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**BEFORE THE**
**PUBLIC UTILITIES COMMISSION OF OHIO**

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| **In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, In the form of an Electric Security Plan.** | ) ) ) ) ) ) | **Case No. 11-346-EL-SSO**<br>**Case No. 11-348-EL-SSO** |
| **In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.** | ) ) ) ) | **Case No. 11-349-EL-AAM**<br>**Case No. 11-350-EL-AAM** |

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**COLUMBUS SOUTHERN POWER COMPANY AND OHIO POWER COMPANY'S NOTICE OF FILING DEPOSITION TRANSCRIPT**

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Columbus Southern Power Company and Ohio Power Company, pursuant to Rule 4901-1-21(N) of the Ohio Administrative Code, hereby provide notice to all parties of the filing of the deposition transcript of Michael M. Schnitzer.

Respectfully Submitted,

Steven T. Nourse/per authorization DRC

Steven T. Nourse
Matthew J. Satterwhite
American Electric Power
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215-2373
Telephone: (614) 716-1608
Facsimile: (614) 716-2950
stnourse@aep.com
mjsatterwhite@aep.com

COLUMBUS/1592929v.1

Daniel R. Conway
Porter Wright Morris & Arthur
41 S. High Street
Columbus, Ohio 43215
Telephone: (614) 227-2100
Facsimile: (614) 227-2270
dconway@porterwright.com

Counsel for Columbus Southern Power
Company and Ohio Power Company

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing *Columbus Southern Power Company's and Ohio Power Company's Notice of Filing Deposition Transcript* has been served upon the below-named counsel and Attorney Examiners via electronic mail this 31st day of August, 2011.

Daniel R Conway

Daniel R. Conway

Samuel C. Randazzo
Joseph E. Oliker
Frank P. Darr
McNees Wallace & Nurick LLC
21 East State Street, 17th Floor
Columbus, OH 43215
sam@mwncmh.com
joliker@mwncmh.com
fdarr@mwncmh.com

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
dboehm@BKLlawfirm.com
mkurtz@BKLlawfirm.com

Dorothy K. Corbett
Associate General Counsel
139 East Fourth Street
1303-Main
Cincinnati, OH 45202
Dorothy.Corbett@duke-energy.com

Richard L. Sites
General Counsel & Senior Director of Health Policy
Ohio Hospital Association
155 East Broad Street, 15th Floor
Columbus, OH 43215-3620
ricks@ohanet.org

Philip B. Sineneng
Thompson Hine LLP
41 South High Street
Suite 1700
Columbus, OH 43215
Philip.Sineneng@ThompsonHine.com

Thomas J. O'Brien
Bricker & Eckler LLP
100 South Third Street
Columbus, OH 43215-4291
tobrien@bricker.com

Colleen L. Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
Findlay, OH 45839-1793
cmooney2@columbus.rr.com

Terry L. Etter
Maureen R. Grady
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485
etter@occ.state.oh.us
idzkowski@occ.state.oh.us
grady@occ.state.oh.us

Terrence O'Donnell
Christopher Montgomery
Bricker & Eckler LLP
100 South Third Street
Columbus, OH 43215-4291
todonnell@bricker.com
cmontgomery@bricker.com

Lisa G. McAlister
Matthew W. Warnock
Bricker & Eckler LLP
100 South Third Street
Columbus, OH 43215-4291
lmcalister@bricker.com
mwarnock@bricker.com

John W. Bentine
Mark S. Yurick
Chester Willcox & Saxbe, LLP
65 East State Street, Suite 1000
Columbus Ohio 43215
jbentine@cwslaw.com
myurick@cwslaw.com
Mark A. Hayden
FirstEnergy Service Company
76 South Main Street
Akron, OH 44308
haydenm@firstenergycorp.com

James F. Lang
Laura C. McBride
N. Trevor Alexandor
Calfee, Halter & Griswold LLP
1400 KeyBank Center
800 Superior Ave.
Cleveland, OH 44114
jlang@calfee.com
lmcbride@calfee.com
talexander@calfee.com

Michael R. Smalz
Joseph V. Maskovyak
Ohio Poverty Law Center
555 Buttles Avenue
Columbus, OH 43215
msmalz@ohiopovertylaw.org
jmaskovyak@ohiopovertylaw.org

Jay E. Jadwin
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
jejadwin@aep.com

M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
mhpetricoff@vorys.com

Michael J. Settineri
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
mjsettineri@vorys.com

William L. Massey
Covington & Burling, LLP
1201 Pennsylvania Ave. NW
Washington, DC 20004
wmassey@cov.com

Henry W. Eckhart
Shannon Fisk
2100 Chambers Road, Suite 106
Columbus, OH 43212
henryeckhart@aol.com

Pamela A. Fox
Law Director, the City of Hilliard, Ohio
pfox@hilliardohio.gov

Jesse A. Rodriguez
Exelon Generation Company, LLC
300 Exelon Way
Kennett Square, PA 19348
jesse.rodriguez@exeloncorp.com

Christopher L. Miller
Gregory H. Dunn
Asim Z. Haque
Schottenstein Zox & Dunn Co., LPA
250 West Street
Columbus, OH 43215
cmiller@szd.com
gdunn@szd.com
ahaque@szd.com

Sandy I-ru Grace
Exelon Business Services Company
101 Constitution Avenue NW
Suite 400 East
Washington, DC 20001
sandy.grace@exeloncorp.com

Kenneth P. Kreider
Keating Muething & Klekamp PLL
One East Fourth Street
Suite 1400
Cincinnati, OH 45202
kpkreider@kmklaw.com

Barth E. Royer
Bell & Royer Co., LPA
33 South Grant Avenue
Columbus, OH 43215-3927
BarthRoyer@aol.com

Gary A. Jeffries
Dominion Resources Services, Inc.
501 Martindale Street, Suite 400
Pittsburgh, PA 15212-5817
Gary.A.Jeffries@dom.com

Tara C. Santarelli
Environmental Law & Policy Center
1207 Grandview Avenue, Suite 201
Columbus, OH 43212
tsantarelli@elpc.org

Trent A. Dougherty
Nolan Moser
Ohio Environmental Council
1207 Grandview Avenue, Suite 201
Columbus, OH 43212
camille@theoec.org
nolan@theoec.org
trent@theoec.org

Holly Rachel Smith
Holly Rachel Smith, PLLC
3803 Rectortown Road
Marshall, VA 20115
holly@raysmithlaw.com

Emma F. Hand
Douglas G. Bonner
Keith Nusbaum
SNR Denton US LLP
1301 K Street, Suite 600, East Tower
Washington, DC 20005-3364
emma.hand@snrdenton.com
doug.bonner@snrdenton.com
keith.nusbaum@snrdenton.com

David A, Kutik
Jones Day
North Point
901 Lakeside Avenue
Cleveland, OH 44114
E-mail: dakutik@jonesday.com

Gregory J. Poulos
EnerNOC, Inc.
101 Federal Street, Suite 1100
Boston, MA 02110
E-mail: gpoulos@enernoc.com

Allison E. Haedt
Jones Day
P.O. Box 165017
Columbus, OH 43216-5017
E-mail: aehaedt@jonesday.com

COLUMBUS/1599462v.1

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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DEPOSITION

of Michael M. Schnitzer, taken before me, Maria DiPaolo Jones, a Notary Public in and for the State of Ohio, at the offices of Porter, Wright, Morris & Arthur, LLP, 41 South High Street, Columbus, Ohio, on Friday, August 26, 2011, at 2:03 p.m.

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ARMSTRONG & OKEY, INC.
222 East Town Street, 2nd Floor
Columbus, Ohio 43215
(614) 224-9481 - (800) 223-9481
FAX - (614) 224-5724

- - -

APPEARANCE:
Porter, Wright, Morris & Arthur, LLP
By Mr. Daniel R. Conway
41 South High Street
Columbus, Ohio 43215-6194

On behalf of the Applicants.

APPEARANCES VIA SPEAKERPHONE:

Jones Day
By Mr. David Kutik
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114

On behalf of FirstEnergy Solutions Corporation.

McNees, Wallace & Nurick, LLC
By Mr. Joseph E. Oliker
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215-4288

On behalf of Industrial Energy Users.

Mike DeWine, Ohio Attorney General
William Wright, Section Chief
Public Utilities Section
By Mr. Werner L. Margard III
Assistant Attorney General
180 East Broad Street, 6th Floor
Columbus, Ohio 43215-3793

On behalf of the staff of the Public Utilities Commission of Ohio.

- - -



Friday Afternoon Session,
August 26, 2011.

- - -

STIPULATIONS

It is stipulated by and among counsel for the respective parties that the deposition of Michael M. Schnitzer, a witness called by the Applicants under the applicable Rules of Civil Procedure, may be reduced to writing in stenotypy by the Notary, whose notes thereafter may be transcribed out of the presence of the witness; and that proof of the official character and qualification of the Notary is waived.

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Friday Afternoon Session,
August 26, 2011.

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MR. CONWAY: Mr. Schnitzer, my name is Dan Conway. I'll be taking your deposition today. I would just ask on the record that you confirm that your testimony in this proceeding that you're giving today on deposition will be true and accurate to the best of your belief and knowledge.

MR. SCHNITZER: Yes, I will.

MR. KUTIK: And this is David Kutik on behalf of FirstEnergy Solutions and on behalf of the witness, we will waive the requirement for the notary to swear the witness and the notary be present with the witness during the deposition.

MR. CONWAY: Thank you.

- - -

MICHAEL M. SCHNITZER

deposes and says as follows:

EXAMINATION

By Mr. Conway:

Q. All right. Well, the deposition is being taken in PUCO case numbers 11-346 and 11-348-EL-SSO and 11-349 and 11-350-EL-AAM, and, Mr. Schnitzer, my



name is Dan Conway, again. I'm a lawyer for AEP-Ohio, and I have some questions for you about your testimony today. If you don't understand a question or if there's any difficulty in hearing, just let me know.

