BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney Examiners, and Commissioner Andre Porter, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 10:00 a.m. on Monday, May 14, 2012.

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VOLUME XI - REBUTTAL TESTIMONY

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Monday Morning Proceeding,

May 14, 2012.

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EXAMINER SEE: Let's go on the record.

Let's take brief appearances in the capacity case, 10-2929. We'll start with the company.

MR. NOURSE: Thank you, your Honor. On behalf the Ohio Power Company Stephen T. Nourse, Matthew J. Satterwhite, Yazen Alami, Daniel Conway, and Christen Moore.

MR. PETRICOFF: Thank you, your Honor. On behalf of Constellation NewEnergy, Constellation Energy Commodities Group, Direct Energy, Exelon Generation, LLC, and the Retail Energy Supply Association, Howard Petricoff and Lija Kaleps-Clark.

MR. HAYDEN: On behalf of FES Mark Hayden and Jim Lang.

MS. KINGERY: Good morning, your Honor. On behalf of Duke Energy Retail Sales and Duke Energy Retail Asset Management, Jeanne Kingery and Amy Spiller.

MR. DARR: On behalf of Industrial Energy Users-Ohio, Frank Darr and Sam Randazzo.

MR. KURTZ: For the Ohio Energy Group,

Mike Kurtz.

MR. YURICK: On behalf of the Kroger Company, Mark Yurick.

MR. SUGARMAN: Roger Sugarman on behalf of National Federation of Independent Businesses of Ohio.

MS. THOMPSON: On behalf of Interstate Gas Company, Mark Whitt, Andrew Campbell, and Melissa Thompson.

MS. KERN: On behalf of Office of the Ohio Consumers' Counsel, Kyle Kern and Melissa Yost.

MR. JONES: On behalf of the staff of Commission Steve Beeler and John Jones.

EXAMINER SEE: I think there's some other counsel in the room.

MS. McALISTER: On behalf of Ohio Manufacturers Association, Lisa McAlister.

EXAMINER SEE: Is there any other counsel that wishes to enter an appearance today?

(No response.)

EXAMINER SEE: We're taking appearances.

MR. SITES: Thank you, your Honor. Richard Sites and Tom O'Brien on behalf of the Ohio Hospitals Association.

EXAMINER SEE: Thank you. Let's go on to

our first rebuttal witness.

MR. NOURSE: Your Honor, the company calls William Allen.

EXAMINER SEE: Mr. Allen, you presented testimony earlier in this proceeding?

MR. ALLEN: Yes, I did.

EXAMINER SEE: I remind you that you continue to be under oath, have a seat.

MR. NOURSE: Thank you, your Honor. Just checking exhibit numbers, I believe we're up to 142. I'd like to mark Mr. Allen's rebuttal testimony AEP Ohio Exhibit 142.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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WILLIAM A. ALLEN

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Allen, do you have the document that's been marked Exhibit 142 in front of you?

A. Yes, I do.

Q. Is this your rebuttal testimony prepared by you or under your direction?

A. Yes, it is.

Q. And you're the same William Allen that testified?

A. Yes, I am.

Q. And do you have additions, changes, or updates you'd like to make to your written testimony at this time?

A. Yes, I do. On page 6, line 6, the words "if not" should be replaced by the word "and" such that the parenthetical reads "and conservative."

And then on page 18 --

EXAMINER SEE: I'm sorry, Mr. Allen. Repeat that last one, please. Page 6, line 6, you said?

THE WITNESS: Page 6, line 6, the words "if not" in the parenthetical should be replaced by the word "and."

EXAMINER SEE: Okay.

A. On page 18, line 18, a sentence should be added. The sentence to be added is "Adding in the trapped costs of $20.11 per megawatt day described by Company Witness Nelson, the capacity rate would be $291.58 per megawatt day." Those are the only additions I have.

MR. NOURSE: Everyone clear on the additional sentence there? That's the same one I emailed out on the weekend.

Q. Mr. Allen, with that addition and correction, if I were to ask you the same questions in testimony under oath this morning, would your answers be the same?

A. Yes, they would.

MR. NOURSE: Thank you, your Honor. The witness is available for cross-examination, and I'd like to move the Exhibit 142 to be admitted.

EXAMINER SEE: Exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER SEE: And, Mr. Darr, you have?

MR. DARR: Motion to strike, your Honors?

EXAMINER SEE: Go ahead.

MR. DARR: Thank you, your Honor. The motion to strike is in two pieces. The first one addresses three particular points, page 1, lines 13 through 15; page 2, line 9; page 21, lines 11 through 22 -- excuse me, page 21, line 11 through page 22, line 2.

EXAMINER SEE: One more time, Mr. Darr.

MR. DARR: The last one?

EXAMINER SEE: Uh-huh.

MR. DARR: Page 21, line 11, through page 22, line 2. And we also move to strike rebuttal

Exhibit 8 attached to this testimony. Would you like me to go to grounds on this one before I go to the second one?

EXAMINER SEE: Just a minute.

Okay. Let's cover the grounds in this one.

MR. DARR: Thank you, your Honor. This testimony is not proper rebuttal testimony. It is premised on a question raised by Commissioner Porter at the conclusion of Mr. Allen's testimony. It in no way addresses anything that was presented by an intervenor in this case.

And, in fact, if you go back to the transcript, Volume III, page 722, the question that I believe that Mr. Allen is responding to is "How am I to understand, if you could help me before a decision is made, what the ROE would be at 355 rate? Is that in the record anywhere? Answer: No."

Clearly the direct case was deficient on this point as pointed out by Commissioner Porter. AEP is attempting through his testimony to rehabilitate his direct case, not to respond to the intervenor testimony. It is improper rebuttal as we understand that term, and these references that I indicated should be stricken.

MS. KERN: Your Honors, OCC will join in IEU's motion to strike for the same reason indicated by Mr. Darr.

MR. HAYDEN: Your Honor, FES would join in those as well.

MR. JONES: Staff will join in that motion as well.

MS. KINGERY: Duke Retail and Duke Energy Retail Asset Management will also join.

MR. NOURSE: You want me to respond as we go, your Honor?

EXAMINER SEE: Yes.

MR. NOURSE: Okay. Your Honor, on that point, you know, it is true that this is not traditional rebuttal. I think while I certainly disagree that our presentation and our direct testimony was deficient in any way, certainly was a question that came up, and Commissioner Porter indicated that he thought it would be helpful if that information were in the record. So, therefore, we tried to be helpful and provided it.

So that one piece and the areas of testimony that Mr. Darr picked out were related to that. If it's more appropriate to call it a supplemental exhibit or something like that, it's not important to us. We were just trying to be helpful in responding to the observation the Commissioner made and provide the information that he wanted to see.

EXAMINER SEE: Your next grouping?

MR. DARR: The other portion that I seek to strike today relates to page 15, line 4, through page 17, line 10. This testimony relates to adjustments to the cost of service calculation presented by the staff witnesses. The reliance and the argument is based almost exclusively on a Staff Report in a distribution case which has absolutely nothing to do with the generation rates associated with the calculation of a capacity charge under either the company's proposal or the staff's proposal.

That distribution case was resolved through a stipulation. The stipulation specifically provides that it is not to be used in any manner in any other proceeding other than enforcement. And we were led once again to the problem of the company relying on evidence which is not presented, i.e., the Staff Report, that was resolved through a matter that was -- resolved itself through a stipulation. The stipulation which provides -- a stipulation which provides that it shall not be used in other proceedings.

And it's just improper. Reliance on that information is just improper by the terms of the agreement that AEP entered into.

On that basis we would request that this be stricken as well.

EXAMINER SEE: And that was through page 17, line 4?

MR. DARR: Page 15, line 4, I believe until page 17, line 10.

MR. NOURSE: Your Honor, may I respond?

EXAMINER SEE: Mr. Nourse, please do.

MR. NOURSE: Your Honor, the reference to the Staff Report and that Staff Report does reflect what the decision was in the rate case in the distribution rate case and so it does reflect the reality of the situation with AEP Ohio, and I believe Mr. Smith refers to the Staff Report in his testimony, but the main point of the rebuttal in this section starting on the question on line 4 of page 15 is whether Mr. Allen agrees with Mr. Smith's exclusion of the prepaid pension asset, and the whole discussion about what happened in the rate case really in support of Mr. Allen's disagreement with what Mr. Smith did and his testimony in this case.

To the extent that again -- to the extent that the stipulation reflects the Commission's decision, and that is the place and that does reflect reality I think it's fair to talk about. To the extent it would be considered an enforcement matter related to that stipulation, that's certainly also fair game to discuss and use in other proceedings.

So I believe it's clearly an issue Mr. Smith raised and we disagree with and Mr. Allen is providing testimony in support of. It's not the basis for the rebuttal testimony. The Staff Report is not the basis for raising the issue here. It's Mr. Smith's testimony.

MR. DARR: Your Honor, just to make clear there are some related arguments that's are in the exhibit as well. I believe it's WAAR-7 if the Commission does grant the motion to strike the testimony.

EXAMINER SEE: I'm sorry, you said WAA-7? I thought you said 8 earlier.

MR. DARR: Eight relates to the ROE adjustment, R-7 relates to the cost of service adjustments.

MR. NOURSE: You're referring to page 1 of R-7?

MR. DARR: 1 through 5, I believe.

MR. NOURSE: Well, there are other matters addressed in the other pages.

MR. DARR: Right. And I believe the testimony that I've asked to have stricken relates to all of the cost-of-service adjustments.

MR. NOURSE: I'm not sure I understood that last point. I understood you were moving page 15, line 4 through page 17, line 10, which is a subset of the cost of service discussion in Mr. Allen's testimony. Subset of his --

MR. DARR: What I'm saying, the related exhibit should be removed as well.

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

MR. NOURSE: Your Honors, again, I'm not clear on Mr. Darr's statement. Certainly if he's -- he seems to be making a broader statement about the exhibits than his argument in his motion to strike was in the text of the testimony.

The text of the testimony and the basis for his motion was related to the prepaid pension asset adjustment specifically that Mr. Smith made and

Mr. Allen's rebutting, but then the exhibit itself covers all of the other matters discussed in Mr. Allen's cost-of-service adjustment section of his testimony, which actually starts on page 15 and goes through the bottom of page 18.

So there's a mismatch of what Mr. Darr's saying here.

MR. DARR: If the Commission grants the motion, page 1 of 5 would be appropriate.

MR. NOURSE: And, Your Honors -- I'm sorry. I was just going to point out that the Staff Report excerpts that are in the record already as exhibits that have been admitted in this case being relevant, 129-A, 129-B. Thank you.

EXAMINER SEE: IEU's motion to strike portions of Mr. Allen's testimony are denied.

Who wants to -- let's start on this side. Mr. Smalls, any cross-examination?

MR. SITES: Your Honor --

MR. JONES: Before we begin I have a motion to strike as well. I move to strike a portion of Mr. Allen's testimony on page 21, lines 1 through 10.

EXAMINER SEE: I'm sorry, speak up, please.

MR. JONES: Page 21, lines 1 through 10, where the company attempts to address current shopping levels as of April 30, 2012. This is trying to introduce some new evidence into the record that was not previously presented in the case earlier when we had the opportunity to do that and, now, they're trying to introduce new evidence into the case. I move to strike on that basis.

MR. NOURSE: Your Honor, if I may respond.

EXAMINER SEE: Hold on just a minute, Mr. Nourse.

Go ahead.

MR. NOURSE: Yes, I believe during Ms. Medine's cross and through her written testimony it was indicated and confirmed that a level of shopping was built into the modeling and was assumed to remain constant throughout the period, the three-year period in question at a 26 percent level, and Ms. Medine indicated that she had not -- she didn't have an opinion and didn't consider whether that 26 percent level would be realistic or appropriate as a projection of shopping going into the future. So this testimony simply shows what the current levels are to demonstrate that assuming a static level based on a data point, a single data point, that was already stale is inappropriate. That's the purpose of the testimony.

MR. JONES: Your Honor, if I may. Witness Medine didn't contest that those shopping could fluctuate from 26 percent but this is an attempt to introduce new evidence. I think Mr. Allen testified on his earlier direct examination that the projected shopping levels would increase up from 26 percent. So they've already made that presentation to this court and now they're trying to introduce new evidence as the shopping levels as of April 30, 2012, and I think that's inappropriate. Thank you.

MR. NOURSE: Your Honor, again, Mr. Allen did project shopping levels. Those projected shopping levels were contested and so this is additional evidence in support of his original position that shopping is going to increase and shows that, in fact, has increased already. So it supports our original position and rebuts the testimony and assumptions that were built into staff's testimony.

EXAMINER SEE: Staff's motion to strike page -- to strike portions of Mr. Allen's testimony is also denied.

Are there any others?

So we can start with cross-examination of this witness. Mr. Smalz, any questions? I'm sorry, no wonder.

Mr. Sites.

MR. SITES: No questions, your Honor.

EXAMINER SEE: Ms. Kern?

MS. KERN: No questions.

EXAMINER SEE: Ms. Thompson?

MS. THOMPSON: No questions, your Honor.

EXAMINER SEE: Mr. Sugarman?

MR. SUGARMAN: Just a few, your Honor.

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CROSS-EXAMINATION

By Mr. Sugarman:

Q. Can you hear me, Mr. Allen?

A. I can hear you.

Q. Great. There's a lot of testimony --

EXAMINER SEE: Just a moment, Mr. Sugarman. It's the button at the back of the mic, small switch. Thank you.

MR. SUGARMAN: Thank you, your Honor.

Q. There was quite a bit of testimony when you first appeared in cross-examination about what was a reasonable rate of return and what was an acceptable rate of return. I just wanted to clarify your use of the word "reasonable" at page 22 at line 2 of your rebuttal testimony, sir. You have that reference?

A. Yes, I do.

Q. I take it would your testimony be the 12.2 percent in 2013 is an acceptable rate of return?

A. Yes, I would.

Q. And when you testified earlier, I thought I had heard you say that earning a reasonable rate of return today is typically in the 10 to 12 percent range; is that the company's position?

A. I recall that being my testimony.

Q. And is that still your testimony today?

A. Yes.

Q. And when you earlier testified, you spoke about an opportunity to earn a rate of return. Do you recall that testimony as well?

A. Yes, I do.

Q. And the calculation that you're portraying in WAA-R8 not only responds to Commissioner Porter's inquiry his earlier reference but is that the company's portrayal of what it believes is a reasonable opportunity to earn a rate of return utilizing the capacity price reflected in your exhibit?

A. I think what this exhibit does is it shows that if the company were to collect its full cost capacity rate, that the company would earn a reasonable rate of return.

Q. And which is different, is it not -- following up on your last answer, that is what you just testified, that is different though, is it not, than providing the company a reasonable opportunity to earn a fair rate of return? Two different concepts, right?

A. No. I think a forecast that shows that the company would earn a return of 12.2 percent shows that the company has a reasonable opportunity to earn that return. There are a lot of changes that could occur to change that ROE; storms, recession, weather, things of that nature.

So a forecast based upon weather normal and things of that such, that nature, that shows a return of 12.2 percent would indicate that the company had a reasonable opportunity to earn that return.

Q. But under those circumstances even if the return was not 12.2 percent and it was in the 10, 9, or 8 percent range, that would still provide the company, would it not, with a reasonable opportunity to earn a fair rate of return?

A. It would. The revenue streams would be commensurate with the company's projected costs and as such would be provided a reasonable opportunity during that return.

Q. So the company's opportunity to earn a fair rate of return is not predicated as it being at 12 percent or above 12 percent; is that correct?

A. That's correct.

Q. And since you last appeared in the witness stand in this proceeding have you determined a bright line below which you believe a return on equity would not be a fair rate of return for the company?

A. No, I have not determined a bright line.

Q. And you're unaware of any other company witness that has testified as to what that bright line would be for purposes of this proceeding, correct?

A. That's correct.

MR. SUGARMAN: Thanks, Mr. Allen. I have no further questions.

MR. YURICK: I have no questions, your Honor.

EXAMINER SEE: Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Allen, do you have that exhibit in front of you, Exhibit 8?

A. Yes, I do.

Q. Just so I understand it, the very first line you have projected earnings two-tier capacity pricing 2012, 10.4 percent, 2013, 7.3 percent; is that correct?

A. Yes, I see that.

Q. What is the two-tier capacity pricing you're referring to?

A. That would have been the RPM for the first 21 or 31 percent in the two periods in 2013, and 255 for all shopping above that level.

Q. Do these financial forecasts include the revenue associated with the RSR charge that you're asking for in the ESP case?

A. No, they do not.

Q. So if the Commission thought that a 10.4 percent after tax return on equity -- these are after tax numbers, correct?

A. They're after tax, yes.

Q. So if the Commission thought that a 10.4 percent after tax return on equity in 2012 was appropriate, they would not -- they would not award AEP an RSR.

A. That's not correct.

Q. Well, these numbers don't include the revenue from an RSR so if we include RSR revenue, all else equal, your return on equity would go up, wouldn't it?

A. The return would go up, but you're referring to just 2012. If you look to 2013, you'll see that the return under the two-tiered pricing structure is only 7.3 percent so that would indicate that an RSR would be needed to bring the return up to a level such as 10.4 percent.

Q. Let me -- I'll repeat the question. If the Commission thought for 2012 that 10.4 percent after tax return on equity was appropriate, they would not need to award an RSR for 2012; isn't that correct?

A. No, I wouldn't agree with that. The RSR provides for a variety of different changes for the company such as changes in load, changes in shopping levels, where the -- this analysis has a fixed assumption around the level of shopping.

Q. Let me ask the question again. If the Commission thought that a 10.4 percent after tax return on equity was appropriate or reasonable or proper, and they gave you an RSR on top of the revenue stream, you project for 2012, then all else equal, AEP Ohio would earn more than 10.4 percent; isn't that true as a matter of pure mathematics?

A. It is. And if you were to refer to my testimony in the ESP case, you'll notice that for the first 12-month period the planning year '12-'13 period, the RSR level that would be necessary just to cover that 12-month period is relatively small.

Q. Okay. Now, if the Commission thought that, excuse me, a 7.3 percent after tax return on equity for 2013 were appropriate and they gave you an RSA on top of it, then your return on equity mathematically by definition, would be higher than 7.3 percent; isn't that true?

A. That's correct.

Q. Can you turn to your Exhibit 5. Here you address the member load ratio sharing of off-system sales profits as I understand it for the merged company you have a 40 percent ratio.

A. That's not what I'm attempting to do on

WAA-R5. What I'm attempting to do in that exhibit is to correct for staff's failure to include the Wheeling Power load from their energy credit calculation. So I addressed just that single item within staff's calculation.

Q. So how much of the member load ratio in this column plays into your analysis?

A. The way staff performed the analysis is that for all off-system sales margins, 40 percent of those margins would be retained by AEP Ohio, whereas, the margins associated with the firm requirements of AEP Ohio in their term in that reflected the 74 percent of the nonshopped load, that would be retained 100 percent by AEP Ohio.

Q. Okay. But does this reflect the off-system sales sharing on the member load ratios basis in this exhibit?

A. This exhibit is just utilizing staff's approach in making an adjustment. Staff will have to support their methodology. I've tried to make specific corrections to their methodology for some of the deliberate assumptions that staff had included in the analysis there were inappropriate.

Q. Let me just to be clear, the AEP -- do you address the interconnection agreement in your testimony, or is Mr. Nelson the better person?

A. Mr. Nelson is the primary witness on that.

Q. I'll save it for him.

Let me just ask you this final couple questions. Are you familiar with the Ohio Commission's pleading at FERC where the Commission set out a two-part goal in this case and one is to provide for the utility's ability to attract capital as well as promote the development of a competitive market?

A. I'm familiar with the Commission's pleading. I don't recall the specifics of the pleading though.

Q. Is there anywhere in your testimony here where you indicate, describe, forecast the effect on competition, the effect of the competitive market if the Commission were to adopt your proposed capacity number?

A. During my cross-examination we had as I recall significant discussion of the headroom that would be available for different classes of customers if the company were to charge its full capacity to CRES providers, and in that testimony I indicated that for the various calculations there was an opportunity for the customers to shop and CRES providers to earn margins at the company's full cost of capacity.

Q. Now, those customer classes would primarily be the commercial class, correct?

A. No, I described that there were opportunity for the commercial and industrial classes under the scenario where the previous provider was purchasing energy in the market and I indicated that for the residential class there was an opportunity for CRES providers to earn a margin if they were to provide that power from their own generating units depending upon the cost structure of those generating units.

Q. Do you have evidence or testimony, other quantification of the headroom available to GS-4 industrial customers at your capacity -- at your capacity proposal?

A. The testimony that I provided previously was related to the industrial class overall. Obviously for each customer based upon their unique operating characteristics the headroom's going to vary. And for certain customers that have very high load factors, they may have more difficulty obtaining competitive offers in the market and that's due to the low energy prices that AEP provides to those customers under their tariffs.

Q. Now, your industrial load is served under GS-2, GS-3, and GS-4; isn't that correct?

A. That's correct.

Q. So when you say there may be industrial headroom, that could be for the very smallest industrials on GS-2, not for the very largest on GS-4; is that correct?

A. That's correct. The analysis I did was on an aggregate basis, not on an individual customer or customer rate schedule basis.

Q. Do you think that the second prong of the Commission's standard is important, the effect of this case on the development of a competitive market? Do you think that is equally as important as the effect of this case on AEP's ability to track capital?

A. I think the primary role of the Commission in this case should be ensuring that the company receives fair and reasonable compensation for the capacity that the company is providing to CRES providers for their use.

Secondly, shopping can occur and is occurring at capacity prices well above RPM and the current RPM prices, and the RPM prices that are projected into the future. Shopping for shopping sake should not be the Commission's objective. Fair competition and balanced competition should be what the Commission is striving for.

Q. Now, if the Commission were to put its equal emphasis on both parts of the test rather than primary emphasis on AEP's financial interest, then the Commission could reach a different conclusion than the one you're proposing; isn't that right?

A. No. I think this case here is about an appropriate price for capacity for the company. That's what this case is about. That's what the case was initially premised upon. Other parties have brought in the question of can they compete with AEP if AEP charges these prices to them.

This is a contract that the company had with PJM. The CRES providers were well aware of it. They had the opportunity to provide their own capacity if they chose to and avoid paying the company's cost-based capacity. That was a choice of theirs.

So what we're here to do today is to determine what the appropriate cost of capacity is for the company.

Q. Now, you would agree, wouldn't you, that there's nowhere in the -- and the Commission has stated that the primary emphasis of this case should be on the financial interest of the AEP rather than the development of a competitive market. There's no document you can point to where the Commission adopted that position, is there?

A. I think the Commission can decide what they think their primary focus is. What I've indicated is what I believe the primary focus of this case should be based upon how the case started out.

MR. KURTZ: Thank you, your Honor, no more questions.

EXAMINER SEE: Mr. Darr?

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Couple follow-ups and then we'll get back to your testimony in some new areas.

Turning to your Exhibit R5 to your testimony today.

A. I see that.

Q. Line 22 contains a calculation of the 5 CP. What is the source of the information for that?

A. This information was presented in the -- in Kelly Pearce's testimony.

Q. And do you know the year of the 5 CP calculation?

A. This would have been based upon the 2010 cost-of-service study, so it should have been summer 2010.

Q. I want to turn your attention to your Exhibit R8.

A. I see that.

Q. In response to some questions from Mr. Kurtz, you indicated that this exhibit does not contain any representation or any valuation for the RSR; is that correct?

A. That's correct.

Q. Are there in this calculation any assumptions made about any of the other proposals or additional riders contained in the modified ESP?

A. No.

Q. So from that I would take it that there is no valuation for the proposed GRR; is that correct?

A. That's correct.

Q. There is nothing in there for the proposed, if necessary, and I obviously put that qualification on it, pool termination rider.

A. That's correct.

Q. And is there any representation in there -- in this calculation for the deferral accounting, your deferral accounting, affect that might occur from the storm damage mechanism that you're proposing?

A. No. And that one wouldn't be necessary because the projected storm expenses and the distribution revenues are equivalent. It would only be if I were to project a large storm in 2013 and not include the deferral. So I have a normal level of storms which would be consistent with what was in the distribution rates.

Q. With regard to this WAA-R8, this was in response to Commissioner Porter's questions with regard to calculating a return on equity, correct?

A. It was primarily in response to Commissioner Porter's question but there were also questions throughout the proceeding from Howard Petricoff. He asked some questions about what would be the return and we went through a discussion of how one would do that calculation and this just reflects actually doing that calculation.

Q. Well, if we look at your testimony, you specifically are responding to Commissioner Porter's request, correct?

A. I am. But there were others that asked similar questions throughout the proceeding.

Q. And I noticed you made the calculation for 2013. You're not providing a number today for 2012, are you?

A. No, I'm not.

Q. Or for 2014?

A. That's correct. The only testimony I presented in the case was 2012 and 2013. The reason I didn't present additional testimony for 2012 is it's a partial year that we would have this new rate in place and there would be a lot of question about at what point in time would you implement the higher capacity rate of 355. So what I did is looked at the year that it would be in place for a full year which is the most representative value that I could provide to the Commission for their understanding.

Q. And is it fair to say that you didn't provide a similar calculation for the first five months of 2015 either, correct?

A. That's correct.

Q. I want to return to something that you said with regard to a question that Mr. Sugarman asked you a few minutes ago. You indicated that some of the modeling or forecasting you did would be subject to additional factors. I think his question to you was to the affect this was just that you -- was this a guaranteed rate of return or was it an opportunity to earn a rate of return, and you indicated it was an opportunity because other things could happen. Correct?

A. Yes, that's correct.

Q. And you listed some of those other things that might affect the forecast as recession or weather. Do you recall that?

A. Yes. Change in shopping level I think I also indicated. There are a variety of items that could impact these earnings.

Q. Would the effect of fuel cost affect this calculation as well?

A. To the extent that fuel cost impacted the margins received on off-system sales, it would have an impact. Fuel costs would not have an impact on the earnings as they related to retail customers of the company because there is an over/underrecovery mechanism for those customers.

Q. And there you're talking about the fuel clause or the fuel adjustment clause, correct?

A. The FAC, yes.

Q. Now, with regard to the calculation of the energy credit, that is a difference between the LMP or an estimated LMP and total fuel cost and a number of other factors, correct?

A. That's correct.

Q. So to the extent that you're using on an aggregated basis the LMP, does it matter whether it's the FAC or off-system sales related earnings? For calculating the energy credit?

A. It depends. Under staff's approach they had a view that the margin received from retail customers were at market, which I don't think is a valid assumption. If you look at all of the sales from AEP Ohio against the market, which I think is consistent with the analysis that Company Witnesses Pearce, Nelson, and Meehan have done, then the amount of revenues coming through the FAC aren't relevant in that sense.

Q. So it depends on what your starting assumption is, correct?

A. It depends upon the methodology you're employing, yes.

Q. Okay, and when I say starting assumption, you understood that to mean the methodology?

A. Yes, I did.

Q. Now, with regard to the fuel prices, would the fuel prices have any affect on the LMPs?

A. The fuel prices of AEP's coal units should not have an impact on LMPs. The fuel prices of AEP's gas units would typically move in a manner similar to the LMPs.

Q. And can you explain why that occurs?

A. Typically the market prices for electricity are set based upon the cost of gas. So as gas prices go up, market prices go up. As gas prices go down, market prices go down. There's a fairly good correlation between the two.

So the gas units don't have a significant impact on LMP. The LMP --

Q. Did you mean to say the coal units?

A. No, I don't think I meant to say the coal units. The gas units are going to move consistently with the LMP. So they're not going to ride the LMP on an individual basis. The aggregate cost of gas for the -- it's the marginal units, the marginal gas units that set the LMPs. AEP units may or may not be those marginal units in any given hour.

Q. Are there any other factors that would affect the forward -- your expectation of the forecasted margins other than the ones we've just talked about? Economic, environment, relative fuel costs, weather?

A. I want to make sure, we've bounced around a little built, are you talking about the ROE and the earning of AEP Ohio that I've described in Exhibit 8?

