speak for individual
3 customers and what would drive their abilities to
4 switch; isn't that correct?

5 A. Yes. These are examples of those same
6 types of behaviors on one side just as the -- as I
7 address in my rebuttal testimony the nonprice factors
8 that are mentioned by the intervenor witnesses on the
9 other side, and so they are all behavioral types of
10 things that the company does not know.

11 Q. And you do not know whether customers
12 have transaction costs associated with or related to
13 switching; is that correct? That's your earlier
14 testimony.

15 A. No. That would be something with the
16 customer and/or their CRES provider.

17 Q. And you have no way of knowing what
18 individual customers' transaction costs may or may
19 not be, correct?

20 A. That's correct.

21 Q. Does the company have any way of knowing
22 whether these customers will switch or the degree to
23 which this phenomena will apply to CSP or OP
24 customers? And the phenomena I'm talking about is
25 that customers -- there are also customers that will

1 switch just because they can.

2 A. As I've stated, we've not quantified that
3 impact just the same way we have not quantified the
4 impact of the other price factors such as customer
5 inertia and the other behavioral factors identified
6 by the intervenors.

7 Q. So you don't know how much of an offset
8 this will produce to the nonprice factors that were
9 identified by the intervenor witnesses in determining
10 the cost of POLR, correct?

11 A. I have not quantified that impact of the
12 factors on either side.

13 Q. You also indicate on line 20, page 5 of
14 your testimony, that -- and you identify it as a
15 nonprice factor that customers will switch because
16 they will receive other benefits or services beyond
17 the price of generation from a CRES provider. Do you
18 see that?

19 A. Yes.

20 Q. And you are not privy, are you,
21 Ms. Thomas, to the terms and conditions of contracts
22 between a customer and their specific CRES provider?
23 Are you?

24 A. No. The company is not privy to those
25 things, but it is reasonable to believe that those

1 providers may provide other services.

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

4 (Record read.)

5 Q. So your basis is that you believe that
6 there are customers out there that will switch to
7 receive a -- let me strike that.

8 So this nonprice factor that you're
9 referring to is based upon your assumption that there
10 are certain benefits or services being provided by a
11 CRES provider that a customer might find to be
12 beneficial; is that correct?

13 A. It's based on that reasonable assumption
14 that this is one of many different nonprice factors
15 that could work in either direction.

16 Q. And what benefits or services are you
17 referring there specifically that you are aware of
18 that CRES providers provide beyond the price of
19 generation?

20 A. As I state, it is a reasonable assumption
21 that suppliers may offer other services to customers
22 in addition to just the price of generation.

23 Q. Now, I'm going to ask you my question
24 again. What benefits or services are you aware of
25 beyond the price of generation that CRES providers

1 are providing to customers at this time?

2 A. As we discussed earlier, the company is
3 not privy to the specifics of those contracts and,
4 therefore, it is a reasonable assumption that they
5 might offer other goods or services.

6 Q. They might offer. Do they offer,
7 Ms. Thomas? As you sit here today can you tell me
8 what benefits and services the CRES providers are
9 offering that would cause customers to switch beyond
10 the price of generation?

11 A. I believe that I said that the company
12 was not privy to the specific provisions of the
13 various contracts between suppliers and their
14 customers.

15 Q. And what is your assumption, your
16 reasonable assumption, that these CRES providers are
17 providing other benefits or services based on?

18 A. I would say it's based on my own
19 experience.

20 Q. As a --

21 A. And --

22 Q. Go ahead.

23 A. Based on my experience and my prior
24 experience in the regulatory area in dealing with
25 customer contracts with companies where customers

1 were seeking various types of options or other
2 services from the company.

3 Q. When you say your own experience, are you
4 talking about as a personal customer that you have
5 been contacted by or you are aware of CRESS' benefits
6 and services that are being offered to you as a
7 customer?

8 A. I was referring to my experience in
9 working in the regulatory area dealing with customer
10 contracts where customers often contact the company
11 requesting other types of options or services.

12 Q. So the customers contacted the company
13 and they told you what benefits or services they were
14 being provided by the CRES providers. Is that a
15 reasonable assumption?

16 A. That they were asking whether the company
17 could provide various types of services and it's
18 reasonable to believe that they would ask their CRES
19 provider for those same types of things.

20 Q. So you assume if a customer contacted you
21 and inquired as to what services or benefits you
22 would provide, that they were also getting those
23 benefits or services from the CRES providers; is that
24 the basis of your assumption?

25 A. The basis of my assumption is it's

1 reasonable to believe that customers would ask their
2 CRES providers for similar types of services as they
3 might request from the company from time to time.

4 Q. Is it your understanding that all the
5 CRES providers in Ohio are providing what you are
6 assuming to be benefits or services beyond the price
7 of generation, or are there just some of them that
8 you assume are providing benefits or services beyond
9 the price of generation?

10 A. All I'm doing is pointing out that this
11 is one of the other factors that when you list the
12 nonprice factors, there are price factors on the
13 other side which would -- might cause a customer to
14 choose another supplier other than just price.

15 MS. GRADY: I'm going to move to strike
16 and I'm going to ask my question be reposed and that
17 the witness be instructed to answer.

18 MR. NOURSE: Can I hear the Q and A
19 again, please?

20 (Record read.)

21 MR. NOURSE: I'm not sure I understand
22 the basis for the motion to strike, your Honor.

23 EXAMINER PARROT: The motion is denied,
24 but, Ms. Thomas, you may answer the question.

25 THE WITNESS: Okay, could you please

1 repeat the question?

2 EXAMINER PARROT: Yes.

3 (Record read.)

4 A. I'm not assuming that all or that any
5 specific CRES provider is providing that to
6 customers. It is a reasonable assumption that there
7 are some customers who would be seeking to receive
8 those other types of services from a CRES provider
9 and this is just an example of an offsetting factor.

10 Q. Would you consider that a behavioral
11 factor that will vary from customer to customer?

12 A. Yes.

13 Q. And does the company have any way of
14 knowing whether these customers will switch or the
15 degree to which this phenomena will apply to Columbus
16 Southern Power and Ohio Power customers?

17 A. The company does not have knowledge of
18 the specific individual customer behaviors for this
19 particular factor, just as it does not have as it
20 relates to other customer behavioral factors that are
21 listed by the intervenors.

22 Q. How much of an offset does this produce
23 to the nonprice factors identified by Intervenor
24 Witnesses Thompson and Murray in determining the cost
25 of POLR, if you know?

1 A. I believe I stated earlier that I have
2 not quantified the price factors on either side.

3 Q. Ms. Thomas, have you looked at actual
4 customers who have switched and analyzed the reasons
5 why they switched to a CRES?

6 A. No. The company does not have the
7 specifics in terms of why a specific customer would
8 have switched to a CRES provider.

9 Q. And have you looked at the actual
10 customers who have returned to the company and
11 analyzed the reasons that they returned?

12 A. No. That is a customer -- individual
13 customer choice that the customer makes and the
14 company has no information about why a customer might
15 make that decision.

16 Q. Has the company tried to study or analyze
17 why customers switched or why they returned? Have
18 they done any information gathering or tried to look
19 at that issue?

20 A. Not to my knowledge.

21 Q. Now, you begin your discussion on page 7,
22 line 17 focusing on the "Constrained Model Pricing
23 and Switching." Do you see that part of your
24 testimony?

25 A. Yes.

1 Q. Now, on line 21 you refer to OCC Witness
2 Thompson's statement in his testimony. Is it your
3 understanding that Mr. Thompson there was focusing on
4 the constrained model?

