1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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3 In the Matter of the :
Commission Review of the :
4 Capacity Charges of Ohio : Case No. 10-2929-EL-UNC
Power Company and Columbus:
5 Southern Power Company. :

6 - - -

7 PROCEEDINGS

8 before Ms. Greta See and Ms. Sarah Parrot, Attorney

9 Examiners, and Commissioner Andre Porter, at the

10 Public Utilities Commission of Ohio, 180 East Broad

11 Street, Room 11-A, Columbus, Ohio, called at 8:06

12 a.m. on Friday, April 27, 2012.

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14 VOLUME IX

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1 Friday Morning Session,
2 April 27, 2010
3 - - -
4 EXAMINER SEE: Brief appearances of
5 counsel. Starting with the company and moving around
6 the room, including those that are not seated at the
7 table.
8 MR. NOURSE: Thank you, your Honor, on
9 behalf of the Ohio Power Company, Steven T. Nourse,
10 Matthew Satterwhite, Daniel R. Conway, Yazen Alami,
11 and Christen Moore.
12 MS. KALEPS-CLARK: Your Honor, on behalf
13 of the RESA, Exelon, Constellation, and Direct
14 Energy, Lija Kaleps-Clark and Howard S. Petricoff.
15 MR. HAYDEN: Good morning, your Honor.
16 On behalf of FES, Mark Hayden, David Kutik, and Jim
17 Lang.
18 MS. KINGERY: Good morning, your Honor.
19 on behalf of Duke Energy Retail, Jeanne Kingery and
20 Amy Spiller.
21 MR. STINSON: Thank you. Good morning,
22 your Honor, on behalf of the Ohio Schools, Bailey
23 Cavalieri.
24 MR. RANDAZZO: On behalf of the Energy
25 Users of Ohio, Frank Darr, Matthew Pritchard, Sam

Randazzo.

MS. KYLER: Good morning, your Honor, on behalf of The Ohio Energy Group, Jody Kyler, Michael Kurtz.

MS. KERN: Your Honor, on behalf of the Ohio Consumers' Counsel, Kyle Kern and Melissa Yost.

MR. JONES: On behalf of staff, Werner Margard, Stephen Beeler, and John Jones.

MR. ROYER: On behalf of Dominion Retail, Barth Royer.

MR. HAQUE: On behalf of the City of Grove City and the Association of Independent Colleges and Universities of Ohio, Asim Haque, Chris Miller, Gregory Dunn.

EXAMINER SEE: Late yesterday there were some matters we left -- that the Bench left unresolved and committed to address them first thing today, which included the admission of three exhibits.

After considering the arguments of the parties, the Bench has determined we will admit FES Exhibit 116, Exhibit FES 120, and AEP Exhibit 112.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: We will take up the issue of scheduling later today.

The next witness, I believe, is the schools' witness.

MR. STINSON: Yes, your Honor, we call Mr. Frye.

May I approach, your Honor?

EXAMINER SEE: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

- - -

MARK A. FRYE

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

DIRECT EXAMINATION

By Mr. Stinson:

Q. Mr. Frye, please state your full name and business address.

A. Mark A. Frye, Palmer Company, 241 North Superior, Toledo, Ohio.

Q. What I have placed before you is what is marked as Schools Exhibit 101. Can you identify that?

A. Yes. This is the testimony I prepared on behalf of Schools.

Q. Prepared by you or supervised by you, the preparation?

A. It was.

1 Q. Do you have any changes to that testimony
2 today?
3 A. No, I do not.
4 Q. If I were to ask you the same questions
5 that appear in that testimony, would your answers be
6 the same?
7 A. They would.
8 MR. STINSON: Your Honor, I move for the
9 admission of Schools Exhibit 101, subject to cross.
10 EXAMINER SEE: The Bench notes that there
11 is a pending motion to strike portions of Mr. Frye's
12 testimony, specifically page 10, lines 7 through 14
13 and two exhibits attached to the testimony, MF-2,
14 MF-3.
15 The motion to strike is granted.
16 MR. STINSON: Your Honor, can I ask the
17 basis, is it relevancy or hearsay?
18 EXAMINER SEE: Relevance.
19 Ms. Kern, any cross for the witness?
20 MS. KERN: No questions, your Honor.
21 EXAMINER SEE: Mr. Yurick?
22 MR. YURICK: No, thank you, your Honor.
23 EXAMINER SEE: Mr. Haque, any cross for
24 this witness?
25 MR. HAQUE: No, your Honor.

EXAMINER SEE: Ms. Kyler?

MS. KYLER: No questions.

EXAMINER SEE: Mr. Royer?

MR. ROYER: No questions?

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions.

EXAMINER SEE: Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No questions, your Honor.

EXAMINER SEE: Does staff have any questions of this witness?

MR. JONES: No questions, your Honor.

EXAMINER SEE: Mr. Alami?

MR. ALAMI: Yes, your Honor.

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CROSS-EXAMINATION

By Mr. Alami:

Q. Good morning, Mr. Frye. How you are?

A. Fine. Thank you.

Q. If you can start by describing how the Power4Schools electric purchasing program works.

A. Basically, the Power4Schools electric purchasing program is a group of four school groups,

1 Buckeye Association of School Administrators, the
2 Ohio Association of School Business Officials, the
3 Ohio School Board Association, and the Ohio Schools
4 Council, which represent either various school
5 employees or board members or school districts
6 themselves in working towards trying to reduce
7 electric prices for the consumers, the groups which
8 work on different programs to try to help various
9 programs in the state of Ohio to reduce charges over
10 the years.
11 And some year, year and a half ago,
12 decided to join forces and work to cooperatively
13 reduce those charges. The first offer that was put
14 on the streets to the various districts in northern
15 Ohio in FirstEnergy territory and was quite
16 successful, and they negotiated with various
17 potential suppliers, a supplier that's been selected
18 in this particular case was FirstEnergy Solutions to
19 put an offer out to various school districts in the
20 AEP territory.
21 Q. Would you say generally that the
22 participants in the Power4Schools program pay less
23 for electricity than they otherwise would if
24 purchasing electricity individually?
25 A. Yes.

Q. If I could turn your attention to page 8 of your testimony, lines 9 through 11. There you testify that in your opinion AEP Ohio is seeking to change the mechanism by which it is compensated for the capacity supplied to CRES providers because of two coincident events, as you say.

A. Yes.

Q. And the first of the two events that you list there on lines 9 through 11 is "increased headroom between the bypassable costs and energy prices," and the second being "the lower RPM reimbursement rates"; is that correct?

A. Yes.

Q. If I could explore those two events further, starting with the first one, can you -- your reference to "headroom," can you elaborate on what that is referring to?

A. The headroom there is the difference between what the, in this case, what the schools would be able to purchase electricity from the utility, the SSO supply or tariff supply, depending on the term you want to use, and otherwise what they would be able to purchase from a third-party provider.

Q. So the headroom is a reference to the

1 schools' headroom and not the CRES providers'
2 headroom?
3 A. It's just a difference between energy
4 market prices and what is available from the utility
5 for SSO supply. So it collectively is a differential
6 between available market prices and the utility
7 supply price. It would include, presumably, savings
8 for the school -- otherwise, they wouldn't enter into
9 the contract -- and other expenses and such that
10 providers would incur to provide the service.
11 Q. You have the reference there on line 10,
12 page 8, to "bypassable costs." When you use that
13 phrase, what are you referring to, what costs?
14 A. They would be the charges that the school
15 would be able to avoid if it elected to buy
16 third-party supply from another provider that the
17 utility sells. If the utility was charging average
18 price, ignoring demand and other components, but just
19 an average price of 10 cents a kilowatt-hour for
20 utility supply, if that school district elected to
21 buy from a third-party provider and it was billed
22 direct by the third-party provider, what the
23 remaining cost would be from the utility supply for
24 distribution charges, taxes, and other approved
25 charges by the Public Utilities Commission and the

1 tariffed rates.
2 Q. Would capacity be a component of those
3 costs?
4 A. What costs, sir?
5 Q. The bypassable costs you just mentioned.
6 A. Yes.
7 Q. Going on to the second event you listed
8 on page 10, "lower RPM reimbursement rates." What do
9 you mean by "lower RPM reimbursement rates"?
10 A. Under a current RPM rate, as I understand
11 them, the lower pricing model is set a number of
12 years in advance via auction. The current price, as
13 I understand it, is about $146 per megawatt-day over
14 $145.78, 79 cents, if I recall correctly. The rate
15 is subject to change based on prior auctions every
16 June 1, and the next round of changes obviously will
17 be this June 1, and that avoidable RPM price or that
18 capacity price for RPM was about $20 a megawatt-day.
19 So the drop from 145, 146 dollars a megawatt-day to
20 $20 a megawatt-day is what I'm referring to there.
21 Q. And that drop, approximately $125 in the
22 per megawatt-day, that price you characterize as a
23 significant decline in line 6 of your testimony; is
24 that accurate?
25 MR. STINSON: What page, excuse me?

1 MR. ALAMI: Sorry, page 8, line 6.
2 A. That's what I call it, a significant
3 decline.
4 Q. And that, again, is the difference
5 between the approximately $146 per megawatt-day
6 current RPM price to the projected June 2012
7 approximately $20 per megawatt-day price; is that
8 correct?
9 A. That's my testimony, yes.
10 Q. And that's a decrease of approximately
11 $125?
12 A. Yes.
13 Q. Would you also characterize a $335
14 decrease as a significant decline?
15 A. If 125 is a significant decrease, then
16 335 is a significant decrease as well, assuming that
17 RPM was actually at $355 per megawatt-day.
18 Q. Turning your attention now to page 9 of
19 your testimony, the top of the page, lines 1 through
20 12, you calculate the effect on schools that are
21 currently shopping of AEP Ohio's proposal in this
22 proceeding; is that correct?
23 A. That's correct.
24 Q. And these calculations, did you assume
25 that 100 percent of any increase in capacity costs

would be passed on to the schools by the CRES provider?

A. For the calculation purposes here, yes.

Q. Is it possible that less than 100 percent of any increase in capacity prices would be passed on to the schools?

A. Sure.

Q. When calculating the effect on schools there on the top of page 9, did you consider any cost savings associated with the shopping schools' participation in the Power4Schools purchasing program or other school board purchasing programs?

MR. STINSON: Can I have that reread, your Honor, the question?

EXAMINER SEE: Sure.

(Record read.)

MR. STINSON: Could you restate? I don't understand it. I think it's compound.

MR. ALAMI: Sure.

Q. When calculating on the top of the page, lines 1 through 12, again, Mr. Frye, you're calculating the effect of the company's $355 proposed rate in this case, is that correct, on schools that are currently shopping?

A. Presuming that, based on the company's

application, yes.

Q. And when calculating that effect, did you consider any cost savings those schools that are shopping would realize by being participants in the Power4Schools school purchasing program?

A. By its definition, the testimony, I think, is regarding schools that are already shopping. So presumably those particular school districts would have already selected a supplier, it may be Power4Schools or it could purchase from some other third-party provider, some other program, what have you by the change in the 355 per megawatt-day price, according to the application, versus the price that's currently out there with RPM pricing.

Q. So is that yes, you did take into consideration any cost savings associated with being a part of a pool electricity purchasing program?

A. By it's -- well, I can't specifically state to what extent there are savings or no savings based on every school district making their own internal decision. Presumably, the district would not have entered a program without savings versus the utility supply price.

If that's the case, then, you know, this is just an evaluation of what the impact is between

1 the differences in RPM cost versus the application
2 price. I'm not sure how else to answer your
3 question, sir.
4 Q. Moving on to the bottom of page 9, on
5 lines 18 through 22, you testified that the CRES
6 provider "could trigger a clause in their supply
7 agreement" that is commonly referred to, or what you
8 refer to, as a "regulatory provision;" is that
9 correct?
10 A. Yes.
11 Q. Does the master CRES agreement for the
12 Power4Schools program contain such a provision?
13 MR. HAYDEN: Your Honor, I object at this
14 point. That information is confidential. I believe
15 this witness is speaking in generalities in his
16 testimony.
17 MR. ALAMI: May I respond, your Honor?
18 EXAMINER SEE: Yes, Mr. Alami.
19 MR. ALAMI: I wasn't asking this witness
20 any specifics about the contract, just generally if
21 he is aware that the contract contains such a
22 provision. That is my only question and then I'll
23 move on.
24 MR. HAYDEN: Your Honor, he's asking
25 about that very specific contract.

1 MR. ALAMI: The witness's testimony at
2 the bottom of page 9 talks about potentially
3 triggering such a provision. I think it's relevant
4 on whether or not that actually could take place with
5 respect to the schools.
6 EXAMINER SEE: If it's necessary to
7 explore some content of a particular contract, then
8 we will need to close the proceedings. And, if that
9 is the case, I would ask that you pose those
10 questions to this witness at the end of your
11 cross-examination. Please move on, Mr. Alami.
12 Q. (By Mr. Alami) Mr. Frye, is a triggering
13 of a regulatory provision limited to instances where
14 the pricing mechanism for capacity is changed?
15 A. Are you referring to my general work as
16 an energy consultant or talking about the specific
17 contract itself?
18 Q. In your general understanding of what you
19 describe as regulatory provisions in such contracts.
20 A. Generally, I've seen other instances
21 where regulatory provisions could also be exercised.
22 Q. Would you say that such provisions could
23 be triggered in the event of any unfavorable
24 regulatory provision?
25 MR. STINSON: I object. That's vague.

1 Can you be more specific as to what the events would
2 be?
3 Q. Is it your understanding, Mr. Frye, these
4 provisions are in the discretion of a CRES provider,
5 the triggering of those provisions?
6 A. They can be.
7 Q. And is it also your understanding, if you
8 know, in your opinion, whether or not such provisions
9 can be triggered in the event of any unfavorable
10 regulatory decision?
11 A. I'm struggling with the term "any."
12 Q. An unfavorable regulatory decision.
13 A. It doesn't tighten it up, sir. I mean,
14 any regulatory -- there's regulatory decisions that
15 appear every day. I've not seen that in my
16 experience in working with customers on electricity.
17 I've seen regulatory provisions triggered, but it
18 doesn't occur every day, so since there's regulatory
19 changes consistently by various service commissions,
20 utility commissions and such, it's not what I would
21 characterize to be a commonplace event, but I can't
22 necessarily say any regulatory provision. That's --
23 I've not seen that in my experience.
24 Q. And what instances have you seen
25 regulatory provisions triggered, under what

1 circumstances?
2 A. Typically the contracts that I've seen,
3 you know have materiality provisions, so it has to be
4 a material change. The regulatory provisions that
5 I've seen triggered in regards to tax law changes,
6 significant regulatory decisions regarding capacity
7 rates, for instance, that's one area that I've seen
8 those events triggered. Those are really the only
9 two that I can ever recall seeing.
10 Q. Moving on to page 11 of your testimony,
11 lines 1 through 2, you state "AEP Ohio's proposed
12 capacity cost increase to a CRES will increase the
13 CRES's price of service and impair shopping." Is
14 that accurate?
15 A. That's my testimony.
16 Q. And, here again, you're assuming
17 100 percent of any increases in capacity costs passed
18 on to customers such as Ohio schools.
19 A. That's not what the testimony says.
20 Q. I understand, Mr. Frye. I'm asking you.
21 A. Oh, okay. Not necessarily. Passing
22 through some or all of those regulatory increases can
23 impair shopping, but it's a matter of degree. An
24 increase in the CRES price over time, in some cases a
25 CRES could choose to absorb those impacts, but in

most cases that's not what I would anticipate, and any increases would naturally impair shopping.

Q. Mr. Frye, you testified you have reviewed the company's prefiled testimony in this proceeding; is that correct?

A. Yes.

Q. You are aware then that company witness Allen testifies that the company has experienced shopping at prices above RPM rates.

A. I'm aware of that.

Q. In fact, company witness Allen testifies the company has experienced shopping at RPM prices above -- at 255 per megawatt-day?

A. I'm aware that's his testimony.

Q. On lines 8 and 9 of page 11, in there you state, "It is the policy of the State of Ohio that electricity be reasonably priced and to ensure diversity of electricity supplies and suppliers." Is that an accurate statement of your testimony there?

A. Where are you at again, sir?

Q. Sorry, page 11.

A. Sorry, I was on page 9.

Q. Page 11, lines 8 through 9.

A. I see that.

Q. And are you an attorney, Mr. Frye?

A. No, I'm not.

Q. Is that just your lay opinion understanding of the state policy?

A. That is my lay opinion of the -- of that in reading of that particular section of the Ohio Revised Code.

Q. So, in your opinion as an energy consultant, would adopting a provision mechanism for capacity that causes financial harm to a major electric supplier further that state policy?

MR. STINSON: I think he's calling for a legal conclusion there.

MR. ALAMI: Your Honor --

EXAMINER SEE: The objection is overruled.

THE WITNESS: Could you repeat the question or have the court reporter read it back?

Q. In your opinion as an energy consultant, would adopting a pricing mechanism for capacity cause financial harm to a major electric supplier in the state, further that policy?

A. I'm not sure what you're searching for, sir. I'm not sure what you're asking me, so I'm not sure how to answer your question.

Q. Sure, I'll back up. On page 11, lines 8

through 9, you state, "It is the policy of the State of Ohio that electricity be reasonably priced and to ensure a diversity of electric supplies and suppliers"; is that correct?

A. That's my testimony, yes.

Q. And my question was, in your opinion as an energy consultant, would adopting a pricing mechanism that could cause financial harm to one of the state's largest electricity suppliers further that State policy?

A. Characterize "harm." I mean, what do you consider "harm," sir? I mean --

Q. In the general understanding of financial harm.

MR. STINSON: Object again. I think the question has to be more specific as to the "harm" under consideration. They need more of a foundation to answer the question, your Honor.

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

MR. ALAMI: I can rephrase my question, your Honor.

EXAMINER SEE: Thank you.

Q. Financial harm in the sense of requiring a company to sell its services below its costs.

A. Define "costs."

Q. The company's proposal in this case is as a result of the formula that's proposing 355 per megawatt-day, the cost-based mechanism.

MR. ALAMI: I'll rephrase, your Honor.

Q. Assuming that financial harm would result if the pricing mechanism is adopted, would that further the State policy?

MR. STINSON: Again, I object. I just don't think there's a foundation. The question's so vague even I don't understand.

EXAMINER SEE: I can only hear part of your response, Mr. Stinson.

MR. STINSON: Objection. The question is vague. I can't understand it. I object.

MR. ALAMI: Your Honor, if I may?

EXAMINER SEE: Yes.

MR. ALAMI: The other witnesses in the record reflect what the company's position is, that financial harm will result as a result of adopting a pricing mechanism other than the company's proposal.

I'm simply asking the witness if, in his opinion, whether or not adopting such a mechanism and assuming financial harm would occur as a result, would that further the stated policy goals of the

1 State that he lists there on page 11?
2 EXAMINER SEE: The objection is
3 overruled.
4 Mr. Frye, you can answer the question.
5 A. I'm still a little uncertain. What
6 you're asking me, in my mind, is vague for a number
7 of reasons. What you're talking about in the way of
8 financial harm is a vague term. It is my
9 understanding that you have historically been
10 charging RPM-based pricing versus the application
11 costs, so I'm not sure, you know, when you say
12 "harm," you know if it's 10,000 bucks, any amount of
13 money, theoretically, is harm.
14 So I'm not sure, you know, where you
15 get -- where you draw the line of harm, sir. It's
16 difficult for me to say. If you say that at that
17 time it's -- it's very difficult to say okay, where
18 does that balance go between ensuring diversity of
19 electric supply and suppliers, so I'm confused where
20 you're heading with a thought process.
21 Q. My question, Mr. Frye, initially was to
22 assume financial harm.
23 A. Okay.
24 Q. That should, I believe, take your
25 hesitation around that term off the table if you

1 assume that that's occurred.
2 So in your opinion as an energy
3 consultant, would adopting a pricing mechanism for
4 capacity that causes the assumed financial harm to a
5 major electricity supplier in this case further your
6 stated policy of ensuring a diversity of electric
7 suppliers?
8 A. Is the electric supplier -- I guess I'll
9 respond with a question or a clarification from you,
10 if you don't mind, sir.
11 Who owns the generation? Is it a -- in
12 the particular instance you're talking about? Is it
13 an at-risk entity or is it a regulated utility?
14 Q. I'll just simply ask, when you refer to
15 "one of the major electric suppliers," I'll refer to
16 AEP Ohio, the company in this case.
17 A. Okay. So if I'm going to assume there's
18 financial harm, do I believe that helps ensure
19 diversity of electricity suppliers? To the extent
20 that it creates increased competition, then I believe
21 it fulfills -- that RPM pricing would fulfill the
22 policy.
23 Q. So you would disregard the financial harm
24 in favor of promoting competition.
25 A. Yes. To the extent that you've defined

that there's financial harm.

MR. ALAMI: That's all the questions I have. Thank you, your Honor.

EXAMINER SEE: Any redirect, Mr. Stinson?

MR. STINSON: Just a minute, your Honor.

(Off the record.)

EXAMINER SEE: On the record.

Go ahead, Mr. Stinson.

- - -

REDIRECT EXAMINATION

By Mr. Stinson:

Q. Just a few questions in response to the direct examination. Do you recall a question related to your calculations on page 9 as to the potential cost to schools? You were asked whether you assumed a 100 percent passthrough; is that correct?

A. Yes.

Q. You stated that yes, there was an assumption of 100 percent passthrough. You also indicated, I believe, that 100 percent did not have to be passed through. My question for clarification is, could 100 percent be passed through?

A. Yes.

Q. Also, on page 11, in response to the question as to whether the increase in the capacity

1 charge would impair shopping, the question was put to
2 you whether that was also assuming a 100 percent
3 passthrough. My clarification to you, Mr. Frye, is
4 whether there still would be harm to shopping if
5 there was a less than 100 percent passthrough
6 capacity charge?
7 A. Yes.
8 MR. STINSON: That's all I have, your
9 Honor.
10 EXAMINER SEE: Any further cross,
11 Ms. Kern?
12 MS. KERN: No questions, your Honor.
13 EXAMINER SEE: Mr. Yurick?
14 MR. YURICK: No questions. Thank you,
15 your Honor.
16 EXAMINER SEE: Ms. Kyler?
17 MS. KYLER: No questions.
18 EXAMINER SEE: Mr. Randazzo?
19 MR. RANDAZZO: No questions.
20 EXAMINER SEE: Mr. Haque?
21 MR. HAQUE: No questions.
22 EXAMINER SEE: Ms. Kingery?
23 MS. KINGERY: No questions.
24 EXAMINER SEE: Ms. Kaleps-Clark?
25 MS. KALEPS-CLARK: No questions.

1 EXAMINER SEE: Any questions by staff?
2 MR. JONES: No, thank you, your Honor.
3 EXAMINER SEE: Mr. Alami, do you still
4 need to take up the one question you needed to take
5 up in a closed session?
6 MR. ALAMI: No, thank you, your Honor.
7 EXAMINER SEE: Thank you.
8 Go ahead, Mr. Stinson.
9 MR. STINSON: Assuming there's no
10 recross.
11 EXAMINER SEE: Oh, I missed somebody.
12 Sorry about that.
13 Mr. Alami, do you have any recross for
14 this witness?
15 MR. ALAMI: No, thank you, your Honor.
16 EXAMINER SEE: Mr. Stinson?
17 MR. STINSON: I move for the admission of
18 Schools Exhibit 101 .
19 EXAMINER SEE: Are there any objections
20 to the Schools Exhibit 101?
21 Hearing none, Schools Exhibit 101 is
22 admitted into the record.
23 (EXHIBIT ADMITTED INTO EVIDENCE.)
24 EXAMINER SEE: Thank you, Mr. Frye.
25 THE WITNESS: Thank you, your Honor.

EXAMINER SEE: Are the witnesses for the staff here?

MR. JONES: Yes, your Honor.

EXAMINER PARROT: Staff may call its first witness.

MR. JONES: Staff calls Ryan Harter to the stand.

(Witness sworn.)

MR. JONES: Your Honor, I'd like to have marked for identification as Staff Exhibit 101, the direct testimony of Ryan Harter that was filed April 16, 2012 on behalf of staff in this docket.

EXAMINER PARROT: We will mark it as Staff Exhibit 101, Mr. Jones?

MR. JONES: Yes, your Honor.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. JONES: Further, I would like to have marked as Staff Exhibit 102, the errata to the testimony of Ryan Harter filed on April 16, 2012.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER PARROT: So marked.

MR. JONES: Thank you, your Honor.

- - -

RYAN T. HARTER

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

DIRECT EXAMINATION

By Mr. Jones:

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

A. Ryan Harter.

Q. And where are you employed?

A. I'm employed with Energy Ventures Analysis.

Q. And what is your job title and responsibilities?

A. I'm an energy analyst. I'm responsible for the maintenance and forecasting for electricity models.

Q. Are you a consultant under contract with the Commission to testify on behalf of staff in this proceeding?

A. I am.

Q. Do you see before you a document that's marked as Staff Exhibit 101?

A. I do.

Q. Could you please identify that document for the record, please?

A. This is my direct testimony.

Q. And was Staff Exhibit 101, was that prepared by you or at your direction?

A. It was.

Q. And have you made any corrections to that testimony?

A. I have.

Q. Do you have any corrections to make to that testimony today?

A. I do.

Q. And please tell us what those corrections are.

A. Right. So we want to go on line 12 of the testimony -- I'm sorry, on page 5, line 12, we want to replace "46.75" with "46.55."

On line 14, we want to replace "231.02," with "185.33."

We want to replace "154.24" with "127.38."

We also want to replace "RTH-1" with the "RTH-1 Revised."

Q. And that is the reflected in Staff Exhibit 102?

A. That is correct.

Q. And that is the errata sheet to your prefiled testimony?

A. Correct.

Q. Do you have any other corrections to make to your testimony?

A. I do have one. On page 11, line 14, there's a typo, "profitably" should read "profitability."

MR. RANDAZZO: Page 11, line? I'm sorry.

THE WITNESS: Line 14.

Q. Mr. Harter, I'd like to ask you what was the reason why you made changes to your direct testimony in 101 with the changes that are listed in Staff Exhibit 102?

A. Right. Well, there's a couple of reasons for the changes. During our discovery from AEP, we requested forecasted hourly retail load. We used that in our calculation to estimate off-system sales.

AEP contacted staff after releasing the workpapers and noted that the retail load assumptions included both SSO and switched customers, effectively making a zero switching assumption. In addition, it included load to Wheeling Power Company.

We made adjustments for this so that we excluded Wheeling Power from the retail load. We also assumed the 26 percent switching that's currently being observed for AEP Ohio.

1 Additionally, to be consistent with Ralph
2 Smith's testimony, we removed the Mitchell plants
3 from the -- from AEP Ohio's generation and margins.
4 This is to avoid double counting the revenues through
5 the AEP Interconnect Agreement.
6 Q. And so those were the changes that were
7 made that execute what was provided there as the
8 changes reflected in Staff Exhibit 102?
9 A. That's correct.
10 Q. Now, if I were to ask you the same
11 questions contained in Staff Exhibit 101, as modified
12 by Staff Exhibit 102 would your answers be the same?
13 A. They would be.
14 MR. JONES: Your Honor, at this time, I
15 would offer Mr. Harter for cross-examination.
16 EXAMINER PARROT: Thank you, Mr. Jones.
17 Any cross, Mr. Haque?
18 MR. HAQUE: No, your Honor.
19 EXAMINER PARROT: Ms. Kern?
20 MS. KERN: No, your Honor.
21 EXAMINER PARROT: Mr. Yurick?
22 MR. YURICK: No cross.
23 EXAMINER PARROT: Ms. Kyler?
24 MS. KYLER: No questions.
25 EXAMINER PARROT: Mr. Randazzo?

1 MR. RANDAZZO: Yes, I do.
2 Your Honor, I understand the rules
3 regarding friendly cross. This is a staff witness.
4 We have not been able to do discovery, and I would
5 ask we be permitted to have a more robust
6 conversation with this witness in light of the
7 limitations that the Commission places on the ability
8 of parties to understand better what the witness's
9 testimony means through the discovery process.
10 And to the extent there are objections,
11 I'm happy to discuss them at this time, but the
12 thrust of my questions are to try and understand what
13 this witness has done.
14 - - -
15 CROSS-EXAMINATION
16 By Mr. Randazzo:
17 Q. Mr. Harter, my name is Sam Randazzo. I'm
18 counsel to the Industrial Energy Users of Ohio and I
19 have a few questions for you. If you don't
20 understand some of my questions, please let me know.
21 If you can't hear me, let me know and we'll proceed.
22 You mentioned in response to your
23 counsel's questions some reasons why you updated and
24 changed the numbers in your testimony, and one of
25 them had to do with the way that AEP defined retail

1 load in the initial response to data requests; is
2 that correct?
3 A. That's correct.
4 Q. And if I understood your answers, AEP had
5 included both switched and nonswitched customer
6 loads, as well as load associated with Wheeling Power
7 in its definition of retail load; is that correct?
8 A. That's correct.
9 Q. And when did it occur to you that the
10 inclusion of both switched and nonswitched customers
11 as well as Wheeling Power's data was incorrect?
12 A. I learned it was consistent with my
13 expectations, I expect, Monday or Tuesday of this
14 week. I'd have to check the opinion.
15 Q. And how did you become aware of that?
16 A. AEP Ohio contacted Seth.
17 Q. And have you been in contact with AEP
18 Ohio with regard to the concept of your testimony
19 either directly or through the Public Utilities
20 Commission of Ohio staff?
21 A. Yes. I was in contact with a couple of
22 AEP Ohio -- or AEP Ohio's employees on Monday or
23 Tuesday, whichever date this occurred on.
24 Q. So the changes to the numerical values
25 that appear in your testimony are the result of a

dialogue that you had with representatives of AEP Ohio, correct?

A. That's correct.

Q. Did you have discussions with any other parties in this proceeding regarding the content of your testimony?

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

Q. Sure. Did you have discussions with any other parties regarding the content of your testimony?

A. So the implication here is that I had conversations regarding the content of my testimony with AEP?

Q. Yes, sir.

A. That implication isn't necessarily correct. AEP Ohio corrected their numbers, so they asserted that the way the numbers were being used in the workpapers were not what they had originally expected when they provided the data. They communicated the difference in their expectations.

Q. Did you speak with an individual from AEP Ohio?

A. I did.

Q. Did you speak with any other parties to this proceeding regarding the content of your

1 testimony?
2 A. With my previous explanation still
3 holding, no.
4 Q. You indicated, in response to your
5 counsel's question, the other reason for the change
6 in the numbers that you made today on the stand was
7 related to the treatment of the Mitchell plants; is
8 that correct?
9 A. That's correct.
10 Q. Can you tell me more what you did to
11 reflect changes as a result of the Mitchell plants?
12 A. Right. So in the AEP Interconnect
13 Agreement, AEP Ohio is long about 3,000-megawatts of
14 capacities; accordingly, they receive a sizable
15 capacity payment that covers the full cost of that
16 capacity. To accommodate for this, we removed some
17 capacity energy margin from the calculation to make
18 sure that that earnings is not double captured.
19 Q. Okay. But how does the Mitchell plant
20 enter into that?
21 A. Right. So currently AEP Ohio is looking
22 to transfer Mitchell to the companies that are paying
23 for the capacity. Although that's not yet approved,
24 it was a cleaner analysis than removing a generic
25 amount of capacity from the calculation.

Q. Okay. So in your analysis you've assumed that the Mitchell plant is transferred to an affiliated operating company of AEP Ohio; is that correct?

A. Effectively, correct.

Q. What did you do with the Amos plant?

A. The Amos plant was already excluded.

Q. What did you do with the capacity from Lawrenceburg generating station?

A. We made no accommodation for the Lawrenceburg.

Q. What did you do for the capacity from the Darby and Waterford generating stations?

A. Same; no accommodation.

Q. Did you inquire of AEP Ohio, either directly or through the staff at the Commission to identify what generating plants have been identified by AEP Ohio as providing or satisfying the capacity obligation that is associated with an FRR election?

A. Not directly.

Q. Did you do it directly or indirectly?

A. I'm sorry?

Q. You said "not directly." I asked -- my question was, do you know -- do you know which generating plants AEP Ohio has identified to satisfy

1 the capacity obligations as a result of the FRR
2 election?
3 A. I do.
4 Q. And how do you know that?
5 A. We looked at their filings with Ohio --
6 with the Public Utilities Commission.
7 Q. What filings?
8 A. I don't have them in front of me. Yearly
9 they file a document that lists their capacity to
10 provide AEP Ohio's load.
11 Q. Do you know the name of that document?
12 A. Not offhand.
13 Q. Let me go back to Mitchell. Was the
14 adjustment that you made to your numbers for the
15 transfer of the Mitchell plant something that was
16 suggested to you by AEP Ohio?
17 A. No. That was suggested by staff.
18 Q. And who on the staff suggested that to
19 you?
20 A. That would be Hisham Choueiki.
21 Q. Do you know whether or not Hisham
22 Choueiki had conversations with AEP Ohio regarding
23 that adjustment?
24 A. That's not my understanding.
25 Q. Did you have supervision by members of

the PUCO staff?

A. "Supervision" may not be the right word. PUCO Ohio explained the problem and approved the methodology.

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

(Record read.)

Q. Okay. When you say the PUCO explained the methodology or explained the problem and approved the methodology, who is it that did that with the PUCO?

A. Who is it that did that? Well, in the initial calls, we were talking about Dan Johnson and Hisham Choueiki. Yeah, that would be the primary contact there.

Q. Anybody else participate in the calls?

A. Right. I did have contact with John Jones. I am sure there were --

MR. JONES: There is an attorney-client privilege. I just want to object; delving into confidential communications.

EXAMINER PARROT: The objection is overruled as to this specific question.

A. There were probably others, but that's to the best of my recollection right now.

Q. Any commissioners?

A. Could you define who the commissioners are? One of these three people here?

Q. Yes. One of them, yes.

A. No.

Q. So we have Dan Johnson, and who are the other people you interacted?

A. With John Jones and Hisham Choueiki.

Q. And nobody else?

A. Nobody that I can recall right now.

Q. So there may have been others?

A. There may have been.

Q. But that group would have been the group that you referred to earlier for purposes of suggesting that the problem was defined and the methodology was approved, correct?

A. Primarily.

Q. Well, when you say "primarily," that suggests there were others involved.

A. Right. I'm sure that they have a team they talked with to talk about the methodology and whatnot, but that's who the final okay came from.

Q. So what makes you sure that they have a team that they talk with -- talk to?

A. Cc's on an e-mail chain.

Q. And who was cc'd on the e-mail chain?

A. I can't recall.

Q. Do you have copies of the e-mails with you?

A. No, I do not.

Q. Will you provide those for the record?

A. I --

MR. JONES: I would object here as to discovery requests being made by Mr. Randazzo as to staff. Staff is not subject to discovery in any proceeding.

MR. RANDAZZO: I move to strike the testimony.

EXAMINER PARROT: Move to strike what testimony?

MR. RANDAZZO: The entire testimony. We are not permitted to inquire with regard to the influences the witness had during the course of his assignment to reach the conclusions in his testimony. We are precluded from cross-examining the witness.

MR. JONES: Objection, your Honor. That's a mischaracterization of his testimony. There's no demonstration of influence by anybody. He's able to ask questions. He's asking for discovery of e-mails. He can ask any questions he

1 wants to, and he's been doing just fine up to this
2 point.
3 EXAMINER PARROT: I agree, Mr. Jones.
4 Let's move along, Mr. Randazzo.
5 MR. RANDAZZO: So I understand the ruling
6 and guide myself further in cross-examination, the
7 record so far indicates that the problem was not
8 defined by this witness; it was defined by somebody
9 else and that somebody else approved the methodology,
10 but I will not be permitted to inquire as to the
11 extent and nature of the guidance that this witness
12 received or the specific individuals that provided
13 that guidance and the communication that took place
14 prior to the witness completing his testimony?
15 EXAMINER PARROT: You may ask your
16 questions, Mr. Randazzo. Your request for discovery
17 is denied.
18 Q. (By Mr. Randazzo) Have you seen the
19 capacity plan that AEP Ohio has submitted to PJM for
20 the delivery year 2014-2015?
21 A. Is that document included in this case?
22 Q. I don't know that it is or it isn't. I
23 know there's been a fair amount of curiosity about
24 the capacity resource plan of AEP Ohio and, quite
25 frankly, I was stunned to hear that you've seen it.

So have you seen one for -- regardless of whether it is in the record, have you seen a capacity plan for the delivery year 2014-2015?

A. I have not.

Q. How about the delivery year for 2013-2014?

A. I don't believe so.

Q. And do you know what a delivery year is?

A. Yeah.

Q. And what is your understanding of a delivery year?

A. The same as a plan year, PJM, my understanding.

Q. Okay. And that would run from when to when?

A. Don't know.

Q. Have you read the PJM reliability assurance agreement?

A. No, I have not.

Q. Do you hold yourself as an expert in the market design and operation of the PJM market?

A. I'd say I'm knowledgeable but not an expert.

Q. Have you seen the capacity plan that AEP Ohio has submitted for purposes of satisfying the

capacity obligation under the FRR election for the delivery year 2012-2013?

A. No.

Q. Earlier in your testimony, in response to a question that I gave you or to you, you indicated that you had seen a capacity plan for AEP Ohio. Did I correctly understand your prior testimony?

A. Could you explain to me when that happened?

Q. I'll withdraw the question.

Have you seen a capacity plan for AEP Ohio that is related to AEP Ohio's election as an FRR entity?

A. Oh, I'm not sure -- what we were talking about earlier, I don't expect that was a formal capacity plan, but no.

Q. So you don't know what generating plants or portions of generating plants AEP Ohio may have designated in its capacity plan to satisfy the resource adequacy obligation of PJM in conjunction with the FRR election; is that correct?

A. Right. The information I used for this analysis was submitted to the Ohio Public Utilities Commission.

Q. And the information used for this

analysis is what?

A. I don't have those numbers with me -- or I don't have that form with me.

Q. Do you know where the information that you used in your analysis -- let's back up.

When you said the information you used for your analysis, what information were you referencing?

A. Could you be more specific about the time? I said the information I was using in my analysis just for context. Are we talking about the capacity that I used?

Q. Yes.

A. Okay. I was talking about the portion of each plant that is going to be used to serve AEP Ohio load capacity.

Q. Okay. But in making a judgment about that, in other words, in identifying the capacity that might be associated with the retail load, you did not investigate to identify the specific generating plants that AEP Ohio may have identified to satisfy the capacity resource obligations associated with the FRR election in the PJM system, did you?

