

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :
Application of Columbus :
Southern Power Company :
and Ohio Power Company :
for Authority to Establish:
a Standard Service Offer : Case No. 11-346-EL-SSO
Pursuant to §4928.143, : Case No. 11-348-EL-SSO
Ohio Rev. Code, in the :
Form of an Electric :
Security Plan. :

In the Matter of the :
Application of Columbus :
Southern Power Company : Case No. 11-349-EL-AAM
and Ohio Power Company : Case No. 11-350-EL-AAM
for Approval of Certain :
Accounting Authority. :

- - -

PROCEEDINGS

before Ms. Greta See and Mr. Jonathan Tauber,
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 Friday, May 18, 2012.

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VOLUME II

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1 Friday Morning Session,
2 May 18, 2012.

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4 EXAMINER TAUBER: Let's go on the record.
5 We'll start with brief appearances, name only. We'll
6 start with the company and work our way around.

7 MR. SATTERWHITE: On behalf of the
8 company, Matthew Satterwhite, Steven Nourse, Christen
9 Moore, and Dan Conway.

10 MR. HAQUE: On behalf of AICUO, Grove
11 City, Hillsboro, and Upper Arlington, Asim Haque.

12 MS. GRADY: On behalf of residential
13 customers of the utilities, Maureen R. Grady,
14 Consumers' Counsel.

15 MR. SMALZ: On behalf of the Appalachian
16 Peace and Justice Network, Michael R. Smalz and
17 Joseph V. Muskovyak.

18 MR. HAYDEN: Good morning, your Honors.
19 On behalf of FES, Mark Hayden and Jim Lang.

20 MR. RANDAZZO: Good morning. Sam
21 Randazzo, Frank Darr, Matthew Pritchard, and Joe
22 Olikier, on behalf of the Industrial Energy Users
23 Group of Ohio.

24 MS. KINGERY: Good morning, your Honors.
25 On behalf of Duke Energy Retail and Duke Energy

1 Commercial Asset Management, Jeanne Kingery and Amy
2 Spiller.

3 MR. K. BOEHM: Good morning. Kurt Boehm
4 on behalf of the Ohio Energy Group.

5 MS. McALISTER: Good morning, your Honor.
6 On behalf of the OMA Energy Group Lisa McAlister and
7 Thomas Siwo.

8 MR. SUGARMAN: Roger Sugarman on behalf
9 of the NFIB-Ohio.

10 MS. THOMPSON: Good morning, your Honors.
11 On behalf of Interstate Gas Supply, Andrew Campbell,
12 Mark Whitt, and Melissa Thompson.

13 MR. YURICK: Good morning, your Honors.
14 On behalf of the Kroger Company, Mark Yurick.

15 MR. BARNOWSKI: Good morning. On behalf
16 of Ormet, Dan Barnowski, Emma Hand, Tom Millar.

17 MR. STAHL: Good morning. On behalf of
18 Exelon/Constellation, David Stahl and Scott Solberg.

19 MR. PETRICOFF: Thank you, your Honor.
20 On behalf of Retail Energy Supply Association, and
21 Compete, Howard Petricoff and Lija Kaleps-Clark.

22 MR. O'BRIEN: Good morning, your Honors.
23 On behalf of the Ohio Hospital Association, Rick
24 Sites and Tom O'Brien.

25 MR. MARGARD: Good morning, your Honors.

1 Werner Margard and Stephen Beeler, Assistant
2 Attorneys General on behalf of the Commission staff.

3 EXAMINER TAUBER: Any other
4 appearance parties?

5 MR. JADWIN: Good morning. On behalf of
6 AEP Retail Energy Partners, Jay Jadwin.

7 MR. COX: On behalf of the Council of
8 Smaller Enterprises, Matt Cox.

9 MR. STINSON: On behalf of the Ohio
10 Schools, Dane Stinson.

11 MS. SMITH: On behalf of Wal-Mart Stores
12 East, LP and Sam's Stores, Holly Rachel Smith.

13 MS. CHMIEL: On behalf of Border Electric
14 Services, Stephanie Chmiel, Carolyn Flahive, and Mike
15 Dillard.

16 EXAMINER TAUBER: Is there anybody else?

17
18 We'll continue with cross-examination of
19 Mr. Powers.

20 Mr. Powers, you're reminded that you're
21 under oath.

22 THE WITNESS: I understand.

23 EXAMINER SEE: And we'll start with
24 Mr. Barnowski.

25 - - -

1 ROBERT P. POWERS

2 being previously duly sworn, as prescribed by law,
3 was examined and testified as follows.

4 CROSS-EXAMINATION

5 By Mr. Barnowski:

6 Q. Good morning, Mr. Powers.

7 A. Good morning.

8 Q. I'm not going to retread any old ground,
9 I promise, okay, I'm going to be really quick. I'd
10 like to talk to you just a little bit about the
11 serious financial harms that you testified yesterday
12 would occur or have occurred in 2011 and 2010.

13 Is the mic not on?

14 MR. RANDAZZO: No.

15 Q. Is that better?

16 I'd like to talk to you a little bit
17 about the serious financial harms that you talked
18 about occurring in 2011 and 2010 due to customer
19 switching, okay?

20 Can you tell us what percent of your
21 customers switched in 2011?

22 A. I don't remember the exact number for
23 2011, but Mr. Allen has got that detail.

24 Q. Putting aside whether you know the exact
25 number, do you know roughly what the number is?

1 A. I believe through 2011 it would be in the
2 range of 20, 25 shipped with an additional 10 percent
3 or so committed, but I'd refer you to Mr. Allen for
4 more detail.

5 Q. Okay. Let's just use the low end of your
6 estimate, 20 percent. Despite 20 percent of your
7 customers switching and the serious financial harms
8 that resulted from that, can you tell us what the
9 company's net income was in 2011?

10 MR. RANDAZZO: Can I have a
11 clarification? When you say "the companies."

12 MR. BARNOWSKI: I'm sorry, Ohio Power
13 Company's 2011 net income.

14 MR. RANDAZZO: Thank you.

15 A. I refer to those as "AEP Ohio," is
16 that --

17 Q. That's fine.

18 A. The combined companies. I think the net
19 income for AEP Ohio would be in the range of
20 \$500 million but I'd have to refer you to Mr. Sever
21 for more detail.

22 Q. And for the last two years, in 2010-2011
23 combined, is it accurate that Ohio Power Company's
24 net income has been over a billion dollars despite
25 these serious financial harms you talked about?

1 MR. RANDAZZO: Could I have a
2 clarification; when you're using "Ohio Power," are
3 you talking about combined Columbus & Southern and
4 Ohio Power companies?