5 A. I believe that I would have to go back
6 and look at his testimony, but I believe that he
7 indicated that that would apply to either model.

8 Q. In your estimation does Mr. Thompson
9 accurately describe how the unconstrained model works
10 in his testimony?

11 A. No, but I've not addressed that here in
12 my rebuttal.

13 Q. Ms. Thomas, doesn't the unconstrained
14 model, and I want to clearly indicate I'm talking
15 about the unconstrained model, doesn't the
16 unconstrained model assume continuous jumping for a
17 penny?

18 A. The unconstrained model uses a single
19 option to determine the cost of the company's POLR
20 cost. It's a single option and utilizes the
21 parameters of that single option.

22 Q. And under the single option, Ms. Thomas,
23 doesn't the unconstrained model assume continuous
24 jumping for just a penny? And when I say "continuous
25 jumping for just a penny," I'm talking about the

1 price differential under the unconstrained model
2 where a customer would switch when the market price
3 fell below standard service offer price and the penny
4 reference is to a penny a megawatt-hour.

5 A. In determining -- in the unconstrained
6 model prices are continuously moving, but it is a
7 single option and, therefore, the customer would not
8 be, you know, constantly switching because it's a
9 single option.

10 Q. Now, you testified -- now, you testify,
11 do you not, Ms. Thomas, that in the constrained model
12 customers would switch for a one cent advantage if
13 that is the total economic outcome of that particular
14 price path? And I refer you to your testimony on
15 cross-examination transcript page 276 lines 13 to 18.

16 A. I don't have that with me.

17 MS. GRADY: May I approach?

18 EXAMINER PARROT: You may.

19 Q. I'm going to withdraw the question and
20 ask you instead did you testify in the earlier
21 portion of this proceeding at transcript Volume II,
22 page 276 the following when asked the question: "Let
23 me try it this way. If over the price gap there is a
24 1 percent advantage to change, a 1 cent per
25 megawatt-hour advantage of changing, does the model

1 assume that the customer would move?" And your
2 answer was: "If that is the total economic outcome
3 of that particular price path, yes."

4 Did I read that correctly?

5 A. Yes. That's what the transcript says.

6 Q. Is your point, Ms. Thomas, that for the
7 constrained model the price paths are set by the
8 switching constraints and so that although switching
9 would occur for a one cent advantage, it would not be
10 a continuous jumping at the penny differential?

11 A. I think that's best understood if you
12 look at the diagram on page 9 where, and the
13 explanation where we're really looking at a complete
14 price path, that you sort of work your way backwards
15 through the tree. And you're looking to determine
16 what is the least cost to the customer which would
17 drive the switching behavior.

18 And, therefore, you consider whether or
19 not in the nodes for example at month three whether
20 the customer would switch because of the advantage of
21 market price versus the ESP price at that point in
22 time, and then based on the least cost strategy at
23 each node, which is whether to switch or not to
24 switch, that information is brought back to the prior
25 level, again, so the customer kind of has that

1 advantage of knowing what's best in the future and
2 you bring that all the way back through each step of
3 the tree back to month two and month one.

4 So at the end of the day if the optimal
5 price path throughout the term was a penny less, then
6 yes, the customer would switch, but it's not a
7 continuous switching back and forth every time the
8 price changes by a penny.

9 Q. So is your reference to diagram 1, is it
10 your testimony that that's how a customer thinks in
11 terms of determining whether or not it will switch to
12 a CRES provider from the standard service offer?

13 A. This is the diagram that explains how the
14 model works taking into account all of the customers'
15 options to switch or not to switch and, basically,
16 brings that information from the future back so that
17 the customer has that knowledge of future
18 information.

19 Q. And the model purports to show how a
20 customer would react, would it not, to changes in
21 price and then make a determination as to whether to
22 switch?

23 A. By looking at the entire price path
24 throughout the term of the ESP in order to calculate
25 the cost to the company.

1 Q. This is the customer's decision-making
2 model shown on diagram 1 under the constrained model,
3 correct?

4 A. Right. This is the illustration of how
5 the constrained model works, and the way that the
6 constrained model works is to choose the least cost
7 strategy at the various nodes and bring those all the
8 way back. And so, again, looking at the total price
9 path the decision of switching at a certain point in
10 time and then potentially, you know, leaving or
11 returning based on the outcome of the entire price
12 path is what this models.

13 Q. So this diagram 1 is modeling customers'
14 decision-making process, correct?

15 A. It is modeling what would happen with
16 that knowledge at all of those different points in
17 time, okay? So, again, it's modeling -- if the
18 options and the prices are known, what is the least
19 cost strategy for the customer.

20 MS. GRADY: Your Honor, I would ask that
21 she answer the question. I still don't think -- I've
22 asked it three times now, I still don't think she's
23 answered the question.

24 MR. NOURSE: Your Honor, I think she's
25 doing her best, and Ms. Grady wants her to use the

1 same phrase she's using and she's explaining it the
2 way Ms. Thomas understands it.

3 MS. GRADY: Let me rephrase the question.

4 Q. Whose decision-making process is modeled
5 under diagram 1 in your testimony on page 9?

6 A. This is the decision-making process
7 looking at the least cost to the customer over the
8 entire price path.

9 Q. Whose decision-making process is being
10 modeled here on diagram 1 at page 9?

11 MR. NOURSE: Your Honor, I object. It's
12 answered already. She keeps repeating.

13 MS. GRADY: I didn't hear any person
14 being identified so I don't think it's been answered.

15 EXAMINER PARROT: Overruled. Ms. Thomas,
16 if there is a person that's associated with the
17 decision-making process represented in the model, you
18 may indicate so.

19 A. It's not a person's decision-making
20 process. It's a process for determining the least
21 cost strategy for kilowatt-hour over the price path.

22 Q. Is it a decision-making process of the
23 company that's being modeled here?

24 A. It is a decision-making process in terms
25 of the least cost strategy for a kilowatt-hour over

1 the price path.

2 Q. So it's a kilowatt-hour strategy?

3 A. It is modeling the least cost per
4 kilowatt-hour over the price path created during the
5 term of the ESP.

6 Q. The least cost kWh for whom?

7 A. It's the least cost strategy for
8 kilowatt-hour under the ESP versus under the market
9 price.

10 Q. For whom is it a least cost strategy? Is
11 it a least cost strategy for customers that's being
12 modeled here?

13 A. This is the least cost strategy for a
14 kilowatt-hour, so a kilowatt-hour is getting the
15 least cost as a result of the model.

16 Q. And who is -- who is using the
17 kilowatt-hours?

18 A. Customers utilize our kilowatt-hours.

19 EXAMINER PARROT: Did you hear the
20 answer?

21 MS. GRADY: No, I did not.

22 (Record read.)

23 MS. GRADY: Thank you.

24 Q. Now, Ms. Thomas, when switching occurs
25 under the constrained model, the model assumes a one

1 cent advantage will trigger switching with
2 100 percent of the customers who are eligible to
3 switch doing so that the point; is that correct?

4 A. No.

5 Q. Please explain why that is not correct.

6 A. It is a least cost strategy for a
7 kilowatt-hour along the price path.

8 Q. Does the entire kilowatt-hour switch or
9 just a part of the kilowatt-hour?

10 A. I don't understand the question.

11 Q. It's based on your answer that it's a
12 kilowatt-hour that's being modeled here.

13 A. Well, the kilowatt-hour will, depending
14 upon what the least cost strategy is, at various
15 points in time it will either be on the ESP price or
16 the market price subject to the switching
17 constraints. So it is the cost per -- is the least
18 cost for a kilowatt-hour.