A. The information I used was submitted to

1 the Ohio Public Utilities Commission, not PJM.
2 Q. And as you sit here today, you do not
3 know which generating plants AEP Ohio may have
4 designated for purposes of satisfying its capacity
5 obligation as part of the FRR election; is that
6 correct?
7 MR. JONES: I object, your Honor. That
8 mischaracterizes the testimony. He testified he did
9 identify those plants as to a document he referred to
10 that was filed with the State Commission, the Public
11 Utilities Commission of Ohio.
12 EXAMINER PARROT: The objection is
13 overruled.
14 A. The assumption is that it is the same
15 between PJM and the document filed for the Ohio
16 Public Utilities Commission. As with any assumption,
17 it could be invalid.
18 Q. Did you test it? Did you test that
19 assumption by requesting a copy of the capacity
20 resource plan that AEP Ohio submitted to PJM as part
21 of the FRR election?
22 A. It did not seem something that was
23 variable.
24 Q. Pardon?
25 A. It did not seem like something that would

be very variable.

Q. Did not seem like?

A. Something that would change, that would be variable between filings.

Q. Variable as between what filings?

A. Between the Ohio Public Utilities Commission and PJM.

Q. What is it that you understand AEP Ohio files with the Public Utilities Commission of Ohio?

A. It files a record of its plants being used to supply capacity to its retail customers.

Q. And what is the nature of that document?

A. It's an annual filing with the Ohio Public Utilities Commission.

Q. And who gave you that document?

A. It was forwarded by Dan Johnson and Hisham Choueiki.

Q. Do you know the name of the document?

A. Not offhand.

Q. Do you have it with you?

A. I do not.

MR. RANDAZZO: Will staff counsel identify this document?

MR. JONES: What is being referred to is the long-term forecast report.

MR. RANDAZZO: Thank you.

Q. Can you identify what year the long-term forecast report that your counsel has mentioned, what year of the long-term forecast report you used?

A. It's the most recent filed. I believe it was 2011. It may have been 2010.

Q. And you assumed that the generating plants listed in the long-term forecast report would be the same as the generating plants that AEP Ohio would designate as capacity resources for purposes of satisfying the FRR election; is that correct?

A. That's correct.

Q. And you did not test that assumption; is that correct?

A. Correct.

Q. On page 2 of your testimony -- before we do that, let me see if I understand your role in this situation. You are essentially tag-teaming -- I don't mean -- joining with the other staff witness to present testimony. And as I understand your role, you ran a model to try and place a quantitative value on certain adjustments that were made to the AEP Ohio starting point; is that correct?

A. At a high level, yes.

Q. Okay. And so to the extent that the

1 output from your analysis or the results of your
2 model may be incorrect for any reason, that would
3 roll into the conclusions that are presented by the
4 other staff witness, correct?
5 A. The testimony presented by Ralph Smith?
6 Q. Yes.
7 A. Breaks it out. You would be able to pull
8 out the base number and the final number, but the
9 final number would carry any errors through.
10 Q. Right. That's just the necessary linkage
11 between your work and Mr. Smith's work, correct?
12 A. That's correct.
13 Q. On page 2 of your testimony, line 16, it
14 indicates in that line that you have "provided
15 analysis to support asset valuations, risk integrated
16 resource planning...." What do you mean by "asset
17 valuations"?
18 A. Asset valuations, so to characterize a
19 general idea, we will simulate a market area and try
20 to evaluate the profitability of different plants,
21 either to be built or to be acquired in the future.
22 Q. Okay. And for purposes of valuating
23 those plants, I assume you would attempt to gather --
24 strike that.
25 For purposes of that type of asset

1 valuation, you would attempt to determine the value
2 by reference to market-based information; is that
3 correct?
4 A. So we use market-based information to
5 gauge our assumptions to run the model. What I'm --
6 that's not the same as using like a future kind of
7 forecast.
8 Q. Right. But for the purpose of an asset
9 valuation, you wouldn't simply take the recorded
10 embedded costs that are on the books for a particular
11 asset and assume that that represents the market
12 value, would you?
13 A. Could you repeat that?
14 Q. Sure. For purposes of valuing an asset,
15 you wouldn't simply take a look at the embedded
16 accounting costs associated with the asset and assume
17 that that represents the market value of the asset,
18 would you?
19 A. In general, book cost is not equal to
20 accounting cost -- or book cost is not equal to the
21 market value.
22 Q. Right. Now, on the bottom of page 2, you
23 indicate that you manage the implementation of EVA's
24 8760 dispatch model. Am I correct that the 8760
25 refers to the number of hours in a year?

A. That's correct.

Q. Almost as many as I bill in a year. That's supposed to be funny.

Now, as I understand your testimony and your analysis, you are not recommending that an embedded cost method be used for setting capacity prices; is that correct?

A. I'm suggesting that the embedded costs not be used solely for setting a price.

Q. Do you know the distinction in Ohio between a competitive and noncompetitive service?

A. Explicitly, no.

Q. How about implicitly?

A. I can make an educated guess.

Q. Well, you would be guessing if you were to answer a question about the distinction between a competitive and noncompetitive service?

A. I heard the term before.

Q. You heard the term before?

A. I heard the term before.

Q. You're hazarding a guess if I asked you to explain the difference between the two; is that correct?

A. That's correct.

Q. Now, when you use the words "Columbus

1 Southern Power" and "Ohio Power Company" or "AEP
2 Ohio" or "the companies," as you do at page 3 from
3 lines 11 through lines 13 of your testimony, are you
4 referring to the electric distribution function, or
5 are you referring to the functions associated with a
6 vertically-integrated entity that owns and operates
7 generation, transmission, and distribution?
8 A. Effectively, I'm speaking as a company
9 who owns generation and is providing it to the
10 marketplace.
11 Q. I'm sorry, you're trailing off.
12 A. Owns generation and provides it to the
13 marketplace.
14 Q. Okay. So as you use Columbus Southern
15 Power, Ohio Power, and AEP Ohio, and companies in
16 your testimony, you're using it from the perspective
17 of an entity that's engaged in the generation
18 business, correct?
19 A. Correct.
20 Q. On page 4 of your testimony, line 2, you
21 have the words there "complementary research." Does
22 that mean it was free?
23 A. The research was free, but that's not the
24 intent of the statement.
25 Q. Yes. I thought it might not be the

1 intent of the statement. So the research was free,
2 but it was designed to support the assignment that
3 you undertook for purposes of this proceeding.
4 A. That's correct.
5 Q. Okay. And what type of free research did
6 you do?
7 A. I'm trying to think of the best way to
8 characterize the research. So I looked at the
9 long-term forecast, reliability forecast from the
10 Ohio Public Utilities Commission, researched the
11 filings with AEP and FERC, looked at some testimony
12 from the ESP case, those types of things.
13 Q. Okay. All right. And the long-term
14 forecast report that you referenced in your answers,
15 you believe is the 2011 long-term forecast report?
16 A. That's correct.
17 Q. Now, is that for the year 2011 or what
18 period of time do you understand that that long-term
19 forecast report covers?
20 A. I believe it's looking forward over 2011.
21 Q. Looking forward from 2011 or --
22 A. It's for the time period 2011.
23 Q. And for how long forward?
24 A. I don't know offhand.
25 Q. Do you know whether that long-term

1 forecast report includes any consideration of
2 distributed generation or the generating output
3 renewables or advanced energy resources that may be
4 required by Ohio's portfolio requirement?
5 A. I do not know.
6 Q. For purposes of your analysis, did you
7 assume that only generating units qualify as a
8 capacity resource in the PJM market structure?
9 A. It can also use bilateral contracts to
10 get capacity. That's not the -- that's not covered
11 in this analysis.
12 Q. What is your understanding of the
13 definition of a capacity resource in the PJM market
14 structure?
15 A. An asset which is capable of providing
16 electricity.
17 Q. So it would just be a generating plant
18 based upon your understanding?
19 A. That would be the most illustrative of my
20 understanding. For instance, making a payment for
21 the right -- you can also make a financial
22 transaction.
23 Q. Okay. But the financial transaction on
24 bilateral --
25 A. With you having a part of that power

1 plant or generating asset.
2 Q. So there would still be -- your
3 understanding there would still need to be a
4 generating plant, either owned on contracted for,
5 before you could qualify as a capacity resource in
6 the PJM system?
7 A. That it is my understanding.
8 Q. Okay. Now, on page 4 of your testimony
9 at line 5, you indicate that you "used EVA's
10 proprietary power market simulations to forecast the
11 expected energy margins...." Is the proprietary
12 simulation model that you reference -- let me strike
13 that, back up.
14 When you say "proprietary market
15 simulation," are you referring there to a proprietary
16 model that is the property of EVA?
17 A. Yes. So when I note the proprietary
18 simulation model, I'm talking about EVA AURORAxmp
19 model. The AURORA is a software engine we license
20 from EPIS. Combined with the input assumptions that
21 EVA produces, it combines to create a proprietary
22 model.
23 Q. Okay. So who is EPIS?
24 A. EPIS is a software company that develops
25 the AURORAxmp model, primarily.

Q. So you're relying on a model that was developed by EPIS; is that correct?

A. That's correct.

Q. And EVA then identifies the inputs into that model for purposes of conducting the simulation you describe in your testimony.

A. That is correct.

Q. Now, with regard to the model that you're provided by EPIS, are the mathematical equations -- well, let's back up.

Models, as you understand it, are really nothing more than something like an Excel spreadsheet that contains, embedded in each cell, a mathematical equation that will give you an answer if you have a numerical input. Is that a fair statement?

A. Sure.

Q. Okay. So the model really is trying to identify the mathematical relationship between an input and an output, correct?

A. Yes.

Q. And are the mathematical relationships within the EPIS model that is available to EVA specified?

A. To a degree, yes.

Q. And when you say "to a degree," then some

relationships embedded in the EPIS model would not be specified or transparent, correct?

A. We don't have the source code for the program, so that would be valid.

Q. All right. Now, in reaching the conclusions, numerical conclusions that are presented in your testimony, did you consider that customers have the ability to shop and return in Ohio to the electric distribution utility?

A. We made no forecast as to how shopping would change in time.

Q. Did you consider that, in Ohio, distributed generation is encouraged?

A. As I said, there's no assumption as to how customers switching, changes in time.

Q. Yeah. You understand that if a customer starts generating their own electricity --

A. Oh, distributed generation.

Q. Yes.

A. The -- our load forecast does account for efficiency gains, either through reducing consumption or distributed generation, and the retail load was taken directly from AEP.

Q. Okay. But you didn't explicitly take into account any influence that may occur as a result

of Ohio's effort to encourage distributed generation; is that correct? I said "explicitly."

A. It would be included in the analysis. There's not a line item that I could pull out and show that assumption for you.

Q. Okay. And when you say "included in the analysis," is it explicitly identified in the EPIS model that we described earlier?

A. It's rolled into the load forecast that EVA provides to the AURORAxmp model.

Q. Okay. So in EVA's forecast of load, you are making an assumption about the amount of distributed generation that is going to occur?

A. It's actually rolled into an efficiency number. It's a very high-level assumption.

Q. Okay. Is the assumption unique to Ohio, or is it a generic assumption?

A. Generic assumption.

Q. Did you consider that governmental aggregation is promoted in Ohio, including bypassability of charges?

A. Not explicitly.

Q. How about implicitly?

A. No.

Q. So when you say "not explicitly," I'm

1 going to ask you another question to see if you
2 considered it implicitly. So we can probably shorten
3 this up if you would just say "I haven't considered
4 it." Did you consider the fact that government
5 agencies in Ohio are encouraged to pursue energy
6 price risk-management devices?
7 A. Just say that once more.
8 Q. Sure. Did you consider that government
9 agencies in Ohio are encouraged to pursue energy
10 price risk management?
11 A. No.
12 Q. Did you consider in Ohio the potential
13 for competition between EDUs that own generating
14 assets?
15 A. We model competition, but not the retail
16 level.
17 Q. What type of competition do you model?
18 A. Wholesale competition.
19 Q. And what market model do you use for
20 purposes of defining the wholesale market?
21 A. We use the AURORA model. That's -- it
22 simulates the wholesale market.
23 Q. Simulates what wholesale market?
24 A. The North American wholesale market.
25 Q. So this would not be a model that

1 simulates the PJM market.
2 A. It does. It simulates any level of
3 granularity in there. We do simulate the PJM market
4 for this analysis.
5 Q. And how do you adjust for the differences
6 between the market rules in PJM and the Midwest ISO,
7 for example?
8 A. The basic mechanism is the same between
9 the two, between the two areas.
10 Q. Okay. So there's no distinction in the
11 modeling for different market rules as between the
12 wholesale market design for the Midwest ISO and the
13 wholesale market design for PJM, correct?
14 A. Correct.
15 Q. For purposes of your analysis, was it
16 your understanding that in Ohio there's no future
17 stranded cost recovery for historical generating
18 assets?
19 A. No.
20 Q. Did you consider that in Ohio electric
21 distribution utilities are required to have
22 transmission and distribution available for customer
23 generation and distributed generation?
24 A. That was my understanding.
25 Q. But did you consider it for purposes of

your analysis?

A. I'm not sure how that would change my analysis. There is no explicit assumption.

Q. On page 6 of your testimony at line 8 and carrying over to line 9, you say there that -- where you're describing the "economically efficient capacity price," when you have the words "ensure market reliability," going from line 8 to 9, can you tell me what you mean by "market reliability"?

A. Market reliability as PJM sees fit.

Q. Can you explain in a little bit more detail what you mean there?

A. To ensure there's enough capacity to adequately meet the reserve margin.

Q. And as we discussed earlier, you have not made any adjustments in your model or your analysis to reflect a specific market design or other specific characteristics associated with the PJM wholesale market structure; is that correct?

A. That's correct.

Q. I'd like to see if I might be able to shorten up the rest of my questions by asking a couple of things to see if I understand your testimony.

As I read your testimony, you have

1 identified areas where you believe that AEP's witness
2 Pearce's method for identifying or neglecting to
3 identify offsets to the proposed capacity charge is
4 defective. In other words, you have identified areas
5 where you believe AEP Ohio's approach is defective
6 based upon the methodology regardless of the
7 numerical values one might assume; is that correct?
8 And if I can give you an example to
9 illustrate, for example, you believe that the
10 methodology is incorrect because you have to consider
11 revenue streams from ancillary services.
12 A. Correct.
13 Q. All right. So there are portions of your
14 testimony where you have highlighted or identified
15 methodology defects in Dr. Pearce's approach for
16 computing a capacity charge, correct?
17 A. Energy credit to the capacity charge.
18 Q. Energy credit to the capacity charge.
19 A. Results in a --
20 Q. Ancillary services, considering the
21 revenue from ancillary services would be another,
22 correct?
23 A. That's correct.
24 Q. And regardless of what numerical values
25 we may hang on the projection for ancillary services

1 revenue, as I understand your testimony and as a
2 matter of methodological approach, it's necessary to
3 consider the revenue streams available from ancillary
4 services for purposes of computing an embedded
5 cost-based capacity charge; is that correct?
6 A. That's correct.
7 Q. Now, on page 7, line 19 and 20, you say
8 you use the average 2010 MLR provided in Dr. Pearce's
9 KDP-5 for the entire forecast period. What is an
10 "MLR"?
11 A. The member load ratio.
12 Q. Okay. And do you hold yourself out as an
13 expert in the AEP Interconnect Agreement that you
14 reference on line 12, page 7 of your testimony?
15 A. I do not.
16 Q. You say there on line 19 that you used
17 "the average 2010 MLR." Why did you use the average?
18 A. It was readily available.
19 Q. You wouldn't use a weighted average?
20 A. It was my understanding that it was
21 changing in time, but not cyclical. So, for
22 instance, from January until December, it changed
23 from 1 to 2. It would continue to be 2 going
24 forward.
25 Q. All right. Do you know -- well, if they

1 transfer Mitchell, do you know how that affects the
2 MLR ratio?
3 A. Not explicitly.
4 Q. If they transfer Amos, do you know how it
5 affects the MLR ratio?
6 A. I do not.
7 Q. But you are aware, according to the
8 corrections that you made this morning, you have
9 excluded Mitchell.
10 A. That's correct.
11 Q. Do you know whether Mitchell was included
12 for purposes of developing your 2010 MLR ratio?
13 A. It's my expectation that it is, or was,
14 rather.
15 Q. On page 8, beginning at line 2, you
16 indicate there that you used the "2010 5-day
17 coincident peak loads" provided in Dr. Pearce's
18 KDP-5. What significance, based upon your
19 understanding, are the 5-day coincident peak loads?
20 A. The 5-day coincident peak loads are used
21 as the denominator to break out annual margins into a
22 daily margin or a dollar per megawatt-day margin.
23 Q. Okay.
24 A. Is that sufficient?
25 Q. That's a good place to start. So are you

1 familiar of how the five coincident peak loads you
2 reference in your testimony relate to the PJM market
3 design?
4 A. In which way?
5 Q. Well, that's what I'm asking you. Are
6 you familiar with how the five coincident peak loads
7 that you reference in your testimony relates to the
8 PJM market design?
9 A. I understand in general mechanics.
10 Q. And what is your understanding?
11 A. Well, you need to have enough capacity to
12 meet the peak load, and you're using each utility's
13 contribution to that peak load to specify their
14 obligation.
15 Q. Okay. So your understanding in PJM's
16 system, the five coincident peaks from the summer
17 months are used by PJM to define the generation
18 resource obligation of AEP Ohio; is that correct?
19 A. Insomuch that the peaks always occur in
20 the summer, yes.
21 Q. Okay. Now, do you know whether AEP Ohio
22 is a winter-peaking or summer-peaking utility?
23 A. It's my assumption that they're summer
24 peaking.
25 Q. So if a utility was winter peaking, it

1 would not have a capacity resource obligation with
2 PJM based upon the winter peak; is that correct?
3 A. That's correct.
4 Q. Do you know how the interruptible
5 customers of ESP Ohio have been counted for purposes
6 of identifying the 5-day coincident peak loads?
7 A. I do not.
8 Q. Do you know how the interruptible
9 customers have been identified for purposes of the
10 retail load definition that AEP Ohio provided?
11 A. Could you just say that once more?
12 Q. Sure. We talked earlier in my
13 cross-examination about the change in your numbers
14 associated with some adjustments for the definition
15 of retail load. Do you recall that?
16 A. Uh-huh.
17 Q. Okay. Do you know how the demand of
18 interruptible customers has been specified, if at
19 all, for purposes of the retail load definition that
20 you relied upon?
21 A. No. My analysis took the coincident peak
22 loads as wholesale -- or as a lump-sum number.
23 Q. Do you know whether or not interruptible
24 customer load is broken out separately in the
25 long-term forecast report?

A. Interruptible load?

Q. Yes.

A. No.

MR. RANDAZZO: I believe that's all I have. Thank you, sir.

THE WITNESS: Thank you.

EXAMINER PARROT: Mr. Royer?

MR. ROYER: No questions.

EXAMINER PARROT: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER PARROT: Mr. Lang?

MR. LANG: A few. Thank you.

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CROSS-EXAMINATION

By Mr. Lang:

Q. I wanted to ask you a few questions about your revised RTH Exhibit 1, and in the far right column you have "Energy Credit." Is this -- is this the credit that was calculated using the results of the power market model that Mr. Randazzo was discussing with you?

A. Yes. This is -- yes, this is a result of the power market model.

Q. Now, is the purpose of the other columns on this exhibit from the Total Generation, Off System

Sales, Gross Margin, MLR, and Retained Margin, do those reflect either data used in or results of the power market model?

A. Yes.

Q. Now, they don't -- they don't appear to, I'd say, reconcile straight across the columns.

A. So, illustratively, the retained margin is not equal to the gross margin.

Q. For example, can you explain?

A. Sure. The analysis done at an hourly granularity, so, for instance, the major calculation done here is accounting for the off-system sales, so we define off-system sales as all generation at an hourly level that's in excess of their retail load. We attribute that margin to the MLR.

So there are some hours when none of the revenue is taken as off-system sales, and there are some hours where there is a significant portion. Because it's done in hourly granularity, it won't straight average across.

Q. You had stated with regard to this revised exhibit, that one of the adjustments made from the original exhibit was that the revised exhibit includes an assumption of 26 percent shopping; is that correct?

A. That's correct.

Q. On RTH-1 Revised, would that assumption of shopping be reflected in increased numbers in the total generation column?

A. No, that shouldn't increase the total generation.

Q. How does that affect the revised analysis?

A. It will increase the off-system sales, not necessarily, but it will tend to.

Q. And does it do that because as a result of shopping there's more, say, Ohio Power energy that's freed up for off-system sales?

A. Well, the plants generate based on when it's economic to generate, which is -- I won't say independent because they're correlated, but it's not a force by the retail load. So because -- what we do is take generation where it's in excess of retail load, we attribute that to off-system sales. If retail load is lower, there would be more off-system sales.

Q. And the 26 percent shopping assumption is applied for each of the years 2012 through 2015; is that correct?

A. That's correct. It's constantly timed.

Q. If the model used an input of -- an assumption of 36 percent shopping, for example, would that result in additional off-system sales from what is reflected in your analysis?

A. Likely.

Q. And if the model assumed 36 percent shopping, as an example, would it also be likely that the resulting energy credit would be higher, all other inputs being held equal?

A. No, it would be lower.

Q. Why is that?

A. Because off-system sales are subject to the AEP Interconnect Agreement and would be scaled by the MLR ratio.

Q. And the MLR ratio, you applied for, again, each of the years 2012 through 2015, correct?

A. That's correct. It's constant in time.

Q. Are you aware that Ohio Power has proposed terminating the Interconnection Agreement effective January 1, 2014?

A. I am.

Q. And do you also understand that if the Interconnection Agreement is terminated, then the MLR allocation would also be eliminated; it would not be -- if the pool is not there, you don't have the

allocation under the pool.

A. I understand.

Q. And then in that case for 2014 and 2015, Ohio Power would receive 100 percent of the energy margins rather than the allocated percentage under the Interconnection Agreement. Is that fair?

A. I understand.

Q. Now, for -- is it true that the model that you ran for 2014 and 2015 reflects -- does incorporate the MLR ratio of the margins being allocated 40 percent to Ohio Power?

A. That's correct. I didn't want to make any assumptions about the continuance or noncontinuance of the Interconnection Agreement.

Q. Okay. So if the Interconnection Agreement is terminated on January 1, 2014, as proposed by AEP, then that would result in increased energy margins being retained by Ohio Power in 2014 and 2015; is that correct?

A. Yes, that would be correct.

Q. And that would result in the energy credit for those years being increased; is that correct?

A. That is correct.

Q. Now, would that take the energy credit

for 2014 and 2015, on a merged-company basis, up closer to $200 per megawatt-day?

A. I can only estimate, but it doesn't look like it would be that sizable.

Q. What would your estimate be?

A. It would actually be the gross margin in the center column there, divided by the number of days in the period, divided by the merged -- or, the merged coincident peak load. So the gross margin is the margin not adjusted for the MLR. You will notice there are fairly small differences between the numbers.

EXAMINER PARROT: I'm sorry.

THE WITNESS: There's fairly small differences between the gross and retained margins in the out years.

Q. Now, do you understand that Columbus Southern Power, CSP, no longer exists because it was merged into Ohio Power?

A. Yes, I understand.

Q. Does your model include trades between CSP and Ohio Power under the Interconnection Agreement?

A. What kind of trades?

Q. Either of purchases or sales of energy in

1 or capacity under the Interconnection Agreement.
2 A. In the separate case it does; in the
3 merged, it does not.
4 Q. Okay. Does the -- for purposes of the
5 merged company, does the merged company have an
6 ability to retain a greater share of the energy
7 value?
8 A. In that their MLR is higher, yes, right,
9 because all their off-system sales are retained at
10 40 percent instead of 19 and 22 respectively. In
11 that sense, then, yes, they're retaining more of
12 their off-system sales margin.
13 Q. Do they also have an ability to retain a
14 greater share of the energy value, because with the
15 merger, you're eliminating any trades between
16 Columbus Southern and Ohio Power, you know, part of
17 taking in the pool, taking it from five members to
18 four?
19 A. You're talking about the AEP
20 Interconnection Agreement?
21 Q. Yes.
22 A. I'm not an expert on that. The only way
23 it affects my analysis is through the MLR.
24 Q. Okay. So you're -- other than using for
25 the merged agreement a 40 percent MLR, you did not

1 make further adjustments in the model for any
2 synergies that may result from having four members of
3 the pool rather than five?
4 A. Right.
5 Q. Now, reflected in the model, Ohio Power
6 has substantial off-system sales over the time period
7 that you modeled, correct?
8 A. That's correct.
9 Q. And speaking prior to January 1, 2014,
10 those off-system sales are made through the AEP's
11 pool under the Interconnection Agreement, correct?
12 A. I won't say "made through." The analysis
13 just assumes that the profits are redistributed.
14 Q. Okay.
15 A. But, I think, in function, we are
16 speaking similarly.
17 Q. So does the analysis assume that the
18 margins from the energy sales are received by the AEP
19 pool?
20 A. I'd say, yeah, that's equivalent.
21 Q. And then it's, you know, it's AEP's
22 choice under the Interconnection Agreement as to how
23 those margins are allocated among the pool members,
24 and that's what your model reflects, correct?
25 A. That's correct. Just to be clear, AEP

1 decides; not AEP Ohio decides.
2 Q. AEP as the pool.
3 A. Right. Okay.
4 Q. Now, on page 6, line 9 of your testimony,
5 you refer to the "cost of maintaining a generating
6 asset." Do you understand that cost to maintain a
7 generating asset is what is called the "avoided cost"
8 or "to-go cost" of an asset?
9 A. Yes, I'm familiar with the term.
10 Q. Now, Mr. Randazzo asked you a few
11 questions about discussions you had with AEP
12 regarding your testimony. Is it correct that those
13 discussions were held at the beginning of this week,
14 earlier this week?
15 A. That would be correct.
16 Q. Were there any discussions with AEP prior
17 to this week?
18 A. I had no discussions with -- I'm sorry,
19 what was that, "prior to this week"?
20 Q. Prior to this week.
21 A. We had discovery prior to this week.
22 Q. When you refer to "discovery," were
23 you -- you know, I just want to know what you
24 particularly did.
25 A. Right.

Q. Did you have discussions prior to this week as part of discovery with an individual at AEP?

A. Yes.

Q. And who did you talk to at AEP?

A. I'd say the primary person I talked to was Kelly Pearce, discussing his analysis.

Q. And those discussions, can you give me a ballpark date of when those discussions took place?

A. Say, the -- like around the 6th or 8th maybe.

Q. Of April?

A. Of April, early this month, the first half of this month would be most accurate.

Q. And then based on your discussions with -- well, did your discussions with Dr. Pearce have an input -- have an impact on the testimony that you filed?

A. Insomuch as it helped me understand the AEP Interconnection Agreement and understand his analysis, helped me to structure the problem.

Q. Okay. And Dr. Pearce did not advise you, at the time, that AEP Ohio's plans with regard to the Interconnection Agreement was that they already provided notice it would be terminated as of January 1, 2014?

A. I was aware it was being discussed. I don't think I got into the final confirmation.

Q. With regard to the discussions prior to when you filed your testimony, when you said it related to the Interconnection Agreement, what specifically did -- what specifically were you told by Dr. Pearce?

A. The conversation relating to the AEP Interconnection Agreement was brief. I mean, I have trouble remembering the details. Specifically, I asked about why the energy revenue in his calculation was being redistributed. I was trying to make sure that it was no longer a choice that they had to be a part of the AEP Interconnection Agreement for the short time period. That's what I recall.

Do you have a specific question? I might be able to --

Q. In addition to the questions about the Interconnection Agreement, were there other topics discussed?

A. There were.

Q. Okay.

A. Primarily conversation related around the capacity charge as calculated by Ralph Smith. It wasn't relevant to my analysis.

Q. So is this on a conference call that Mr. Smith was also involved in?

A. That's correct.

Q. Now, the discussions that you had with AEP after you filed your testimony, who from AEP was involved in those discussions?

A. Earlier this week?

Q. Yes.

A. The primary person was Bill Allen.

Q. And what was the nature of those discussions? What did you talk about?

A. So, originally, as I stated earlier, during discovery we had requested an hourly load forecast for AEP Ohio for their retail load. Upon receiving the working papers, I noticed that the numbers were not in line with our expectations, again, included any assumptions for switching or for Wheeling Power.

Q. When you said "expectations," whose expectations?

A. Our expectations; that is, my expectations.

Q. And what -- so what was your expectation? What were you trying to find?

A. My expectation would be the Standard

Service Offer retail load.

Q. So what is -- and just so I'm clear, what is the load that is used in the model as revised?

A. So there's a couple layers here. In the AURORA model, we use EVA's load forecast, which we provide to several clients for their own modeling forecast. Once we have the plant behavior, we do the OSS adjustment, which includes the retail load to AEP.

Q. In addition to the discussions you mentioned with Mr. Allen earlier this week, did you have discussions with other individuals from AEP?

A. I believe there was one other party on the phone. I can't recall his name, though.

Q. Do you recall what that person said?

A. It wasn't relevant to my testimony, I don't believe. I was brought into the conference, as I recall, a little later. Originally, they were talking with just staff, the Utility Commission Office, and then brought me in to make sure this information Bill Allen was telling was communicated effectively. We wanted to make sure there wasn't any "whisper down the alley" problems.

Q. So this would have been a call with AEP employees, some staff members on the call, and then

yourself?

A. Right.

Q. Did you have discussions -- did you personally have discussions with any other parties about revisions to your testimony as it pertains to this case?

A. No.

Q. And is that then -- the discussion, that call between you, AEP Ohio, and staff, following that call, AEP then -- did they e-mail you additional information?

A. We revised our data request to explicitly exclude Wheeling Power, and then they forwarded a new -- a new forecast.

MR. LANG: Your Honor, I think Mr. Randazzo might have covered this earlier, but I think for purposes of what was exchanged, if there were communications between AEP, staff, and this witness that have not been produced, it's not clear to me whether they haven't been, but if it has not been produced, we would also make a request to have that produced so that the rest of the parties would know what was going on between the company and staff.

MR. JONES: Your Honor, I would object to that request. Staff is not subject to discovery.

First of all, these were verbal conversations. To the extent there's anything else written, again, staff is not subject to discovery.

EXAMINER PARROT: I'll tell you the same thing I told Mr. Randazzo. You may ask any questions you have; but if you're requesting written discovery, your request is denied.

MR. LANG: Well, perhaps we may be able to clear this up, because if it's documents coming from AEP, that's not staff discovery; that's what AEP is producing. And so if AEP can tell us whether that -- because they have -- what I want to make clear is AEP has produced, you know -- did make several productions of what they called their audit report to parties as part of discovery.

What I'd like to identify is whether this information that this witness relied upon was produced by AEP, and hopefully AEP's counsel can tell us that.

MR. NOURSE: Well, your Honor, I think discovery is closed.

There's been a lot of questions about simple communications. I think Mr. Harter has fully described the essence, in great detail, of the communication and the outcome and exactly what he's

1 done in his testimony regarding that data. The data
2 that he used is available, and so I don't think
3 there's any basis to open up discovery again at this
4 point in the proceeding.
5 MR. LANG: Well, there was a standing
6 request by several parties for any discovery produced
7 by AEP, and AEP in the past was producing what they
8 were providing to staff for purposes of staff
9 witnesses. Apparently, from Mr. Nourse's statements,
10 he's saying they did not produce this more recent
11 documentation.
12 MR. NOURSE: No. Mr. Lang, are you
13 asking for the data request response that Mr. Harter
14 mentioned a few minutes ago? Because I believe it
15 was already served on the party.
16 MR. LANG: That's what I'm trying to find
17 out.
18 MR. NOURSE: I believe it was already
19 served, if that's what you're asking for, and that's
20 the only -- that's the data he's saying he used, and
21 that's the only outcome of this meeting. There's
22 nothing there.
23 MR. LANG: And what was produced and what
24 you believe was produced earlier this week included
25 the communications between AEP and staff; is that

what you're saying?

MR. NOURSE: No. I said the data request response, Mr. Lang.

MR. LANG: So it was a partial production?

MR. JONES: Your Honor, I'd like to back up. Mr. Nourse's representations to this Bench that the information that was responsive to the staff's request had been provided to the parties, I did see e-mails that go to all parties and the information was provided by the company.

EXAMINER PARROT: All right. Thank you, Mr. Jones.

Do you have any further questions, Mr. Lang?

MR. LANG: Thank you, your Honor. I do not have any further questions.

EXAMINER PARROT: Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No, your Honor.

(Discussion off record.)

(Recess taken.)

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

Mr. Nourse?

MR. NOURSE: Thank you, your Honor.

1 - - -

2 CROSS-EXAMINATION

3 By Mr. Nourse:

4 Q. As I was saying, my name is Steve Nourse,

5 and I represent Ohio Power in these proceedings.

6 When I read your testimony, there was not

7 much in there about your background, so I went on

8 ryantharter.com, and you probably know what I found.

9 Let me hand you a document that's entitled "Ryan T.

10 Harter."

11 MR. NOURSE: I'd like to mark this as,

12 your Honor, AEP Exhibit 117.

13 EXAMINER PARROT: So marked.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 Q. Mr. Harter, is this your resume?

16 A. This is an outdated copy of my resume.

17 Q. Okay. It's outdated?

18 A. That's correct.

19 Q. I'm sorry. Is what is on here accurate?

20 A. Yeah.

21 Q. Okay. All right. So you graduated from

22 undergraduate in 2010.

23 A. That's correct.

24 Q. Okay. James Madison University, is that

25 in Virginia?

A. That's correct.

Q. Okay. Are you going to graduate school or have you attended graduate school?

A. I am not. Perhaps sometime in the future.

Q. Okay. It says here you work for Pace Global for, is it, about a year?

A. Just over a year, about a year and a half.

Q. Okay. And when you left Pace is when you went to EVA?

A. That's correct.

Q. And when did you start with EVA?

A. In August.

Q. Okay. So is it fair to say, from your resume here and what you discuss in your testimony, that your primary background is in computer modeling and programming?

A. No; I wouldn't say that's fair. My primary degree in college was quantitative finance, which is very heavily suited for asset valuation, particularly in quants, quantitive analysis.

Q. So when did you start at EVA?

A. I started in August.

Q. Okay. And I notice when I went on the

EVA website, it didn't have a link beside your name yet, so you don't have a bio on there, either. When you said this was outdated, did you just mean it didn't include your EVA experience, your current position?

A. Well, this was written, I'd say, mid-2011.

Q. Okay. What else would it not include other than EVA?

A. I'd say that would be the -- yeah, that would be -- it would include the change to EVA.

Q. Okay. Now, do you work for Emily Medine at EVA? Do you report to her?

A. I report to the partners in general.

Q. Okay.

A. I do report to Emily Medine but not solely to Emily Medine.

Q. Is that normally who you work with on a day-by-day basis?

A. It depends on what function I'm fulfilling. If I'm working in the emissions market, I'll work under Tom Hewson. If I'm working on a coal forecast -- not so much a coal forecast, but the delivery model, I'll work with Seth Shorts. It depends on my current project load and

1 engagements.
2 Q. In your testimony on page 2, lines 20-21,
3 you say at EVA you design and implement "several
4 models to assist in leveraging EVA's expert opinions
5 in the energy markets." Do you see that?
6 A. I do.
7 Q. So are you holding yourself out as an
8 expert in the energy markets?
9 A. I would say I'm knowledgeable.
10 Q. Are you referring to EVA's expert
11 opinions in the energy market as being other people
12 besides yourself?
13 A. So I would be an expert in our modeling
14 capabilities. I rely on the partners to provide
15 forecasts that we use as inputs to the models.
16 Q. Okay. And what experts at EVA did you
17 rely on in preparing your testimony here?
18 A. I relied on our FUELCAST services, which
19 rely on the wealth of all of our partners, so that
20 would be -- would you like me to list those off?
21 Q. All of your partners is fine, if that's
22 what you want to say.
23 A. Yeah.
24 Q. Okay. So FUELCAST, we will talk
25 separately about that, but that's your example that

you're referring to when you talk about expert opinions at EVA, line 21, page 2; is that correct?

A. Yeah, that's correct.

Q. Okay. Now, have you ever filed testimony before, Mr. Harter?

A. I have not.

Q. Okay. You picked a good case to start on.

All right. Let me ask you, you talk in your testimony, starting on page 3, about your engagement with the staff of the PUCO for this proceeding. On line 11, you mention that -- I believe you're saying you "were contracted" on March 21. What is that? What are you referring to? What happened on March 21?

A. The contracts were signed on the 21st.

Q. Okay. So what had you done, what activity had you done on the case prior to March 21?

A. Prior to the 21st, we were contacted by the Public Utilities Commission -- or, rather, the Public Utilities Commission contacted Clark & Associates, who Ralph Smith is associated with, to talk to somebody about the issue.

They brought Emily Medine and myself in to discuss the problem. I proposed the current

1 methodology. They thought it was consistent with
2 what the problem they were trying to solve. Besides
3 that, there wasn't much work done.
4 Q. Okay. When you say you proposed the
5 methodology, and I believe earlier in cross you
6 indicated that the methodology was approved by staff,
7 correct?
8 A. That's correct. When I say
9 "methodology," I'm talking specifically about the
10 energy credit adjustment.
11 Q. Okay. What did you propose as far as
12 your methodology? Did you just say, "I want to use
13 an AURORA dispatch simulation"? What did you say?
14 A. The basic idea is that capacity payment
15 is that if we can find the value of a plant in both
16 capacity and energy value, the capacity costs would
17 be the gap between the fixed costs data you are
18 provided and the energy revenues or margins that the
19 plant produces.
20 Q. Okay.
21 A. We can estimate that using our AURORA
22 energy market model.
23 Q. Now, did you have any idea what the
24 result of that proposed methodology would be at the
25 time you were discussing it?

A. No. I hadn't look at any of AEP Ohio's plants specifically.

Q. Okay. Were there any constraints given to you on the analysis you could do or the outcomes you could reach in your analysis?

A. No.

Q. So what data did you review in developing your energy credit?

A. So, by "data," do you mean numbers or just information that I reviewed?

Q. Mainly numbers, data, written words, data.

A. So I reviewed the data provided in Kelly Pearce's testimony, in addition to making sure that our AURORA model represented our most recent forecast, which we keep each AURORA model functional throughout the time for whatever engagements we have related to energy.