A. Thank you.

Q. First off, Mr. Schnitzer, and it is "Mr. Schnitzer," is it not?

A. It is.

Q. Okay. Not "Dr. Schnitzer."

A. No, sir.

Q. What I'm going to do is, Mr. Schnitzer, is kind of go through your testimony. It actually will be fairly straightforward, I think. If you could turn, if you have your testimony with you -- do you?

A. I do.

Q. Okay. Could you turn to page 5 of your testimony.

A. I have it.

Q. And in the chart that you have on page 5, which is entitled "The Corrected Proposed ESP Price is More Expensive Than the Price Under an MRO," you give in one row the corrected ESP price premiums for

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both a low case and a high case, correct?
A. Yes.
Q. And then you give the corresponding, in your view, excess costs paid by customers under the low, on the one hand, or the high, on the other hand, cases; is that right?
A. Yes, it is.
Q. And your estimate is that the ESP that the AEP-Ohio companies have proposed in this case as corrected by you would produce an excess of revenues of between .7 and 1 billion depending on whether it's the low case or the high case?
A. Yes. The rates paid by customers under the ESP collectively would be, as you said, .7 billion to a billion higher than the rates paid by customers under an MRO.
Q. And then I think on page 6 you continue the analysis by estimating what the additional costs to customers would be under the proposed ESP and then under the corrected proposed ESP, low case and high case, and you come up with additional costs ranging from .8 million for the -- under the proposed ESP price view and then 1.6 billion under the low case of the corrected proposed ESP price view, and then

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2.0 billion under the high case for the corrected proposed ESP price; is that right?
A. Yes. All those numbers being relative to the current average 2011 rate.
Q. I don't think I saw anywhere in here where you specifically calculated what the difference between the MRO result would be compared to the current rates, but would it be fair to say that under this depiction that you have provided, that you could infer or you could calculate what that would be, and then if you did, it would be between .9 and 1.0 billion depending on the low or the high case?
A. I'm sorry. So you're asking me I think two questions. Did I calculate the rates under the MRO compared to current rates, and the answer to that is no, I did not. And I think your second question is if I had, that difference would have been what, please?
Q. 900 million to 1 billion. And just to make it easy, all I did was subtract the two sets of variances that you do provide.
A. Yes, I believe that. And, again, just with the clarification that the .8 uncorrected ESP number would, of course, be unaffected by that.

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Q. Correct. Yes. I'm sorry. The variance is between your corrected low case/corrected high case ESP from the current 2011 rate view.
A. Yes, that would be correct.
Q. Okay. And, again, I think you said that there isn't any other place in the testimony where you actually make the calculation that we just went through.
A. I do not believe so, no.
Q. Can you tell me what the, if you had done that, what the percentage rate increase the MRO alternative would produce based on the 900 million to 1 billion dollar cost calculations?
A. It looks like something just slightly in excess of 10 percent.
Q. Okay. Just switching topics slightly, do you have a view, Mr. Schnitzer, regarding what direction retail market prices are headed during the time period of the proposed ESP, January of 2012 through May of 2014?
A. I'm not sure what you mean by "retail market prices."
Q. Well, prices that would be available in the -- well, let me ask you, do you have a view of

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where the retail market prices are headed in the Ohio retail market, for example, in the FirstEnergy utilities' service areas?
A. I'm still not sure what you're asking here. Are you asking about other SSO prices? Are you asking -- I'm not sure what you mean by "retail market prices."
Q. How about prices offered by CRES providers.
A. CRES providers. And, again, I'm not trying to be difficult, but offered now for delivery then? That might be offered at some future date for delivery in the future? What? I'm just not clear what you're asking me.
Q. Well, let's start with offered during the ESP for some point in time during the ESP that's been proposed.
A. Yes. Well, I would expect that those prices as we've defined them, those retail market prices I think is your term, would closely track the estimates included in my testimony of the competitive benchmark price over that period.
Q. And what is -- just refresh my recollection, what is that?

A. Yes, and that -- I'm using Ms. Thomas's term there, that is the competitively procured, that estimate was produced to represent the competitively procured portion of the MRO branch, and so I have in numerous places in my testimony discussions of what that competitive benchmark price would be for AEP-Ohio during the term of the -- the proposed term of the ESP.

Q. And also, just to refresh my recollection, what is your view of what direction those prices are headed during the course -- over the course of the proposed ESP?

A. Well, what I have calculated and summarized in this testimony is that they are very close to the current, AEP-Ohio's current generation rates. So they would be -- let's see where we have that broken out.

Well, you see on my pagination page 15 of the testimony includes a table with the middle column of which is my estimate of the competitive benchmark price over the proposed ESP period. Is your pagination the same?

Q. Yes, it is. Is yours at the bottom of the page?



A. Yes, it is. Yes.

Q. Okay. And it's got a number of 54.28?

A. Correct.

Q. And that's an average?

A. Yes. That is averaged over the 2012 to May 2014 period.

Q. And can you tell me what the -- whether there is a trend or a direction in which the prices head from the beginning to the end of that period?

A. If you would like me to, I'd have to pull up a workpaper to try to answer that question if you'd like me to do that. I can't answer that question from the testimony itself, but I would have to go look at the workpaper which underlies this table.

Q. I'm not sure I want you to go do, to leave the deposition to do that research, but do you recall off the top of your head if there is a trend over the period of the ESP proposed?

A. I'm just trying to remember the various pieces and whether they moved in the same direction or in different directions. I think the energy component, I believe, is increasing during the proposed ESP period, so that piece at least would be



upward sloping during this period.

Q. Okay. And then the other sometimes second largest piece, capacity, what is its trend line?

A. I believe, but that is subject to check, I believe that is going the other way.

Q. Okay.

A. At least measured from the beginning of the period through it, I believe it starts out at a higher number. Those numbers are in my testimony. If you want to take a minute, I can try and direct you to where they are.

Q. No. That's okay. Thank you.

Do you have any view of what the factors are that cause the energy prices to trend upward and the capacity prices to trend downward?

A. Well, the energy prices, of course, are --

Q. Or, I'm sorry, maybe I misspoke.

A. No, I think I -- I heard it the right way. I don't know if you misspoke or not, but I heard it the right way. I think you asked what would be the basis for the energy prices trending upward and the capacity prices doing the reverse.



Q. Yeah. That's right.

A. Yeah. Well, the forward energy prices will be driven by expectations of the marginal costs of the generating units that set the market price, if you will. And in AEP-Ohio's region that will be heavily influenced by expectations of coal prices and certain emission allowance adders and, to a lesser extent, to the extent to which the market thinks there will be a shift from lower heat rate, more efficient units setting the market price to higher heat rates, less efficient units setting the market price, all that baked together is what would translate to an upward trend in energy prices.

I can't tell you which piece would contribute how much, but those would generally be the factors that would cause market prices to be upward sloping.

Q. Do you think that during the proposed ESP that looming or arriving environmental, additional environmental requirements would have an impact also?

A. Well, not to state from the factors that I've just mentioned. They could affect -- they could affect the efficiency of the unit on the margin, which I refer to, and they could also affect the

variable costs of units to the extent that various sorts of environmental controls increased. The variable costs of production for cap and trade mechanisms for environmental regulation also translate into higher incremental costs of production. But that's how they would affect energy prices.
Q. And are all those factors that you mentioned the particulars of, are they factors that are tending to increase the cost?
A. Well, that's the context in which we've been speaking, yes.
Q. Okay. Because we're talking about the energy element, right?
A. That's right. That's right. You know, factors that would push it the other way would be declining fuel prices and new capacity additions that would drive down the cost of the margin of the unit, but over this time period I would think that upward trending factors would tend to outweigh the downward trending factors.
Q. And if we had the same conversation and we were talking about wholesale market prices, would we be talking about the same things, actually?



A. Yeah. Absolutely.
Q. Okay.
A. As you see from that table on page 15, the reason I had to understand what you meant by "competitive retail price" is it's driven very heavily by the underlying wholesale market prices.
Q. Okay. And if I were to ask you the same types of questions about market prices, whether they be retail or wholesale, after the end of the proposed ESP, so that would be after May of 2014, do you have a view, an opinion of what direction those prices will be going in the period after the end of this proposed ESP?
A. Not specifically, no.
Q. You don't have an opinion or a view as to whether or not they would be going up or down, or flat?
A. Well, it could be any of those. And I think in that time frame one of the key questions or variables that would influence the answer to that question would be the price of natural gas.
Q. And do you have a view as to what the direction of the price of natural gas will be, you know, 30 months out, I mean 30 and more months out



from the beginning of this ESP?
A. Yes, but those forward prices are also upward sloping through this term although, you know, those expectations have been coming down over the last year or two. And so that's why the question, as of right now those future prices would be somewhat higher than they are today, but not as high as people might have imagined just a few years ago.
Q. I might have confused the context, but are you now speaking over the period of the ESP or after the ESP?
A. I was speaking about after the ESP.
Q. After the ESP. Okay, well then I didn't confuse it.
A. Yeah, the forward market for natural gas extends out beyond the middle of 2014.
Q. And it is a trend line which is upward but not as much upward as it was in the past?
A. Yes. The base is lower and I think it's also a shallower curve than at times in the past.
Q. And you think that's what's going to be the determining factor for market pricing for energy in the electric markets over that period?
A. Well, if and as the cost of coal energy