19 Q. So it's the entire kilowatt-hour, not a
20 segment of the kilowatt-hour.

21 A. I'm not aware of how you can have a
22 partial kilowatt-hour.

23 Q. Now, on page 8, line 16 you begin a
24 discussion the constrained model and the price paths
25 over the term of the ESP. Do you see that?

1 A. Yes.

2 Q. And these same price paths are not
3 contained in the unconstrained model that the company
4 is seeking approval of in this proceeding; is that
5 correct?

6 A. Right. The unconstrained model works,
7 you know, the mechanics are a bit different.

8 Q. Now, the penny differential that was
9 discussed by the intervenors was the delta between
10 the ESP, SSO price, and the market price; isn't that
11 correct?

12 A. I believe that's the case, yes.

13 Q. Now, on page 10, line 17 to page 11, line
14 2, you discuss price movements and paths as typically
15 about a 10 percent of the market price. Do you see
16 that reference?

17 A. Yes, I do.

18 Q. You state there that the 10 percent
19 equates to a 7 to 8 dollar megawatt-hour movement.
20 Do you see that?

21 A. Yes.

22 Q. And there aren't you referring to the
23 market price step changes assumed in the model and
24 not the delta between the ESP, SSO price, and the
25 marketplace?

1 A. That's right, the typical price movements
2 change in market price, you know, the typical amount
3 is 10 percent depending on where you are in the tree.
4 The market price movement can be a little bit greater
5 or less, but they are fairly significant price moves
6 throughout the tree.

7 Q. Now, going to page 10, lines 13 through
8 14, you refer to a decision-making process there. Do
9 you see that reference?

10 A. Yes.

11 Q. Is that the customer's decision-making
12 process? Correct?

13 A. That's the decision-making process in the
14 model.

15 Q. That's the kilowatt-hour discussion that
16 we just went through, right?

17 A. Yes.

18 Q. So the kilowatt-hour makes the decision
19 as to whether to switch or not.

20 A. The model works to determine the least
21 cost strategy for that kilowatt-hour.

22 Q. Now, would you agree with me that the
23 process that you describe in paragraphs 1, 2, and 3
24 of your testimony is an accurate portrayal of a
25 decision-making process that is modeled in the

1 constrained model?

2 A. Yes. This is a description of how the
3 constrained model works.

4 Q. Ms. Thomas, do you know how customers
5 make price decisions? Decisions about whether or not
6 to switch or not to an SSO versus the standard
7 service offer?

8 A. Are you talking -- I'm not sure what
9 you're talking about. Customers in general.

10 Q. Well, let's start with in general. In
11 general how do customers make decisions about whether
12 to switch or not, if you know?

13 A. I can't speak to how every customer makes
14 its decision to switch or not. For the purposes of
15 determining the cost of the company's POLR obligation
16 we assume that customers would basically have that,
17 you know, economic and be price responsive.

18 Q. And also the model, the constrained model
19 and the unconstrained model, assumes that customers
20 will not rely upon nonprice factors, correct?

21 A. That's correct.

22 Q. Do kilowatt-hours make the same
23 assumption?

24 A. Again, what the model captures is the
25 least cost per kilowatt-hour, okay, in order to

1 determine what the cost of the company's POLR is,
2 okay.

3 Q. Do you know whether customers have
4 transaction costs associated with or related to
5 switching?

6 A. I believe I answered that question
7 earlier and I do not have that specific information
8 for customers.

9 Q. Ms. Thomas, do you think a customer
10 follows the same decision-making process that you
11 have testified a kilowatt-hour follows?

12 A. Well, certainly the model assumes that
13 the least cost is achieved for the customer, and
14 that's all I can really speak to. I can't speak to
15 what an individual customer would do.

16 Q. Ms. Thomas, does the constrained model
17 calculate the cost of a European option? If you
18 know.

19 A. In the constrained model it does use a
20 European option in terms of determining what the
21 least cost strategy, the cost of the least cost
22 strategy is.

23 MS. GRADY: That's all the questions I
24 have, Ms. Thomas.

25 EXAMINER PARROT: Ms. Kyler?

1 MS. KYLER: No questions.

2 EXAMINER PARROT: Mr. Darr?

3 MR. DARR: I'll be brief.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Darr:

7 Q. Just so we're clear, the company through
8 your testimony is supporting the original
9 calculations done by Mr. Baker as modified by the
10 Commission and you're asking that that be used as the
11 model going forward for the rest of this ESP; is that
12 correct?

13 A. I believe that my direct testimony is to
14 utilize the constrained model that shows that the
15 rates that the Commission had approved and put into
16 effect were reasonable and that the constrained
17 model, after taking into account certain other things
18 that were known like the final ESP prices and the
19 final market prices that were used by staff, that
20 those results compared reasonably to what the
21 Commission had put into effect and that's my
22 testimony.

23 Q. Specifically, on page 16 of Company
24 Remand Exhibit No. 3 which was your testimony it
25 states as follows: "Based on the results of the

1 analysis I've discussed and summarized in my
2 testimony, I believe that the companies' filings and
3 Commission orders resulted in fair and reasonable
4 POLR rates for customers." Correct?

5 A. I'm sorry, could you give me that
6 reference again, please?

7 Q. Sure. Your Remand Exhibit 3.

8 EXAMINER PARROT: I believe it's 4.

9 MR. DARR: I'm sorry, you're absolutely
10 right.

11 Q. Remand Exhibit 4, page 16, lines 10
12 through 12.

13 A. Yes, I have that reference.

14 Q. Okay. And you're not changing your
15 testimony in any regard with that, are you?

16 A. With regard to the statement on page 16,
17 no.

18 Q. Thank you.

19 Now, with regard to the model, whether
20 we're talking about the option model in the
21 constrained or in the unconstrained, there are four
22 variables to the calculation of the option; am I
23 correct in that? Excuse me, five variables. There
24 is market price, strike price, volatility, time, and
25 the interest rate. Those are the five variables,

1 correct?

2 A. Yes, those would be the variables that I
3 discussed in my direct testimony.

4 Q. And so if we wanted to plug in a variable
5 for customer inertia, where would we plug that in?

6 A. The model does not account for nonprice
7 factors as I've stated in my rebuttal testimony.

8 Q. And if we wanted to put in a factor for
9 customer loyalty, where would we plug that in?

10 A. Again, the model does not include
11 nonprice factors whether -- regardless of are they
12 things perceived to inhibit customer shopping or on
13 the other side as well, so nonprice factors are not
14 included in the model.

15 Q. And if we wanted to put in a factor for
16 delays in contracting, where in the model would we
17 find that?

18 A. Again, nonprice factors are not included
19 in the model.

20 Q. Now, at the time that the company takes
21 on the SSO obligation is it your understanding that
22 they also take on the obligation to include a firm
23 supply of electric generation?

24 A. I believe so.

25 Q. And that would include making sure the

1 fuel was available to provide that generation,
2 correct?

3 A. Well, the company has the obligation to
4 provide service at the SSO prices and so it's
5 whatever generation or whatever is needed in order to
6 provide service to the customers at those prices.

7 Q. And one of those factors would probably
8 be fuel, right?

9 A. Could be, yeah.

10 Q. And it might be purchased power?

11 A. Might be.

12 Q. And if you bought those kinds of things
13 and, for example, if it was coal, you might have to
14 comply with environmental standards.