Q. Okay. Did you review fuel data?

A. Yes. I made sure that our forecast represented our most recent fuel forecasts.

Q. And by that, are you referring to the FUELCAST database?

A. It's a portion of what we provide with FUELCAST.

Q. If it is only a portion, what else are you referring to?

A. For example, emission penalties, emission rates, retirements.

Q. Is that all part of the FUELCAST database?

A. FUELCAST isn't a database; it's a service. But those are all part of FUELCAST.

Q. Did the FUELCAST service use data from other proceedings that EVA is involved in, such as a fuel audit?

A. Any information coming from a fuel audit, we have a common source.

Q. Common source?

A. Right. They would influence the same thing.

Q. I don't understand your answer.

A. So is your question would information that's procured during another case influence the forecast?

Q. Is it used to develop the database or the FUELCAST service, as you call it?

A. In time, it may be.

Q. Okay. So if EVA is an auditor in a fuel case, such as AEP Ohio's fuel proceedings -- are you

familiar with those?

A. Tangentially, yes.

Q. And you obtain information through the audit in that fuel case, you're saying you use that data to build the FUELCAST service and update it; is that correct?

A. It may be used in calibration procedures.

Q. So it is used in FUELCAST.

A. Again, this would be over time. It may not be immediately used.

Q. So over time you accumulate data from various proceedings that EVA may be involved in, and that's incorporated into the FUELCAST.

A. We use all available information in calibrating our models.

Q. Including data you get as an auditor in separate proceedings.

A. That's my understanding. I would need to check with the coal team to be sure.

Q. Okay. Has that ever been examined as an issue, as to whether it is appropriate to do that?

A. That's why I would need to check with the coal team, just to make sure.

Q. You've already said you've done it. What I'm asking, if that has become an issue and you

already cleared it and determined it's okay to do that, or did you ever deal with the issue of using data from an audit to build your database?

A. We use only -- well, I'm unclear about what data we use in the coal forecast. That's handled by a separate team.

Q. Okay. Now, when you -- all right.

Did you review the FERC Form 1s of the companies as far as the data that you reviewed to develop your testimony?

A. I believe I looked at them; gave them a cursory look.

Q. For what purpose?

A. It wasn't a major part of my analysis. I can't recall.

Q. Okay. Now, when you did your AURORA analysis and you came up with your energy credit, were you surprised by the result reached?

A. Not necessarily.

Q. Well, the energy credit you came with up prior to your -- prior to your errata sheet earlier this week, your filed testimony was virtually -- the net capacity cost was virtually identical to the current RPM price, correct?

A. It could be. I don't make any

1 comparisons to the RPM cost.
2 Q. Are you aware of what the current RPM
3 price is?
4 A. Is that the 255?
5 Q. No.
6 Okay. How about Ohio Power's energy
7 credit that you came up with in your filed testimony
8 of $231 a megawatt-day?
9 A. $21.02.
10 Q. Did that surprise you?
11 A. No.
12 Q. You didn't have any reason to go back and
13 double-check your data, reevaluate, do a sanity check
14 of the outcome due to a 231 energy credit?
15 A. I'm fairly careful with my analysis. I
16 was confident with my number.
17 Q. Does that mean you weren't surprised by
18 the number, or you were careful that you don't need
19 to double-check?
20 A. I do a lot of QC on my work. Is that
21 what you call a "double-check"?
22 Q. I'm asking you what you did. I think
23 that's a factual matter, so you can explain it.
24 A. So --
25 Q. Was this your first run, or did you do

multiple runs?

A. Runs of the AURORA model?

Q. Yes.

A. No. Just one run of the AURORA model.

Q. And how long does that take?

A. It depends for the time period. Hourly, you know, it's a few hours.

Q. Okay. So help me out here. Did you or did you not go back after you did your modeling and look at the cost, the production cost -- I'm sorry, the cost, variable costs of the energy, producing the energy, and compare that to any real data?

A. Our plan parameters are produced or are estimated at one time. I went back and I checked those assumptions.

Q. By "plan parameters" are you referring to the FUELCAST data?

A. Correct.

Q. And how about the forward energy prices that the model produced, is that something you went back and checked against real data?

A. Yes.

Q. And what did you check it against?

A. I compared the -- and this was a cursory sanity check. I'm not sure I'll be able to pull out

1 final conclusions from this. But I compared the AEP
2 forecasted price to the current forwards for AEP hub.
3 Q. Okay.
4 MR. NOURSE: Your Honor, I'd like to mark
5 an exhibit. It's 118, AEP Exhibit 118.
6 (EXHIBIT MARKED FOR IDENTIFICATION.)
7 Q. Okay. Mr. Harter, do you have the
8 exhibit we just marked as AEP Exhibit 118?
9 A. I do.
10 Q. Okay. This is similar to the sanity
11 check you just referred to a minute ago that you said
12 you already did.
13 A. My check would probably have been done in
14 a monthly granularity.
15 Q. Okay. So -- well, let's look at this
16 table for a moment and try to verify, for the moment,
17 what it represents. In the middle column, is that
18 representing the same data you used in your
19 workpapers and in your model by month?
20 A. I don't have the data with me to verify.
21 Q. Bear with me. I think we have your
22 workpapers here. I'm just looking for them.
23 This might be somewhat duplicative and I
24 don't know that we have to move this one in, but I
25 will give it to you for your comparison.

1 MR. NOURSE: I'll pass this one out, your
2 Honor. I'm not going to mark it at this time, but I
3 don't think it needs to be marked.
4 Q. Mr. Harter, this document I handed you,
5 if you look at the bottom, does that verify for you
6 that this was data from your workpapers?
7 A. Yeah. This looks to be the same.
8 Q. Okay. So that is the monthly AEP zone
9 price that was used and produced in your modeling?
10 A. Yes. This is the column AEP zone price,
11 2012 megawatt-hour.
12 Q. And the right column is from the AEP
13 Dayton hub, ATC price. Does that look correct to
14 you?
15 A. I see no reason to say otherwise.
16 Q. Subject to check, that is the similar
17 information you used in your sanity check?
18 A. (Witness nods head.)
19 Q. I'm sorry, you nodded your head.
20 A. That's affirmed.
21 Q. Thank you.
22 So this exhibit accurately shows, does it
23 not, that the variance between your modeled AEP zone
24 price and forward futures contracts that exist in the
25 market today and are publicly available with the

variance shown over to the right?

A. Right. It does display the difference there.

Q. Okay. On the total period, what was the average variance?

A. I'm reading a difference of $3.17.

Q. Okay. That's about a 10 percent difference?

A. By a ballpark.

Q. Is that a significant variance in your opinion?

A. It could be.

Q. Okay. And did you check your -- did you check your prices against gas futures?

A. That's done independently by the gas group.

Q. So somebody else did that for you?

A. That's correct.

Q. And what was the result of that check?

A. We have -- now, I'm sorry, you're talking about the power prices versus future -- are you talking about Henry Hub versus Henry Hub, forecasted versus forward?

Q. Yeah. I'm talking about the gas futures. Henry Hub, is that what you used for your sanity

check?

A. I would expect that's what was used.

Q. So you're saying that other people at EVA reviewed your model data and did checks on it for you?

A. So FUELCAST is provided to customers fairly regularly, so it's a service that we keep up to date. We have a gas team that focuses on our gas forecasts, and part of that is the sanity checks that you're talking about.

Q. Okay. But the sanity check I'm talking about is using the output of your model to check against real data. That was my original question, right?

A. Okay. And that's done with the price forecast. The output of the model isn't gas -- that's no gas price output from the model.

Q. Okay. But does gas price drive energy prices?

A. It does.

Q. Okay.

A. So the comparison we are talking about, is it Henry Hub to Henry Hub, or Henry Hub to my price forecast?

Q. I'm talking about what you did. You

1 referred to other people at EVA, so I'm starting
2 there.
3 A. There's no comparison of EVA's price
4 forecast to the Henry Hub's forwards.
5 Q. And do you agree that higher natural gas
6 price assumption would tend to inflate LMPs,
7 locational marginal prices?
8 A. Yes. An increase in gas price would tend
9 to increase power prices.
10 Q. Okay. And all else been equal, a lower
11 gas price would also decrease future energy prices.
12 A. Yes.
13 Q. Okay. And that would -- that would
14 reduce the margins that have been modeled, correct?
15 A. Not necessarily.
16 Q. Lower energy prices wouldn't reduce the
17 models.
18 A. Well, lower energy prices may, but lower
19 energy prices caused by increased cost of gas
20 generation may not.
21 Q. My question was, all else being equal,
22 lower energy prices would reduce the margins you
23 modeled.
24 A. Yes. If natural gas prices are constant
25 and energy prices are lower, then that would

generally decrease the margins.

Q. Okay. And the gas -- the generation resources you did use here does include some gas plants, right?

A. That's correct.

Q. Okay. And what gas prices did you use for those plants, Darby and Waterford?

A. That would be delivered natural gas prices based off of Henry Hub. I don't have those numbers with me.

Q. What do you estimate it to be, though?

A. I would have to ballpark, maybe $4.20, per Btu.

Q. $4.20?

A. 2012.

Q. Okay.

A. Again, that's subject to some change.

MR. NOURSE: Your Honor, I'd like to mark AEP Exhibit 119.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Harter, are those some of your workpapers?

A. That's correct.

Q. Okay. And is the natural gas price -- okay.

Sir, can you tell what the natural gas price was for Darby?

A. Yeah. If I had a calculator, I may be able to.

Q. Do you not have a calculator?

A. I do not.

Q. Okay, can I hand you this one, and I promise it hasn't been rigged to produce AEP results.

A. I'm having some problems here.

Q. Go ahead.

A. So I'm having a couple problems here, but it's $4.30, about what you're seeing, 4.33.

Q. Okay. And for Waterford?

A. About 4.36.

Q. Okay. We talked about Henry Hub a moment ago. I hand you this and ask --

MR. NOURSE: I ask this be marked as Exhibit 120.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. RANDAZZO: I'm sorry, did you hand out copies of the prior exhibit?

MR. NOURSE: The prior exhibit was workpapers, so we figured most people had the workpapers already. I had some copies.

MR. JONES: Here you go, Sam.

Q. Mr. Harter, the document we just marked as 120, does this appear to be the NYMEX Henry Hub Gas Futures as of April 25, 2012?

A. Sure.

Q. Okay. And let's use May 2012, next month, a couple days from now, as an example. That quote there is 2.007.

A. Yes.

Q. Okay. So that's less than half of the $4.33 you used for Darby and the $4.36 you used for Waterford.

A. Yes, it's different than the annual average that we use.

Q. Different in what way?

A. It's about half.

Q. Okay. You meant it was a different number or different calculation?

A. Well, it is a different number. It's a single month versus an annual number.

Q. Okay.

A. If you look, there's a strict upward trend in the gas prices.

Q. And what's the total period average there?

A. Can't tell -- oh, the total period

average at the bottom. 3.29.

Q. Okay. That's also substantially less than the $4.33 and the $4.36?

A. Correct.

Q. Okay. And your guess at the Henry Hub earlier was $4.20, as I recall.

A. That's correct.

Q. We may get back to that exhibit later.

I think one of your statements caused me to go down this path with the future prices, so let's back up because I did want to talk to you more about the -- your concept and your method going into the testimony and also about the AURORA model in particular. So let's rewind and start back to that point.

So can you explain what you believe your energy credit calculation captures?

A. The energy credit calculation is meant to capture the value that energy profits contribute to the capital costs of a plant.

Q. Okay. Are you looking to capture and simulate actual margins that would be experienced by AEP Ohio during this period of time that you're looking at?

A. That's the intent. Now, with the

1 forecast, it's going to be an estimation.
2 Q. But the forecast and the way you've
3 designed it and intend it to operate is supposed to
4 simulate reality, right?
5 A. That's the idea.
6 Q. Okay. It's not a hypothetical, you know,
7 efficient, textbook situation; it's supposed to
8 reflect AEP's reality, correct?
9 A. Yes. That's the intent of the model.
10 Q. Okay. Now, would you agree that the
11 AURORA energy credit should be calculated using the
12 same assumptions and consistent methodology as the
13 capacity costs that Mr. Smith develops?
14 A. Yes, that's correct.
15 Q. And did the two of you coordinate on your
16 testimony and your analysis?
17 A. Yes.
18 Q. Okay. You do believe, then, that your
19 assumptions and modeling input are consistent with
20 Mr. Smith's analysis?
21 A. Yes, to a point.
22 Q. And what point would that be?
23 A. It's important that we keep -- so, for
24 instance, because AURORA is a dispatch model, we need
25 to be consistent with our forecasting of plant

parameters.

So, for instance, if we knew information specifically about one AEP plant, we couldn't bias that plant using that information. So, for example, if we had better information than in general -- well, it's redundant.

Q. What did you mean by "bias the plant"? I didn't understand that part.

A. Because the plants are stacked relative to each other as far as economic margin, if you use a different source of data for a single plant, you can move its position on the stack and it will bring you further out of reality, so it would help you move towards reality.

Q. Okay. So why is it that your method that you proposed and staff approved for estimating margins and developing an energy credit uses modeling at all for this short-term period? Don't we have actual data that can be used? Doesn't that render modeling unnecessary?

A. Do we have 2013 energy margins?

Q. No. I'm talking about market prices, forward market prices. I'm talking about the actual cost data that's out there.

A. Emission costs?

Q. Well, now, you're asking me questions. You give the answer you want to give.

A. Sorry. There are changes in the market place that are not currently accounted for, such as emission costs regulation, the FUELCAST service does provide.

Q. Are emission costs a big driver of your energy credit calculation?

A. I imagine they would be.

Q. You imagine they would be or --

A. You can see the energy costs in my working papers.

Q. I have, but I'm asking you about it. Are they a big driver?

A. Yes, they're going to be a driver, a big driver.

Q. Okay. Let me ask you some questions about the AURORA modeling.

A. Sure.

Q. So on page 6 you're discussing, in general terms, the AURORAxmp model, starting, I think, at the bottom of page 6 and going onto 7. So when did EVA get a license for AURORA?

A. I believe we licensed shortly after I joined the company, so that would be late 2011 time

1 frame. I'm not sure when the actual contracts were
2 signed.
3 Q. So just a few months ago.
4 A. About a half a year.
5 Q. All right.
6 MR. NOURSE: All right. Let me mark
7 another exhibit, your Honor. I think we're up to
8 121.
9 (EXHIBIT MARKED FOR IDENTIFICATION.)
10 Q. Mr. Harter, do you have the exhibit we
11 just marked?
12 A. I do.
13 Q. Can you identify this exhibit?
14 A. It's a list of consulting companies that
15 use xmp simulation from the website.
16 Q. And is Energy Ventures Analysis on this
17 list?
18 A. It is not.
19 Q. Okay. And were you aware of this list of
20 the other consulting companies that are out there
21 that use AURORA?
22 A. I was not aware of this list, but I'm
23 aware of consulting companies here, and they use
24 AURORA.
25 Q. Okay. Is it your understanding -- so

you're not aware of the list relative to -- what it takes to be on the list.

A. I'm not familiar with this list, yeah. I'm not familiar with what it takes to be on the list.

Q. Did EVA, when they purchased AURORA, do training or any kind of certification with EPIS?

A. They offered training. I did do the training.

Q. You didn't do it?

A. I did do the training, that's affirmative.

Q. Okay. They offered the training and you did do the training?

A. That's correct.

Q. And the training is done by EPIS?

A. That's correct.

Q. Okay. What version of AURORA are you running?

A. I'm not sure off the top of my head.

Q. Okay. Do you have experience in running the AURORA model outside the context of this case?

A. I do.

Q. What is that experience?

A. I worked with the model -- well, I

developed the EVA model. I also worked with Pace Global and their AURORA model.

Q. So you -- when you say you developed the model, you used the AURORA software to customize its application for EVA?

A. Right. AURORA depends on a database of inputs. I've -- I've manipulated and used EVA's expert opinion to create that database.

Q. Okay. That's what I wanted to ask you about this exhibit.

First of all, as a general matter, would you agree that these kind of modeling software tools are only as good as the inputs that, the quality of the data that's used in the model?

A. Yes.

Q. So quality in/quality out, bad data in/bad data out, would you agree with that?

A. Yes.

Q. So you mentioned the databases. Please feel free to correct me if I use the wrong terminology, but these are tables or internal databases that are embedded into the AURORA software. Is that accurate?

A. It's functionally correct.

Q. Okay. Why are they called something

1 different?
2 A. That's actually an external sequelae
3 table. It's not something intrinsic to the model.
4 It's something the model read from.
5 Q. So we can call it a "table" then?
6 A. Yes.
7 Q. A data table. Okay.
8 So can you list the tables that are
9 embedded in the AURORA model?
10 A. Sure. It gives a fuels table, the annual
11 vectors, resource tables, resource modifier tables,
12 to name a few. I doubt I'm going to be able to name
13 all of them.
14 Q. Okay. Let's focus on the area -- let me
15 back up and ask you, I want to try to link this
16 FUELCAST data that's been mentioned several times and
17 you're referring to it as a "service." But the data
18 that's involved with FUELCAST, that's the data that
19 you put into the AURORA tables in connection with
20 variable cost; is that an accurate statement?
21 A. Could you repeat that for me?
22 Q. Yes. My question is, I'm trying to
23 figure out exactly what you did with the FUELCAST
24 data in connection with customizing AURORA for
25 purposes of your modeling here.

A. Right. Okay. So where EVA has an opinion, we implement that into the model. There are some finer points where we allow EPIS's data to supply us inputs.

Q. Okay. So when you say "EPIS's data" that's the default data that comes with the software?

A. That's correct.

Q. Okay. And that's what I want to try to differentiate here, which default data did you leave intact, and which data did you customize for purposes of your modeling?

A. All right. So the primary data we customized would be the emission rates, emission allowance costs, heat rates, fuel costs, of course. There's likely additional smaller changes but those were the major drivers for the model.

Q. Okay. And then what were all the tables that were left intact from the off-the-shelf version?

A. Zonal aggregation table, the hourly-wind shapes, the hydro-shape tables, those tables would have been left completely intact. Again, that's probably not complete.

Q. Okay. And how about resources?

A. What data was left intact there?

Q. Yes.

A. Resource groups. I can't recall.

Q. I'm sorry, "resource groups"?

A. Yeah. We use it to aggregate resources to provide RPS standards, to calculate RPS -- not RPS -- yes, renewable portfolios.

Q. Okay. Now, would the plants, the AEP generation plants that you used in your modeling, would this come from the default database, or did you customize that?

A. The data that I said was customized was customized by EVA.

Q. I'm asking you specifically about the generation plants.

A. So the data that I listed before was applied for all plants, which includes the ESP generation plants.

Q. And what -- and where did you come up with the list of AEP generation plants that you used?

A. I stated before, the long-term report provided by Ohio Power -- or to the Ohio Public Utilities Commission.

Q. Okay. We'll circle back to that list later. I just wanted to tie it in here with your customization of the model.

So is it a fair statement, then, that all

the data in the model was either default data that came with the off-the-shelf software, or provided by others in EVA; is that fair?

A. So I did help in the aggregation of some of the resource data where it pertained to 86923 data from EVA.

Q. You helped in the aggregation, what does that mean?

A. So taking the data and turning it into something that AURORA can digest. "Aggregation" may be the wrong word; "processing" may be better.

Q. Okay. With that clarification, all the data that was used in the model was either embedded, of-the-shelf, already default data, or was provided by somebody else at EVA, correct?

A. Correct.

Q. Okay. Now, one of the things you mentioned left in place was zonal aggregation.

A. That's correct.

Q. Can you explain what that means?

A. Sure. So EVA is a zonal model as compared to a nodal model. What that means is it treats -- it takes a portion of the resources and says they're all serving the same load. So it will stack up and serve that load. It comes up with one

price for an entire zone. The relationship from resource into zone was kept consistent -- or kept constant from the AURORA-based software.

Q. Okay. Now, let me clarify what you said earlier about the -- did you run AURORA for the entire eastern interconnection?

A. Yes.

Q. Okay. Did you do your analysis by running a zonal or nodal setting?

A. Zonal.

Q. Is that a quicker way to do it?

A. Yes, it's generally faster.

Q. Okay. Would you agree that nodal, which is the alternative to zonal, would produce results that are closer to the LMP?

A. You mean more accurate?

Q. More accurate, close to the LMP.

A. In constrained markets, yes. There's likely to be some increase, but very small in unconstrained markets.

Q. Okay. So in the zonal mode, which is what you used, can you install the RTOs that are involved with that, besides PJM?

A. I would have to reference, to be clear, east of the Mississippi.

Q. Okay.

A. I believe that includes all of MISO as well.

Q. Okay. So MISO. What about SPP?

A. Yes, it's included.

Q. New York ISO?

A. Yes.

Q. Northeast Pool?

A. Correct.

Q. Florida Panhandle?

A. That's correct.

Q. TVA?

A. TVA, I believe is.

Q. Okay. The Duke Carolinas?

A. Yes. All these plants' models may not be broken out into their own zone.

Q. Entergy?

A. I believe that they model Entergy in our CK interconnects. It's slightly different on AURORA.

Q. Ontario?

A. We do model Ontario.

Q. ERCOT?

A. I believe ERCOT is run, but it's likely insignificant to the analysis.

Q. Okay.

A. So --

Q. Go ahead. Is it correct that AURORA's load is available to generation, regardless of market prices?

A. It dispatches to the load to create market prices.

Q. Okay. Are the forecasted market price used in your analysis an output of AURORA rather than an input?

A. That's correct.

Q. Okay. So to simulate generation dispatch, AURORA takes all the available generation in the zone you're analyzing, stacks it economically, and uses the most economic resources to meet the zonal load requirement?

A. That's correct.

Q. Okay. Now, you're aware that AEP is a member of PJM, correct?

A. That's correct.

Q. Okay. And PJM's energy market, do you know if PJM dispatches AEP Ohio's generation resources to meet the AEP zonal-load requirement?

A. It's my understanding that AEP dispatches their own plants.

Q. So the answer is no?

A. That's correct.

Q. Okay. Doesn't PJM determine hourly price signal, the LMP that determines whether or not AEP Ohio generator will run or not?

A. I'm unaware of the function -- not unaware, but I don't know.

Q. Okay. Just to be clear, you don't know if the LMP hourly price determines whether a unit runs or not?

A. So the assumption is that the plant will run when it's profitable for it to run.

Q. Okay. But under PJM procedures, is that your understanding, or you don't know?

A. I believe that's close enough to simulate to true.

Q. Okay. Is the LMP price equivalent to the zonal price produced by AURORA?

A. Of what granularity?

Q. Does it produce the same price?

A. AURORA will approximate the price of the LMP. It's not going to be the same.

Q. So you don't think the zonal versus nodal mode makes a difference?

A. It makes a difference, but it is just going to be likely small.

Q. Did you run it in this case to determine what the difference would be?

A. We don't license the nodal model.

Q. So the answer is no, right?

A. Correct.

Q. Now, are you aware that LMPs can vary significantly across the market?

A. Yes.

Q. Okay. Now, when PJM calculates the energy component of the LMPs that AEP Ohio's generation is paid under, does PJM only look to the AEP zone, or do they look to all the available generation, the total load requirement of the RTO?

A. It is my understanding that they'll look for all plants capable of filling the load. But the distinction isn't a large problem to my analysis.

Q. Have you modeled it? How do you know it's not a large problem?

A. So that the assumption is transmission will take care of that problem.

EXAMINER PARROT: Mr. Harter, can you speak into the microphone?

THE WITNESS: I don't think it's working anymore.

Q. So your assumption is transmission will

take care of the problem?

A. Yes, that's my assumption.

Q. Did you model congestion?

A. Transmission congestion or internal congestion in the zone?

Q. Either.

A. Transmission congestion is part of the AURORA model. I did not accommodate for any internal zonal congestion.

Q. So with your AURORA model set on zonal -- I'm sorry. Yes, zonal, correct, that's what you use?

A. So it's not set on zonal; the zonal model is what we license. There's a separate program that will run nodal analysis.

Q. Okay. Did you consider using or acquiring the nodal for purposes of this case?

A. No, we did not consider licensing that model for this specific case.

Q. Okay. How did you go from the eastern interconnect to the AEP zone in your model?

A. So when I say "eastern interconnect" it's just -- so each zone is modeled, each individual AURORA zone is modeled. When you do the eastern interconnect, you can just pull that data straight out.

Q. Okay. What reserve margin is embedded in your modeling?

A. I'm not aware offhand, or -- I don't have the number, and I don't think it would affect the analysis over a short term.

Q. So, do you know, how does PJM model congestion as compared to AURORA modeling?

A. I'm not aware of PJM's modeling techniques.

Q. Okay. So on the reserve requirement, your testimony is that the reserve requirement doesn't matter in this case.

A. There's -- right, AEP has significant capacity to meet its load.

Q. But in terms of the nodal or zonal analysis, you don't know what reserve requirement was used as part of that modeling?

A. I don't have the specific number. I know it's somewhere in the ballpark of around 15 percent.

Q. Okay. Now, earlier you talked about the resource groups that was the default data from EPIS, right?

A. That's correct.

Q. By the way, does EPIS guarantee the quality of their forecasted data, or is it supposed

to just be a skeleton program that the users are supposed to update their data when they use it?

A. The default data is -- it's not guaranteed, but it's more than a skeleton data. It's used for demonstration. It's demonstrated to be fairly accurate.

Q. Okay. Does AURORA -- does EPIS sell updates?

A. They update their database on an annual level.

Q. Do you know the vintage of the data that was used in your modeling?

A. Off the top of my head, I don't know.

Q. Would it also vary as to the different tables of the model?

A. I'm sorry?

Q. The vintage of the data, would that be different for some of the tables?

A. No. It would likely be constant.

Q. So it's your understanding that each of the tables has up-to-date information as of a certain date, and the date -- that date is the same for all tables?

A. As for the base data kept in the model, yes.

Q. And how did you determine that?

A. How did I determine that the base data is constant through time?

Q. No. That wasn't my question.

A. Okay.

Q. My question was, the vintage of the data -- first of all, you said you don't know what version of AURORA you were using, correct?

A. That's correct.

Q. And I'm asking you about the vintage of the data that was used in your model, both your default data and your customized data.

A. Right. EVA's data is current, I'd say, as of the beginning of April. EPIS data, I would need to check what the vintage is.

Q. Okay. So one of the things you said was off-the-shelf were the tables used was generation resources; am I correct?

A. I don't think so. I think I said resource groups.

Q. Okay. What's "resource groups"?

A. A resource group is a mapping of resources into, usually, states to accommodate -- so it's a generic mapping of a resource into a group. Generally it's used to account for RPS standards to

calculate when you need more renewables.

Q. So did you put the data into the model as to the AEP generation units that were going to be modeled?

A. That was taken out when we got plant-level data from AURORA on an hourly granularity.

Q. What was taken out?

A. We took out CSP and Ohio company aggregate levels of data in hourly granularity.

Q. Okay. I'm asking about the generation units, the plants, rather, at this point.

A. Right. So for the analysis in RTH-1, we pulled out coal and CSP Ohio data. For follow-up questions from AEP we pulled out the required data, which is fuel costs, admission costs, and variable operating costs as well. That will do it.

Q. Sir, do you still have the AEP Ohio Exhibit 119? It's part of your workpapers and has --

A. The fuel costs on it.

Q. That's on the front page, yes. Okay. Down the middle of the page, are those the plants that you used in the modeling?

A. Yes.

Q. Are those all the plants? It's the

complete list of the plants used in the model?

A. These seem to be the ones that are the operating company.

Q. The operating company.

A. Yes. They seem to be the plants where Ohio and Columbus are the operating company.

Q. Right. So in the model, the default data that's in the model, includes all the plants in North America, right?

A. Correct.

Q. Okay. But in developing your costs, you've used the ones that -- only the plants that are operated by Ohio Power and Columbus Southern; is that right?

A. No. We created costs for the North American -- or the U.S. plants as an aggregate. So this is when we were updating the resource table.

Q. Okay. But in terms of the costs you're using relative to your margin calculation and your energy credit, are these the plants that you used to develop the energy credit, or are there other plants?

A. We pulled out the whole Ohio and CSP margin. We didn't explicitly pull out plant costs.

Q. Okay.

A. And -- go ahead.

Q. Is Exhibit 119, is this your workpaper for fuel costs?

A. That's correct.

Q. And variable operation and maintenance costs?

A. Yes.

Q. And emission costs?

A. Yes.

Q. Heat rate?

A. That's correct.

Q. These were plants and the data that you used in your modeling then, correct?

A. Yes. This data was used in my modeling.

Q. To develop the cost against which you would produce a margin based on energy prices, right?

A. Now, these are both the results of the same data. We pulled out from AURORA the total CSP and Ohio margin as a net.

Q. Okay. And the margin you used to calculate your energy credit is associated with these units listed on the AURORA paper, correct?

A. It's my understanding that these are a subset of those units.

Q. Why did you use a subset in your papers?

A. I hadn't realized that.

Q. Are you saying the -- did you use the numbers to calculate your margins that are reflected in the subset, as you called it?

A. No. That would be reflective of the plants provided in the Public Utilities Commission long-term forecast that I noted earlier.

Q. Okay. Let's go there. I don't have extra copies of this, but I think Mr. Randazzo referred to it earlier. It's April 15, 2011 long-term forecast, 11-2501 on the Southern Power Company; 11-2502 entitled 2011 Electric. Is this the document you were referring to earlier?

A. Yes, looks like it.

Q. Okay. Are those -- is that a more complete list?

A. Looks like it.

Q. Which page are you looking at?

A. This is 136 and 7 of the document.

Q. Okay. Does that represent the complete list of plants that you used to produce costs that you used in calculating your margin?

A. That's correct.

Q. Okay. So is there something in your testimony or workpapers that indicates that this longer list was used as opposed to the ones you

disclosed in your workpapers?

A. I'm not sure that's explicitly noted in the testimony.

Q. Are you saying the numbers, all these fuel costs, and variable O&M, the emission costs and heat rate numbers that are reflected in your workpapers only constitute a subset of what you actually used to derive your calculations in your exhibit and in your testimony?

A. They represent a subset of the fuel costs, fuel costs and the emission cost used to calculate the final numbers.

Q. So the numbers you used in testimony are not supported in your workpapers.

A. They're supported, but not completely.

Q. They don't match up, do they?

A. I wouldn't expect them to.

Q. Is that because they're only a partial subset of your workpapers?

A. That's correct.

Q. Did you know you only provided a subset of your workpapers?

A. I hadn't realized that.

Q. Until when?

A. Until you noted it.

Q. Just now?

A. No, until I just looked at this complete list here.

Q. I'm sorry, was it here this morning, today?

A. Today, sorry.

MR. NOURSE: Your Honor, I'd like to request that we get the complete set of workpapers. I'm not sure if they're available right now, if they can be produced right now, but it appears that we got a subset of the workpapers. It does not show his work.

EXAMINER PARROT: Mr. Jones?

MR. JONES: The company is requesting workpapers?

EXAMINER PARROT: Complete workpapers.

MR. JONES: What are you defining -- what's your request, Steve?

MR. NOURSE: Your Honor, we didn't have that question when we got the workpapers the first time. They're represented as workpapers. I'm finding out it's only the subset. I'm requesting the whole set. I'm not sure what is unclear about that.

MR. JONES: Your Honor, I'm going to have to talk to Mr. Harter to see how soon we can produce

1 those workpapers.
2 EXAMINER PARROT: All right, Mr. Jones.
3 MR. RANDAZZO: If I can be heard. The
4 company is allowed to do discovery, we're allowed to
5 do discovery. And if the workpapers are going to be
6 provided as requested, we have to be given access to
7 the information.
8 We asked to speak with the auditors
9 before this proceeding started. In accordance with
10 the typical practice that this Commission staff has
11 followed when it uses outside consultants, such as
12 EVA, we asked twice. We were denied the opportunity
13 to speak with the auditors. This is complete denial
14 of due process. We object.
15 MR. NOURSE: Your Honor, workpapers
16 aren't discovery, and they're routinely provided by
17 most parties, including the company, as a fundamental
18 part of filing testimony and as an upfront courtesy,
19 simply explaining calculations and the basis for
20 numbers that are in the testimony, and that is
21 certainly not discovery. In fact, the Commission's
22 rules often require that workpapers be submitted with
23 testimony with major filings, so it's not a part of
24 discovery.
25 MR. JONES: Your Honor, I'd add to those

comments. We agree with the comments made by Mr. Nourse. We have provided workpapers to IEU of Mr. Harter. So we have provided.

EXAMINER PARROT: If the subsequent workpapers are forthcoming, they will be provided to all of the parties.

Mr. Nourse, can you continue with your cross-examination at this point?

MR. NOURSE: Yes.

Q. (By Mr. Nourse) Let's talk about the FUELCAST data a little bit more, Mr. Harter.

So the FUELCAST data that you plug in to customize the AURORA model, that included heat rate information, fuel cost information, variable O&M costs and emissions by plant; is that accurate?

A. FUELCAST data is heat rate and emission rate. What were the other ones you listed?

Q. Fuel costs, variable O&M.

A. O&M was reviewed from the EPIS data. We made some adjustments, but it may not necessarily be reflected in every plant.

Q. Okay. And that was for the O&M. What about fuel costs?

A. Fuel costs is provided by unit for coal units and for gas units.

Q. Provided by EPIS or by FUELCAST?

A. FUELCAST.

Q. Okay. So the FUELCAST data included heat rate, fuel costs, and emissions.

A. That's correct.

Q. Anything else?

A. Not that comes to mind.

Q. You state on page 7 of your testimony that FUELCAST -- I'm reading from line 7 to 9 -- "FUELCAST includes delivered fuel prices by generating unit, a complete regulatory outlook, a specialized load forecast, and several other key market insights." Do you see that?

A. I do.

Q. Okay. So what's a "complete regulatory outlook"?

A. We have our allowance costs, forecast included in this model, which includes our assumptions on CSAPR, Cross State Air Pollution Rule.

Q. So it's actually CSA -- go ahead.

A. Go ahead, I'm sorry.

Q. I lost where I was. It's CSAPR. That's an environmental acronym, out of my area.

So, Mr. Harter, is it true that the FUELCAST data assumes the most economic fuel cost?

A. Most economic fuel cost? Can you expound on that?

Q. Does it update, for example, coal costs by units based on, you know, actual contracts and pricing information, or is it some sort of assumption it's the best price of coal regardless of whenever that coal actually works on an operational basis for that plants?

A. We have assumptions about the type of boiler, so, given a plant, we make assumptions what coal that boiler can take. Units are restricted to certain types of coal.

Q. Yes. And does your model reflect that the units that are restricted by coal actually may have a different price for coal than what's in the FUELCAST database?

A. That it is my understanding, the FUELCAST by unit.

Q. Okay. Is this an example where EVA obtains fuel audits from other processes and uses it in the FUELCAST database?

A. I wouldn't necessarily assert it's from fuel audits, but we could do QC on that data on what we have available.

Q. What else do you get?

A. I would have to talk to my coal team for fuel costs.

Q. So really you don't know what the data is or where it comes from?

A. I'm aware it represents EVA's expert opinion.

Q. Someone else at EVA besides yourself.

A. Correct.

MR. NOURSE: For efficiency, I'm going to hand out three exhibits at this time, your Honor, so I think we're up to 121.

EXAMINER PARROT: 122.

MR. NOURSE: 122. So I'm going to mark as AEP Exhibit 122, these are excerpts, the cover page from FERC Form-1, Columbus Southern Power 2010, Ohio Power for 2010, and Ohio Power for 2011. That's Exhibit 122.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: And then 123 will be a "Comparison of Plant Heat Rates."

And 124 -- Exhibit 124 is a "Comparison of Fuel Costs."

EXAMINER PARROT: The exhibits shall be so marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

Q. Mr. Harter, do you have the documents we just marked?

A. I do.

Q. Okay. What I'd like to do is go through -- first go through Exhibit 123, which is the comparison of plant heat rates.

A. Okay.

Q. And see the way this is set up is that the 2010 actual heat rate from the FERC Form 1 is listed here for these plants. And then this 2011 actual heat rate, which is also from the FERC Form 1 excerpt, and then there's an average, and then the 2012 staff column should match up with your workpapers.

Can you look that over, and I'd like to ask you about a couple examples here.

A. Okay.

Q. So on the heat rate sheet, let's look at Darby, and see the average for '10 and '11 is 14,668.

A. I'm seeing that as the Gavin.

Q. I'm sorry. I did look at the wrong line. It's 12,743.

A. Okay.

Q. And then your heat rate used in your

model is 9,000.

A. That's correct.

Q. Okay. So your heat rate was actually 71 percent of an average from the last two years for Darby.

MR. RANDAZZO: I object to the form of the question.

Q. Is that accurate?

EXAMINER PARROT: Overruled.

A. It seems to be.

Q. Now, would you agree with me that a higher heat rate would mean a higher cost for that unit?

A. That's correct.

Q. Okay. So in that example Darby, if we were to look at the actual heat rate, there would be a significant increase in the cost for that unit, correct?

A. That's correct.

Q. Okay. And so none of these units are overstated, correct?

A. They don't seem to be.

Q. They're all understated as compared to actual.

A. That's correct.

Q. Okay. And these are all the units you listed on your partial workpaper, correct?

A. That's correct.

Q. Okay. So all else being equal, these errors would falsely inflate the energy credit, would they not?

MR. RANDAZZO: I object to the form of the question.

EXAMINER PARROT: Overruled.

A. To a point in that the error seems to be fairly consistent, or if the error were consistent, then it may not have a large effect on the energy credit.

Remember, that it's a relative dispatching model. So if all other plants suffer from the same -- or a similar error, we will very likely have a small effect on the energy credit.

Q. Well, that's a big assumption, isn't it?

A. I would agree.

Q. You don't know that to be true, do you?

A. I cannot assert that's true.

Q. Okay. Let me ask you -- just to verify, we talked about this earlier, the heat rates that you used that are reflected on your partial workpaper were heat rates EVA used from its FUELCAST database,

correct?

A. That's correct.

Q. Okay. Turn to Exhibit 124 which is labeled "Comparison of Fuel Costs."

A. Got you.

Q. Same exercise. These actual numbers come from the FERC Form 1 excerpts I gave you. You're more than welcome to verify that. And then would you agree the 2012 staff column reflects the cost for these units that were used in your modeling?

A. I'm sorry, which column did you say?

Q. The 2012 staff column reflects the cost in your workpaper. Actually, now that I'm looking at it, Gavin, at least, doesn't seem to be right. Maybe it's an average of those two; is that correct? Do you still have your calculator?