5 MR. BARNOWSKI: I'm talking about the
6 combined companies.

7 MR. RANDAZZO: Thank you.

8 THE WITNESS: I'm sorry, what was the
9 question?

10 Q. The question is despite these serious
11 financial harms and this customer switching you
12 talked about, isn't it accurate that the net income
13 combined over the last two years for the combined
14 entities is over a billion dollars?

15 A. I don't recall the 2010 number
16 specifically, but I think it's fair to say that
17 AEP Ohio has made money and the serious financial
18 harm I'm referring to is the fact that capacity was
19 offered at below FRR cost-based prices, that
20 customers shopped, and that revenue decreased as a
21 result of those circumstances.

22 Q. Okay. And despite those revenues
23 decreasing, despite that shopping, and despite the
24 reduced price that was offered, the company has
25 earned a net income, the combined company, over the

1 last two years of over \$1 billion, yes or no? If you
2 don't know, just say you don't know.

3 MR. SATTERWHITE: Your Honor, I'll object
4 to form at this point, I think the connotation of
5 this question of "despite" as if there's a proper
6 level or improper level, I think he's making a
7 judgment call within the question I think is
8 improper.

9 MR. BARNOWSKI: Your Honors, this witness
10 has testified, I counted three different places in
11 his testimony, that serious financial harms and
12 layoffs were going to come if these -- if there
13 wasn't something done about these reduced prices. I
14 think I'm entitled to explore what the reduced prices
15 and 20 percent switching has caused in the last two
16 years.

17 EXAMINER TAUBER: The objection is
18 overruled.

19 A. Well, I believe in your question you've
20 asked both a retrospective perspective and you've
21 asked a prospective issue.

22 Q. Sir, my question is --

23 A. Let me finish, please.

24 Q. Did you understand --

25 A. You asked about 2011 and then you

1 suggested that in my testimony I've referred to job
2 loss. I think I did a pretty good job yesterday of
3 describing the fact that it doesn't take a genius to
4 figure out when RPM capacity prices go to \$20 a
5 megawatt-day and our FRR costs are \$355 a
6 megawatt-day and there's a tremendous amount of
7 customers shopping, there is serious financial harm,
8 I characterized that on the order in excess of
9 \$600 million a year. I think I did a pretty good job
10 yesterday describing that.

11 Q. Sir, I appreciate that. But that was not
12 an answer to my question. My question was a simple
13 yes, no, or I don't know.

14 Do you know whether the company, despite
15 19 percent or 20 percent of its customers switching
16 in 2011, and customers switching in 2010, earned a
17 combined net income of over \$1 billion in 2010-2011,
18 yes or no?

19 A. Yes, but I'd ask you to refer to
20 Mr. Sever to confirm that. That would be my
21 impression; yes.

22 Q. The company's first quarter results were
23 reported just a few weeks ago; is that accurate?

24 A. That's correct.

25 Q. You and I can agree that the first

1 quarter results were not very different from last
2 year's earnings; is that right?

3 A. Are you speaking about AEP Ohio or AEP?

4 Q. I'm talking about Ohio Power Company, the
5 combined entity.

6 A. I believe earnings were down slightly.

7 Q. \$150 million in net income in the first
8 quarter for the combined company, correct?

9 A. Don't know the exact number off the top
10 of my head, but in that range, somewhere around
11 there. I'd ask, again, Mr. Sever to give you more
12 detail on that.

13 Q. I'm not very good at math, but
14 \$150 million times four quarters is roughly around
15 \$600 million, true?

16 A. No; you can't do the math that way,
17 unfortunately. The income in utility business is
18 seasonal and varies from quarter to quarter, so.

19 Q. Right, and whether it was -- we heard
20 yesterday from I think Mr. Sugarman's cross, that
21 weather was actually fairly mild in the first
22 quarter, so you would expect the returns to be lower
23 than usual in the first quarter, correct?

24 A. Potentially, yes, I understand.

25 MR. BARNOWSKI: No further questions.

1 Thank you.

2 EXAMINER TAUBER: Thank you.

3 Mr. Stahl.

4 MR. STAHL: Yes, thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 By Mr. Stahl:

8 Q. Good morning, Mr. Powers. My name is
9 David Stahl, I represent Exelon and Constellation
10 here this morning.

11 And my first question to you, Mr. Powers,
12 is really a background question, and that is are you
13 aware that one of the proposals that the Exelon and
14 Constellation companies have made in this proceeding
15 is to accelerate the full capacity auction from the
16 period beginning June 1st, 2015, to the period
17 beginning June 1st, 2014?

18 A. No, I'm not aware of that.

19 Q. You're not? You haven't discussed that
20 with anyone at your company?

21 A. No.

22 Q. As you sit on the witness stand this
23 morning, Mr. Powers, can you conceive of any reason
24 why, from a point of view of the AEP Ohio wires
25 company, in 2014 that proposal would be unacceptable?

1 A. We've presented a comprehensive package
2 in the ESP and at the start of that package AEP Ohio
3 is more than a wires company. So, as I mentioned
4 several times yesterday, if there are proposals or
5 thoughts on how to solve this transition period, this
6 complicated circumstance of moving from a nonmarket
7 scenario to a market scenario, we're open to
8 considering those options.

9 But as I mentioned yesterday, any option
10 like you suggested to move an auction, and I believe
11 in June of '15 would be a capacity and energy auction
12 to June of '14, we'd have to think very, very long
13 and hard about what the consequences of that action
14 would be from an AEP Ohio perspective.

15 Q. I understand that it would require
16 careful consideration and deliberation, but my only
17 question to you this morning is in your capacity as
18 Chief Operating Officer of AEP, can you think of any
19 objections to that proposal from the perspective of
20 the AEP Ohio wires company in the year 2014?

21 Another way to say it: How, as you sit
22 here, might that adversely affect the AEP Ohio wires
23 company in 2014?

24 A. Again, the ESP, in my mind's eye, is a
25 comprehensive solution to a complicated situation.

1 You've parsed out the wires company in 2014. This is
2 a package that tries to balance a lot of factors.

3 So to take the wires company out and say
4 it's a wires company-only perspective on the stand
5 off the top of my head, I can't do that. I'd have to
6 think about that with help from my team and think
7 about whether or not that was possible and what else
8 would be moving to help preserve the balance that's
9 provided in the ESP that we've offered.

10 Q. Your ESP case was filed on
11 March 30th of this year; is that correct?

12 A. Sounds correct.

13 Q. Is it fair and accurate to say, then,
14 Mr. Powers, that during that entire period of time
15 from March 30th of this year until today,
16 May 18th, 2012, there has been no discussion within
17 your company about how the Exelon/Constellation
18 proposal might adversely affect the AEP Ohio wires
19 company in 2014?