15 A. Sure.

16 Q. And all of those things are factored into
17 your SSO price, currently, correct?

18 A. The SSO price is a price that we have to
19 provide service to the customers. You know,
20 specifically what are the elements of that? I can't
21 tell you what the specific elements are that are in
22 there, but that's the price that we have to provide
23 service to customers at.

24 Q. Sure. And as we've discussed over the
25 last, oh, six or seven days, included in that price

1 is a price of fuel, a price for the equipment to
2 generate the power, the price of purchased power, the
3 price of environmental elements and so forth,
4 correct?

5 A. That all of those services would be
6 covered by that price, but I can't tell you
7 specifically, you know, what for what.

8 Q. Right. I'm not -- that's not the
9 question I'm asking. I'm asking whether or not those
10 are all covered in the price.

11 A. Basically it's whatever it takes to
12 provide service to the customer.

13 Q. One of the things that you state at page
14 3, line 6 of your rebuttal testimony is that part of
15 the reason for setting the POLR at the beginning of
16 the process is so customers can plan. Have I
17 captured that closely enough?

18 A. So that customers could plan so that, you
19 know, how can they waive something if they don't know
20 what it is that they're waiving the charge for,
21 because that is an affirmative decision that the
22 customer would have to make if they wanted to waive
23 the POLR and basically agree to return at market
24 rates.

25 Q. Right. Okay. And if there were no POLR,

1 they could factor that in too, correct?

2 A. Yes.

3 Q. I thought so too.

4 Now, part of this is that the amount you
5 talk about is something like, the more you can fix
6 the amount, that is stabilize the amount, the easier
7 it is to make that comparison, correct?

8 A. For the purposes of the POLR for waiving,
9 that's kind of a different type of thing. To me
10 there's a difference between, you know, something
11 that may be stable versus something that's fixed.

12 Q. Well, price to compare, that's a number
13 that we're using that a customer is supposed to be
14 able to use to compare to whatever the CRES offer is,
15 correct?

16 A. Right. They would compare the ESP price
17 generally with what they might get from a supplier.

18 Q. And this price to compare as we discussed
19 a few minutes ago, as you discussed with Ms. Brady --
20 Grady a few minutes ago, excuse me, it's getting a
21 little late for all of us, this would include fuel
22 and it would also include environmental components,
23 correct?

24 A. It would be the ESP price and whatever's
25 in the ESP price.

1 Q. And if we were comparing, we would be
2 comparing elements that, as we've all discussed, do
3 have some fluctuation built into them under the
4 current ESP structure; is that also correct?

5 A. Yes. There are some components that
6 would change from time to time as part of being the
7 regulated provision of those particular riders.

8 Q. And that's because from time to time the
9 Commission goes through a reconciliation process,
10 correct?

11 A. It could be. Yeah.

12 Q. Well, for example, on fuel about every
13 quarter you folks file a new filing, the Commission
14 puts on an entry, and on an annual basis we go
15 through a process of figuring out whether or not the
16 numbers are correct; isn't that right?

17 A. I'm not sure, you know, the mechanics of
18 the filing of various fuel provisions.

19 Q. You're also aware that your environmental
20 riders, they get updated about once every year,
21 correct?

22 A. That's my recollection.

23 Q. And, in fact, you also update your
24 transmission riders on a regular basis?

25 A. That's correct.

1 Q. You also update your universal service
2 fund riders on a regular basis?

3 A. I'm not familiar with that.

4 Q. Would you agree with me subject to check
5 that that's filed, I believe, annually?

6 A. Like I said, I'm not familiar with
7 that -- with the provisions of how that rider, the
8 mechanics.

9 Q. And you also file I believe it's
10 semiannually an economic development rate rider as
11 well, correct?

12 A. I'm not familiar with that.

13 Q. So we've got the price to compare which
14 contains some of those elements and then we've got --
15 there are some other elements that are not part of
16 the price to compare. And subject to what you
17 understand of the overall process, many of those move
18 from quarter to quarter, half year to half year, or
19 annually; is that fair?

20 A. I guess what I can say is that there is
21 some movement in various riders from time to time.

22 Q. Now, one of the concerns that you raised
23 in your rebuttal testimony, and I know that you
24 discussed this briefly with Ms. Grady, is that AEP --
25 you criticized Mr. Murray, for example, for

1 suggesting that AEP should attempt to determine its
2 out-of-pocket costs, I believe that begins starting
3 on page 2 of your testimony.

4 Isn't it also true that he suggested that
5 the company could use alternative methods of
6 determining on an ex-ante basis its, either its cost
7 of providing the POLR or the cost of -- or determine
8 a cost, an overall cost of SSO service by bidding
9 that service out to a third party?

10 A. I recall that in his testimony, yes.

11 Q. And, in fact, you were here when he
12 testified, were you not?

13 A. I'm sorry, could you repeat the question?

14 Q. Weren't you here when he testified?

15 A. Yes, I was.

16 Q. And so, and you don't raise any question
17 about that as an alternative way of costing out in
18 your rebuttal testimony, do you?

19 A. I did not address that specific issue in
20 my rebuttal. I believe we talked about that in my
21 direct.

22 Q. And isn't it also true that, in fact, the
23 company is already deeply involved in the hedging and
24 derivative contract process in terms of securing
25 power for the provision of services?

1 A. Could you repeat that? I'm not sure what
2 you're referring to.

3 Q. Are you aware that the company is already
4 very active in the derivative and hedging markets for
5 the purpose of securing power?

6 A. Well, as a company overall, you know, the
7 company does, you know, procure power, it does do
8 various financial transactions.

9 MR. DARR: If I may, your Honor.

10 Do you have a copy of IEU Remand Exhibit
11 No. 6 that you can provide her? I believe the other
12 witness --

13 MR. NOURSE: Is this the 10-K for 2010?

14 MR. DARR: Yes, sir.

15 Q. Do you have that in front of you now,
16 ma'am?

17 A. Yes. Are you referring to a specific
18 page?

19 Q. I will in a second.

20 Now, this has previously been identified
21 by the prior witness. Were you here when that
22 occurred?

23 A. Yes, I was.

24 Q. And would you turn to page 13 of that
25 document, please. And I believe there's a portion

1 highlighted under the section that reads "Risk
2 Management and Trading."

3 A. I see that section.

4 Q. Would you take a second to look at it,
5 please.

6 A. Okay.

7 Q. You've had a chance to look at that?

8 A. Yes, I've read that.

9 Q. Now, I can't remember, are you employed
10 by AEP Service?

11 A. Yes, I'm employed by AEP Service
12 Corporation.

13 Q. So you're familiar with the acronym AEPSC
14 in this document?

15 A. Yes.

16 Q. And that refers to the service company;
17 does it not?

18 A. Yes, it does.

19 Q. So is it accurate to say that you
20 reported to the Securities & Exchange Commission that
21 "AEPSC sells excess power into the market, engages in
22 power, natural gas, coal and emissions allowances
23 risk management and trading activities focused in
24 regions in which AEP traditionally operates and in
25 adjacent regions"?

1 A. That's what the document says.

2 Q. And it further states that "These
3 activities primarily involve the purchase and sale of
4 electricity (and to a lesser extent natural gas,
5 coal, and emissions allowances) under physical
6 forward contracts at fixed and variable prices." Is
7 that also correct?

8 A. That's what the document says.

9 Q. And it further goes on, "These contracts
10 include physical transactions, over-the-counter
11 swaps, exchange-traded futures and options" and
12 concludes "The majority of physical forward contracts
13 are typically settled by netting into offsetting
14 contracts."