Q. No. I'm talking specifically about your calculation of or your forecast of margins. Is there anything else that would affect those other than the things that we've just talked about?

A. The margins from AEP's generating units in the sense of an energy credit calculation?

Q. Yes.

A. The variable O&M.

Q. Can you hold on a second, I think we just lost the microphone again.

EXAMINER SEE: Mr. Conway, is that mic working?

MR. NOURSE: This one is. Want to use this?

EXAMINER SEE: Yes, until we can get this one ready. Thank you.

Mr. Darr, go ahead.

MR. DARR: Thank you, your Honor.

Q. (By Mr. Darr) Are we back on the mic?

A. Yes.

Q. Good.

A. The elements that would impact the margins achieved by AEP's generating units would be first the market price of electricity, variable O&M, emissions cost, fuel costs, the actual generation output of those units, the heat rate of those units, those would be the primary drivers of the margins for those units.

Q. In looking at the fuel costs specifically, would you expect over the course of the period mid-year 2012 through 2015 that those fuel costs would vary from year to year?

A. Yes, I would. In general the fuel costs for AEP's coal units goes up over time.

Q. And would it also be true that the LMPs would be affected by such things as the bidding strategies of the individual companies that provide generation into that market?

A. They may. The actual bidding strategies of various companies in PJM, that's outside the scope of my testimony in this proceeding.

Q. Well, you have been involved in forecasting the financial affairs of this company as part of several of your positions, correct?

A. Yes, I have.

Q. And in that you've been sensitive to the fact that part of the financial forecasting is looking at the operation of these markets in which you're operating, correct?

A. Yes. And typically we look at the forward-price curves in those markets, not the underlying strategies that have created those forward-price curves.

Q. One of the factors you would look at though would be how bidding strategies would affect those prices, correct?

A. That's not something that I would look at.

Q. In your role.

A. That's correct.

Q. Are you aware how those bidding strategies might affect when they're not your company's AEP generation units would play in these markets, in these bids?

A. I'm generally aware but not specifically.

Q. And in terms of defining where the LMP clears on a day-to-day, did you look at whether or not there were demand resources and how those might affect the LMP?

A. No. I just used the forward price curves that exist today.
Q. With regard to the cost-of-service adjustments that you calculated to the staff testimony, you have sought to include construction work in progress, correct?
A. Yes, I did.
Q. And did you make any attempt to address in your testimony whether or not that cost-of-service -- or, excuse me, construction work in progress would clarify under Section 4909 and the provisions in Chapter 4909?
A. No, I did not.
Q. And, in fact, if I understand it correctly, you're basically using or basically making the arguments to the staff testimony, the staff testimony relied on the Pearce testimony, so everything goes back to the Pearce testimony, correct?
A. And ultimately to the company's FERC Form 1. Yes.
Q. And that brings us back to the point of a series of questions that was raised earlier which is that there was no attempt to comply with the requirements of Chapter 4909 in preparing this

testimony or in preparing the supporting schedules that you have used for purposes of this hearing, correct?

MR. NOURSE: I object. Sounds like Mr. Darr is asking about the procedure or substantive requirements of RC Chapter 4909 which is beyond the scope of this testimony -- witness's testimony and is a legal matter.

MR. DARR: Your Honor, if I may respond.

EXAMINER SEE: Go ahead.

MR. DARR: The whole point of this matter is to set an increased rate. There has to be some legal basis for it and I'm trying to figure out what the legal basis of it is. And we've been on this trail since day one, in fact, before day one of this hearing. This issue is clearly relevant to how the Commission ultimately decides this matter.

MR. NOURSE: Well, your Honor, Mr. Darr can ask a specific question like he did with the CWIP area or they could have presented their own witness to explain other technical matters, but he's just asking a blanket question about the requirements of a very complex and lengthy chapter in the Revised Code.

MR. DARR: If I may respond, your Honor, because there's a factual assertion made there that is inaccurate in Mr. Nourse's response. We did point out testimony we pointed out through Mr. Hess. In fact, there was no compliance with generally understood and statutorily required requirements for setting a rate under 4909. And that is exactly the point of this cross-examination.

EXAMINER SEE: And I think the witness has already started to indicate whether or not he based a portion of his testimony on statutory factors so the objection is sustained.

You may move on, Mr. Darr.

Q. (By Mr. Darr) Have you provided an operating statement of OP or Ohio Power's and Columbus Southern Power's last fiscal year?

A. No, I have not.

Q. Have you provided a statement of the income and expenses anticipated if the proposed rate increase is approved?

A. That would be my Exhibit WAA-R8.

Q. Anything else?

A. No. That's my complete answer.

Q. And have you provided a statement of financial condition other than RR -- excuse me R8 for Ohio Power and CSP summarizing assets, liabilities, and net worth?

A. No, I have not.

Q. I'd like to turn your attention to your rebuttal Exhibit 1, please.

A. I see that.

Q. I want to make sure the record's clear about what you were doing here to create this $70 adjustment. You start with the staff's projected cost of fuel; is that correct?

A. I used staff's -- I think it's their third revised fuel cost estimate, yes.

Q. And then you adjust that or let's back up a second. You create a calculation of what you believe the actual fuel costs were based on 2011, correct?

A. What I've done is taken the actual fuel costs for 2011 on a dollars per megawatt hour basis and applied that rate to the forecasted generation that Staff Witness Medine presented in her workpapers to determine what the fuel costs would be if we simply used historic 2011 fuel cost for AEP Ohio's generating units and applied that to those kilowatt hours to come up with the rate -- with the dollar amount.

Q. And then the next calculation next to the under statement of fuel cost, that's the difference between column 1 and column 2, correct?

A. The columns aren't numbered so just for the record it's the difference between the fuel cost based on actual 2011, that column, and the column entailed staff projected fuel costs.

Q. And then you adjust that to come up with a megawatt per day calculation, correct?

A. That's correct.

MR. DARR: I'm not sure what we're up to in terms of our numbered exhibits. Could I have a little assist from the Bench, please?

EXAMINER SEE: I have your last exhibits were IEU Exhibits 102-A and 102-B.

MR. NOURSE: That's what we have as well, your Honor.

EXAMINER SEE: I'm sorry, I have IEU 111 --

MR. DARR: I've got 119 so I think this is 120.

MR. LANG: I've got 119 as your last exhibit.

EXAMINER SEE: Okay.

MR. DARR: I would like to have this marked as IEU Exhibit 120.

EXAMINER SEE: 120.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER SEE: Exhibit is marked IEU 120.

MR. DARR: Thank you, your Honor.

Q. (By Mr. Darr) Do you have in front of you what's been marked as IEU Exhibit 120?

A. Yes, I do.

Q. Do you recognize this exhibit?

A. Yes. It appears to be one the workpapers that I provided to the parties in the case.

Q. And was this workpaper developed by you or under your direction?

A. It was prepared by myself.

Q. And is this part of the support for what we have been presented as your rebuttal Exhibit 1?

A. Yes, it is.

Q. Now, to assist the record, you, me, maybe the rest of the folks in the room, across the top I've added some labels in brackets, listed 1 through 8. Do you see that?

A. I see that, yes.

Q. The first column, would you describe what's in the first column for us, please? The column bracketed 1.

A. Yes, I see that. That column provides the list of plants that were provided in the workpapers of Staff Witness Medine.

Q. And would you describe what's listed in the column bracketed by 2?

A. Column 2 provides the fuel costs used by Staff Witness Medine for calendar years 2012, 2013, 2014, and 2015, and also provided in her workpapers.

Q. And what is contained in column 3?

A. Column 3 provides the actual fuel costs for 2011 from the company's FERC Form 1.

Q. Column 4?

A. Column 4 is simply a variance between column 3 and column 2 for each year 2012 through 2015.

Q. Column 5?

A. Column 5 is the projected generation for the coal units of AEP Ohio as presented in the workpapers of Staff Witness Medine.

Q. Column 6?

A. Column 6 would be the staff's fuel costs multiplied by the kilowatt hours of generation.

Q. Column 7?

A. Column 7 would also be the fuel costs for the generating units of AEP Ohio based upon the generation provided by Staff Witness Medine multiplied by the company's 2011 fuel costs.

Q. And then column 8.

A. Column 8 is the excess margin on an annual basis produced by staff's understated fuel costs.

Q. Now, if I understand it correctly, the difference that you calculated here is based, as you described it, on the historic or cost for 2011 for fuel at each of these coal facilities, correct?

A. That's correct.

Q. And that number is a constant for the period 2012 through 2015 for each of those plants, correct?

A. That's correct. What I attempted to do was to provide a conservative estimate of the margins that would be produced by these units and my starting point was a value that was very transparent that all parties could easily review. And in light of the fact that fuel costs typically go up over time, this produces a conservative estimate.

Q. Now, you said fuel costs go up over time. You have not made any assertions today or provided any testimony today as to the trends or any forecast -- let me start over again.

Have you provided the Commission a forecast of fuel costs in this case?

A. No. I think that's being presented by Company Witness Meehan. I have reviewed the company's forecasted fuel costs to confirm that use of 2011 actual fuel costs in this calculation is conservative. What I attempted to do here is provide data that could stay in the public record that all parties could review and understand, whereas, the data that Company Witness Meehan presents his confidential data that won't be in the public record. So I tried to do a simple view that the public could see.

Q. Well, I think we can agree it's simple, but I guess the question is is it accurate? You would turn to Mr. Meehan then to address the direction of these coal costs?

A. No, I would not. I reviewed the company's coal costs, and I verified that the analysis I presented is a conservative estimate. And when I say conservative, it means that the adjustment to staff's energy credit is less than it would have been had I included projected fuel costs in my analysis.

Q. To at least close the circle on this question, it's fair to say that at least in your calculation where you come up with your $70 per megawatt day adjustment, you have assumed for purposes of that calculation that coal costs are fixed at 2011 levels.

A. That's a simplifying assumption I've provided here. And part of the reason is that the --

Q. Mr. Allen, I appreciate your answer, and I don't mean to interrupt. You'll certainly have an opportunity to expand on this on redirect. The answer to my question is either yes or no. What is the answer to my question?

A. I don't recall what your question was, but I have provided an answer to you.

Q. My question was you assumed for purposes of this calculation the fixed costs for coal based on historic 2011 prices, correct?

A. Yes, as a conservative assumption, yes.

Q. Could you turn your attention to rebuttal Exhibit No. 6, please.

A. I see that.

Q. Now, I'd like to ask you a few questions about this exhibit. With regard to let's take the first line, Conesville unit identified as 2840-3. You list the 2012 cost of that unit as $33.80, correct?

A. That's correct. That information comes from the workpapers of Staff Witness Medine.

Q. Now, to calculate that number, you would have added the actual 2011 fuel to this unit with the EVA estimated cost of emissions and variable O&M, correct?

A. No, that's not correct.

Q. How is that wrong?

A. In this calculation I used the exact values presented by Staff Witness Medine. The intent of this calculation was to address the fact that the errors presented in Staff Witness Medine's testimony were very significant on both the fuel cost side and the market side such that units that she had projected would dispatch, would not dispatch because the market price would be less than their unit cost. And so this was attempting to remove the negative margins that were produced by correcting the significant errors in the staff's testimony.

Q. In any case, you come up with a series of what amount to negative margins, correct?

A. That's correct.

Q. In each one of these cases that would indicate that the average variable cost of running the unit was in excess of the average LMP value for that particular unit?

A. Yes, that's correct.

Q. And that would indicate what to you in terms of outcomes?

A. As I was trying to indicate previously, what staff did in their testimony, Staff Witness Medine, she understated the fuel costs significantly and overstated market prices significantly. As such, her forecast would have had units generating and earning margins that would not occur in the real world.

So what I've done in this calculation is attempted to address the fact that I've corrected her fuel cost, that prices produces one adjustment to the energy credit, I've also corrected her overstated market prices, that produces a second adjustment.

This adjustment's necessary to ensure that I'm not double counting the value of those adjustments, I'm removing the margins that are negative because those units would not operate.

Q. Well, would you agree with me that in a market that uses LMP prices, the price would vary by hour?

A. It would. The company was only provided limited workpapers from the staff. They only provided unit generation on a yearly basis, that was discussed with Witness Medine while she was on the stand. And so what I attempted to do here is do the calculations to the best of my ability based upon the limited data that staff presented us in their workpapers.

Q. Would you also agree that in a market that utilizes LMP prices, the price can vary at each generation plus in the network?

A. Yes, that's correct.

Q. Isn't it true that the price of the generator bus may be above or below the average price for any hour of the year?

A. Yes, that's correct.

Q. Is it your belief that the generating units voluntarily run when the LMP at their bus is less than their marginal cost?

A. There could be circumstances but that's not something that I typically would deal with.

MR. DARR: If I could have just a moment, please.

EXAMINER SEE: Yes.

Q. Are you making any assumptions with regard to purchased power in terms of satisfying energy requirements?

A. No, I'm not.

Q. On this exhibit there are some instances where there are positive calculations as well as negative calculations, correct?

A. That's correct.

Q. And those are not included in your adjustment; is that correct?

A. That's correct. And they're not necessary. Those margins would have existed in Staff Witness Medine's original analysis and they would be reduced as appropriate to reflect more reasonable fuel costs and more reasonable market prices in other adjustments that I've done. So there's -- it's not necessary to -- it would be inappropriate to include those positive margins from this worksheet.

Q. Now, in the real world that you're trying to replicate here to calculate your adjustments, it's fair to say that your company relies on purchased power to provide some of its generation needs, correct?

A. I think you misstated your question, but the company uses purchased power to meet some of the demands of our customers.

Q. And this calculation that you've made essentially assumes that all of the AEP Ohio requirements are being met by these particular plants, correct?

A. And I want to clarify so that the record's clear and everyone understands what I've done here. What I've done is taken Staff Witness Medine's analysis and made adjustments to it to reflect more reasonable and appropriate assumptions.

Ms. Medine presented the dispatch for these units in her analysis.

Q. So you're just looking at that.

A. That's correct. The purpose of my testimony is to correct the significant errors that were included in her testimony so that we can produce a record that has reasonable results for the energy credit in this situation.

Q. Going back to my original question and that's based on the assumption that the energy needs are being satisfied internally by AEP Ohio designated plants, correct?

A. My recollection of Ms. Medine's analysis is that during certain hours the demands of AEP's retail customers were met by market purchases. That's my recollection of what a pretty lengthy workpaper that Ms. Medine had where she had the hourly generation for the fleet as compared to the hourly demands of AEP Ohio's nonshopping load. And she fixed at the 74 percent.

Q. And is it fair to say that Ms. Medine relied on the assumptions made by Mr. Pearce in terms of beginning this calculation?

A. No. Ms. Medine, my understanding, did not rely on the testimony of Company Witness Pearce. Staff Witness Smith relied on Mr. Pearce's testimony for his cost-of-service analysis, but Ms. Medine and Mr. Harter performed their own independent analysis.

MR. DARR: Thank you. I have nothing further.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: No questions, your Honor.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER SEE: Mr. Lang?

MR. LANG: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Lang:

Q. Morning. I want to take you back to your Exhibit R8.

A. I'm there.

Q. Is one of the assumptions in this exhibit that existing standard service offer rates are in place?

A. Yes, that's correct.

Q. And for your calculation for 2013 that you added where you removed the RPM capacity revenue at $356 per megawatt day, how did you derive those numbers?

A. I removed $70 million of capacity revenue that was included in the estimate of -- the estimate of February 23, 2013, ruling. I removed the 70 million that was embedded in there for capacity providers and avoided back in the revenues that would be received at 356 which is the 355.72 rounded, and that $753 million there was derived by applying that rate, the $355.72, times the shopped load of AEP Ohio for 2013.

Q. So is that similar to the calculation that you did showing the impact of capacity at 355 or 356 in your modified ESP testimony?

A. Yes. It would be consistent with that methodology.

Q. Now, the request in this case is to have the capacity charge implemented as of June 1, 2012; is that your understanding?

A. I don't think that's the company's request. The company's request was to have that rate put in place over a year and a half ago. I think the Commission's goal in this case is to come up with the rate that they can put in place June 1, 2012.

Q. Now, with that understanding, the same calculation for 2012 starting with $356 capacity as of June 1, 2012, would result in an equivalent return on equity of slightly over 12 percent, is that fair?

A. I haven't done that calculation. And it's not a calculation you can just easily derive by the -- by taking 7 out of 12 months. You have to recognize that in 2012 the shopping load is growing over the months and is not fixed in time.

Q. But that data was also -- you prepared in your modified ESP testimony that the similar data to what you used for 2013 to add the capacity revenue, correct?

A. Yes, that's correct.

MR. LANG: Your Honor, we'd like to have marked as FES Exhibit No. 122 a -- this is a revised ROE calculation.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. And, Mr. Allen, there's two pages here of the exhibit. I just want to ask you about the first page first. And on the first page of this exhibit you'll see under the year 2013 there are no changes from what you've provided; is that correct?

A. That looks to be correct, yes.

Q. And then under year 2012, it's also the same as what you've provided down through the projected earnings all capacity RPM line; is that correct?

A. Yes, that's correct.

Q. So what's been added is below that line the equivalent calculation that you did for 2013 has been added to 2012 for removing the RPM capacity revenue and then adding capacity revenue at $356 per megawatt day, making income tax adjustment to determine that capacity impact for 2012; is that correct?

A. I see the calculation you're referring to.

Q. And is the -- and in particular where the capacity revenue is added $362 million, do you agree that that is equivalent to what you've prepared as part of the modified ESP as the impact of the $356 per megawatt day rate for 2012?

A. I don't know that to be true. And the data that I presented in the ESP testimony would have only included seven months of capacity revenue for

2012 and the 362 looks relatively large for those seven months based upon the fact that shopping levels were projected to increase over that period. So as I compare 362 and 753, it appears that you may have more kilowatt hours shopped than what was included in my analysis, but I can't confirm that as we sit here today.

Q. Is the -- when you said you only had seven months in your modified ESP testimony, that would be June 1, 2012, through the end of the year?

A. That's correct.

Q. Is the -- if you had your base G versus 355 workpaper in front of you from the modified ESP case, would that help you confirm that the numbers provided here are reasonable?

A. Yes, it would help me.

MR. LANG: Just have one copy of this, your Honor, but if I can show that to the witness.

EXAMINER SEE: Let's go off the record.

(Recess taken.)

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

Mr. Darr -- no, I'm sorry, Mr. Lang.

MR. DARR: I took a long time but.

EXAMINER SEE: You guys are all starting

to blend together at this point.

MR. DARR: I feel honored if I blend together with Mr. Lang.

EXAMINER SEE: Go ahead, Mr. Lang.

MR. LANG: Thank you, your Honor.

Q. (By Mr. Lang) Mr. Allen, we had your workpaper in front of you. Does the workpaper in front of you show for the months of 2012 a shopping load by class?

A. Yes, it does.

Q. And does it also show the capacity rate of $356 per megawatt day by class for each month?

A. Yes, it does.

Q. So to derive the capacity revenue from the $356 per megawatt day would the calculation be multiplying the shopping load by the capacity rate for each class and then the total would be the capacity revenue for that month?

A. The calculation you would perform is to take the OAD load for the residential class times the capacity rate at 356 per megawatt day for the residential class. And then you would add to that the same calculation for the commercial load and the industrial load. And then you would sum that across the seven months of 2012.

Q. And thank you for that classification on that workpaper what's referred to as the OAD load is the shopping load?

A. That's correct. And to clarify, the data that indicates capacity revenues is the capacity revenues at 356 for both the SSO load and the OAD load.

Q. Given that workpaper in front of you, are you able to confirm that the $362 million for 2012 is a reasonable approximation?

A. No, not without doing the calculation I described for a set of 21 different data points.

MR. LANG: Your Honors, what I would propose is not only at this point I have one piece of that -- one copy of that workpaper. But I'd like to mark the workpaper as FES No. 123 rather than having Mr. Allen do the math for as he said the 21 different data points, and then I'd like to mark that workpaper as Exhibit No. 123.

We will over the lunch break bring additional copies for everyone else and the Bench and then with that exhibit we'll be able -- that exhibit will then be the support for the calculation as Mr. Allen described for the $362 number in Exhibit No. 122, if that's acceptable to the Bench.

EXAMINER SEE: That's fine.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. LANG: Thank you, your Honor.

Q. (By Mr. Lang) Mr. Allen, with regard to the removal of RPM capacity revenue for 2012 that shows $33 million, is that a fair approximation of pulling out the RPM capacity revenue in 2012?

A. I don't know.

Q. Would it be --

A. The RPM revenue for 2012 would be significantly higher than $33 million.

Q. For year 2013 number of $70 million for removing the RPM capacity revenue, how was that calculation done?

A. That's calculated by applying the RPM rate each month times the shopped load for the customer classes. For 2012 you have to recognize that the capacity rate of $146 per megawatt day was in place for the first five months of the year. So that would produce a higher level in revenue than the RPM rate of $20 a megawatt day that begins to occur in June.

Q. Is the -- for 2012 for the first five months of the year you mentioned the $146 capacity charge, is that -- do you mention that as part of the two-tiered capacity pricing that's on the first line of the exhibit?

A. It would be in the two-tiered calculation, yes. I didn't do the calculation you have here, so I'm having difficulty understanding when you say remove RPM capacity revenues, are you removing part of the year, all of the year? I just don't know what you've done.

Q. Well, and I think I started off with the exhibit, maybe -- I hope I did, that we were talking about the proposal from June 1 -- from June 1, 2012, through the end of the year, so the same time period as the workpaper that I gave you that we're marking as Exhibit No. 123.

A. So the 33 million represents, I'm guessing by your indication that represents the RPM-capacity revenues just for the last seven months of the 2012?

Q. Correct.

A. I can't confirm whether that's an accurate number or not.

Q. Is that also a number that can be calculated from the separate workpaper that you have in front of you?

A. No, it's not.

Q. If I can ask you to turn to the second page of FES Exhibit No. 122, the heading at the top of this says "Scenario 2." And you'll see this is the same as the first page except it adds rider DIR revenue toward the top of the page. Do you see that?

A. I see the heading, yes.

Q. And with regard to rider DIR revenue, you testify with regard to the amount of the DIR revenue in your modified ESP testimony; is that correct?

A. I testified to the maximum level of the DIR in that testimony.

Q. And so can you tell us what the maximum number is that you calculate for the DIR in 2012 and 2013?

A. In 2012 the maximum DIR on an annual basis is capped at 86 million, the actual DIR revenues that the company will be able to collect in 2012 will be less than $86 million to the delay in implementation of the DIR. So the 86 million is an annual number. Assuming the company implemented halfway through the year, the revenues will be about half of that.

Q. And for 2013?

A. In 2013, the maximum revenues under the DIR are $104 million.

Q. So the rider DIR revenue reflected on this scenario 2 for 2013 of $104 million, that's what you calculate in the modified ESP case.

A. No. If I were to look at the DIR revenue in the sense it's been included in this estimate of earnings, I would also have to include in the incremental distribution expenses that the company would incur as well as the capital investments that the company would have if rider DIR were approved in that case.

Q. Well, the question I asked you not in addition to what -- what additional factors you would add in but just first is the $104 million shown here for 2013 as the rider DIR revenue, the same number that you've calculated in your modified ESP testimony as the maximum rider DIR revenue?

A. To clarify, I didn't calculate the DIR revenue in the ESP case. I identified what the maximum level would be. But you have to factor in the spending that goes with that maximum. So there's no guarantee that the company would be able to collect $104 million of DIR revenues in 2013. It would be dependent upon the expenses.

So you have to have a matching of the two when you do any analysis like this and in this case no matching has been included in the analysis.

Q. Well, and for 2012 this sheet shows a rider DIR revenue of less than the maximum that you've calculated and, again, is that a -- is that a fair approximation if you're running the ESP from June 1, 2012, through the end of the year?

A. No. The $72 million to the -- as I recall in providing -- when I did this analysis, that $72 million was eliminating the DIR revenues for the period March 1st through December of 2012. That's how the $72 million was derived.

So in this case the $72 million would significantly overstate the DIR revenues that the company could expect to recover in 2012 even if the company were able to obtain the maximum DIR revenues. But, once again, just like we talked about for 2013, there's no matching of the revenues and expenses in this calculation performed.

Q. So you believe that the $72 million for 2012 is overstated by three months?

A. I don't believe it's overstated, I know it's overstated by three months, plus it doesn't reflect what the company actually will recover. The company could recover less than that. And, in fact, one adjustment that the staff has proposed in the ESP case is to adjust the calculation of the DIR revenues for ADIT which would also have an effect. So what the $72 million that was removed from the analysis, that 72 million reflected what the company had proposed and what the Commission had approved in the last ESP, not what's being proposed in this case exactly.

Q. For --

A. I'm sorry, not in this case in the company's next proposed ESP -- ESP II.V as we refer to it.

Q. For 2013 if the maximum DIR of $104 million is approved, does occur, that added to your -- the rest of your calculation for 2013 would result in an ROE for 2013 of approximately 13.7 percent.

A. No. And that's what I indicated. You failed to include a matching of the revenues and expenses associated with the DIR. So I would not agree that it would produce a 13.7 percent.

Q. So are you saying that the DIR would have no impact on ROE?

A. It may have an impact on ROE, but it would be substantially less than the value that you've shown on this table.

Q. Would the -- would be the difference be between the DIR revenue and the expenses that you mentioned?

A. I haven't performed that calculation. And you haven't included any recognition of that. As we've discussed in testimony in the ESP case, the DIR allows the company to invest incremental capital. Largely any incremental DIR revenue is offset by incremental expenses or through growth in the equity balance of the company such that the ROE would remain relatively constant as you add new distribution investment and get recovery through the DIR. That's the structure of the DIR.

Q. Is there a return on top of that for the DIR?

A. There is. And that's what I'm trying to describe to you is that your analysis has failed to take into account several aspects of the DIR. You haven't included any of the expenses associated with the DIR, depreciation, taxes, A&G, O&M that's going to happen when we invest incremental distribution assets. And based on failure to include that, I'm also assuming that you failed to include the incremental equity that would exist at AEP Ohio to fund that investment.

And you've also failed to include the interest expenses associated with those assets. So you've included the revenue stream but none of the associated expenses or the change in cap structure -- not cap structure but overall equity of the company.

Q. But I guess your testimony is that the full $104 million would not flow through to return on equity, but isn't it fair to say that some portion of that $104 million would return -- would flow through to return on equity because otherwise you would make the investment?

A. No, I don't think that's accurate at all. The final result that we're talking about here is return on equity. Under the DIR if I invest in additional dollar in net plant, I have associated expenses that go with that that the DIR is intended to recover. And those are the ones we've just discussed with interest, depreciation, taxes and the like.

Also when I invest in this dollar of new distribution assets, I'm going to get a return on that. But I'm also going to have to increase the equity balance of AEP Ohio to fund that investment. So I would say I get an extra dollar -- or use a better example, an extra 10 cents on that dollar investment that covers my return.

I also have increased my equity balance and the ROE would remain constant or nearly constant. You've got to change all the values in the numerator and all the appropriate values in the denominator and this calculation is very one-sided and is only looked at one item that increases the numerator value without looking at the items that would reduce its numerator and increase the denominator.

Q. Just clarifying I guess it's on both pages the 2012 -- where it shows for 2012 the capacity revenues of 194 million. That's also on your Exhibit 8, and how was that calculated?

A. Calculated by removing the capacity revenues recovered under the two-tiered capacity mechanism.

Q. So for 2012 and what years in here for the two-tiered capacity mechanism for 2012 is the RPM pricing for the first tier and 255 for the second tier?

A. Yes, that's correct. And it would have included a different set of shopping assumptions at that point in time.

Q. So with regard to -- with regard to the DIR, is it true that AEP does not -- or, AEP Ohio does not include distribution investment in its projected earnings?

A. You're going to have to clarify which projected earnings are you referring to.

Q. Whenever AEP Ohio projects their earnings either in this case or for investors.

A. Yes, the company would include a projection of distribution expenditures and I think maybe the cause of the confusion is that the DIR allows the company to invest more in the distribution assets. So there's one level of spending included in this analysis if the DIR's approved that level of spending would be increased. And so there would be offsetting expenses associated with that.