A. Yes.

Q. Okay.

A. 13.14, yeah, that looks all right.

Q. Okay. And, likewise, the cost for Conesville Unit 4 in the column accurately reflects what is in your workpapers?

A. That would be a more difficult calculation, but it looks to be representative.

Q. And the Kammer costs, 26.61, reflects

your workpaper?

A. Again, it looks to be similar.

Q. Okay. So, again, all these are understating substantially the costs that was modeled versus the actual cost from 2010 and '11, correct?

A. They seem to be.

Q. And understated costs would also artificially inflate the energy credit, correct?

A. They would tend to.

Q. Okay. Now, on page 7 of your testimony, line 7, you refer to "FUELCAST clients." Do you see that?

A. Yes.

Q. Who are the clients you're talking about? You don't have to list them necessarily but, you know, are they merchant plants? Are they utilities?

A. I'd say more utility than merchant. We also have some private investors as well as fuel suppliers.

Q. Okay. And is AEP a client?

A. I am unaware as to whether or not AEP is a client.

Q. Okay. But client doesn't mean their data is in there; it means they buy the data from you, correct?

A. Yeah. That's my understanding.

Q. Okay. If we could talk about production costs a little bit more.

MR. NOURSE: I've got another exhibit I'd like to mark, 125.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Okay. Mr. Harter, do you have the exhibit we just marked 125?

A. I do.

Q. Now this is a compilation exhibit. You can see the source column is over there drawing upon exhibits from Dr. Pearce's testimony in this case, which you said you reviewed Dr. Pearce's testimony as part of your preparation, correct?

A. That's correct.

Q. Okay. And, by the way, the numbers that are reflected in lines 4 through 10 -- 4 through 9 are also in Exhibits KDP-3&4, as well a workpapers that are referenced there.

So, just briefly then, does this -- is it your understanding of this compilation reflecting, again, the company's costs analysis, is it fair to say that the fuel and maintenance costs all the way down to line 22, total production expenses -- I'll just refer to the $27.85 for AEP Ohio there. Do you

see what I'm talking about?

A. This is 1 through 22?

Q. Yes. It's a subtotal if you will.

A. Yes.

Q. Does that part above there reflect comparable -- forget about the level, dollar level charge. But does that reflect the categories that you reflected in your production costs in your modeling?

A. That's correct.

Q. Okay. And so below line 22, where we get into allocating overheads and purchased power, off-system revenues, you didn't necessarily reflect those categories in your production costs used in your modeling; is that correct?

A. Yeah, that's correct. That seems like a reasonable assertion.

Q. Okay. And your understanding is then from Dr. Pearce's testimony, on an AEP Ohio basis, the total energy costs were $30.73?

A. That's my understanding.

Q. That's dollars per megawatt-hour, correct?

A. It's not noted here, but that would be what I would expect.

Q. What was, if you know, what was the AEP Ohio unit cost, total energy costs that you used in your modeling, the comparable number?

A. I don't have that on hand.

Q. Can you determine that from your workpapers?

A. Probably not. I could estimate taking a straight average, but that would likely be -- you need to take a weighted average by generation. I don't have that.

Q. And that would be relative to your partial workpapers anyway, right?

A. That's correct.

Q. So we don't really know what the total energy costs are that you used in your modeling? You don't know, and we don't know; that's what you told us. Is that accurate?

A. That's accurate.

Q. Okay. Do you include emission allowances at cost or market in calculating your margins?

A. Market price.

Q. Again, that may not reflect AEP Ohio's costs in your modeling.

A. Is that your assertion?

Q. I'm asking since you used market, it

wouldn't necessarily reflect AEP's cost.

A. It's possible there could be a disconnect there.

Q. Okay. And is there any reason to believe it would be the same?

A. In an efficient market they would tend towards each other.

Q. Okay. Well, wouldn't it depend when they accumulate the allowance and when they got some as part of an allocation and other factors like that?

A. Yes.

Q. Okay. Now, was your variable O&M associated with certain FERC accounts?

A. It wasn't directly taken from any FERC account.

MR. NOURSE: Okay. You're going to find this hard to believe, I have another exhibit. It's AEP Exhibit 126.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Harter, do you have the exhibit I just marked?

A. I do.

Q. Okay. This represents, does it not, on the top half of the page, your original filed Exhibit RTH-1 and, the bottom half of the page, your revised

RTH-1.

A. It appears to.

Q. Okay. And what was added was the far right column that's outside the box, "Average Margins."

A. Correct.

Q. Okay. So that part was not reflected in your exhibits, but is a calculation derived from the information in your exhibits, correct?

A. That's correct. There's an additional -- there's a sum at the bottom, a total there. That's the only change that I noticed.

Q. So some of the totals were added in, yes. Thank you.

And the average margin, that new calculation, is simply gross margin divided by the total general regulation using your data there.

A. Seems to be.

Q. Okay. So let me first ask you relative to the -- relative to the -- let me back up here. I actually want to talk about the MLR calculation, but I think we need to first talk about your understanding of the AEP pool. I know there has been a little bit of discussion about that, but I'd like to go back to that topic.

1 So let me ask you just a few questions as
2 background to your understanding of the AEP pool, and
3 by that I mean the AEP Interconnection Agreement. Do
4 you know what I'm talking about?
5 A. I'm aware.
6 Q. Okay. And what is your understanding of
7 a capacity equalization payment under the pool?
8 A. It is my understanding that there are
9 certain AEP companies that are short capacity
10 compared to their obligation, and there are certain
11 that are long to equalize. Those that are short end
12 up making a payment to those that are long to get
13 capacity.
14 Q. What's that payment based on?
15 A. They are comparable to CP5, or the
16 coincide peak load, is my understanding. But, again,
17 this is --
18 Q. You're saying it's based on the member
19 load ratio or the MLR?
20 A. So the MLR -- you're saying the payment
21 made between the companies is based on the MLR?
22 Q. I'm asking your understanding of the
23 basis for payment, how it is derived.
24 A. I don't know if that's derived from the
25 MLR or not. We have actual data that was reflected

in Mr. Smith's -- that is not part of my testimony. We have equalization payment that is not part of my testimony.

Q. Mr. Smith incorporates, does he not, in the Ohio Power's case, the substantial capacity equalization payment that was received in 2010 as part of his cost analysis, correct?

A. That's my understanding of his analysis.

Q. Okay. But is the capacity equalization payment under the pool calculated based on cost or market or some other basis?

A. It's my understanding it's based on cost.

Q. Okay. Embedded costs?

A. That's my understanding.

Q. Okay. Now, you mentioned the MLR, member load ratio. What causes the MLR to change? How is it calculated?

A. My understanding it's based entirely on how long you are relative to your obligation at your PJM load. The actual calculation I'm -- isn't important to my analysis. I'm not familiar with it.

Q. Okay. But it's your understanding it's relative to the other members and their capacity, the relationship to their noncoincident peak to the other members? It's a relative calculation?

A. That's my understanding.

Q. Okay. Now, you had some questions earlier about how the Amos and Mitchell transfers impact the MLR and whether that changed the MLR used in your modeling. Do you recall that?

A. I do.

Q. And so as we just confirmed how the MLR is calculated. Would a generation resource availability bear upon that calculation?

A. I can't say for certain. It may. You said a "generation resource availability"?

Q. Whether it's transferred or --

A. Whether it's transferred, that probably would change the MLR.

Q. It would change the MLR; that's your testimony?

A. That's my understanding.

Q. Okay. Now, how about primary energy sales under the pool. Are you familiar with that?

A. I am not.

Q. Okay. Did you model them?

A. Talking about sales to Standard Service Offer?

Q. No. Under the pool, primary energy sales from one member to another, do you have an

1 understanding how that works under the PJM?
2 A. I don't have an explicit understanding.
3 My understanding is that they would be subject to --
4 if they're a wholesale contract, that would be
5 subject to the MLR.
6 Q. So do you have an understanding of how
7 primary energy sales charge is calculated under the
8 pool?
9 A. I don't.
10 Q. Okay. Do you know, in general, whether
11 it's market or cost?
12 A. Dr. Pearce's testimony references a
13 wholesale contract with Wheeling Power. Accordingly,
14 I would expect to have it be cost -- or rather
15 wholesale.
16 Q. You're equating the Wheeling contract
17 with primary energy sales?
18 A. Just as a baseline for my understanding.
19 Q. Is it your understanding that all the
20 energy under the pool, still under the pool here, all
21 the energy that exceeds a member's retail load would
22 be available for off-system sales?
23 A. That's the assumption that this analysis
24 makes.
25 Q. Okay. Now, let me ask you an example

1 under the pool, if you understand how the pool works.
2 If the -- let's say we were in 2013 and the Cook
3 nuclear plant that's owned by Indiana-Michigan Power
4 located in Michigan, that plant goes off line, okay.
5 Are you with me?
6 A. Yes.
7 Q. And usually when nuclear plants go off
8 line, that's not a couple days, right?
9 A. (Witness nods head.)
10 Q. Let's say it goes off line for several
11 months in 2013. Are you with me?
12 A. With you.
13 Q. And what is your understanding of how the
14 pool would work to, say, assist Indiana-Michigan
15 Power Company as a member of the pool in that
16 situation? Do you have an understanding of what
17 would happen?
18 A. My understanding is that they would
19 become relatively short or more short on capacity,
20 which would change the MLR. I'd expect that the pool
21 would have to provide electricity -- or provide
22 energy at cost.
23 Q. Okay. So, first of all, your
24 understanding is that an outage like that would
25 impact the MLR. Is that the first part of your

answer?

A. I'm saying it's possible. I don't know the specifics of the MLR calculation.

Q. Okay. And so the second part was that you expect the pool would provide energy to I & M.

A. That's correct.

Q. And in that example would the energy available for off-system sales be --

A. Be significantly affected, yes. That's correct. That's why we make an adjustment to the Amos and Mitchell plants, to remove their generation from the calculation. They have excess capacity so we remove that excess capacity from their off-system sales and retail sales.

Q. Stick with your example for a second. This Cook outage, for example -- first of all, do you have an idea of the size of Cook? It's more than 2,000 megawatts as far as the capacity of the Cook plant; is that correct?

A. That's correct; I'll take your word for it.

Q. And nuclear plants tend to run 24/7, 365 when they're running, right?

A. Yes.

Q. That's a lot of energy.

A. Understood.

Q. And so in that kind of example, the possible off-system sales would be significantly reduced for 2013 in that example, correct?

A. That's correct.

Q. Would you agree that the pool effects -- we talked about earlier, you confirm your modeling was done to reflect the real world and not an academic or theoretically efficient company or units. Do you recall that?

A. Yep.

Q. And so if -- you also stated that you and Mr. Smith have coordinated, put testimony together that works together and based on a consistent methodology and a set of assumptions. I asked you that earlier, right?

A. That's correct.

Q. So did you agree then in that context that the impacts of the pool should be applied across the board by you and Mr. Smith in a consistent manner in developing staff's position in the testimony?

A. That would be ideal.

Q. Okay. Let me now go back to Exhibit 126, if I might. It is the exhibit with RTH-1 on the top and Revised RTH-1 on the bottom.

A. Okay.

Q. Do you have it?

A. Somewhere. Yes, I have it.

Q. Okay. So with the understanding of the pool that you just explained that you have, I want you to help me understand what you've done with the MLR here in this exhibit.

And by way of background, I want to refer you to a couple passages in your testimony. The first reference is page 7, lines 18 and 19, you state, that "the portion of off-system sales revenue retained by AEP Ohio is the Member Load Ratio," correct?

A. That's correct.

Q. That's your understanding of the pool. Then on page 8, starting on line 20, you state that "The Energy Credit I propose includes all retained profits from OSS," while the credit proposed by Dr. Pearce "excludes all profits from OSS."

A. That's correct.

Q. Okay. So in line 20 there, what do you mean by "all retained profits from OSS"?

A. That is AEP Ohio's MLR's share of the OSS margins.

Q. Okay. So that's what you intended to do

in your modeling, is follow the pool and allocate off-system sales margins by MLR per the pool, correct?

A. That's the idea.

Q. Okay. In your RTH-1 exhibit, you develop the gross margin, and let's just use an example here of the top line, line No. 1, and you have May through December of 2012, Columbus Southern Power, a gross margin 2012, 33.5 million?

A. Okay.

Q. And then you have a retained margin of 33.5 million, correct?

A. This is in the unrevised?

Q. Yeah. That's fair. Let's use the revised. In the revised, line 1, 33.5 in gross margin and 33.4 in retained margin, correct?

A. Correct.

Q. Okay. And between you have 19 percent MLR, correct?

A. Correct.

Q. So how did you calculate -- using those numbers, as an example, how did you calculate the off-system sales' share of Columbus Southern Power of the gross margins?

A. That's reflected in my workpaper. So we

have Ohio CSP and Ohio Power Company, CSP and AEP Ohio's generation by hour, where that exceeds the hourly retail after switching and after removing Wheeling Power, we take that portion of their generation so we have a percentage, that is, remove that percentage of margin, adjust it for the MLR, and return it to the base retail sales.

Q. Okay. So let me clarify. First, with respect to the shopping load, you stated, I think, that you used in your modeling the current shopping load, that you've essentially deducted that from the generation that's used -- I'm sorry. I may have stated that wrong.

The 26 percent that you mentioned earlier, why don't you explain how that affected your total generation and your margin calculation?

A. It does not affect the total generation. What it will affect is the off-system sales. Off-system sales is where the hourly generation is excess of standard service all through retail load, so by increasing the SSO retail load, we've increased the amount of off-system sales.

Q. Right. So throughout the period in question, you're using 26 percent, the current shopping level, as a constant assumption?

A. Constant in time, that's correct.

Q. All right. So any increase in shopping above 26 percent would automatically be considered part of an off-system sales in your modeling?

A. It's not entirely correct. It's subject to that comparison, so that's going to change the way that it goes down. There's a continuum, but it's not directly linear. But, you're right, it will increase the amount of off-system sales.

Q. And that part would not be MLR under your approach, would it?

A. What part would not be MLR?

Q. The increased off-system sales based on any shopping above 26 percent.

A. That's not reflected in -- yeah, any increase in the switches is not reflected in these numbers.

Q. Right. So any increase in switches above 26 percent, you would not -- your modeling does not capture the fact that that increase in off-system sales would be MLR under the pool, correct?

A. If I were to make this assumption that switching increased, that would be incorporated, but that's not what the current testimony shows.

Q. Okay. Do you have any reason to believe

that shopping will remain at 26 percent if the staff's proposed capacity charge is adopted?

A. I don't make any assumption about the time series of switching.

Q. Why did you assume that 26 percent would remain constant in your modeling?

A. Because I had no alternate information to draw a new conclusion from. It could go up; it could go down.

Q. Okay. Now, is it your understanding that the nonshopping customers pay cost or market for energy costs from AEP Ohio?

A. They pay a fixed retail rate.

Q. For variable costs?

A. It's decided on a number of factors.

Q. The retail rate for fuel is what I'm asking you. Are you aware whether AEP Ohio has a fuel adjustment clause?

A. They do.

Q. Okay. So is it fair to say that customers pay -- nonshopping customers pay cost for energy?

A. No. That's a component of what they pay for energy.

Q. What else do they pay for energy?

A. There are -- there's a base generation cost. There's a fuel adjustment cost, and then some other factors that compensate Ohio for certain programs and distribution and whatnot.

Q. But focusing on energy costs, is it your understanding that the base generation charge includes energy costs?

A. The base generation? I take the cost of base generation and fuel adjustment cost.

Q. What I'm asking you is the Standard Service Offer customers, the customers that do not shop, do they pay AEP Ohio cost-based rate for energy?

A. Yes, the number is based on cost.

Q. Okay. And under your modeling, if they're shopping, then you're attributing margins to that, that shopping load, right?

A. So if a customer shops, I'm attributing margin associated with the shopping customer's load, that's correct.

MR. JONES: I don't mean to interrupt. Mr. Harter has been on the stand a couple hours. I'm wondering if we take a break at this time if this would be a good place to take a break, I assume.

MR. NOURSE: Yes, that's fine. It's not

like I'm almost finished.

EXAMINER PARROT: You're not?

MR. NOURSE: I'm not almost finished, so we might as well take a break.

MR. JONES: Your Honor, can we take a lunch break at this time?

MR. NOURSE: Your Honor, might I suggest if the workpapers, a complete set are available over lunch, that would be helpful as well.

EXAMINER PARROT: Mr. Jones, if during the break you would check on the issue of the workpapers, the Bench would appreciate that.

Let's take a ten-minute break.

(Recess taken.)

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

MR. NOURSE: Thank you, your Honor.

Q. (By Mr. Nourse) Mr. Harter, we were trying to walk through the Exhibit 126, which has your original and revised RTH-1, and discussing how you used the MLR. Do you recall that?

A. That's correct.

MR. NOURSE: I'd like to speed that along. I have an exhibit that I will mark as Exhibit 127. It's entitled "Staff Reduction in

1 Energy Credit Due to Limited Application of MLR."
2 EXAMINER PARROT: So marked.
3 (EXHIBIT MARKED FOR IDENTIFICATION.)
4 Q. Mr. Harter, do you have the document we
5 just marked Exhibit 127?
6 A. I do.
7 Q. Okay. And the source, your revised
8 RTH-1, correct, that's the stated source?
9 A. That's the stated source.
10 Q. Okay. If you look at the gross margin
11 total, the 1.35 billion, does that match up to your
12 exhibit?
13 A. That looks to be correct.
14 Q. And the retained margin of 1.334 billion
15 comes from your revised exhibit?
16 A. That seems to be the case.
17 Q. In translating into megawatt-day dollars,
18 we have gross margin of 129.61 and retained margin of
19 127.38.
20 A. It seems fair.
21 Q. And that matches up with the AEP Ohio
22 data on your revised exhibit, correct?
23 A. The 129.61 isn't reflected on my sheet.
24 It looks to be right.
25 Q. Okay. That's why I said it if matches

1 up.
2 A. Right.
3 Q. It's just a different presentation of the
4 same data, right?
5 A. Yes.
6 Q. And would you agree that the difference
7 below in the box circled there indicates a difference
8 of $2.23?
9 A. Yes.
10 Q. And that's the difference between gross
11 and retained margins, correct?
12 A. I'm sorry, I'm revisiting this. The
13 $2.23, what is that the difference between?
14 Q. 129.61 and 127.38.
15 A. Yes.
16 Q. So expressed as a percentage of gross,
17 this suggests that your Exhibit RTH-1 retains
18 98.3 percent of the margin, correct?
19 A. That's correct.
20 Q. Okay. So it's really not -- in terms of
21 what you're attributing to being retained versus
22 passed on through the pool of off-system sales
23 margins, it doesn't match up with AEP Ohio's MLR,
24 does it?
25 A. No. The 1.7 percent here does not match

1 the 40 percent of the MLR ratio.
2 Q. So, in fact, under your analysis then
3 that you present on revised Exhibit RTH-1, you are
4 not retaining only the MLR share for AEP Ohio's
5 40 percent MLR from the off-system sales generated,
6 are you?
7 A. We are retaining the 40 percent from the
8 off-system sales. Retail sales we retain the entire
9 margin.
10 Q. Okay. And for the retail sales, the
11 nonshopping load, is that what you mean?
12 A. That's correct.
13 Q. And your model assumes that there's a
14 margin based on a market price for the nonshopping
15 load?
16 A. It assumes that the LMP approximates the
17 retail price.
18 Q. And you are assuming there a margin
19 retained based on the market price in your
20 nonshopping model, correct?
21 A. It assumes that the retail price paid is
22 in excess of the cost of generating electricity.
23 Q. Well, not only is it in excess of the
24 cost, but based on a market, the cost, Delta,
25 correct?

A. I'm not saying that. I'm just saying that they're correlated. I'm not saying that explicitly.

Q. But how did you calculate the margin retained, that you're imputing a margin for the nonshopping customers?

A. That is a market margin.

Q. Okay. That's your modeling, even though the FAC is a cost-based passthrough charge for nonshopping customers?

A. Yes. Despite the FAC being a cost-based charge, we expect the retail rate base to be in excess of the costs.

Q. Based on the same margin that you're using from a forward-energy-price model; is that what you're doing?

A. It does depend on the forward energy price -- it's not a forward energy price. It's a forward LMP, which is different.

Q. It's different from what?

A. Than a forward price.

Q. You're saying you used different energy prices to produce the margin that you're imputing for nonshopping versus the margin you're imputing for off-system sales?

A. No. I'm saying that the assertion that the price that I'm using is the same as a forward price. It's a forecasted LMP.

Q. I want you to refer to your workpaper where you have the AEP zone price.

One second. We have to determine -- Exhibit 118.

Okay. You have a page called -- okay, yeah. We did this before. We didn't mark this exhibit, but we incorporated the data into Exhibit 118, which is the middle column. It's the S&L Energy Dayton hub pricing we used earlier.

A. Okay.

Q. And the middle column reflects your AEP zone price from your workpaper, correct?

A. Yes, the middle column reflects the AEP zone price.

Q. Are you saying these rates projected in the ATC prices on the right-hand margin for AEP Dayton hub reflect what you would expect the retail rates for nonshopping customers to be?

A. No. I'm saying the model assumes the AEP zone price would be reflective of what the retail rate would be.

Q. Okay. So the AEP zone price starts at

$30 and goes up to 41?

A. That is correct.

Q. You're expecting the nonshopping rates to track that, increase over the next couple years?

A. That's the assumption.

Q. Okay.

A. I expect the retail rates to be constant, but I expect them to be at least comparable.

Q. What do you mean by "constant"?

A. Well, the retail rates are set for the current period.

Q. That's a 25 percent increase that is shown in the AEP zone price over the current period, isn't it?

A. It could be.

Q. Well, you're looking at it. Can you tell me whether it is?

A. 30 to 41, that's in excess of 25 percent.

Q. And your expectation is that the nonshopping retail rates will go up by the same amount? That's your assumption?

A. At a basic level. The assumption is valid so long as the retail rates are in excess of that. So, for instance, if the retail rate is already above $40, it doesn't matter to my analysis.

Q. But you don't know that, whether it is true or not.

A. Well, when comparing to the base general regulation costs, plus the FOC presented by Roush in the ESP case, the retail rates between 5-and-a-half and 6 cents would equate to 55 or 60 dollars.

Q. Okay. Is the rate you're showing for zone price, that's an energy rate, isn't it?

A. The zonal price?

Q. Yes.

A. That's the LMP.

Q. And that's the energy price, correct?

A. That's correct.

Q. An energy price?

A. Energy price.

Q. Does it have capacity costs recovered in the LMP?

A. Many asset owners recover some of their capacity investment through the energy price.

Q. Is that how the PJM market is designed, to recover capacity costs in the LMP?

MR. RANDAZZO: I object, no foundation. This witness indicated he wasn't an expert in the PJM market.

EXAMINER PARROT: Overruled.

A. It is not a specific part of the structure of the LMP, but the capacity market operates such that that assumption is implicit.

Q. By capacity market are you referring to the RPM market in PJM?

A. Yes.

Q. Okay. So let's return to Exhibit 126. That's the two versions of RTH-1.

A. Okay.

Q. So in your -- if you look at the original versions and the revised, the total gross margin went down. Can you explain that?

A. Yes. Total gross margin.

Q. We're talking about line 15 versus line 15 in column B?

A. Uh-huh. We removed Mitchell from this calculation, as stated at the beginning of my testimony; accordingly, the gross margin decreases.

Q. That's it? That's the explanation?

A. Yes. That's the reason the gross margin dropped between the revisions.

Q. Okay. And why did the OSS go up?

A. Because there was a decrease in the retail load, so, as noted, we removed Wheeling Power and provided some assumption for switching as

1 recommended by -- AEP revised the numbers to reflect
2 the removal of Wheeling Power and then advised that
3 it created no assumption for switching. So by
4 reducing the retail load, the OSS increased.
5 Q. Do you know if there's an obligation to
6 serve the Wheeling load?
7 A. As to my understanding from Dr. Pearce's
8 testimony, there's a firm wholesale contract in
9 place.
10 Q. So would that suggest, under your
11 adjustments, it would be correct that the off-system
12 sales would increase?
13 A. That the off-system sales would increase?
14 Oh, it's the assumption that the numbers originally
15 provided included only the Standard Service Offer
16 load. So the unrevised numbers reflect Wheeling as
17 an on-system sale.
18 Q. Is Wheeling a market-based contract?
19 A. As to my understanding from Dr. Pearce's
20 testimony, it's a wholesale contract, which would
21 imply market base.
22 Q. Do you know whether that's based on
23 cost-based formula similar to one being proposed by
24 the company in this case?
25 A. Again, all I know is what Dr. Pearce

1 testified to.
2 Q. And you're saying he testified it's
3 market rate?
4 A. He testified that it was a wholesale
5 contract.
6 Q. And you're jumping to the conclusion it's
7 a market rate, correct?
8 A. My understanding, a wholesale contract
9 one is done under the market price or a wholesale
10 price.
11 Q. Are you aware that that wholesale price
12 is based on cost-based-formula rates like the one
13 being proposed in this case by the company?
14 A. I saw no reason to assume that.
15 Q. Are you aware or are you not aware of
16 that?
17 A. I have not heard of one.
18 Q. Okay.
19 A. Doesn't mean it can't exist.
20 Q. So let me clarify something you said
21 before. Your modeling assumes 26 percent shopping,
22 correct?
23 A. (Witness nods head.)
24 Q. I know you nodded your head, but if you
25 can give an answer.

A. That's affirmative, sorry.

Q. So is it true, under your model all the -- any shopping above 26 percent you would not account for, so that the off-system sales margins would be overstated if there is any shopping beyond 26 percent, correct?

A. That's correct.

Q. So those off-system sales would not be MLR'ed for the pool; they would just be imputed back for what you're calling retained margin.

A. That's correct.

Q. Okay. You said earlier you only ran AURORA once. So why do the margins go up between the original and the revised RTH-1?

A. The margins decrease between the original and the revised.

Q. On a dollar per megawatt-hour basis?

A. Oh, by removing Mitchell we must have biased the margin per megawatt-hour differently.

Q. You "must have biased the margin"? Is that what you said?

A. "Bias" is the wrong word. Mitchell could have a margin that is not represented -- or is different than the average, and by removing that, you're going to shift the average one way or the

other.

Q. So you changed data that was used to run the original model without rerunning the model; is that true?

A. It's the aggregation is different.

Q. Okay. Well, aggregation maybe has a different meaning around here, but that's fine. We'll move on.

Do you have the company's testimony with you on the stand?

A. I do not.

MR. NOURSE: Counsel, I'm providing Exhibit AEP 5 from Kelly Pearce's testimony.

Q. Have you seen this before?

A. I have.

Q. Let me get to it in my copy.

Okay. Now, you see at the bottom of the page of Dr. Pearce's testimony, under margin, there's a Columbus Southern Power margin of $5.56; do you see that?

A. I do.

Q. For 2010. And there's a $5.69 margin for OPCo for 2010?

A. I see that.

Q. Do you have any reason to disagree with

Dr. Pearce's actual calculation for actual margins in 2010?

A. Actual margin? My numbers are going to be -- they approximate a different number than what's calculated higher. The margins that are included in -- I don't know the exhibit number, but the one that has the revised and unrevised RTH-1.

Q. Uh-huh.

A. The margins calculated here are the receipt margins of the plants, which will likely be biased upwards. This is based on the load curve, which is going to be a different shape than that of the generation.

Q. Yes. We can get to that. We can get to that. So let me ask you, on your RTH-1 you show a total margin for Ohio Power of $15.28 per megawatt-hour; is that correct?

A. Yes.

Q. Okay. So did that -- do you have any reason to believe that Ohio Power has experienced that kind of a margin?

A. Not for the entirety of their load. Like I said, the statistics are different numbers.

Q. Okay. But this is a company total for this whole time period, an average, right?

A. Right. This is an average for the load serviced minus the average for the generation provided.

Q. And is it your belief that your model accurately projects a margin for Ohio Power of $15.28? Do you think that's actually going to happen?

A. Its generating units, that's what I'm saying.

Q. And do you have any historical data that it would be of that magnitude to support your projection?

A. There is -- I'm not aware of any actual historical data that can validate or invalidate that.

Q. Well, we just looked at the 2010 data.

A. Like I said, they're different numbers.

Q. Are you saying reconciling the $5 is going to make it $15?

A. I'm saying that, yes.

Q. Walk me through that, why don't you. Tell me how you do that.

A. Do you have the --

Q. Do you still have KDP-5?

A. Right.

Q. We walked through earlier the fuel cost,

1 Exhibit 125, from Dr. Pearce's testimony. It shows
2 the cost. These margins on KDP-5 are based on the
3 cost from the actual realized revenue in 2010. Tell
4 me how you would reconcile the $5 with the $15.
5 A. I would need an hourly plant generation,
6 as well as the hourly LMP receipt for that
7 generation.
8 Q. Are you saying you can't do the
9 explanation I asked you for?
10 A. Not on the fly with the data here. The
11 numbers are too different to adjust.
12 Q. They are, aren't they? Okay.
13 Let me ask you to go to another document
14 I'm going to hand out here.
15 MR. NOURSE: Your Honor, I'd like to mark
16 as AEP Exhibit 128, additional workpapers.
17 EXAMINER PARROT: So marked.
18 (EXHIBIT MARKED FOR IDENTIFICATION.)
19 Q. Mr. Harter, do you have the document we
20 just marked as Exhibit 128?
21 A. Yes.
22 Q. These are your workpapers right, aren't
23 they?
24 A. Looks like it.
25 Q. Okay. Now, is it accurate that this is

a -- excuse me. It's a one day of data from a large workpaper which you had in connection with your revised testimony.

A. Yes. This is a small portion of a fairly large spreadsheet.

Q. Okay. So can you just walk us through what this presents?

A. Sure. Let me find it here. So this -- this provides the calculation that creates the retained margin. So we start with AEP's projected retail load which was provided by AEP Ohio. These numbers reflect the revised numbers, I believe, which include a 26 percent shopping and do not include Wheeling Power's demand.

We then compare that to projected generation for Columbus Southern and Ohio Power. The estimated OSS column is zero when the projected generation is less than the retail load and is the difference when the projected generation is in excess of the retail load. The OSS percentage is then the estimated OSS divided by the total generation.

Q. So, again, this confirms that you're attributing a market-based margin to the nonshopping load, correct?

A. To the nonshopping load? That's correct.

Q. Okay. Let me, just a housekeeping matter, if you look at page 9 of your testimony, there's a bullet point that starts on line 16; do you see that?

A. Yes.

Q. Does this paragraph or this point that you're making still apply in light of your revisions of the Wheeling load?

A. Yes, it does. The adjustment made for Wheeling load makes any margins earned from that demand MLR. We do not specifically retain or remove any portion of the margin that's related to that.

Q. So the margins associated with the Wheeling contract MLR'ed for under the pool?

A. Correct.

Q. That's what your understanding is under the pool, correct?

A. That's what the modeling does. That's what the model assumes.

Q. And your model, as you stated earlier, is intended to reflect the real-world operation of the pool, correct?

A. That's correct.

Q. And so it's your understanding that the pool would MLR the margins that you felt were under

the Wheeling contract, correct?

A. I made no explicit finding on that, but that is the assumption.

Q. Okay. I'll take you back to the $5 average margin for Ohio Power we discussed from KDP-5 versus your $15 average for Ohio Power in revised RTH-1. Do you recall that discussion?

A. I do.

Q. Okay. Wouldn't a load shape correlate more closely to market prices than a fleet of baseload generation units would?

A. Say that once more.

Q. What would correlate the market prices more generally, a load shape or a fleet of baseload generation units?

A. I wouldn't be able to make any assertion.

Q. Okay. Well, is a baseload fleet of coal units, are they going to run pretty much all the time?

A. Fairly consistently.

Q. Okay. And is that -- is the forward market price reflected by -- does it correlate to that, in other words, a coal fleet, a baseload coal fleet, or would the market correlate more to the actual load shape?

A. Market price would likely correlate more closely to load shape, given that the base fleet is a baseload fleet.

Q. Okay.

MR. NOURSE: Your Honor, I'd like to inquire about the workpapers and certainly we would like to review those before we conclude cross-examination.

EXAMINER PARROT: Mr. Jones.

MR. JONES: Your Honor, we were going to get that over the lunch break. It's going to take about a half hour to get so Mr. Harter can focus on retrieving them.

MR. NOURSE: So it is 1:30, your Honor. That might be a little early for your preference on lunch, but it might be a good time to break.

EXAMINER PARROT: Mr. Jones, I want to make sure I understood you correctly. It will take a half an hour to provide the workpapers to the other parties; is that what you're representing?

MR. JONES: My understanding is to -- yes, a half hour, maybe a little bit better, to get those workpapers, your Honor.

MR. RANDAZZO: To get them or distribute them?

MR. JONES: To get them.

EXAMINER SEE: Can we get a total on obtaining and distributing?

MR. JONES: I'm saying within an hour, give us an hour to get them and distribute them.

MR. NOURSE: You're going to distribute them in paper form since we don't have our printers with us? Is that what you meant by "distribute"?

MR. JONES: Your Honor, we can't figure it out right here on the fly.

EXAMINER PARROT: Let's go off the record.

(Discussion off record.)

EXAMINER PARROT: Back on the record. At this point I believe we will take a 30-minute break for lunch, during which time staff should obtain the workpapers in question and provide them to the rest of the parties.

When we resume, we will pick up with Mr. Smith, and then, at some point during the day, we will hopefully return to Mr. Harter.

(Off the record.)

(At 1:36 p.m. a lunch recess was taken until 2:20 p.m.)

EXAMINER SEE: Back on the record. We

are going to shift to staff witness Smith.

MR. JONES: Thank you, your Honor. Staff would call Ralph Smith to the stand.

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RALPH C. SMITH

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

DIRECT EXAMINATION

By Mr. Jones:

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

A. My name is Ralph Smith.

Q. Where are you employed?

A. I'm employed as a Senior Regulatory analyst with Larkin & Associates, PERLC.

Q. And what is your job duties and responsibilities at Larkin & Associates?

A. Generally, I supervise regulatory engagements for clients, which are primarily commission staffs and intervenors in utility regulatory proceedings, and present testimony when needed.

Q. And, Mr. Smith, are you a consultant under contract with the Commission to testify on behalf of staff in this proceeding?

A. Yes.

Q. And do you see before you the document that's marked as Staff Exhibit 103?

A. Yes, I do.

Q. Would you please identify that document for the record, please?

A. That's my direct testimony that was filed in this case on April 17.

MR. JONES: Your Honor, for purposes of identification I want to mark, for the record, Staff Exhibit 103, which is the direct testimony of Ralph C. Smith filed on April 16, 2012 on behalf of staff of the Public Utilities Commission of Ohio.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. JONES: Your Honor, I'd also like to have marked for identification the errata to the prefiled testimony of Ralph C. Smith filed April 16, 2012 as Staff Exhibit 104.

EXAMINER SEE: The errata sheet is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. JONES: Thank you.

Q. Mr. Smith, were Staff Exhibits 103 and 104 prepared by you or at your direction?

A. Yes, they were.

Q. And concerning Staff Exhibit 103, have you made any corrections to this testimony?

A. Yes, I have. I made some corrections which were on an errata sheet that looks like it's been marked as Staff Exhibit 104, and I also have two additional corrections beyond the ones listed on the errata sheet.

Q. What is the reason for those things being made that comprise Staff Exhibit 104?

A. The ones on 104 are basically my incorporating certain changes that were made by staff witness Ryan Harter.

Q. If I were to ask you the same questions that are contained in Staff Exhibit 103 as modified by Staff Exhibit 104, would your answers be the same?

A. Yes, they would, with the exception of the two other minor corrections I'd like to make.

Q. I'm sorry. You have some other corrections to make. Would you please point those out for the record, please?

A. Sure. The first question is on page 6, line 19, and the word "four" should be changed to the word "three."

Q. Any other changes?

A. Yes. The second change is on page 36, on line 8, starting with the words "is attached," that should be stricken through the word "guidance" on line 9, so that, as corrected, the section should read "that FERC regulatory accounting guidance on uncertain taxes...provides as follows:"

Q. Okay. Any other changes?

A. No; those are the only ones I'm aware of.

MR. JONES: Your Honor, at this time I'd like to offer Mr. Smith for cross-examination.

MS. KERN: Your Honor, OCC has a motion to strike on page 13, 2 sentences, beginning on line 15, and concluding on line 18, beginning with the words "They were part of a stipulation," and concluding on line 18 with "respectively."

And the grounds for OCC's motion is that the stipulation in Case 11-351 contains a provision on paragraph -- in paragraph 14 -- page 14, paragraph B, which precludes any signatory party from citing to the Stipulation as precedent, so we respectfully ask that you strike that.

MR. JONES: Your Honor, if I may speak to that.

EXAMINER SEE: Yes.

MR. JONES: It's making reference to the

fact there was a stipulation in the rate cases. It's not divulging any of the terms and conditions made between the parties.

MR. PRITCHARD: IEU-Ohio would also join OCC's motion to strike.

EXAMINER SEE: Is that your only motion to strike?

MS. KERN: Yes.

EXAMINER SEE: The motion to strike that portion of Mr. Smith's testimony is granted.

Do you have any questions for this witness, Ms. Kern?

MS. KERN: No questions.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions. Thank you, your Honor.

EXAMINER SEE: Ms. Kyler?

MS. KYLER: I have no questions, your Honor.

EXAMINER SEE: Mr. Pritchard?

MR. PRITCHARD: Yes, your Honor.

EXAMINER SEE: Go ahead.

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CROSS-EXAMINATION

By Mr. Pritchard:

Q. Good morning, Mr. Smith. My name is Matt Pritchard. I'm here on behalf of the Industrial Energy Users of Ohio. I have a few questions for you. If you don't hear me or don't understand the question, please let me know.

A. Will do.

Q. I would like to start with page 8 of your testimony. You indicate that you are testifying on behalf of the Public Utilities Commission of Ohio. Was your work supervised by any members of the staff or were you otherwise under the direction and control of any PUCO staff members?

MR. JONES: Excuse me, what line are you on?

MR. PRITCHARD: Lines 5 and 6.

A. I wouldn't say we were necessarily under the supervision of anybody, but we were, again, coordinating with staff, and staff was facilitating our information-gathering.

Q. Now, on page 8, you respond to questions about the result of your analysis, whether your testimony comprehensively addresses all concerns that may exist with respect to Ohio Power and Columbus Southern Power's proposal to increase capacity charges.