increased either due to coal prices, environmental emission effects of one sort or another, the extent to which the wholesale price will also increase at some point becomes a function of at what price natural gas generation can substitute for coal generation and so that, ultimately, that relative price between gas generation and coal generation will then -- on the margin has an impact on average wholesale prices.
Q. And would you expect that on the margin the average wholesale prices would be, nevertheless, increasing over the period of time after the current proposed, excuse me, after the proposed ESP?
A. I think, based on information I've seen, I think that that could well be the trend. As I say, what actually turns out or to what extent that turns out to be true will be a function of, among other things, of what the natural gas prices turn out to be.
Q. Okay. This is sort of a cleanup question. At the beginning of your testimony at pages 4 through 11 you explain your recommendations, either your conclusions and recommendations or your recommendations and conclusions, and then you I think

do the same thing at the end of your testimony at pages 132 through 137. Mr. Schnitzer, I read pretty carefully your recommendations and conclusions, or your conclusions and recommendations, at the outset, but my question is is there anything different at the end compared to the front of the testimony?
A. Certainly not intended to be.
Q. Okay. Could you turn to page 7.
A. Yes.
Q. I have a note here that says that at page 7 you say that the capacity charge that AEP proposes to assess to CRES providers is too high, and that one reason you give is that AEP-Ohio failed to account for revenue derived from market energy and other sources of revenue available to the company. Does that sound familiar?
A. I see that, yes.
Q. I guess it's down at -- I think is that at line 16 and 17?
A. Yeah, 15 through 17 I think is what you were just reading, the quote is there.
Q. Okay. I think I understand the revenues that would be derived from market energy. What are the other sources of revenue available to the



company, and you have a parenthetical that explains it's costs that AEP would otherwise or could otherwise recover when a customer shops. Could you identify for me what those sources of revenue are?
A. I think it is principally, more than principally, predominantly energy. I'm not aware that there are any ancillary services revenues that we've also included. I think it's principally -- it is the energy revenues that we're talking about there.
Q. Okay. And the reason I'm asking is I'm trying to figure out what else besides that there is in here that they haven't -- AEP-Ohio hasn't accounted for, and is the answer, then, that really there isn't anything else that comes to mind besides the market energy?
A. Certainly in terms of how we have quantified the correction, if you will, market energy is the only thing that we quantified.
Q. Okay. And then on page 9, if you could turn there, your first recommendation is that the Commission should not, you say "reject," they shouldn't approve AEP-Ohio's proposed ESP and instead should adopt a modified ESP based on procurement of



SSO supply through competitive solicitations of fixed price full requirements products. That's at lines 9 through 11. Do you see that?
A. I do.
Q. And you also then go on to estimate that that would be, if they did that, if the Commission did that, you would expect it to result in prices 16 to 19 dollars per megawatt-hour lower than what AEP-Ohio's proposed ESP would provide. Do you see that?
A. I do.
Q. Would this result in lower rates than the current ESP will have in effect by the end of the ESP period? And just to be --
A. You're asking the question in the first half of 2013 would that still be the case? Is that your question?
Q. No. What I'm asking is -- that's a good question, but the question I was getting at is -- well, first of all, the 16 to 19 dollars per megawatt-hour advantage that you see with the competitive solicitation of fixed price full requirements products, is that an average over the ESP?



A. It is.
Q. Okay.
A. It is.
Q. Then my questions are in the same context. The question really is if this proposal, this recommendation were adopted, would the companies collect less from customers than they would under their current ESP during the term of the next ESP?
A. You're asking would -- you're asking me under that -- under the competitive solicitation would the companies, would AEP-Ohio's revenues be less than under their proposed ESP?
Q. No. I'm really focusing on the 1 percent decrease that you've got in your next table, and what I'm asking you is if they adopted your primary recommendation, the Commission adopted your primary recommendation, would the results be lower revenues collected by AEP-Ohio than if they just kept their current ESP prices as they would be at the end of the year here?
A. Okay. So you're asking what would the result be relative to that 8.27 current 2011 rate that's shown in the table? Is that --
Q. Right.

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A. Okay. I would say that the answer is they would be about the same, that at the time that AEP filed its testimony, that 8.22 number shown in the table corresponds to the wholesale market conditions at that time. They've bounced around a little bit between now and then. They're a little bit higher right now, so I would say that it would be pretty comparable to the 8.27 figure.
Q. So it is possible that the 8.22 number could either go up or down by the time we actually implemented the recommendation.
A. Yes. A little bit. I wouldn't expect it to go up as much as 18 to 23 percent, however.
Q. Right. I was kind of focused on the 8.27 as the point of comparison.
A. Yes. Yes.
Q. So it could either be above or below that by the time it's implemented; is that fair?
A. Yes. Modestly.
Q. Okay.
A. Because we said by the time we implement this, we would be implementing this in the next several months prior to January 2012, I would presume.

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Q. Now, in your table on page 10 you don't have a row that indicates what the price would be under a MRO alternative, but my question is if -- not "if."
If your recommendation were adopted, the competitive solicitation of fixed price full requirements products, is it possible that that would result in lower rates than what the MRO alternative would provide?
A. Yes.
Q. And that's also kind of quantified or articulated by the 900 million to 1 billion dollar increased revenue that an MRO alternative would provide?
A. Yes, sir.
Q. Okay. What is your understanding about how the Ohio -- in Ohio how an ESP is processed and adopted? It's sort of a procedural question, Mr. Schnitzer. How does it work?
A. Well, my understanding as a nonlawyer is that the company makes an application such as it has and then there are various conclusions the Commission has to reach before approving it, and that the Commission may approve, modify, or reject such

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proposed ESP plan.
Q. Okay. And do you know what happens if it makes a modification?
A. I don't know whether they can mandate the modification or whether the utility must accept the modification; that, I don't know.
Q. Okay. And then if they reject the ESP, if that's what they do, what happens then, if you know?
A. I believe the MRO plan is what is implemented under that circumstance.
Q. I have another couple, several questions, Mr. Schnitzer, in the same area, and it's based on the assumption that your primary recommendation is adopted and then implemented by the PUCO for the upcoming ESP for the 29 months, and my questions are directed at what might happen at the end of this next ESP under that scenario. Did you follow that?
A. I think so, but I'll know for sure when you ask the question.
Q. Okay. So the Commission adopts your recommendation, we go through the competitive solicitation of fixed price full requirements products to satisfy the SSO for the 29-month ESP, and

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then we get to the end of the 29-month ESP and the company would then propose another ESP, or it could. I guess the question is could it then propose the ESP? And I assume that you would agree that there would be something that would take place after the end of the current -- this next ESP.
A. Yes.
Q. And in your view would the procurement of the SSO supply for the next ESP, excuse me, the next ESP have to be or only -- would it have to be through the competitive solicitation for the fixed price full requirements products?
MR. KUTIK: Objection to the extent it calls for a legal conclusion. Go ahead.
Q. And I'm not asking you to provide a legal conclusion. I'm just trying to probe what your kind of, if you think through it, what you think might be happening the next -- during the next, the third ESP.
A. Well, from a policy perspective I would suggest that what would happen would be a continuation of the full requirements competitively procured SSO service, you know, perhaps on a staggered or so-called laddered basis, you know, to go to market on more than one occasion to serve the

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load, but that would be my policy preference.
Q. Would your -- in your view, would it be potentially appropriate to go back to the same kind of sourcing of SSO power that currently occurs in that third ESP?
MR. KUTIK: I object.
A. From a policy perspective, no.
Q. Okay. So from a policy perspective you think once we go down the road to a competitive solicitation of fixed price full requirements products, we ought to stay on that road.
A. Yes. Stated slightly differently, my reasons for preferring it now would continue to be valid reasons for preferring it then.
Q. If in the third ESP the companies applied for authority to implement an ESP along the lines of the current ESP, do you have any thoughts about how they would source the generation supply in that scenario?
A. I'm sorry. You're going to need to help me out on what you mean by sort of like the current proposed ESP.
Q. Well --
A. Like in what respects?

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Q. Like in the sense that it's not a -- it's not based on a competitive solicitation of fixed price full requirements products.
A. Does it have an extensive collection of bypassable and nonbypassable riders?
Q. Yes. Similar to the current proposal.
A. From a policy perspective I would be much inclined to favor the competitive model compared to the one you just described.
Q. Okay. Under your policy preference and pursuant to your recommendation, your primary recommendation, if it were to be adopted, do you have a view as to what would happen to the generation assets that the Ohio AEP companies currently own or control?
A. Well, again, I don't have a view of a legal matter, but consistent with that model from a policy perspective would be those generators would be free to participate in the PJM wholesale markets and to -- it's a benefit of whatever revenues resulted from that participation.
Q. And so would you -- from your policy perspective would you recommend that they be structurally separated from the electric distribution

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utilities?
MR. KUTIK: Objection.
A. From a policy perspective that would, I think, be desirable. I don't know that it's essential, but it would be desirable.
Q. And then, again, if they didn't structurally separate, what would they do with the assets while they were procuring the generation supplies through the competitive solicitation of fixed price full requirements products?
MR. KUTIK: Objection. Asked and answered.
THE WITNESS: I guess I go ahead and answer that, right?
MR. KUTIK: Yes. Unless I instruct you not to answer, go ahead.
A. Yes, they would participate in the wholesale markets including as a bidder in properly structured SSO solicitations.
Q. Including the solicitation for the resources for their own SSO?
A. Yes. Properly structured. Actually, I don't see far on the AEP-Ohio generation bidding into that.

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Q. If you could turn to page 10 of your testimony. At some point on page 10 I think you note that if your primary recommendation is adopted, by that I mean this competitive solicitation, it could completely mitigate the proposed total average rate increase proposed by -- which you believe would be the result of the ESP or could even result in a total rate decrease.
A. Yes. That's lines 7 through 9.
Q. What is the difference between those two results? And I guess my question is, is that the difference between being in -- the low case being the result and the high case being the result, or are they actually the same?
A. No. That sentence says it could -- it goes back to our earlier discussion, it could produce the rate increase to approximately zero or it could also result in a slight rate decrease.
Q. What would be the factors that would cause it to be either zero or slightly more or slightly less?
A. As we talked about a few moments ago, the wholesale market --
Q. Okay.