Q. And your understanding is with regard to the DIR that it's essentially offsetting dollar for dollar so it doesn't have an impact on the ROE.

A. That's the design of the DIR is that for every dollar of incremental invested capital in the distribution system that the company would recover its costs and have a return on equity associated with that. And that return on equity, that final earnings value of it would be offset by an increase on the balance sheet. So it wouldn't impact the ROE, that was the design.

Q. Do you know AEP Ohio's service company employee Scott Weaver?

A. Yes, I do.

Q. He's managing director of resource planning and operational analysis?

A. He may be. I don't know his title. But that sounds consistent with what he does.

Q. He, I guess, works in the same building as you in Riverside Plaza?

A. Yes, he does.

Q. Are you aware of the testimony he filed recently in Kentucky regarding the economics of disposition options for the Big Sandy units?

A. No, I'm not.

Q. Well, let me see.

MR. LANG: Your Honors, I'd like to mark an exhibit as FES No. 124 and see if the witness recognizes it.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER SEE: The exhibit is so marked, Mr. Lang.

MR. LANG: Thank you, your Honor.

Q. (By Mr. Lang) Mr. Allen, the page that we've marked as Exhibit FES Exhibit No. 124 also says at the top of it Exhibit SCW-2, page 2 of 2. Do you see that?

A. I see that. But I'm not familiar with this document.

Q. All right. And I also gave you the complete testimony that on the front of it says Direct Testimony of Scott C. Weaver, do you see that?

A. Yes. It appears to be testimony that Scott Weaver filed in 2011.

Q. And how can you determine it was filed in 2011?

A. There's a verification page right before the appendix that says that it was filed on the 28th day of November, 2011. So it's fairly dated with regard to market prices and the like.

Q. So there's a verification page affirmed by a notary and it shows that he signed it on November 28, 2011; is that right?

A. That's correct. And the case has a 2011 caption as well. So that's additional confirmation it was filed in 2011.

Q. So that verification states that it's his testimony, the testimony information contained therein is true and correct to the best of his information, knowledge, and belief?

MR. NOURSE: Your Honor, I object.

There's already been an indication from this witness that he is not familiar with the testimony proceeding. Mr. Lang keeps asking questions and reading from this document Mr. Allen's not seen before. You know, this clearly relates to a forward-looking certificate for construction of an environmental facility in Kentucky. Which as the one page they pulled out indicates, there's a 20 plus year horizon for looking at information on a forward basis in that case. There's no relevance to this proceeding and looking at this three-year price that we're looking at in this case. I don't see any relevance, this witness has no knowledge about that testimony, and I don't think the questions should proceed with this exhibit.

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

MR. LANG: Yes, your Honor. As Mr. Nourse suggests, this certainly is for impeachment. This is an example of AEP in Kentucky using exactly what they criticized staff for doing. And actually AEP using energy prices in Kentucky that are higher than the energy prices that they're criticizing staff for using.

So I believe that for purposes of

impeachment it is proper examination to use it in this case in response to Mr. Allen's rebuttal testimony, who again Mr. Allen is complaining that the numbers that staff is using are too high. This is an example of AEP entity going to another PJM state and providing PJM energy numbers that are actually higher than what staff calculated for the 2011, 2012 ,'13, '14, and '15 years.

MR. KURTZ: Your Honor, can I be heard on this?

EXAMINER SEE: Go ahead, Mr. Darr.

I'm sorry, Mr. Kurtz.

MR. KURTZ: This exhibit is attached to OED Witness Mr. Kollen's testimony in the ESP case for exactly the impeachment purposes Mr. Lang is representing that two weeks ago the AEP witness confirmed that these were still the AEP forecasts as of two weeks ago for on-peak and off-peak energy pricing in PJM even though it was submitted actually December 4, 2011, in Kentucky. These still represent AEP's current estimates of future market pricing PJM on-peak, off-peak. That was the testimony in Kentucky.

MR. NOURSE: Your Honor, I disagree. Number one, I don't think if Mr. Kurtz is going to be allowed to testify here and it's not even his cross-examination. The fact is the issue in this case involves a decision for 2016 and following whether the investment that's on the table in this Kentucky proceeding really has nothing to do with energy prices in 2012 through 2015, and the modeling that's occurring in that case is for again a long-term horizon, not a short-term period. And the period that it applies to is -- does not overlap with the 2012 through 2015 period that's at issue in this case.

So the testimony that was referred to that's still being applicable addressed the period in question in that case which does not overlap the period in question in this case.

Furthermore, if it's being used for impeachment, it's Mr. Meehan that's testifying as to the forward energy prices in rebuttal of staff's testimony that should be relied upon or be used in lieu of staff's forward modeling, and again, if anyone, he's the witness that's defending that proposition for AEP Ohio in his rebuttal testimony.

MR. LANG: And, your Honor, these are AEP service companies Mr. Allen's employer, AEP Ohio Service Company, internal numbers that they're pitching as the right numbers in Kentucky, and they include 2012, 2013, 2014, and 2015. So there is overlap here.

If the arguments that Mr. Nourse is making about whether they're relevant or not or whether they should be used in this case, I would suggest that goes to the weight of the numbers, does not go to the issue of whether they could be used for impeachment.

MR. JONES: Your Honor, could staff be heard as well?

EXAMINER SEE: Just a minute.

I'm sorry about that, go ahead, Mr. Jones.

MR. JONES: Yes, thank you, your Honor. Staff agrees with the statements made by Mr. Lang in his argument that this is proper impeachment material. Staff had the same exhibit that they were prepared to cross-examine Mr. Allen on as well. So we would ask that the Bench would consider this as appropriate impeachment material for this witness.

EXAMINER SEE: The objection is overruled.

MR. LANG: I believe I had a pending question. Can you help me out?

(Record read.)

A. That's correct. That's his affirmation based on his knowledge and belief as of November 28, 2011.

Q. Now, the -- what is his Exhibit SCW-2, page 2 of 2, that's attached to his testimony, the heading on this is "Summary of Long-Term Commodity Price Forecast Scenarios." Do you see that?

A. I see that title, but I'd like a moment to look at his testimony to understand the context of that document.

Q. Okay. To assist you, on page 20 of his testimony he discusses Exhibit SCW-2.

A. I've taken a cursory review of the document. And some of the observations I would have regarding the document, first of all, it's describing long-term commodity price forecasts, not short-term forecasts.

Q. Could I ask you before we get to your observations, I just want to step through this. And I think the question I have for you is for this particular exhibit the title is "Summary of Long-Term Commodity Price Forecast Scenarios." Isn't that right, Mr. Allen?

A. That's correct.

Q. Yeah. And then underneath that it says the source is AEP fundamental analysis. Is that correct?

A. That's correct.

Q. And then also on -- in Mr. Weaver's testimony as I referred you to page 20, it says this was created internally within AEP SC. So by AEP fundamental analysis that means this is the AEP internal -- AEP internal estimates of these commodity price forecasts, correct?

A. It goes on to discuss some of the verifications and the peer reviews that the company does of these analysis, one of those being comparison to U.S. Department of Energy Information Administration, EIA, data, the same data that I've discussed in my testimony. And as I indicated previously, this is a dated analysis, it's approximately six or seven months old, and the natural gas prices have changed substantially since then. Even as Staff Witness Medine acknowledged their forecast for natural gas prices has come down from the analysis they used in their testimony.

Q. So are you -- you're not aware that AEP witnesses as recently as two weeks ago were affirming these analyses, these estimates, in the Kentucky proceeding?

MR. NOURSE: I object to that statement by Mr. Lang and without foundation.

MR. LANG: I'm asking him if he's aware of that.

MR. NOURSE: No. You stated what AEP witnesses stated, which is not correct, number one, and you haven't established what it was, number two.

MR. LANG: Well, I think your number one is incorrect, but I want know if he's aware of that, your Honors.

EXAMINER SEE: The witness can answer the question.

A. I wasn't at the hearing. As I recall, I was here at the hearing. So I can't testify what they may or may not have stated in Kentucky. But what I do know is that it's a long-term forecast and that the focus of any forecast would have been on the years in which the Big Sandy Scrubber would have been operational which wouldn't have been 2012, 2013, 2014.

Additionally, long-term commodity forecasts like this are developed based upon fundamentals for long-term analysis. Short-term analysis when there are forward prices available on the market, those forward prices are more appropriate to use.

Q. For the energy prices shown on this exhibit, there are energy prices shown under different scenarios for 2012, 2013, 2014, and 2015; isn't that correct?

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

Q. For the energy prices shown on this exhibit for years 2012, 2013, 2014, and 2015, it shows both on-peak and off-peak energy prices. Do you see that?

A. It does based on a set of environmental assumptions, and my recollection is that since this analysis was done some of those environmental regulations have been delayed. So those near-term dollars are going to produce different answers.

Also this would have been based upon one set of economic forecasts as far as energy demand in 2012, 2013. That information has changed since then. The forward market price curves that I present in my testimony reflected combined wisdom of all the market participants about what the near-term power prices are going to be. Long-term prices are not liquid and traded, so you have to do the analysis in a different way. If you're focused on the short term, it's more appropriate to look at the forward price curves that reflect that combined wisdom

Q. So are you saying that the near-term energy prices that Mr. Weaver is using in Kentucky, that he swore to as being accurate and correct, are neither accurate nor correct?

MR. NOURSE: I object your Honor.

EXAMINER SEE: On what basis, Mr. Nourse?

MR. NOURSE: Mr. Lang's characterization of testimony in a different proceeding with a different purpose without any knowledge of the context and the testimony given in that proceeding.

MR. LANG: Your Honors, the witness has been spending time on his own differentiating between the energy prices shown here and what he thinks should be the energy prices. And instead of moving to strike his answer on the basis it wasn't responsive to my question, I simply followed up with what he said to confirm that I think his testimony is that he's saying the short-term internal fundamental analysis numbers that AEP is using here, his testimony is that those are neither accurate nor correct.

EXAMINER SEE: The witness can answer the question.

THE WITNESS: Can I have the question reread, please.

EXAMINER SEE: Sure.

(Record read.)

A. That's not my testimony. And to clarify the record, and as I indicated previously, I wasn't at the hearing, I don't know what Mr. Weaver testified to or did not testify to. What I did indicate is that this data is dated, it's based upon a set of assumptions that may not be accurate today.

When I look at an analysis like this I see that it's a 20-year forecast and you have a choice when you do a 20-year forecast like that you can either use two sets of data using forward market price curves for the near-term data and using fundamental analysis for the long-term period, or you can use a consistent methodology throughout. You can use a fundamental analysis through the entirety of the period because forward price curves don't exist for this 20-year period that we're talking about in Mr. Weaver's testimony.

So for consistency he may have chosen to use a single methodology, especially in recognition of the fact that in the early years the Big Sandy Scrubber wouldn't be operational so the distinction between the forward-market price curves and the fundamental analysis may not be important to that analysis.

Q. (By Mr. Lang) So for purposes of his energy prices for 2012 through 2015, your testimony would be that using forward-price curves instead of fundamental analysis for those years that you believe the forward curves are more reasonable to use.

A. For the purposes of the analysis that's being performed in this case when we're looking at a relatively short period, three years, my testimony is that using forward-price curves is a more appropriate and correct methodology.

Q. Now, the internal AEP numbers for energy pricing over the next three years are approximately $4 per megawatt hour higher than staff's energy prices in this case; isn't that correct?

A. I think you're characterizing the company's current forecast. This is a forecast, as I indicated previously, is approximately six months old which is in terms of energy markets and gas markets, especially volatile as they've been today, that's a fairly dated analysis.

So I can't testify that these are the company's current projections of market prices. I know that the -- if this were the company's projections of market price, we'd be earning a lot more this year than we are. These are not the market prices that we're experiencing in 2012.

Q. So these were the -- so an issue you have with this exhibit these energy prices are outdated because they're from November of last year.

A. That's one issue I have with this, especially as we -- as you try to apply it to this case.

The other issue I had with it is its purpose is very different than what we're here for today. What we're here for today is looking at capacity prices three years out. What we're looking at in this case --

Q. Thank you, I didn't ask you for all the issues.

MR. NOURSE: Your Honor, I object.

MR. LANG: My question was simply if the one issue was they're outdated. And, your Honors, he's answered that question. And we don't need the next 20 minutes of the answer.

MR. NOURSE: Your Honor, I object to Mr. Lang interrupting his answer. It was a proper answer to the question. He was continuing with the answer. Mr. Lang kept interrupting. It's inappropriate.

EXAMINER SEE: In this instance the witness did answer the question. Let's move on to the next.

Q. (By Mr. Lang) Mr. Allen, with regard to the data provided to Mr. Meehan in this case, did AEP SC provide any of its fundamental analysis data to Mr. Meehan?

A. The data provided to Mr. Meehan was provided by Company Witness Nelson so he would be the individual to discuss that with.

Q. Okay. So you don't know.

A. I wasn't involved in that portion of this case.

Q. So you don't know.

A. I indicated that I wasn't involved in that portion of the case, so I don't know.

MR. LANG: Thank you.

Thank you, your Honor, that's all I have.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. I'd say good morning but it's good afternoon, Mr. Allen.

A. Good afternoon.

Q. Mr. Allen, in your original testimony you indicated that you were -- your job title was a Director of Regulatory Cases?

A. Director of Regulatory Case Management, I think.

Q. Case management, thank you, yes. So are you managing other cases besides -- I realize you could make a career of this case, but are you managing other AEP cases for electric distribution utilities?

A. Unfortunately I think your distinction is correct, I've pretty much made a career out of this case at this point, but I am managing some of our other cases as well.

Q. And did you -- we've spent some time here talking about the case that's going on in Kentucky now. Do you have responsibility for that proceeding?

A. One of the individuals that reports to me is managing that case, but he's doing that case on his own. I've not been involved in that.

Q. But you have responsibility to oversee that case as well.

A. That's correct. Just as I have responsibility to oversee other cases like our Indiana base case that's ongoing, both of which I've not been able to monitor because of all the work I've done on this case.

Q. Let's talk about that Indiana case. In 2011, did you complete, you being AEP, or did one of your affiliates complete a rate case in Indiana?

A. No.

Q. How about Michigan?

A. We may have. Our most recent one was completed in 2012. We may have also completed one in 2011, or it was late 2010. I don't recall.

Q. Virginia?

A. We completed a case in 2011, yes.

Q. And West Virginia?

A. I think early 2011 is my recollection.

Q. Do you recall, did the company ask -- the company, when I'm saying the company here, this would be the AEP individual electric utility affiliate. Do you recall what rate of return they asked for in those cases?

A. Typically the ROEs that the company has requested in the other jurisdictions has been in the 11 plus percent. Virginia may have been closer to

12 percent. The Indiana case also would have included an increment for fair value which is an ROE adder essentially.

Q. Do you recall what the state commissions in those proceedings awarded the AEP?

MR. NOURSE: Your Honor, I object, relevance.

MR. PETRICOFF: Your Honor, we have before us in this rebuttal a rate of return figure that has been calculated for a year or two. I think it's important for the Commission to be able to put this into perspective to see how this matches up with other AEP affiliates for their investment.

MR. NOURSE: Trust me, your Honor, there's nothing that compares to Ohio as far as the other AEP East operating jurisdictions and the regulatory regime that's in place in those states. I don't think it's relevant.

EXAMINER SEE: I'll allow it.

A. My recollection in Virginia the approval was 10.9 percent for a large portion of the assets and a higher return for new generation in the state. So the generation business unit would have had an ROE of probably north of 11 percent.

Michigan was approved at 10.2 percent,

but the company excludes off-system sales margins, a portion of those from that calculation. Virginia is similar, 25 percent of the off-system sales margins are excluded from that calculation as well. So the actual earned return based on the Commission order would be higher than that 10.9 percent.

Q. In the 10-K that AEP Corp. files, do you list what these returns are for all of the EDUs, electric distribution affiliates?

A. I don't know that we list the earned returns but calculate the earned returns.

Q. In the area where you had -- when you talk about some of them excluded the off-system sales, do you know whether those off-system sales revenues are shared directly with the customers?

A. In those states a portion of the off-system sales margins would be shared with customers. And the way the analysis I performed here, I've included all the off-system sales margins in the calculation, so from an ROE perspective, it's equivalent to a calculation performed as if the AEP Ohio were providing 100 percent of the off-system sales margins to our customers.

MR. PETRICOFF: Your Honor, I'd like to have marked as RESA, R-E-S-A, exhibit I think we're up to 103, a document that is an excerpt from the American Electric Power 10-K.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, you're familiar with the AEP Corp. 10-K document?

A. Generally, yes. I don't read it cover to cover.

Q. And, in fact, when you were calculating the rate of return figures that appear on your Exhibit 8 of your rebuttal testimony, you used the equity figure as the denominator for the calculation of the rate of return from the 10-K?

A. No, I did not.

Q. What was the basis for the equity figure that you used in the rate of return calculation in your Exhibit 8?

A. It would have been the -- to the best of my recollection it's the projected 2012 equity balance. What you may be confused with is the calculation I presented in the ESP II case in the RSR calculation for 2011 we used an equity balance from the 10-K in that calculation. But they would be relatively close. They would be nearly the same.

Q. And a great deal of attention goes to the filing the 10-K to make sure that it is accurate?

A. Yes.

Q. Now, if you would turn to what we've had marked as Exhibit 103, and this is page 21 from the last, the most recent 10-K, the one that was filed in February. And as you can see, there are rates of return listed for all of the EDU affiliates.

Are these rate of return figures to the best of your knowledge accurate?

A. These are the authorized returns, is that your question?

Q. That's my question.

A. They look correct.

Q. And you'll agree with me that, now turning to your exhibit -- Rebuttal Exhibit 8 -- actually let me withdraw that question.

Please turn to Exhibit 8.

A. I'm there.

Q. First, let me do a little bit of background before we get to the ROE number, so I make sure that we have a complete record here.

If you will, under the projected earnings two-tiered capacity pricing, you see that line, that row going across?

A. Yes.

Q. And the 471 million figure, that is your calculation of what the two-tiered capacity cost would bring in along with all the other projected income for 2012?

A. No, that was the projected earnings after assuming that the stipulation was rejected and only maintaining the two-tiered capacity pricing structure in that calculation.

Q. I want to -- let's start with something more basic. This is an overall net return figure, correct, the 471 million?

A. It's an after tax return number, yes.

Q. And this is a projection that you have made.

A. Yes.

Q. So this is not a number out of the 10-K or a number that was done for other regulatory purposes.

A. That's correct.

Q. And in coming up with the 471 million projection for 2012, you're assuming that we have the two-tiered pricing that is in place in accordance with the Commission's March 7th entry?

A. No. In accordance with the detailed implementation plan filed by the company on December 28th of 2011.

Q. So this is the December, I guess it was December 14th -- take it back. This was the DIP, the detailed implementation plan, that was filed in January?

A. It was filed December 28th. It was the company's interpretation of the December 14th order.

Q. Okay. So this figure still has in it -- well, under this figure, this 471 million, do you recall what the percentage of the commercial class was shopping?

A. I don't recall.

Q. But it's less than what's authorized in the March 7th entry.

A. It would have had shopping levels greater than the first tier of capacity.

Q. I think we're on the same -- I think we're on the same plane here. And the rate of return that you show here, the 10.4, in that case the 471 million is the numerator and what was the denominator?

A. To the best of my recollection without having the spreadsheet in front of me is 4.5 billion.

Q. And there were no workpapers that were filed with this exhibit; is that correct?

A. The exhibit was filed as part of my direct testimony, and I think there were workpapers included there. And I've answered quite a few discovery responses with regard to that.

The only thing that's been included as part of the rebuttal exhibit are just the couple lines at the bottom, the one that says remove RPM capacity revenue and add capacity revenue at 356, those are the two new lines, they're just totaled, tax affected, and divided by the same equity balance that had been previously used.

Q. But there were no workpapers that were filed with that testimony.

A. With the rebuttal testimony?

Q. With the rebuttal testimony, that's correct.

A. That's my understanding.

Q. And, in fact, you might recall our former cross-examination on this subject there were no workpapers that detailed how the rate of return was calculated for this first row as well in the original Exhibit 8.

A. I don't recall. It's been a while.

Q. Okay. One last question. To the best -- well, actually two last questions.

On this exhibit that we're looking at, WAA-R8. In that return on the 471 million, that does not include any DIR revenues?

A. That's correct. And it doesn't include any of the other expenses associated with the stipulation.

Q. Let's move over and look under 2013, that 331 million figure that was there, that is based on a level of shopping that was 65 percent residential, 80 percent commercial, 90 percent industrial as per your original testimony?

A. I'm sorry, you're talking about the $331 million line?

Q. Right. That's under the -- in the row that's still labeled "Projected Earnings."

A. No. That was at a lower assumed level of shopping. That's why there's another line where you see the $341 million reduction in revenues, that line's titled "Additional Switching, Net of Off-System Sales Margins and Capacity Revenues." So that's the impact of increasing the shopping levels up to 65 percent residential, 80 percent for commercial, and 90 percent for industrial.

Q. Let's go back because I think I want to make sure we have this correct. So the 331 million represents the revenue if, in fact, $255 per megawatt day was the tier-two rate and RPM was the tier-one rate in 2013.

A. That's correct. Based upon a set of shopping assumptions, yes.

Q. And then when we come down in the column that shows a negative of 341 million, that is the difference in revenue that would occur if everyone, both tier-one and tier-two customers, received RPM pricing in 2013.

A. That's partially what it represents. It also represents the additional loss of revenue due to increased levels of shopping that would occur at RPM and it's also consistent with the shopping behavior we're currently seeing today.

Q. And you'll agree with me that basically that the -- your estimated affects of going to RPM pricing is to basically go negative on the projected earnings under the two tiers. We'd have a negative number if you subtracted 341 from 331.

A. Well, that's partially but you have to recognize the capacity revenue that would be recovered from CRES providers.

Q. But we're talking about your overall income.

A. I'm sorry, I misstated that. The 341 represents the revenues from CRES providers as well. You have to recognize the reduced income taxes that the company would have to pay as a result of that significant reduction in earnings.

Q. So your projection is that basically there would be negative revenue -- negative revenue as a result of the changes in the capacity pricing. We would now actually lose money at this capacity rate.

A. AEP Ohio would not lose money at this capacity rate because I show that AEP Ohio would earn a 2.4 percent return. The generation function of AEP Ohio would lose money at this capacity rate though. And when I say this capacity rate, I mean all capacity priced at RPM.

Q. So that's under your construct, that is the impact. And the 400 -- now moving down, the 444 million that now assumes that all shopping customers have. The 355 or 356 dollar per megawatt day capacity charge?

A. Right. It assumes that the company would charge it's full cost base capacity rate to CRES providers, yes.

Q. What assumption of shopping did you have for that figure?

A. That continues to include the shopping assumption at 65 percent for residential, 80 percent for commercial, 90 percent for industrial. And as I've indicated in some of the other testimony I presented in this case, the capacity revenues and the base generation revenues are essentially equivalent. So the impact of changing the shopping levels if the company receives its actual cost base capacity rate is greatly diminished.

Q. In terms of customers shopping is the factor known as price elasticity applicable in the real world?

Let me repeat that. First of all, you're familiar with the concept of price elasticity?

A. Yes, I am.

Q. And does -- price elasticity applies to electric wholesale -- I'm sorry, electric retail marketing?

A. I would suspect it does to a degree. But that assumes rational behavior of customers and I think we all recognize that individual customers, especially residential customers including myself, don't always act rationally and so individual customers don't do a price elasticity to determine if they're going to shop. They look and see if there's a price lower than the price they're currently paying. And if it's worth their time and effort, they'll do it.

And as we've seen, some suppliers have said takes two minutes to switch, so obviously the cost is very low from a customer perspective to switch. So it wouldn't require a significant savings for the customer to undertake that limited effort to switch.

Q. Some of your customers are rational, your retail customers? You being AEP Ohio.

A. I would suspect especially the larger customers are going to do more detailed analysis, but I don't know that for those customers it's really a price elasticity question. It's an -- almost a binary decision, either they switch or they don't switch.

Q. But isn't the price elasticity concept basically the sum of all the binary transactions?

A. No. Going back to my MBA days, price elasticity really is more a function of how much a customer is going to consume of a product at a different price level. In this case the customer isn't deciding how much shopping to consider, the customer is deciding do they consume shopping or do they not. It's a binary decision. So it's different than what you think of in traditional price elasticity. It's not how much am I going to use. It's which of these two decisions am I going to make.

Q. But you'd agree with me that as the price goes up, the volume of sales should go down.

A. For that portion of customers' usage that is discretionary, that can happen. It doesn't always happen though.

Q. And wouldn't you expect then that if the price went from $20 to $355, that there would be less shopping?

A. Not necessarily. It depends upon whether or not CRES providers can provide a competitive offer that's below the company's SSO rates. If they can, I think that same customer is going to choose to shop if the discount is 5 percent or if the discount's 20 percent or in the case where the discount's just 5 percent and the CRES pockets a large profit. In either of those cases, the customer's still going to shop, they're still going to make that decision if they want to move into that competitive marketplace.

Q. Is it your testimony that if the price moves from $20 to $355, it would have no affect on shopping?

A. I don't know what impact it would have on shopping. It depends on what types of offers CRES providers could make. What we saw is that CRES providers made offers to customers at capacity prices of $255 a megawatt day when energy prices were $10 a megawatt hour higher than they are today.

Q. Isn't --

A. As the capacity price goes up, and we see an offsetting reduction in the energy prices that CRES providers see in the market, one would expect that those CRES providers can still make similar offers to the ones that they were making throughout the latter half of 2011.

Q. But for your testimony made to this Commission as per this exhibit, you have assumed that there would be no difference in shopping if the price went from RPM to $355.

A. That's correct. And as I've indicated --

MR. PETRICOFF: Thank you. That answers the question.

I have no further questions, your Honor.

EXAMINER SEE: Mr. Jones?

MR. JONES: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Jones:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Are you involved in coal procurement?

A. No, I'm not. But I've testified in various cases for the company on projected fuel prices for different affiliates of AEP.

Q. Do you consider yourself to be a fuel expert?

A. I would consider myself an expert on the fuel costs that AEP experiences and their impact on the different fuel cost recovery mechanisms that we have in various states and how those changes in fuel prices can impact margins that the company sees.

Q. And are you knowledgeable about the coal industry?

A. I'm knowledgeable about the prices that AEP pays for coal, the costs that AEP incurs to procure that coal. As part of my job, I do not typically monitor the coal markets, but from time to time as the company has different issues and we've seen issues with certain coal suppliers, I've been involved in some questions about regulatory recovery in those matters.

Q. Can you explain your understanding of the difference between a forward-price curve and a forecast?

A. Yes.

Q. What is that difference?

A. There's -- and I assume when you say forecast, you mean fundamentals forecast?

Q. Yes.

A. A forward-price curve is probably the simpler of the two to discuss. A forward-price curve is the price that willing buyers and sellers would transact at in the market. And as I mentioned earlier, that's essentially the combined wisdom of all the market participants.

As some customers view the market prices going up, they'll be more willing to buy forward energy. If they see that the forward-energy price is less than what their projections are, that will have the effect of increasing the demand for the forward energy, and it will increase the price until we reach an equilibrium point. That equilibrium point is the price curve.

A fundamentals analysis steps back from what is happening in the market and looks at fundamental-cost demand, production, drivers to prices for that commodity. So in the case of a forward-price curve for -- I'm sorry, a fundamentals analysis of future electricity prices, you would start with looking at your expectations of future natural gas demand and supply in this country, you would look at your projections of environmental regulations and the constraints those would put on coal plants and gas plants, you would look at the expected demand growth for electricity within the country and within the specific subregions that you're concerned about.