20 A. Not with me, sir, no.

21 Q. I think you did testify yesterday in
22 response to one of Ms. Spiller's questions that the
23 FRR concept --

24 A. May I ask, who's Ms. Spiller.

25 MS. SPILLER: Still me.

1 MR. RANDAZZO: Same one as yesterday.

2 THE WITNESS: Probably didn't remember
3 yesterday, sorry.

4 MS. SPILLER: That happens, don't worry.

5 Q. Regardless, you did testify yesterday,
6 did you not, that the FRR contract to which you have
7 referred on a number of occasions would not, in your
8 view, prevent the capacity and energy auction now
9 scheduled for the period after 2015, June 1st, to
10 be moved forward to June 1st, 2014, correct?

11 A. I believe I said I'm not aware that the
12 contract would prevent or prohibit, but I also spent
13 a lot of time yesterday saying that there would be
14 consequences to the movement of the auction.

15 Q. To the movement of the auction?

16 A. Yes.

17 Q. And I'm only talking about the capacity
18 and energy auction. I'm not talking about your
19 5 percent auction or the energy auction for beginning
20 January 1st, 2015. I understand you described the
21 consequences of those other two, moving those other
22 two auctions, correct?

23 A. I don't recall separating the different
24 auctions in my discussion.

25 Q. All right. Well the testimony will speak

1 for itself. I'll move on.

2 When you talk about the FRR contract, you
3 haven't presented this FRR contract anywhere in your
4 testimony, have you?

5 A. I'm sorry. What does that mean?

6 Q. There's no piece of paper that you have
7 attached to your testimony as an exhibit setting
8 forth this FRR contract.

9 A. In my testimony, no.

10 Q. Isn't it a fact or do you know,
11 Mr. Powers, that the FRR contract to which you have
12 been referring and which you have testified requires
13 compensation based on cost to AEP is embodied in the
14 reliability assurance agreement?

15 A. What I understand is that AEP is entitled
16 to cost-based capacity under FRR and that we've filed
17 at FERC to preserve or obtain that ability to recover
18 cost-based capacity. I think I testified yesterday
19 that last term you referred to I just, I don't have
20 knowledge of that specific term that you used.

21 Q. I'm going to read something to you and
22 I'm going to ask you if what I read sounds to you
23 like the FRR contract that you've been referring to
24 in your testimony. Can I do that? This is from
25 section D-8 of schedule 8.1 of the reliability

1 assurance agreement.

2 A. Sir, I have not read the FRR contract, so
3 if you read it, I wouldn't be able to opine on
4 whether it sounds like the FRR contract or not.

5 Q. All right. Then I won't read it.

6 Let me move to one last subject,
7 Mr. Powers, and that is -- portions of this may be
8 confidential depending upon your answer. Are you
9 aware of an offer that was made by Exelon to AEP
10 Service Company in February of 2011 to sell capacity
11 on behalf of Ohio Power?

12 A. Yeah, generally.

13 Q. When did you become aware of that? At
14 the time the offer was made or subsequently?

15 A. I think I became aware of that generally
16 after the Commission rescinded approval of the
17 stipulation in December.

18 Q. So you were not aware of it from the
19 period of time between February 2011 and
20 approximately the first month or so or I guess
21 December of 2011?

22 A. No, I mean, I don't recall that. I mean,
23 when the Commission rescinded the -- what I refer to
24 as the stipulation approved in December and indicated
25 there were questions about the proposed movement of

1 capacity from AEP Ohio to the other operating
2 companies to help unwind the pool, we had to scratch
3 our heads a lot about how to deal with capacity
4 issues, and I think that's when it became known to me
5 that there were some discussions or opportunities
6 with Exelon for potential capacity.

7 Q. All right.

8 MR. STAHL: I have nothing further at
9 this time. Thank you, Mr. Powers.

10 THE WITNESS: You're welcome.

11 EXAMINER TAUBER: Thank you.

12 Mr. Petricoff?

13 MR. PETRICOFF: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Petricoff:

17 Q. Good morning, Mr. Powers.

18 A. Good morning.

19 Q. Yesterday you were asked by Mr. Randazzo
20 and I think by Mr. Sugarman whether you were the
21 sponsor of the March 30th application. Over the
22 evening hours -- and I think you indicated that you
23 were not sure or that you didn't know.

24 Over the evening hours have you had an
25 opportunity to check your status? Are you the

1 sponsor?

2 A. No; over the evening hours I went home
3 and went to bed. You guys wore me out.

4 Q. You're not alone.

5 You are the ranking corporate official,
6 though, presenting testimony in this case for Ohio
7 Power?

8 A. "Ranking" sounds pejorative. I think I'm
9 the senior officer representing testimony in this
10 case.

11 Q. And as part of your testimony in this
12 case, is part of the purpose of your testimony in
13 this case to present to the Commission what would be
14 acceptable to Ohio Power and would not be acceptable
15 to Ohio Power in terms of an opinion and order?

16 A. No, certainly my intent in testifying,
17 which is fairly unusual, obviously, is I think that
18 it was important to send a message that this issue is
19 incredibly important to AEP Ohio and to AEP, and that
20 we feel it's incredibly important to provide a
21 context for what we're asking for. This is not a
22 simple circumstance, this is not a simple situation
23 of saying let's go to market.

24 Ohio has had a complicated, complicated
25 history in wanting to move to market and that that

1 history and the fact that AEP Ohio has been there
2 over and over again to serve its customers with low
3 market rates and that we're simply asking for a fair
4 transition to market was very, very important to lay
5 out and to make sure how seriously AEP feels about
6 that issue.

7 Q. I want to explore with you that concept
8 of a fair, what the company believes is fair. Do you
9 have your testimony with you?

10 A. I do.

11 Q. Okay. Could you turn to page 4, and I
12 want you to look at lines 16 through 18. And there
13 you say "While AEP Ohio's presenting -- AEP Ohio is
14 presenting a compromise solution in the modified
15 ESP II case that includes discounted capacity as well
16 as transition to market," then you go on to say that
17 AEP Ohio's litigation position remains the capacity
18 charge as presented in 10-2929. Do you see that
19 language?

20 A. I do.

21 Q. Question for you: If the Commission
22 grants you the \$356 per megawatt-day in the 10-2929
23 case, would AEP Ohio at that time withdraw the
24 application?

25 A. I haven't thought about that

1 circumstance.

2 Q. Are there parts that you know of now that
3 would continue on if, in fact, you got the \$356 a
4 megawatt-day fee?

5 MR. SATTERWHITE: Your Honor, I'll object
6 to the extent this gets into litigation strategy.

7 MR. PETRICOFF: I'm not asking for your
8 litigation strategy, I'm trying to understand, we
9 have two proposals from the company, you have
10 testified here that you're going with your litigation
11 position. I'm just asking if, in fact, the company
12 does have a public position at this point of what it
13 would do if it got what it wanted in the first case.