15 MR. NOURSE: Your Honor.

16 Q. Was that accurate?

17 MR. NOURSE: Are we just going to have
18 Mr. Darr continue to read the exhibit into the
19 record? She stated she's not familiar with it and
20 not able to verify other than saying that's what the
21 document says.

22 MR. DARR: She has not made any statement
23 with regard to her familiarity. The purpose of this
24 is to demonstrate the activities of the company with
25 regard to the activities she has either ignored or

1 criticized as part of the testimony presented by
2 IEU-Ohio.

3 MR. NOURSE: I disagree with that
4 characterization, your Honor.

5 MR. DARR: Well, the characterization of
6 what the purpose is is mine. The scope of the
7 cross-examination is what I presented to you, your
8 Honor.

9 MR. NOURSE: You misstated what she did
10 in testimony, so that's what I was referring to,
11 Mr. Darr.

12 EXAMINER PARROT: Mr. Darr, do you have a
13 question for the witness?

14 I'm sorry. We do have a question
15 pending, Ms. Thomas. You may answer.

16 THE WITNESS: Could you repeat the
17 question?

18 (Record read.)

19 A. That's what this document says.

20 Q. And this document represents the
21 statements made by AEP to the SEC; isn't that
22 correct?

23 A. This is the Form 10-K filed with the SEC.

24 Q. Now, moving on to page 35, believe
25 there's another section that's been highlighted

1 starting with "We do not fully hedge." Do you see
2 that?

3 A. Yes.

4 Q. And there it says "We routinely enter
5 into contracts to purchase and sell electricity,
6 natural gas, coal, and emission allowances as part of
7 our power marketing and energy and emission
8 allowances trading operations. In connection with
9 these trading activities, we routinely enter into
10 financial contracts, including futures and options,
11 over-the-counter options, financially-settled swaps
12 and other derivative contracts." Have I quoted that
13 statement that you made to the SEC correctly?

14 A. That is what the document says.

15 Q. It concludes "These activities expose us
16 to risks from price movements. If the values of the
17 financial contracts change in a manner we do not
18 anticipate, it could harm our financial position or
19 reduce the financial contribution of our trading
20 operations." Do you see that?

21 A. That's what the document says.

22 Q. And then the next paragraph indicates
23 that the company sets some limits on the trading to
24 limit exposure. Have I accurately summarized that?

25 A. Summarizing, which paragraph are you

1 referring to?

2 Q. The paragraph that begins "We manage our
3 exposure by establishing risk limits."

4 A. And could you repeat what your summary
5 was?

6 Q. Yes, the company established limits to
7 limit their exposure to risk.

8 A. The statement says "We manage our
9 exposure by establishing risk limits and entering
10 into contracts to offset some of our positions,
11 (i.e., to hedge our exposure to demand, market
12 effects of weather and other changes in commodity
13 prices). However, we do not always hedge the entire
14 exposure of our operations from commodity price
15 volatility. To the extent we do not hedge against
16 commodity price volatility, our results of operations
17 and financial position may be improved or diminished
18 based upon our success in the market." That's what
19 the statement says.

20 Q. Very good, thank you.

21 Now, turning to IEU Remand Exhibit No. 7
22 and, again, I don't have an extra copy of this.

23 MR. DARR: Does someone have an extra
24 one?

25 MR. RANDAZZO: I've got one.

1 Q. Do you have that in front of you now?

2 A. Yes, I do.

3 Q. And are you familiar with the FERC
4 Financial Report?

5 A. Generally.

6 Q. And the document there in front of you is
7 the one for 2009; is that correct? I think you'll
8 find the date on it located in the lower right-hand
9 corner of the first page.

10 A. It's states that it's 2009.

11 Q. And if you would, and as we noted earlier
12 today, the pagination on this is something to be
13 reckoned with, if you would, turn to page 123.38.

14 A. 123.38?

15 Q. Yes, ma'am.

16 A. I have that page.

17 Q. Okay. And going down to the last
18 paragraph on that page beginning AEPSC, on behalf of
19 Ohio Power Company -- or OPCo is the way it's set up
20 here, would you review that, please?

21 A. I have read the paragraph.

22 Q. And specifically with regard to this,
23 pointing you to the first sentence, again, it refers
24 to AEPSC, this would be the service company again?

25 A. Yes.

1 Q. And the statement is that "AEPSC, on
2 behalf of" Ohio Power Company or "OPCo," and that --
3 "enters into electricity, coal, natural gas, interest
4 rate and to a lesser degree heating oil, gasoline,
5 emission allowance and other commodity contracts to
6 manage the risk associated with the energy business,"
7 is that correct?

8 A. That's what the document states.

9 Q. And do you know, if we looked at this
10 same document which is filed with the Commission,
11 would we find similar information with regard to
12 Columbus & Southern Power Company? If you know.

13 A. I don't know.

14 Q. Now, turning to the next page, 123.39.

15 MR. NOURSE: What was the reference
16 again?

17 MR. DARR: 123.39. The next page.

18 Q. Is it correct that the company reported
19 that year that with regard to power contracts it
20 engaged in contracts representing 112,745,000 of
21 megawatt-hours in 2009?

22 A. That page states that "The following
23 table represents the gross notional volume of
24 outstanding derivative contracts as of December 31st,
25 2009" and for power it lists megawatt-hours of, in

1 thousands, 112,745.

2 Q. Which if I translate correctly would be
3 112 million?

4 A. Yes.

5 Q. Returning to your testimony for just a
6 moment, on page 4, lines 7 through 9, you state "In
7 any event, the Companies' actual risk of customer
8 migration and return, incurred at the time of the ESP
9 commitment to SSO rates, cannot be determined by a
10 speculative re-enactment." Do you see that
11 statement?

12 A. Yes, I see the statement.

13 Q. And by the word "speculative" do you mean
14 guess?

15 A. Well, I believe as I explained earlier in
16 that paragraph that, you know, we're saying we have
17 to have, you know, cost estimation and modeling not
18 that modeling is inappropriate, but that what you
19 have to do is you have to --

20 Q. At this point, excuse me, but at this
21 point in the game, modeling better be appropriate --

22 A. Absolutely.

23 Q. -- if your company is going to move
24 forward, isn't it?

25 A. But what I'm saying in this paragraph is

1 these assumptions about, you know, what actions the
2 company might have taken had it known that certain
3 customers were going to shop, who those customers
4 were, when they were going to shop, that, you know,
5 if you know those things are going to happen, you
6 might take other actions and so what I'm saying here
7 is that in after-the-fact analysis would you have to
8 go back and try to figure out what would we have done
9 differently had we known that something in the future
10 would have happened in terms of the very specifics in
11 terms of, you know, going back and looking at a
12 reenactment so to speak.

13 Q. Ma'am, do you know exactly how many
14 customers the company has lost, specifically CSP and
15 OP, since the beginning of the ESP?

16 A. I don't recall the numbers. I know now.
17 But had I known three years ago that that was going
18 to happen, then, you know, different actions might
19 have been taken at the time that the company incurred
20 its POLR risk.

21 Q. Let me ask it again. As we sit here
22 today, doesn't the company know exactly how many
23 customers it's lost?

24 A. It knows today how many customers have
25 chosen, but it did not know previously at the time

1 that it incurred the POLR obligation, it did not know
2 which customers were going to switch and when.

3 Q. And I appreciate that qualification. But
4 as we sit here today isn't it true that the company
5 knows exactly how many customers it has lost?