You would look at projections of coal prices. You'd look at projections of unit retirements. And from all of that analysis you would in an iterative fashion because all of these items have impacts on each other, so as an example, if the -- your projected price of electricity is higher than what your initial run said due to the price elasticity we were just talking about with Mr. Petricoff, the expected demand for electricity would go down. And that would have an iterative impact to the forward price that you would expect using a fundamentals analysis.

Fundamental analyses are based on specific assumptions that that organization that's doing the fundamental analysis has put in place for each one of these items. They are more effective at forecasting long-term prices than they are short-term prices in many cases. Because the fundamentals may not move in the long-term as quickly as they move in the short-term. Short-term energy prices are very susceptible to changes in all the input parameters.

Things can change it such as a cool winter will impact 2012 energy prices much more than it would impact 2015, 2016 energy prices because of storage issues that occur such that producers that are running their gas wells have to sell that, there's no place to store it for the future. So that can have an impact of driving down the near-term prices.

A fundamental analysis isn't going to focus on those near-term type scenarios. It's going to look at longer-term issues. So they are going to be different but one of the things when you do a long-term analysis that's important when you do these types of fundamental analysis is to test to see how well your results conform to the near-term projections, and to the extent that your fundamentals analysis doesn't conform to near-term projections you need to understand what's causing those and make sure that those causes are due to explainable items like the example I gave before that maybe gas storage is full. So the gas prices are being driven down in the near term.

You have to understand why you're seeing differences from the forward-price curves but the forward-price curves for near-term data are more reliable and that's what parties are willing to transaction in the market.

Q. See if I can't get you to agree with me on a short answer here.

A. You asked for a pretty complicated discussion there so I tried to do my best.

Q. You would agree that a forward-price curve is based upon what willing parties will buy and sell as of the date of the forward. Do you agree with that?

A. Yes.

Q. And would you further agree that a price forecast is based upon market fundamentals for transactions as the day they occur?

A. You're going to have to repeat that question.

Q. That a price forecast is based upon market fundamentals for transactions at the day they occur.

MR. NOURSE: I object. Just to clarify are you saying the date the forecast occurs or the transactions occurs? I was confused by that.

MR. JONES: The date the forecast occurs.

A. Repeat your full question then.

MR. JONES: Can I have that reread please?

(Record read.)

A. No, I don't think fundamental analyses are transactional in nature. They're not transactional based. The forward-price curves are transaction based. Fundamental analyses are based upon usually one single market participant or one single consultant's view of what those future market driving events are. And thus they're projected prices into the future.

It doesn't mean that's a price that two parties would transact at.

Q. Do you know if the natural gas prices in staff's analysis for energy credit is based upon a forecast or a forward-price curve?

A. My understanding from Witness Medine's testimony was that those natural gas prices were based upon EVA's future price curves -- future forecast of natural gas prices which she acknowledged were overstated and have come down since that point in time.

MR. DARR: Objection, misstated the testimony. He just misstated the testimony.

MR. NOURSE: Your Honor, I don't know how another attorney can interrupt cross and object to an answer --

MR. JONES: I object and ask to strike the last part of his answer to that question.

MR. NOURSE: I believe Mr. Allen responded to a question about what Ms. Medine did, and he gave his understanding. Certainly follow-up questions can be clarifying.

MR. JONES: Your Honor, the testimony is clear for the record, and I would like to rely on her testimony as stated and not the testimony -- Mr. Allen characterizing Ms. Medine's testimony.

EXAMINER SEE: Mr. Allen already gave his answer to the question. Proceed, Mr. Jones.

Q. (By Mr. Jones) So, Mr. Allen, you think it was -- you think it's more appropriate to use a forward-price curve analysis; is that your testimony?

A. Yes. As I described throughout the cross-examination today. In the short-run when forward-market prices exist, forward-market prices are much more appropriate to use than long-term fundamentals analysis.

Q. And do you know, Mr. Allen, if the power prices in staff's analysis are based upon a forward-model results or a forward-price curve?

A. Based upon my recollection of Ms. Medine's testimony, the market prices were Aurora results and not forward-market prices that came from any published indices.

Q. And you disagree with the approach, the methodology, Staff was using, you have your own methodology of how you would approach that; is that correct?

A. Yes, as I've indicated, I think using forward prices when they exist are more appropriate to use as opposed to using fundamentals analysis. When you have certainty of data like fuel costs of a coal unit where there's contracts out there and things using actual data for those units would be more appropriate.

Q. I'll move on here to ask you about the Cross States Air Pollution Rule. Do you know what that is?

A. Generally.

Q. It's referred to as CSAPR? C-S-A-P-R but it's pronounced Casper.

A. Okay.

Q. You've never heard of that before?

A. Not sure if everybody calls it CSAPR, but it's the Cross State Air Pollution Rule.

Q. And what's your understanding of the rule?

A. It's an environmental regulation. Not very familiar with it.

Q. So did you make it -- did you or AEP make any assumption for the Cross States Air Pollution Rule for your analysis of the energy credit?

A. I want to be clear I'm talking about any analysis. The analysis that Witnesses Nelson and Meehan, they can speak for what they did. Since my analysis was based upon forward price curves, it reflects industry's wisdom about what's going to happen with that regulation.

Q. So it's not included, right? It's not included in your analysis?

A. I didn't say that it wasn't included. What I said is I didn't need to make any assumption regarding that because by using forward-price curves I'm using the assumption around the Cross State Air

Pollution Rule that the market as a whole is assuming.

Q. Mr. Allen, are you aware what AEP Ohio's plan is for in group 1 with respect to that rule?

A. As I indicated, I'm not familiar with the specifics of that rule.

Q. Fair enough. Mr. Allen, do you have an estimate as to what the emission allowance prices are for S02 in annual NOx and seasonal NOx?

A. No. From my analysis I maintain the assumptions that were included in the analysis performed by Staff Witness Medine.

MR. NOURSE: Your Honor, could I have that question and answer reread.

(Record read.)

MR. NOURSE: Thank you.

Q. Mr. Allen, do the forward-price curves for either natural gas forward power reflect the January 1, 2013, start?

A. As I indicated previously, those forward-price curves reflect the combined wisdom of the market as to what that environmental regulation what the outcome of that environmental regulation is going to be as well as other environmental regulations that may occur.

MR. JONES: Your Honor, I'd like to have an exhibit marked as Staff Exhibit 106, and may I approach to hand it to the witness, your Honor?

EXAMINER SEE: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER SEE: Mr. Jones.

MR. JONES: Sorry.

Q. Mr. Allen, what I've handed you there, that's Staff Exhibit 106, does it not show -- does it show the Forward Power Prices - On Peak that are provided from SNL and compare the forward power numbers between December 29, 2011, and one week later January 5, 2012; is that what that shows?

A. That's what this exhibit is labeled as. I don't know if the values are accurate.

Q. And it's comparing the AEP Dayton Hub between those two dates between that time period of a week of December 29th through January 5th, 2012? Is that what's depicted there?

A. That's what it depicts, yes.

Q. And does it show, Mr. Allen, that for this exhibit that there's volatility there shown for forward power prices between December 29, 2011, and January 5, 2012, as to a change occurring between those two dates with the AEP Dayton Hub?

A. What it shows is that the price changed. What it doesn't indicate is whether or not there were any changes in rules or regulations that may have been promulgated at that point in time. My recollection is that late in 2011 or early in 2012 there were some changes in the environmental regulations. There have been some delays so those type of events could have a -- can impact in a stepwise function the forward energy prices. So you have to understand the cause of it before you can make any conclusions regarding it.

Q. Let me ask you what change is reflected there for January 12 between AEP Dayton Hub?

A. It shows a 9 percent change.

Q. And then also for July, '12?

A. It shows a 7 percent change.

Q. And January, '13?

A. It shows a 6 percent decline.

Q. And are these changes, are they significant?

A. They're changes. Whether they're significant or not, they would impact the energy credit and margins that the company would project in a material way. It's not that the company would have projected but Ms. Medine may have projected.

Q. But my question is are they significant?

A. I don't have a definition of what a significant change is. They're changes of 3 to 7 percent. So you can make your own determination whether it's significant or not, but I agree mathematically it looks like these are the changes.

Q. Mr. Allen, how often do the forward-price curves change for power and natural gas?

A. They change daily, if not hourly.

Q. And the forward-price curves as Ms. Medine testified are annual numbers for 2013 and '14; is that correct?

A. No. Ms. Medine presented monthly numbers.

Q. Do power prices vary by month?

A. Yes.

Q. And you've testified that Ms. Medine, she had done hourly prices for the analysis; is that correct?

A. Her analysis has hourly margins. I don't know if she had hourly market prices. I assume she would -- you would typically do an on-peak and off-peak periods and use two prices per day.

Q. And all things being equal, which is more accurate, annual or hourly prices?

A. Either one of them's only as accurate as the input assumptions that you start with.

Q. Mr. Lang had asked you some questions about the Kentucky application with Big Sandy. Do you recall those questions?

A. I do.

Q. And were you involved in the preparation of the company's avocation to the Kentucky Public Service Commission?

A. No, I was not.

Q. Are you aware that the company utilized the Aurora model for value the plant should be retrofit with a scrubber?

A. In my cursory review of the testimony I saw a mention of that, but I also saw a mention of Strategist as well which is another model the company uses.

MR. JONES: Your Honor, I have another exhibit I'd like to have marked. It would be Staff Exhibit No. 107.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. JONES: Thank you.

Q. Mr. Allen, would you just identify what I handed you marked as Staff Exhibit 107 for the record?

A. It appears to be an excerpt of a document that is addressed to, I'll do my best with this name, Mr. Derouen, D-E-R-O-U-E-N, dated December 5, 2011.

Q. And the attachments to that cover letter?

A. The first page is titled "Application of Kentucky Power Company for Approval of its 2011 Environmental Compliance Plan, for Approval of its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities," with a case caption of 2011-00401.

Q. And, Mr. Allen, is this the filing that's in the docket for the Kentucky Commission in regards to the scrubber for the Big Sandy?

A. It has a stamp it was received by the Public Service Commission of Kentucky, I assume. So I have no reason not to believe that to be the. But it is an excerpt; it's not the complete document.

Q. And would you please turn to page 10 of that document, that application. It's 10 of 14.

A. Page 10 of the exhibit which is an appendix total application?

Q. That's correct.

A. Is that what you're referring to?
Q. That's correct.
A. Okay.
Q. And under III A, would you first identify what III A is on that page, please?
A. III A is entitled "The Aurora Model."
Q. And for the record would you read that first paragraph that's underneath that caption?
A. I'd love to actually. "The proprietary Aurora XMP model was developed by EPIS, Inc. in the mid 1990's and has been licensed for use by AEP since 2002. Aurora XMP is primarily a production costing model using a fundamentals-based, multi-area, transmission-constrained dispatch logic in order to simulate real market conditions. At AEP it is used by the AEP Fundamental Analysis group primarily as a long-term optimization tool to forecast mid- and long-term power prices and other industry commodity pricing for all regions within the Eastern Interconnect." So that paragraph is consistent with the discussion we've previously had that market forward prices are more appropriate in the short-run and models like Aurora are more appropriate for the long run.
Q. So the Aurora model that's been used by

your company in Kentucky, has the Aurora model been used in Ohio by AEP Ohio?

A. I don't know if it has or not.

Q. Who would know that?

A. Probably one of the individuals in our company that's responsible for running that model.

Q. Would Mr. Nelson know that?

A. I don't know if he would know that or not. He does not run the Aurora model, I know that.

Q. Do you know why, Mr. Allen, AEP Ohio did not provide an Aurora output for this case?

A. I think, as I've indicated, I don't think an Aurora model is appropriate. And as we indicated in this discussion here, Aurora is appropriate for mid- and long-term forecasting. It's not appropriate for short-term forecasting and the company believes it's more appropriate to use forward market prices for electricity and natural gas for these types of analysis, specially when we're looking at an analysis period of only 36 months.

Q. And, Mr. Allen, do you know whether AEP uses the nodal or zonal version of Aurora?

A. From my discussions with our Aurora group is that they do -- they do run nodal versions. They may also do zonal, but they do run nodal analyses.

Q. And they do run zonal analysis as well?

A. That's my recollection. They may run zonal models. It's really a time issue. You get more precise results with a nodal model than you do zonal.

Q. Do you know what heat rates the company used in its Aurora modeling runs?

A. I have not reviewed that data.

Q. Mr. Allen, I want to take you back to FES Exhibit 124. Do you still have that up there?

A. You'll have to remind me what that document is.

Q. That's the Summary of the Long-Term Commodity Forecast Price Scenarios that was AEP fundamental analysis?

A. I have that document.

Q. Okay. And under the natural gas Henry Hub part of that chart, I want you to please look at the base complete transition that's listed there for 2013. Do you see that in the first column?

A. I see that.

Q. And what is that number?

A. It's 448.

Q. For 2013?

A. 494.

Q. And what's the range that's provided for 2013 for that 494? For the higher and lower.

A. It lists a low 435 and a high of 543. I think as I've indicated, and as included in the same testimony we're referring to, the company does not rely upon Aurora for short-term analysis. So those first years would not be values that the company would be relying upon.

MR. JONES: Your Honor, could I move to strike the remainder of his answer that wasn't responsive to my question? He answered my question and went on to give more commentary.

MR. NOURSE: Your Honor, I think Mr. Allen is just giving a full answer for the -- for an accurate record.

MR. JONES: Not responsive, your Honor.

EXAMINER SEE: Motion to strike the remainder of his answer is denied.

Q. Mr. Allen, for 2014 what number is provided there for the base?

A. 5.38.

Q. And again, to the right of that what's the high and low band provided for that year?

A. 6.02 and 4.73.

Q. And how do these numbers compare to

staff's assumptions?

A. You're speaking of Ms. Medine's assumptions?

Q. Yes. Sorry.

A. They appear to be in 2012 through 2014, the base appears to be slightly higher than the assumptions Ms. Medine used. 2015 appears consistent with Ms. Medine's analysis. But they would all be higher than the value that Ms. Medine indicated when she was on the stand that her current view is lower than the view she had presented in her testimony.

Q. Would you agree, Mr. Allen, that the forward-price curves for natural gas prices have been volatile?

A. I would agree that forward natural gas prices do change. I haven't done an analysis of the volatility of those markets but obviously they've declined substantially since the end of 2011.

Q. Okay. Mr. Allen, did AEP revise its analysis in Kentucky based upon the just released EIA revised natural gas price forecast?

A. I don't know.

Q. Would you -- subject to check, would you agree that they had not?

A. I don't know. And as you've probably

seen in testimony, I don't like to use subject to check. If you want me to check it, I'll check it but I don't know.

Q. Do you know when the hearing in Kentucky case was held? Do you know when the hearing was held there in Kentucky on that case?

A. It's been in the last two or three weeks.

Q. Do you know -- do you know, Mr. Allen, whether EIA assumes the CSAPR starts in 2013?

A. I do not.

Q. Mr. Allen, the short-term outlook as by AEP, that contains a section on coal, does it not?

A. I'm sorry, you're going to reference me to.

Q. The short-term outlook, did AEP present evidence on the short-term outlook for coal?

MR. NOURSE: Sorry, your Honor, are we still talking about Kentucky?

MR. JONES: No, for this proceeding. I withdraw that question.

Your Honor, I have another exhibit I'd like to have marked for the record, please. It's Staff Exhibit 108.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, would you identify Staff Exhibit 108 that I handed you for the record, please?

A. It appears to be a document from the EIA website titled "Short-Term Energy Outlook." But I'm not sure that it's complete. When I look at page 1, it's titled page 1 of 1. Page 2 is titled page 2 of 3. And then page 3 is page 3 of 3. So I'm not certain that the first page goes with the second two pages.

Q. But you can tell from the bottom of the page it's from the same website, all three pages, correct?

A. It does say that. I was just bringing up it causes me some concern about that it's complete.

Q. So this is a short-term energy outlook from the EIA, U.S. Energy Information Administration on coal; is that correct?

A. It appears to be.

Q. Okay. And if you would turn to page 3, and I want to refer you there to "U.S. Coal Prices." Do you see that?

A. Yes, I see that.

Q. And I'd like for you to read for the record, please, that paragraph that's provided underneath that caption.

MR. NOURSE: Your Honor, I'm going to object at this point. I don't think there's been any foundation that this witness is familiar with this document. He's not testifying about the current coal prices. Unlike the prior exhibits in this case where witnesses have used information in their own testimony and are familiar with the data, he's not so indicated any familiarity with this data or this publication.

MR. JONES: Your Honor, he's already testified that he's a fuel expert and that he's been involved in and has knowledge about coal procurement and he's knowledgeable about the coal industry.

MR. NOURSE: Your Honor, I don't think he said he was a coal procurement expert.

MR. JONES: Not an expert but he's familiar with coal procurement. He did hold himself out as a fuel expert.

EXAMINER SEE: I'll allow it.

MR. JONES: Thank you, your Honor.

Q. (By Mr. Jones) Mr. Allen, would you read that paragraph, please?

A. Sure. "U.S. Coal Prices, delivered coal prices to the electric power industry had increased steadily over the last 10 years and this trend continued in 2011, with an average delivered coal price of $2.40 per MMBtu (5.8 percent increase from 2010). However, EIA expects the decline in demand for coal to generate electricity will put downward pressure on coal prices and contribute to the shut-in of higher-cost production. Several companies have recently announced the curtailment of operations, particularly in Appalachia, where production costs of some older mines are high. EIA forecasts the average delivered coal price in 2012 will be 2.8 percent lower than the 2011 average price. EIA predicts the 2013 average delivered coal price to be $2.24 per MMBtu, or 3.8 percent lower than the previous year's price."

Q. So this is -- what this is stating then that the average delivered coal price is declining from 2011 to 2012 and again 2013; is that correct?

A. Well, what it's indicating is that average prices will decline. It's not indicating that the price for every plant -- coal costs of every plant will decline. You have to recognize that plants don't operate by just buying spot market coal. Each plant typically has contracts for the coal and those contracts have specific pricing provisions in those. Just because the spot market for coal declines in the future does not equate into a reduction in actual coal prices paid for an individual plant. A plant such as Gavin that uses a significant amount of coal, it would be imprudent for that plant to be operating purely on spot market coal. A plant like Gavin has contracts out there for a coal, and they have specific prices. So this report would not be something I would use to guide my analysis of the expected fuel prices for specific units such as AEP's units that were used in the analysis Ms. Medine presented.

Q. I thought you said you weren't an expert on coal.

A. I understand the pricing and the regulatory construct around which AEP recovers its cost of coal, and I've testified as such in several jurisdictions.

Q. Mr. Allen, I want to refer you to your testimony on page 5. You state in your testimony that the only anomalous payment was one that occurred in 2008. Is that what your testimony reflects?

A. In this response I was responding to the anomalous event that Ms. Medine testified to on cross-examination or possibly on redirect.

Q. Are you aware, Mr. Allen, that throughout all of 2009 the same supplier received a significant premium for tons shipped?

A. I don't recall whether it was in '8 or '9 but I do recall that timeframe that the company did make additional payments to one or more coal suppliers to keep those coal suppliers in business so that they could continue to meet their contractual obligations for the quantity of coal they had committed to.

Q. And that occurred through 2009?

A. I don't know that it occurred throughout all of 2009.

Q. And these were significant payments made during that timeframe?

A. Once again, I don't know if I'd consider them significant, but they were in the millions of dollars that the company paid. Recognize that the analysis that I've done here looks at 2011 fuel costs and I've looked at those 2011 fuel costs in comparison to the 2012, '13, '14, and '15 projections that the company has and have verified that those are consistent and conservative.

Q. Do you know how the cost of coal purchases flows through inventory?

A. Generally, yes.

Q. And could you provide that explanation?
A. When you buy coal, the cost of that coal is added to the asset value of the coal pile. As the coal pile is burnt down, that asset is expensed.
Q. Okay. And are you aware that a significant portion of these costs would have affected the 2010 costs of the coal at Gavin?
A. A purchase and or payment in 2009 may have had an impact in Gavin's cost in 2010 as it flowed through the coal pile. Typically coal piles that would have 90 to 120 days of inventory, sometimes less, sometimes as low as 30, there were times they've been as low as 10 to 15 days. So those costs would flow through the pile and into fuel expense in a relatively short period of time.
Q. All right. Moving on here. When was the Conesville coal preparation plant closed?
A. I don't recall.
Q. Do you know when the decision was made to close the plant?
A. I don't. I've only been ancillarily involved in that I know we talked about closing it. I'm not even sure that it's closed today.
Q. And when the decision was made to close the plant, how did the asset retirement obligation

change?

A. I don't know.

Q. Did that change increase the cost of coal at the Conesville in 2011?

A. I don't know.

Q. Would you consider the closure of that plant to be an anomalous event?

A. I don't know that I would define it as anomalous. When I used anomalous in my testimony, I was quoting Ms. Medine. I would point out that Conesville plant is a very small contributor to the margins of AEP Ohio in the analysis if you were to compare it to Gavin and some of the other larger plants. But I don't know that I would call it an anomalous event. Those costs were passed through and they were appropriate. It's just an event in that case.

Q. On page 6 of your testimony you testify you used more reasonable fuel cost assumptions; is that correct?

A. I'm sorry, you're going to have to be more specific.

Q. Let's see here, page 6.

A. Or rephrase your question. I just didn't catch what the question was.

Q. That you use more reasonable fuel cost assumptions for your analysis.

A. I think what I testified to is that I used more reasonable and actually conservative fuel price assumptions in my analysis, yes. And when I say conservative fuel price assumptions, those conservative assumptions cause the energy margins to be higher, creating a higher energy credit, which would reduce the capacity price. So all those being equal, my analysis would produce and the capacity rate that would be a little lower than if I used projected fuel costs in this analysis.

Q. Well, Mr. Allen, in that same context you, in fact, all you did was assume the 2011 form prices without any changes; isn't that correct?

A. That's correct. That's what I assumed. And in making that assumption, and determining that it was a reasonable assumption, what I did was looked at projected fuel costs and made sure that they were reasonable in that regard. And I confirmed that they were conservative, in fact.

Q. Did you make any adjustments for the closure of the Conesville prep plant?

A. I did not.

Q. Did you review any of the costs to see if they were reasonable going forward?

A. I think that's what I just testified to a moment ago. I believe they're actually conservative.

THE WITNESS: Your Honor, if we're going to be a lot longer, a break might be helpful to me.

MR. JONES: Your Honor, I still have a few questions to get through so it might be a little while.

EXAMINER SEE: Let's take a ten-minute break.

MR. JONES: Your Honor, would it be appropriate to take a lunch break at this time?

EXAMINER SEE: Mr. Allen, we're going to close out and go straight to a lunch break. We'll reconvene at 2:30.

(Thereupon, at 1:58 p.m., a lunch recess taken.)

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Monday Afternoon Session,
May 14, 2012.

- - -

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

Mr. Jones?

MR. JONES: Thank you, your Honor.

- - -

WILLIAM A. ALLEN

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

CROSS-EXAMINATION (Continued)

By Mr. Jones:

Q. Mr. Allen, did staff only use the most efficient heat rate data for AEP Ohio plants?

A. To my recollection that was the testimony of Staff Witness Medine, yes.

Q. Staff didn't use the most efficient heat rate for all plants in the eastern interconnect?

A. Maybe I misunderstood your question. I was answering did staff use the most efficient heat rate for AEP's units. In that regard I would agree, yes --

Q. Only for AEP plants.

A. My understanding is she used the most efficient heat rate for the entire eastern interconnect as well.

Q. If staff had changed the heat rates for only AEP Ohio plants, would that have biased results?

A. I think the methodology that staff used was incorrect, first of all, not to use realistic heat rates in their analysis. You wouldn't correct just one set of plants without correcting all the plants, but staff should have used correct data for all the plants in the eastern interconnect.

MR. JONES: Your Honor, I would like to move to strike the first part of his response. It wasn't responsive to my question. Not only didn't answer the question but started off by not answering the question.

EXAMINER PARROT: Motion to strike is denied.

Q. Mr. Allen, how much generation is expected to come from the Darby in staff's analysis?

A. Based upon a quick analysis here, in 2013 the Darby unit was projected to produce 378,000 megawatt hours in 2013.

Q. Okay. So over the three-year period that we're talking about from June, 2012, to June, 2015, would you accept, subject to check, that it's less than 0.5 percent over that three-year period and that's excluding Amos and Mitchell?

A. I've not done that calculation. I can't confirm that.

Q. Subject to check, would you accept that?

A. No, I wouldn't. Unless you want me to do the calculation here, I can't accept that.

Q. Mr. Allen, if the OVEC capacity had been included, would the energy credit have increased or decreased?

A. Without looking at numbers, I would suspect that including the OVEC plants would increase the energy credit, though not significantly.

Q. Is OVEC part of PJM?

A. I don't know if OVEC is a member of PJM. I know that the OVEC units operate in the PJM market.

Q. Mr. Allen, the AEP severance program took affect on around May 3, 2010; is that correct?

A. In that timeframe, yes.

Q. And the purpose of the severance program was to help AEP manage its earnings in 2010; is that correct?

A. No. The severance program was -- had a couple of purposes. It was -- to the best of my recollection, it was to reduce staffing levels and expenses in light of a review the company had done of the expected rate increases that may be necessary in the future. And so the company was endeavoring to reduce its costs and those cost reductions had flowed through as a benefit to customers in the future. So we were trying to make sure that the rate increase in the future were held at a more reasonable level than what our current projections had been showing. And in light of some of the continued recessionary pressures that the company was seeing.

Q. And that wouldn't affect earnings?

A. The severance program --

Q. Reducing staffing levels and expenses associated with that?

A. In 2010, the severance program would have actually reduced earnings. The expenses that we incurred into 2010 to support the severance program were greater than the severance savings that we saw in 2010.

In subsequent years the savings that the company achieves through the severance program are flowed through to retail customers through reduced rates. So they don't have an impact in the long run of increasing earnings. What they do is have an impact on reducing the necessary rate increases that the company would need to request in its various jurisdictions.

Q. The cost of the severance AEP has been realizing payable cost savings since June 1, 2010; isn't that correct?

A. The payroll expenses in 2011 would be less than what they would have been had the company not endeavored to incorporate a severance program. You have to recognize that in 2011, salary increases were made for employees as well as increased benefits cost and the like. So you'd have to factor all of those in to know whether or not 2011 employee expenses were less than they were in 2010. A severance program typically --

Q. Did you do that calculation?

A. I have not done that specific calculation, but a severance program typically is intended to slow the growth in payroll expenses. It doesn't necessarily result in a reduction in employee expenses.

Q. But it could result in a reduction; isn't that correct? Not just one way as you were trying to portray?

A. I didn't portray it as one way. I portrayed that depending on the factors it slows the growth. In some cases that may result in a reduction in a single year, but over time employee expenses typically grow back above the level that we had seen in the first year when the severance was put in place.

Q. So the payroll savings realized by AEP from June 1, 2010, through June 1, 2012, have been more than sufficient for AEP to have fully amortized the severance costs prior in that timeframe; isn't that correct?

A. I don't know that to be true, no.

Q. And the severance program was based on the severed employees to receive two weeks of pay for each year of service; is that correct?

A. That's my general understanding of the severance program.

Q. And most of the employees who took the severance were long-term employees at or nearing retirement age; isn't that correct?

A. I haven't seen an analysis of the breakdown by age of those individuals.

Q. Well, for purposes of our discussion, Mr. Allen, I want you to assume that an employee who took the severance had an average life, service life, of 26 years and was paid for two weeks of pay for each of the years of service. You understand that so far?

A. Two weeks of pay?

Q. Yes.

A. Twenty-six years of service?

Q. That's correct. So using this example would take AEP about one year to recoup the severance cost from the payroll savings; isn't that correct?

A. No, I wouldn't agree with that. In doing some analysis I testified on, the severance program in our Michigan jurisdiction, one of the things you have to recognize is that as part of the severance program there's also an add back. There were employees that left who needed to be replaced. The replacement employees may have been at or below cost but those employees in some cases were replaced.

Additionally there were incremental O&M expenses related to increased outside services that the company needed to purchase as a result of a reduced workforce. So it's not a one-for-one calculation as you've tried to portray it.