1 Am I correct that you either -- neither
2 you or Mr. Harter were retained to address all of the
3 concerns that may exist with respect to Ohio Power's
4 or Columbus Southern Power's proposal to increase
5 capacity charges?
6 A. I think that's a fair statement.
7 Q. You state, on page 4, you rely in your
8 testimony on statements provided by Mr. Harter.
9 A. Yes. The inputs I relied upon of
10 Mr. Harter were the energy credit and the ancillary
11 credit services.
12 Q. Along the same lines as the corrections
13 you made in your errata sheet for flow-through of
14 Mr. Harter's correction, if there were errors in
15 Mr. Harter's analysis, they would flow through to
16 your ultimate conclusion; is that correct?
17 A. They would flow through to the ultimate
18 ended capacity rate that I calculated because I did
19 use his numbers in addition to my own.
20 Q. And turning to page 6 of your testimony,
21 you mention you were contracted by the PUCO on
22 May 21, 2012.
23 A. March 21.
24 Q. Sorry, March 21, 2012. Are you aware
25 that in the contract, the contract was signed by one

of the PUCO's commissioners?

A. Am I aware who exactly signed it? I did see it. I did sign it, but I'm not sure of all the other parties who signed it.

Q. Thank you. And you've indicated that the contract was signed on March 21, 2012, which was a few days prior to the testimony being filed by AEP Ohio in this proceeding. Could you explain when you started work on your assignment from the PUCO?

A. Pretty much immediately.

Q. Was it prior to March 21 or afterwards?

A. Well, the actual contract work started after the contract was signed. Prior to that we had had some discussions to try to understand some of the issues and the scope of what's being requested.

Q. But as far as the quantitative analysis, that would have started after the contract was signed.

A. The quantitative analysis, in earnest, started after the contract was signed. Before that, it was just preliminary discussions, and we needed some stuff to try to get a general understanding what the main issues were we were being asked to address.

Q. And once you started the quantitative analysis up to the time frame when you filed -- or

you submitted to staff members to file, can you explain about how many hours and over what span of time you worked on your assignment for the PUCO staff?

A. I think the contract was signed relatively late in the day, and we were still in Columbus. Upon getting back into the office the next day, we dug right in, worked diligently pretty much continuously. There was some work done on the project just about every day by multiple people, so it was a very concentrated effort.

Q. And now, turning to page 14 of your testimony, for example, at line 11, you reference "Company" here, and throughout your testimony there's references to "Columbus Southern Power," to "Ohio Power," and I believe also to "AEP Ohio."

Are you referring -- when you refer to the companies, are you referring to them in their electric distribution utility function, or are you looking at the companies on a total company basis that would include generation, transmission, and distribution functions?

MR. JONES: I need clarification.

A. I think it depends on the context in which the discussion occurs. I think generally we

1 would refer to Columbus Southern and Ohio Power
2 collectively as "the companies." Depending on the
3 particular discussion, we maybe refer to AEP as "the
4 company" if it was, you know, a matter that pertained
5 to AEP, so it depends on the individual context.
6 Q. I think I was a little unclear in my
7 question. I'm looking more for whether referring to
8 AEP Ohio or AEP, if we were referring to AEP Ohio
9 distribution companies, are you looking at them only
10 as a distribution company, or are you looking at them
11 as it relates to their distribution, transmission,
12 and generation functions on a combined basis?
13 A. For this project we were looking at total
14 numbers, and we were specifically concerned about the
15 generation capacity-related costs. So we looked at
16 total numbers, which in some cases include the whole
17 company. In virtually all cases they would.
18 Then we looked at allocations into the
19 generation function, and then within the generation
20 function, the allocation to demand, which is what the
21 basis of the capacity charges are derived from.
22 Q. Would it be fair to classify, since you
23 are looking and referring to AEP Ohio and their
24 generation function, that you're looking at this more
25 in the context of a vertically-integrated company as

it would relate to traditional cost-based regulation?

A. For my part, which focused -- I started with the FERC 1 data for 2010. Those are total numbers. And we were trying to determine a cost for capacity, so a subset of those numbers relates to capacity. Another subset of numbers relates to distribution. Another set relate to general administrative functions, which are, in part, allocated to capacity.

For the most part, we didn't do anything with the distribution-related numbers. I did make reference to the orders and the staff reports in the recent CSP and Ohio Power distribution rate cases because I thought that provided us some good background on the regulatory framework and the typical types of adjustments to the starting point book data that are typically made in rate cases before the Ohio PUCO.

Q. As you were looking at the generation function mainly, would your analysis of how you prepared your testimony for today, is it similar to how you would approach a vertically-integrated company under traditional ratemaking?

A. Well, traditional ratemaking, I think as you may be speaking of it as a vertically-integrated

1 company, would include generation, distribution, and
2 transmission.
3 What we are seeing more and more these
4 days is transmission is dealt with separately. It is
5 either considered FERC regulated or dealt with in a
6 separate rider. What we are seeing in some
7 vertically-integrated companies, they have a
8 distribution function and a generation function, and
9 if we are involved in a rate case that involves both
10 of those functions and we deal with both of those
11 sets of numbers.
12 Here the distribution revenue requirement
13 has been dealt with separately, in separate rate
14 cases. What we were primarily focused on was the
15 generation capacity related costs.
16 Q. And turning your attention to page 8,
17 your response to question 13, would it be fair to say
18 that neither you, nor Mr. Harter, are suggesting that
19 an embedded cost-based methodology is superior to
20 some other methodology, or that an embedded cost
21 methodology should be used by the Commission to
22 establish the price paid by CRES suppliers serving
23 retail customers in distribution areas of Ohio Power
24 and Columbus Southern Power?
25 A. Yeah. I don't think we're necessarily

1 endorsing a particular method. We were asked to
2 calculate a capacity rate, and that's what we did.
3 We're not, I guess, offering an opinion whether an
4 embedded cost model should be used or some kind of
5 forecast for cost model.
6 Q. So would it be fair to classify -- I
7 think in your testimony you say that you start with
8 Dr. Pearce's Exhibits KDP-3, KDP-4. Would it be fair
9 to say the purpose of your testimony is to illustrate
10 the methodological defects and the consequences of
11 the defects in the formula model proposed by Ohio
12 Power?
13 A. No, I'm not sure I would agree with that.
14 That it is not how I would put it. I think, for
15 example, Dr. Pearce started with FERC Form 1 numbers.
16 I think that can be a good starting point. The
17 company didn't make hardly any adjustments to those
18 numbers, and I think to use those numbers in a
19 ratemaking context, you have to look for things like
20 unusual costs, is the item, the particular item,
21 allowed for ratemaking purposes or not, and that's
22 what we've tried to do, is adjust those numbers to
23 derive a capacity rate that would be fair and
24 reasonable.
25 Q. Now, could you turn your attention to

page 10, line 6? You indicate there that you relied on Excel files that Dr. Pearce used to produce his Exhibits KDP-3 and KDP-4. Have you provided those Excel files as part of your testimony here today?

A. I provided the calculations that we made off them, and one of the Excel files we provided, I think, was for Ohio Power. My calculations are built on top of Dr. Pearce's calculations, so all his are included in there for Columbus Southern.

We felt we really didn't need all that extra stuff because all the other parties had -- all the other parties had already received that in response to discovery. So the Columbus Southern Excel file was a bit smaller and just contained our particular calculations.

Q. I'd like to turn your attention to page 12 and 13, where you reference the staff reports, and you also briefly reference them in your testimony here a bit earlier. Did you get a chance to review any part of those staff reports?

A. Yes, we reviewed those, the staff reports in the distribution rate cases.

Q. Do you happen to have a copy of the staff reports with you?

A. I believe I have one; but for the both,

they are over in my bag.

Q. That's fine if you have one. Could you direct your attention to page --

A. Do you want me to go get it?

Q. If you would.

A. I have one for Columbus Southern dated September 16, 2011.

Q. Is it correct to say Case No. 11-351-EL-AIR?

A. Yes, you are.

Q. Would you turn your attention to page ii. It should be about the second or third page into this whole report.

A. Is there an actual page on there?

Q. It's two little i's. It's at the very beginning right after the cover page.

A. Okay. I think I'm there.

Q. Do you see the reference to, in the very first line of the text, to the Ohio Revised Code section 4909.19?

A. Yes.

Q. Are you aware that this section of the Revised Code requires the staff to issue a report of investigation anytime a public utility files an application to increase rates?

A. I'm not -- I haven't been aware of that particular provision in that code section.

Q. Are you aware that beyond that particular section of the code requiring a staff investigation, that Ohio law has extensive requirements governing an application of a public utility seeking an increase in rates?

A. I think I'm generally aware of some of the provisions, but, you know, that's what we have staff lawyers for, to guide us on the legal angles.

MR. JONES: I object, your Honor, to this line of questioning; asking for a legal opinion here as to Ohio state statutes.

MR. PRITCHARD: Your Honor, if I may?

EXAMINER SEE: Yes.

MR. PRITCHARD: I'm not seeking a legal opinion. I'm asking if the witness is aware there are these sections of the Revised Code that require certain findings in a rate case. I'm not asking him whether or not -- I'm not asking his legal opinion about any of these sections.

EXAMINER SEE: With that clarification, the witness can answer the questions.

A. Okay. I've read certain sections of code as they've come up with our various assignments, but

I certainly haven't memorized it and, you know, I'm assuming on this project, if there was a legal requirement to do something, the attorneys would have told us about it, and I think they have told us about various things.

Q. For example, you cite on page 14 of your testimony, section 4905.15 that deals with the treatment of CWIP.

A. Right. Right. We asked for guidance; they pointed us to where the guidance was for certain issues.

Q. Could you define for the record what "CWIP" stands for?

A. "Construction work in progress."

Q. And I'll ask you a series of questions and, again, I'm not asking for your legal opinion. Are you aware that Section 4909.18 Revised Code requires the public utility requesting an increase in rates to file, along with its application, a report of property used and useful in rendering the services referred to in the application as provided in Section 4909.05 of the Revised Code?

A. I didn't review that particular provision in conjunction with our work in this case.

MR. JONES: Your Honor, I have to object

to this line of questions and what its relevance is to this case.

MR. PRITCHARD: Your Honor, if I may?

EXAMINER SEE: You can respond.

MR. PRITCHARD: The witness cited 4909.15 as one of the two bases he uses to remove CWIP from what was in Dr. Pearce's calculations; and, furthermore, the overall structure of Mr. Smith's testimony closely mirrors what the staff would do in an application to increase rates that was filed under 4909.

I just am going to run through some various requirements of that statutory section and see if Dr. Smith -- or Mr. Smith has addressed them in his testimony. If he hasn't, I'll just move on and run through the list. That's all I'm looking for, your Honor.

MR. JONES: Your Honor, I think he's jumping on 4909.15 and 4909.18.

MR. PRITCHARD: That's correct, I'm going to run through some of the requirements of Chapter 4909.

MR. JONES: That's not covered by the testimony. That's not relevant.

MR. PRITCHARD: Would you --

EXAMINER SEE: Wait just a minute.

MR. PRITCHARD: Yes, your Honor.

EXAMINER SEE: Were you going to respond further, Mr. Jones?

MR. JONES: As to the relevance of this line of questioning and going through a hundred questions on 4909.18, and clearly Mr. Smith has not cited that in his testimony or referred to it, and plus as to, you know, what staff would do under 4909.18, it calls for speculation.

EXAMINER SEE: You are going to reply, Mr. Pritchard?

MR. PRITCHARD: Yes. If staff is willing to stipulate his testimony is not a staff report of investigation as required by 4909 of the Revised Code, the process that would follow, I can eliminate a lot of my questions. I was just going to run through and see if his testimony could be classified as a staff report.

EXAMINER SEE: Mr. Jones?

MR. JONES: The record is clear this is not a staff report of investigation pursuant to 4909.18. There's no foundation for the question.

EXAMINER SEE: The objection is overruled.

1 Continue with your questioning,
2 Mr. Pritchard.
3 MR. PRITCHARD: Yes, your Honor.
4 Would you read that question back to the
5 witness?
6 (Record read.)
7 EXAMINER SEE: The question was answered.
8 Go ahead.
9 Q. (By Mr. Pritchard) So in your testimony,
10 am I correct you have not identified and reported the
11 original costs of each parcel, of land owned in fee
12 and in use by AEP Ohio to provide capacity generation
13 service to CRES suppliers?
14 A. Have I identified that in my testimony?
15 No, I think that's identified, at least in part, in
16 the FERC Form 1, which was our starting point for the
17 numbers, but I didn't reproduce the entire Form 1 in
18 my testimony.
19 Q. And in your testimony have you identified
20 and reported on the actual acquisition cost of
21 right-of-ways or other land held by AEP Ohio for
22 purposes of providing generation capacity through
23 this?
24 MR. JONES: Your Honor, I would like a
25 continuing objection.

EXAMINER SEE: Okay, it's noted.

You can answer the question, Mr. Smith.

A. I think, again, a lot of the information is reported in the Form 1 which was the starting point for the numbers, but I didn't specifically reproduce pages out of the Form 1. But we did use Form 1 data as the starting point, and we did look at Form 1 quite a bit and paid quite a bit of attention to that.

Q. In your testimony did you identify and report the original cost of all other kinds and classes of property, used and useful as of the date certain, in the rendition of generation capacity service to CRES suppliers providing generation supply service to retail customers located in the distribution service of -- sorry -- distribution service areas of Ohio Power and Columbus Southern Power?

A. Not unless that big phrase that you just spewed out, which I'm not sure I followed, if that corresponds to the generating capacity plant in the generation capacity demand rate base, if that big phrase you just spewed out is essentially another term for generation and capacity demand related base rate.

In other words, plant service related to the generation demand function, we do have that number in our exhibits, and it's available in more detail in Dr. Pearce's exhibits. If you meant something other than that, the number you're looking for probably is not there.

Q. As far as what you pulled from Dr. Pearce's testimony, did you undertake any review of the accuracy of those numbers, or did you rely on those numbers from Dr. Pearce's testimony that might have also been in the FERC Form 1s?

A. We did verify numbers to the FERC Form 1.

Q. But as far as conducting any sort of audit of the company's books to verify the accuracy of what was in the FERC Form 1s, you didn't undertake that step?

A. We did not undertake an independent audit of the FERC Form 1. The company has another firm that does that.

MR. PRITCHARD: Thank you.

If I could have one minute, your Honor?

EXAMINER SEE: Yes.

MR. PRITCHARD: I have no further questions, your Honor.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: I have a couple questions.

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CROSS-EXAMINATION

By Ms. Kingery:

Q. My name is Jeanne Kingery on behalf of Duke Energy Resale as Duke Energy Management. On page 6 of your testimony, you indicated you were contracted by the PUCO "to compute a capacity rate," correct?

A. Yes.

Q. But your contract was through Commission staff, was it not?

A. Again, I have to look at who exactly signed the contract.

Q. Are you testifying today on behalf of staff?

A. Yes.

Q. As opposed -- you're not testifying on behalf of the commissioners.

A. No, I'm testifying on behalf of the staff.

Q. Fine. Just wanted to clarify that.

Your understanding is that electric generation service in Ohio is deregulated and has been since 2001, correct?

A. I don't know if I -- I mean, it's been at least partially deregulated. I don't know if I'd consider it totally deregulated.

Q. All right. Semi-deregulated.

A. Semi-deregulated.

Q. Okay. That's fair enough.

And in performing your analysis in this case, you reviewed at least some parts of Ohio law with regard to electric security plans, correct? I believe on page 14 you cite to section 4928.143. That would be on line 15.

A. Yes. We reviewed various sections that we were pointed to that might provide some guidance for what we were trying to calculate.

Q. And you also testify as to adjustments you would propose making to the return on equity, correct, the level of the return on equity that was proposed by the company?

A. Right. We tried to determine -- we had to use something for cost of capital in order to make this calculation. It looked to us like the company proposal was too high, so we tried to look for something we could use that was both reasonable and fair, and we ended up selecting the numbers that were addressed in the distribution and rate case

1 stipulations.
2 Q. Recognizing that you are not an attorney,
3 to the best of your understanding, do the electric
4 security plan provisions that are contained in
5 Revised Code section 4928.143, which you just said
6 you had looked at, include any right to a guaranteed
7 return on equity?
8 A. Well, first, I am an attorney, but I'm
9 not testifying as one.
10 Q. Okay.
11 A. I didn't see anything in that provision
12 about a guaranteed rate of return, and in fact, that
13 would be extremely unusual in utility regulation; the
14 standard typically is an opportunity to earn a fair
15 rate of return.
16 Q. And is there anything in
17 section 4928.143 that includes such a provision?
18 A. If there is, it didn't jump out at me
19 when I read it a few weeks ago.
20 Q. And, to the best of your knowledge, does
21 any investor-owned utility operating in Ohio today,
22 have any provisions approved by the PUCO that would
23 afford them an assurance of a minimum ROE in respect
24 to generation operations?
25 A. Again, I think the caution was very

broad, and I haven't analyzed some of the other Ohio utilities in terms of exactly how they're recovering generation costs, so I would hesitate to venture an answer on that.

Q. So you don't know at this point of any other Ohio utilities that have a guaranteed ROE on generation?

A. I don't know.

MS. KINGERY: I have no further questions.

EXAMINER SEE: Mr. Lang?

MR. LANG: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Lang:

Q. Good afternoon. I'm Jim Lang representing FirstEnergy Solutions.

A. Good afternoon.

Q. Mr. Smith, do you agree that costs that have already been recovered by Ohio Power should not be included in the calculation you performed?

A. I think I would agree with that as a principle. I understand there's some debate going on about whether the company's perhaps recovered some of these costs as stranded costs, and our function

1 wasn't to try to sort that out.
2 Our function was to take costs, basically
3 starting with the Form 1, and to calculate rate from
4 that. So we're not expressing an opinion at all one
5 way or the other on whether some of those may or may
6 not have been recovered in a previous stranded cost
7 recovery.
8 Q. So to the extent there are costs that
9 Ohio Power has waived the right to recover other than
10 on a market basis, that's not something you addressed
11 in your testimony as to whether those costs are
12 included or not in your calculation; is that fair?
13 A. We weren't charged with trying to sort
14 that out, no.
15 Q. If the Commission decides that the use of
16 full embedded costs is inappropriate, do you have an
17 opinion on the to-go costs or the avoided cost of
18 Ohio Power's units?
19 A. Maybe you could define what you mean by
20 "avoided costs." Then I may be able to answer the
21 question.
22 Q. Are you familiar with the avoided cost
23 calculation that's done as part of the PJM RPM,
24 residual pricing model?
25 A. I have a general familiarity with the

calculations under the RPM, but there are other people who would be better able to answer that question.

Q. And using that analysis of avoided costs, is it fair to say you're not offering an opinion as to Ohio Power's avoided costs?

A. We're not offering an opinion as to avoided cost, that would be true.

Q. Would you agree that a state compensation mechanism based on avoided costs, using the PJM calculations, would be appreciably lower than the full embedded cost calculation that's performed by Dr. Pearce and as modified by you?

A. The rate we have seen in testimony filed by AEP and FirstEnergy, and perhaps some others, show that the RPM rates for PJM, at least for the next three years, are considerably lower than what results from an embedded cost recovery calculation.

Q. With regard to the FERC numbers used for this formula, did you audit the administrative and general expenses?

A. I wouldn't say we audited it, but we did review O&M and A&G expenses, and where we saw things we didn't think were representative of costs going forward, we made adjustments to try to remove those

1 items.
2 Q. Do you agree that auditing of that
3 category of expenses will present difficulties,
4 particularly given the allocation issues?
5 A. Well, it's a set of expense accounts, and
6 you can review, I guess, what goes into them, and
7 then they're allocated just like the generation costs
8 are in this case. The generation costs are either
9 directly assigned or allocated to the demand
10 function.
11 So A&G goes through another step of
12 allocations. So if you're saying there's one more
13 step of allocations there, it presents some more
14 calculations to check. You know, I would agree with
15 that.
16 Q. Now, is it your understanding that the
17 FERC Form 1, miscellaneous expenses, would include
18 advertising done by AEP Ohio or Ohio Power to promote
19 its generation business?
20 A. I'm not sure if it would or not.
21 Q. Do you know whether it would include
22 charitable expenses or political contributions?
23 A. Those should be recorded in account 426
24 which is a below-the-line account. It doesn't get
25 into utility rates, usually.

1 Q. To the extent that costs are in the FERC
2 Form 1 data that need to be backed out by the
3 Commission base, they're not properly attributable to
4 the generating units used to provide the capacity.
5 And just focused on the administrative and general
6 expenses again, what is the -- what's the process
7 that's necessary to back out those cost items?
8 A. Typically, detail would be reviewed and
9 somebody would have an inkling something was in there
10 that didn't belong, for example, some wages of people
11 that were no longer with the company. Then you would
12 get the detail of how much is in there that doesn't
13 belong, and then you would apply the allocation
14 factors then to get it down to the generation demand
15 function.
16 Q. Now, do you agree that costs that are
17 unrelated to the capacity provided to CRES providers
18 from Ohio Power's generating facilities should not be
19 included in this cost calculation?
20 A. I think there would be a debate where to
21 draw the line. I mean, I agree that's a debatable
22 issue.
23 Q. It's debatable in terms of determining
24 which costs actually relate to the capacity provided
25 to CRES providers; is that what you're saying?

A. Yeah. I mean, the companies' costs do include an allocation of A&G expense, so, I mean, it could be debated whether A&G is necessary or not. We basically followed the companies' allocations and didn't try to exclude any of those A & G type overhead costs, except for the ones we identified as not being there on a going-forward basis.

Q. Now, are you aware that Ohio Power with regard to satisfying its internal load, its Ohio load, is long on capacity?

A. I know for sure they're long in the AEP pool. I suspect they're long on their internal load as well.

Q. And as you said, you're certainly aware Ohio Power is aware of AEP's pool.

A. Yes.

Q. And as a part of that, are you aware that there's production O&M expense included in the cost of power purchased by the pool administrator and then allocated to Ohio Power using the member load ratio that's in the pool agreement that's been discussed earlier today?

A. Can you repeat that?

Q. Sure. I'm asking about production O&M expense for Ohio Power, that that would include the

1 cost of power purchased by the pool, and then a
2 portion of that cost is allocated to Ohio Power using
3 the member load ratio. Is that something you're
4 familiar with?
5 A. I have some familiarity with that, yes.
6 Q. And in that case, the allocated cost of
7 purchase power would not relate to cost of Ohio
8 Power's generating facilities, correct?
9 A. In some of the costs, the energy costs to
10 purchase power then is not included in the demand
11 function, so I think you're right, that it's not in
12 there.
13 Q. Well, to the extent that any purchase
14 power cost allocated to Ohio Power from the pool,
15 your testimony would be that those should be -- if
16 they're in here, they should be backed out.
17 A. If there are purchased energy costs, I
18 believe they have already been excluded. If there
19 are purchased capacity costs -- which I don't believe
20 Ohio Power has any of those. They may have a PPA, a
21 Purchase Power Agreement, which is included. The
22 purchased capacity should be included. The purchased
23 energy should not be included because it's not a
24 capacity cost.
25 Q. Okay.

A. And so they've made an analysis of Account 555, which is the purchased power cost and allocated those out.

Q. And so if the pool is purchasing capacity for, say, Appalachian Power, because they're short, and 40 percent of that cost gets allocated to Ohio Power, is that a capacity cost that you believe should be included as a Ohio Power capacity cost?

A. Probably not. But Appalachian is getting a lot, if not all, of their capacity shortfall from Ohio Power and CSP. I mean, Appalachian Power is short in the pool. Ohio Power is very long. CSP is slightly long, and Indiana-Michigan tends to flip between long and short.

In large part, the payments are going from Appalachian to Ohio Power, and they've fully accounted for and reflected all those capacity revenue payments as an offset against the capacity rate that's been developed.

Q. Okay. And I think you did say that on the energy side, to the extent that the cost of purchased power allocated to Ohio Power by the pool is not related to the margin earned on Ohio Power's production facilities, you know, that would be included -- so that wouldn't be included in your --

that would not be included in your calculation, correct?

A. I tried to quantify the capacity-related costs and the capacity rate, and then Mr. Harter tried to quantify the value of the energy piece. So the energy piece is included in my calculations by reflecting his piece as a net against what I calculated to get a net resulting number.

Q. Now, let's say, toward the end of the calculation you performed, there is a loss factor that's applied. I just ask you -- I want to ask you, what is the purpose of a loss factor adjustment to the capacity cost?

A. My understanding is that the loss factor is meant to account for line losses that occur after the generation occurs.

Q. So is essentially what you're doing, you're determining the revenue amount that Ohio Power is entitled to receive for capacity, and then you're grossing that up using the loss factor to reflect their delivery to the retail meter?

A. No. I think it's intended to reflect transfer to the CRES provider.

Q. Okay. With that modification to my question, it is determining the revenue to be

received, and then you're grossing it up to reflect delivery to the customer. Say it that way.

A. In general, the line-loss factors are to reflect losses in the transmission of electricity.

Q. Now, in your analysis, you provide the capacity costs, apply Mr. Harter's energy sales margin, subtract the energy sales and ancillary services margins. Is that resulting number then what is determined to be the amount that Ohio Power should receive as capacity compensation?

A. If the Commission adopts this set of numbers, that would be the capacity rate.

Q. Right. So they would be entitled to receive the capacity costs, less the energy and ancillary services credit.

A. Yes.

Q. And so would you agree that the loss factor should be applied after subtracting the energy credit?

A. I hadn't really thought about that.

Q. If you take the -- if you take the capacity number less the energy, that's really what you're saying, you know, I guess, using old-style terms, is the revenue requirement for Ohio Power, right?

A. Right. Right. I understand what you're getting at. I just haven't thought about that previously.

MR. LANG: May I approach, your Honors?

EXAMINER SEE: Yes.

MR. LANG: Your Honors, if I may have this marked FES Exhibit 121.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Smith, do you have Exhibit 121 in front of you, the document I just gave you?

A. I do.

Q. Can you confirm that the top part of this exhibit, starting with the item line down to the adjusted capacity rate, that's simply repeating the analysis that you've provided in your testimony.

A. That appears to be correct. I'm just checking it. It does.

Q. Great.

And as you applied the loss factor, you applied it to the revised daily capacity cost, and then subtracted the energy sales and ancillary services to determine your adjusted capacity rate, correct?

A. Yes.

Q. And then also on this exhibit down below that, this shows your same numbers but applying the loss factor at the end, after applying the energy credit. Do you follow that?

A. I follow it, yes.

Q. Okay. And would you agree that given what we've discussed with the revenue requirements and the application of the loss factor, that the bottom half of this exhibit would be the appropriate way to apply the loss factor?

A. I'm not sure at this point whether it would or not. I understand -- I understand the difference in the calculation. I just -- I haven't thought thoroughly enough or talked with other people about whether the energy sales margin or ancillary service credit then gets a line-loss factor applied to it.

So I understand what you're doing with it. I understand the difference in the calculation. I'm just not ready at this point to endorse that these other items need to get applied to line-loss factor, too.

Q. As we sit here today, you don't know which is the proper calculation?

A. I'm just not sure about the energy sales

1 margin and ancillary services, whether or not those
2 should have line-loss factor applied to them. I
3 think our calculation mirrored what Dr. Pearce had
4 done, and, in that sense, I believe he subtracted an
5 energy sales credit out from his calculated capacity
6 costs.
7 So I just need to think about it some
8 more and probably talk to some other people to see if
9 this alternative way is the more appropriate way to
10 do it or not.
11 Q. Certainly when we were talking earlier
12 about the concept of determining the revenue
13 requirement and then adjusting that by the line loss,
14 that you would agree with.
15 A. It just seemed to be appropriate to apply
16 it to the -- at least to the capacity rate before
17 these credits. I think the part that's -- maybe it
18 should be done another way. But should the energy
19 credits and the ancillary service have a line loss
20 applied? Unfortunately, I'm not prepared to endorse
21 that additional step right now.
22 Q. All right. We'll move on to another
23 question. With regard to the gross plant in service
24 or the net plant in service, that is not a cost
25 category that you make any adjustments to; is that

1 correct?
2 A. That is true.
3 Q. And, again, would you agree that the
4 gross plant in service should not include the cost of
5 facilities that are not dedicated to the provision of
6 capacity to CRES providers?
7 A. Well, I think it -- I mean, I'm not sure.
8 I think you may need to look at the company's
9 generating capacity as a whole because I'm not sure
10 they can identify pieces of specific units that are
11 necessarily providing the capacity service to the
12 CRES providers.
13 I think it may be more of a "slice of the
14 system" type provision of capacity. So in that
15 sense, I think it makes sense to look at the total
16 numbers, and the allocation then to the CRES
17 providers is provided in another element of the
18 calculation.
19 Q. If they have units that were purchased or
20 constructed with the understanding that they would
21 receive compensation based on costs, and they have
22 other units that were purchased or constructed more
23 recently with the understanding they would receive
24 compensation based on market prices, would that make
25 a difference to your analysis?

A. It would make a difference to my analysis, to the analysis that we performed. I do understand the debate. I think it's described in your witness, Mr. Lesser's, testimony, but we're not the witnesses to sort that out.

Our function was to determine a capacity rate, not to evaluate whether certain units were supposed to get compensated based on market and others were based on cost. That wasn't our function, to try to sort that out.

Q. Okay. So to the extent that Ohio Power has units, those units are included in your analysis.

A. All the units that they had booked costs for through December 31, 2010 are included in the plant number.

Q. Are you aware that the gross plant in service includes the cost of merchant plants acquired by AEP Ohio in 2005 and 2007?

A. I do believe it does include some plants that they acquired. I wasn't aware of the tag on them as merchant plants.

Q. Okay.

A. I think they may have acquired them from another company but I'm not sure -- well, I mean, we included the same costs. They are on their books

1 regardless of the circumstances how it was acquired.
2 Q. If the Commission wanted to back out the
3 costs of two plants that had been acquired as
4 merchant plants from your cost calculation, to do
5 that would they need to find the cost and the
6 depreciation numbers for those plants on a FERC Form
7 1?
8 A. That would probably be the most
9 straightforward way of identifying it.
10 Q. With regard to the Darby and Waterford
11 plants, are you aware that the total undepreciated
12 costs for those plants is approximately $400 million
13 as of the last FERC Form 1?
14 A. I believe I've seen those numbers, but I
15 haven't looked at them recently.
16 Q. Let's see if I can do this quickly. If I
17 showed you those numbers, might it refresh your
18 memory?
19 A. If it's out of the Form 1, it might.
20 MR. LANG: May I?
21 EXAMINER SEE: Yes.
22 Q. Does this document refresh your memory,
23 Mr. Smith?
24 A. Yes. It's one of the pages out of the
25 2010 Form 1 for Columbus Southern.

1 Q. And does it reflect that the total
2 undepreciated costs for the Darby and Waterford
3 plants are approximately $400 million?
4 MR. CONWAY: Just a second. Mr. Lang,
5 are you referring him to an exhibit that's already
6 been marked, or was it just an excerpt you prepared
7 for this examination?
8 MR. LANG: I'm refreshing his memory and
9 asking him a question.
10 MR. CONWAY: I know. I'm just trying to
11 follow along. Was it already marked as an exhibit?
12 MR. LANG: I have no idea.
13 Can you answer the question, please?
14 MR. CONWAY: Can you tell me what page
15 you are in FERC Form 1?
16 MR. LANG: 403.1, I believe, is Darby and
17 Waterford.
18 MR. CONWAY: Thank you. Which line?
19 MR. LANG: I'm waiting for the witness to
20 tell me.
21 MR. CONWAY: Your Honor, I'd like to
22 follow along with the examination, if it is not too
23 much trouble.
24 EXAMINER SEE: Mr. Lang, do you have the
25 line?

1 MR. LANG: Well, I actually don't have a
2 line. I'm asking him about a FERC Form 1, which I'm
3 relying on the witness's expertise.
4 EXAMINER SEE: Did you at least state the
5 page? Did you give him the page number?
6 MR. LANG: Sure, 403.1.
7 A. Yes. It appears the total cost for
8 Waterford is approximately 213 million, that's on
9 line 17, and Darby is 190 million, so that would be
10 approximately 403 million.
11 MR. LANG: And for Mr. Conway, that's
12 also on line 17.
13 Q. That cost, the source of that cost number
14 is on line 17 of that FERC Form.
15 A. Yes. It's on the FERC Form 1,
16 Steam-Electric Generating Plant Statistics.
17 Q. Now, if removing those plants from the
18 calculation would reduce the fixed production costs
19 by approximately 73 million, what effect would that
20 have on the capacity cost number?
21 I'm trying to figure out from your
22 analysis, you ended up with capacity rate of -- well,
23 just using your capacity costs of $295, what impact
24 pulling those two plants out would have on that $295-
25 number?

A. Okay. Unfortunately, the calculation is not just as simple as pulling a plant out.

Q. I understand.

A. Because, I mean, with these plants, Columbus Southern is then long in the AEP's pool, and they're getting payments, largely from Appalachian Power, based on the gross cost of the plant, times a factor which I think is something like 16.68 percent, which was determined back in the early 1980s. And they've accounted for all that capacity equalization cost revenue as an offset to this capacity rate.

So it seems like if you're going to remove a plant and say it's not providing capacity, then you would also have to remove the related capacity equalization revenue because they're getting it at such a high -- it's computed at such a high factor, you know, it's hard to say whether it would increase the capacity rate or actually decrease it.

Q. Okay. Just, I think, Mr. Harter had mentioned earlier that you were on a conference call with AEP Ohio. If you can refresh my memory, was that before you filed your testimony that you had discussions with AEP Ohio?

A. Before we filed my testimony, I had lots of discussions with AEP Ohio. They weren't

1 necessarily the same ones that Mr. Harter was
2 involved in because he was looking at different
3 stuff. I.
4 I talked -- we talked to Kelly Pearce and
5 some people in his group. I talked to some people in
6 their tax group. I don't think -- I'm not sure
7 Mr. Harter was on that one, and we talked to some
8 other accounting people, and I think he may have
9 talked to some people I may not have talked to.
10 Q. What were the primary issues you were
11 addressing in those -- were they all telephone calls?
12 Did you have any in person?
13 A. He wasn't there in person.
14 Q. So what were the primary issues that were
15 addressed in those discussions?
16 A. What's in the Form 1 data; what's in
17 Dr. Pearce's exhibit; what's going on with their tax
18 return; what about the domestic activities deduction.
19 Show us how you accounted for the capacity
20 equalization revenue and reflected that. You know,
21 why are you including plant over future use; what's
22 going on with your accumulated deferred income taxes;
23 did you try to follow the rules that the PUCO would
24 normally apply for some of these rate-based items.
25 And, I don't know, there were probably other subjects

too, you know, some information on how PJM operates and how the pool operates.

Q. And did you have similar discussions with any other parties in this case?

A. Not to my knowledge.

MR. LANG: Your Honor, that's all I have. Thanks.

EXAMINER SEE: Thank you.

Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No questions, your Honor. Thank you.

EXAMINER SEE: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Conway:

Q. Good afternoon, Mr. Smith.

A. Good afternoon.

Q. I'm Dan Conway. I represent, work for -- I don't work for, I'm not employed by, but I represent AEP Ohio. Mr. Smith, if you can't hear me, please let me know, okay?

A. Okay.

Q. Now, I'll try to not repeat the examination that's already occurred; forgive me if I

do.

Now, you understand that the formula-based rate for determining costs that Dr. Pearce developed is based on an approach that's been used by the FERC, right?

A. I think he adopted something that was used for some wholesale contracts in Arkansas, which, I guess, are regulated by the FERC, but I wouldn't characterize it as an approach that the FERC would necessarily endorse or, you know, give their stamp of approval to for purposes we are talking here.

Q. But as far as the wholesale ratemaking level, is it your understanding that the FERC did approve formula rates that use the methodology that Dr. Pearce has proposed?

A. For those particular Arkansas wholesale contracts, that's my understanding. That's the sole purpose of that, not that it's to -- it just relates to only those contracts and it's not like a general FERC endorsement of that particular method in circumstances such as we're all talking about here.

Q. But at least the FERC, in those examples, has accepted the use of the formula rate approach that Dr. Pearce has proposed to use in this case.

A. For those particular Arkansas wholesale

1 contracts, the company's using it and apparently
2 those contracts were approved by FERC.
3 Q. Now, with regard to the components of
4 Dr. Pearce's formula that you recommend be adjusted,
5 you're not saying the way Dr. Pearce calculated the
6 components is inconsistent with the formula-based
7 rates that the FERC has reviewed in those wholesale
8 contracts you just mentioned.
9 A. It just seems -- I mean, I think he tried
10 to apply a model that fits a shoe size E to a totally
11 different shoe size here, and it just seems to me
12 it's not the right model.
13 I think the FERC Form 1, using that as a
14 starting point is maybe a good idea, but trying to
15 impose that Arkansas wholesale contract rate on this
16 Ohio situation just seems to be a bad idea.
17 Q. My point was a little bit narrower than
18 that, which is, would you agree that the FERC in that
19 size E context that you just described, did not make
20 the adjustments that you're proposing to make in this
21 case; is that correct?
22 A. The Arkansas customers that are taking
23 power under those wholesale contracts don't benefit
24 from this type of regulatory review, and these
25 adjustments are apparently not being made in this

1 particular wholesale contract.
2 Q. And benefiting from this regulatory
3 review, you're referring to this PUCO process, right?
4 A. To the PUCO review of the company's
5 rates.
6 Q. And another question along this same line
7 is, you aren't testifying that the manner in which
8 Dr. Pearce and AEP Ohio have calculated the
9 formula-based rate is inconsistent with ratemaking
10 practices at the FERC?
11 A. But we're not at the FERC; we're at the
12 PUCO, and a lot of his stuff is inconsistent.
13 Q. So the answer is yes, with the
14 qualification that you provided, that we're not at
15 the FERC?
16 A. Yes. We're not at the FERC. We are at
17 the PUCO and a lot of stuff does appear to be very
18 inconsistent with standard regulatory practices here.
19 Q. So the answer to my question, though, is
20 yes, with that explanation, right?
21 A. Yes. It may not be inconsistent with the
22 FERC, but putting several of these items in rate base
23 is consistent with the PUCO, and here we're at the
24 PUCO so we should try to be consistent with the PUCO
25 standard.