6 MR. NOURSE: Your Honor, I think it's
7 asked and answered.

8 EXAMINER PARROT: I agree.

9 MR. DARR: It has not been answered. It
10 has been qualified but it has not been answered, your
11 Honor.

12 EXAMINER PARROT: I already said I agree
13 with the objection.

14 Q. Turning your attention back to Form 10-K,
15 IEU Remand Exhibit No. 6, would you turn to page 31,
16 please.

17 A. I don't still have that document.

18 I'm sorry, which page?

19 Q. 31.

20 A. I have that page.

21 Q. And do you see the portion that's been
22 highlighted?

23 A. Yes, I do.

24 Q. And would you agree with me that in 2010
25 CSP, it's reported to the SEC that CSPCo, meaning

1 Columbus Southern Power Company, lost 3 percent of
2 its total load due to customers switching?

3 A. That's what the statement says.

4 Q. And would you also agree with me that the
5 statement to the SEC is "To date, Ohio Power Company
6 losses or OPCo losses have not been significant"?

7 A. That is what the document says.

8 Q. Now, to make this next set of questions a
9 little bit more comprehensible, I need you to turn to
10 page 13 after -- in the annual report section which
11 is the second section of the document.

12 A. I have that page.

13 Q. And do you see the, I believe it's
14 highlighted in your portion as well, there's a
15 definition of something called "gross margin." Do
16 you see that?

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

18 Q. Yes. I believe there's a portion that's
19 highlighted that defines gross margin. Do you see
20 that?

21 A. Yes.

22 Q. For purposes of this document, gross
23 margin is defined as revenues less the related direct
24 cost of fuel including consumption of chemicals and
25 emissions allowances and purchased power. Do you see

1 that?

2 A. That's what it says with the addition of
3 "were as follows" at the end of that.

4 Q. Right, and there's a listing of a variety
5 of things that were implicated. Do you see that?

6 A. Yes. There's a number of other things
7 listed on the page.

8 Q. With that understanding of gross margin
9 could you now turn to page 161 of that same document,
10 and again, we're in the annual report section.

11 A. I have that page.

12 Q. And under the section that reads "Ohio
13 Customer Choice," would you review that, please?

14 A. I've read it.

15 Q. And there it indicates that as of
16 December 31, 2010, Columbus Southern Power had lost
17 approximately 5,000 retail customers to CRES
18 providers.

19 A. That's what it says.

20 Q. And that Columbus Southern Power had lost
21 approximately \$16 million of generation-related gross
22 margin in 2010?

23 A. That's what the statement says.

24 Q. And that you were projecting for the
25 coming year, for 2011, incremental loss margins of

1 approximately 53 million; is that correct?

2 A. That's what the statement says.

3 Q. And doesn't the statement also indicate
4 that management anticipates recovery of a portion of
5 this lost margin through off-system sales?

6 A. That's the statement in the document.

7 MR. DARR: Thank you very much. I
8 appreciate your patience.

9 EXAMINER PARROT: Thank you, Mr. Darr.
10 Mr. Jones?

11 MR. JONES: Yes, your Honor.

12 - - -

13 CROSS-EXAMINATION

14 By Mr. Jones:

15 Q. Ms. Thomas, my name is John Jones, I
16 represent Commission staff and I have a few questions
17 for you. Is AEP-Ohio's POLR obligation under the
18 Black model cost based or value based?

19 A. Under the model the company determined
20 its cost of its POLR obligation which I believe that
21 Dr. LaCasse testified to was also equal to the value
22 to the customer.

23 Q. Is equal to the value of the benefit to
24 the customer for shopping?

25 A. Yes. I believe that's what she testified

1 to.

2 Q. Okay. Now, you testified about
3 uncertainty and risk on page 2, do you recall that
4 testimony, as to changes in the market and level of
5 customer shopping during the ESP term?

6 A. Yes. On pages 2 and 3 I talk about the
7 risks that the company takes on in providing, you
8 know, as part of its POLR obligation.

9 Q. And is this part of the cost, the POLR
10 cost, to the company as to the uncertainty and risk
11 for those two for the changes in market and the level
12 of uncertainty in a customer shopping?

13 A. Yes. The POLR cost is determining the
14 cost of the company taking on that -- all of those
15 risks.

16 Q. And that equates to the benefit to
17 customers who have the option to shop?

18 A. Yes.

19 Q. And you refer to the risk of shopping as
20 to migration and return; is that correct?

21 A. Yes. There is a risk of customers moving
22 in both directions, away from the company as well as
23 back to the company.

24 Q. Is migration a benefit to customers?

25 A. Migration comes from the customer

1 exercising their option, which is a benefit to
2 customers, of exercising that option to move from SSO
3 rates to suppliers and then their ability to come
4 back through the POLR to SSO generation rates.

5 Q. Well, Ms. Thomas, under Ohio law
6 customers have the right to make that option; isn't
7 that correct?

8 A. Customers have that right, but there is a
9 cost to the company for that -- the risk of customers
10 having that right.

11 Q. Why isn't that a business risk to the
12 company for migration?

13 MS. GRADY: Can I have that question
14 reread, please?

15 (Record read.)

16 A. Could you be specific about what you mean
17 by "business risk"?

18 Q. Well, the POLR obligation is based on the
19 companies standing by for service to offer those
20 customers who want to return to SSO rates, correct?

21 A. The POLR obligation is to, you know,
22 serve any customer who doesn't choose another
23 supplier, those who choose another supplier then have
24 the ability to return at SSO rates.

25 Q. So it's -- obviously companies have

1 migration of customers who do shop, right, in Ohio?
2 I mean, that happens with all utilities in Ohio,
3 there is shopping occurring, right? Maybe not too
4 much, but there is a level of shopping occurring for
5 AEP-Ohio?

6 A. Yes. AEP-Ohio does have customers
7 shopping and there is a risk as part of the company's
8 POLR obligation of its offer of SSO rates that
9 customers will shop and then return to the company.

10 Q. And the benefit you're referring to from
11 migration, that's not something that's from the
12 company, it's something as to what's provided to
13 customers as a matter of law, correct?

14 A. That is a benefit that customers receive
15 from the SSO rates is that ability to come back to
16 those SSO rates committed by the company that
17 customers can shop and return back to those SSO
18 rates.

19 Q. You keep on coupling that together. I'm
20 just saying as to leaving the company. Just leaving
21 the company. The benefit involved in leaving the
22 company only.

23 A. But that benefit creates risk to the
24 company in terms of its commitment to the specific
25 SSO rates.

1 Q. How is it a risk to the company for
2 leaving?

3 A. It's a risk to the company in that the
4 company commits to SSO rates and -- in terms of what
5 the company would receive under those SSO rates. And
6 it's a risk to the company of not knowing what
7 customers it will serve and when, and how market
8 prices might change, how, you know, customers might
9 shop or not shop. The company has all of those risks
10 that are part of providing the SSO rate and that is
11 what the cost of POLR obligation is.

12 Q. So then if you look at the after-the-fact
13 determination of POLR cost, all those risks are
14 eliminated, aren't they? You don't have those risks.

15 A. When the company --

16 Q. If you do an after-the-fact determination
17 of the POLR cost based on out-of-pocket expense, you
18 don't have any risk that you just mentioned as to
19 what the market's going to do or what the level of
20 shopping is going to be during the term, correct?

21 A. No, that's incorrect. The company incurs
22 that risk at the time it enters into those SSO rates
23 because if the company knew who was going to shop and
24 when, and when would they would return and when, then
25 the company would take -- might take different

1 actions, as Dr. LaCasse discussed, to manage that.