Q. Mr. Allen, the Virginia Commission addressed the same issue -- AEP issue here May 10th for their severance program in the Appalachian Power rate case in docket number PUE-2011-00037; isn't that correct?

A. My recollection is that the Virginia Commission addressed the issue as well as the Michigan Commission's addressed the issue.

Q. And that Virginia Commission determined that there's no remaining severance costs to be amortized since AEP would have fully recouped severance costs from payroll savings prior to the establishment of the new rate for electric service, correct?

A. Are you reading from a Commission order?

Q. This is what the Commission determined in Virginia.

A. Do you have a copy of the order that I can reference? I can't confirm that the words are accurate as you've indicated.

Q. What's your understanding?

A. My understanding is that the company is not amortizing severance expense in the state of Virginia. I don't recall the exact language in that Commission order.

Q. Well, I said that they determined there was no remaining severance costs to be amortized.

MR. NOURSE: Your Honor, I object. The witness is asking if he's going to be directed to a state commission decision from another jurisdiction in another case that he would be permitted to look at the language that's being read in order to be asked to agree with it.

MR. JONES: I can try to get that decision and come back to it, your Honor. So I'll move on for now.

Q. Mr. Allen, the AEP severance program costs, this issue was also addressed before the Indiana Michigan Power Company rate case. Do you have knowledge about that?

A. You'll have to be more specific as to which jurisdiction you're referring to. We operate in two jurisdictions in I&M. I think you mean the Michigan jurisdiction probably.

MR. JONES: I'll withdraw that question, your Honor.

Q. At pages 14 and 15 in your testimony, you address CWIP, construction work in progress, and rate base. And CWIP by definition is not currently providing service to customers, is it?

A. That's correct. It's construction work in progress. Those are projects that are currently under construction that will be in service in the future.

Q. And you talk about the environmental investment carrying cost rider, the EICCR. Nonenvironmental CWIP is not recovered in that rider, is it?

A. That's correct. That rider recovers CWIP for environmental investments. And I think that was the discussion in my testimony that including CWIP in the charge to CRES providers would provide a similar basis for the two. Nonshopping customers pay for environmental investments through the EICCR, and CRES providers and their customers will pay for those same environmental investments on those same plants through the capacity charge.

Q. Your rationale for including environmental CWIP including carrying costs are included in the rider has no application to nonenvironmental CWIP?

A. I was making a parallel for environmental CWIP. For nonenvironmental CWIP similarly those assets -- those investments are being made to maintain the long-term operability of the generating fleet, and as such, individual CRES providers that are utilizing that capacity should pay for the carrying cost on those.

Q. And no CWIP was included in rate base for either Columbus Southern Power or Ohio Power in their most recent distribution rate cases; is that correct?

A. That's my recollection, yes.

Q. All right. And at page 15 of your testimony, you refer to Staff Report for prepaid pension; is that correct, Mr. Allen? On that page you cite the Staff Report for that?

A. I cite the Staff Report to indicate the staff's recent view of prepaid pensions and their inclusion in rate base, yes.

Q. Mr. Allen, the purpose of making an unrequired funding contribution into the AEP pension trust was to produce cost savings; is that correct?

A. I don't recall the specific reasons that the company made this funding contributions -- this funding contribution decision. Typically in prefunding a pension as the company did at this point in time, it can produce additional flexibility in the future around future contributions, so you can make a contribution now when the cash is available and not have to make a contribution in the future when cash resources may be more constrained. So there are some other factors that have to be considered, but the prefunding of a pension does result in reduced costs going forward and that's why prefunded pension is included in rate base typically, because it's an investment made by the company that produces cost savings that are passed on to customers in the future.

Q. AEP Ohio has not reflected any reductions in pension expense, has it?

A. In 2010, the prepaid pension asset that was on the company's books would have resulted in lower pension expense in 2010 than would have existed in the absence of that prepaid pension. So we have reflected lower pension expenses.

Q. Has -- AEP Ohio has not reflected any pension cost savings, has it?

A. Yes, they have. That's what I just indicated is that the prefunding of the pension does result in reduced costs that would have been reflected in the actual pension expense booked by the company in 2010.

Q. Mr. Allen, are you aware of how the claim for including a pension asset in rate base which was recently addressed by your affiliate Appalachian Power Company in a most recent Virginia rate case?

A. No, I'm not.

Q. Was the AEP pension asset, was it excluded from Appalachian Power's rate base in that case?

MR. NOURSE: Your Honor, I object. He already indicated that he was not aware how it was handled in that case.

Q. So you don't know, Mr. Allen?

MR. NOURSE: Your Honor, object, it's already been answered.

MR. JONES: Clarifying, your Honors, if I can have an answer.

EXAMINER PARROT: The witness may answer if he knows.

A. I don't know.

Q. Mr. Allen, in your testimony on page 15, you refer to the Staff Report in AEP's distribution rate case, correct?

A. Yes, I do.

Q. And there AEP Ohio had recommended return on equity in that docket of 11.15 percent; is that correct?

A. Yes, that's correct.

Q. Okay. And do you know what the return on equity was recommended in the Staff Report for Columbus Southern Power in that case?

A. I don't recall off the top of my head.

Q. And how about the ROE recommended in the

Staff Report for Ohio Power, do you remember, do you know what that was?

A. I do not.

Q. And in the Commission's opinion and order dated December 14, 2011, in Docket Nos. 11-351-EL-AIR, and the 532 docket, the Commission determined that the Columbus Southern Power and Ohio Power were entitled to return on equity in 10 and 10.3 respectively; is that correct?

A. I think what the Commission did in that order was approved a stipulation that included those two ROEs. I don't know that the Commission explicitly authorized the ROEs.

Q. But those were the return on equities authorized by the Commission, correct, for those companies CSP and OP respectively?

A. As I indicated, I don't know if the Commission explicitly authorized those ROEs. Those were the REOs that were stipulated to by the parties, and the Commission ultimately approved that stipulation.

Q. And you're saying the Commission approved that stipulation, correct?

A. Yes, the Commission approved that stipulation.

Q. Okay. And these return on equities for CSP and OP were notably below -- and ROEs that were approved were below AEP Ohio's requested 11.15; is that correct?

A. That's correct. The ROEs included in the stipulation that included a number of elements had ROEs included in there that were less than the 11.15 that the company had requested.

Q. And if you know, were they higher than what staff had recommended --

A. I don't recall.

Q. -- in the Staff Report?

A. That's what I'm referring to is the Staff Report, yes. I do not recall.

Q. Now, referring to your testimony at pages 21 and 22, the revenues produced on the company's proposed capacity charge of $355.72 are projected to produce a 2013 ROE of 12.2 percent; is that correct?

A. That's correct.

Q. Mr. Allen, what capacity charge rate would be necessary to produce a 2013 ROE of 10 percent?

A. I've not done that calculation.

Q. Mr. Allen, on your Exhibit R8, WAA-R8, if you were to substitute a capacity charge of $283.31

for the 355.72 that you used, that would change the revenue on the capacity revenue line from 753 million to about 600 million and would change the 12.2 percent ROE to 10 percent? Wouldn't that be the case?

MR. NOURSE: I'm sorry, can I have the question read back.

(Record read.)

A. Yes, it would. Would it be helpful to the record to explain that calculation?

Q. No, no other question there, Mr. Allen, thank you.

MR. JONES: Your Honor, I have no other questions. Just a caveat here, I just -- Mr. Beeler went to get that Virginia Commission decision so he's not back yet. I guess I could -- if I could have one second.

Your Honor, could I ask for a five-minute break just to see if I could secure that decision during that five minutes?

EXAMINER PARROT: Let's take five minutes.

(Recess taken.)

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

Mr. Jones.

MR. JONES: Thank you, your Honor. Your Honor, if I may approach the witness.

EXAMINER PARROT: You may.

MR. JONES: Your Honors, I'd like to mark this as an exhibit. I think I'm up to --

EXAMINER SEE: 109.

MR. JONES: -- 109. This is Staff Exhibit 109.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Jones) Mr. Allen, I've handed you what's marked as Staff Exhibit 109. Could you please --

EXAMINER PARROT: Mr. Jones, do you have copies for the Bench, the court reporter?

MR. JONES: Sorry. Your Honors, I do not have an extra copy.

MR. NOURSE: Might I suggest that you can probably ask him questions without marking it as an exhibit and then he'll respond based on that?

MR. JONES: Or we could have more copies made. Or I could ask for administrative notice of this decision by the Virginia State Commission regarding Appalachian Power Company.

EXAMINER PARROT: If you could get additional copies and bring them to the hearing room, please.

MR. JONES: Okay. Do you want me to wait or proceed?

EXAMINER PARROT: Please proceed.

MR. JONES: Thank you.

Q. (By Mr. Jones) Mr. Allen, as to this exhibit, would you please refer to page 12 of 24 under the heading of "Prepaid Pension Asset."

A. First, for the record I'd like to indicate this is not the official order of the Commission. It doesn't look at all like a Virginia Commission order. It may be a different reproduction, but it's definitely not what the Virginia Commission would have ordered -- the Virginia orders always have very distinctive Virginia letterhead at the front, so.

MR. JONES: Your Honor, the one I handed Mr. Allen is a slip copy from the Virginia State Corporation Commission dated November 30, 2011, regarding Appalachian Power Company. It does say by the Commission. It does say final order on the face page of this document.

A. Just for the record when you look at the web reference, this comes from the WesLaw. The Virginia Commission order would typically be in PDF format and come from the Virginia Commission. I can't vouch for the authenticity.

MR. NOURSE: Your Honor, I can advise Mr. Allen this is a legitimate format. It just doesn't look like what he's used to looking at.

THE WITNESS: Thank you.

Q. Yes, it was obtained from WesLaw.

A. Okay.

Q. Now, if you would, Mr. Allen, please refer to page 12/24 under the heading "Prepaid Pensions." Do you see that?

A. I see that.

Q. And would you read the first sentence of that paragraph, please?

A. "We reject the company's request to include rate base as prepaid pension asset in approximately $56.9 million." Would you like me to go on to --

Q. No, that's all.

And, further, if you would refer to page 10 of that same document. I'm sorry, I have the wrong page. Page 7/24 under the heading between "Employee Severance Program." Do you see that?

A. I see that.

MR. JONES: Your Honor, I withdraw that question. And if I could just have one second, your Honor.

That's all the questions I have. thank you.

EXAMINER PARROT: Any redirect, Mr. Nourse?

MR. NOURSE: Yes, your Honor.

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REDIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Allen, let's start with the document you were just discussing with staff counsel, the Virginia 2011 State Corporation Commission decision. Do you still have that handy?

A. Yes, I do.

Q. And on page 12 when counsel asked you to read the statement into the record, was there an additional comment you wanted to add from page 12?

A. Yes, I would. The Virginia Commission in this order did not reject a full rate -- did not reject recovery of the prepaid pension asset in its entirety. What the Commission did is instead of having both debt and equity component on that prepaid pension asset, what the Commission stated in the next full paragraph on page 12 is "As a result, as opposed to full cost of capital recovery on this asset, we find that it is reasonable for ratepayers to pay and the company to earn a debt based return on prepaid pension assets."

So clearly the Virginia Commission recognizes that prepaid pension assets provide a benefit to ratepayers.

Q. Thank you, Mr. Allen. And briefly, you had discussed the distribution investment rider with multiple counsel earlier. Can you just clarify one item for us on the DIR? Does that mechanism as proposed allow for recovery of O&M relating to incremental distribution investment?

A. No, it does not.

Q. Okay. Now, earlier in questioning by Mr. Darr, you were asked about whether Exhibit R8 reflects the RSR or the GRR or the full generation rider. Do you recall that?

A. Yes, I do.

Q. And can you explain whether R8, would it be appropriate to reflect those riders?

A. No, it would not. R8 was not intended to forecast all of the elements of the ESP proposal that the company has. Specifically though with regard to the GRR, none of the expenses of the GRR are included in this estimate, so it would be inappropriate to include any revenues in that same calculation.

With regard to the PMR rider, the pool modification is expected to occur in 2014, and likewise no expenses are included in this forecast so it would be inappropriate to include any revenues as well.

Q. Okay, so in your Exhibit R8, you did not intend nor attempt to capture the outcome of the pending ESP case with respect to any of those rate proposals or the outcome of the standard service offer rates in general, correct?

A. That's correct.

Q. Earlier in -- I believe early on in your cross-examination with staff counsel you had made a point about projected prices and gas prices in particular relating to a "cool winter," I think was the phrase you used. Is that the phrase you intended to use?

A. No. If I stated "cool winter," I intended to state mild winter which would be a warmer than normal winter.

Q. Thank you. Let me ask you, do you still have Staff Exhibit 106 on the stand with you? It's the forward power prices on peak.

A. I have it somewhere. I found it.

Q. You found it? Okay.

First of all, is in your opinion, Mr. Allen -- first of all, let me back up. I think staff counsel asked you some questions to make observations about volatility from -- based on this data, do you recall that?

A. Yes, I do.

Q. And in your experience and opinion is it appropriate to make a conclusion about volatility based on two data points?

A. No, it would not. Typically volatility calculations are performed with a large number of data points to come up with an average volatility.

Q. Now, these particular dates, the two dates that were -- these were selected by staff. Is that your understanding?

A. Yes, that's correct. That's my understanding.

Q. So they selected these dates and pulled them off of the website, the SNL forward website database to present this exhibit, correct?

A. That's my understanding, yes.

Q. And are you aware of anything significant that may have happened on December 30th, 2011, to effect forward-power prices?

A. Yes. As I indicated during my rebuttal, I recalled that there was some changes in environmental regulations that occurred in late 2011/early 2012. During the lunch break I was able to verify that on December 30th, the U.S. Court of Appeals stayed the CSAPR regulations and that would have been the event that would have caused this change in forward prices.

Q. Okay, so would that reaction to the DC Circuit's stay order confirm or tend to confirm your conclusion that these forward-power prices reflect environmental rules and compliance costs?

A. Yes, they do. And what it shows is the market moves very quickly to reflect new knowledge that the market has obtained like this stay of the CSAPR regulation.

Q. And you were also discussing with staff counsel the question about in your testimony about conservative values that you had concluded or characterized your values as conservative in comparing it to fuel projections applicable to the company?

A. Yes, I recall that.

Q. And can you just elaborate on what it was that you looked at to make that comparison and reach that conclusion? What projected fuel costs are you talking about and how are they developed?

A. I looked at the projected fuel costs for AEP Ohio's generating units, and they are generated based upon the contracts that AEP Ohio has for those generating units, the coal contracts that we have as well as the projected burns for each one of those units.

MR. NOURSE: Thank you. That's all the redirect I have, your Honor.

EXAMINER PARROT: Any recross, Ms. Kern?

MS. KERN: No, thank you, your Honor.

EXAMINER PARROT: Ms. Thompson?

MS. THOMPSON: No, your Honor.

EXAMINER PARROT: Mr. Kurtz?

MR. KURTZ: Very briefly.

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RECROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Allen, your Exhibit 8, the earnings forecast, you were fielding questions from Mr. Nourse about that. Could I refer you to that exhibit?

A. I see that.

Q. The very top line, the two-tiered capacity pricing, is that the RPM first tier and then $255-megawatt day second tier?

MR. NOURSE: Your Honor, I object to the scope. This doesn't relate to any questions I asked him about on redirect.

MR. KURTZ: He specifically asked about this exhibit. He asked about what about the DIR, what about the pool termination rider, et cetera.

MR. NOURSE: I asked him if it reflected ESP with respect to the particular riders. Had no questions about this area.

EXAMINER PARROT: Are you tying your questioning into the proposed ESP, Mr. Kurtz?

If that's where you're going, I'll allow it. Otherwise I agree with Mr. Nourse.

MR. KURTZ: Yes.

EXAMINER PARROT: All right then.

Q. The two-tier capacity price, is this the RPM plus 255?

A. Yes, it is.

Q. So that was in the stipulation that was approved and then rejected.

A. Yes.

Q. The ESP as proposed is two-tier capacity pricing of 145 for the first tier and then 255, correct?

A. That's correct.

Q. So all else equal under the ESP as proposed, the earnings for AEP Ohio would be higher all else equal if you got the ESP approved by the higher tier 1 pricing with $145 versus RPM the earned return or projected return in 2012 would be higher than the 10.4 percent in the projected ROE in 2012 would be higher than the 7.3 percent; isn't that correct? All else equal.

A. It's hard to say because there were a lot of interrelated items that would change.

Q. Well, all else equal, if you can charge first-tier shopping customers $145 a megawatt day rather than RPM in 2012 of $20 a megawatt day, isn't that going to increase earnings rather than keep them the same or decrease earnings?

A. One of the elements that has occurred though is that the projection of customers switching has increased substantially. And as I stated in some of the analysis I've performed here is that any price below 355 when a customer shops causes an earnings erosion for the company, so those increased shopping levels in and of themselves even at 255 would cause a reduction from the 10.4 percent.

Q. Let me repeat the question. All else equal, charging the first-tier shoppers $145 a megawatt day rather than $20 a megawatt day will increase earnings; isn't that true?

A. Based upon that very narrow question, that would be correct.

Q. And, again, just with respect to the ESP modification, the new ESP case, charging customers an RSR, what does the RSR average per year for the three PJM planning years, about $95 million?

MR. NOURSE: Your Honor, object for scope.

MR. KURTZ: Tying it to the ESP, this is my last question or two questions.

EXAMINER PARROT: All right, Mr. Kurtz.

Q. Does the RSR average about $95 million per year pretax? $2 a megawatt hour times 48 million, I don't know --

A. $2 a megawatt hour.

Q. Times 48 million megawatt hours retail load.

A. The average of the RSR would be in that $90 million range.

Q. Now, all else equal, if you add $90 million of RSR revenue on top of the revenue projected here, your earnings would be higher than shown on this schedule all else equal. If you add $90 million of revenue, you're going to make more profit, correct?

A. Based upon how the RSR is designed, the company would not book the average revenue in 2013. The RSR is a flat revenue requirement over the three years in the company's proposal but that doesn't mean that the earnings are the same. Earnings influence is smaller in the first years, larger in the later years. The RSR is also coupled with the company having no rate increase proposed in the case as well as an option of the entirety of the company's load in 2015. So there are other elements that the RSR is designed to compensate for that aren't reflected in this analysis.

Q. For an RSR $44.1 million of PJM 2012-'13 planning year, 12.9 million in the next planning year, and 137.2 in the '14-'15 planning year all else equal adding that revenue to these earnings calculations will increase earnings; isn't that correct?

A. It would increase the earnings, but I don't agree with your premise that everything else is going to stay constant.

MR. KURTZ: Thank you, your Honor.

EXAMINER PARROT: Mr. Randazzo?

MR. DARR: No questions.

EXAMINER PARROT: Ms. Kingery?

MS. KINGERY: No questions, thank you.

EXAMINER PARROT: Mr. Lang?

MR. LANG: Thank you.

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RECROSS-EXAMINATION

By Mr. Lang:

Q. With regard to the questions that Mr. Nourse asked you about the Exhibit 8, the DIR and what's in there, I'd like to show you an exhibit, a discovery response which I think you may have prepared that actually itemizes what is in that top line. So --

MR. NOURSE: Your Honor, I object. I only asked him one single very narrow question about the DIR, whether O&M is covered in the DIR for incremental investments. I don't think this is an opportunity to open up the scope again and go back into a broad discovery request.

MR. LANG: And also about what riders are in the DIR. And that's actually what this discovery response shows is, I believe, which I'd like to ask Mr. Allen is the adjustments that he made to go from actually says the projected earnings under the ESP and backing out the ESP riders. So I think it would be helpful for the record and the Commission to show exactly what he did do to get to his top line $471 million number for 2012 and $331 million number for 2013.

MR. NOURSE: That goes beyond the scope of my redirect.

EXAMINER PARROT: I'll kind of see where you are going with it, Mr. Lang. Let's proceed for now.

MR. LANG: Your Honors, if I could have this marked as Exhibit FES No. 125, please.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Lang) Mr. Allen, do you have this Exhibit FES No. 125 with the heading "Estimate of Ohio Power's Earnings"?

A. Yes, I do.

Q. And there's a gray horizontal line across the middle of the page and below that line is the numbers on your Exhibit 8, not counting the capacity

adjustment that you did for 2013; is that correct?
A. Can you repeat the question?
Q. The horizontal gray line across the middle of the page, below that line where it starts projected earnings two-tiered capacity pricing, everything below that line also appears on your Exhibit R8; is that correct?
A. That's correct.
Q. And above that line is -- shows adjustments that you made including adjustments to riders MTR, DIR, EICCR, and other adjustments to determine -- to reach essentially the top line number that's on your Exhibit 8, the projected earnings for two-tiered capacity pricing; is that correct?
A. That's correct.
Q. And this is a discovery response that AEP provided to FES. Is this a response that you personally prepared?
A. Yes. I don't recall what the question was that I was responding to here but this is the -- this is an attachment to a response. It doesn't include the text describing what the response was.
Q. And is the -- but you did prepare this?
A. Yes.
Q. And you believe it accurately reflects

the arguments that you made to calculate the projected earnings two-tiered capacity pricing?

MR. NOURSE: Your Honor, I object. Again, this has nothing to do with what I asked in redirect, and it could have been asked in the earlier round in cross-examination.

MR. LANG: And it is, it's simply about the adjustments. It's actually my last question I just want him to say that this does accurately reflect the adjustments that he's made since people have asked him about it.

MR. NOURSE: I did not ask him about adjustments, those adjustments at all. I asked him about whether Schedule R8 includes the outcome of the ESP, the pending ESP with respect to specific riders GRR, the PMR, and I did not ask him if this is a completely different calculation. Doesn't relate to what I asked him about.

EXAMINER PARROT: I'll allow the witness to answer the question.

THE WITNESS: Can you repeat the question please?

Q. I'm just asking you if what you provided here you believe is accurate.

A. The top line value projected earnings before the February order would include certain elements consistent with the adjustments that I've made below the dollars that I reflected. For instance, the $104 million for the DIR, what that projected earnings does not do to the top line of 494 million does not reflect all of the incremental costs that would be associated with the DIR.

Q. Okay. So back to my question, is your -- is the discovery response that you've prepared, do you believe it is accurate?

MR. NOURSE: Your Honor, I object. We didn't even get the question that this was answering and just to say it's accurate and then he wants to use it on brief for who knows what, it doesn't relate to my redirect, most importantly. And there's no context to what this is. It appears to be backing out adjustments --

EXAMINER PARROT: I've already overruled the objection.

Mr. Allen, please answer the question.

THE WITNESS: The projected earnings excluding capacity. So the line that's on my exhibit projected earnings two-tiered capacity pricing, that value is accurate and includes consistent revenues and expenses.

The revenues removed for the DIR, the 104 million, the costs associated with those revenues are not reflected in the $494 million starting point on this exhibit.

MR. LANG: Your Honor, if I could have help, if you could please direct the witness to answer my question. I think it was a simple question, and I think it's a yes or no question as to is the discovery response that he provided, does he believe it's accurate. I haven't heard -- I've gotten some responses, but I haven't heard a yes or no.

EXAMINER PARROT: I agree, Mr. Lang. Could we please get a direct.

A. The only way I could provide a direct answer is if I could see the question I'm answering. I don't know what I was answering to explain it. If you were asking for what were the revenue changes that I included in my analysis, this would list all of the revenue changes that I included in my analysis.

MR. LANG: Fair enough. Thank you, your Honor. That's all I have.

EXAMINER PARROT: Mr. Petricoff?

MR. PETRICOFF: No questions, your Honor.

EXAMINER PARROT: Mr. Jones?

MR. JONES: No questions, your Honor.

EXAMINER PARROT: Thank you very much, Mr. Allen. You're excused.

MR. NOURSE: Your Honors, renew my motion for admission of Exhibit 142, AEP Exhibit 142.

EXAMINER PARROT: Are there any objections to the admission of AEP Exhibit 142?

Hearing none AEP Exhibit 142 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Darr?

MR. DARR: I move the admission of IEU Exhibit 120.

EXAMINER PARROT: Are there any objections?

MR. NOURSE: Let me find that first, your Honor.

MR. DARR: It's your workpaper.

MR. NOURSE: That was 120? No objection.

EXAMINER PARROT: IEU Exhibit 120 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Lang?

MR. LANG: Yes, your Honor, we move FES Exhibits No. 122, 123, 124, and 125.

EXAMINER PARROT: Are there any objections to the admissions of FES Exhibit 122, 123, 124, or 125?

MR. NOURSE: Yes, your Honor. Exhibit 122 is the exhibit that Mr. Allen repeatedly indicated was incomplete and had a misleading conclusion at the bottom. He challenged every number that was added by FirstEnergy to what was already in Exhibit R8. I don't think it has any probative value in being admitted into the record at this point.

EXAMINER PARROT: Is that your only objection?

MR. NOURSE: I'm reviewing the other exhibits, your Honor.

With respect to Exhibit 124, I object to the relevancy. This single page out of a 70 plus page piece of testimony in a record with a different purpose and voluminous amount of material in the record we're not able to have witnesses here that actually sponsored this and to explain it. Mr. Allen was not -- had not seen it before, was not familiar with it. So I think it's -- lacks any probative value and also is irrelevant based on -- in addition, I'm sorry, based on lack of foundation for this witness.

Exhibit 125 I think I would just be an objection -- never mind I -- we might object to that one. That's all.

EXAMINER PARROT: Response?

MR. LANG: Yes, your Honor, on Exhibit No. 122, which is the estimate of Ohio Power's earnings, it shows adjustments to Mr. Allen's Exhibit R8. We did have extensive testimony on it. Mr. Nourse is not correct that every number on it was challenged. In fact, the purpose of Exhibit 123 which Mr. Nourse is not objecting to is that it does support calculations that appear on Exhibit No. 122, and we reviewed with Mr. Allen how those calculations would be done to support the capacity revenue on Exhibit 122.

I would also note that we received this testimony Friday evening, had very little time to prepare. I'm expecting that we will not have the opportunity for surrebuttal testimony so this is our opportunity to respond to this rebuttal testimony over the weekend.

And I think it's both a valuable part of the record and important to go to -- how the adjustments on ROE depending on what's added and what's not added affects the ROE.

And I would also note that in AEP's cross-examination of staff witnesses, there were illustrations used in which staff witnesses disagreed with parts of those illustrations and your Honors did admit them into the record.

I think as your Honors stated at that time, it goes to the weight of the exhibit, not the admissibility of the exhibit.

On Exhibit No. 124, we -- this is a document that is self-authenticating. Mr. Allen confirmed that this is an affidavit of Mr. Weaver, he's familiar with Mr. Weaver. He was not specifically familiar with this particular document but he did identify Mr. Weaver as the AEP SC person responsible for procuring this kind of information. Also identified that this data was supported by an affidavit from Mr. Weaver, that it is true, accurate and correct.

The estimates are from November of 2011, so again, I think Mr. Allen was making an argument that the weight of the consideration of the fuel prices and the energy prices that are in this exhibit should be affected but, again, it does not go to the admissibility of the document. There's no hearsay issue here. The admission against interest and again we used it for impeachment of the witness using the sworn testimony of another AEP employee, AEP Service Company employee with regard to this witness.

And I believe that overcomes both of Mr. Nourse's objections.

MR. NOURSE: Well, your Honor, just briefly on Exhibit 124, I don't think I made a hearsay objection at all. The issue with impeachment is whether it's the same statement and whether it can be used as an inconsistent statement. And that all depends on the purpose and the context which is not part of this one page exhibit and not part of this docket in Ohio.

Finally, with respect to Exhibit 122, the key numbers that were added there clearly were contested by Mr. Allen and, therefore, he didn't agree with the ROE resulting from Mr. Lang's calculation and rejected also the DIR numbers that were taken to the bottom line earnings without considering any expenses or any other true impact. So I think it has prejudicial value as a piece of evidence. It could have been something that it's not really relating to the issues that were new on rebuttal anyway, their challenges relate back to the original calculation.