14 EXAMINER TAUBER: With that clarification
15 I'll allow it.

16 A. Mr. Petricoff, I'm sorry, you kind of
17 lost me with litigation position and this and that.
18 Could you reframe your question or restate it?

19 Q. Sure. If, in fact, the Commission rules
20 next month that the proper state compensation
21 mechanism for capacity for the Ohio Power Company is
22 \$365 a megawatt-day, at that point would the company
23 withdraw its application in the 11-346 proceeding?

24 MR. RANDAZZO: Mr. Petricoff, I think you
25 said "\$365."

1 MR. PETRICOFF: I'm sorry, 356. I don't
2 want to make it worse than it is.

3 MR. SATTERWHITE: We'll be happy to take
4 the 365, though, thank you.

5 A. I think I've indicated in the course of
6 testimony that AEP and AEP Ohio takes policy
7 direction of the Commission very, very seriously and
8 we understand that policy direction at the moment to
9 be one that recommends a movement to market for all
10 utilities.

11 So although it would make things very,
12 very interesting if capacity were set at \$355 a
13 megawatt-day, I believe that AEP Ohio would continue
14 to want to be responsive to Commission policy
15 direction, and sitting here on the stand this morning
16 I can say we would be fully committed to be
17 responsive to that policy direction of the
18 Commission.

19 Whether that involved revoking this ESP
20 or not, I'd have to get the team together and think
21 about that. But we certainly would want to be
22 responsive to where the Commission wants to take the
23 state of Ohio in the competitive electricity world.

24 Q. So fair to say, then, that you have no
25 position, the company has no public position at this

1 time of whether it would continue with the case in
2 this proceeding or not if it is awarded its request
3 in the 10-2929 proceeding?

4 A. I'm not aware of a public position.

5 Q. To your knowledge, can the company
6 withdraw its application at any time?

7 MR. SATTERWHITE: Objection, your Honor.
8 To the extent it calls for a legal conclusion about
9 what the company's rights or responsibilities are.

10 A. I Would have to get legal help to --

11 EXAMINER TAUBER: I'll overrule the
12 objection, and we'll note that you're not an
13 attorney, and answer to the best of your abilities.

14 A. I would have to seek counsel from
15 attorneys to answer that question, sir.

16 Q. And your answer would be the same, you'd
17 have to seek advice if I asked you whether or not you
18 could withdraw the application or reject -- I'm
19 sorry, whether you could reject an opinion and order
20 that's issued in this case rather than accept it,
21 "you" being Ohio Power.

22 A. I would have to seek counsel.

23 Q. Okay. Now, I'd like to continue on and
24 draw your attention to the sentence that begins on
25 line 23 at the bottom of --

1 A. I'm sorry, what page?

2 Q. Page 4.

3 A. Page 4.

4 Q. Same page. It says "Similarly, AEP Ohio
5 would not be willing to provide discounted capacity
6 and transition as quickly to market as proposed in
7 the modified ESP if it does not receive all the
8 benefits of the balanced package of terms" and
9 conditions in the proposed ESP. And I want to go
10 through with you and examine some of the key terms in
11 that statement in your testimony.

12 First, on line 1 the word, or I guess
13 it's words "discounted capacity," can I substitute
14 for "discounted capacity" a capacity price below
15 \$356?

16 A. Given that that is consistent with the
17 two-tiered capacity that's offered at below 355, with
18 that, not correction but that addition, I'd agree
19 with what you're saying, yes.

20 Q. Then continuing on on that line where it
21 says "...transition as quickly to market as proposed
22 in the modified ESP...." Is it fair to say there
23 that the accelerations you are talking about are the
24 two 5 percent energy-only auctions?

25 A. Sir, I believe we've offered in the ESP

1 one 5 percent auction and one 100 percent energy-only
2 auction in January of '14. And if --

3 Q. Thank you for that correction. But we're
4 not talking about the 100 percent energy capacity
5 auction for June of 2015, the company's already
6 committed to that.

7 A. The company has committed to that if this
8 transition plan that's described in the ESP is
9 approved.

10 Q. Hasn't the company already sent in to PJM
11 its indication that it will participate in the RPM
12 auction for the PJM service year 2015-2016?

13 A. RPM is capacity, not energy.

14 Q. I understand. What I'm trying to -- and
15 maybe there's an easier way for me to ask you this.
16 The "quickly to market as proposed in the ESP" that
17 you see in lines 1 and 2, you're just referring to
18 the two energy-only auctions there, aren't you?

19 A. What I'm referring to in "quickly to
20 market as proposed" is that our perspective and
21 understanding is that we're certainly making a
22 package in this ESP that gets AEP Ohio to market
23 faster than certainly would be allowed under the MRO.
24 If that were filed.

25 And that through the auctions that you

1 mentioned, the 5 percent energy auction and the
2 hundred percent energy auction in January of '15
3 would help move to market over that three-year
4 period. I'm not trying to parse that description any
5 finer than that.

6 Q. Well, one more gradation and then we'll
7 leave the topic. But you're not referring to the
8 June 2015 move to RPM as part of your comment here at
9 the end of line 1 and beginning of line 2 on page 5.

10 A. From my perspective as an executive, the
11 energy and capacity auction that's described in June
12 of '15 is a culmination of this three-year transition
13 to market, so I can't parse your question any finer
14 than that.

15 Q. Okay. Thank you.

16 Let's focus in now on the word "benefits"
17 that you find in line 2. It says, basically it says
18 that the company won't move unless it receives all
19 the benefits of the balanced package, and I want to
20 explore with you what you mean by "benefits." First,
21 you'd agree with me that the "benefits" does not mean
22 all the terms and conditions of the
23 March 30th application.

24 A. Could you say your question again?

25 Q. Let me try it a more direct way. On page

1 4 you indicate that AEP Ohio would seek
2 administrative and other legal redress if it didn't
3 get the substantial benefits that we have -- that you
4 have or you're expecting from your proposal from your
5 application.

6 A. You're kind of bouncing between pages 5
7 and 4.

8 Q. That's right.

9 A. So where are you at now?

10 Q. This is just a backup to put in your
11 mind. You have here, it says -- and this would be on
12 line 19.

13 A. Page 4?

14 Q. Page 4. "...the Company seeks a
15 wholesale cost-based capacity rate and reserves the
16 right to pursue any available legal remedies or
17 avenues of relief before any administrative agency or
18 federal or state court, unless the Commission issues
19 final orders approving both the modified ESP II as
20 presented and the corporate separation plan...."
21 That's your testimony.