A. -- conditions at the time the solicitation or the solicitations were implemented.

Q. At the bottom of page 10, Mr. Schnitzer, you indicate at the first subpart to that item 2 --

A. Yes, the alternative recommendation.

Q. Yes. That first subpart there starting on line 16 says that "Before allowing recovery," I assume we're talking about generation related investment costs here or generation related costs, but "Before allowing recovery through a cost based rider, subject any otherwise eligible significant investment in generation, whether new, retrofit, or environmental control, to an open and transparent market test." Do you see that?

A. I do.

Q. Is that test only applied, in your view, in the case of a nonbypassable rider, or would it apply in the case of bypassable riders also?

MR. KUTIK: Objection.

A. It would apply in both cases.

Q. And why would it apply in the case of the bypassable riders?

A. Well, for at least two reasons. First, from a regulatory policy perspective, as I discuss



later in the testimony, the inclusion of costs in rates, which is what's happening in a cost based rider, you know, is subject to -- only prudently included costs are eligible for recovery in cost-based rates, so this would be no different. And so on that basis, as I discuss at some length later in the testimony, this market test would be appropriate.

Secondly, the mere fact that a rider is labeled "bypassable" does not mean that it's actually bypassable depending on the structure of other elements of the ESP such as capacity costs for CRES suppliers, other riders, switching restrictions. And the like. So the mere labeling of a rider as "bypassable" by itself even absent that overarching policy concern would not be sufficient.

Q. If it really truly were bypassable, in other words didn't have whatever deficiency it is that you have in mind, if it were truly bypassable, then the test should be applied in any event, or not, if it's bypassable?

A. Well, again, you know, the label "bypassable" doesn't do much for me so I'm not sure what you're asking me.



Q. Well, I was just asking you to conceive of a truly bypassable rider, whatever the label, and I'm just testing to see whether or not that makes a difference in your view of whether the test applies?

MR. KUTIK: Objection. Asked and answered. Go ahead.

A. Well, as I said, there were these two independent bases. If you take away one, then there's just one, but there is just one.

Q. And the one is the prudence element of it?

A. Yes. It's just the regulatory policy of what is permissible to include in a cost-based rate.

Q. Okay. And then would the test simply be a prudence review in that event if it was a bypassable, truly bypassable rate?

A. Well, as I discuss again later in the testimony, in this category the best, the most important aspect of prudence is what I refer to as decisional prudence. Is the decision to contract with this generator or to retrofit this generator prudent relative to other alternatives including market purchases.

So that is exactly the prudence that



we're interested in testing here is is this a prudent investment compared to buying from the market and so that's exactly -- this is a prudence test is my point.

Q. Okay. So if I understand it correctly, then, if we were -- currently the companies have an environmental investment carrying cost rider, right?

A. Yes.

Q. And if it were to continue on in the current form, would it be your opinion that it should be -- any costs recovered through that rider should be subjected to the decisional prudence test that you described?

A. Yes.

Q. Also on page 10 you indicate above there that a competitive solicitation model is the prevalent form of default service procurement in other restructured jurisdictions. Do you see that?

A. I do.

Q. Can you list for me what those other restructured jurisdictions are? I know you give a list on page 124, and I suppose my question is are there any others?

A. Well, page 124 is, I think, citing

practices and states that Ms. Thomas says that she reviewed.

Q. Okay.

A. To which I would add I think Maine, Massachusetts, as is implicit there Ohio. I'm trying to think if there are -- Connecticut I believe, although I'm not totally up to speed on what they're doing, and Rhode Island. So adding at least those jurisdictions.

Q. Okay. And in all of those jurisdictions does the electric distribution utility typically not own its generation? Excuse me. Strike that.

In those jurisdictions does the electric distribution utility typically not own generation assets?

A. I think in the main -- and I'm not sure that there is, there are any exceptions, but certainly in the main those electric distribution companies don't own generation themselves and there may or may not be a corporate affiliate that owns some generation and participates in those procurements.

Q. But putting Ohio aside, I'm not sure if that was in your list or not --



A. Yes.

Q. -- but putting Ohio aside, are there any of those other jurisdictions, as you're sitting here today, where the distribution utility does own generation?

A. There are a few instances in which there are legacy contracts with IPPs or QFs that I'm aware of, but not beyond that, to my recollection.

Q. Okay. Do you know whether any other jurisdiction has a statute that permits the establishment of a standard service offer in the manner that Ohio's ESP statute permits?

A. I don't know one way or the other.

Q. Okay. In your testimony, Mr. Schnitzer, you at various points, I think, mention, you know, potential subsidy issues; is that fair?

A. In the context of subsidies for AEP-Ohio's generation?

Q. I think that's where I remember seeing it, yes.

A. Yes. In that context, yes.

Q. Is it your view that subsidies, and I'm not just talking about that subsidy, but just in general, subsidies are inconsistent with the optimal



performance of a competitive market?

A. I'm debating. I don't think I need to ask you to define your terms there. I would say that there are -- subsidies that relate to generation can have an impact on wholesale markets. The particular subsidies at issue here are, in my view, quite significant.

Q. So can you say, can you tell me whether or not, in general, you think that subsidies are, you know, not compatible with the optimal performance of a competitive market?

A. Yeah, I think that's a pretty strong test.

Q. Okay.

A. I don't think I could agree with that as a categorical matter.

Q. Okay. But is it your view that shopping customers should not provide subsidies to nonshopping customers?

A. I don't know that I've expressed a view on that here in this testimony. Is there something -- are you asking me that question apart from my testimony or you've got a part of my testimony in mind?



Q. No. This is more of a general nature. I don't have a particular part of your testimony in mind.

A. And, I'm sorry, so your question is do I think it's appropriate for shopping customers to subsidize nonshopping customers?

Q. Right. I assume that you think that that would not be appropriate, but yes, that's the question.

A. Yeah. No, that certainly wouldn't be my preference. It would certainly be -- by its nature there would only be a fairly limited opportunity for that to take place or shopping customers wouldn't be shopping customers.

Q. And I don't know if you regard this as a subsidy or not, Mr. Schnitzer, specifically, but in your view the electric distribution utility shouldn't recover generation costs from shopping customers, right?

A. Yes. Putting aside transition costs or stranded costs or whatever in the transition to competition in the collapse of what were once generation costs, I certainly believe that the transition to competition can properly acknowledge

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those, but subject to whatever statutory framework is in place. So I just -- I don't want to -- I can't answer your question yes without excluding that category of costs.

Q. Okay. Well, let's exclude that category of costs and then the answer I take it is yes. If that were to happen, that is that the EDU is recovering generation costs from shopping customers, that you would regard that as a subsidy to the EDU.

MR. KUTIK: I'll object.

A. Yeah, there are -- it would depend on how that was being done. There are what I would call competitively neutral mechanisms to accommodate a delivery company undertaking what you just described.

Q. Okay. Do you believe that CRES providers should not receive subsidies either from the EDU or other nonshopping customers?

A. As a general matter, yes.

Q. Could you turn to page 40 and also on to 41. There's a sentence at the bottom of page 40 that carries on over to the top of page 41 and it says, you say "As market prices increase, the difference between market prices and fuel costs tend to increase as does the generation output from the plants."

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And I apologize if I was reading that back to you before you had a chance to turn to it, but --

A. No, I'm with you.

Q. Okay. Does that -- well, strike that.

Would you say that, as a result of that observation, that market prices tend to be more -- tend to be more volatile than fuel prices?

A. And are you specifically asking me about coal prices or --

Q. Well, just whatever the context is that you have reference to in your sentence where you indicate that the difference between market and -- market prices and fuel costs, that difference tends to increase as the market price increases.

A. Let me put it this way, market prices need not be perfectly correlated with the fuel cost increases of a particular generator, that's certainly true.

Q. Right. And are you -- is that your answer or are you -- I'm sorry, I don't mean to interrupt you.

A. Maybe I need you to remind me of what the question is and I can give you an answer.

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Q. Okay. My question is based on the observation that you make in that sentence that as market prices increase, that the differential between market and -- market prices and fuel costs is itself increasing, that differential is increasing, which I take to mean is accelerating without relative to, you know, to the fuel cost increase, would you agree or do you agree that that indicates that market prices are volatile, are more volatile than fuel costs?

A. Well, I think with respect to -- and I apologize, I'm going to have to be a little bit more precise. With respect to coal costs, market prices can rise, can rise more quickly than coal prices and they can fall more quickly than coal prices; that's certainly true.

Q. Okay. Is the same true for natural gas prices?

A. That would be a much harder statement to -- the statement about natural gas prices in the AEP market would be a much harder thing for me to try and construct.

Q. Okay. Is it possible for you to construct it in some other context?

A. Well, in markets, in wholesale markets

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where gas is on the margin a predominant amount of the time and where there's not a huge gas combined cycle overhang in the market, under those conditions I could make a parallel statement that market prices could rise faster than natural gas prices and also fall more quickly than natural gas prices, but that that would be the limited circumstance under which I could make that statement.

Q. Okay. And then I did have a question about the last phrase in that sentence, the "as does the generation output from the plants" phrase.

A. Yes.

Q. And I'm not sure I understand it so let me ask you just several questions. What happens, in your view, when market prices increase to generation output? I assume that it increases; is that right?

A. Well, yes. It obviously depends on individual generators and the circumstance, but the phenomenon that is being discussed here or described here is that when market prices or if market prices increase during shoulder or off-peak hours and the fuel costs of a generation unit don't increase as much, then that unit will be dispatched more in that time period than it otherwise would have been. I mean, for instance, this will make no difference to a nuclear plant, all right? That's not what this statement is referring to.