MR. JONES: Your Honor, for purposes of the FES Exhibit 124, staff would echo the same arguments Mr. Lang had made with the admission of that exhibit. It's proper impeachment material and it's admission against interest as to their attacking staff or having higher numbers yet they present higher numbers.

EXAMINER PARROT: With that, FES Exhibits 122, 123, 124, and 125 are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Petricoff?

MR. PETRICOFF: Yes, your Honor. Move to admit RESA Exhibit 103.

EXAMINER PARROT: Any objection to the admission of RESA Exhibit 103?

MR. NOURSE: No objection.

EXAMINER PARROT: RESA Exhibit 103 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: And finally, Mr. Jones.

MR. JONES: Yes, your Honor. Staff moves for admission of Staff Exhibits 106, 107, 108, 109.

EXAMINER PARROT: Are there objections to the admission of Staff Exhibits 106 through 109?

EXAMINER SEE: Can we get a copy of 109?

MR. JONES: Oh, yes.

MR. NOURSE: Your Honor, when you're ready.

EXAMINER PARROT: Yes, Mr. Nourse.

MR. NOURSE: With respect to Exhibit 107, again, object on relevance and lack of context or claiming this is an impeaching document. With respect to Exhibit 109, the Virginia decision, you know, I don't think it's appropriate to admit a Commission decision into evidence. Don't oppose taking administrative notice of that decision with Mr. Allen's explanation of the context.

MR. JONES: May I respond?

EXAMINER PARROT: No, Mr. Jones, thank you. Staff Exhibits 106 through 109 are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Conway?

MR. CONWAY: Thank you, your Honor. At this time the company calls Phil Nelson.

EXAMINER PARROT: Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Please be seated.

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PHILIP J. NELSON

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

DIRECT EXAMINATION

By Mr. Conway:

Q. Mr. Nelson, have you been sworn in?

MR. CONWAY: I'm sorry, your Honor. Have you swore him in?

EXAMINER PARROT: Yes.

Q. Mr. Nelson, could you state your name for the record.

A. Philip J. Nelson.

Q. And, Mr. Nelson, by whom are you employed?

A. American Electric Power Service Corporation.

Q. And what is your position?

A. Managing Director of Regulatory Pricing Analysis.

Q. Mr. Nelson, did you prepare rebuttal testimony that's been prefiled in this proceeding?

A. I did.

MR. CONWAY: And, your Honor, at this time I'd like to mark as AEP Ohio Exhibit No. I believe it's 143 Mr. Nelson's rebuttal testimony.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER SEE: Mr. Conway.

Q. Mr. Nelson, do you have with you a copy of what's been marked as AEP Ohio Exhibit No. 143 in rebuttal testimony?

A. I do.

Q. And do you have any changes, additions, corrections to make to your rebuttal testimony at this time?

A. No, I do not.

Q. If I were to ask you the questions in that document today, would your answers be the same as they appear in it?

A. They would.

Q. And are those answers true and correct to the best of your knowledge and belief?

A. They are.

MR. CONWAY: At this time, your Honor, I would move for the admission of AEP Ohio Exhibit No. 143, and Mr. Nelson is available for cross-examination.

EXAMINER PARROT: Thank you.

Ms. Kern?

MS. KERN: No questions, your Honor.

MS. THOMPSON: No questions, your Honor.
MR. YURICK: No questions, your Honor.
MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Nelson, would you turn to your testimony on page 10, please. Here the first full question you describe how profits from off-system sales from energy that's freed up from shopping is shared among the AEP affiliates on a member load ratio basis and not retained 100 percent by AEP Ohio; is that correct?

A. That's there.

Q. Okay. And you indicate that staff's method is flawed because it assigns the margins that would flow to other pool members to AEP Ohio. Is that what you state --

A. Yes, I do.

Q. Okay. Now, the margins that flow to the other pool members on the member load ratio basis, some of those margins are retained by AEP shareholders; isn't that correct?

A. Yes.

Q. So let's just use a 40

percent/60 percent. 40 percent is AEP Ohio's member load ratio share, correct?

A. Yes.

Q. 60 percent is Appalachian Power, Indiana, Michigan, and Kentucky Power?

A. That's right.

Q. Do you have the --

A. That was the member load ratio in 2010, to be clear.

Q. Doesn't change much, does it?

A. It can change pretty significantly. For example, the APCo set pretty low peak this winter I believe.

Q. I guess if the Raven's Wood aluminum smelter goes back online, that would increase the West Virginia Appalachian member load ratio as well, things like that?

A. Yes, it can change.

Q. The 60/40 ratio is the number embedded in this record; is that fair?

A. Yes.

Q. Do you have the RESA Exhibit 103?

A. No.

Q. Or could counsel present that to you? This is the SEC statement that shows the sharing of off-system sale profits. And we'll skip the old simple southwest and just talk about AEP East.

Do you see on page 21 of the Form 10 page 2 of the document, can you turn to that?

A. Yes.

Q. The West Virginia portion, Appalachian Power is in Virginia and West Virginia, correct?

A. That's correct.

Q. And they're separately regulated, the rates are set by each Commission separately?

A. They are.

Q. Now, in West Virginia the Appalachian Power share of off-system sales profits is flowed through 100 percent to ratepayers, correct?

A. Yes, it's in a tracker.

Q. It's in the ENEC is what they call it in West Virginia?

A. Yes, and, of course, there's other benefits in that ENEC. It's somewhat of a tradeoff.

Q. Their version of a fuel adjustment clause on steroids?

A. Yes. That would be a good description.

Q. So assuming -- so for West Virginia Appalachian Power, the profits from off-system sales that are freed up from shopping in Ohio do flow to those West Virginia ratepayers and none is retained by AEP shareholders. That's what this 100 percent means.

A. I'm always a little careful when there's a "none" involved but generally I think that's correct, 100 percent would flow through.

Q. So this tends to prove your point in West Virginia where all the freed up profits go to ratepayers in West Virginia and none is retained by AEP shareholders.

A. Yes.

Q. Virginia's different, their 25 percent of the profits from off-system sales go to AEP shareholders, correct?

A. Yes. That are 25 percent.

Q. Is that done on a flow-through basis? I don't know. Or is that a rate case matter?

A. No. It is in fuel costs.

Q. So on a real-time basis, 25 percent of the profits from off-system sales freed up in Ohio from shopping go to AEP shareholders through that realtime fuel adjustment clause, 25 percent sharing, correct?

MR. CONWAY: Could I have the question read back, please?

Q. I can rephrase.
For the Virginia portion of Appalachian Power, when energy is freed up in Ohio from shopping, and off-system sales are made, AEP, AEP shareholders keep 25 percent of that, correct?
A. There's a sharing mechanism of 75/25 on all off-system sales that are MLRed across the whole system.
Q. So AEP shareholders keep 25 percent of the profits from off-system sales made possible by shopping in Ohio, correct?
A. With respect to the fact that shopping occurs in Ohio and that energy is sold into PJM market that becomes off-system sales, that's shared among all the member companies, and in Virginia that would be shared 25/75 between AEP would retain 25 percent, they would pass through 75 percent.
Q. So, now, this is the first chink in the 60/40 armor. That right there shows that their 60/40 member load ratio split is not exactly precise because AEP shareholders keep 25 percent of the Virginia portion; isn't that right?
A. No, I wouldn't agree with that. I don't know what you're characterizing. The MLR is the method sharing among the operating companies. How

ratemaking is done, that's another issue, but any off-system sales is shared on the member load ratio. So it happens to be 40 percent in Ohio, and the 60 percent in the other jurisdictions. That's a function of the pool but not a function of the individual states' jurisdictions.

Q. Well, if the Commission is to compensate AEP corporation for the financial loss from shopping in Ohio, you keep 25 percent of the member load ratio share of this allocation of profits from off-system sales in your Virginia jurisdiction on a real-time basis?

MR. CONWAY: Objection. The question is misleading. The subject that's at issue here is AEP Ohio, it's not AEP Corporation. The question is what impacts on AEP Ohio.

MR. KURTZ: Counsel is characterizing the issue as he sees fit. My question went to AEP corporate entity.

EXAMINER PARROT: The objection is overruled.

THE WITNESS: Could I have the question repeated?

(Record read.)

A. I don't think that's what this case is about. This case is about what the proper capacity charge is the CRES providers. Of course, if I had any choice, I'd prefer to give to it to a ratepayer in Virginia as opposed to a CRES provider in Ohio. So I don't know where you're going with this, but the pool requires that that split be done, and we can't arbitrarily change that. So the 60/40 ratio is governed by the FERC agreement.

Q. That isn't the whole story, is it? Because in Virginia you keep 25 percent of those profits; isn't that true? Isn't that what this document shows?

MR. CONWAY: Objection. He keeps using the word "you." It's ambiguous, at least, at worst misleading.

Q. I'll rephrase. AEP the corporation keeps 25 percent of the profits from off-system sales in Virginia; isn't that correct?

A. There's a sharing mechanism in Virginia at 75/25. That's all I can tell you.

Q. Okay. For the record --

A. All ratemaking in various jurisdictions is different across the jurisdictions and that's a fact of Virginia. But it doesn't affect the issue here. If you free up a kWh to sell in the off-system sales market here, that AEP Ohio's only going to retain 40 percent.

Q. Okay. Now, just for the record, the Virginia portion of Appalachian Power is bigger than the West Virginia portion, correct? No, it looks like they're about the same, about the same.

A. About the same.

Q. About the same, okay.

Now, Indiana, there's a 50 percent sharing after a certain level. We go to footnote D. There was an amount established as 37.5 million in base rates of off-system sales profit see the amount built in the base rate. Then I&M keeps half, I&M shareholders, AEP shareholders keep half, and ratepayers get half. Is that how that works?

A. Yeah, except I don't think we've exceeded that threshold so we get zero.

Q. Well, that's a good point because when you're under the 37.5, AEP shareholders keep 100 percent of the off-system sales and there's no --

A. No, I don't think that's the way it works.

Q. We're building in an off system doesn't exist so I think we're taking a hit on that, well, the amount based in the base rates according to this footnote was 37-1/2 million as an offset to revenue requirements in your last rate case, but in between cases when the actual profit is less than 37.5 million, you keep --

A. No, that's a threshold, Mr. Kurtz. So we --

Q. Let me give you a hypothetical. Suppose in the Indiana and Michigan jurisdiction the off-system sales profits of 20 million for a particular year. Now, they go to 21 million. Do the shareholders -- do the ratepayers in Indiana get any of that 1 million?

A. No, since they've got 37 million already.

Q. So from 20 million to 37-1/2 million, that whole 17.5 million increment is retained 100 percent by shareholders, correct?

A. I'm not sure where this is headed, but there's ratemaking different in every state. There's regulatory lag and so forth. The other thing you have to remember is that in these markets if we free up a kilowatt hour for sale in the off-system sales market, there's no guarantee we're going to sell it. We used to turn around and sell most of the freed up energy in the market. And we had a high percentage. The percentage that we can turn around and resell in the market today is very, very low. And there's no guarantee that we would actually have an off-system sales margin produced just by having a freed up kilowatt hour in the PJM market.

Q. Do you recall the ratemaking treatment that AEP routinely sought in Ohio when the off-system -- when the off-system sales market was higher than what you were charging retail customers? For example, the acquisition of Monongahela Power return on equity power, bringing Ormet back on the system. Did you MLR revenues and expenses that -- or did you argue for 100 percent of the delta revenue based on off-system sales? Were you involved in those proceedings?

A. The Mon Power proceeding?

Q. In the Ormet, when Ormet came back on.

A. No, I wasn't involved in those proceedings.

Q. Do you know when Ormet came back on system AEP said, oh, we're hurting because we were making more money in the off-system sales market. You didn't just take the MLR ratio, did you? You argued for 100 percent?

MR. CONWAY: Objection. Relevance in the first place. Secondly, he's testifying now. He's not seeking --

MR. KURTZ: Asking a question.

MR. CONWAY: -- testimony from the witness.

MR. KURTZ: If he knows.

EXAMINER PARROT: Mr. Nelson, you may answer the question if you know.

A. I don't know all the particulars in that proceeding.

Q. Now, in Kentucky there was again a baseline amount built in the base rates 15.3 million, and then there's a sharing above or below the baseline 60 percent, correct?

A. Yes.

Q. So in that jurisdiction shareholders could get part of the additional profit from off-system sales from energy freed up from shopping in Ohio as well?

A. As I said, it will increase the -- if it increases the off-system sales on the system, the companies get their MLR share back.

Q. The AEP shareholders -- the AEP shareholders could get part of the profit from off-system sales from energy freed up from shopping in Ohio in your -- through the Kentucky ratemaking process. Is that what this shows?

A. I would think that that would be the math.

Q. I'd like to ask you some questions about the capacity equalization payments that are received. This is discussed -- let's go to page 4 of your testimony. Do you have that?

A. Yes.

Q. 2010 Columbus Southern was a deficit member of the AEP pool, correct?

A. They went from deficit to surplus somewhere in between because they received payments in the year.

EXAMINER PARROT: Mr. Kurtz, we need a moment.

(Off the record.)

Q. That was puzzling.

EXAMINER PARROT: Mr. Kurtz, would you please repeat your prior question.

MR. KURTZ: I'll just start again. That was puzzling.

Q. In 2010, they were net deficit of looks like $18-1/2 million on a dollar basis? Something like that.

A. Yes.

Q. And Ohio Power was at capacity surplus and received 420 million of capacity equalization payments from the deficit members of the pool, correct?

A. That's correct.

Q. Those deficit members were at that time on balance Columbus Southern, Kentucky Power, Appalachian?

A. Yes.

Q. And the two surplus members of the pool were Ohio Power and I&M?

A. Yeah, I'm not sure. I would think I&M was surplus, but I haven't checked it.

Q. The Ohio Power was compensated by the deficit members of the pool based upon its average embedded costs of its fossil generation from the prior year under a formula included in the interconnection agreement; is that correct?

A. Define "average."

Q. Average embedded cost, sort of standard ratemaking net book costs, original costs less depreciation.

A. No, that's not correct.

Q. It's not correct. How was the capacity equalization -- do you know whether the capacity equalization amount was for kW a month for 2010 for Ohio Power?

A. Not specifically. I can ballpark.

Q. Well, if it wasn't original cost less depreciation, how was it calculated?

A. It's not original costs.

Q. Not less depreciation?

A. That's correct.

Q. Are you sure about that?

A. Pretty sure.

Q. In any event, Ohio Power got 420 million of capacity equalization payments in the 2010 year; is that what this shows?

A. Yes, it does.

Q. And Mr. Pearce used that revenue in his $355-megawatt day calculation, did he not?

A. He reduced the charge as I say on line 10. He reduced it by $125 million. Or, I'm sorry, $125 per megawatt day based on the old capacity credit in 2010.

Q. Mr. Pearce did his calculation correctly, didn't he?

A. I believe so.

Q. So the 355 is the correct number to use, not the $481; isn't that right?

A. Yeah. I believe that's the right. When the pool's in place, it should be 355.

Q. Is it your criticism then for some of the other witnesses who didn't take into account the member load ratio of off-system sales properly --

A. My criticism goes around if you're going to reflect the pool, you should reflect the pool. You shouldn't pick and choose items. All the witnesses were happy to take $125 a megawatt day. But there was different treatments of in the energy credit and also like FES removed a bunch of plants, removed megawatts that drive the revenue 420 million but did not make any adjustment to that 420 million that was received, or I should say 401 million.

Q. If this Commission wanted to go one step further and reflect the pool plus reflect the real world rate treatment in the other jurisdictions where AEP corporation keeps part of the profits freed up from off-system sales in Ohio made possible by shopping, then if that's what they wanted to do, then AEP's calculation here doesn't reflect that. For example, it doesn't reflect the 25 percent in Virginia; isn't that true?

A. I think that's a strange concept. If it says that in Ohio whatever other states do and can change the dynamics in another state --

Q. You think it's strange that the Ohio Commission might want to reflect the reality of how those off-system sales profits are really treated in the real world to AEP shareholders, that would be strange to you?

MR. CONWAY: Your Honor, I object. I'm not sure that he was done with his prior answer. Mr. Kurtz, I believe, interrupted him. If he was, fine, but I don't think he was done.

EXAMINER PARROT: Mr. Nelson, if you were not finished with your answer, please complete it.

THE WITNESS: Could I have it read, the question and answer please?

(Record read.)

A. Yeah. I don't see any rationale for reflecting. It's a FERC-approved interconnection agreement, and I don't think states go beyond their own borders ratemaking in other states. I don't think this Commission would appreciate a Virginia or West Virginia taking it into account what happens in another state. We could play the game because everybody pushes off cost of revenues to other states and so forth because the AEP pool, it just doesn't hold water in my opinion because it's not the way ratemaking works.

What we're talking about here is compensation to AEP Ohio, not compensation to customers for AEP shareholders related to another state. What we've done, of course, is we've terminated the AEP pool, revenues that what's happening here in Ohio is driving the process that we do have to terminate this pool.

It's not working going forward and we need to reflect the pool, it's FERC approved agreement program is federal parameters we need to reflect the AEP pool while it's in existence.

And I think it's disingenuous just to start suggesting that we need to go into other jurisdictions and just pick pieces that we like and say, well, aren't you getting revenue from Virginia or West Virginia and applied it here. What I don't want to do is subsidize the CRES providers here. I mean, this is -- this would be outrageous to take this sharing and then to subsidize rate for CRES providers.

Q. Assume hypothetically that 100 percent of the profits from off-system sales got flowed through the AEP shareholders and the other jurisdictions, Virginia, West Virginia, Kentucky, Indiana and

Michigan, so that everyone that was freed up in Ohio automatically went right to the shareholders of AEP. You think the Commission should ignore that?

MR. CONWAY: Your Honor, I object. It's clearly not reality based on the exhibit that's already been reviewed from the 10-K. And, secondly, it's the line of questioning evolving into irrelevancy. The question is what should be the capacity rate for AEP Ohio to CRES providers. The question is not whether or not we should import or extract from two or from other jurisdictions their regulatory policies.

MR. KURTZ: Your Honor, this is a hypothetical question that we know for a fact that 25 percent of these profits go right to the shareholders in the Virginia jurisdiction. My hypothetical took it one step forward and assumed 100 percent in all the jurisdictions should the Ohio Commission ignore that. And that's the question for the witness.

EXAMINER PARROT: And the objection's overruled.

A. Yes, I think the Ohio Commission should ignore that.

Q. Even though AEP is a corporation under that hypothetical would have zero financial harm.

A. We're talking about AEP Ohio, not AEP Corporation. And your hypothetical is I don't think on point. One thing you got to remember, Mr. Kurtz, is that the only place I think statutorily that you get that sharing is in Virginia. All the other states it's by regulatory action. There's no guarantee we get that sharing. So they can change it at any time.

Q. Did I read in your testimony here somewhere that you think that the -- should reflect the real world or was that Mr. Allen, reflect the real world in terms of forward market prices and so forth and that's what the Commission really needs to look at, not the fundamental analysis --

A. No, I don't know I addressed forward-market prices.

Q. No, no. The Commission needs to look at the real world effect on AEP. Was that in this last.

A. If you can find that particular language, I can address it.

Q. Well, why do you think the Commission should ignore what happens to AEP shareholders as a results of shopping in Ohio?

A. No. My point is they should ignore

regulatory ratemaking in other jurisdictions.
Q. So that means they --
A. Each jurisdiction is unique as you know.
Q. Yeah. That means you think they should ignore the affects on AEP shareholders and only focus on AEP Ohio; is that what I'm hearing?
MR. CONWAY: Your Honor, I object, he's been down this road at least two or three or four times. It's been asked, it's been answered, and it's time to move on.
MR. KURTZ: I don't know that it has been answered. If he could please answer it again.
EXAMINER PARROT: The objection's overruled.
Q. You think the Commission should just focus on AEP Ohio, not the effect on AEP shareholders corporate-wide.
A. Yes, I think they should focus on AEP and the situation here, the ratemaking here, the proper charge capacity cost to CRES providers. And one of the big inequities when we're talking about what CRES providers pay for capacity is that other pool members pay a high rate for capacity, they pay our costs, cost-based capacity. And they're entitled to the other provisions of the pool.

And to subsidize CRES providers while we're paying what other affiliates are paying a higher capacity rate would be very inappropriate and also for CRES providers to pay less than what our SSO customers pay for capacity would be inappropriate.

MR. KURTZ: Thank you, Mr. Nelson.

Thank you, your Honors.

EXAMINER PARROT: Mr. Randazzo?

MR. RANDAZZO: Yes. I would like to have marked for identification purposes a multi-colored exhibit, and I believe our next number is IEU Exhibit No. 121.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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CROSS-EXAMINATION

By Mr. Randazzo:

Q. Mr. Nelson, it's late in the day. We know who each other are so I'm not going to bother to introduce myself.

You have before you what has been marked for identification purposes as IEU Exhibit 121.

A. What was the exhibit No.?

Q. 121.

A. Yes, I do.

Q. Very good answer. Would you turn to the last page, please. And do you see the last page --

MR. RANDAZZO: For those of you in the room, some of you have two slides on a page. So this would be page 14.

Q. Do you have page 14 in front of you?

A. Yes.

Q. Am I correct that what has been marked as IEU Exhibit 121 is a copy of the presentation made by American Electric Power for purposes of the first quarter 2012 earnings release?

A. I don't know. I haven't looked at this earnings release.

Q. Would you accept, subject to check, that's what it is?

A. Well, I'd certainly want to know how it relates to my rebuttal testimony.

Q. Would you accept, subject to check, this is the document? And I'll tie it into your rebuttal testimony in my next question.

A. I just haven't seen that. I can't accept it subject to check.

Q. Really?

A. I haven't seen this.

Q. Well, if we go to AEP's website, would you like to do that?

A. Sure. I'd like to see your tablet.

MR. RANDAZZO: Will counsel stipulate this is the release from first quarter 2012 earnings cost?

MR. CONWAY: Yes.

MR. RANDAZZO: Thank you.

MR. CONWAY: We'll accept that it is subject to check based on your representation.

MR. RANDAZZO: Thank you. Bold lad you are.

Q. Page 14. You see that slide, it's titled "Off System Sales Gross Margin Detail"?

A. Yes.

Q. Okay. Now, it shows the gross margin detail for the first quarter 2011 and first quarter 2012, correct?

A. Yes.

Q. Okay. And for purposes of this slide, and the first quarter presentation, am I correct that from first quarter 2011 to first quarter 2012 the off-system sales, physical sales declined by $12 million?

A. That appears to be the case.

Q. And then there's a line called marketing and trading. Do you know what that is?

A. Yes, nonphysical sales trading.

Q. Nonphysical.

A. Financial transactions.

Q. Oh. So in addition to the off-system physical sales, there are financial transactions that involve energy trading activities; is that correct?

A. Yes.

Q. And those energy trading activities are conducted by who? Within the AEP structure.

A. Commercial operations.

Q. Okay. And are the marketing and trading margins gross margins shared?

A. Are they shared? I'm not sure in all the jurisdictions. There's certain definitions of off-system sales in various jurisdictions.

Q. And to get to Mr. Kurtz's point, at least based upon the numbers, if we look at the -- compare first quarter 2011 to first quarter 2012, the presharing gross margin line shows that the total declined by $22 million quarter to quarter, right?

A. That's correct.

Q. And if we look at the net off-system sales line, that's the line that indicates the dollar amount that's retained by AEP Corporation, correct?

A. All this says margin share. I'm not sure exactly what that represents.

Q. I'm talking about the net OSS line. That would be the amount that's retained by AEP Corp., correct?

MR. CONWAY: Your Honor, I'll just object that the witness is unsure what the margin share of the line is and the next line which is dependent upon the margin share line would be similarly affected. So he's not familiar with it, then I would request that he not speculate about it and not be --

MR. RANDAZZO: I'll withdraw the question.

Q. Mr. Nelson, on the line that indicates margin share, do you have any sense of what margin share means for purposes of this presentation?

A. There's just not enough context here. I'd be speculating a bit.

Q. Okay. And you don't know what the net off-system sales line is?

A. It's presharing gross margin less margin shared.

Q. And you wouldn't assume that the net off-system sales line item is the amount that's retained by AEP Corp.?

A. It may well be, but it would be speculation on my part.

Q. If it is, if it is the amount that's retained by AEP Corp., we would have a situation from first quarter '11 to first quarter 2012 where the presharing gross margin declined by 22 million and the amount that was retained by AEP Corp. declined by only 2 million, correct?

A. Yeah, I think that's what happens when you have increases or decreases, it protects you both ways, in the sense that when your sales are going down both the customer and the company feels that pain when the shares going down. And if it goes up, both benefit.

Q. But the percent decline in the amount of net OSS is much less than the percent decline in the presharing gross margin, correct?

A. It appears to be. But, again, you'd have to look at all the parameters and --

Q. Sure.

A. I'm not sure it would be linear. One of my points with thresholds and stuff it may change in a nonlinear fashion. So I don't know that I conclude much from this limited set of data.

Q. Right. So let's turn to your testimony, if we may, please. Now, at page 1 of your testimony, line 13, you indicate that your department makes filings across the AEP system and in line 15, you talk about AEP East and West power pools. And at line 17, you talk about AEP's generation, and I'd like to see if you can help me understand the many layers of the AEP system.

MR. CONWAY: Mr. Randazzo, I apologize for interjecting, but I'm not quite following along with you. Could you give me just the question you're on? My pagination is a little bit off from yours. Are you at the educational --

MR. RANDAZZO: Page 1 of his testimony? It's numbered page 1. It's actually the second page of the testimony.

MR. CONWAY: Excuse me. Thank you.

MR. RANDAZZO: He said he didn't have any changes or corrections so I just assumed. All right?

So numbered page 1, thank you, Mr. Conway.

Q. Now, am I correct that the AEP system as you used the term in line 13 is a multi-state public utility holding company system that consists of 11 operating companies, Appalachian Power Company in West Virginia and Virginia, Indiana Michigan Power

Company in Indiana and Michigan, Kentucky Power Company in Kentucky, Kingsport Power Company in Tennessee, Ohio Power Company in Ohio, which now includes Ohio Power and Columbus & Southern.

A. I don't think it's 11, Mr. Randazzo.

Q. Well, would you let me finish?

A. Okay.

Q. Wheeling Power Company in West Virginia, AEP Texas Central Company in Texas, AEP Texas North Company in Texas, Southwestern Electric Power Company in Louisiana, Arkansas, and Texas, Public Service Company of Oklahoma in Oklahoma.

And that these operating companies provide electric service at wholesale and retail in parts of 11 states, West Virginia, Virginia, Indiana, Michigan, Kentucky, Tennessee, Ohio, Texas, Louisiana, Arkansas, and Oklahoma.

Now, if I got the number wrong, 11 operating companies, did I have the names of all the operating companies correct?

A. They all sounded familiar.

Q. Yeah. And in addition to the various operating companies that we've just identified, the AEP system includes seven transmission only companies which are collectively referred to often as the AEP

TransCo companies; is that correct?

MR. CONWAY: Objection. Relevance, your Honor. What's the point? How does this relate to Mr. Nelson's rebuttal testimony other than the fact that he recites his employer and it's his overall job responsibilities. Other than that it has no relationship and I object. I think we should get to the point and move along.

EXAMINER SEE: Response?

MR. RANDAZZO: The witness said that he works for a department that supports filing across the AEP system, and I think I'm entitled to identify what the AEP system is.

EXAMINER SEE: I'll allow it. You can answer the question, Mr. Nelson.

THE WITNESS: I wasn't sure there was a question.

Q. (By Mr. Randazzo) Let me try to make sure that I ask a question.

Is it also true in addition to the operating companies that we've just identified that the AEP system includes seven transmission only companies collectively known as the AEP TransCo companies?