22 A. Yes, sir.

23 Q. And that's not a threat to the
24 Commission. You're just informing them that these
25 are the actions the company is contemplating taking.

1 A. Those are options that the company has,
2 yes.

3 Q. Right. Now, you modify this on page 5,
4 lines 1 and 2, where you indicate that basically
5 these steps of discounting capacity and going to
6 market are based upon getting the benefits of the
7 balanced package, okay, do you see that language on
8 lines 2 and 3?

9 A. Yes, I see the language.

10 Q. Now I'm trying to compare the two
11 together. If, in fact, when you look at these two
12 statements, am I correct in assuming that the company
13 would not seek other administrative and legal relief
14 outside of the Commission if it got the substantial
15 benefits from its application?

16 A. Boy, can you just make that a simpler
17 question?

18 Q. Sure. Are you telling the Commission
19 it's take it or leave it; either you take our
20 proposal that we filed here on March 30th or we're
21 going out to FERC and to the courts claiming
22 confiscation of our property?

23 A. Thanks. That's a lot clearer.

24 As you indicated, and I would agree,
25 we're not threatening the Commission. We're just

1 saying that this is a heck of a complicated issue and
2 the history, I won't repeat, we talked a lot about
3 yesterday.

4 AEP's been asked to not go to market for
5 more than a decade. Now we want to go to market.
6 We've had a stipulation, it was unapproved. We've
7 been asked to try and balance customer needs, CRES
8 provider needs. We certainly have come to the table
9 and said we need to balance the financial harm to
10 AEP. We put our thinking caps on, we put a
11 comprehensive package in place.

12 Believe me, when you start to pull the
13 levers to try and mitigate rate impact, provide
14 capacity that is attractive to CRES providers,
15 minimize financial harm, it's complicated, and it's
16 complicated to the point where we just want to point
17 out that this is a solution we found to be
18 acceptable.

19 We will always be open to other solution
20 sets, but we would emphasize that those options just
21 need to be in the same envelope that this represents
22 in terms of providing balance between the various
23 parties. If there are other solutions, we're open to
24 consider them, but this is the solution set that we
25 could figure out given that complicated circumstance.

1 No more, no less than that.

2 Q. But I want to take it down one more level
3 of gradation in detail. When you say that the
4 company has to have benefits of the balanced package,
5 does the company have a target rate of return that it
6 must earn in order for it to be balanced benefits in
7 your opinion?

8 A. I think Mr. Allen's testimony does a good
9 job of describing, you know, we talked a lot about
10 the RSR, we've talked a lot about there are various
11 riders in here that provide investment opportunity,
12 we looked at all those things and tried to have the
13 combination of the RSR, other riders and the like,
14 provide a reasonable opportunity, not a guarantee for
15 AEP to earn a, what we think is a reasonable rate of
16 return during this period, not a guarantee but an
17 opportunity to earn it, and that comprehensive
18 package is what I'm referring to.

19 Q. And the rate of return figures that are
20 shown in Mr. Sever's testimony in his Exhibit 1, are
21 those reasonable?

22 A. As I think we talked about this
23 yesterday, and I referred the detail to Mr. Sever's
24 questions, and I believe Mr. Sever's data and
25 Mr. Allen's data are consistent so I would refer

1 detailed questions to Mr. Sever regarding any
2 differences that we talked about yesterday.

3 Q. But in your opinion if the Commission
4 came out with a program that would present a
5 reasonable opportunity to earn the rate of returns
6 that are shown in that testimony, speaking on behalf
7 of the company as its ranking officer here today,
8 would that be acceptable?

9 A. Say that question again.

10 MR. PETRICOFF: Could I have the question
11 repeated?

12 (Record read.)

13 A. I think I've provided my answer again,
14 but I'll try and provide it again as succinctly as I
15 can.

16 We've got a package here that we believe
17 provides a reasonable answer for the Commission and
18 all these issues that the Commission would like to
19 balance. If there's another idea out there, that
20 we'd be willing to consider it and give it thought,
21 but sitting here on the witness stand, you know, it's
22 a complicated issue.

23 I'd like to see what the specific
24 proposal is before I can specifically answer whether
25 it would be acceptable or okay.

1 Q. Let me give you a hypothetical, then.
2 Actually, before I get to the hypothetical let me ask
3 you one other question.

4 In terms of this word "benefits" of the
5 package, does the company believe that one of the
6 benefits of the package, the package being the
7 application on March 30th, is that it would
8 restrict or retard shopping?

9 A. We've talked a lot about this over the
10 last two days now. This represents a transition to
11 market. AEP believes at the moment FRR capacity
12 obligations/requirements were not at market. The
13 Commission has indicated it wants to move to market
14 more quickly; we want to be responsive to that.

15 This plan provides a reasonable approach
16 to getting from a circumstance in which AEP is not at
17 market to a circumstance in which AEP is at market,
18 we think, in a very, very quick manner.

19 So to the extent that there are capacity
20 levels and tiers of pricing at various percentages
21 and, therefore, everyone doesn't have access to that
22 discounted capacity, I think that's pretty
23 self-explanatory as part of this transition from not
24 being at market to going to market very, very
25 quickly.

1 Q. Turn to page 15 of your testimony. Let
2 me try the question another way. Look on lines 9 and
3 10 on 15. It says the first tier is priced at
4 \$146 to serve approximately 21 percent.

5 If the Commission came back and it said
6 it's going to be 40 percent in that first tier in
7 that first year, but we'll give you an RSR that will
8 guarantee you a 10-1/2 percent rate of return, is
9 that going to meet your test of the benefits of the
10 balanced package that you referred to on page 5?

11 MR. SATTERWHITE: I'll object, your
12 Honor. I think the witness has stated multiple times
13 if there's changes, that's something that needs to be
14 thought about and he's not going to negotiate the
15 modified ESP that he's put out and sponsored here
16 with all the other witnesses on the stand.

17 EXAMINER TAUBER: The objection is
18 overruled.

19 THE WITNESS: Could I have the question
20 reread?

21 (Record read.)

22 A. I'd have to say I don't know. And let
23 me -- I would want to have a richer dialogue with the
24 Commission about its comfort with potential rate
25 impacts to customers in doing that.

1 So, again, going back to my previous
2 answer, this is complicated and since, as an
3 executive, we had a stipulation approved in December
4 but subsequently there were concerns about rate
5 impact that appeared at least in part to lead to the
6 Commission's unease with that stipulation, I'm
7 hesitant to just say in a small piece or a piece of
8 this movement, if the Commission were to do this,
9 everything's okay from an AEP perspective. I'd want
10 to have the whole fabric of this transition over the
11 three years understood in dialogue and discussion.