1 Q. Which leads to my next question, which
2 is, in this proceeding you're recommending
3 adjustments that you think would be appropriate based
4 on Ohio ratemaking practices.
5 A. And our best judgment, I would agree with
6 that.
7 Q. With regard to the adjustments just to
8 drill down just a little bit more specifically, at
9 the wholesale level, the FERC has approved
10 formula-based rates that include cash working capital
11 allowances. That's based on the 1/8 of O&M approach,
12 right?
13 A. FERC will sometimes approve 1/8 cash
14 working capital. My understanding is that PUCO does
15 not use that for large companies like AEP.
16 Q. And, similarly, the FERC also has
17 approved, as part of the formula-based rates,
18 allowances for construction work in progress without
19 subjecting the allowance to the -- to a percentage of
20 completion requirement. Is that accurate?
21 A. It's accurate that FERC has a different
22 standard for construction work in progress.
23 Q. And one of the differences in the
24 standard is that it doesn't apply the 75 percent
25 completion requirement that would be applicable under

1 Ohio law, if you were in a rate proceeding like a
2 traditional rate case in Ohio.
3 A. It's my understanding that that's one of
4 the differences between PUCO regulation and FERC
5 regulation.
6 Q. And then with regard to prepaid pension
7 expense amounts, the FERC has also approved formula
8 cost-based rates which include prepaid pension
9 assets, has it not, if you know?
10 A. It's possible. I mean, I think part of
11 the FERC-based formula rates will just -- whatever is
12 on the books goes through the rate without much
13 review or regulatory scrutiny.
14 Q. "Without review," you mean without
15 adjustment also?
16 A. Just whatever is on the books tends to go
17 into the rate. Nobody's, I don't think, reviewing it
18 in detail and asking is it really appropriate. Does
19 this really relate to the provision of capacity to
20 these customers, or is it just something that was on
21 the books that just because it was on the books ended
22 up in the rate.
23 Q. So your view is that the FERC is not
24 applying a stringent enough review to the ratemaking
25 that it conducts?

1 MR. JONES: Object to the relevancy, what
2 review of FERC for purposes of our proceeding and our
3 review of this issue.
4 MR. CONWAY: Your Honor, I think it's
5 relevant on what the FERC practices are, and I'm
6 following up on a question -- an answer to a question
7 that the witness just provided regarding the nature
8 of -- I think it was about the nature of the
9 stringency of the FERC review of ratemaking, so I
10 think I'm entitled to follow up on it. I think it is
11 relevant.
12 MR. LANG: Your Honors, just for
13 clarification, are we talking about this formula rate
14 again that's from Mr. Pearce's testimony, this FERC
15 formula rate? Because, if we are, it was in a
16 settlement between AEP Ohio and the municipalities
17 that the FERC approved. FERC did not approve this
18 template. So to the extent Mr. Conway is suggesting
19 that, I would object, assuming facts not in evidence.
20 MR. CONWAY: If Mr. Lang would like to
21 wait to see if he can continue cross-examination, I
22 think that would be a better venue to interject his
23 additional thoughts about it into the record, which
24 is simply argument.
25 EXAMINER SEE: The objection is

1 overruled.
2 You can answer the question, Mr. Smith.
3 A. I think it was something about FERC's
4 level of rate scrutiny over certain accounts.
5 Q. Do you think it's inadequate?
6 A. Well, I think if it's -- like, take one
7 of these Arkansas wholesale contracts. If something
8 is in a particular account and that account is in a
9 formula rate, then it becomes part of the charge to
10 those customers. Should that type of formula rate
11 mechanism be adopted here? I don't believe so.
12 Q. But you're not actually criticizing the
13 FERC's regulatory practices, are you?
14 A. No. I guess what I'm just pointing out
15 is a contract that was negotiated with some Arkansas
16 municipalities that happened to use a formula rate
17 for their charges, it seems like you're trying to
18 impose that on a situation in Ohio that is probably
19 quite a bit different and has a different standard.
20 Q. Okay.
21 A. Just seems like a bad model to try to
22 apply here.
23 Q. Let me ask you a question, going in a
24 little bit different direction. As I understand it,
25 your adjustments reflect your judgment regarding how

Ohio ratemaking rules and principles, and your independent judgment about such things should be applied to the -- to the proposal that Dr. Pearce has made, right?

A. I think overall that's a pretty high-level, good characterization.

Q. Did any of your adjustments that you made -- because I can't recall offhand -- did any of them end up increasing the rate compared to how Dr. Pearce would have calculated the component being adjusted?

A. I think our ADIT adjustment for Ohio Power ended up increasing the rate base.

Q. So that would have led to an increase in the rate compared to not making the adjustment.

A. If you isolate it on that component, yeah.

Q. On a merged-company basis, would that item, as it was adjusted for both companies, would it have led to a higher cost-based rate?

A. I think it was probably pretty near a wash on the merged results.

Q. So with that exception, with one adjustment that was close to a wash, all the other adjustments had the result of reducing the cost-based

1 rate from what Dr. Pearce had proposed, correct?
2 A. Correct; and, appropriately so. His rate
3 was too high, and these adjustments need to be made.
4 Q. Did you try to find any instances where
5 an application of Ohio ratemaking rules and
6 principles and your independent judgment would have
7 increased the rate compared to what Dr. Pearce had
8 proposed?
9 A. Our objective wasn't just to try to find
10 increases or decreases; it was just to look at the
11 data and try to come up with a fair and reasonable
12 cost for capacity consistent with Ohio regulatory
13 principles. We weren't looking for adjustments one
14 way or the other.
15 I mean, we were aware of some things, and
16 when we adjusted them out, it ended decreasing the
17 rate. It wasn't like we were given a mandate to find
18 stuff that just went one way. The stuff we found did
19 end up decreasing the rate. That's just because it
20 was in 2010, and some of these items are rate-based
21 that Dr. Pierce included are just contrary to Ohio
22 regulatory policy.
23 Q. If there were Ohio ratemaking principles
24 which, if applied to Dr. Pearce's proposal, would
25 lead to increases in the rate, would you endorse

1 those kinds of adjustments?
2 A. You mean in general? I mean, we just
3 wanted to develop a fair rate. It still would have
4 cut the other way. For example, if the company would
5 have had a big necessary workforce addition in 2010
6 that was related to generation, we probably would
7 have recommended some kind of annualization for that
8 to recommend -- to reflect it on a going-forward
9 basis.
10 As it happened, the company had a large
11 workforce reduction during the end of May 2010, so
12 there were costs in the 2010 FERC Form 1 data that
13 weren't representative on a going-forward basis of
14 the companies' operations.
15 I mean, that's just the stuff we found
16 based on our review, so it just happened to reduce
17 the rate, not telling if you looked at an entirely
18 different period, there may be some items that may
19 require, you know, pro forma or ratemaking
20 adjustments in the other direction.
21 Q. So if there were items that would be
22 subject to annualization adjustments in the upward
23 direction, under Ohio ratemaking and principles and
24 practices, you would agree with those kind of
25 adjustments upward?

A. There were none, as far as we could tell. None were brought to our attention. We did the best job with the data we had within the time period we had, and I think it produced a pretty good result, all considering.

Q. I don't have any doubt that your work was done in a thorough and competent and professional manner, Mr. Smith, and my questions are not in any way intended to indicate otherwise.

A. I appreciate that.

Q. With regard to your last adjustment that you discuss, I think on page 12, it's one of the income tax adjustments. My first question I have is the second part of the recommendation --

A. You mean page 12 of the exhibit?

Q. I'm sorry, page 12 of your testimony, lines 9 through 11, it's the DPAD adjustment.

A. Yes.

Q. Is that the adjustment that flows from some consequence of Section 199 of the Internal Revenue Code?

A. It does.

Q. I referred to that in the past as the "Section 199 issue," and you're referring to it as the "DPAD adjustment," which I hadn't seen before.

1 A. I've heard it by both names. Call it
2 whatever you want; either one of those two is fine.
3 Q. Just as a matter of clean-up on my prior
4 line, the adjustment you make with regard to
5 Section 199, the DPAD adjustment, is that another
6 adjustment that the FERC would not necessarily make,
7 for example, in the context of this wholesale formula
8 rate?
9 A. The way the company calculated income
10 taxes in its proposal, totally ignored the existence
11 of the Domestic Production Activities Deduction, and
12 it's a deduction that relates directly to production
13 capacity. It relates to utility generation. So it
14 seems to me if you're calculating a rate for
15 generation, you absolutely need to factor in the
16 results of the DPAD that applies to these utilities
17 on a separate return basis.
18 Q. My question is whether or not the FERC
19 has, in this instance, used the formula rate that you
20 mentioned on the wholesale level has been applied to
21 the entities in Arkansas, whether the FERC has not
22 made the Domestic Production Activity Deduction
23 adjustment that you propose here?
24 A. If you apply the same formula that, I
25 guess, was derived from those Arkansas municipal

1 wholesale contracts, if you would make your tax
2 calculation in that way, there's no place to include
3 a DPAD because it's just not even considered at all.
4 So the result is that those customers
5 are -- to the extent there is related generation or
6 other tax benefits, I mean, they're just going into
7 the company's pockets and none is being shared with
8 those customers.
9 Q. So there wasn't an adjustment for
10 Section 199, the DPAD adjustment, for those say
11 formula rate; is that right?
12 A. Right. But those weren't designed for
13 developing a capacity rate, and here we are trying to
14 develop a capacity rate, and both of the companies
15 are actually getting this deduction on a separate
16 return basis, and I've reflected that in my
17 calculations, so I think it really does need to be
18 factored in; otherwise, you're overstating income
19 tax.
20 Q. Do you know whether the Ohio Commission
21 has addressed the question of whether or not the
22 Section 199-based adjustment should be made to -- in
23 connection with ratemaking for AEP Ohio?
24 A. I'm not sure if they have or not. But
25 here we have a clear instance where it applies to

capacity. They are getting it. It's driven based off of capacity-related numbers, and should be factored into the income tax calculation.

Q. You did not review the company's initial electric security plan filing order to see whether or not this very issue had been already addressed by the Commission, did you?

A. I think at some point -- you are talking about the initial order? The initial security plan filing that was like, what, three or four years ago?

Q. It was in 2009, spring, yes.

A. Okay. I think at some point I did look at it. Does the Section 199 stick out of all that pile of papers that was contained in that filing? I just don't honestly remember if that was simply addressed or not.

Q. Okay. Let me turn to return on equity and rate of return. I think it's addressed in your testimony that the ROE and overall rate of return you used for your adjustment in this proceeding were the values that the Commission approved in AEP Ohio's distribution rate cases last December, right?

A. I'm just hesitating on the date, but, yeah, there were the ROEs and overall rate of return that came out that stipulation in the two

1 distribution rate cases.
2 Q. And the Commission approved the
3 stipulation in its order. Do you know if its order
4 recited the return on equity and total return values
5 that you have recommended in this case?
6 A. Yes. That was the source of the numbers
7 we used. We thought that was a reasonable way to
8 deal with the return issue.
9 Q. Now, AEP Ohio's litigation position in
10 those rate cases regarding ROEs was that they were
11 higher than what was ultimately agreed upon in that
12 settlement. Is that fair?
13 A. If I'm remembering correctly, I think AEP
14 Ohio may have been requesting the same 11.15 percent,
15 and other parties had rates that were below the rates
16 that were used in the stipulation, so the stipulation
17 rates appear to be kind of a middle ground that
18 parties on various sides that had different
19 litigation positions apparently were able to
20 compromise on.
21 Q. Now, if return on equity and total rate
22 of return issues had been litigated to a conclusion
23 in the distribution rate cases last fall, the
24 authorized ROEs and total returns could have been
25 higher than what was included in the stipulation,

1 right?
2 A. It could have been higher or lower.
3 There were -- I mean AEP, I think, was on the high
4 side, and then there were other testimonies in that
5 case with lower numbers, so they were somewhere in
6 the middle of the range that various witnesses
7 recommended.
8 Q. Now, the risks that the generation
9 business faces, would you agree, include risks that
10 the distribution business does not face?
11 A. In general, generation is probably more
12 risky than distribution, but for development of this
13 type of rate, it's probably less risky because, I
14 mean, whatever you're going to apply this rate to, I
15 mean, it's going to be collected and earn the return
16 that was used to develop the rate.
17 Q. From a regulatory standpoint, you would
18 not agree a generation function in regard to this
19 instance, with regard to this element, is facing a
20 higher risk than this distribution business?
21 A. It seems to me, in general, generation
22 operating in a unregulated market or an open market,
23 in competitive generation, is probably more risky
24 than distribution. But for purposes of developing
25 this rate that they will charge to CRES providers,

1 based on recovery of embedded costs it seems to me
2 that's actually a lower risk than the distribution
3 function.
4 I mean, here you're going to be
5 collecting a rate from CRES providers based on a
6 capacity thing. So the capacity-based rate is
7 somewhat different than operating generation in a
8 market that's competitive.
9 I mean, this is basic cost recovery, I
10 think, at least how the company has proposed it and
11 how we've calculated it. It's not like you're
12 operating a generating plant in a market where the
13 prices are set by, you know, a variety of different
14 factors. I think that may be higher risk, but I
15 think for the purpose to which this rate is going to
16 be applied, from my perspective, it seems to be less
17 risk than distribution utility rates.
18 Q. You lost me right at the end, and you did
19 in the prior answer you gave at the end, where you
20 said it seems to you in this instance because of
21 these differences, that it's -- that it's market
22 based on one hand versus, I suppose we could call it,
23 a regulated monopoly on the other hand, that the
24 risks are actually lower for the generation assets.
25 I thought that's where you would conclude the

1 sentence, is that therefore I think they're about the
2 same, not higher on the generation side. But you
3 said lower, and I don't understand that. Do you have
4 some specific reason why you went past equivalence to
5 lower?
6 A. Sure. Okay. The distribution utility
7 has relatively low risk, but it's still subject to
8 costs that can fluctuate between rate cases, so
9 that's one element of risk.
10 Here, it seems to me, this is essentially
11 more like a regulated monopoly function where you're
12 charging this rate to customers that want to provide
13 this service. They have -- I guess they have to pay
14 AEP for the capacity. AEP is pretty much assured of
15 collecting it, and, I mean, I guess I view it almost
16 like a regulated monopoly-type ratemaking thing in
17 the context it is being applied.
18 Q. Okay. But the D function or D business,
19 the distribution business, is also a regulated
20 monopoly-type situation, is it not?
21 A. It is, yes.
22 Q. Okay. On a different dimension of risk,
23 would you agree that the generation business faces
24 substantially greater risk from environmental
25 regulation than does the distribution business?

A. It does, yes.

Q. Another of the adjustments that you make is to eliminate prepaid pension assets from this rate base for the -- that you use and Dr. Pearce use for this capacity ratemaking, right?

A. Yes.

MR. CONWAY: I'd like to mark two exhibits. I'd like to mark, your Honors, at this time as AEP Ohio Exhibit 129A, Ohio Power's Staff Report from the 11-351-EL-AIR proceeding. And then as 122B a Staff Report -- let me correct myself. It's an excerpt from the report from the Ohio Power proceeding.

EXAMINER SEE: You have 122 as an excerpt from the Staff Report?

MR. CONWAY: Yes.

EXAMINER SEE: We have it as part of FERC Form 1.

MR. CONWAY: I'm sorry, you're right. Let me go back be start over. It would be Exhibit 129. Sorry. Exhibit 129A would be a Staff Report from the Ohio Power distribution rate case, which is 11-352, and the Exhibit 129B would be the excerpt from the Columbus Southern rate case, which is Case No. 11-351-EL-AIR.

1 EXAMINER SEE: Okay. The exhibits are so
2 marked.
3 (EXHIBITS MARKED FOR IDENTIFICATION.)
4 Q. I'd like to refer first, Mr. Smith, if
5 you have a copy of the two documents with you, to
6 Ohio Power's.
7 A. Yes.
8 Q. That's the one that has the box at the
9 top of the page. Now, would you turn to pages 7
10 through 8 of Ohio Power's Staff Report, and I direct
11 your attention to the bottom of page 7 of the Staff
12 Report for Ohio Power. You see where it says that
13 "The Staff increased rate base to recognize a prepaid
14 pension asset"?
15 A. Yes. And I actually acknowledged that in
16 my testimony, and we had discussed that with staff
17 prior to the filing of the testimony.
18 Q. Were you aware that the staff had made
19 the same determination in the Columbus Southern
20 distribution rate case that was being litigated at
21 the same time?
22 A. Yes. I was aware that the pension asset
23 had been included by staff in both of those staff
24 reports, and we had discussions with staff about
25 that, and ultimately I concluded that the pension

1 asset, in this instance, is not related to the
2 provision of capacity service.
3 And the situation is a bit different, and
4 the pension asset has been treated a bit differently
5 in some other AEP related cases. So in my judgment,
6 the pension asset did not belong in a rate base for
7 capacity under these fact circumstances, which are
8 discussed in quite a bit of detail in my testimony.
9 Q. Do you see at the carry-over sentence at
10 the bottom of page 7, carries over to the top of
11 page 8, that the staff found in the Staff Report for
12 Ohio Power Company, AEP Ohio Exhibit 129A, and also
13 in the Columbus Southern Power Staff Report,
14 Exhibit 129B, that the additional contributions that
15 supported the prepaid pension asset to "benefit
16 customers by reducing future pension costs through
17 increased earnings"? Do you see that?
18 A. Yes. And that was discussed with staff,
19 and the situation doesn't seem to be applicable in
20 the context of a generation rate. As I demonstrate
21 on the top of page 29 of my testimony, I mention
22 costs for CSP and Ohio Power in 2010, in fact, were
23 not decreased. The CSP pension costs increased by
24 120 percent and the Ohio Power pension costs
25 increased by 67 percent. So these discretionary

1 contributions that went to fund the defined benefit
2 pension plan certainly hasn't paid off in terms of
3 reduction to the pension expense as contained in the
4 FERC Form 1 numbers.
5 And I also was able to review additional
6 information on how this issue has been addressed in
7 some other affiliated AEP operating company electric
8 utility rate cases, and, therefore, I may have had a
9 more comprehensive view or was aware of some other
10 factors that weren't considered in the Staff Report.
11 And as noted previously, the rate here is
12 basically being developed for capacity and will be in
13 effect approximately three years. So, it's very
14 questionable whether the payers of this rate will see
15 any benefit from reductions to the company's pension
16 expense.
17 There are some other factors additionally
18 which I also discuss in my testimony which I think
19 support the recommendation to exclude the prepaid
20 pension asset for the purposes of developing this
21 capacity rate.
22 Q. Let me follow up on that. With regard to
23 the reasons that you provide in support of your
24 position, one of them is that you believe the
25 information related to the prepaid pension asset

1 indicates to you that there's a net liability rather
2 than asset, correct?
3 A. As discussed -- yes. As discussed on
4 page 23 of my testimony, when you look at the funded
5 status of the defined benefit pension plans, for CSP
6 there's a net long-term liability of 72.5 million,
7 which is not being deducted from rate base; and then
8 if you look at Ohio Power's FERC Form 1, there's a
9 net long-term liability of $111.2 million, as
10 discussed on page 24 of my testimony. Neither one of
11 those long-term liabilities is being deducted from
12 rate base so it is also improper matching.
13 Q. I believe you said in your discussion on
14 this point, starts at page 23, roughly, question
15 36 --
16 A. Yes.
17 Q. And forgive me if I repeat some of what
18 you just said, but at the bottom of that page,
19 page 23, you're describing the funded status of the
20 company's defined benefit plans, right?
21 A. Right. Funded status has an asset amount
22 of trust assets and has a liability, which is an
23 obligation, and the net status is a long-term
24 liability.
25 Q. So if the net status is "I'm funding,"

1 from the funding perspective is that it's
2 underfunded; is that right?
3 A. Yes.
4 Q. And underfunded status equates to a
5 long-term liability, right?
6 A. It does.
7 Q. And that's what underlies this reason for
8 your position, is, in your view, a long-term
9 liability is not an asset, right?
10 A. The companies' FERC Form 1 reported the
11 funding status of their defined benefit pension
12 plans, and it's pretty clear from that information
13 they're reporting long-term liabilities for both CSP
14 and Ohio Power.
15 Q. And the underfunded positions for the
16 companies' defined benefit plans is calculated by
17 comparing the pension plan benefit obligations to the
18 pension plan assets, right?
19 A. Right.
20 Q. Okay. Now, I want to go back to the
21 prepaid pension asset item for each company. Do you
22 know how the prepaid pension asset is calculated as
23 opposed to the underfunded or overfunded status of
24 the plan?
25 A. My understanding is that the company

1 compared their funding contributions into the defined
2 benefit pension trust with the amounts determined
3 under financial accounting standard No. 87, the net
4 periodic pension cost for certain period of years,
5 and in 2010 they made a large discretionary funding
6 contribution into the pension trust, and that amount
7 exceeded the periodic pension costs determined under
8 FAS 87, and the company recorded the difference as a
9 prepaid pension asset.
10 Q. So there was a net positive amount from
11 the calculation conducted under FAS 87, right?
12 A. I'm not sure what you mean by "net
13 positive amount."
14 Q. There was an asset. There is a prepaid
15 pension asset as a result of the company conducting
16 the accounting computations required by FAS 87; is
17 that right?
18 A. No. Those calculations are not required
19 by FAS 87.
20 Q. Okay. Are they done -- are they done in
21 accordance with FAS 87?
22 A. The net periodic pension benefit
23 calculation is done pursuant to FAS 87. That's
24 typically what determines the amount of pension costs
25 in rate cases, although there are other ways of

1 calculating that.
2 Q. Okay.
3 A. So I think the table on the top of my
4 page 29, if you want to talk about the pension
5 component, that may be more the place to focus.
6 Q. What I'd like to do is compare and
7 contrast the underfunded pension plan status with the
8 prepaid pension asset. The two -- those are two
9 separate items, are they not?
10 A. They're separate items. The company
11 wants to put one in rate base and hasn't reflected
12 the other, but they're somewhat related, so trying to
13 include an asset and liability when you have a net
14 liability in asset rate base when you have a net
15 liability, seems kind of contrary to normal
16 accounting, the way accountants look at a balance
17 sheet and determine a rate base.
18 Q. What is the FAS standard that applies to
19 the pension plan funding status? Does it --
20 A. It's not an accounting standard. There's
21 two standards to apply to pension funding, perhaps
22 three now. There's ERISA, Employment Retirement
23 Security Act, I think. There's IRS limitations on
24 the amount of deduction action that can be taken on
25 tax returns for funding pension contribution.

1 So typically ERISA provides the minimum,
2 which can be zero in some years, and the IRS
3 limitation on deduction employs the maximum. That
4 range can be several hundred million dollars. Within
5 that range, company management has virtually complete
6 discretion as to how to fund the pension plan.
7 So if the company management wants to
8 make discretionary contributions beyond the funding
9 level, they are entirely entitled to do that. But to
10 try to put those items selectively into rate base and
11 earn a return on it does not really seem appropriate,
12 especially in circumstances when their pension plan
13 on their FERC Form 1 report shows a net liability.
14 Q. Are you familiar with the financial
15 accounting standard that applies to the pension
16 funded position, as distinct from the standard that
17 applies to the prepaid pension asset?
18 A. I'm familiar with various accounting
19 standards that apply for pensions. There's the
20 traditional standard, FAS 87, that many utilities
21 still employ for ratemaking. Then there's a recent
22 standard that's come out that doesn't contain some of
23 the smoothing features that FAS 87 had. That's
24 financial accounting standard No. 158. That
25 addresses both defined benefit pension plans and

1 other types of defined benefit plans, including post
2 retirement health benefits.
3 Most companies, including AEP and other
4 institutions, strip off the impacts of FAS 158
5 because those differences are recorded as other
6 comprehensive income, and they exclude those items
7 for ratemaking purposes. So we can talk about it,
8 but the relevance to actual ratemaking numbers seems,
9 especially for AEP, seems a bit questionable.
10 Q. I don't want to argue with you, but your
11 position then is not that the prepaid pension asset
12 is accounted for improperly by AEP Ohio; but rather
13 you think that the fact there is an underfunded
14 position for the pensions should be the determining
15 factor as to whether or not there's an asset which
16 would be included in the rate base calculation or
17 not.
18 MR. JONES: Your Honor, I object to
19 counsel testifying on the record. This is testifying
20 by counsel at this point.
21 MR. CONWAY: I want to understand his
22 position, your Honor.
23 EXAMINER SEE: There is an objection
24 outstanding.
25 MR. CONWAY: I think he can answer the

1 question. I think he's able to, I'm saying.
2 EXAMINER SEE: Hold on. There's an
3 objection outstanding. You may be right. The
4 objection is overruled.
5 A. I think you cited one of several reasons
6 why the pension asset should not be included in rate
7 base. In addition to the company reporting a
8 liability, the funding contribution was discretionary
9 with management in size and timing, and there's no
10 demonstrated reduction to pension expense, like what
11 staff is looking at in the distribution rate cases.
12 Pension expenses are typically included
13 in cash working capital determination based on
14 lead-lag study, but the company hasn't filed a
15 lead-lag study here. So there's a whole bunch of
16 reasons here why it is inappropriate to include a
17 pension asset rate base in this particular
18 proceeding.
19 But, I mean, in no way am I questioning
20 the company's accounting. I think the company
21 probably accounted for it properly. What I'm
22 questioning is that the company proposed to include
23 this item in rate base, and it seems to me it totally
24 doesn't belong there.
25 Q. Are you aware of what the status is of

1 the defined benefit pension plans of the companies?
2 A. My understanding the company still
3 provides them, yes.
4 Q. Do you know -- your view is not or your
5 judgment isn't that defined benefit pension plans are
6 actually unreasonable at this point, is it?
7 A. No. They can be a reasonable form of
8 providing benefits. But employers are increasingly
9 finding it hard to manage the costs, so a lot of
10 other companies have taken steps to either freeze the
11 plan, make it so it doesn't apply to new employees,
12 or to convert to some other kind of plan.
13 Q. Do you know whether the companies have,
14 in fact, frozen eligibility for the defined benefit
15 pension plans?
16 A. They may have, but I don't recall
17 specifically whether they have or not.
18 Q. And do you know whether they've ceased
19 allowing new-hire employees to participate in the
20 defined benefit pension plans?
21 A. They may have. I'm not sure. I don't
22 recall.
23 Q. And I take it from your second prior
24 answer, that you think it might be reasonable for
25 management of companies, like Columbus Southern and

1 Ohio Power, to take those kind of steps with regard
2 to their defined benefit pension plans.
3 A. It seems like an increasing number of
4 companies are taking those steps, just because the
5 pension costs can be subject to some degree of
6 volatility, especially in situations like after the
7 end of 2008 when the market crashed. It's a hard
8 cost to control, so companies are trying to provide
9 retirement benefits in a manner where they can have
10 more control over the cost.
11 Q. And would you agree that the actions -- I
12 think that you mentioned three actions that companies
13 are increasingly taking with regard to defined
14 benefit pension plans, that those actions would be
15 the most significant reforms that would be available
16 for a company to undertake with regard to such plans?
17 A. I mean, certainly it's a decision that's
18 up to management as to how to structure the benefit
19 program and, you know, how they should change their
20 plans. But the defined benefit pension plans, in
21 particular, have been an area of problem for
22 companies in terms of the cost control, because if
23 the earnings on the pension trust aren't there, if
24 the pension trust takes a loss, it tends to result in
25 some fairly large pressure, not only on operating

1 costs of the company, but also on cash since if they
2 get below a certain minimum level prescribed by
3 ERISA, they have to fund it, so it becomes a sort of
4 a cash drain on the company as well.
5 Q. So if the companies have frozen
6 eligibility for the defined benefit pension plans,
7 only permitting grandfathered employees to continue
8 to participate in such plans, and have adopted other
9 types of nondefined benefit plans for their
10 employees, you would regard those measures as
11 positive steps that the companies have taken.
12 A. I think -- well, I mean, I think they're
13 positive in the sense the company is taking steps to
14 try to manage its costs.
15 Q. And those would be significant reforms in
16 your view?
17 A. There's a lot of ways of controlling
18 costs, and those are one of them. I mean, the
19 company did it another way, too, when they had the
20 workforce severance in 2010. There's various ways
21 the companies can try to manage their costs and
22 earnings. I mean, certainly they probably want to
23 examine the array of what's out there and take steps
24 they think are appropriate to them.
25 Q. Now, another adjustment that you made was

an elimination of cost for severance of employees that occurred in 2010. Would you agree that -- first of all, let me refer you to page 9 of the Ohio Power Company Staff Report excerpt I gave to you earlier.

A. Yes. I think staff -- the company proposed and staff accepted an amortization in the distribution rate case.

Q. Could you describe the particulars of the amortization that the staff and the company agreed upon in that rate case?

A. My recollection is that it was a multiyear amortization. I don't remember if was the two or three years.

Q. Can you turn to page 9 of the staff report in the Ohio Power Company case?

(Discussion off record.)

EXAMINER SEE: Continue, Mr. Conway.

MR. CONWAY: Thank you, your Honor.

Q. If you turn to page 9, Mr. Smith, and under the Severance Amortization item on that page, can you -- does that refresh your memory as to what the nature of the adjustment that the company and staff made in the Ohio Power Company distribution rate case?

A. Yes. That refreshes my recollection, and it was a three-year amortization.

Q. And then there also was another adjustment, was there not, just to be comprehensive here and fair, there was a reduction to the amortization amount, the three-year amortization amount by 50 percent.

A. Yes, that's true.

Q. And then after you got done with the three-year amortization and then the 50 percent haircut, that was put in the Staff Report as the allowance for severance cost.

A. Yes. It was a three-year amortization with 50/50 sharing between shareholders and ratepayers. That's what happened in the distribution case that we just refreshed my recollection.

Q. And then was the same thing done in the Columbus Southern Power distribution rate case?

A. Yes, it was.

Q. Let me turn your attention to the AEP pool for just a moment. Are you familiar with the bases on which primary energy sales may be made by member companies to other member companies, and by that I mean do you know whether it was a cost basis or some other basis?

A. I'm not sure.

Q. I believe that you indicated previously, in prior cross-examination, that Ohio Power Company is long, both with regard to its own load and with regard to the other members of the AEP pool, on a relative basis; is that right?

A. Yes, I think they are long with respect to other members of the AEP pool, and it wouldn't surprise me if they were also long with respect to their own load.

Q. And as a result of that long position, the AEP Ohio companies receive capacity equalization payments from one or more of the other pool members.

A. Yes, they certainly do.

Q. And you've included those capacity equalization payments as an offset to fixed production costs in the ratemaking exercise for the formula-based cost-based capacity charge, right?

A. Right.

Q. If production plant were taken out of the mix of assets that are included in the cost analysis and you believed it would be appropriate, if you were going to do that, you would have to limit the capacity equalization revenues that are currently an offset to capacity costs, right?

A. No. You wouldn't have to eliminate all of them. You would somehow figure out which portion of that related to the plants being removed. You wouldn't remove them all.

Q. I apologize. I didn't mean to imply it was all.

A. Yes. There would have to be an equal and correlated adjustment for the capacity equalization adjustments if a plant was being removed.

Q. Do you know offhand what the total amount of capacity equalization revenues that were used as an offset to the fixed production cost in Dr. Pearce's work and your work were?

A. It's approximately 30.8 million for CSP and 459.5 million for Ohio Power.

Q. So that's a total of $500 million?

A. It is.

Q. If we were to reduce the rate base from generation plant by, say, 80 percent, would it be fair to estimate that the impact on the capacity equalization payments would also then be a reduction of 80 percent?

A. Not necessarily, because the capacity equalization payments are based on capacity in terms of megawatts. The dollar amount that's currently

being discussed for potential removal from the rate base is in dollars. So the rate base removal would be tied to the dollar value of that plant as recorded on the books, but the impact on the capacity equalization revenues would be related to the dollars per megawatt that are being paid by Appalachian and received by Ohio Power and CSP. So I'm not sure if it would be an exact 80 percent correlation. I suspect it may end up being somewhat different.

Q. Would it be -- do you think it would end up being approximately proportionately similar to the amount being removed from the rate base?

A. Again, I haven't tried to do the calculation. My gut feeling is that because of the way that the capacity equalization rate has been determined and the way the capacity equalization rates are calculated, the customers might well be better off leaving the plant in and reflecting the capacity equalization payments.

I mean, the rate that was being applied is being applied to gross plant, and it was developed in the early 1980s when interest rates and capital costs were much higher. So it may -- I mean, trying to remove the plant and also taking out the megawatt-related capacity equalization payments may

ultimately put the ratepayers in a worse situation than what's been proposed here.

But someone would have to run the different calculations, I guess, and do the comparison. I don't want to volunteer to do that.

Q. Let me ask the question -- I'm just about done here. Let me ask the question in a slightly different way, not because I'm trying to test you or contest your prior answer, but just a different perspective. If AEP Ohio was not part of the pool, it wouldn't receive capacity payments from the other pool members, right?

A. Right.

Q. And in that case, capacity payments would not be available to offset fixed production costs, right?

A. Right. I mean, if they're not getting it from the pool, you know, we'd almost have to speculate as to what would take place then, what they would do with that excess capacity in their long position.

MR. CONWAY: Just a moment, your Honor.

May I approach, your Honor?

EXAMINER SEE: Yes, you may.

Q. Mr. Smith, I have one copy of this

1 exhibit at this point. It is AEP Exhibit 125 --
2 MR. JONES: Is this a new exhibit?
3 MR. CONWAY: This is an existing exhibit
4 that Mr. Nourse used with Mr. Harter.
5 Q. Mr. Smith, this is an exhibit that was
6 introduced and marked during the cross-examination of
7 Mr. Harter, and I'd ask you to take a look at it,
8 and, in particular, review the different items of
9 cost that are listed on the first column on the left
10 side of the page --
11 MR. JONES: Can counsel speak up? I
12 can't hear what he's saying.
13 Q. Could the witness please review the
14 exhibit, AEP Ohio Exhibit 125, with particular
15 attention to the list of costs on the left side of
16 the page in the first column, and specifically with
17 regard to the various expenses that are listed,
18 starting underneath Total Production Expense. So
19 starting with line 24, take a look at those, and when
20 you're done reviewing them, let me know.
21 A. To be clear, you want me to review the
22 stuff above line 22?
23 Q. What I'd like you to do is to look at all
24 of these cost items starting at line 24 down through
25 the bottom of the page, A&G Expense, Return on Rate

1 Base, Depreciation, Income Tax, Purchase Power. Do
2 you see those?
3 The question I have for you is, are those
4 categories of expense included within the costs that
5 you reviewed and included in your cost-based rate?
6 A. Some of these items appear to be related
7 to energy, and my calculations were basically focused
8 on the capacity costs, so it looks like these items
9 would have been excluded primarily, and they all
10 appear to be in reference to Dr. Pearce's
11 Exhibits 3 and 4, which were my starting point, but
12 not my ending point.
13 Q. Okay.
14 A. I mean there's the line A&G Energy. It
15 seems like that would be an energy cost, not a
16 capacity cost.
17 Q. Do you know whether Mr. Harter included
18 these items, these energy-related items, in his
19 energy credit?
20 A. I think he calculated his energy credit
21 in a different way; in other words he didn't apply a
22 Return on Rate Base Energy, like is shown here on
23 line 26. There's no explicit factoring in of
24 depreciation for energy in Mr. Harter's calculation,
25 nor is there a recognition of, as far as I can

1 understand, any income taxes on energy.
2 So I'm not sure exactly how this relates
3 to anything that Mr. Harter did. It seems like it's
4 a different -- it's a different approach than was
5 used by Mr. Harter.
6 Q. And, similarly, did you include or did
7 you not include those items in your cost analysis, in
8 the result of your cost analysis?
9 A. These items are labeled specifically
10 "energy," so to the extent they were energy and not
11 demand, they were not included in my numbers. I took
12 the slices of these that ended up in the generation
13 demand cost category. The energy stuff, that would
14 have been removed.
15 MR. CONWAY: Your Honor, that's all I
16 have.
17 EXAMINER SEE: Mr. Jones, any redirect?
18 MR. JONES: Your Honor, if I could have
19 just a few minutes.
20 EXAMINER SEE: Sure. Let's go off the
21 record.
22 (Recess taken.)
23 EXAMINER SEE: Let's go back on the
24 record.
25 MR. Jones.

MR. JONES: Yes, your Honor, I have no redirect questions.

EXAMINER SEE: Thank you, Mr. Smith.

MR. JONES: Your Honor, at this time I would move for the admission of Staff Exhibits 103 and 104.

EXAMINER SEE: Are there any objections to the admission of Staff Exhibits 103 and 104?

MR. CONWAY: No.

EXAMINER SEE: Hearing none, Staff Exhibit 103 and 104 are admitted into the record.

(EXHIBITS ADMITTED INTO THE RECORD.)

EXAMINER SEE: Mr. Lang.

MR. LANG: Your Honor, FES would move FES Exhibit 121.

EXAMINER SEE: Are there any objections?

Hearing none, FES Exhibit 121 is admitted into the record.

(EXHIBIT ADMITTED INTO THE RECORD.)

EXAMINER SEE: Mr. Conway.

MR. CONWAY: Thank you, your Honor. The company would move for the admission of the AEP Ohio Exhibits 129A and 129B.

EXAMINER SEE: Are there any objections?

Hearing none, AEP Exhibits 129A and 129B

are admitted into the record.

(EXHIBITS ADMITTED INTO THE RECORD.)

EXAMINER SEE: Let's resume the cross-examination of Mr. Harter.

MR. JONES: Yes, your Honor.

EXAMINER SEE: Mr. Jones, what is the status of the additional workpapers?

MR. JONES: Yes, your Honor. We have satisfied our requirements as to producing all workpapers related to Mr. Harter's testimony and his analysis for his calculations.

MR. NOURSE: Your Honor, I just want to say that I believe during additional cross we'll find out that the full workpapers are not the full workpapers, but I think we can complete cross, and I would request that the documents I identify as missing be provided over the weekend.

MR. JONES: Your Honor, if I may respond to that. The data they're now requesting, the company is now requesting, is relating to follow-up questions seeking clarification of the workpapers, and this is outside the scope of what are classified as workpapers for this witness. So it's not what he relied on for his analysis or inputs to the model, and, therefore, they're not workpapers for purposes

of receiving them.

MR. NOURSE: Why don't we take it up after cross. I think it will be very clear, your Honor.

EXAMINER SEE: All right. Very good.

Mr. Harter, I remind you that you are still under oath.

MR. NOURSE: Thank you, your Honor. I'd like to mark three exhibits. Three exhibits, your Honor, AEP 130 is the quote, unquote, full workpapers that were provided over lunch. Exhibit 131 is one of Mr. Harter's original workpapers, which is the one we'll need the full information on.