A. I'm not sure of the number.

Q. Well, there are several, correct?
A. There are several.
Q. And am I also correct that the AEP system includes the companies of the former Central and Southwest System which merged with the AEP system in 2000; is that correct?
A. Yes, we had a merger with CSW.
Q. And am I also correct that the generating and transmission facilities of the AEP system as we've defined it, although owned by the operating companies, are operated and planned on an integrated basis?
THE WITNESS: I'm sorry. Could you?
(Record read.)
A. Well, there are certain levels of integration. I would say that that's a fair general statement. Some parts of the system are more deeply integrated than the others. For example, the East operating companies for the AEP power pool would be tightly integrated less so than among other companies that you mentioned if, for example, the example as wires company they're somewhat independent. Wheeling in this case would be independent.
Q. And am I also correct that the integrated operation is accomplished on a centralized basis by

employees of AEP Service Corporation, you being one?

A. The Service Corp. employees would have a role in that integration in the sense they may do some of the planning and there's a shared service function across those companies.

Q. And that integrated operation, am I also correct that that integrated operation occurs in accordance with the AEP system interconnection agreement, the AEP system transmission agreement, the Central and Southwest system interconnection agreement, the AEP system transmission agreement, the Central and Southwest operating agreement, the Central and Southwest transmission coordination agreement, and the system integration agreement, plus the system transmission integration agreement, all of which have separate rate schedules filed at the Federal Energy Regulatory Commission?

A. Not sure I recognized all those agreements, but.

Q. Would you accept that, subject to check?

A. Some of them may have been superseded.

Q. Which ones?

A. Did you mention the transmission equalization agreement?

Q. No.

A. Okay. Might be safe but I didn't remember that many.

Q. And so that we can distinguish the various functions of these agreements, the AEP system interconnection agreement is the one from the 1950s that you referred to as the AEP pool agreement, correct?

A. The interconnection agreement.

Q. Right.

A. Yes. It's the pool agreement.

Q. And then there's a system integration agreement as well that deals with the coordination between AEP East and AEP West, correct?

A. Yes.

Q. And then there is a transmission -- AEP system transmission agreement that does what? What's the role?

A. The transmission agreement is one I can speak to is the East agreement.

Q. And would it be fair to say that the system interconnection agreement or the pool agreement, as it is sometimes referred to, is a wholesale agreement subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission?

A. Yes.

Q. And that the system interconnection sometimes referred to as the pool agreement provides for sharing of costs of the members' generating facilities and provides that the members' transmission facility shall be made available to others to enable system integration including dispatch and shared use of the generation assets owned or controlled by the various members of the AEP pool?

A. We can all read the interconnection agreement. That says what it says.

Q. Do you agree that's what it says?

A. I'd like to see it if you're reading from it, you could show me the document, and I could follow along. I don't know if you paraphrased or read specific.

Q. Is what I just said consistent with your understanding of the system interconnection agreement or pool agreement?

MR. CONWAY: Just a moment. Mr. Randazzo, you've referred to a pool agreement and a system interconnection agreement and an interconnection agreement, and I'm confused as to whether or not the system interconnection agreement is something different than otherwise what is known as the pool agreement. And so I think the record's a little unclear.

Q. Well, let me clear it up. I thought I'd done that but let's be sure.

Mr. Nelson, would you agree that the system interconnection agreement as the term is used within the AEP system is the agreement from the 1950s that is sometimes referred to as the AEP pool agreement?

A. We don't usually call it the system integration agreement. We either call it the pool agreement or the integration agreement. It doesn't have "system" in front of it. The actual word is the integration interconnection agreement.

Q. The actual word is interconnection agreement, right?

A. Yeah, the actual title is interconnection agreement.

Q. Right, so the system interconnection agreement is --

A. It would probably be helpful to call it East interconnection agreement or something to differentiate. You just read a list of about ten or so. Just to stay on the same page, we don't play games.

Q. So what --

A. Just call it the pool agreement. I think that's what we referred to here. East pool agreement.

Q. All right. So there's also a West pool agreement, right?

A. Yes, but I don't know what relevance that has to this proceeding.

Q. Oh, okay. So is it consistent with your understanding of the pool agreement that it provides for sharing of costs of the operating company members' generating facilities and provides that the members' transmission facilities shall be made available to others to enable system integration including dispatch and shared use of generation? Is that consistent with your understanding of the pool agreement?

A. Well, the -- obviously things have changed around dispatch but that's why I wanted to know if you're reading specifically from the agreement. I don't want to be accused of differentiating the words of the agreement, but we don't do dispatch any longer. That's really done more by PJM.

Q. Good. So the pool agreement no longer functions to deal with the dispatch of the various generating units of that are subject to the pool agreement.

A. It's a cost reconstruction is one of the functions. But the actual dispatch of the units I think is done by PJM is my understanding.

Q. All right. We'll get to that.

Now, when you talk about AEP Ohio in your testimony, can you tell me what function you're attributing to AEP Ohio? Is it the distribution company function? Is it distribution, transmission, and generation or something else?

A. If not said otherwise, it's AEP Ohio which is the full company AEP, Ohio Power doing business as AEP Ohio. Ohio Power is the legal entity includes various functions; generation, transmission, distribution.

Q. But I'm asking you when you use AEP Ohio in your testimony, are you using it to refer to its entity that's engaged in all of those functions, generation, transmission, and distribution?

A. It depends where I'm using. If you want to ask me a specific place, I can maybe help. Most likely I'm not talking about administration at this time in this particular proceeding since it deals with generation capacity. If that's helpful. And I probably wouldn't be talking about transmission for the same reason.

Q. Right. Okay, so when you were referring to AEP Ohio here, you're referring primarily or most likely to the generation function of AEP Ohio; is that correct?

A. At least the topics we're talking about here relate to the generation function primarily.

Q. Okay. And, for example, the capacity pricing associated with CRES suppliers, that would be a generation function item?

A. Yes.

Q. All right. Now, I want to see if I can connect the dots a little bit of the various positions as I understand them which are being put forward by AEP Ohio as you use the term to refer primarily to the generation function for purposes of understanding the views you express in your testimony.

A. I'm not referring to AEP Ohio's generation company, referring to AEP Ohio as the legal entity, Ohio Power Company, but specifically most of the issues we're talking about here relate to the generation function, so I don't want to talk about generation company.

Q. Okay. Yeah, I understand.

Now, am I correct that it is AEP Ohio's, the entity's position that the provision of generating capacity service to a CRES supplier is a sale for resale transaction and that AEP Ohio believes that is subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission?

A. The sale between AEP Ohio and the CRES would be a sale for resale in our opinion, yes.

Q. And subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission, correct? As you understand it.

A. As I understand, but I'm a nonattorney. I'll defer to our attorneys.

Q. Well, they made that argument. And it's in Mr. Munczinski's direct testimony.

Now, with regard to the pool agreement that you refer to in your testimony, is it your understanding that that pool agreement -- I think you've already mentioned this in your testimony so far, that that pool agreement is subject to the exclusive jurisdiction of the Federal Energy

Regulatory Commission?

A. That's correct.

Q. And how about all the other agreements that I referred to, the transmission pool agreement, the Commission allowance agreement, all those agreements within the AEP system are subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission?

A. I didn't write down your list so I'm going to have to say I'm not sure.

Q. Is there any system-wide agreement that is not subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission?

MR. CONWAY: Objection. It calls for a legal conclusion, and the witness has just said he's not sure, he's reluctant to provide a blanket answer to the question. So it's asked and answered on top of that.

MR. RANDAZZO: So we're clear, I'm not asking the witness for a legal conclusion. I'm asking his understanding. He's already spoken to the limits of the Ohio Commission's jurisdiction in answering questions. He seems comfortable doing so. I think it's fair game.

MR. CONWAY: He already just responded

previously that he was unsure about being able to comment upon, let alone agree with, Mr. Randazzo's question.

MR. RANDAZZO: I'll withdraw the question.

Q. (By Mr. Randazzo) Mr. Nelson, as you sit here today, are you aware of any system AEP system agreement that is not subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission?

A. Again, I don't have documents listing all the agreements so I hate to say. There's not any -- I can't think of any at the moment. The major ones you mentioned, for example, the interconnection agreement, the interim allowance agreement, yes, I can vouch that those are FERC jurisdictional agreements.

Q. And in your rebuttal testimony you are offering some criticisms of the views expressed by the staff witnesses. Is it your understanding that the starting point of the staff witnesses was the presentation made by Dr. Pearce relying on FERC Form 1?

A. That was the starting point of Staff Witness Smith. As far as Medine and Harter, no, I don't think they relate at all to what Dr. Pearce did since they've used a totally different period in their energy margin calculation methodology. It's different, et cetera.

Q. And as I understand your rebuttal testimony, correct me if you think I'm wrong here, but you are relying upon the pool agreement to support your opinions regarding how a price for capacity provided to a CRES supplier should be fixed by the PUCO while AEP Ohio is at the same time asserting that the PUCO does not have jurisdiction over the pricing of capacity provided to CRES suppliers; is that correct?

A. I've been asked to address the capacity pricing here in Ohio for CRES providers, and we're addressing it through our testimony.

Q. But you are interposing the pool agreement in your rebuttal testimony to make adjustments to the prices that have been recommended by the Commission staff witnesses, correct?

A. I don't know what you mean by interjecting. I'm reflecting, in fact, the pool agreement exists, has existed for over 60 years, and it's a big proponent of a cost of service of all of East operating companies. And to ignore the pool agreement is ignoring a big part of how costs and benefits rely on members.

Q. And as you use the pool agreement in your rebuttal testimony, it's my understanding of your testimony that the pool agreement requires the PUCO to fix a higher capacity price than contained in the staff witnesses' testimony; is that correct?

A. No. That's a mischaracterization. I think what we want is the Ohio Commission to reflect the proper capacity price and remember that the pool capacity credit was about $400 million and that really dropped the capacity amount. So I'm not sure, you're characterizing it somehow an increase, Mr. Randazzo. I think when you look at the pool, it's broken down by capacity price, not increase. But I may have mischaracterized your question.

Q. But your use of the pool agreement in your rebuttal testimony results in an upward adjustment to the prices that are contained in the staff's testimony; is that correct?

A. No. That's kind of mischaracterization again. I'm suggesting how the pool should be reflected to calculate the proper capacity charged to CRES providers. Again, you can't say that it increases it because, again, the pool capacity credit is a huge number and has to be overcome first.

Q. Maybe I missed something in your testimony, Mr. Nelson, but my understanding of your use of the pool agreement is to modify the adjustments that were recommended by the PUCO staff witnesses in a way so that your application of the pool agreement would cause the staff witnesses' methodology to produce a higher capacity price. Am I missing something in your testimony?

A. I guess I just don't like the phrase "my use of the pool agreement." I'm not using the pool agreement. The pool agreement is what it is. I'm explaining how it operates and why the staff's number is wrong because I don't think they've properly modeled the affects of the pool agreement.

Q. Okay. But you're saying the staff number is wrong on the low side because it doesn't reflect your views about the effects of the pool agreement; is that a fair statement?

A. I think what I just said I'll stick with, and I answered your question.

Q. I don't think you did.

MR. CONWAY: Objection.

MR. RANDAZZO: Could I have my question read back?

MR. CONWAY: He did answer the question. I think he's answered it two or three times now.

EXAMINER PARROT: Could you reread it, please.

(Record read.)

MR. RANDAZZO: I would ask the Bench to instruct the witness to answer the question.

THE WITNESS: I was referring to the previous response.

MR. CONWAY: Could we have the previous question and answer reread, your Honor?

(Record read.)

MR. RANDAZZO: I would ask that the witness be instructed to answer my last question.

MR. CONWAY: Your Honor, I think he has answered it to the best of his ability.

EXAMINER PARROT: Mr. Nelson, please answer the question.

A. Mr. Randazzo, if you're answering whether my criticisms of how the staff modeled their capacity charge, my criticisms would raise their capacity charge. Yes, my criticisms would raise the capacity charge.

Q. Right. And the pool agreement that you rely on in your rebuttal testimony is the same agreement that is in the process of being terminated, correct?

A. Yes, it is.

Q. And, in fact, in the --

A. Well, process, obviously we've filed notice to terminate it on January 1st, three-year notice.

Q. Right. January 1st when?

A. 2014.

Q. Yeah. And, in fact, you're supporting in the modified ESP case, which Mr. Allen referred to earlier as ESP II.V, I think, in the modified ESP case you are supporting a provision dealing with the termination of the pool, correct?

A. Yes.

Q. Now, the pool agreement that you reference in your testimony, your rebuttal testimony, has been in place for many years, correct?

A. Yes. It's been modified a few times. It's been in place many years.

Q. And it was in place during the period of time when AEP Ohio was charging CRES suppliers for capacity based on the price established by the auction or competitive bidding process associated with PJM's RPM, correct?

A. Yes. It's been in place since '51 so I think it will cover all the years you want to go back.

Q. Now, since you have referenced the AEP pool agreement in your rebuttal testimony for the purposes that we've discussed briefly here, I take it that you feel it's important for the PUCO to consider agreements that may be relevant to a determination of the proper price that a CRES supplier should pay to provide adequate compensation for the CRES supplier's use of capacity; would that be a fair statement?

A. We would have to honor contracts that are enforceable by law, I would think.

Q. So if there was an agreement in which AEP Ohio committed to forego the ability to recover above market generation related costs from shopping customers, you would agree that the PUCO should hold AEP Ohio to that commitment, correct?

A. I can't answer that without seeing the agreement, what the circumstances were, if things have changed with the other party, other side of the contract, breach it. There's a lot of issues. I couldn't just say "yes" or "no" to the question.

Q. That wasn't what I asked you. I said there was an agreement in which AEP Ohio committed to forego the ability to recover above market generation related costs from shopping customers, you would agree that the PUCO should hold AEP to that commitment.

MR. CONWAY: Objection. He's answered the question, your Honor. He's already explained that the question is too vague, too ambiguous to be susceptible to a direct yes or no answer at this point. So I think --

MR. RANDAZZO: I'll withdraw the question.

Q. Now, as understand the generation function in Ohio, is that function a competitive service?

A. I think it's defined by statute it would be a competitive service.

Q. And I'm curious about something, Mr. Nelson, particularly since we are here dealing with the pricing for a competitive service. Given your background and experience, you are undoubtedly aware that there are a variety of laws that deal with agreements that have effect of fixing prices for goods and services in a competitive market, aren't you?

A. I'm not an attorney. That sounds like --

Q. You've heard of the Sherman Act and the Clayton Act and those kinds of --

A. I don't deal with them regularly.

Q. But you certainly have heard of them, correct?

A. Yeah. I recall something like that.

Q. For purposes of your testimony, did you seek any input from your counsel on the extent to which reliance on contracts or agreements including things like pooling agreements between AEP Ohio and its affiliates can be relied upon for purposes of establishing prices for goods or services at a higher level than they would be in a marketplace?

MR. CONWAY: Objection, if you're done. Objection on relevancy grounds, also to the extent it calls for him to divulge attorney/client communications.

MR. RANDAZZO: I'll withdraw the question.

Q. Have you ever heard of the Valentine Act, Mr. Nelson?

A. No, I have not.

Q. Have you heard of the Sherman Act?

A. It kind of rings a bell.

Q. Now, am I correct that for purposes of

Dr. Pearce's computation of a capacity price, he assumed that AEP Ohio's generating units were the source of the capacity that is resold to CRES suppliers? Do you have Dr. Pearce's testimony in front of you?

A. No, I don't.

MR. RANDAZZO: Can counsel provide the witness with Dr. Pearce's testimony?

Q. Will you turn to page 3? Do you have the testimony now in front of you, Mr. Nelson?

A. Yes.

Q. And I think the first page is page 1. Actually the table of contents seems to be page 2. And then page 1, page 2, page 3, underneath "purpose of testimony"?

A. Yes.

Q. Okay. And do you see there that in the line that begins -- or the answer that begins on line 15 that Dr. Pearce is discussing the market structure and capacity obligations and then he goes on to say "that require the use of AEP Ohio's generating capacity and the costs associated with this capacity to support generation service to switching customers." Do you see that?

A. Yes.

Q. So do you agree that Dr. Pearce is assuming that the AEP Ohio generating units are the source of the capacity that is resold to CRES suppliers?

A. Not necessarily generating capacity, could include other than AEP Ohio's own resources, its generating capacity. It doesn't say generating units of AEP Ohio.

Q. Okay. So the -- in the AEP system as we talked about earlier, the generating resources of all the members of the AEP pool are shared among the pool members, correct?

A. They're owned individually by the members. Some of the costs and benefits are shared through the pooling arrangement. But I don't know that I'd characterize the units themselves being shared. There are some jointly owned units.

Q. Okay. But based on your understanding of the AEP system as we discussed it earlier, AEP Ohio's generating plants, own and control, would not necessarily be the source of capacity that is provided to a CRES supplier; is that correct?

A. There can be purchase of a capacity from a sister company that could also supply. That's not unusual. Even an independent company may have purchases to supply its capacity needs, not necessarily related to the pool but, yes, the capacity can come from a variety of sources, own generation, contracts, unit power sales. I think capacity resource in PJM might be demand response.

Q. So, and also within PJM one of the capacity resources would be energy efficiency, right?

A. I believe that is treated as a capacity resource.

Q. And for purposes of your testimony -- well, let me strike that.

Have you read the reliability assurance agreement?

A. Not recently. I don't think -- have I read the whole thing? I don't think I've ever read the whole thing. I think it's over a hundred some pages --

Q. Yeah.

A. -- as I recall.

Q. Okay. Do you know what resources AEP Ohio has identified to PJM for purposes of satisfying the resource adequacy obligation to PJM?

A. What period are you talking about?

Q. Well, you discuss the various delivery years in your testimony.

A. I think you're into my ESP testimony. I don't know whether that's in the rebuttal.

Q. Okay. Let's talk about the delivery year June, 2010, through May, 2012. Do you know what --

A. Where's that in my rebuttal testimony?

Q. It's not in your rebuttal testimony. Do you know what capacity resources have been identified by AEP Ohio to satisfy the resource adequacy obligation to PJM?

MR. CONWAY: Your Honor, I'll pick up on the suggestion from Mr. Nelson and object to the relevance in the line of questioning. It's beyond -- as far as I can tell, beyond his scope of the rebuttal testimony. He does not, as far as I recall, provide rebuttal testimony on the capacity resources during the 2010-'11 planning year. Perhaps I'm mistaken.

MR. RANDAZZO: Well, Mr. Nelson also functions to provide forecast generation plant and related cost information which he handed off to Witness Meehan so I'm trying to identify which generating plants this witness has identified for purposes of associating those generating plants with the satisfaction of the capacity resource obligation to PJM.

EXAMINER PARROT: I'll allow the question.

A. I think you mentioned planning year -- what was it, Mr. Randazzo?

Q. June, 2010, through May, 2011.

A. We would have been -- of course, we still are an FRR entity.

Q. Right.

A. And we would have designated a bunch of units on the East system to meet that requirement. We plan as a system for the FRR obligation. So I can't rattle off all the units that the AEP East fleet has. It's quite a list.

Q. But the FRR obligation as you've just defined it is an obligation that's satisfied by resources other than those owned and controlled by AEP Ohio; is that correct?

A. Yeah, the FRR obligation is on a system basis, East system basis. The individual companies are not. They have their units and resources in there, they're pooled for purposes of the FRR obligation.

Q. And AEP Service Corporation is the FRR entity; isn't that correct?

A. I've never heard it -- that said before, so.

Q. Do you know who the FRR entity is under the reliability assurance agreement for the AEP East system?

A. I would guess that it's the Service. We're acting as agent on behalf of the operating companies. I wouldn't necessarily say it's the service Corp. It's the FRR entity. I may be wrong.

Q. Now, let's --

MR. RANDAZZO: Your Honors, I would ask that a document entitled "Direct Testimony of Philip J. Nelson filed January 27, 2011, in Case No. 11-346-EL-SSO be marked as IEU Exhibit No. 122.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. CONWAY: Could you give me the date of the filing, Mr. Randazzo?

MR. RANDAZZO: Yeah. It's January 27, 2012.

MR. CONWAY: And is this the 346, 348 case numbers?

Q. Mr. Nelson, do you have before you what's been marked for identification purposes as IEU Exhibit 122?

A. Yes.

Q. Am I correct that this is the prefiled testimony that you submitted in support of the original electric security plan proposal and that this testimony was filed on January 27, 2011?

A. That looks like it.

Q. Okay. Now, would you turn to page 28? Now, does the answer that begins at line 16 of that page that discusses when AEP joined the PJM regional transmission organization, does that answer describe your understanding of PJM's role in economically dispatching the generation units of the members of the AEP pool to satisfy the requirements of their loads?

A. It's a very limited description, but it's my understanding that PJM, as I said before, does dispatch our units since we joined PJM.

Q. And there in that testimony you asserted that as such, the AEP pool at least in its current form is less essential than it was historically, right?

A. Yes.

Q. Now, on page 29 at the top of the page in the sentence that begins at line 2, you referenced the Ohio deregulated generation and indicate that it is pooled with the generation of other members whose generation is regulated. Do you see that statement?

A. Yes.

Q. Can you tell me how that pooling occurs?

A. It occurs through the interconnection agreement.

Q. And that would be managed at least based upon your understanding by AEP Service Corporation; is that correct?

A. Again, AEP Service Corp. is the agent, not necessarily the manager of that. There's an operating committee which might fill that management function and that's composed of the president of the operating companies as well as pool manager from the Service Corporation.

Q. And at line 2 where you have the word "deregulated" in quotes, what Ohio deregulated generation are you referring there to?

A. Well, the reason I had it in quotes is that at that time we were probably -- we're in this world between regulated and deregulated. But generally that would relate to the generating units owned by AEP -- I'm sorry, Ohio Power Company and CSP at that time.

Q. And that would be the generation function that we talked about earlier, correct?

A. Yeah. Specifically I'm talking about the generating units generating of CSP and Ohio Power at that time. I don't know what all we talked about earlier.

Q. And on page 29 in the portion that runs from line 5 through line 16, you discuss why the AEP pool agreement may no longer be relevant in the real world, correct?

A. What I discuss is -- in C are some of the changes that have occurred that drove us to issue the three-year notice termination of the pool.

Q. Now, would you turn to Exhibit PJN-1, page 1, which is attached to IEU Exhibit 122?

A. I'm sorry, Mr. Randazzo, was it Exhibit 1, page 1?

Q. Exhibit PJN which are your initials, right? PJN-1, page 1.

A. I'm there.

Q. And there at the top of the page under general fuel requirements you are describing the role of America Electric Power Service Corporation; am I correct?

A. Yes, AEP Service Corporation as agent.

Q. And on page 5 of Exhibit PJN-1, you indicate that AEP Ohio -- at the top AEP Ohio makes purchase -- power purchases from affiliates, nonaffiliated companies, and through the PJM market that will be included in the company's proposed FAC. Do you see that statement?

A. Yes.

Q. And then you go on to refer to purchased power from OVEC and Buckeye Power Generating, right?

A. Yes.

Q. And also the Lawrenceburg plant.

A. That's correct.

Q. And did you review Dr. Pearce's testimony?

A. Yes.

MR. RANDAZZO: Your Honor, I'm handing out a -- some pages for purposes of the cross-examination from Dr. Pearce's KDP-3 and KDP-4, to make it easier to follow the cross-examination. And I would ask that this be identified for purposes of the record as IEU Exhibit No. 123.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Nelson, do you have before you what's been marked for identification purposes as IEU Exhibit 123?

A. Yes.

Q. Would you accept, subject to check, that except for the handwritten column on the right that these are pages from Dr. Pearce's exhibits in this proceeding? And more specifically KDP-3, page 21; KDP-3, page 22; KDP-4, page 21; and KDP-4, page 22.

A. With a spot check it looks like they match, at least the bottom number.

Q. Now, will you also accept that the handwritten column on page 21 of KDP-3 and KDP-4 reflects the purchased power dollar amounts that Dr. Pearce used in the various versions of page 22 that are associated with each month? For example, if you look at page 22 of KDP-3, you will see purchased power line -- at line 13, and that's the purchased power amount shown for January, 2010.

MR. CONWAY: Your Honor, I'd just like to interpose an objection at this point. Obviously Dr. Pearce is not here testifying on rebuttal. He testified on -- as part of the company's direct case and was available for cross-examination then. And Mr. Nelson does not address any of the values or the topics from 2010 that are covered by Dr. Pearce and he's responding to staff testimony regarding an energy credit and particularly he's providing insights and criticisms of the manner in which the staff has developed its forecasted energy credit, has no relationship to this aspect of Dr. Pearce's testimony, so I object because it's beyond the scope of his rebuttal testimony. If Mr. Randazzo wanted to inquire about these topics, he should have done it while Dr. Pearce was here. And it's not appropriate to shoehorn it in now with Mr. Nelson on rebuttal when Mr. Nelson's rebuttal is directed at entirely separate topics.

MR. RANDAZZO: If I may, your Honors, Mr. Nelson's testimony urges the Commission to reflect the real world, his view of the real world, as affected by the AEP pool agreement. That's one of his purposes.

The other purpose is that he provides forecast generation plant and related cost information to Witness Meehan. And what I'm about to demonstrate is that if you look at the extensive reliance upon purchased power by Ohio Power and Columbus Southern during 2010, that the generation resources of both companies has precious little to do with the way in which the companies are satisfying their energy requirements.

EXAMINER PARROT: Please proceed, Mr. Randazzo.

Q. (By Mr. Randazzo) Did you follow my

earlier question, Mr. Nelson?

A. You were asking whether the numbers written in hand --

Q. Yes.

A. -- came from KDP-4 and KDP-3?

Q. Page 22.

A. Page 22.

Q. That's basically extracting the purchased power.

A. I'm not going it check every one of them, but I can see that the January of '10 matches.

Q. Right. I wasn't asking you -- I asked you if you would accept it, subject to check, and I was trying to identify how would you check it and providing some verification that I was able to write down the right number for at least January.

A. At least January.

Q. At least January.

All right. So out of the January, 2010, actual annual energy related costs that Dr. Pearce provided in column 1 for Columbus Southern on Exhibit KDP-3, page 21, 46.8 million approximately was from purchased power, right?

A. Well, if you look at January, KDP-4, page 22, shows total fossil fuel amount and various other productions, total production costs, energy 165,623,785. And the purchased power in that particular month is 24,954,199. I don't see those same numbers on KDP-4. So I'm not sure that that's --

Q. I thought we'd just been through this. For January, 2010, am I correct that the amount of purchased power shown on Dr. Pearce's KDP-3, page 22, at line 13 is 46,810,000 and some change?

A. Yes. And the total production costs in that same schedule on line 15 is 75,544,685.

Q. That's energy related production costs, right?

A. Yes.

Q. And out of the actual annual energy-related costs that Dr. Pearce shows in column 1 on KDP-3, for January, of 58,200,061, 46.8 million approximately was related to purchased power, right?

A. No. Again, you should be looking at page 22 if it has all the numbers on it.

Q. Right.

A. And you've got to look at line 16, there's an off-system sales for resale revenues net of margin. So I don't know if purchased power on line 13 relates to that. Again, this would be a better question for Dr. Pearce.

Q. So you can't tell from the materials that Dr. Pearce used whether or not the energy-related costs that are booked on the Form 1 are related to retail sales or off-system sales or other transactions; is that correct?

A. Yeah. We purchase in the market and resell energy so you may be just doing a trade there. So, yeah, you'd want to stick with the page where it appears. I wouldn't try to take that relationship any further than is evident in this page.

Q. And why would -- well, let's strike that.

Let's go back to IEU Exhibit 123, which -- or -- or 122, which is your testimony filed January 2, 2011, from the ESP II proceeding.

A. I guess we didn't talk enough in that case, Mr. Randazzo? Want to rehash my testimony?

Q. Well, we were cut short of the opportunity by the intervention of another agreement.

A. That's right.

Q. PJN-1, page 5, you see the description under "Economic Dispatch"?

A. You're on page 5?

Q. Yes, of PJN-1.

A. Yes.

Q. Okay. Now, in the description under economic dispatch you refer to AEP. Can you tell me for purposes of that paragraph what is meant by the reference to AEP?

A. Well, AEP there would be the East companies since it's PJM.

Q. And according to that description the AEP East companies which would include AEP Ohio, I&M, Kentucky Power, and the others that we mentioned earlier, along with other generators in PJM, offer available generating units into the PJM market on a daily basis, correct?