12 Q. Last question on this area. As a matter
13 of logic, if you are willing to take this back and
14 look and see whether a change in percentage on
15 shopping for the tier 1 or change in the shopping
16 area from what's been proposed is something that you
17 would consider, as a matter of logic can't we say
18 that it is not a fundamental requirement that there
19 be limits on shopping as part of AEP's view of the
20 benefits of the application?

21 A. No, sir, as a matter of logic, logic
22 would tell you this is an incredibly complicated
23 circumstance. Logic would tell you that you had a
24 stipulation in December that you thought solved that
25 complicated circumstance.

1 Since the Commission ultimately had
2 concerns about the package that was described by the
3 stipulation in December, I think logically one would
4 conclude that there are many, many complicated issues
5 in this case that need to be thought about.

6 Q. And the company would be willing to think
7 about and consider a program that had different
8 shopping restraints than what's in its application.

9 MR. SATTERWHITE: Objection, your Honor.
10 I think we're covering the same ground.

11 EXAMINER TAUBER: Let's move on,
12 Mr. Petricoff.

13 MR. PETRICOFF: Okay.

14 Q. Let's go back to page 5 on line -- now
15 I'm going to refer your attention to line 3 and I
16 want you to focus in on the word "ensure" and the
17 line basically says that this is a balanced package
18 of terms in the proposed ESP including a mechanism to
19 help ensure AEP Ohio's financial stability during the
20 transition. Do you see where I'm referring you to?

21 A. I do. I see the word "ensure."

22 Q. All right. Now, the word "ensure" there,
23 does the company, when it says "ensure," mean that
24 there should be no risk as to its financial
25 stability, that it will absorb no risk?

1 A. No. I think I've provided testimony
2 today and yesterday that indicates there is risk to
3 the company associated with this proposed ESP.

4 Q. Okay. Well, I want to focus down a bit
5 more on that. Mr. Sugarman took you through
6 yesterday a discussion about the risk to an electric
7 distribution utility that's due to weather. If the
8 company had a financial -- a loss of financial
9 revenue because of weather, is that something that
10 the Commission needs to ensure that the company is
11 compensated for as part of its approved program in
12 the matter at bar?

13 A. Could you say your question again?

14 Q. Sure. Risk of -- financial risk of
15 weather from the company, is that a shareholder risk
16 or is that -- should that be a customer risk?

17 A. I mean, generally speaking in my
18 experience it's been a shareholder risk.

19 Q. Right. And how about economic downturn?

20 A. Again, to the extent that load goes down
21 and kilowatt-hour sales goes down, that's been a
22 utility risk.

23 Q. I believe you testified yesterday that
24 you have supervisory authority or supervisory
25 responsibilities over the competitive retail electric

1 supply company.

2 A. Yes.

3 Q. Would you agree with me that a
4 competitive retail electric supply company is in a
5 competitive business?

6 A. Yes.

7 Q. Would you agree with me that price is one
8 of the primary components in which competition
9 between competitive retail electric suppliers vie for
10 market?

11 A. I think that's one of the factors.

12 Q. Are you aware that the -- of the
13 Commission's Apples to Apples chart?

14 A. No, I'm not.

15 Q. If the Commission approved the reduction
16 in capacity charges to the RPM rate, in a competitive
17 market in order to make a sale won't a CRES have to
18 lower their price to meet the competition from other
19 CRESs?

20 MR. SATTERWHITE: Just to be clear, can I
21 make sure the record is established he's answering
22 this on behalf of AEP Ohio.

23 MR. PETRICOFF: No, I'm asking him just
24 generally as an executive in the industry. Actually,
25 yes, I'll accept that.

1 MR. SATTERWHITE: All right, thank you.

2 THE WITNESS: So every time you guys have
3 these discussions I need to have the question reread,
4 please.

5 (Record read.)

6 A. I'm afraid I don't understand your
7 question.

8 Q. Sure. If the going rate out in the
9 market today for a residential customer is 8 cents a
10 kilowatt hour and the capacity charge that all CRESSs
11 have to pay for capacity is \$146 a megawatt-day and
12 that suddenly becomes \$20 a megawatt day, in order to
13 attract customers to make a sale won't -- all
14 competitive customers are going to have to reflect
15 that reduction in cost in the prices that they offer
16 if they have a hope of making a sale?

17 A. I think that's up to the CRES provider.
18 They could reflect that lower capacity by increasing
19 their margin and not passing the lower cost on to the
20 customer.

21 Q. But if they don't pass the lower cost --
22 we're in the stage of attracting customers at the
23 moment. Well, let me go back.

24 You'll agree with me that most of
25 AEP Ohio load is not shopping at the moment, the

1 majority is not shopping.

2 A. The majority being greater than
3 50 percent?

4 Q. That's correct.

5 A. Yes, I would agree with you.

6 Q. Okay. June 1st comes, price drops for
7 capacity to the RPM price at \$20. I am a competitive
8 retail electric supplier. Aren't I going to have to
9 adjust my price down in the marketplace if I have to
10 compete with other CRESSs who are out trying to
11 attract customers as well?

12 A. You've asked me a general executive
13 perspective on this.

14 Q. General executive question.

15 A. Yeah, I'd have to disagree with you
16 because if one were to look at what's out there in
17 terms of the discounts offered to customers by CRES
18 providers like FirstEnergy Solutions and what the
19 discounted capacity actually represents in terms of
20 what a price to customers ought to be, the discount
21 to customers is small and the discount to capacity is
22 going to the CRES provider.

23 So you're asking me a question if RPM
24 prices continue to go down, won't the CRES providers
25 have to lower their prices to customers. Doesn't

1 seem to be happening at the moment so why would I
2 presume it would be happening in the future.

3 Q. It hasn't happened at the moment because
4 we haven't gone to \$20; isn't that true?

5 A. But you've had discounted capacity from
6 \$355.

7 Q. Mr. Powers, if, in fact, you don't have
8 to worry about the relative price, then why is the
9 company concerned about losing \$600 million because
10 no customer is going to -- no customer is going to
11 move off standard service if they don't care about
12 the price?

13 A. I don't -- is there a question in there?

14 Q. No. Let me, let me rephrase it as a
15 question. And you can tell Mr. Satterwhite he can go
16 home, you -- he doesn't need counsel. His witness
17 doesn't need counsel.

18 MR. SATTERWHITE: Don't tell him that.

19 Q. Isn't it true that the company's great
20 concern here is that there's going to be a huge
21 migration out of standard service because the price
22 is going to go down if the CRESs can cover it at a
23 price paying only \$20 a megawatt-hour?