And I'd also like to mark as Exhibit 122A, this goes back to the FERC Form 1 composite we used earlier. Now we have additional units we are talking about. We have additional pages, so these are additional pages from the 2011 Ohio Power FERC Form 1, 122A, your Honor.

EXAMINER SEE: The exhibits shall be so marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

MR. NOURSE: I'm sorry, your Honor, the workpapers, Exhibit 130, everybody should have that already. I believe it was distributed.

EXAMINER SEE: The Bench does not.

MR. NOURSE: Mr. Jones distributed it.

And then 131 -- I'm sorry -- making sure it's the same thing. 131 is part of his original workpaper.

MS. KINGERY: Mr. Nourse, do you have any copies? We've run out.

MR. NOURSE: Which one?

MS. KINGERY: I don't know because I don't have it.

MR. PRITCHARD: Is this the FERC 1 form?

MR. NOURSE: I've handed out all the copies I have. I tried to save time by handing those all at once. I'm not sure I did.

- - -

RYAN T. HARTER

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

CROSS-EXAMINATION (Continued)

By Mr. Nourse:

Q. Mr. Harter, let's start with what we marked as Exhibit 130. That's the workpapers you handed out over lunch. Do you have that?

A. Yes.

Q. Okay. Do you also have Exhibit 122A,

which is the additional pages of the 2011 FERC Form 1?

A. Yes, I have the additional pages here.

Q. Okay. And do you also have the Exhibit 131, which is the generation workpaper?

A. I have the generation data in front of me.

Q. Do you recognize that as one of your original workpapers?

A. I recognize this as a response to a clarification.

Q. So you didn't provide any workpapers supporting your megawatt-hour data used in your model.

A. I have provided CSP and Ohio total generation.

Q. That's simply the generation supported with what you used in your model, right?

A. Just say that again.

Q. That is the generation that was used in your model, the megawatt-hours, correct?

A. That was the output of the month, correct.

Q. So when AEP asked for this information, this was the sheet you provided, correct?

A. Correct.

Q. And this sheet does not include the additional generation units that you're now including in the rest of your workpapers, does it?

A. It does not include the plants that I added over lunch.

Q. So what you gave AEP Ohio in response was incomplete, was it not?

A. Correct.

Q. Do you have the additional data that would complete the generation megawatt-hours?

A. I don't have it readily available.

Q. Okay.

MR. NOURSE: That's the portion we are asking be made available. We don't need it to proceed, your Honor.

Q. Let me ask you about the information you do have. Let me start by talking about heat rate for a couple of these units, additional units we had. You recall our discussion earlier of heat rates, and we went through the list of units that you had on your original workpaper, correct?

A. Correct.

Q. Okay. And we compared the heat rate that you used with the heat rate in the FERC Form

1 excerpt, correct?

A. Understand.

Q. Okay. So I just -- we don't need to go through all of these, but I'll go through a couple more with you regarding the new units you've added.

So, with respect to Cardinal 1, Cardinal unit 1, that is a unit that is now below the line you added; is that correct?

A. That is correct.

Q. And then the FERC Form 1 additional pages, if you turn to the second page, 402.1.

A. I have it.

Q. And you see Ohio Power's share of Cardinal lists the heat rate on line 44 of 9459?

A. I do.

Q. And in the last page of Exhibit 130, you have the heat rate for Cardinal 1 as 9000, correct?

A. That's correct.

Q. Okay. Like we said before, the higher heat rate would increase the cost, and so the lower heat rate that you used would understate -- I'm sorry overstate the margin, correct?

A. I'm looking at the total numbers here for comparison. Looks like we have a heat rate excessively higher than the total.

Q. The total numbers for?

A. Cardinal.

Q. Okay. Good, you're going into my next question. Is it your understanding that AEP does not own Cardinal units 2 and 3?

A. Yes. Let me confirm that with the long-term forecast that was provided to OP -- to the Commission.

Q. Mr. Harter, does it help you if you look at the second page of the FERC Form 1 excerpt where you see Cardinal, OPCo's, and Cardinal total?

A. It would be more direct to use the source that was actually used for the analysis. I believe we had that document here earlier today.

Q. Did you ask the company for any information about the units that would be used in the context of your energy credit or context of this case?

A. No, we didn't ask the company.

Q. Okay. Now, let me ask you about Lawrenceburg next. The Lawrenceburg unit, I thought you said earlier today that your analysis or your modeling made no accommodation for Lawrenceburg.

A. That was related to the change. We made a change for Amos and Mitchell. We did not make any

accommodation for Lawrenceburg, was the context of that statement. So we didn't remove it from our analysis is what I meant.

Q. So Lawrenceburg is in your analysis, correct?

A. Yes.

Q. Okay. And we found that out today. Look at -- let's look at the Stuart unit. The heat rate, go back to the FERC Form 1, Stuart is page 403.3. Do you see the heat rate of 9818?

A. I do.

Q. What is the heat rate in your workpaper for Stuart? This is unit 1.

A. The heat rate for Stuart 1 is 9381. I don't see that specifically noted here on the FERC Form 1.

Q. Okay. Let's go ahead and say what the heat rates are that you used. Are any of them 9800?

A. No, we didn't use any heat rates that were 9800.

Q. Okay. We can all see what it is on Exhibit 130. Okay. How about Zimmer's heat rate?

A. Heat rate used for Zimmer was 9522.

Q. That you used.

A. That's correct, sir.

1 Q. Okay. And then on the FERC Form 1,
2 page 403.4?
3 A. 10024.
4 Q. Okay. I don't need to go through the
5 rest of these, but let me ask you a couple more
6 questions about your additional generation units that
7 you've included. Now this is your workpaper. With
8 respect to the Stuart unit -- and let me ask you to
9 turn to the last page of the FERC Form 1 excerpt.
10 You see in the bottom half of the page there are
11 indications of ownership shares in these plants and
12 units?
13 A. Uh-huh.
14 Q. And in each list the respondent in this
15 case, Ohio Power Company, is listed last in the list
16 of percentages, okay? So on that basis what's your
17 understanding of AEP's ownership of Stuart?
18 A. It looks like this form is asserting it
19 owns 26 percent of Stuart.
20 Q. Okay. Zimmer.
21 A. 25.4 percent.
22 Q. And Beckjord 6?
23 A. State that again.
24 Q. Beckjord 6, the top one listed there.
25 A. I'm seeing it about mid page at 12-1/2

1 percent.
2 Q. Yes. And Conesville 4.
3 A. 43.5 percent.
4 Q. Okay. Now, go back to your Exhibit 130,
5 your full workpapers. Can you direct your attention
6 to Sporn 4 and 5?
7 A. Yes.
8 Q. You show this plant being in operation
9 through 2015.
10 A. And how do I do that?
11 Q. It's on here with costs through the
12 period, cost numbers, correct?
13 A. Right. These were calculated from the
14 inputs. These aren't actual -- because it has a
15 constant, doesn't necessary mean it is not retired.
16 Q. So what do all the zeroes mean when you
17 have those there?
18 A. They were pulled to -- for the sake of
19 expedience, we had to admit dropping those zeroes.
20 Q. We would need to get your generation
21 numbers we requested earlier in order to find out how
22 much energy you used in connection with Sporn 5, if
23 any?
24 A. I'm sorry?
25 Q. Would we have to get your additional

1 workpapers that I asked for earlier in order to get
2 how much Mwh you assigned to Sporn 5 during the
3 period of time 2012 through 2015.
4 A. If you wanted the total generation from
5 Sporn, you're asking if you would need updated data
6 from this exhibit?
7 Q. Not from 130; from 131, the one where you
8 show the generation for a partial list of units that
9 you used from 2012 to 2015. I can't tell from that,
10 can I, how much you assigned to Sporn 5?
11 A. I'm not sure you could tell if they were
12 updated. This is total plant generation.
13 Q. So these numbers -- when the company
14 asked you for the generation supporting your exhibit
15 and you provided this Exhibit 131, are you saying
16 it's just a generic list of numbers and it doesn't
17 relate to your model at all?
18 A. The company asked for generation from the
19 units. It would be helpful in a calibration exercise
20 to understand how they've been running in the past in
21 that comparison.
22 Q. And so you thought we were asking for how
23 much in generation units that we own, how much Mwh
24 they were capable of; is that what you thought we
25 were asking for?

A. I believed you were asking for forecasted generation to compare to your known data.

Q. Do you know whether you used any -- you assigned any Mwh to Sporn 5 in your modeling?

A. It was decided by the long-term forecast provided to the Public Utilities Commission.

Q. So how are we to know what you modeled as far as the generation that you used?

A. The generation that I used?

Q. Yes.

A. It's included in the hourly workpaper I provided.

Q. By unit. I'm talking about by unit, by plant, sir. That's what we've been talking about the last ten minutes.

A. Right. I haven't included anything in my workpapers that breaks it out by unit.

Q. Okay. And you haven't provided any in your testimony or workpapers or any other information that this Commission would understand that, have you?

A. Would understand it? Can you restate that again, sir?

Q. How much power used for the units that we now found out this afternoon that you used, I'm asking you about specific units. You don't know, and

you say you haven't provided any data supporting what you modeled. Am I missing something, or is that just --

A. You do not have a per-unit breakout of total unit of generation.

Q. Or a per-plant breakout?

A. I do not have a per-plant breakout.

Q. If I told you Sporn 5 was retired already, there's no way, since you've listed it, that I can tell you whether you assigned generation to it?

A. You could tell by referring to the document that I've already stated as my source in this analysis.

Q. I can tell by the LTMR, you mean? And that's something you disclosed after a couple rounds of cross-examination today. Is that what you're talking about today?

A. Yes.

Q. Okay. Does that document show the generation levels you have used in your modeling?

A. It doesn't show the generation level.

Q. There is no place where I could find that out. Am I wrong?

A. The question was whether or not you could verify I did not use a retired plant?

1 Q. That was one thing I might look at. I
2 used that as an example. What my question was, what
3 you used for your modeling based on units, plants?
4 Okay. How about Muskingum River 5. In
5 your workpaper we got this afternoon, you've got
6 Muskingum River 5 as going to zero in 2014.
7 A. Uh-huh.
8 Q. And then going to $30 in 2015. What does
9 that mean?
10 A. In the forecast -- this is -- it's EVA's
11 expectation that the emission markets are going to
12 peak in 2013 and 2014, that is, the price for
13 allowances. It will likely make it expensive enough
14 to preclude Muskingum River 5 from participating in
15 the market place in 2014. After the crash in 2015,
16 it's no longer this case.
17 Q. Well, I'm not sure I understand your
18 answer.
19 A. Can I state that again?
20 Q. Go ahead.
21 A. So we expect the allowance markets to
22 have peaking prices between 2013 and 2014. We also
23 expect, due to compliance, the emission market, or
24 the allowances, are going to fall steeply in 2015.
25 And I'm speculating here, I would have to do research

1 into the actual cause of this specific pattern, but
2 that's the most likely reason that it's not operating
3 in 2014 and is operating in 2015.
4 Q. You're speculating.
5 A. That's correct. I don't have a
6 specific -- that's correct.
7 Q. So are you saying now a zero means it's
8 not operating now, and the price in '15 means it is
9 operating?
10 A. It means it didn't generate in 2014.
11 Q. What if I told you MR5 was retiring in
12 2014, would that affect your speculation?
13 A. What data would support that?
14 Q. If MR5 was retiring in 2014, should there
15 be a value in 2015?
16 A. That would depend on -- no, there
17 shouldn't be, if that is consistent with our
18 expectations; so dependent on good enough data.
19 Q. Let me ask you to turn to your testimony,
20 page 9, and in lines 3 through 7, as I understand it,
21 you're making a claim that CRES providers are captive
22 customers in this context. Do you see that?
23 A. Yes, I see that.
24 Q. And then you state, "From a regulatory
25 standpoint, profits from off-system sales are

generally required to be redistributed to captive customers when a capacity charge is being collected." Do you see that?

A. I do.

Q. What is your basis for that statement?

A. My current understanding of the way regulated markets work.

Q. Your understanding. When you say "regulated markets," what do you mean by that?

A. So specific to this instance, markets where capacity price is being charged to a customer and the customer is captive.

Q. Okay. Are you talking about regulatory jurisdictions?

A. I don't -- I'm not speaking about regulatory jurisdictions.

Q. Okay. I'm asking for your support for the statement that "From a regulatory standpoint, profits from off-system sales are generally required to be redistributed to captive customers when a capacity charge is being collected." So what is your support for this, your general statement, as you say, "generally required to be redistributed"?

A. It's my understanding that off-system sales are included in the -- in the -- are included

1 in the total earnings of a company when being
2 reviewed for an effective rate base when we are
3 talking about a regulated market. Beyond that, I
4 don't have a cited source.
5 Q. And is it your understanding, as is
6 suggested by this sentence, that 100 percent of
7 off-system sales margins are sent back to the
8 ratepayer; is that what you're saying?
9 A. Generally in a regulated market; that's
10 the assertion of the sentence.
11 Q. But you don't have any examples to back
12 that up.
13 A. I don't have a cited source.
14 Q. And are you saying that sharing is not
15 more typical than sending 100 percent back to
16 customers, if you know?
17 A. I don't have an assertion about that.
18 Q. Okay. And you're not holding yourself
19 out as regulatory expert in your testimony today, are
20 you?
21 A. I'm not.
22 Q. And do you know, if you know, AEP Ohio's
23 retail generation prices in Ohio for its Standard
24 Service Offer rate plan, is there an off-system sales
25 sharing mechanism or credit at all?

A. AEP Ohio has a competitive -- it's a competitive market.

Q. I'm talking about the retail nonshopping generation rates. It's called "Standard Service Offer." Do you know?

A. Well, the fact that it has shopping kind of precludes it from this argument, but I don't know specifically.

Q. Okay. Let me ask you, have you seen a report by Jeff Jeffries, Equity Research, entitled "AEP Energy Margins Gone Wild"?

A. Yes. I saw something like that in passing.

Q. Did you read that document?

A. Quickly.

Q. Okay. Do you mind if I ask you some questions about it?

MR. JONES: I'd object, your Honor, as to relevance to this line of questioning. The document referring to the Jeffries report is some other analyst outside this proceeding giving their opinion.

MR. NOURSE: Your Honor, I'll withdraw the question. That's all I have. Thank you.

Thank you, Mr. Harter.

EXAMINER PARROT: Any redirect,

Mr. Jones?

MR. JONES: Yes. If I could have a few moments, your Honor.

EXAMINER PARROT: Take a moment.

(Discussion off record.)

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

Any redirect, Mr. Jones?

MR. JONES: Yes, your Honor, a few questions.

- - -

REDIRECT EXAMINATION

By Mr. Jones:

Q. When you used the fuel cost to calculate the energy margin contribution to FAS cost, did you use a standard industry index of prices, such as Henry Hub, or did you use prices as delivered to the generator?

A. We used our forecasted delivery prices, which would likely be in excess of Henry Hub prices. The same thing for coal, there's a sizable transportation and delivery cost associated with that.

Q. Okay. That is the industry standard, correct?

A. That is correct.

Q. Is it your expectation that your modeled energy prices would exactly match forward energy price?

A. No. That is not my expectation. Forward energies price are what people currently expect in the marketplace. It's what a person would be willing to enter into a contract for that energy price today. Likely, the future would be dissimilar to the current time.

Q. Did you use the member load ratio for any other purpose than for allocating energy margins to the AEP Ohio companies?

A. No. The only purpose of the MLR was to allocate off-system sale revenue or margin.

Q. And, Mr. Harter, do you recall discussing the data tables as inputs?

A. I do.

Q. Okay. Did you change any heat rates or fuel costs in the data tables you used to run the AURORA model before or after you ran that model?

A. No.

Q. So then, Mr. Harter, you did not attempt to take advantage or disadvantage to any generating unit, whether an AEP unit or any other unit?

A. No, I did not.

Q. And did the completeness or incompleteness of your so-called workpapers have any effect on the results of the modeling or analysis you did?

A. No. They'll have no effect on the results of my analysis.

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

EXAMINER SEE: Ms. Kern?

MS. KERN: No questions, your Honor.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions, your Honor.

EXAMINER SEE: Ms. Kyler?

MS. KYLER: No questions, you Honor.

EXAMINER PARROT: Mr. Pritchard?

MR. PRITCHARD: No questions.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions.

EXAMINER SEE: Mr. Lang?

MR. LANG: No questions.

EXAMINER PARROT: Mr. Petricoff?

MR. PETRICOFF: I have one question.

- - -

RECROSS EXAMINATION

By Mr. Petricoff:

Q. In your answer in redirect you indicated you would use some projected cost figures that had gone into your model.

A. That's correct.

Q. Do you have any feel, plus or minus, the range between the projection and what you would expect the actual to come out at?

A. Our expectation is that our forecasts are the best possible -- the closest we can come to the actuals coming out in the future. I don't have any -- any number that would reflect the delta.

Q. You are familiar in statistics sometimes they have degrees of confidence. We are very confident, plus or minus 10 percent, less confident, plus or minus 20 percent.

If you were going to assign that type of designation to your projections what these future prices would be when the future comes and you get to prepare them, where would you rank? Is that plus or minus 10, plus or minus 20?

MR. NOURSE: Your Honor, I object. I believe it goes beyond redirect and submit it's friendly cross.

EXAMINER PARROT: Did I hear an objection

from the end of the room?

MR. JONES: Same basis.

EXAMINER SEE: Mr. Petricoff.

MR. PETRICOFF: Probably if both sides are objecting, it can't be that friendly. But in terms of the scope I would just indicate if we're dealing with projected numbers, it's probably not a bad idea to find out what level of confidence we have in it.

EXAMINER PARROT: I'll allow the question.

A. The confidence intervals you're talking about require a model to be fully quantitative. Our forecasts come from our partners, so I couldn't speak for the confidence interval around those, just because I'm not part of that forecasting, but more so, it includes a lot of industry experience which I think would be difficult to assign a number to.

MR. PETRICOFF: Okay.

EXAMINER SEE: Mr. Nourse?

MR. NOURSE: Yes, your Honor.

- - -

RECROSS-EXAMINATION

By Mr. Nourse:

Q. Mr. Harter, did you think your initial

1 analysis, included when you filed your testimony, was
2 erroneous?
3 A. My initial analysis? Could you define my
4 "initial analysis"?
5 Q. When you filed your testimony, were you
6 confident that was correct?
7 A. You're talking about on the 16th?
8 Q. Your energy credit that was reflected in
9 RTH-1.
10 A. I was confident in my analysis.
11 Q. Then you subsequently changed the energy
12 credit by 20 percent, did you not?
13 A. As a result of revised numbers from the
14 company.
15 Q. Revised numbers or revised request for
16 new data?
17 A. The -- the original request was for
18 retail load. The company provided numbers that
19 included both switched customers and Wheeling Power.
20 That is the impetus for the change.
21 Q. Was the original request for connected
22 load, sir?
23 A. It was for retail load.
24 Q. Okay. Now, you stated in redirect
25 that -- I want to clarify this because I thought you

1 told me that you customized the tables in the model,
2 in the AURORA model, for heat rate. That was one of
3 the items you said you customized when I asked you
4 that.
5 A. During the implementation of the AURORA
6 model, which I led, I did. That was part of that
7 process. For this project, I made no additional
8 changes to the data set.
9 Q. So you incorporated the FUELCAST data, is
10 what you mean?
11 A. That's correct.
12 Q. But you didn't incorporate any AEP Ohio
13 data.
14 A. Nothing specific for this analysis.
15 Q. Okay.
16 MR. NOURSE: That's all I have.
17 EXAMINER PARROT: Attorney-Examiner See.
18 - - -
19 EXAMINATION
20 By Examiner See:
21 Q. Mr. Harter, I have a few questions for
22 you. During the course of your cross-examination,
23 you discussed the member load ratio.
24 A. That's correct.
25 Q. I want to understand the effect of the

1 member load ratio on your analysis. Did you indicate
2 that you made no adjustment to member load ratio for
3 termination of the Interconnection Agreement?
4 A. I'll add some clarification there. We
5 didn't make any adjustment to member load ratio to
6 account for the termination of the Interconnection
7 Agreement. If I explain how we used the member load
8 ratio, I think that will clear up the confusion.
9 Q. Okay.
10 A. If member load ratio is multiplied
11 against any margins maintained, or earned through
12 off-system sales, after the Interconnection Agreement
13 is ended, there would be no member load ratio, rather
14 than a change to member load ratio. As I noted, the
15 change would likely be fairly small.
16 Q. And you made no adjustment to the member
17 load ratio for the transfer of the Amos or Mitchell
18 plant?
19 A. That's correct.
20 Q. Why not?
21 A. It's -- the member load ratio is based on
22 relative -- at least to my understanding, based on
23 the relative load to the utility. Who has this asset
24 isn't going to change the member load ratio.
25 Q. Okay. Let's look at what has been marked

as AEP Exhibit 123, the comparison of heat rates. It's marked as AEP Exhibit 123?

A. I have a lot of paper here. May I just -- okay.

Q. Let me know when you have it.

A. Sure, comparisons of plant heat rates.

Q. Yes.

A. I have it.

Q. Okay. During the course of cross-examination, you acknowledged there were some differences in the heat rate that you used and the average heat rate shown on this exhibit for 2010 and 2011.

A. That's correct.

Q. Okay. Did the differences in the heat rate impact your energy credit calculation?

A. A different heat rate will affect the energy credit calculation. I will temper that with the fact that the heat rates are estimated wholesale, which keeps the plants from dispatching improperly. Again, because it's a relative stack, if you adjust one plant's heat rate without adjusting others, you're going to end up either advantaging or disadvantaging in the stack. Usually it's better to forecast all plants as best you can with the most

universal data.

Q. Okay. So would that difference affect the energy credit, as you've calculated it?

A. If I were to change the heat rate, that would change the energy credit.

Q. Significantly?

A. I wouldn't be able to tell without checking.

Q. Okay.

A. I would need a complete set of new heat rates for almost every plant in the eastern interconnect. It would be a pretty sizable task.

Q. If you change the heat rate for one, it would affect the others, and all those would be adjusted, if heat rate for each unit or each plant would be adjusted, based on the change you make to a particular plant?

A. No. The heat rates would be inputs to the model. They don't depend on each other.

Q. Okay.

A. The level to which they generate. Does depend on the other plants' heat rates.

Q. Now, moving to AEP Exhibit 119 and 120 -- I'm not sure if your exhibits are marked.

A. I don't have marked exhibits.

Q. 119 is the fuel costs VOM and emission costs. I think this is your workpapers.

A. Okay. Which number is that?

Q. I think it's marked AEP Exhibit 119.

A. Okay. And this is fuel cost from VOM or the hourly data?

Q. Fuel cost from VOM.

A. Okay.

Q. And also if you would look at what's been marked as AEP 120, NYMEX Henry Hub Natural Gas Futures.

A. I have it.

Q. What impact, if any, do the differences in these rates shown on these two sheets have on your -- on the calculation of your energy credit? Let me try that again.

You have a calculated gas price of approximately 4.36 for Waterford and 4.33 for Darby.

A. I don't recall. That sounds right.

Q. Okay. Versus the gas futures and fuel cost price shown on this exhibit. Does it have an impact on your energy credit calculation?

A. So the numbers reflected in the fuel costs are delivered fuel prices, so they're going to have -- likely going to be higher than Henry Hub. In

1 addition to that, there's annual numbers, so they're
2 going to reflect the full 2012, which you'll see is
3 increasing. If these numbers change, it will change
4 the energy credit. But this is EVA's forecast, which
5 we provide to several clients.
6 Q. Exhibit 119 is based on the forecasts
7 provided by EVA?
8 A. The fuel costs.
9 Q. Yes, okay. Earlier today in
10 cross-examination with counsel for IEU-Ohio, I think
11 at that time it was Mr. Randazzo, he asked you about
12 several factors that I believe you said you didn't
13 account for. Do you recall that line of questioning?
14 It's been awhile, so if you don't.
15 A. 10:00 o'clock, it's pretty hazy for me.
16 Q. Let me ask you about a couple of factors
17 and see if you accounted for them as part of your
18 calculation for the energy credit. Okay?
19 A. Okay.
20 Q. Are you familiar with governmental
21 aggregation?
22 A. I did not make -- I'm not familiar how it
23 applies to my testimony.
24 Q. Are you familiar with governmental
25 aggregation programs in Ohio?

A. I'm not.

Q. Okay. On that basis, do you believe that it would affect the calculation of your energy credit or, did you attempt to account for it as part of the calculation of your energy credit?

A. I can't see how it would affect the value of the assets we talked about here.

Q. Okay.

A. But, again, I'm not very familiar with the topic.

Q. Okay. I think you also admitted that you used the long-term forecast report to develop the analysis set forth in your testimony, correct?

A. Correct.

Q. And do you know if I referred to a fixed -- to an FRR, do you understand what I mean when I say that AEP is an FRR entity?

A. Yes, I do.

Q. And you understand that being in PJM, the delivery year runs from June 1 to May 31?

A. Sure. I --

Q. Would there be any timing difference between using the inputs from the long-term forecast report as compared to the delivery year?

A. We use a long-term forecast to decide

which plants are attributed to -- or just to verify which plants are owned by AEP Ohio. The delivery year won't have any effect on my analysis. We are talking about the value these plants will generate. The value doesn't depend on the capacity market.

Q. Okay. Are you familiar with the market rules of PJM?

A. To a point.

Q. What about the market rules of MISO?

A. Less so.

Q. Are you aware of any differences between the market rules of MISO and PJM?

A. I'm not aware of any that would affect the analysis.

EXAMINER SEE: Thank you.

THE WITNESS: Thank you.

EXAMINER SEE: Mr. Jones, would you care to give your exhibits?

MR. JONES: Yes. I'd like to move for the admission of Exhibits 101 and 102.

EXAMINER SEE: Any objection to the admission of Staff Exhibit 101 or 102?

Hearing none, Staff Exhibit 101 and 102 are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Nourse?

MR. NOURSE: Thank you, your Honor. I have AEP Exhibit 117 through 128, and then I believe Mr. Conway used 129 for Mr. Smith, so I've got Exhibit 130 and 131. I'd move for all those exhibits.

EXAMINER PARROT: And 122A as well?

MR. NOURSE: 122A. Thank you.

EXAMINER PARROT: Are there any objections to the admission of AEP Exhibits 117 through 128, AEP Exhibit 130, 131 or 122A?

MR. LANG: Your Honor, we have a few.

EXAMINER PARROT: Mr. Lang?

MR. LANG: None on 117.

On 118, the column, the AEP Dayton hub column, I believe was not authenticated and it's hearsay.

MR. NOURSE: Your Honor, the witness stated he was familiar with the data. He said it looked right, and he accepted it, so I don't think there is any basis to suggest that it is not as represented.

MR. LANG: My understanding he was familiar with zone price number which he generated. He did not authenticate the Dayton hub data.

MR. JONES: Staff would join in that objection, as Mr. Lang characterized it. We believe that's accurate.

MR. NOURSE: I think the record will show that he stated, he said it looked right, and that he accepted it. He didn't say anything about it not looking right.

EXAMINER PARROT: I'll take them all at the end, so continue, Mr. Lang.

MR. LANG: Exhibit 120 has the heading "NYMEX Henry Hub Natural Gas Futures." Same thing, not authenticated, hearsay, and this one, this is a document that AEP apparently typed up from somewhere, has no reference, don't even know where it's coming from.

MR. NOURSE: Your Honor, once again, I did ask the witness if he was familiar with this, and the witness did not challenge this data at all, and I believe he accepted it as accurate.

MR. LANG: If I could go on?

EXAMINER SEE: Yes.

MR. LANG: 121, we have no objection.

122, I don't think Mr. Nourse actually had the witness authenticate this document, simply assumed this was, you know, the FERC document and

1 then discussed Exhibit 123 and 124. We would then
2 object because it was not properly identified and
3 then also object to 123 and 124 that are based on
4 No. 122.
5 MR. NOURSE: Well, your Honor, you know,
6 I think it was certainly identified and represented
7 to be FERC Form 1 when I introduced and marked it.
8 You know, there's a host, a long list of exhibits
9 that have been admitted in this case that are public
10 filings and that are self-authenticating, so I think
11 that's disingenuous to make that argument coming from
12 FirstEnergy.
13 MR. LANG: And the only point of that is
14 Mr. Nourse may have identified it, but I don't
15 believe the witness did.
16 But Exhibit No. 125, which Mr. Nourse
17 identified as a -- he called it a "compilation
18 exhibit." It again has -- it was used both with
19 Mr. Harter and Mr. Smith, It was not authenticated by
20 either. Mr. Smith said it did not relate to either
21 what he or Mr. Harter did. It appears to be more of
22 a summary, I think, more of what Dr. Pearce did.
23 It wouldn't surprise me if it shows up in
24 rebuttal as a Dr. Pearce exhibit, but I don't think
25 it was properly used with this witness.

1 MR. NOURSE: Well, your Honor, when I
2 first introduced it, I indicated to the witness the
3 source and we discussed that. I gave an additional
4 source of KDP exhibits for the ones marked workpapers
5 here. And it is a compilation exhibit. The
6 information is elsewhere in the record for the
7 convenience of cross-examination.
8 MR. JONES: Your Honor, on Exhibit 120,
9 staff would join in on the exhibit being hearsay;
10 also on Exhibit 125, as it not being properly
11 authenticated by the witness.
12 MR. LANG: On 126, we have no objection.
13 On 127, we did object. This exhibit is
14 more argument. Again, it's something that AEP
15 prepared and has a heading about a "Limited
16 Application of MLR," which the witness disagreed
17 with, and so it was identified as not accurate, I
18 believe, by the witness; and, therefore, again, was
19 not authenticated and should not be relied upon with
20 this witness.
21 MR. NOURSE: Your Honor, I think that's
22 false. The witness did not say anything about it
23 being inaccurate. I indicated to him specifically
24 during cross that he noted the source was
25 RTH-1 Revised.

He did verify the numbers were the same and he also verified the dollar per megawatt-day calculations on the right two columns were equivalent to the data on the left side, and then we walked through the information in the box and he accepted it as accurate.

MR. LANG: To the remaining exhibits, no objection.

MR. PRITCHARD: Your Honor, as to AEP Exhibit 122A, the FERC forms, Mr. Nourse referenced several documents admitted in this proceeding being self-authenticating, but he has not indicated the FERC Form 1 itself that he wished to admit is a self-authenticating document.

EXAMINER PARROT: Any there any other objections?

MR. NOURSE: I want, when I get a chance, I'd like to raise another matter.

EXAMINER PARROT: With that, AEP Exhibits 117 through 128, 130, 131, and 122A are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. NOURSE: Thank you, your Honor.

EXAMINER PARROT: Mr. Nourse.

MR. NOURSE: Yes. Earlier on the record,

1 I mentioned I wanted to request information that's
2 comparable -- well, I thought it was comparable to
3 Exhibit 131, which was produced by then. The witness
4 stated this was just generic data that indicates the
5 output of these units rather than what he actually
6 used in the modeling.
7 So if you look at Exhibit RTH-1, there's
8 a column called "Total Generation MWh" and this is
9 what I've asked him for on the record, and he's
10 indicated nowhere in the record, nor in his
11 workpapers, that he can provide the generation that
12 was used for his modeling by unit, by plant.
13 And so I think, you know, at this stage
14 of the proceeding it's not too much to ask that we
15 get an explanation, especially given all the
16 confusion about the units and plants that were used
17 in the modeling, to indicate -- not talking about a
18 daily or an hourly, just by year, by unit -- the Mwh
19 that is attributable to each generation resource that
20 comprises the totals in his RTH-1, total generation
21 Mwh column. I'd request that the staff produce that
22 information as soon as possible.
23 EXAMINER PARROT: Mr. Jones.
24 MR. JONES: Your Honor, again, I
25 reiterate the fact we don't believe it's part of the

1 workpapers as to this analysis in this case; however,
2 we will cooperate here and produce that generation
3 data. It will have to be Monday to get that
4 information.
5 MR. NOURSE: Thank you, Mr. Jones.
6 EXAMINER PARROT: Thank you, Mr. Jones.
7 Mr. Harter, you are excused. Thank you.
8 EXAMINER PARROT: Mr. Lang.
9 MR. LANG: Yes, Your Honor, FirstEnergy
10 Solutions calls Dr. Jonathan A. Lesser.
11 - - -
12 JONATHAN A. LESSER
13 being first duly sworn, as prescribed by law, was
14 examined and testified as follows:
15 DIRECT EXAMINATION
16 By Mr. Lang:
17 Q. Dr. Lesser, would you identify yourself,
18 name and business.
19 A. My name is Jonathan A. Lesser. I'm the
20 president of Continental Economics, Inc. 6 Real
21 Place, Sandia Park, New Mexico.
22 MR. LANG: Your Honor, I ask Dr. Lesser's
23 prefiled testimony be marked as FES 103.
24 EXAMINER PARROT: So marked.
25 (EXHIBIT MARKED FOR IDENTIFICATION.)

1 Q. Dr. Lesser, do you have your prefiled
2 testimony in front of you?
3 A. I do.
4 Q. And can you identify Exhibit No. 103 as
5 your prefiled testimony?
6 A. I can.
7 Q. Do you have any corrections you would
8 like to make to your testimony?
9 A. Yes, I do have a few corrections.
10 Q. Can you tell me the first correction,
11 please?
12 A. Yes. Page 42, line 17, the number "2011"
13 should be "2001."
14 Q. So that's the question that says "post
15 2011." It should be "post 2001."
16 A. Correct.
17 Q. Next correction.
18 A. Page 20, footnote 59, if you look in the
19 second line of that for the note in words "returned
20 in" should be "returned is."
21 Q. Next correction.
22 A. Page 54, table 6, note 14, it should read
23 (10) divided by (13).
24 MR. CONWAY: The change is to substitute
25 "13" for "11"?

1 THE WITNESS: That's correct.
2 Q. Any more corrections?
3 A. Yes, plenty more. On page 55, line 16,
4 you'll see is figure "77.53." That should be
5 "78.53."
6 Q. Thank you. Dr. Lesser, if I asked you
7 the same questions in FES No. 103, would you provide
8 the same answers today?
9 A. Yes, I would.
10 MR. LANG: Your Honor, Dr. Lesser is
11 available.
12 EXAMINER PARROT: Ms. Kern?
13 MS. KERN: No questions.
14 EXAMINER PARROT: Mr. Yurick?
15 MR. YURICK: No questions. Thank you,
16 your Honor.
17 EXAMINER PARROT: Ms. Kyler?
18 MS. KYLER: No questions.
19 EXAMINER PARROT: Mr. Pritchard?
20 MR. PRITCHARD: No questions.
21 EXAMINER PARROT: Ms. Kingery?
22 MS. KINGERY: No questions, your Honor.
23 EXAMINER PARROT: Mr. Petricoff?
24 MR. PETRICOFF: At this time, no
25 questions.

1 EXAMINER PARROT: Mr. Conway?
2 MR. CONWAY: Thank you, your Honor. I do
3 have a motion to strike. The first one is at
4 page 14, lines 5 through 14. At this point,
5 Dr. Lesser is providing a legal interpretation of the
6 provisions of SB 3, a legal opinion and argument.
7 It's appropriate for FES to include this text in its
8 brief, but it's not appropriate for Dr. Lesser's
9 testimony.
10 I have three other items if you would
11 like me to briefly cite to them so we have them all
12 at once.
13 EXAMINER PARROT: Yes.
14 MR. CONWAY: On page 34, lines 3 to 6,
15 there's a sentence that begins "Indeed, in an Entry
16 on Rehearing," and it goes on to provide an
17 interpretation of one of the rehearing entries from
18 the first ESP case. Again, that's a legal opinion
19 and interpretation regarding the entry on rehearing.
20 It's not appropriate for Dr. Lesser's testimony.
21 And then this third item begins on
22 page 41, the question at the bottom of the page,
23 lines 26 and 27, and continues over to the next page,
24 and includes the answer at the top of page 42, as
25 well as the question and answer that follows. Again,

1 this is a question and answer that seeks Dr. Lesser's
2 opinions about the impact of the provisions of SB
3 3 regarding stranded costs recovery and his legal
4 opinion and legal argument, and it would be
5 appropriate for a brief but not his testimony.
6 MR. HAYDEN: Your Honor, if I can have
7 clarification where that last motion to strike ends.
8 MR. CONWAY: Line 16, page 42, it's
9 the first -- the answer on page 43, as well as
10 question that precedes it on 41, and question and
11 answer on lines 9 through 16.
12 Then finally on page 43, beginning at
13 lines 1 and including the rest of page 43, and then
14 continuing over to page 44, and lines 1 through 12,
15 and then the first sentence of the next paragraph --
16 excuse me, lines 11 and 12, the motion to strike ends
17 after the word "capacity," so it does not affect the
18 sentence that begins with the phrase "Indeed, if AEP
19 Ohio." The motion to strike continues through
20 line 12 and the word "capacity" on line 12.
21 Then, finally, the first sentence of the
22 next paragraph on lines 18 through 20, again, these
23 passages are all legal argument, legal interpretation
24 and not appropriate for Dr. Lesser's testimony,
25 although I'm sure we will see them in FirstEnergy's

1 post-hearing briefs that their lawyers file.
2 That's my motion to strike, your Honor.
3 EXAMINER PARROT: Mr. Lang.
4 MR. LANG: Your Honor, it's clearly the
5 capacity that Dr. Lesser is testifying as an expert
6 on utility regulation and as an economist.
7 Mr. Conway, in the prior ESP proceeding,
8 cross-examined him on these same issues with the
9 understanding that Dr. Lesser is not a lawyer. He is
10 stating his understanding, again, as an expert in
11 utility regulation and as an economist. He is not
12 tendering legal argument. He is offering his
13 understanding, particularly, of the regulatory events
14 that occurred for AEP Ohio going back to the electric
15 transition plan and the stranded cost issues that FES
16 believes is a central issue in this case.
17 The one sentence on page 34 is again
18 simply Dr. Lesser's statement of the reading of the
19 entry on hearing, and he can certainly be crossed on
20 whether that is accurate or not.
21 And the motion that starts or page 41,
22 goes over on page 42, again is what regulatory
23 language applies to AEP Ohio's capacity costs in this
24 case. I'm not really sure why the question and
25 answer that starts for page 42, line 9 is included

because it doesn't come within the argument that Mr. Conway is making in terms of providing legal opinion. I certainly don't see that on that page.