A. Yes.

Q. And describe that process.

A. Well, there's -- I'm no expert in the PJM market but there's a day-ahead market and a real-time market. We bid our units into the day-ahead market.

Q. And as you understand it, when you bid those units into the day-ahead or retail market, you would express a price at which you're willing to run those generators, correct?

A. Yes.

Q. And then in the next sentence you say "PJM performs an economic dispatch for the PJM footprint to meet the load requirements with all available generation." Do you see that sentence?

A. Yes.

Q. And that's what you were referring to earlier about what has happened since you joined PJM to reduce the significance of the AEP pool agreement, correct?

A. It was one of the reasons that we no longer were a system unto ourselves where we dispatch our own units to meet our load, distribution into the PJM energy markets and part of the bigger pool.

Q. Right. And as you understand it, PJM for purposes of doing the economic dispatch that you describe on PJN-1, page 5, PJM looks at all the prices, offer prices, of the generators and determines a least cost dispatch to satisfy PJM's determination of the load, correct?

A. Sounds correct.

Q. And so on any given day the actual generating resources that are being utilized within PJM are dictated by the determinations made by PJM, right?

A. Well, there might be -- I can't say solely that. You may have unit outages and so forth. You know, how you bid your units in would have some influence. But I probably want to hear your question again.

Q. Well, let's look at it this way, on any given day generation resources other than those owned or controlled by AEP Ohio may be dispatched by PJM to serve the load of customers within the distribution service area of AEP Ohio, correct?

THE WITNESS: Could I have that question reread.

(Record read.)

A. Not sure why you have the "other than AEP Ohio in there." That's the part I can't agree to, not sure how you're using it there.

Q. Let's state it more simply, Mr. Nelson. PJM does not look to the generation resources of AEP Ohio to satisfy the requirements of customers within the distribution service area of AEP Ohio, right?

A. In the general sense as we talked about before, the generator bidding into -- the units into PJM and PJM is selecting those units based on price and dispatching those units against the load. So the load would include the load of AEP Ohio as well as all the other load in PJM.

Q. Right. That wasn't the question I asked. The question I asked you is the PJM for purposes of this economic dispatch that you describe on your

Exhibit PJN-1, page 5, PJM does not look simply to the generation assets of AEP Ohio for purposes of satisfying the load of the customers within the distribution service area of AEP Ohio; is that correct?

A. No. I think PJM is offering as a that as a system and all units are available. There's certain constraints and so forth. I don't want to get too far afield.

Q. Well, this is from your --

A. Yeah, and I don't -- I think you're expanding greatly upon that.

Q. Okay.

A. It's a pretty limited statement there, and I stuck to that statement.

Q. All right. Let's move to the next couple sentences in your exhibit.

A. Okay.

Q. You say on PJN-1, page 5, that after the end of the month, AEP, and there are you referring to AEP East or is it a different AEP?

A. This is still talking about PJM so it would be East.

Q. After the end of the month, AEP East reconstructs for cost allocation purposes the economic dispatch for its units based on hourly generating unit output. Tell me what that means.

A. Well, you stack the units, I guess is the proper term. Those units that run would be stacked from highest cost to lowest cost in each hour. And then you start from the top down and assign those highest cost units to off-system sales.

Q. And that's the last sentence on PJN-1, page 5. You say the resources at the top of the stack, and there you're referring to generation resources; is that correct?

A. There I'm referring to generation resources. Now, it could be -- well, let's broaden it because there could be purchases in the stack.

Q. And but in any event, the resources with the highest variable costs are after the fact assigned to off-system sales resulting in lower costs assigned to internal load customers, correct?

A. That's correct.

Q. Okay. So would the retail customers of AEP Ohio be an internal load customer?

A. Yes.

Q. So as internal load customers -- retail customers shop, it would free up generating units with a lower variable cost, right?

A. How do you mean free up? The dispatch would probably be the same, and PJM would bid our units in whether we got load or not. And PJM would decide to dispatch the units or not depending on the price.

Q. Fair point. Based upon the sentence that we've just been talking about, if there was a retail customer that shopped and was receiving generation supply from a competitive supplier, that would result in the assignment of lower variable costs to off-system sales than would be the case if the customer did not switch, correct?

A. I don't want to sit here and do dispatch in my head. I'm not going to agree to --

Q. Pretty simple math, isn't it?

A. Dispatch isn't simple math.

Q. PJM is doing the dispatch. This deals with how you're allocating available costs between internal load customers and off-system sales, right? That's what we're talking about in this last sentence, right?

A. Yes. This is a reconstruction after the fact.

Q. Right. And if a customer shops, if a retail customer of AEP Ohio shops, and is receiving generation supply from a competitive supplier, that would result in a reduction in the variable costs that is assigned to off-system sales; am I correct? Just math.

A. Well, maybe I can answer it this way, all other things being equal, if you have less internal load and you move down the stack and the stack is from lowest to highest, there may be a kilowatt hour that is low in price. But that's -- I hate to get into all that sitting here on the stand.

Q. Well, that's why people come to the stand to testify.

A. Usually you testify to the testimony you filed, not testimony that you filed a year ago.

Q. Well, we're very -- I took very seriously the message that you conveyed in your rebuttal testimony about properly reflecting what goes on with off-system sales. And I'm asking you if a retail customer of internal load of AEP Ohio shops, would it affect the level of variable costs that is assigned to off-system sales?

MR. CONWAY: Your Honor, I object. At this point he's answered the question at least two, if not three times, and he's indicated his reluctance to shortcut the answer in the manner that

Mr. Randazzo would apparently like. He's explained why he's reluctant to shortcut, but he's done the best he can to answer the question. I think it's time to move on. The answer to the question has been answered to the best of his ability.

EXAMINER PARROT: I agree, Mr. Conway.

MR. RANDAZZO: So the objection is sustained.

EXAMINER PARROT: It is.

MR. RANDAZZO: Thank you.

Q. (By Mr. Randazzo) Mr. Nelson, would you turn to page 1 of PJN-3 which is --

A. We're still in my testimony filed in the old ESP case?

Q. Yes, in the January 27, 2011, testimony.

A. PJN-3?

Q. PJN-3, page 1, underneath methodology of assumptions and pro forma financial projections. Are you with me?

A. I am there.

Q. Now, here in your testimony in the ESP II proceeding filed on January 27 you were responsible for providing the pro forma financial projections associated with the proposed ESP, correct?

A. Yes. I sponsored the pro formas.

Q. And at this Exhibit PJN-3 you're describing the methodology that is used for purposes of those pro forma financials; is that correct?

A. Yes.

Q. And in the second -- or, excuse me, third sentence in the paragraph that is headed "Methodology," the sentence that begins "Due to the integrated nature," do you see that sentence?

A. Yes.

Q. There you're stating that because of the integrated nature of the AEP system, the preparation of an individual operating company forecast requires a forecast for the entire AEP system. Do you see that statement?

A. Yes, I see it.

Q. Now, for purposes of the handoff of generation-related information to Rebuttal Witness Meehan, did you engage in a forecast for the entire AEP system?

A. Yes. The data that we provided would be part of our integrated forecast for the whole system. We obviously provided the relevant data related to AEP Ohio plants.

Q. And did you provide workpapers showing the entire AEP system forecast?

A. We provided the relevant workpapers which were related to the costs of the AEP Ohio generating fleet. And as far as the AEP system, that's a little broad in the sense we talked about AEP Texas -- I guess you could go there if you're talking about -- maybe talking about equity infusions and stuff, you can look at the system as a total but I think we're really focused on the East fleet here, once again.

Q. So you provided Mr. Meehan with information for a forecast for the entire AEP system?

A. A component of that, the cost basis for various generating units.

Q. For a segment of the AEP system or was it the entire AEP system?

A. I mentioned the AEP Ohio fleet which is relevant to this proceeding.

Q. Okay. So you did not -- you did not provide Mr. Meehan with the forecast showing the entire AEP system fleet utilization; is that correct?

A. I don't believe so. I believe we provided the units that were relevant to AEP Ohio.

Q. All right. Now, if you go to the bottom of page 1, still PJN-3, paragraph with a 1 prior to it, it talks about load and demand forecast, there again you say that "because the AEP System is highly integrated, the preparation of any individual company forecast requires an internal load forecast and an off-system sales forecast for all the AEP System companies." Do you see that statement?

A. I'm sorry, Mr. Randazzo, I lost the spot.

Q. It's the first sentence in the paragraph that is labeled "Load and Demand Forecast" that starts at the bottom of page 1, PJN-3.

A. Yes, I see that.

Q. Okay. Now, did you provide Mr. Meehan with an internal load forecast and off-system sales forecast for all of the AEP system companies?

A. No.

Q. Now, on page 2, PJN-3, underneath "Generation Forecast," which is bullet No. 2, do you see that?

A. Yes.

Q. There you indicate that "a generation forecast is developed by the Commercial Operations Division." What is the commercial operations division?

A. Commercial operations division is primarily responsible for interacting with PJM in terms of bidding units into PJM, et cetera, on behalf of the East operating companies. And then there's resource planning and operational analysis as far as hand in hand with them.

Q. And the commercial operations division, is that part of AEP Service Corporation or --

A. Yes. They'd be Service Corp. employees.

Q. And the resource planning and operational analysis department, that would be part of AEP Service Corporation as well?

A. That's correct.

Q. And then the sentence continues "In addition to getting Commercial Operations Division and Resource Planning and Operational Analysis Department to develop a generation forecast, then you also need to consider planned energy purchases," correct?

A. For purposes of a general forecast, yes, you would, not necessarily for this purpose.

Q. And the planned energy purchases consideration is necessary because you're trying to figure out the total energy requirements for the AEP system, correct?

A. That's correct.

Q. And for purposes of information you handed off to Mr. Meehan, did you provide him with your expectations or forecast of planned energy purchases?

A. No, only repurchases related to units. What we're, of course, doing I think with -- Mr. Meehan is doing is dispatching the generating asset or fleet against the market. And that's the AEP Ohio fleet.

Q. Well, the ability to dispatch generation -- generating units is ultimately a function of the demand, correct? You can't run generating units if there's not some consumption, right?

A. No. He's not dispatching it. He's -- there's a market price against which he's seeing where the unit operates at that market price. But I think probably these questions are better asked of Witness Meehan. I could tell you the types of things I provided, but he can tell you what he did with those things.

Q. That's what I thought I was asking. Did you provide it to Mr. Meehan? Is that the way you pronounce it?

A. Meehan.

Q. Eugene?

A. Gene.

Q. Did you provide Mr. Meehan with planned energy purchases as part of the information that you handed off to Mr. Meehan?

A. No, I wouldn't agree we had energy purchases. I'm not sure that would be relevant to this analysis, other than as I mentioned that it's kind of a unit power type arrangement, like an OVEC, a Lawrenceburg, and so forth, those would be included.

Q. Now, you indicated that Mr. Meehan is attempting to figure out whether or not based upon projected market prices various AEP Ohio generating units would be economic; in other words, they could operate and make some money, correct?

A. Yes. The purpose is to determine what sort of margin can be placed by AEP Ohio's generation fleet.

Q. And if they can't operate based upon the market prices that are assumed, then those generating units would be uneconomic, correct?

A. Well, again, you didn't put a term on it. A unit could be uneconomic in an hour, a week, a month, a year. But, yeah, you're just using the term pretty broadly. At any particular hour a unit could be considered uneconomic, wouldn't necessarily dispatch.

Q. And the reason is because the market price is less than the variable operating costs associated with the unit, right?

A. Yeah. I think that's kind of a bright line. Again, you got to consider sometimes you will operate the unit at a loss if it's going to run, for example, in the off-peak if it's expected to run the next day and make a profit. It offsets your losses in the off-peak.

MR. RANDAZZO: Now, your Honors, I would ask that an American Electric Power memo dated November 4, 2011, filed by Michael Baird and Paul Pennino be marked as IEU Exhibit 124.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Now, Mr. Nelson, do you have before you what's been marked for identification purposes as IEU Exhibit 124?

A. Yes.

Q. Do you know what ASC 360 is?

A. No.

Q. All right. Do you know whether or not AEP conducts impairment analysis periodically to identify whether or not the value of assets recorded on AEP's books need to be adjusted based upon fair value considerations?

A. I'm not familiar with this document.

Q. That's not the question I asked you. Do you know whether or not AEP periodically conducts impairment analysis to determine whether or not the value of assets that are reported on the books need to be adjusted to reflect fair value?

A. I don't know if they do periodically.

Q. If I were to remove the word "periodically" from my question, are you aware that AEP conducts impairment analysis to determine whether or not the value of assets reported on the books needs to be adjusted based upon fair value considerations?

A. I know that they do impairment analysis occasionally.

Q. I thought that was my initial question.

A. Periodically to me sounds like a routine.

Q. I'm sorry. Periodically, occasionally, I can understand the confusion.

Now, would you turn to page 2 of 5 of IEU Exhibit 124?

MR. CONWAY: I'm sorry.

Q. In the second paragraph under the heading "Conclusion," do you agree that the Ohio Company's generating assets are not cost-based regulated?

MR. CONWAY: Could I have the question? Can I have the question reread?

(Record read.)

A. I agree that the accountants have -- for their purpose have labeled it that way.

Q. And the accountants that you refer to are the individuals that assemble financial information, correct?

A. That's correct.

Q. And so if we were attempting to develop information about the extent to which certain things may cause financial harm, the views of accountants would be relevant, correct?

A. Would think they'd be relevant.

Q. So would you turn to page 3 of 5 and the first full paragraph on page 3 of 5. Would you read that paragraph to yourself.

Have you read it?

A. Yes.

Q. Do you agree with that statement?

A. I don't have any basis to agree or disagree. May not be wording I would use. So, but I don't have any basis to disagree with it.

Q. Do you know Mr. Baird and Mr. Pennino?

A. Yes.
Q. And are they part -- are they employees in AEP Service Corporation?
A. They are.
Q. And do they work in your department?
A. No.
Q. Who do they work for?
A. They work in the finance department.
Q. And who -- I'm sorry.
A. Mr. Pennino, I don't know that he's their direct supervisor, but he's head of that department.
Q. And the finance department is within AEP Service Corporation; is that correct?
A. It is.
Q. As far as you know, has there been any witness from the finance department presented by AEP in this proceeding to attempt to identify the extent to which AEP Ohio may be financially harmed as a result of various capacity pricing scenarios?
MR. CONWAY: Your Honor, at this point I'll object to the line of questions. Mr. Nelson has indicated he's not familiar with the document. He's not indicated that he is privy to the -- whatever the impairment valuation is. He's indicated very little -- a low level of familiarity with the subject

matter, and Mr. Randazzo's efforts to pursue this are without basis with the witness, including having the witness provide some insight into who else that's preceded him might have been a better choice to talk to about this.

MR. RANDAZZO: I'll withdraw the question. Mercy.

Q. (By Mr. Randazzo) Page 3 of your rebuttal testimony in this proceeding, Mr. Nelson, line 6. You refer to the "trapping of costs." Tell me what you mean by "trapping of costs."

A. In this instance it's fairly limited in that Staff Witness Smith accepted Dr. Pearce's allocations between energy and demand. And part of that was some of the A&G expenses that were assigned to energy. As far as we can determine as actually testified to by Witness Harter, he did not pick up those costs. So that's -- those costs have fallen between the energy demand split and are not being covered in either of staff's witnesses' work.

Q. On page 4, line 15, and on page 5, line 2, you use the word "stranded cost." Tell me what you mean there.

A. That's Mr. Lesser's term.

Well, on page 4 it's not in quotes. Page

5 it is in quotes. But in any event it's in your testimony. Tell me what you mean.

A. In this particular instance I certainly don't agree there is any stranded costs so, again, maybe I should have left the first time used in quotes. But there's no stranded costs in this proceeding.

Q. And no trapped costs either?

A. Now, we just discussed the trapped costs.

Q. So in your view there's no trapped costs raised by the staff's energy margin calculation?

A. No, that's not what I said. I described why there is trapped costs.

Q. Okay.

A. And it's fairly limited. If you want to call it something else, I'm agreeable other than stranded costs.

Q. Well, on page 15 -- excuse me. Page 6, line 15, you use the word "confiscation." Tell me what you mean by the word "confiscation."

A. Confiscation in general terms is taking something that you're not entitled to without due compensation.

Q. That's your understanding of the term.

A. That will do.

Q. Okay. Now, did you discuss with anybody in the financial department that you described earlier the results of an impairment analysis to identify whether the future cash flows from generating units would be adequate to provide for recovery of the costs associated with the generation fleet?

A. No, I had no discussions on that topic.

Q. But from what has been marked for IEU Exhibit -- IEU Exhibit No. 124, would you agree that such an analysis has been done by the financial department within AEP?

A. As I said, I don't know what analysis has been done, and it's a five-page document. I haven't read it. I can't tell you specifically what has been done or hasn't been done.

Q. Well, we got your rebuttal testimony late on Friday, and we worked all weekend to try and sort things out. And I believe this is a very critical point. Will you accept, subject to check, that Exhibit 124, IEU Exhibit 124, is the results of an impairment analysis that was done by AEP Ohio's -- AEP's financial department for purposes of identifying whether or not revenue streams from the generating assets were adequate to recover the costs of those generating assets?

MR. CONWAY: Your Honor, I object. He's indicated he's not familiar with the document. He's not familiar with the impairment evaluation process that might be undertaken, and I think it's inappropriate, improper to try to get him to accept subject to check, that this document does what Mr. Randazzo apparently believes it does.

MR. RANDAZZO: Will counsel stipulate that this document represents the results of an impairment analysis to determine whether or not cash flows in the future are adequate to recover the costs associated with generating units? We received this in discovery. It's a document from AEP. It's self-authenticating. And I believe that of all the things that the Commission should be concerned about in this proceeding is whether or not cash flows from the generating fleet are adequate to provide fair compensation to AEP.

MR. CONWAY: Your Honor, the first --

EXAMINER PARROT: Response?

MR. CONWAY: Excuse me?

EXAMINER PARROT: Response?

MR. CONWAY: Yes, thank you, your Honor. This is the first that I have personally seen this document. I'm not willing to stipulate to any particular purpose that might be put at this juncture.

MR. RANDAZZO: Will you present Mr. Baird and Mr. Pennino?

MR. CONWAY: So I object, your Honor. I object to subjecting this witness to the inquiry based on what he's said about his knowledge and background and familiarity.

MR. RANDAZZO: Well, I could ask that at least for impeachment purposes that what has been marked for identification purposes as IEU Exhibit No. 124 be received into the record.

MR. CONWAY: And I would just also note that Mr. Allen was on previously and there was no discussion of this with him, no discussion at all about this document with him. And he certainly did provide some financial based testimony.

MR. RANDAZZO: Will you put Mr. Allen on, let me talk to Mr. Allen about this?

MR. CONWAY: You had your opportunity, he's been on and he's off. It's your choice.

EXAMINER PARROT: I believe the witness has testified he's not familiar with the document, and we'll address the admissibility of it later.

MR. RANDAZZO: Fair enough.

Q. (By Mr. Randazzo) Mr. Nelson, if you were attempting to identify whether or not a particular capacity pricing proposal was imposing financial harm on AEP Ohio, would you at least consider the opinions of the individuals within the financial department at AEP for purposes of drawing a conclusion?

A. If you consider all relevant input on the decision like that.

Q. And did you inquire of the individuals in the financial department to determine whether or not RPM pricing would result in an impairment of AEP Ohio's generating assets?

Mr. Nelson, you need --

A. I don't have to look at you. I can look over here. I'm tired of looking at you. I'm listening.

Q. I understand that, but it's inappropriate for you to being coached by people in the room.

A. I'm waiting for the objection because I think we're in the same topic here. And I told you I'm not familiar with this impairment study. Cash flow is a different thing from earnings. I don't know what relevance this has to my testimony.

MR. CONWAY: Your Honor, again, the

suggestion of -- I object to the line of questioning with this witness.

Q. Mr. Nelson, I'll move on. Mr. Nelson, page 7, line 6, you refer to the Aurora modeling in conjunction with your observations about the quality of the information presented by the staff witnesses. Am I correct that AEP relies upon Aurora modeling for purposes of doing its own forecasts?

A. In very limited applications. It's not really used for our financial forecast except for long-term analysis.

Q. Well, in the case of the Big Sandy -- you were in the room during the discussion of the Big Sandy?

A. I was.

Q. In the case of the testimony that was presented by -- in the testimony that was presented by Mr. Weaver in the Kentucky proceeding involving Big Sandy, isn't it true that he relied upon the Aurora model for purposes of performing the fundamental financial analysis?

A. I heard some discussion of Aurora. I'm not sure he relied upon it. He may have used Strategist. He may have used other models. Are you asking whether he exclusively relied on Aurora?

Q. No. I'm asking you if he relied upon Aurora modeling for purposes --
A. I haven't reviewed his testimony so I can't tell you.
Q. Would you like to see his testimony?
A. If you want me to read the whole testimony?
Q. No. I'm kind enough to direct you to the place where he refers to the Aurora.
MR. CONWAY: Your Honor, I object again. He's now attempting to have Mr. Nelson buy into whatever his view of Mr. Weaver's testimony is of what Mr. Weaver did or didn't do. I think it's unfair and it's overbearing, and Mr. Nelson has not indicated a current familiarity with what Mr. Weaver has done so I think it's inappropriate.
EXAMINER PARROT: The objection's overruled.
Q. (By Mr. Randazzo) Do you know whether or not in for purposes of the Big Sandy case in Kentucky that Mr. Weaver stress tested the Strategist's resource alternative plan portfolio outcomes based upon the use of the Aurora model?
A. And you said he stress tested it?
Q. Yes.

A. Primary forecasting was then the Strategist's model?

Q. Yes.

A. I'll accept that he stress tested. That's one of the things we do is always crosscheck our results, verify it, and we use several models sometimes to verify results.

Q. Did you run the Aurora model for purposes of checking the information that you handed off to Mr. Meehan?

A. I didn't run the Aurora model.

Q. Did anybody?

A. I don't know. I don't think we would have had time to run Aurora correctly, I suspect.

Q. Page 8 of your rebuttal testimony, line 12, these two words were thrown around quite a bit and I want to make sure that the record adequately reflects the definition. You use the word "gross margin" at line 12. Can you define what gross margin is within the AEP system?

A. Yes. Gross margin is revenue minus cost of goods sold.

Q. And it would be primarily fuel costs, correct, would be the cost of goods sold?

A. Primarily. Depends on how you define

fuel. Fuel is in the eye of the beholder as we said. In different jurisdictions fuel can be broadly defined. In a FERC proceeding it's rather narrowly defined. So depends on how it's defined. As when you talked about in West Virginia, it's very broadly, so.

Q. Okay. On page 17, line 4, start of the answer, this is where you begin to discuss the information that you provided to Mr. Meehan, correct?

A. That's correct.

Q. And there you say you provided him detailed cost information for all of the AEP Ohio generating units, correct?

A. That's correct.

Q. And you did not provide him with detailed cost information for all of the AEP East generating units; is that correct?

A. That's correct.

MR. RANDAZZO: That's all I have. Thank you for your patience, Mr. Nelson.

EXAMINER PARROT: Let's go off the record.

(Discussion off the record.)

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

MS. KINGERY: No questions, thank you.
EXAMINER PARROT: Mr. Petricoff?
MR. PETRICOFF: Yes, your Honor, just a few questions.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Nelson.
A. Good afternoon.
Q. I want to take you -- if you refer to page 11 of your rebuttal testimony, and from lines 2 to 7, we talked about in the real world operation of the AEP pool freed up energy, and I just want to take you to an example getting a feeling about how this system works.
Let's start with are you familiar with the Gavin power plant?
A. Yes.
Q. And the Gavin power plant's owned by Ohio Power.
A. Correct.
Q. And let's say because of shopping the Gavin plant has now freed up as you use that term on line 3, and it has energy it can sell in the market. So it sells a number of megawatt hours into the

market, and the market price for that, it's an off-system sale, is $100, right? Put it into a hypothetical. And how much of the $100 initially goes back to Ohio Power?

A. And the $100 is the revenue side?

Q. Gross revenue, right. We sold the number of megawatt hours and we got $100.

A. Okay, the pool has several steps in it.

If the Gavin plant was one the units used for off-system sales, then the first thing is whatever unit gets used for that purpose is reimbursed its costs.

Q. Let's stop there, its costs. Now, its fuel expense would be a cost?

A. Yes.

Q. Operation and maintenance of its labor to run the unit, would that be a cost?

A. Generally it's one/half maintenance is included in the cost of the reimbursement.

Q. And is there any reimbursement for the generating equipment itself?

A. That's through the pool capacity payment. So that's not a part of the pool but like this transaction there wouldn't be specific capacity reimbursement. Off the top of my head I don't think it relates.

Q. We'll get to there in a minute, just kind of working through. We have a unit that's making an off-system sale, got a hundred dollars. It gets its fuel costs and half its O&M. So let's say that that's $50. Now, we have $50 left. What happens to the additional $50 in this example?

A. The $50 would be distributed by the MLR among the member companies.

Q. And the MLR is based on the load in each of the participating AEP affiliates in the pool?

A. It's based on a formula that's the peak of the company divided by the sum of the peaks of all the companies.

Q. So the MLR --

A. It's a noncoincident peak. For example, if AEP Ohio peaked in summer, Appalachian peaked in winter, Kentucky peaked another time, we sum all those peaks for that prior 12-month period and it's a ratio.

Q. And it's the -- so it's the coincidental peak of all of the members in --

A. No, it's a noncoincident peak.

Q. How is that different from the 5PC test from the PJM uses?

A. The 5PC test is a coincident peak with PJM's highest five peak periods. So it's coincident. For example, the example I just gave you Ohio Power I said was a summer peak. They might be coincident. Their highest peak might be during those five hours. PJM's typically a summer peaking system. APCo is likely not to be at their peak capacity during that time because they peak in the winter.

Q. So for purposes of the MLR, you look to each company to see when their peak is and we sum the peaks, that's the denominator, and the numerator for each company then is what its individual peak is.

A. That's correct. And it, of course, has to sum to 1.

Q. So let's go back to our -- so back to our example. So we've got our $50 worth of revenue. At that stage then Ohio Power -- let's say Ohio Power --

A. And when I say revenue, you're talking about $50 of margin.

Q. Margin. In our example because we started with $100 of revenue, now, we're with $50 of margin. Let's say its ratio is 40 percent. Then it would get 20 of the $50.

A. That's correct.

Q. So it's fair to say that under the MLR system, a company that's even negative in terms of its generation needs shares in the off-system sale revenues.

A. That's correct. But you have to remember that, for example, let's take Appalachian Power, use that as an example as the best. They're generally very short in the pool. And so what does that mean? They still get a share of off-system sales revenue, their 30 percent, 30 percent of off-system sales margin. That doesn't quite seem fair at that point but you've got to remember that an Appalachian Power is paying -- buying capacity from AEP Ohio as well. And they are a big contributor to this 400 million we talked about earlier as a pool capacity.

So that entitles them to a share of the off-system sales margin. As well as we haven't talked about it yet, but they also purchase energy, primary energy from Ohio Power at cost. Those are kind of three legs of the stool, capacity, energy purchases, and sharing of the off-system sales.

Q. You'll agree with me that in terms of determining the $355 requested megawatt per day capacity charge, all of the -- all of the capital necessary for the Gavin plant in my example has been included coming up with that 355 price.

A. Yes.

MR. PETRICOFF: I have no further questions. Thank you, your Honor.

EXAMINER PARROT: Thank you, Mr. Petricoff.

At this point I think we are going to break for the evening given the hour of the day. We will reconvene tomorrow with cross-examination of this witness at 8:30 a.m. in this hearing room.

We are adjourned. Thank you.

(Thereupon, the hearing was adjourned at 6:38 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, May 14, 2012, and carefully compared with my original stenographic notes.

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Julieanna Hennebert, Registered
Merit Reporter.

(KSG-5524B)

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