Q. Okay. You mentioned that the relationship, I think you mentioned that the relationship exists in the context of a shoulder period? Did I misunderstand you?

A. I was giving the example of shoulder or off-peak periods when in the base case, if you will, the plant was all running -- was already running at full capacity, you know, on-peak, et cetera, but it had underutilized output potential in either the shoulder or the off-peak.

Q. Okay. Let me give you a scenario and ask you to comment on it. If the price goes from -- the market price goes from 80 to 81 dollars per megawatt-hour, would you expect more generation output at $81 than what occurred at $80 per megawatt-hour?

MR. KUTIK: Objection.

A. Well, in aggregate in whatever -- in the Eastern Interconnect or whatever we're talking about, unless demand for electricity went up, the answer is no. But at a more micro level is it possible that



some generators run more and other generators run less when that happens? Yes, that could happen.

Q. This is sort of, I don't know, a throw-away question in part, but is your point about generation output, how it's linked to market price increases, is it really necessary to the reasoning and conclusion that you have there at pages 40 to 41?

A. It's not the primary mover. The bigger mover is the margin, if you will, above incremental costs that can be earned in the wholesale market. But there can be a quantity effect as well when one looks at different periods. So it's certainly not the principal driver of that conclusion, but it's not a -- it's not a footnote of no significance either.

Q. Okay. At page 21, if you could turn to page 21 --

A. Geez, I thought we were only going forward.

Q. I told you at the beginning I thought I was pretty much going straight through, but I should have apologized if there were some backtracking.

A. That's all right.

Q. It's generally from front to back.

At page 21 you have a table which depicts



several versions of the proposed ESP, and actually, Mr. Schnitzer, I would ask you if you -- you may be doing fine, but I need to take a quick break. Is that okay?

A. That's fine with me. How long do you want to say, five minutes? Ten minutes?

Q. Yeah, five minutes or thereabouts would be fine for me.

A. All right. Fine.

(Recess taken.)

MR. CONWAY: I'm back.

THE WITNESS: I'm here as well.

MR. CONWAY: Is everyone else present?

MR. KUTIK: Yeah, I'm ready to go, Dan.

Q. All right. Mr. Schnitzer, at page 21 there's a table which depicts several versions of the proposed ESP.

A. Yes.

Q. And in that, in each of the second, third, and fourth columns, those three views, you list the phase-in rider as a separate element?

A. Yes.

Q. And is that because the phase-in rider is separate from the company's proposed ESP?



MR. KUTIK: Objection.

Q. Well, let me rephrase the question. Why do you have the phase-in rider listed separately?

A. Well, I'm really not sure I understand, you know, the question.

Q. Well, for example, you have the proposed ESP price at the top of the column of elements, right?

A. Yes.

Q. And from that you offset the transition adjustment; is that right? To get a total generation price.

A. Yes. You just have to make sure, depending on what set of numbers we're looking at, that we're apples to apples and there's a certain amount that, for some purposes, is classified as transmission but is actually ancillary services and so in other comparisons it's part of the generation rate. So that's just to make sure that's only in there once and not twice.

Q. Okay. I'm sorry, I said "transition." I meant to say "transmission."

And then you developed a total generation rate. And then below that is a current transmission

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and current distribution rates, right?
A. Yes.
Q. And then it has listed separately POLR as well as the phase-in rider, correct?
A. Yes.
Q. And the question is, the phase-in rider is listed separately because it's not part of the generation price?
A. That's my understanding. That's right.
Q. All right.
A. But it is part of the ESP proposal, it's my understanding.
Q. And I notice that the POLR charge also is separately stated, and the reason for that is what?
A. Also that it's not in any of the other categories and it's my understanding that that's part of the company's proposal.
Q. Okay. At page, actually we are going backwards, at page 17 you have a chart entitled "AEP-Ohio understates the proposed ESP price." Do you see that?
A. I do.
Q. And you've offered several ways in which you believe that AEP's calculation of the ESP price,

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the proposed ESP price, should be corrected; is that right?
A. Yes.
Q. Without revealing any confidential information if you can, starting first with the full fuel item, can you explain how you made the calculation that led to your full fuel value? And by that I mean what are the inputs to the calculation, and then what is the manner in which the calculation you did occurred that let you develop the full fuel number?
MR. KUTIK: Note my objection.
A. Well, I think, and I'm looking at the confidential version here, but I think the column headings and the footnotes are not confidential; is that right? Just certain numbers are restricted?
Q. That's correct.
A. Yes. So I think if I can refer you to footnote B, page 17, it's line 10 of my --
Q. Okay. To what extent is the information that you've relied upon different than what AEP information -- than the AEP information?
A. Well, it's -- the information I used is the information in that interrogatory response which

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to my understanding was not relied on by Ms. Thomas when she put together her analysis.
Q. And can you tell me what it is about that information that you used that is different from what Ms. Thomas used?
A. Ms. Thomas used the company's estimate of 2011 full fuel in her calculation, and that's the number that shows higher up in the table in the nonredacted portion of it, and what I used was the company's forecast of what its fuel costs will be during the ESP period, the proposed ESP period in which, as I understand it, it proposes to be allowed to recover on a trued up basis through a rider.
Q. Okay. And turning to the pool termination or modification element --
A. Yes.
Q. -- could you, again, explain without revealing any confidential information how you developed the value in the High column for that item.
A. Well, we can start with footnote C. So the calculation in the column you're asking about assumes a termination or modification beginning January 1, 2014, and then there's a set of calculations described in the testimony which

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quantified the lost capacity revenue from affiliate companies that, to my understanding, AEP-Ohio seeks the right to recover through this rider.
Q. And the section of your testimony where you describe how you made the calculation, is that at pages 87 through 92?
A. Yes, sir.
Q. At the top of page 91, consistent with I think what you had just mentioned, you assumed that the agreement is modified so as to impact only the last five months of the proposed ESP, the January through May 2014 period?
A. Yes.
Q. And then you come up with the cost per megawatt-hour for the rate impact over the current proposed ESP period, correct?
A. Yes.
Q. And is it a simple weighting that you use taking the total costs that you developed and dividing by 29 and multiplying by 5?
A. I can check that if you'd like, but I think it's millions of dollars divided by the SSO terawatt-hours. Let me just see which denominator we used. Hold on a minute, please.

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Q. Okay.

A. I'm just trying to check my -- yes, this is a, if I understand it, it's a bypassable rider so it would have been those millions of dollars, I believe, divided by the SSO terawatt-hours over the entire forecast. SSO terawatt-hours over the entire period.

Q. Could you tell me again what the numerator is that you used?

A. It would have been the millions of dollars. I'll just point you to -- it's the 2014 estimate of lost capacity revenues.

Q. Is that an annual figure?

A. That is millions of dollars for the, yeah, I think on mine it's page 90, line 3. I think we prorate that. If you want, I can pull up the -- I can refer to the workpaper if you want.

Q. Well, is the idea that you take the value that's at line 4 there and you prorate it somehow?

A. Yeah. I'm not sure if we prorated the megawatt-hour or whether we prorated the five months worth of millions of dollars based on all the terawatt-hours over the average period. I'm just not recollecting which calculation approach was used

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here. It was one or the other.

Q. How much effort would it take to confirm which one?

A. It would take me three or four minutes, I hope only three or four minutes to find that workpaper.

Q. Okay. Why don't we go ahead and try to do that and then after -- see what happens within five minutes.

A. All right.

MR. KUTIK: So why don't we do this, why don't we go off the record, and when Mr. Schnitzer's ready, we can go back on the record.

MR. CONWAY: Okay.

(Off the record.)

A. Okay. I can describe that calculation more specifically.

Q. Okay.

A. Back on the record?

Q. We are back on the record. Please do describe it.

A. So it is the figure shown on line 4.

Q. Line 4 of page?

A. Page 90, which is a firm --

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Q. I'm sorry, Mr. Schnitzer, you said that it is a per megawatt-hour number?

A. That number which shows on line 4 of page 90, just so we get our unit, that is multiplied by the ratio of SSO retained load terawatt-hours in the first five months of 2014 divided by the sum of all the terawatt-hours in '12, '13, and the first five months of '14, and that product equals the number which is shown in the table.

Q. Okay. Thank you.

And then if you could turn your attention to the environmental investment carrying cost rider.

A. Back on 17?

Q. I'm sorry. Yes, back on 17. The environmental investment carrying cost rider. And the question I have there is similar which is how is it calculated for the low and the high cases, and I assume that there's some explanation later on in your testimony.

A. Yes.

Q. Would it be at pages 64 through 73?

A. Yes.

Q. And can you point to me in your testimony where the explanation of how the rate is actually or

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the rate element is actually calculated?

A. Well, the -- at least for starting that conversation I'm looking at page 67 starting at line 12.

Q. Okay.

A. And that refers to a discovery response from AEP which provided a annual forecast of cash flows, environmental expenditures, excuse me, consistent with the June 9, 2011, press release. And so those were the starting data for the calculation.

Q. Okay.

A. And then if we flip over to page 72, lines 1 and 2 --

Q. So there you get the low forecast of annual costs?

A. That's correct. So that tells you that that's what we -- we used the low portion of the interrogatory request to take those annual expenditures and translate them to revenue requirements and costs in the rider.