2 Q. So it's your testimony that the risk is
3 the same no matter if it's a predetermination or an
4 after-the-fact determination, the risk is the same to
5 the companies?

6 A. My testimony is that an after-the-fact
7 determination would not be appropriate, that the
8 determination of POLR cost needs to be done at the
9 time that that risk is incurred, and that's how --
10 that's when the POLR cost should be determined.

11 Q. So there's a cost associated with
12 migration?

13 A. Yes.

14 Q. If you were to take migration out of the
15 Black model, how much would the cost be reduced by
16 for your POLR cost?

17 A. I've not done that calculation just
18 looking at one direction. I've not done that because
19 the cost of the company's risk is the risk of
20 migration in both directions.

21 Q. So you don't know.

22 A. No.

23 Q. As to the five inputs into the Black
24 model itself, isn't it -- wouldn't you agree with me
25 that volatility is an input that's more sensitive to

1 the model as opposed to other inputs?

2 A. I've not done any analysis to say this,
3 you know, one, that that input would have more or
4 less impact than changing another input in the model.
5 I've not done that analysis.

6 Q. Well, it's more sensitive than the
7 interest rate, correct?

8 A. I believe so, yes.

9 Q. How about the term?

10 A. I've only looked at the three-year term
11 which is the term of the ESP.

12 Q. Okay. If volatility, if the level of
13 volatility as measured by the company was overstated
14 by 20 percent and you reduced that by 20 percent, the
15 level that you have estimated I think is what,
16 33.3 percent for volatility?

17 A. 33.3 was the volatility used by the
18 company.

19 Q. If the company overstated that by
20 20 percent, how much of a reduction would that be for
21 your POLR cost?

22 A. I've not done that calculation. I don't
23 believe that the volatility is overstated. I think
24 that using an annual average volatility that the
25 company used, you know, was very reasonable.

1 Q. Assuming hypothetically it was overstated
2 by 20 percent, you don't know what that number would
3 be?

4 A. No, I've not determined what the outcome
5 would be.

6 MR. JONES: I have no other questions,
7 thank you.

8 EXAMINER PARROT: Ms. Clark?

9 MS. KALEPS-CLARK: No questions, your
10 Honor.

11 EXAMINER PARROT: Ms. Hand?

12 MS. HAND: No questions.

13 EXAMINER PARROT: Mr. Yurick?

14 MR. YURICK: No questions, thank you,
15 your Honor.

16 EXAMINER PARROT: Mr. Nourse, redirect?

17 MR. NOURSE: No redirect.

18 EXAMINER PARROT: Very good. Thank you
19 very much, Ms. Thomas, you are excused.

20 MR. NOURSE: I renew my motion for
21 Companies' Remand Exhibit No. 8. I'd also like to
22 clean up Mr. Satterwhite and move for admission of
23 No. 7, Mr. Mitchell.

24 EXAMINER PARROT: Are there any
25 objections to the admission of Companies' Remand

1 Exhibits 7 or 8?

2 MS. GRADY: We would renew our motion to
3 strike the portion of Ms. Thomas's testimony we
4 earlier referenced.

5 MR. DARR: We also would renew our
6 motion.

7 EXAMINER PARROT: And, again, that motion
8 is denied. Companies' Remand Exhibits 7 and 8 are
9 admitted into the record.

10 (EXHIBITS ADMITTED INTO EVIDENCE.)

11 MR. DARR: If I may, your Honor.

12 EXAMINER PARROT: Yes.

13 MR. DARR: Given the prior ruling on the
14 FERC Form 1 and SEC exhibits, IEU Remand 6 and 7, I
15 had some additional pages that I referenced, as a
16 matter of simplification and given the testimony that
17 we heard from Mr. Mitchell, I would renew our request
18 to have the whole exhibit placed into the record.
19 What we're -- the process that we're undertaking here
20 is going to be really difficult and I don't know that
21 it's necessary.

22 But if you wish to follow the structure
23 that you did before, then I believe I'm asking to
24 have you admit pages 13 and 35 of the 10-K as well as
25 page 31 and 13 of the back portion of the 10K, and

1 then pages 123.38, 123.39 of the FERC Form 1. And
2 also page 161, I think I left that out. And that's
3 also of the SEC form in the back section.

4 MR. NOURSE: Could we get the pages in
5 the 10-K again, please?

6 MR. DARR: Sure. On the front section
7 it's pages 13 and 35, and page -- page 31 from the
8 front section. Probably would be just as easy to go
9 through the transcript and do it that way. And then
10 on page -- in the FERC Form 1 it's 123.38 and 123.39.

11 MR. NOURSE: Thank you. Your Honor,
12 first of all, I think your prior ruling already
13 stood, I don't think we need to reargue that, but I
14 would say there's a difference here in what happened
15 with Ms. Thomas and what happened with Mr. Mitchell.

16 With Ms. Thomas, you know, I objected at
17 the beginning when Mr. Darr kept just reading stuff
18 into the record, but he was allowed to continue doing
19 that. The witness only answered that she was
20 verifying what the document said and, of course, we
21 have no disagreement with the document being
22 accurate, but what Mr. Darr failed to do was to make
23 any examination of her personal knowledge about any
24 of those pages. He failed to tie it in with any
25 points in her testimony or establish relevancy or

1 foundation, so, you know, I don't think there's any
2 basis to include those additional pages in the
3 record.

4 EXAMINER PARROT: Mr. Darr.

5 MR. NOURSE: If I may. By contrast,
6 Mr. Mitchell had discussed in more detail, is
7 familiar with the passages that it was helpful to the
8 record to enter.

9 EXAMINER PARROT: Mr. Darr.

10 MR. NOURSE: Thank you, your Honor.

11 MR. DARR: The point of the use of these
12 materials is to contradict statements by a party of
13 the witness's testimony. There is no requirement
14 other than to establish that it is a statement of the
15 party to demonstrate that it is a, not hearsay, the
16 relevance was obvious, and the foundation as to
17 whether or not the document is accurate is conceded
18 by the company.

19 In fact, this whole exercise started out
20 with some sort of argument about whether or not this
21 was a proper document. The authenticity of the
22 document has been established by the company itself,
23 these are the statements of the company.

24 MR. NOURSE: Your Honor, I --

25 MR. DARR: If I may, Mr. Nourse, please.

1 The whole point of this is to go through,
2 the whole point of my argument here is to go through
3 the foundational requirements. The foundational
4 requirements have been established.

5 MR. NOURSE: Your Honor, just briefly.
6 Again, just because the document may be authentic
7 doesn't mean that it's relevant or that it had any
8 connection with her testimony. The only statement
9 she made over and over is that's what the document
10 said.

11 And, you know, even his argument is that
12 it's a statement against interests, which I disagree
13 with, that would have been a reason for his own
14 witness to sponsor a statement and use it against the
15 company. This witness didn't have any knowledge
16 about these statements, nothing was demonstrated on
17 the record, there was no tie to her testimony, there
18 was no challenge that this statement says this so why
19 isn't that against your interest. There was no basis
20 to make that argument or conclude that.

21 EXAMINER PARROT: The portions of IEU
22 Remand Exhibits 6 and 7 that were cited to by
23 Mr. Darr during his cross-examination of Ms. Thomas
24 shall be admitted into the record.

25 (EXHIBITS ADMITTED INTO EVIDENCE.)