24 MR. RANDAZZO: Megawatt-day.

25 MR. PETRICOFF: I'm sorry, what?

1 MR. RANDAZZO: You said "megawatt-hour."

2 MR. PETRICOFF: I'm sorry.

3 Q. Megawatt-day.

4 THE WITNESS: Thanks, Mr. Randazzo.

5 A. Could you repeat the question?

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

8 (Record read.)

9 A. What I can agree with, since AEP's
10 perspective is it has a contractual ability to
11 collect cost-based capacity, that is if capacity
12 prices in Ohio are established at RPM, and it goes
13 down to \$20 a megawatt-day, that there will be
14 customer migrations and that the combination of the
15 difference in revenues from its cost-based FRR
16 capacity and RPM-based capacity represents
17 significant loss of revenue to AEP. And that is
18 financial harm to AEP.

19 Now, whether or not all the benefits of
20 that discounted capacity flow to customers or not, I
21 think I've stated my answer to that.

22 Q. Let's just take it one more step. Won't
23 that load just continue to migrate to the lowest
24 offered price?

25 A. I believe ultimately in the transition

1 that we presented here we end up at a competitive
2 market so we would end up wherever the competitive
3 market takes things.

4 But our perspective is we're not in a
5 competitive market at the moment. The Commission has
6 asked us to move to market quicker and we've
7 presented a plan to get there and a transition to get
8 there.

9 Q. But competitive retail electric
10 suppliers -- they're in the competitive market right
11 now; isn't that correct?

12 A. That's correct.

13 Q. How about the market for capacity; is
14 that a competitive market?

15 A. In the options that are presented in PJM,
16 there are two options, FRR is not competitive, RPM
17 has competitive elements to it.

18 Q. Right.

19 A. However, there are aspects of the RPM
20 market that for the long-term benefit of Ohio and
21 other states need to be revisited and considered.

22 Q. Wouldn't you agree with me that if as a
23 CRES, a CRES that moves into the Ohio Power service
24 territory tomorrow, for the next three years won't
25 they have to buy their capacity from Ohio Power, as a

1 practical matter?

2 A. A CRES provider moving into Ohio?

3 Q. Right. Moving into Ohio, when I say
4 "moving in," beginning to offer products and services
5 in the Ohio Power service territory. Won't they have
6 to buy capacity from Ohio Power for the next three
7 years?

8 A. I believe they can provide their own
9 capacity but they're most likely ending up getting
10 capacity from Ohio Power. And particularly at the
11 discount that we're offering, they'd probably take
12 it.

13 Q. But I want to focus down a little bit
14 further. Isn't it true that to bring their own
15 capacity they would have to make arrangements three
16 years in advance under the rules of PJM?

17 A. I think that makes sense. Yeah.

18 Q. Okay.

19 MR. PETRICOFF: I have no further
20 questions. Thank you very much, Mr. Powers.

21 THE WITNESS: You're welcome.

22 EXAMINER TAUBER: Thank you.

23 Mr. O'Brien?

24 MR. O'BRIEN: Thank you, your Honor.

25 - - -

CROSS-EXAMINATION

By Mr. O'Brien:

Q. Good morning, Mr. Powers.

A. Good morning.

Q. I'm Tom O'Brien. I'm asking questions this morning on behalf of the Ohio Hospital Association. And Mr. Petricoff did a really good job of truncating what I was going to ask you so I will be as brief as I possibly can be.

A. I've heard that before.

Q. You can trust me when I say it. Believe me.

Anyway -- but returning to the part of the answer on page 4 down at the bottom, lines 19 through 23, I'm going to try and put the final point on this whole line. Is it fair to say that the executive management of AEP Ohio has not, at this point, determined what it would do if the Commission, in fact, modifies either the plan filed in this case or, say, the corporate separation application as filed?

MR. SATTERWHITE: Your Honor, I'll object. I think, one, we visited this to the extent it can be visited, anything beyond that would be litigation positions of the company, it would be

1 privileged.

2 MR. O'BRIEN: So at least publicly the
3 company has not indicated what it would do if it
4 doesn't get exactly what it's asking for in this
5 case. It would have to decide what it's going to do
6 when it sees what it's given.

7 MR. SATTERWHITE: And, your Honor, I'm
8 going to --

9 THE WITNESS: Didn't this guy over here
10 object to something?

11 EXAMINER TAUBER: We've covered this,
12 Mr. O'Brien, let's move on.

13 MR. O'BRIEN: Okay.

14 Q. (By Mr. O'Brien) Mr. Powers, turning your
15 attention to page 14, lines 16 through 20.

16 A. Page 14, 16 through 20?

17 Q. Lines 16 through 20, with the sentence
18 beginning "With the modified ESP II...." In this
19 passage you indicate that the company's willingness
20 to change to a RPM-based capacity entity is
21 predicated on the Commission's willingness to give
22 you what you've asked for in this case; is that a
23 fair characterization?

24 A. Let me take a minute to read.

25 Can I have the question reread, please?

1 (Record read.)

2 A. I think it's a fair characterization but
3 also, remember, the testimony I provided this morning
4 when asked a related question, if there's another
5 solution set to this complicated circumstance, we're
6 willing to consider it.

7 We just know how much time and energy and
8 thought went into the balanced plan that we've
9 presented and we're just cautious that all parties
10 that would propose such a change would thoroughly
11 examine the consequences and the unintended
12 consequences of what would be suggested. So with
13 that modification I would agree with you.

14 Q. Okay, thank you. That's a fair enough
15 answer.

16 Are you aware that AEP Ohio has already
17 provided its notice to PJM to terminate its FRR
18 status under the tariff?

19 A. Yes, sir, I am.

20 Q. Are you also aware that once that
21 notification is provided, that you are not entitled
22 to return to that status for an additional five
23 years?

24 A. I know there's a period of time. I think
25 it's five years, but I can't absolutely 100 percent

1 confirm that, but I believe that's correct.

2 Q. So at least with respect to that period
3 of time, AEP will be an RPM entity, willing or not at
4 this point, is that true?

5 A. Well, it was an act of commission, we did
6 it so we were willing.

7 Q. Okay. Well, if you don't get what you
8 want out of this case, you are going to be an RPM
9 entity for some period of time in any event; is that
10 not true?

11 A. That would be correct.

12 Q. Now, if you could turn your attention to
13 page 17 of your testimony, there are a couple of
14 terms that you use in your answer down towards the
15 bottom of this page that I just want to get
16 clarified. You speak in terms of a subsidy right
17 there on line 17, do you see that? You used the term
18 "subsidize" but can you describe for me how this
19 subsidy works as you use it in your testimony here?