Q. And then you do the same thing with the high side and that's on line 5, or the results are reported?

A. Well, not exactly the same thing. What

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the words there say is that the high case takes the annual expenditures from the high case and accelerates them into the ESP period, I believe. So you will see, for instance, that the number on line 5 of page 72, the per megawatt-hour number there --
Q. Yes.
A. -- the 2,014 EICCR for the high case --
Q. Yes.
A. -- is higher than the number shown for 2014 on the high case in the graph on page 68. You compare those two numbers and the difference is the acceleration, that my high case accelerated cash flows from later in that -- the forecast in later years by AEP for this high case into the ESP period.
Q. And how -- I'm sorry.
A. That's where the high case comes from.
Q. I believe you said you did a translation to getting aggregate costs of some sort to the per megawatt-hour values?
A. Yes.
Q. And could you describe to me what that translation involves?
A. Well, it was basically, if I can get to the -- I don't know if you have Ms. Thomas's

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workpapers available to you, but she has a -- she has a workpaper, Ohio Power Company Environmental Carrying Costs Based on Current Environmental Rider Methodology.
Q. Okay.
A. And that exhibit starts with an annual environmental spend and then it has a series of calculations which apply a charging factor to it, employ a half year convention for the current year's worth of expenditures for ratemaking purposes, and then has a set of allocation factors and the like all to get down to a dollars per megawatt-hour cost, and this is her backup for the 90-cent figure which is what she has in the ESP on an AEP-Ohio basis.
Q. And did you use the same method that she used?
A. Exactly so.
Q. Okay. And then you end up with an average per megawatt-hour value for the low case and the high case, correct?
A. Yes.
Q. That are displayed on lines 8 and 9 of page 72?
A. Let me get there. That is correct.

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Q. And how do you perform the translation from the 2014 year end values for the low and the high case?
A. There again, I'm going to, if you want that level of detail, I'm going to have to go find that workpaper which may take me a few minutes.
Q. Okay.
MR. KUTIK: "Okay" meaning you want him to do it?
MR. CONWAY: Yes.
MR. KUTIK: All right. Let's go off the record so he can find it.
(Off the record.)
A. Okay. I'm just pulling the workpapers so, I'm sorry, your question is how did we get from the annual numbers to the average number?
Q. Yes.
A. Okay. I'll see if I can find that calculation.
Well, it looks like that will be in another workpaper so bear with me.
Okay. I'm in the right workpaper. Bear with me.
Q. Okay.

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A. I'm sorry. We need to be back on the record now?
Q. Yes.
A. So if you have Exhibit LJT-2 in your mind or handy --
Q. Yes.
A. -- you will see that Ms. Thomas in that exhibit reports her numbers for 2012 and then also for the 17-month period January 2013 to May 2014.
Q. Correct. Thank you.
A. That was a weighted average. Once we have the annual EICCR numbers, we replicate the methodology that she has used on LJT-2 for purposes of calculating that weighted average. So we have to calculate -- first we calculate the January 2000 [verbatim] to May 2014 weighted average, and then we weight that using her weights with the 2012 number. Do you need more detail than that?
Q. No, I think that's sufficient. Thank you.
A. Okay.
Q. And then bear with me, I'd like to go through the facilities closure cost rider calculations also.

A. Okay. Do you want me to start looking for that workpaper?
Q. Well, I'm not sure you need it.
A. Okay.
Q. I suppose that's my question. If you turn to page 79 --
A. Yes.
Q. -- you provide estimated closure costs of both aggregate and per kilowatt in the table for --
A. Yes.
Q. -- the four units.
A. Yes.
Q. And in the footnote you provide certainly some information regarding -- footnote 128, I believe.
A. Yes.
Q. You provide some information regarding the nature of the calculations.
A. Yes.
Q. And the question I have is what information do I need besides what is on page 79 in the footnote and in the table in order to develop the value that you have on line 12?
A. Yeah, I think that is a workpaper



question so hang on. I'll see if I can do a better job of finding that one faster.
MR. KUTIK: Let's go off the record.
(Off the record.)
A. Okay. If we can go back on the record, I have at least a partial answer, and if this is sufficient, we'll see.
So from the table, the table there on page 79, that second column or second to the right, from those millions of dollars --
Q. Yes.
A. -- in combination with the details of the footnote what that translates to is costs to be recovered in calendar year 2012 and 2013, and we calculate the annual millions of dollars and then divide by the relevant megawatt-hours of each of those two years, and then we do the valuing for 2000 and -- for the five months of 2014 under those assumptions is zero, and so we do the weighting average, the LJT weighted average, if you will, calculation of the 2012 to 2013 dollars per megawatt-hour numbers to get to the dollar 28.
Q. And do you use the same megawatt-hours as Ms. Thomas uses to develop the value?



A. Yes. And it, you know, as you know, she uses and we use two sets of megawatt-hours depending on whether it's a bypassable or nonbypassable rider, but we use the same numbers in each of those cases as she does. Does that make sense?
Q. Barely, but I'm sure it is sensible.
Is there any difference in which riders that you regard as bypassable and the ones that she regards as bypassable?
A. No, sir.
Q. Okay.
A. No, sir.
Q. Then it does make sense. Okay.
All right. Let me turn our attention to the competitive benchmark price now, okay?
A. Okay. Is there a page you want to point me to?
Q. Well, I'm going to ask you some questions first about the capacity price, which I think is the first item in that section. On my copy of your testimony the competitive benchmark price discussion and the detailed discussion begins on page 25.
A. Yes.
Q. My first question for you is with regard



to your proposed capacity price which, as I understand it, is $2.36 per megawatt-hour instead of the $21.95 per megawatt-hour value that the companies have proposed using. And I'm looking at page -- right now I'm looking at page 30.
A. Thank you. Yes, that's right.
Q. First question is regarding the basis for the $2.36 per megawatt-hour value that you recommend, that is based upon RPM prices; is that correct?
A. Yes, it is.
Q. And can you describe for me how that 2.36 is calculated? I have in front of me the values, $110.04 for the '11-'12 planning year, $16.46 for the 2012-'13 planning year, and $27.73 for the 2013-2014 planning year, and it appears to me that there's a weighted average, or I believe that there's a weighted average of those values that end up being the basis for your recommendation. And so, question, is that correct?
A. Well, the translation, if you will, from an RPM price in dollars per megawatt-day to the average ESP price of 2.36 per megawatt-hour, that's the calculation you're asking about?
Q. Yes.

A. Yes. That, again, that's either a Thomas exhibit or a workpaper which shows how she translates dollars per megawatt-day of capacity prices to dollars per megawatt-hour over the ESP period.
Q. Did you use the same method?
A. We did.
Q. Okay.
A. And I can look to find that. I'm not seeing it right offhand.
Q. Why don't we pass on that for now. I'll accept that as a --
A. Okay.
Q. -- as the method and if Ms. Thomas -- since she's already done it and your effort was to do it in the same fashion, I'm confident we can reconstruct it then.
A. Okay.
Q. In any event, at the bottom the premised word is the RPM prices that I quoted; is that right? For your value.
A. Yeah. I mean, I -- I'm not looking at the exact numbers myself, I'm happy to accept, you know, your numbers because I think they're culled out, you know, somewhere on page 32, I think.



Q. I was looking at page 29, actually.
A. Twenty-nine? Yes. Thank you. That's where they are, thank you. Yes.
Q. And the reason that you used those RPM prices, is it because the Commission has already set those capacity prices for AEP-Ohio during the period that will be covered by the proposed ESP?
A. That's one reason, yes.
Q. What's the -- is there another reason?
A. Yes.
Q. And what is that?
A. Well, I think also as a policy matter it's the right -- it's the right number to use or the right value to use, you know, unless there's some, if you will, policy entitlement to recovery -- for AEP recovery of its generation revenue requirements and a legal opportunity under the statute to do that, and I'm not expert -- I am not familiar enough with the back and forth of the Ohio statute and the rest to know, but absent some countervailing reason to why they are idle to this, to above market cost recovery, as a policy matter the RPM number is the right number.
Q. And it is possible in some fashion that



prices for capacity during the next ESP period that AEP-Ohio would charge CRES providers will be higher than what you assumed?
A. Well, if there is both a legal and policy rationale for and above market capacity recovery, then in this section of my testimony I go on to describe the absolute maximum from a policy perspective that would be appropriate under that circumstance.
Q. And that's the maximum above market capacity rate?
A. Yes, sir.
Q. Okay. Are you aware, I think you are aware that there's a proceeding, I think I saw in your testimony a reference that there's a proceeding going on at the PUCO right now which is considering what the appropriate capacity price should be for AEP-Ohio to charge CRES providers. You are aware of that, right?
A. I am.
Q. So if the PUCO were to conclude that a value or values higher than what you have included in your calculation, which you've assumed for your calculation, are appropriate, then that could cause



the capacity price for the benchmark to increase, right?
A. Under that hypothetical circumstance, yes.
Q. Okay. And going back and focusing on the RPM prices --
A. Yes.
Q. -- are there any upward adjustments to the RPM prices that are possible or that must be made in order to make them accurate as far as what gets billed to CRES providers during the proposed ESP?
MR. KUTIK: Objection.
A. Well, my understanding is under the RPM rules, as distinct from what the Commission might order, but under the RPM rules there can be some minor adjustments to the actual assigned costs based on differences between forecasts of procured capacity and actual need, but I don't know that those translate to the Ohio Commission's determination of the appropriate price.
Q. Well, actually, I switched gears there. I was no longer focused on the possibility that the capacity price could change as a result of the Ohio Commission proceeding, and I was reverting back to

simply the RPM pricing mechanism and ways in which it might, through its normal operation, lead to higher values than what you have in your assumptions.
A. For this period.
Q. For this period.
A. Yes. My understanding is that, you know, there can be some adjustments either way depending on whether PJM has over- or underprocured relative to the load that actually shows up, but Mr. Shanker is probably more familiar with those details than I am.
Q. What is the mechanism through which that kind of an adjustment would occur?
A. I think it's, well, again, I would just defer to Dr. Shanker, but it's an adjustment to the price per megawatt that is charged to load-serving entities.
Q. And, if you know, how was that determined? What's the process?
A. That I'm afraid you'll have to ask Dr. Shanker.
Q. Okay. Are there any elements of the RPM price that you're aware of that you haven't included in your assumed prices?
A. No, sir.