1 EXAMINER PARROT: Ms. Grady.

2 MS. GRADY: Yes, your Honor, at the risk
3 of making another motion I will phrase this as a
4 respectful request and that request is that we have a
5 reprieve in the initial filing of briefs. Initially
6 we talked about -- or the attorney examiners ruled
7 that August 4th the initial briefs would be due.
8 We're asking an additional two business days, that
9 the briefs be filed on August 8th for two reasons,
10 one, the lateness of today, I think we all believed
11 that today's hearing would probably last no longer
12 than the morning and into early afternoon and we're
13 now pushing upon the hour of 7.

14 And the second reason, your Honors, is
15 there seems to have been a misunderstanding about the
16 availability of transcripts. OCC as well as others,
17 I believe IEU, were left with the impression that the
18 transcripts would be filed the day after they were
19 transcribed and, therefore on this past week on
20 Monday and Friday we would have had the opportunity
21 to begin briefing with the availability of
22 transcripts that had already been taken.

23 That was not the understanding of the
24 company, apparently, and we did not receive copies of
25 transcripts until late in the day on Monday. And so

1 from OCC's perspective we lost two days of briefing
2 without transcripts and so we would ask that
3 respectfully we would gain those two days back by
4 extending the initial brief to August 8th.

5 MS. KALEPS-CLARK: Your Honor,
6 Constellation would join in that request.

7 MR. DARR: So does IEU.

8 EXAMINER PARROT: Mr. Nourse.

9 MR. NOURSE: Your Honor, first of all,
10 the matter of the transcripts, you know, I guess no
11 good deed goes unpunished. We tried to get these
12 transcripts into the record to help the OCC and based
13 on their request. The agreement was that they would
14 all be filed by Friday, tomorrow, following the
15 remand hearing.

16 We went ahead and made arrangements to,
17 after Ms. Grady clarified what she thought was the
18 case, even though I disagreed, and got them filed on
19 Monday, you know, so I think that's already clear and
20 we did more than we said we were going to do.

21 And the issue was when after the hearing,
22 how far after the hearing can we file our briefs.
23 And so actually I would say you got three extra days
24 reviewing the transcript and starting on your brief.

25 And as far as finishing at 1 o'clock,

1 which I don't know who -- you said everybody believed
2 that, I certainly would have never thought we'd be
3 done by 1, versus finishing at 5 or 6 or 7, I don't
4 see how that can be used as an excuse to reopen the
5 briefing schedule at this time, your Honor.

6 The main genesis, as I understood it, of
7 an accelerated briefing schedule was for all the same
8 parties that are going to be involved in a hearing
9 starting on August 15th to have the briefing
10 completed, which it's already back to the business
11 day prior to that hearing which is already very much
12 going to impinge on hearing preparations. So I don't
13 think we should move it back any further.

14 EXAMINER SEE: Ms. Grady, your request
15 was just to extend the initial briefing schedule, not
16 reply brief?

17 MS. GRADY: Your Honor, at this point I
18 don't know, I don't recall when the reply brief is.

19 EXAMINER PARROT: The 12th.

20 MS. GRADY: On the 12th. It would make
21 sense to me that that be extended as well, your
22 Honor, coincident with the current time spacing
23 between the two of them.

24 MR. NOURSE: And, your Honor, as you may
25 recall from our discussion of the briefing schedule

1 originally, companies apparently have no friends in
2 this case, we're going to have a lot of initial
3 briefs to respond to, and we were more concerned
4 about the reply being -- if you'll recall, it was
5 originally eight days and then it was moved back to
6 seven days. We were going to do -- we proposed the
7 3rd and the 11th or the 12th.

8 In any event, we were more concerned
9 about the reply and remain so, so I don't want to
10 reduce the time for reply. I don't think it's
11 reasonable to have the remand brief due during the
12 ESP hearing when we've made all these efforts to try
13 to avoid that overlap.

14 EXAMINER PARROT: Initial briefs will be
15 due on Friday, August 5th, with reply briefs still
16 due to be filed on the following Friday, August 12th.

17 MR. NOURSE: Thank you, your Honor.

18 MS. GRADY: Thank you, your Honor.

19 EXAMINER PARROT: Is there anything else?

20 Mr. Randazzo?

21 MR. RANDAZZO: Do the applicants rest
22 their case?

23 MR. NOURSE: Yes, your Honor.

24 MR. RANDAZZO: I would move to dismiss
25 based upon the company's failure to maintain their

1 purpose. The Supreme Court gave the Commission and
2 the companies the opportunity to evaluate POLR either
3 on a cost basis or a noncost basis. The very
4 proposition that was presented in this proceeding is
5 the proposition that the Supreme Court rejected, that
6 is that the POLR cannot be based upon the value, the
7 companies' perception of a value to customers
8 associated with the switching.

9 With regard to the environmental carrying
10 costs, prior to 2009 the company has not identified
11 which category in 4928.143(B)(2) they are relying
12 upon, nor have they taken any of the category and the
13 criteria in those categories and applied them to
14 support ongoing continuation of the carrying cost
15 associated with the pre-2009 environmental
16 investment.

17 For those reasons I move to dismiss based
18 upon the company's failure to meet its burden of
19 proof.

20 MS. GRADY: OCC would join.

21 EXAMINER PARROT: Mr. Nourse.

22 MR. NOURSE: Your Honor, thank you.

23 First of all, Mr. Randazzo's incorrect what the
24 Supreme Court decided in this case, and it's very
25 clear from the opinion that the Commission was not

1 prohibited or prevented from reaching a result in
2 this case that was the same outcome as the original
3 or utilizing the same model that the court referred
4 to as a formula, and the court did not dictate an
5 outcome to this remand proceeding.

6 Clearly, the evidence has been presented
7 and should be considered by the Commission as to, you
8 know, I think there are multiple modeling facts and
9 testimony that's supported various ways to look at
10 the POLR costs in the record, I think that's clearly
11 a matter for the Commission to consider after
12 briefing on submittal of the case and not a matter
13 for dismissal certainly based on a misunderstanding
14 of the court's decision.

15 And with regard to the environmental,
16 there's plenty of evidence in the record, nothing
17 changed about the character of the environmental cost
18 or the facts and circumstances supporting the rate
19 adjustment. It's merely back on remand to debate the
20 legality relative to the list in (B)(2) that the
21 court said it should fit into one of those
22 categories.

23 We've indicated in multiple pleadings in
24 this remand proceeding multiple bases for that,
25 potential bases for that and, again, as a legal

1 matter it should be briefed in the merits briefing
2 stage of the remand and not subjected to dismissal,
3 so the companies would certainly oppose and disagree
4 that the burden of proof has been met and, in any
5 event, would submit those matters can be considered
6 as the Commission weighs the evidence submitted in
7 the record.

8 EXAMINER PARROT: Thank you both, the
9 Commission will take the motion under advisement.

10 Is there anything else to come before us
11 this evening?

12 MR. NOURSE: No, your Honor.

13 EXAMINER PARROT: All right. Seeing
14 none, these cases shall be submitted to the
15 Commission on the record subject to the filing of
16 initial and reply briefs, and we are adjourned.

17 (Thereupon, the hearing was concluded at
18 6:54 p.m.)

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1 CERTIFICATE

2 I do hereby certify that the foregoing is a
3 true and correct transcript of the proceedings taken
4 by me in this matter on Thursday, July 28, 2011, and
5 carefully compared with my original stenographic
6 notes.

7
8 Maria DiPaolo Jones, Registered
9 Diplomate Reporter and CRR and
Notary Public in and for the
State of Ohio.

10 My commission expires June 19, 2016.

11 (MDJ-3875)

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Summary: Transcript Transcript of Columbus Southern Power Company and Ohio Power Company hearing held on 07/28/11 - Volume V electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.