And the remaining issues, again, are the -- goes to the 4 percent cases that AEP was involved in, and, again, it's not legal testimony. It's history of what AEP was involved in and responding to AEP's arguments made in this case that there has been, you know, regulatory changes past through 2005 which allows them to recover stranded costs that they waived in the ETP case. One of their arguments is going to the time period in 2007 which Dr. Lesser is addressing.

EXAMINER SEE: Thank you, Mr. Lang.

Mr. Conway, your motion to strike is denied. You may question the witness as to whether he is offering a legal or lay opinion.

MR. CONWAY: Thank you, your Honors.

- - -

CROSS-EXAMINATION

By Mr. Conway:

Q. My first question, you are not an attorney, are you?

A. No. As stated, the things you referred to and, indeed, everything in my testimony is based

on my opinions as an economist and an expert on regulatory economics, and my understanding is based on my own reading of the various documents I'm citing.

Q. So you're not providing any legal opinions or legal arguments in your testimony, are you?

A. No, I am not. I will leave that for Mr. Lang.

Q. Dr. Lesser, you mentioned the ESP/MRO test at one point in your testimony, page 18, line 13. Let me know when you get there.

A. I'm there.

Q. The Ohio Commission has utilized a competitive benchmark price to conduct the ESP/MRO test, right?

A. That's my understanding. That's the purpose of the MRO test.

Q. The purpose being to use a competitive benchmark; is that right -- I'm sorry, a competitive benchmark price.

A. My understanding and interpretation of MRO is market rate offer, which I understand is supposed to mean a competitive benchmark price.

Now, my own interpretation of, for

1 example, AEP witness Ms. Thomas' ESP/MRO comparison,
2 certainly in the last ESP case and in the ESP
3 testimony that was filed several weeks ago, is not
4 such a test, but I believe that's what it's supposed
5 to be.
6 Q. In any event, the Commission uses a
7 competitive benchmark price in that ESP/MRO test,
8 right?
9 A. That's my understanding, yes.
10 Q. And competitive benchmark price includes
11 a number of components, one of which is the capacity
12 component, correct?
13 A. That's correct.
14 Q. And the capacity price that the
15 Commission used is the one that AEP Ohio charges, at
16 least that's what's happened in the past, right?
17 A. When the price was the RPM price, that
18 would be the appropriate price to use in that MRO
19 comparison; however, as I've testified in the
20 previous ESP case, and certainly in this instance, I
21 disagree strongly that AEP's representation of its
22 embedded cost, which is of course wrong in my
23 opinion, should be used in that MRO part of the
24 comparison. That is not the appropriate price.
25 MR. CONWAY: May I have my question

1 reread?
2 (Record read.)
3 MR. CONWAY: Your Honor, I'd like to
4 strike the answer and ask the witness to simply
5 answer the question. It was not responsive.
6 EXAMINER PARROT: The motion is denied.
7 Q. Dr. Lesser, in the first ESP for AEP
8 Ohio, the Commission used, as the capacity component
9 of the benchmark price, the price for capacity that
10 AEP Ohio was actually charging; is that correct?
11 A. Mr. Conway, I believe I just answered
12 that. Wasn't AEP charging the PJM RPM market price?
13 Wasn't that the basis for the comparison at that
14 time?
15 Q. Can you answer the question?
16 A. I just did. It was the RPM market price
17 was used in the MRO comparison.
18 Q. And was that the price that AEP at the
19 time was charging?
20 A. That was the price that AEP was charging,
21 yes.
22 Q. So if the Commission approves a capacity
23 price in this proceeding, do you agree or disagree
24 that's the capacity price that should be used as a
25 competitive benchmark in the upcoming ESP case?

A. I disagree. The correct price is the RPM market price.

Q. So if the Commission approves a price other than the RPM price, you think it would be inappropriate to include that other price in the competitive benchmark?

A. From an economic standpoint that is my opinion.

Q. Let me turn you to your table 1. I think it is on page 21. On table 1 on page 21, I take it, you are comparing the base generation rates for CSP, Ohio Power, and then on a merged basis, AEP Ohio, and you're comparing them to capacity/ancillary service rates; is that right?

A. That's correct.

Q. And the capacity rate that you're using in the comparison is the company's proposed $355 per megawatt-day.

A. It is based on that and it is based on Ms. Thomas' -- that's AEP witness Thomas in the previous ESP case -- her conversion of that $355 per day figure into dollars per megawatt-hour figures for each rate class residential, commercial, and industrial.

Q. And those converted values are found in

1 the second subtable of table 1.
2 A. That's correct.
3 Q. Okay. And the first subtable at the top,
4 those are the base generation rates to which you
5 conduct the comparisons.
6 A. That's correct. Those base generation
7 rates were taken from the workpapers provided by AEP
8 witness Roush in that ESP 2 case from last year.
9 Q. And the comparison is also -- not also.
10 The comparison is made against ultimately the sum of
11 the capacity and ancillary service rates.
12 A. That's correct.
13 Q. And the ancillary service rates, where
14 did you get those values?
15 A. That's in this third subfile, and, again,
16 the source, that was also Ms. Thomas' Exhibit LGT-1.
17 Q. And let me go back up to the table,
18 the first subtable, the base generation rates. As I
19 understand it, those are supposed to be the rates
20 that are currently in effect that are holding over
21 from ESP 1 at this point.
22 A. That's my understanding, yes.
23 Q. And the ancillary service rates, those
24 are the values that were in the competitive benchmark
25 price that Ms. Thomas presented in the prior

1 iteration of this ESP 2; is that right?
2 A. That's correct.
3 Q. And then in the fourth subtable, you just
4 sum the capacity rates in the second subtable with
5 the ancillary service rates; is that right?
6 A. That's correct.
7 Q. And the last subtable is simply the
8 difference between the fourth subtable and the first;
9 is that right?
10 A. That's correct.
11 Q. Okay. Do you know how the retail rates
12 of AEP Ohio recovers ancillary service costs, in
13 which rate it recovers the ancillary service costs?
14 A. My understanding it recovers it through
15 the base generation rate. That has been what has
16 been represented by AEP witnesses.
17 Q. And are you aware of whether or not
18 ancillary service costs are recovered through the
19 transmission cost recovery rider? Do you have any
20 idea that might also be a source of recovery?
21 A. If the entire ancillary services cost
22 estimate is recovered through this base generation
23 rate, I would not expect it to be recovered through
24 the transmission rider. That would be double
25 collection.

Q. And would your view be the same if the converse situation, if the costs are being recovered in the transmission rate, it wouldn't be appropriate to include them and recover them in the base generation rate?

A. If that was your representation -- and I'm not either agreeing or disagreeing with that representation -- but if on an hypothetical that was the case, then, again, it would not be appropriate for AEP to double-recover those costs.

What I've done in this table, be clear, I have used AEP's own numbers and compared it, compared their capacity number with their existing base generation rate. And AEP witness Allen, I believe it was him, represented that the capacity costs were fully included in the BGR retained profits. As this table show and my testimony explains, that is simply false.

Q. But I want to concentrate on the ancillary service rate and its cost, for the moment. And if it's the case that the ancillary service costs are being recovered through a rate other than the base generation rate, then you would agree with me, would you not, you should not be adding the ancillary service rate you have in your table 3 to the capacity

1 rates before making the comparison in table 5?
2 A. Well, I would have -- that would strike
3 me as very odd, because AEP's witnesses have
4 represented that those ancillary service are included
5 in the base generation rate.
6 However, let's, as a hypothetical, let's
7 assume you're correct and let's remove that 60-cent
8 value. And so really we'd be then comparing subtable
9 1, the base generation rate, with subtable 2, the
10 capacity rates. From there it's very clear you can
11 see automatically that AEP's representation that the
12 BGR fully recovers their $355 stated embedded costs
13 is simply false. It doesn't.
14 Q. Let me focus on the BGR rates now up in
15 subtable 1, which, I think we established, those are
16 the rates from ESP 1 that have been carried forward
17 now until today; right?
18 A. That's correct.
19 Q. Okay. Do you recall whether or not in
20 ESP 1 there was an environmental investment cost
21 recovery rider established?
22 A. I do not recall specifically when that
23 rider was established.
24 Q. Do you recall whether as part of the
25 activities at the end of last year and the beginning

of this year, the environmental investment carrying cost rider rates were incorporated into the base generation rates, added to them?

A. I do not recall.

Q. Well, if it turned out that the values you have shown here in subtable 1 as the base generation rates do not reflect the incorporation of the environmental investment carrying cost rates, would you agree that your base generation rates that you show in subtable 1 should be increased to reflect this incorporation of the environmental investment carrying cost rates?

THE WITNESS: May I have that question reread, please.

(Record read.)

A. No. For purposes of what I'm accomplishing with this table, I don't think that's correct, Mr. Conway. This, again, is based on what was the existing ESP rate data as represented by AEP for the base generation rates that were represented by AEP witness Roush and the capacity rates that were represented by ESP witness Thomas.

And even if we ignore the ancillary services costs to make it easier, again, it shows that what AEP represented as the BGR rates, including

1 the full embedded capacity costs, is simply wrong.
2 Q. So your view is we should compare -- it
3 would be okay to compare base generation rates that
4 don't include the environmental investment carrying
5 costs rate elements.
6 A. No. Mr. Conway, I think you're trying to
7 muddy the record. Let's use a hypothetical numerical
8 example to make it a little easier. Let's suppose
9 the environmental carrying costs charge is $5 a
10 megawatt-hour. Is that a reasonable assumption?
11 Will you accept that?
12 Q. I don't know what a reasonable assumption
13 would be.
14 A. Well, it's greater than zero.
15 Q. Let's say it's $5.
16 A. Let's say it's $5. Then let's say the
17 BGR rate, including the environmental carrying cost,
18 is $5. We would add $5 to those rates, so we would
19 have $25.13, for example, for the CSP residential
20 costs.
21 Now, if I then said, let's compare the
22 capacity costs, the full embedded capacity cost rate,
23 to the BGR rate with that environmental carrying cost
24 rider in there, what I would do is, of course,
25 subtract the $5 and I would look at what is left, and

what's left would again be $20.123. And I would compare that to the $28.17, and my conclusion is unchanged.

Q. I'm sorry. So your point is that if you were to add in the environmental investment carrying cost rate into the base generation rate, you would nevertheless, before you made this comparison, remove it?

A. Because of what I'm trying to compare is I'm testing the hypothesis that the full embedded costs, as represented by AEP, is included in that base generation rate, essentially of whatever's left of capacity and energy, and it would clearly be that's just not true.

Q. But, I guess, what I don't understand is why, if the environmental investment carrying costs rider rate is a -- is a base generation rate element, why you wouldn't include it in the base generation before you made this comparison?

If you already explained it as best you can, I'll move on, but if you want to take another crack at it, please do.

A. Let me try once more. Let's try a different hypothetical. Let's suppose the 2013 value for CSP residential customers in fact includes the

environmental carrying costs rider.

Q. We're talking about the $20.13.

A. That's correct.

Q. And we're assuming that the environmental investment carrying costs rider rate is actually included in the $20.134.

A. Yes, as an example. Now, what that would mean is that BGR rate includes energy, capacity -- we'll leave out ancillary services just to make it easier -- and the environmental investment carrying cost rider of $15, and all that totals to $20.13. Do you follow my example so far?

Q. Well, I follow your example, but it's contrary to the example that I posed to you, but go ahead.

A. Well, and I'll get to your example, too. In that example it's clear that because the sum of those three costs components is less by $8 -- well, $8 roughly, per megawatt-hour, and the capacity rate that is the result of the embedded costs that AEP claims, that the BGR rate cannot possibly include all of the embedded capacity costs.

Now, let's go to the second version where we would add an environmental carrying cost, so the BGR rate really isn't $20.13, but let's say it's an

1 additional $5. Let's say the BGR rate is $25.13.
2 Now, if I wanted to see how does the energy and
3 capacity component compare to the claimed embedded
4 capacity costs value, what would I do? Well the
5 first thing you would do is subtract out the $5.
6 Q. That's where I'm losing you. Why would
7 you subtract out the $5?
8 A. Because we know in our hypothetical that
9 the $5 represents the environmental carrying costs,
10 so we're going to subtract that because we want to
11 focus on just what is the capacity value the embedded
12 capacity.
13 Q. Wait a minute. If you don't mind, we
14 want to compare the capacity rate, on the one hand,
15 to the actual base generation rate the company is
16 collecting, don't we?
17 A. We want to compare the capacity cost that
18 is in base -- that's reflected in this base
19 generation rate to the claimed capacity rate, in this
20 case, what Ms. Thomas came up with, based on
21 $355.72 a megawatt-day.
22 Q. I thought you were comparing the base
23 generation rate to the capacity and ancillary service
24 rate, or in our version, just the capacity rates.
25 Now we're not comparing the base generation to

capacity costs; we're comparing capacity costs the company is proposing to some other capacity costs; is that what you said?

A. No. Let's try again.

Q. All right.

A. Base generation includes AEP's energy and capacity costs.

Q. The base generation rate is a rate, isn't it? It's just a number that's in the tariff that the company is collecting. That's the first thing that -- that's what you are trying to reflect in your subtable 1, is it not?

A. I'm sorry to interrupt you counsel.

Q. Thank you.

A. Would you repeat what you said?

MR. LANG: Can we have the question read, back please?

(Record read.)

A. The base generation rate includes, according to AEP witness Allen, the full embedded cost of AEP's calculation, in other words, the $355.72. AEP Allen said that cost is reflected in ESP base generation.

Q. My question isn't what the base generation rate recovers as far as cost. My question

is what is the base generation rate? And the follow-up question, isn't the base generation rate equal to the amount the company is actually charging, which includes what previously was the environmental investment carrying cost rate?

MR. LANG: Objection to form. I mean, we could find out which question he wants him to answer.

MR. CONWAY: I think it is clear. If you can't answer, tell me.

THE WITNESS: Can I have the question reread?

(Record read.)

THE WITNESS: Can I respond?

EXAMINER PARROT: We should take them in two parts. There were two questions you actually put to the witness. Do you want him to answer both of them?

MR. CONWAY: I want him to answer the second first.

EXAMINER SEE: Okay, answer the second one.

THE WITNESS: I'm sorry.

(Record read.)

A. So you are asking me, Mr. Conway, whether the current base generation rate includes the

environmental investment carrying cost? That was your follow-up question?

Q. Whether it includes the environmental investment carrying cost rate.

A. Well, I think we actually started with that a long time ago, and I was not sure whether it included it or not. However, for purposes of my comparison here, whether it's included or not does not matter to my conclusion that AEP's representation that the base generation rate it is currently charging, collects from SSO customers, the full $355 per megawatt-day capacity cost that AEP is claiming in this proceeding is false.

Q. You would agree with me, Dr. Lesser, wouldn't you, that the values that are in your subtable 1, on page 21, should be the actual base generation rates that AEP Ohio is charging?

A. Yes, I would agree with that. And that's why I used AEP witness Roush's workpapers, which I presume reflected the actual base generation rate that AEP was charging. If that is not the case and his workpapers are wrong, A, I'm not aware of it, and I'd certainly like to see his corrected workpapers.

Q. When you say "his workpapers," do you mean the workpapers he submitted with the testimony

1 for the stipulation hearing?
2 A. I believe that's the case.
3 Q. That would have been in my hypothetical
4 before, the environmental investment carrying cost
5 rate was merged into the base generation rate, right?
6 A. If your hypothetical, yes.
7 Q. Let me turn to a different topic, which
8 is another of your tables, table 6. Actually, before
9 I get there, I did want to thank you for -- I wanted
10 to thank you for your table 5.
11 Now, let's turn to table 6.
12 A. You're welcome for table 5. And I'm at
13 table 6.
14 Q. Table 5 includes the deferred fuel
15 expenses and adjustment, right?
16 A. That is correct. That is correct.
17 Q. Which you know is near and dear to my
18 heart from the last time we talked.
19 A. Yes, we do. You were correct.
20 Q. I wanted to discuss as a preliminary
21 matter to table 6, the various types of off-system
22 energy sales whose earnings might end up or do end up
23 in FERC Form 1, and I understand it -- and correct me
24 if I am wrong -- one type of off-system energy sale
25 earnings that might result from off-system sales are

1 those that are earnings from energy sales that are
2 freed up when CRES providers purchase capacity from
3 AEP Ohio to serve their shopping customers; is that
4 right?
5 A. Not quite. When CRES customers serve
6 previously AEP's SSO customers, or when an SSO
7 customer switches and takes service from a CRES
8 provider, the energy that that customer was
9 previously -- or what AEP was previously providing is
10 now freed up and so AEP can sell that energy.
11 Q. Maybe I misspoke.
12 A. You were talking about capacity.
13 Q. Oh, I'm sorry, thank you very much for
14 correcting me. I have capacity on the brain now.
15 Thank you.
16 Okay. So there are off-system energy
17 sales that are comprised of energy sales for resale
18 that result from freed up -- that is freed up when
19 capacity is sold to CRES providers.
20 A. Energy, when energy is sold.
21 Q. When energy is sold, but capacity is
22 sold. Well, capacity is sold to CRES providers and
23 that frees up that related energy to be sold on the
24 system, doesn't it?
25 A. No.

Q. No?

A. AEP is providing a capacity requirement to all of AEP's load.

Q. I want to focus on just the capacity sold to CRES providers.

A. Let me finish.

Q. Okay.

A. Whether or not an SSO customer switches to a CRES provider, AEP's responsibility as an FRR provider, its capacity responsibility is completely unchanged. The responsibility is AEP's load, and that's why the whole argument about wholesale versus retail that we discussed in the last ESP proceeding is simply false. That's why Mr. Munczinski -- sorry if I mispronounced his name -- talked about CRES providers being the middleman. Well, he's absolutely right. So it is all a retail charge.

Q. Okay. Let me try one more time. Is it the case when AEP Ohio sells capacity to a CRES provider that there then is energy freed up for sale to a third party?

A. Because a CRES provider must rely on AEP Ohio if it wants to sell energy to an AEP retail customer.

Q. Who is "it" in the sentence?

A. I'm sorry?

Q. Who is "it," it wants to sell.

A. If a CRES provider wishes to sell retail energy to an AEP customer, it must buy capacity from AEP because AEP is the FRR provider.

Q. Off-system energy sales can result from generation that isn't used to serve shopping customers, or nonshopping customers, right? There's that category of off-system sales that is produced by generation resources that are surplus to what is necessary to provide capacity to either the shopping or nonshopping customers, right?

A. Well, let's get our terms correct. Capacity or energy? There is surplus energy -- AEP's generation units generate some quantity of power. That is associated with a certain amount of -- they have a certain amount of installed capacity and a certain amount of energy.

Now, if AEP is generating more energy than it uses to provide to its Standard Service Offer customers, all of that is surplus energy, which AEP can then sell in the off-system sale market.

Q. Okay. That's helpful. Thank you. All right.

And then is it possible for energy

1 off-system sales that are produced by purchasing
2 power from someone else and then turning around and
3 reselling it to a third party, a flipping
4 transaction?
5 A. In other words, you're asking me if I
6 believe whether AEP Ohio can purchase wholesale
7 energy from someone else and then resell it?
8 Q. Correct.
9 A. Sure, that's possible.
10 Q. And the sales and costs and margins from
11 those kind of transactions would show up in the FERC
12 Form 1?
13 A. Well, if AEP is reporting it correctly,
14 it should, yes.
15 Q. So the first category of off-system sales
16 you discussed just previously, those margins will
17 show up in the FERC Form 1 and the flipping
18 transactions also show up in the FERC Form 1, right?
19 A. I don't believe there's a way to -- I'm
20 not familiar with that the FERC Form 1 separates
21 those out. The FERC Form 1 includes purchased power
22 expenses, and the FERC Form 1, Account 447, includes
23 off-system sales, but there's no category I'm aware
24 of that says --
25 Q. Exactly. That's actually one of my

1 points. They're commingled. If they happen in that
2 fashion, they're not separated out and accounted for
3 separately, are they?
4 A. To my knowledge, no.
5 Q. Now, are the costs of production for
6 off-system sales, are they coming from generation
7 which is dispatched in the order economically or in
8 some other fashion?
9 A. Well, under the pool agreement, as I
10 understand it, AEP dispatches, in theory, it's lowest
11 cost -- all of the pool resources are dispatched to
12 the least cost dispatch, which is what you would
13 expect economically, before higher cost resources,
14 and then whatever is left and is sold, that's subject
15 to the sharing agreements under the pool agreement.
16 Q. So the off-system energy sales come from
17 the higher costs resources?
18 A. In theory, that's the case.
19 Unfortunately, AEP does not break that out, so, for
20 example -- and this is, no doubt, what you're trying
21 to get at in table 6 -- that this net contribution to
22 embedded generation cost is overstated because those
23 lower costs resources are, in fact -- that the
24 resource is higher cost than what I'm representing
25 here.

1 The problem with that is having asked in
2 discovery previously for a breakdown of AEP's
3 individual unit generating cost for dispatch, AEP
4 said we don't have that data.
5 Q. So you would agree, then, that using an
6 average value for fixed production costs would be
7 overstating the -- excuse me, understating the cost
8 that would be incurred to support the off-system
9 sales?
10 A. Not necessarily, because much of what I'm
11 doing here is clearly an estimate based on the best
12 available public data I had, which is the Form 1s.
13 Now, when you actually compared these values to a
14 confidential response provided by AEP in discovery in
15 this proceeding --
16 Q. You're not going to divulge anything.
17 A. I'm not going to divulge that now -- I
18 will if you want me to, of course. But I concluded
19 that my estimate in table 6 was quite reasonable.
20 I should point out whereas AEP includes
21 in its capacity cost estimate the embedded costs
22 associated with clearly market-based merchant units,
23 such as Darby and Waterford, and also I believe it's
24 Lawrenceville, I actually subtracted out the estimate
25 of the profits from those units from my calculation

of the margins on energy cost -- on energy margins.

Q. Since you excluded them from your generation plant in service, it was only the right thing to do to try to figure out a way to exclude the profits from the sales from those plants, right?

A. That's true, but those plants are highly efficient, too.

Q. Speaking of which, did you factor in your calculations the impact of the loss of capacity equalization payments from those two facilities that would take place if they were not part of the generation for AEP Ohio?

A. When you say capacity equalization payments, I'm not sure what you're referring to, so if you could provide a definition.

Q. That's okay. Are you familiar with the capacity payments that a long company in the AEP pool would receive from those that are either less long or short in the pool?

A. Well, I was going to ask if you were referring to the pool agreement.

Q. Yes.

A. And I am familiar with that, yes.

Q. Okay. The capacity equalization payments are a product of the pool agreement, are they not?

A. That's correct.

Q. Okay. So now can you answer my question about the impact on your calculations of excluding Lawrenceburg and Darby's capacity equalization payments?

A. It wouldn't have anything to do with what I am doing in table 6 because I'm not dealing with any of the capacity payments. This is just strictly off-system energy sale margins based on what AEP is reporting on FERC Form 1 -- let me just finish.

The FERC Form 1 off-system sales data already takes into account the sharing under the pool agreement, so it already reflects the 41 percent percentage that AEP Ohio keeps.

Q. Perhaps I'm getting ahead of myself in taking about capacity equalization payments, but did it have any impact, the exclusion of Waterford -- I'm sorry, Waterford and Darby, not Lawrenceburg -- the Waterford and Darby, the exclusion of those two plants from your analysis on the capacity equalization payments that would be an offset for fixed production costs in table 7?

A. If I understand your question, I think the answer is no because table 7 entirely excludes any plants from the post-2001, after the transition

1 to competition, so those plants simply are not in
2 there.
3 Table 7 is, in fact, just based on the
4 production -- the net production and book costs from
5 pre-2010 plants. So Waterford and Darby are simply
6 not in there.
7 Q. So they don't affect your table -- the
8 capacity equalization payments' impact of removing
9 those two plants have not been reflected in either
10 table 6 or table 7, right?
11 A. It is not reflected in either table
12 because my calculation excludes all post-2001
13 generating capacity.
14 Q. Let me go back to table 6. At the bottom
15 line of table 6 is the $178 million, correct?
16 A. That's correct.
17 Q. And that's the contribution to embedded
18 capacity costs from off-system energy sales that you
19 calculated, right?
20 A. Correct.
21 Q. All right. And then if I were to convert
22 that to dollars per megawatt-day, I would divide the
23 $178 million by the 9,016.8 noncoincident peak value,
24 correct?
25 A. That's part of the calculation.

Q. And then I would also divide by 365 days, right?

A. That's correct.

Q. The formula is provided on line 19 -- I'm sorry, note 19 of table 6; is that right?

A. That's correct.

Q. Okay. If I did that computation, you know what I would come up with?

A. I haven't done that calculation.

Q. It's not a hard calculation, though. It's a pretty easy.

A. It's probably a little hard in my head to do it.

Q. Would you accept, subject to check, that this value is $53.85 per megawatt-day.

A. I'm sorry, what was the number again?

Q. Would you accept, subject to check, that the value is $53.85 per megawatt-day?

A. I would accept that, that your algebra is reasonable. I accept that.

Q. I think you give me more credit than I deserve. It's just arithmetic, isn't it?

A. It's basic arithmetic. I assume you used a calculator and you calculated that number correct.

Q. Now, turning to table 7, which is the --

1 which provides the punchline of your presentation,
2 doesn't it?
3 A. You'll have to be more specific about
4 what you mean.
5 Q. It provides you with your view of the
6 embedded capacity costs, value of capacity -- or
7 price for capacity?
8 A. If one were going to use an embedded
9 capacity cost, the number I come up with is, in fact,
10 what I believe is AEP's actual embedded cost of
11 capacity that would be reasonably considered.
12 Of course, I've not recommended that at
13 all. I'm recommending that the price be set to the
14 RPM. So, in fact, the whole issue of, say, the
15 $53.85 value you calculated, which you would probably
16 want to subtract from 355 and get roughly $300 and
17 say, Well, isn't that the correct price? The answer
18 is no, it's not. The correct price is the RPM price.
19 Q. Okay. So this is the punchline to the
20 "even if" argument, your backup argument. RPM is
21 your primary argument, but if it is embedded costs,
22 this is what it ought to be.
23 A. Well, my primary argument and really my
24 only argument is that the efficient cost should be
25 the PJM RPM price because it would save us all of the

1 trouble of dealing with what are the embedded costs
2 and, as we dealt with earlier today in painstaking
3 detail, what assumptions go into calculating an
4 embedded cost. It is simple. The embedded cost is
5 an inefficient way to set a capacity price.
6 Q. Okay. Let me ask you a few questions
7 about table 7, hopefully of a less contentious
8 variety.
9 A. Not contentious at all.
10 Q. There are two adjustments that you make,
11 primarily adjustments, you make to Dr. Pearce's
12 estimates to develop your view of the revised
13 embedded cost grade; is that right?
14 A. No. Actually, there's four major
15 adjustments.
16 Q. Well, okay. Let me just -- let me go
17 through them one by one and you can tell me if I
18 don't catch them all. One is you eliminate the
19 post-2000 capital expenditures, right.
20 A. Well, I -- I eliminate post-2001
21 depreciation expense. That's line 5.
22 Q. I understand that. Let me ask you
23 something. It says you have this -- the post is post
24 the end of the year 2000 and it starts January 1,
25 2001, is when you're starting to exclude, right?

A. Correct.

Q. Sorry. Go ahead.

A. So we have on line 5 the depreciation rate adjustment reflects the difference in depreciation between what was reported by Dr. Pearce, that's shown on line 3, versus what the depreciation is for the pre-2001 investment.

Q. Okay. So the depreciation adjustment is the consequence of eliminating the post-2000 generation plant-in-service investments; right?

A. That's correct.

Q. Okay. So the depreciation flows from that, and the return on rate base adjustment flows from that too, right?

A. From eliminating post-2001 investment, correct.

Q. And then there's an income tax adjustment, correct?

A. Right.

Q. And that's a dependent kind of adjustment, right?

A. On the -- because the income tax adjustment is a function of the lower return.

Q. Okay. And then there's an ITC revision that's made, right?

1 A. That's actually -- no, there is no
2 revision there. That's the same as shown on note 14.
3 There is no material change to the ITC estimate.
4 Q. Okay. So you start with a total on a
5 total company basis of $1.138 billion of annual
6 production fixed costs, correct?
7 A. Correct.
8 Q. And then after you make all the
9 adjustments, you're left with $259,735,000, right?
10 A. Correct.
11 Q. And through your adjustments, you have
12 reduced the annual fixed production costs by
13 $878 million, right?
14 A. That's correct.
15 Q. Okay. What if I put back in what you
16 took out so we didn't make the exclusion of the
17 post-2000 generation plant-in-service investments.
18 We kept all that in. Then the dollars per
19 megawatt-day for the entire annual production fixed
20 costs would be -- do you know what it would be?
21 A. Well, based on what you just told me, it
22 would be the number you started with at one point.
23 It would be the number at line 1.
24 Q. That would be -- would you accept,
25 subject to check, it would be $344 per megawatt-day

and just use line 1 as the basis for the calculation of the dollars per megawatt-day?

A. I'm not sure that's exactly correct. You'd have to -- I thought the number was 342, and then Dr. Pearce included an adjustment for losses that brought it up to $355.

Q. Okay.

A. But I may be off by a dollar or two.

Q. What I'm doing is just trying to use the value before your adjustments and apply the same formula to it that you applied to the $259 million to get the $78.53.

A. The easiest way to do that, Mr. Conway, is to go to Mr. Pearce's testimony and his Exhibit 3 or 4. I believe he does that calculation for you.

Q. And, roughly speaking, if we then deducted your $54 energy credit from the result, what would we be left with if we didn't make those other adjustments?

A. If we took the $342 -- or would you prefer the 355?

Q. If you think the right figure is 355, use that one.

A. No, none of them are the right figure, as

1 I explained earlier, but I will explain again.
2 Q. Well --
3 A. Take the $355 figure that Dr. Pearce
4 calculated, and if we subtract the $54 figure that
5 you calculated, you come up algebraically with $300.
6 However, that number is absolutely meaningless as a
7 capacity cost for AEP to charge because it simply is
8 not -- it's an inefficient price. It's based on AEP
9 collecting stranded costs, for which it has no right
10 to collect. It's based on a false comparison and
11 it's inefficient because it's not PJM RPM price.
12 Q. Okay. Thank you. Just one or two more
13 questions. I'm going to go back to capacity
14 equalization payments with you.
15 A. All right.
16 Q. And also Table 7 -- see if I can do this
17 quickly -- line 1, look at the total company value,
18 the $1.138 billion value, okay?
19 A. I see that. That's Dr. Pearce's number.
20 Q. Thank you. That was my first question.
21 That comes from KDP-3 and KDP-4, two of the exhibits
22 to his testimony, right?
23 A. Correct.
24 Q. Now, do you know whether those -- that
25 value reflects an offset as a result of capacity

1 equalization payments that the companies have
2 received from other pool members?
3 A. I would need to see Dr. Pearce's
4 exhibits, and if you provide them to me, I'll go
5 through it.
6 MR. CONWAY: May I approach, your Honor?
7 EXAMINER PARROT: You may.
8 Q. Could you take a look at his two
9 exhibits, KDP-3 and 4, and just tell me based on that
10 information whether you can provide an answer, and I
11 think if you can, good; and if you cannot, I'll
12 rethink whether we need to go any further. Okay?
13 A. Okay. If you will give me a few minutes,
14 please.
15 Q. If I could, Dr. Lesser, let me refer you
16 to page 4 of each of the two exhibits, line 6, and
17 see if that either refreshes your recollection or
18 informs you.
19 A. So you would be referring to on page 4 of
20 Exhibit KDP-3, line 6, capacity sales for resale?
21 Q. Yes. Does that either refresh your
22 recollection or inform you enough to be able to
23 provide an answer to the question whether the
24 $1.13 billion in your line 1 of exhibit -- excuse
25 me -- of table 7 reflects an offset from capacity

1 equalization payments received from other pool member
2 companies?
3 A. According to note A of the exhibit, it
4 says capacity related revenues associated with sales
5 as reported in Account 447, which is FERC off-system
6 sales, which does list by capacity and energy, and it
7 says "includes pool capacity payments."
8 In the case of Exhibit 3, which I believe
9 is for Columbus Southern, it's a 30 million change,
10 and in Exhibit 4, it shows a number of
11 $459.5 million.
12 Q. So a total of about a little bit less
13 than $500 million, about 490 million?
14 A. That's correct.
15 Q. Now, we don't have the generation plant
16 in service. You've excluded it. Then we don't have
17 the long position in the pool, and then we don't have
18 the capacity equalization payments from the other
19 member companies coming in to offset fixed production
20 costs, do we?
21 A. I have to hear that again. I'm sorry.
22 Can I get that repeated, please.
23 (Record read.)
24 A. In terms of the effect -- I understand
25 your question. The impact would only extend to

1 the -- the only new plant in service added were the
2 two, was Waterford and Darby and then the
3 Lawrenceville. So the only impacts on capacity would
4 be reflected in those plants. If you said there's
5 less capacity there, whether that would change the
6 long position, I don't know what the answer is to
7 that.
8 Q. Well, it would change it some, wouldn't
9 it, if you took out Darby and Waterford?
10 A. It might. I just don't know the number.
11 Q. What would have happened over the last 12
12 years to the environmental compliance status of AEP
13 Ohio's generation fleet if they had not invested the
14 money -- other than what they spent in Waterford and
15 Darby -- in those coal-fired plants?
16 A. Well, those dollars are being recovered
17 through the carrying charges in the EICCR. So your
18 question is irrelevant because it assumes that if AEP
19 had not made those investments and suddenly those
20 plants wouldn't exist and --
21 Q. I wasn't suggesting that they don't
22 exist. What I was asking, if we don't spend the
23 money to keep the plants in compliance with
24 environmental rules, what happens to those plants?
25 They can't operate, can they? They're not allowed to

operate if they're not in compliance, can they?

A. That's correct.

Q. If they're not operating, they're not going to be attracting capacity equalization payments from the other pool member companies, are they?

A. That's correct.

Q. Okay.

A. But my analysis accounts for that because those environmental costs are collected through the EICCR. So what you're suggesting is that AEP would be -- should be essentially compensated twice for those costs.

Q. Okay. All right. Thank you.

MR. CONWAY: No further questions, your Honor.

EXAMINER PARROT: Any questions from the staff?

MR. JONES: No questions, your Honor.

EXAMINER PARROT: Any redirect, Mr. Lang?

MR. LANG: Your Honor, if we can have one minute. I know it's late.

EXAMINER PARROT: You may have a minute.

(Recess taken.)

EXAMINER PARROT: Any redirect, Mr. Lang?

MR. LANG: Just one question, your

1 Honors.

2 - - -

3 REDIRECT EXAMINATION

4 By Mr. Lang:

5 Q. Dr. Lesser, Mr. Conway asked you about

6 subtracting the approximately $50 number from the

7 $355 number. He referred to it as a false

8 comparison. Can you explain why?

9 A. Sure. The reason it's a false comparison

10 because it's really dealing with two different data

11 sets. We're talking about including Waterford -- the

12 355 includes Waterford, Darby all the post-2001

13 investment. The $50 value does not, so it's just

14 simply apples and oranges.

15 MR. LANG: That's it, your Honor.

16 EXAMINER PARROT: Ms. Kern?

17 MS. KERN: No questions.

18 EXAMINER PARROT: Mr. Yurick?

19 MR. YURICK: No questions, thank you.

20 EXAMINER PARROT: Ms. Kyler?

21 MS. KYLER: No questions, your Honor.

22 EXAMINER PARROT: Mr. Pritchard?

23 MR. PRITCHARD: No questions.

24 EXAMINER PARROT: Mr. Kingery?

25 MS. KINGERY: No questions.

EXAMINER PARROT: Mr. Petricoff?

MR. PETRICOFF: No questions.

EXAMINER PARROT: Thank you very much, Dr. Lesser.

MR. LANG: I move for the admission of FES Exhibit 103.

EXAMINER PARROT: Any objections to FES Exhibit 103?

Hearing none, FES Exhibit 103 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: I believe the company wants to file rebuttal testimony.

MR. NOURSE: Yes, your Honor.

EXAMINER PARROT: I assume that's still the case.

MR. NOURSE: Yes, your Honor.

EXAMINER PARROT: The Bench asks that the company file it's rebuttal testimony by noon on Wednesday, May 2. We will then reconvene the hearing on Monday, May 7 following the prehearing conference in the ESP 2 proceeding. I believe we figure we can convene here at noon in this room.

EXAMINER SEE: Mr. Nourse, you're expecting three witnesses on rebuttal?

1 MR. NOURSE: Yes.
2 MR. HAYDEN: Can we have, your Honor,
3 some remote indication who they are and what areas
4 they will be covering?
5 EXAMINER SEE: Mr. Nourse, I think --
6 MR. NOURSE: I think I did that the other
7 day, Your Honor. But, you know, as far as the three
8 witnesses, it's going to be Mr. Allen, Mr. Nelson,
9 and an outside consultant.
10 And the topics, the primary topics, I
11 would say, are the one item that Commissioner Porter
12 had requested, I'll say, or directed to address, the
13 return essentially associated with the $355 capacity
14 charge, the projected ROE.
15 We also want to address the adjustments
16 sponsored by Mr. Smith, staff witness Smith, to
17 Mr. Pearce's costs analysis, and we also want to
18 address the staff witness Harter's energy credit.
19 I mean, there are issues related from
20 probably all three of the FirstEnergy witnesses. I
21 think that certainly satisfies Mr. Hayden request for
22 some idea. I'm not sure of what the benefit is of
23 going into great detail.
24 MR. HAYDEN: The benefit is we will not
25 have any opportunity for discovery, so we would like

to prepare.

MR. NOURSE: Thank you, Your Honor.

EXAMINER PARROT: Just a reminder, in keeping with our practice in case so far, please serve copies of the testimony to the examiners electronically when it's ready.

MR. NOURSE: Certainly.

EXAMINER PARROT: As well as other parties, of course.

MR. NOURSE: Certainly.

EXAMINER PARROT: Anything else to come before us today?

Seeing nothing, we are adjourned for the day. Thank you.

(The hearing adjourned at 7:42 p.m.)

1 CERTIFICATE

2 I do hereby certify that the foregoing is a
3 true and correct transcript of the proceedings taken
4 by me in this matter on Friday, April 27, 2012, and
5 carefully compared with my original stenographic
6 notes.
7
8 _____
Rosemary Anderson, Registered
Professional Reporter
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Summary: Transcript of Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company hearing held on 04/27/12 - Volume IX electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Anderson, Rosemary Foster Mrs.