Q. You may have already answered this question, and if you have, I apologize, bear with me, please. You say, I believe, in your testimony that the $2.36 per megawatt-hour value is an average of the three RPM prices that straddle the proposed ESP period. I think that's what you explained.
A. Yes.
Q. And then did you already explain how the averaging takes place by reference to the method that Ms. Thomas used or was there some other method that I missed?
A. No; there is a workpaper exhibit where she lays out the algorithm for translating dollars per megawatt-day into dollars per megawatt-hour and then I think -- I'm trying to think where it shows up, but I believe we would have replicated her approach for translating that into the competitive benchmark average price.
Q. Okay. If the capacity charge does increase beyond the levels that your $2.36 per megawatt-hour figure is based upon, would such an increase have an impact on any of the other elements of the competitive benchmark? Would there be any flow-through effects of such a change?



A. As I state in my testimony, Ms. Thomas's algorithm or approach does have those linkages which we have accepted for these purposes. So our calculations include those kind of ripple effects, if you will, that are in her model.
Q. As far as you know which of the other elements do depend upon the capacity price value?
A. Well, they can depend both on the capacity price and the energy price, so I'm going to have to, without checking the workpaper I'm going to have to give you those categories that can be affected by either. I'm not sure if there are, without looking at the workpaper, whether there are some that are only limited to one versus the other. I just need to find a table here where --
Q. Look at page 15.
A. Yeah, that's the one I'm looking for. That's right.
So we made corrections to the inputs in two categories, the simple swap and the capacity, and the rest of the effects, if you will, are the ripple or the flow-through effects of making those changes using her model.
Q. Okay. Let me ask you one clarifying



question, for me, which is is that applicable to the transaction risk adder or is it subject to yet a different basis for change?
A. No, sir. We did not -- we did not have any other basis to change. I believe the first specification of the transaction risk adder is as a percent rather than absolute, and so when you change the absolute level of some of the constituent pieces, then that also changes the transaction risk adder in absolute terms because it's a percentage calculation.
Q. Does the percentage link to one or the other or both of the two drivers, the simple swap and the capacity?
A. I would have to check, but I think it's actually linked to the aggregate of the other categories or the aggregate of several categories, but I'm not certain. I can check that if you want.
Q. That's okay. If you did it the same way that Ms. Thomas did it, then that's good enough for me.
A. Yes, that's what we did.
Q. Okay. Just to kind of complete the loop for me, the capacity price element does not affect the simple swap value and, similarly, the simple swap

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value doesn't affect the capacity value; is that right?
A. That is correct.
Q. They're independent values?
A. Yes, sir.
Q. Now, I apologize for this in advance, I think I understood what you did to the capacity value to get it and change the difference between it and the company's value that Ms. Thomas supports, and if you've already answered this, okay, tell me it's in Ms. Thomas's testimony, but could you tell me again or could you just tell me how the load following and shaping adjustment, the losses adjustment, and the transaction risk adder adjustments end up being modified in your presentation compared to what the company's proposed?
A. Yes. Ms. Thomas's model for calculating the competitive benchmark price includes formulas where the load following adjustment is a function, I think, of the simple swap rather than capacity, but I'd have to check that one, and where losses in the transaction risk adder are also a function of at least one or both of those categories and possibly some others.

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So when we changed the two inputs, we just changed the two inputs I mentioned, the simple swap and the capacity, and then we, if you will, recalculated Ms. Thomas's model with every other input left unchanged.
Q. Okay.
A. And the result is what's shown on the table on page 15.
Q. Okay. Thank you.
Then let me turn to the simple swap element and, again, if you've already explained this, bear with me, but how did you calculate the $39.35 value for the simple swap that you recommend?
A. We used the same methodology as Ms. Thomas except that instead of her first five trading days of the first week of each quarter we used the comparable number basically on the date that AEP filed its case, January 27th, 2011.
Q. Okay.
A. As the input.
Q. That may answer one of my questions. How did you pick the -- you picked the January 27th, 2011, date because that's the date of the filing?
A. That was the then contemporaneous

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wholesale market price.
Q. And so aside from that, that you used one date and she uses an average of, and if I'm misstating this, I apologize, she used an average of five days from the first week of every quarter in 2010?
A. First five trading days of each.
Q. First five trading days of each quarter in 2010?
A. Yes, sir.
Q. Aside from that, the method for developing the end value that you have of $39.35 is the same as the method that she used.
A. Yes. And just one quibble if I might with the preface of your question which is that we used the single contemporaneous data point.
Q. Okay. And then if you turn to page 48 --
A. That's a big jump.
Q. It is, although you discuss -- you have a discussion there in the Q and A at the top about the forward price levels for energy as of July 18th, 2011, just before you filed your testimony.
A. Yes.
Q. So it is related.

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A. Yes. I shouldn't get too hopeful, huh?
Q. Okay. So you note that the forward energy prices had increased since the time of the company's filing as of July 18th, correct?
A. Yes.
Q. You also state that if you updated your analyses to reflect the forward price levels as of July 18th, 2011, your corrected proposed ESP price would still be 6 to 9 dollars per megawatt-hour higher than the alternative MRO price, correct?
A. Yes.
Q. Did you calculate the simple swap value that could be, you know, that would be comparable to the simple swap value that you included in the competitive benchmark recommendation using the July 18th, 2011, energy forward pricing levels?
A. If we -- I forget what page that table was on that you had me on. Sixteen?
Q. Fifteen.
A. Fifteen. You're asking me if I calculated, did I calculate the analogous number to the 39.35, is that your question?
Q. That's a better way to state it, yes. Thank you.

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A. Yes, we did.
Q. Okay. And what was it?
A. 43.23.
Q. Did you calculate the competitive benchmark price with that sensitivity, that variation, in other words, flowing through those to the other dependent elements the impact of that simple swap value?
A. We did as part of the calculation that's referenced at line 9 and 10. I don't know if I have that handy, but yes, we would have done that calculation to get to the 6 to 9 dollar figure that you referenced.
Q. And what, if you recall, what would that number have been in comparison to the $54.28 number?
A. I don't recall. I could try and check if you'd like. I'm not sure if we have a workpaper on that or not, but I -- the simple answer is "I don't recall."
Q. Unless you recall to a level that you would regard as being accurate, I don't need you to, you know, guess, but if you wouldn't mind trying to find, if you can do it in five minutes. And I guess the other question I'd have before letting you loose

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to do that, would I be able to calculate what that number is that you have developed by just using the Thomas approach but plugging in that value, the 43.23 instead of the 39.35?
A. The answer to that question is yes.
Q. Okay. Well then I don't -- well, if you wouldn't mind, do you think you can do it in five minutes?
A. Yeah, well, I can take a quick look and see if -- I just can't recall among the long list of workpapers here whether we've got that one, and if we do, I can open it up, but if we don't, then I won't be able to get that for you this afternoon.
Q. If you don't mind taking a shot at it, I'd appreciate it.
A. Okay.
MR. KUTIK: Let's go off the record.
MR. CONWAY: Okay.
(Recess taken.)
MR. CONWAY: Back on the record.
Q. Mr. Schnitzer, what did you find?
A. Yes, I think you were asking me whether we had done the calculation similar to the table on page 15 but instead of a 39.35 input for the simple

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swap at the top of that middle column, to put in the 43.23 figure from July 18; is that correct?
Q. Yes.
A. We had done that calculation, and it is in my workpapers, and the number at the bottom of 54.28 would change to 58.77 under that assumption.
Q. So it goes up by $4.49 or some other value?
A. Whatever that math is. But, yes, there is a little ripple effect from the increase in -- the just under $4 increase in the simple swap.
Q. Mr. Schnitzer, the reason you picked July 18th, which by my research was a Monday, as the date to review for purposes of the point that you make in your testimony on page 48, is that because it was close to when you filed your testimony?
A. That's right. My view is that the right number to use at any point in time is the contemporaneous market price, and so that was the contemporaneous market price at the time I filed my testimony.
Q. Do you think it is reasonable when performing this calculation, the simple swap calculation, would it be reasonable to use an average

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of some sort of more than one day's worth of data?
A. I think there are multiple ways that one could define and sample a contemporaneous market price, but an average over the previous year would not be one of them.
Q. But some averaging process using more than one day's worth of data is not something you're adverse to?
A. No, as long as all the days are fairly contemporaneous. You know, within a very small window around the date you're interested in.
Q. Did you look at the forward energy prices for the days that are straddling the July 18th or up to the July 18th date?
A. I have.
Q. And how did they vary?
A. Well, July 18th happened to be a high watermark relative to the days right around it.
Q. Okay.
A. So the days right around it and since are lower.
Q. I do have a question about the maximum above market capacity rate recommendation, I don't know if it's a recommendation you make, but your

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discussion of that. At page 48 at lines 18 to 20, so let's see, page 48. And I'm thinking maybe I got the wrong page number.
A. Yes, I think so.
Q. Maybe it's 35. Sorry about that. I thought we were at page 48.
A. There is a discussion of the maximum above market rate that begins on page 35.
Q. I'll strike the question. I think we've already addressed this, actually.
I have a couple questions about the phase-in recovery rider.
A. Okay.
Q. Are you familiar with that proposal of the companies?
A. Only at a very high level. As you know, I don't perform any analysis or any adjustment to that.
Q. Well, this may be quick then. Do you know what the companies are proposing to recover through that rider?
A. I'm just trying to refresh my recollection here. Again, I'm not certain I've got the name right, but is that the one that is the

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company's position is sort of zero sum between one class and another? I'm trying to look for the description --
Q. I'm not sure.
A. -- of that rider. I probably have it right here somewhere.
Q. Well, while you're looking so am I. I didn't have a page number reference and I'm looking myself.
A. That's the deferred fuel. I'm sorry, phase-in recovery rider?
Q. Yes.
A. Deferred fuel balance?
Q. Yes.
A. Yes, that's page 61 of my testimony. It's just a description of what that is.
Q. So to the extent you have an understanding, and if you don't, just please say so, is it your understanding that that rider -- through that rider the companies propose to recover deferred fuel costs?
A. Yes.
Q. And are you familiar with the Commission's orders in the companies' first ESP case

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that authorized the deferrals? Are you familiar with the portions of the Commission's orders in the first ESP case that authorized the deferrals?
A. I'm not familiar with the orders per se, but I have an understanding that there was a cap on fuel recovery in those plans, but an authorization to hold for future recovery any amounts incurred above the cap.
Q. Can you agree or disagree that the proposal that the companies have made, this phase-in recovery rider proposal, is consistent with what the PUCO authorized in the first ESP case for the companies?
A. I don't take a position one way or the other on this particular rider. It's not a change that I've -- I've not made any changes to this as part of my analysis.
Q. I have a couple questions about retirements now, plant retirements.
A. Yes.
Q. At page 79 --
A. Yes.
Q. -- you list the four units again that retirements for which you took into account or the

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proposed retirements for which you took into account in coming up with your adjustment for the facilities closure cost rider. Do you see that chart on page 79?
A. I do.
Q. The Philip Sporn unit 5 is identified as one of the retirement candidates; is that right?
A. It's on the list of those that the company plans to retire with a date of 2010 I guess was the latest information we have.
Q. That's actually what I was going to focus on first, which is the 2010 potential year-end retirement that you have identified or listed or described in your chart.
A. Yes.
Q. And then there's also the 58.7 million is the estimated closure cost for the Sporn 5 unit.
A. Yes.
Q. Do you know whether Sporn 5 was actually retired in 2010?
A. I do not.
Q. Do you know whether it's been retired in 2011?
A. I don't.

Q. Okay.
A. I'm just using the companies' provided estimates of what those retirement costs are.
Q. Do you know whether -- well, the companies, is it your understanding that they applied for authority from the Commission to recover the retirement costs of the Sporn unit 5 separately from the ESP?
A. Yes.
Q. And do you know whether the Commission has ruled upon that request?
A. That, I do not know.
Q. Do you know whether the estimated closure costs have been incurred or whether recovery of them has begun?
A. I do not.
Q. If the plant, regardless of whether it's been retired, if the closure costs, the estimated closure costs have not been -- they have not begun to be recovered, is it possible that the -- is it possible that the $58.7 million estimated closure cost has changed since it was estimated in the form that now is reflected in your testimony?
A. Well, I think, as I state on page 78,



explicitly in the filing that was made there was an -- it did not include future closure costs for which it might also seek recovery, so at least on that basis that could certainly be the case.
Q. And it could be the case -- I'm sorry. Is it possible that the $58.7 million number has declined from that level?
A. It may be. I'm not aware that there was any subsequent modification to that number at least that we were able to find.
Q. Okay. Do you know whether the $58.7 million number included any offset for net salvage?
A. Well, I could check, but I would have to check to answer that question.
Q. That's okay. Thank you.
Could you turn to page 91. At this part of your testimony I believe you're talking about the pool termination rider; is that right?
A. Yes.
Q. And if you look at footnote 152 --
A. I see that.
Q. -- I think you state in part there that it is unclear whether, whether and how AEP-Ohio would



credit additional net energy sales revenues that would not exist absent the pool termination or modification. Do you see that?
A. I do.
Q. Did you assume in your analysis that AEP would not offset pool termination costs with the net energy sales revenues that you referred to?
A. Well, in the high case, which is the only case where this quantification is performed, it assumed that there is no offset of the amount with increased energy revenues.
Q. Okay. When you performed the comparison of the ESP, as you adjusted the proposed ESP, to the MRO, as you adjusted the proposed -- or, the MRO side of that balance, did you -- first question, when you were doing that comparison, of course you had incorporated your assessment of the estimate of costs for the -- attributable to the environmental investment carrying cost rider to the ESP, right?
A. Correct.
Q. And did you also add the estimated costs of the EICCR to the MRO price to which, you know, to which you compared the ESP price ultimately?
MR. KUTIK: May I have the question read,



please.
(Record read.)
A. May I refer you to Exhibit LJT-2 as I give this response.
Q. Sure.
A. So the short answer is yes, but I just want to make sure that we're clear here. So as you can see from LJT-2, the MRO pricing which you referred to in your question has two components, what Ms. Thomas refers to as the generation service price and the competitive benchmark or expected bid price.
And so we did adjust -- I did adjust the generation service price component of the MRO for the environmental expenditures with, you know, similar to, in an identical manner to on the ESP side with two exceptions, the first is that the current rider does not include O&M costs associated with these environmental investments, so while those were included in the ESP quantification, the O&M was not included in the generation service price analog of that rider and, secondly, the current rider is not on a forecast test year basis whereas the proposed rider is, and so there was a difference in the calculation to account for that.

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But the same capital expenditure pattern was put through the version of the rider in both cases.

Q. And if I were to ask you the same question with regard to the expected -- your expected facilities closure costs that you added to the ESP side of the comparison, what would your response be as far as how you incorporated that into the, or didn't incorporate it into the MRO side of that comparison?

A. I did not incorporate it into the generation service price component of the MRO.

Q. Okay. And what about the carbon capture and sequestration costs that were reflected on the ESP side of the balance, were they reflected on the MRO side of the balance?

A. No. The only three categories that were included on both sides were the environmental, the fuel, and the POLR.

Q. And with regard to the fuel, to what extent did you vary how you included it on the ESP side when you included it on the MRO side?

A. There was no difference. It was identical.

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Q. Okay. And for the elements that you included on the ESP side but not on the MRO side of the balance, why was that that you didn't include certain of them?

A. Those -- the adjustments that were made on the generation service price side were consistent with my understanding of what the statute provides for as known and measurable changes to the generation service price under the MRO alternative.

Q. Okay. Thank you.

And, again, those included the fuel adjustment -- or the fuel cost changes, the environmental investment carrying cost changes modified in the way you described, and then also the, the third one was the POLR charge, correct?

A. That is correct. And those are just -- that is discussed at some point in the testimony, but that's the sum of what was -- the changes that were made on the generation service side.

Q. I have -- I'm just about finished, I think.

A. And, I'm sorry, if this helps you, the changes that were made to the generation service price or corrections to the generation service price

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are summarized on Exhibit MMS-2.

Q. Thank you.

Are there any corrections or modifications to your testimony that you have identified that should be made that you will be making?

A. No, sir.

Q. I noticed in your testimony at the outset that you list several cases from Ohio where you have testified on behalf of, I believe it's FirstEnergy Solutions, Constellation, and Duke Energy; is that right?

A. Yes to the first two. I don't know that -- I don't know that I've testified on -- oh, Duke, that was a gas case a long time ago. Yes.

Q. It was a '95 rate case maybe.

A. Yeah. It was on the natural gas side is my recollection.

Q. Okay. Thank you.

And I assume that's all the Ohio proceedings in which you appeared as a witness?

A. Yes, sir.

Q. And have you appeared on behalf of any FirstEnergy affiliate in other jurisdictions?

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A. I have.

Q. Can you identify them for me?

A. Well, at least two that come to mind are Pennsylvania and Maryland.

Q. Do you remember when they took place?

A. Well, the most -- the two most recent were in connection with the merger, the recent merger, so they would have been in whatever time frame that was. I'm sorry. In the state proceedings related to the AEP -- excuse me, to the FE-Allegheny merger.

Q. And have you testified in Pennsylvania and Maryland on behalf of FE with regard to any case similar to the one that we're currently in in Ohio for -- that the AEP-Ohio companies have initiated? A standard service offer case.

A. I'm trying to recollect. I don't think so, but I would have to check.

Q. Have you participated in any proceedings that, outside of Ohio, involving the competitive bid processes whether for FirstEnergy affiliates or others?

A. Yes.

Q. And can you -- approximately how many

such proceedings have you testified in?
A. One in Illinois, several in Pennsylvania, several in Maryland, and there may be one or two others, but those are the ones that I can recall offhand.
Q. And do you recall what the time period is? How far back would you have -- over how many years have you done that?
A. Well, let's see. The Illinois proceeding would have been in the 2005 or 2006 time frame. The Maryland proceedings I believe are more recent, somewhere between then and now. And likewise the Pennsylvania proceeding I think would have been somewhere between 2005 and prior to the merger cases I referred to a moment ago.
MR. CONWAY: Dave, could we take about a two-minute break and let me see whether I have anything else that I missed?
MR. KUTIK: Certainly. Go off the record?
MR. CONWAY: Yeah.
(Recess taken.)
MR. CONWAY: Mr. Schnitzer, that's all I have. Thank you very much.



THE WITNESS: Thank you.
MR. KUTIK: Does anyone else on the phone have any questions?
MR. MARGARD: No, no questions, thank you.
MR. OLIKER: No questions here for me, Dave.
MR. KUTIK: Maria, we will read the transcript.
(The deposition concluded at 5:01 p.m.)
\- - -



State of Ohio :
: SS:
County of _______________ :

I, Michael M. Schnitzer, do hereby certify that I have read the foregoing transcript of my deposition given on Friday, August 26, 2011; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

______________________
Michael M. Schnitzer

I do hereby certify that the foregoing transcript of the deposition of Michael M. Schnitzer was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the _______ day of ____________________, 2011.

______________________
Notary Public

My commission expires _______________, ________.
\- - -



CERTIFICATE

State of Ohio :
: SS:
County of Franklin :

I, Maria DiPaolo Jones, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named Michael M. Schnitzer was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 29th day of August, 2011.

______________________
Maria DiPaolo Jones, Registered Diplomate Reporter, CRR and Notary Public in and for the State of Ohio.

My commission expires June 19, 2016.
(MDJ-3886)
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