20 A. I believe it's pretty straightforward. I
21 believe we spent a lot of time over the past two days
22 discussing the fact that AEP has not been in a
23 competitive circumstance in Ohio, it's been asked to
24 be a regulated-like utility and it has cost-based
25 capacity through FRR.

1 To the extent that CRES providers are
2 able to get capacity at less than our cost, I mean,
3 it's a great situation. We're giving below-cost
4 capacity to CRES providers, that is the context of
5 the subsidy in my mind.

6 Q. Okay. And that's responsive to my
7 question. But in terms of the cost basis, was there
8 some change to the cost basis of AEP's capacity that
9 occurred on or around November of 2010 that prompted
10 the filing at the FERC to seek \$355 a megawatt-day?

11 A. There was a change in circumstance.

12 Q. And that change of circumstance --

13 A. The change of circumstance is for the
14 first time AEP Ohio saw significant customer
15 migration due to the availability of capacity that
16 was apparently attractively priced at RPM to CRES
17 providers.

18 Q. And would it be fair to characterize that
19 as that was the first time AEP cared about the
20 subsidy it had been providing to marketers?

21 A. I think it's fair to say the issue was
22 sort of academic and moot until such time as
23 customers start to migrate, at which time we took
24 prompt action to preserve our right to collect
25 cost-based capacity under FRR.

1 Q. Was there some reason why AEP didn't seek
2 costs, what it considers its cost-based capacity rate
3 from the time it became an FRR entity?

4 A. Oh, I think I've answered the question.
5 The issue became material in 2010.

6 Q. Okay. I'll move on, thank you.
7 Actually, one last question, then. And this is
8 actually the reciprocal of a question that
9 Mr. Petricoff asked you.

10 Say the Commission orders you to --

11 A. Is that mathematics or is that lawyer?
12 Reciprocal? Sorry. It's been a long couple days.

13 Q. You decide after I ask you the question.

14 A. All right.

15 Q. If the Commission orders you to charge
16 capacity at the RPM auction price, has the company
17 thought about what the impact of that decision on
18 this case will be?

19 MR. SATTERWHITE: Your Honor, to the
20 extent that involves privileged communications and
21 consultation with legal counsel, I'd object.

22 A. I think I've answered this general line
23 of question. There's a balance provided here that's
24 been deeply thought out. Anything that's different
25 than this balance, I mean, I would have to seek the

1 counsel of the team and the attorneys to help chart a
2 course of response.

3 MR. O'BRIEN: Okay. Thank you. That's
4 all I have, Mr. Powers.

5 THE WITNESS: You're welcome.

6 EXAMINER TAUBER: Thank you. Are there
7 any other parties, I know a few parties left last
8 night, that have any cross-examination questions?

9 MR. YURICK: I have less than five
10 minutes.

11 MR. HAQUE: Your Honors, I also have just
12 a few questions.

13 EXAMINER TAUBER: We'll start with
14 Mr. Yurick and we'll go to Mr. Haque.

15 - - -

16 CROSS-EXAMINATION

17 By Mr. Yurick:

18 Q. Hi, sir. My name is Mark Yurick, I
19 represent the Kroger Company.

20 A. Hi, Mark.

21 Q. I have very few questions for you and I
22 think they're pretty basic. You talked in your
23 testimony about the DIR, correct?

24 A. In general, yes.

25 Q. That's the distribution investment rider,

1 that's what those letters of the alphabet stand for,
2 correct?

3 A. Yes, sir.

4 Q. The company does currently make
5 investments in its distribution system, though,
6 right?

7 A. Yes, sir.

8 Q. And you've been doing that for some time,
9 correct?

10 A. Yes.

11 Q. And you do that currently through
12 distribution rate cases; isn't that right?

13 A. In part.

14 Q. And the company, like I said, the
15 company's been using the distribution rate case
16 methodology for investing in its distribution system
17 for quite some time; isn't that right?

18 A. That's correct.

19 Q. Are you familiar with the RSR, I know
20 you've talked about it generally, the RSR?

21 A. We've talked about that a lot over the
22 last two days.

23 Q. And that stands for "retail stability
24 rider," correct?

25 A. Yes, sir.

1 Q. And that's a nonbypassable rider as
2 proposed by the company meant to recover largely
3 capacity-related costs; is that right?

4 A. If you recall the testimony of the last
5 couple days, it's to help recover the cost of
6 discounted capacity and the provision of early
7 auctions that are presented in this ESP.

8 Q. So but would you agree with me that a
9 significant cost that AEP is trying to recover
10 through the RSR, and frankly I think you just did but
11 I want to be clear in the record, a large portion of
12 RSR is to recover the difference between what the
13 company views as its embedded cost rate for capacity
14 and the discounted rate charged to CRES providers?
15 You would agree with that statement?

16 A. I can confirm that the RSR is there in
17 part to deal with the discount, the difference
18 between the discounted offered capacity and RPM
19 capacity prices.

20 Q. But that's a pretty large part of that
21 RSR, isn't it? It's significant.

22 A. I'd refer you to Mr. Allen for the
23 specifics on how the apportionment between the cost
24 of the auctions and the harm from the auctions are --
25 it's a portion of what's being asked to be recovered,

1 yes.

2 Q. And I will get to him, but you would
3 agree with me that it's your understanding anyway, at
4 least from a 50,000-foot level, that that's a
5 substantial portion of that cost.

6 MR. SATTERWHITE: Objection, your Honor.
7 I think the witness just stated he doesn't know the
8 specifics of how it's apportioned. He can ask
9 Mr. Allen the question he's asking, the same
10 question.

11 MR. YURICK: Your Honor, if I may
12 respond. I wasn't asking him for a specific. I was
13 just asking if it was his understanding at the
14 50,000-foot level that that was a significant part of
15 the cost that's being recovered in the RSR.

16 EXAMINER TAUBER: And the objection is
17 overruled.

18 THE WITNESS: Could you reread the
19 question, please?

20 (Record read.)

21 Q. I'll restate it, sir. Would you agree
22 with me that it is your understanding from the, sort
23 of the 50,000-foot level that the difference between
24 the company's cost of capacity and the discounted
25 rate that the company believes it charges to CRES

1 providers is at least a significant cost sought to be
2 recovered through the RSR?

3 A. 50,000-foot level, yes, I would agree.

4 MR. YURICK: Thank you. No further
5 questions.

6 EXAMINER TAUBER: Thank you.

7 Mr. Haque.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Haque:

11 Q. Good morning, Mr. Powers.

12 A. Good morning.

13 Q. My name's Asim Haque, I represent a few
14 clients in this case but I'm going to be asking you
15 questions on behalf of our City clients, specifically
16 as it pertains to governmental aggregation and the
17 two-tier capacity pricing.

18 In order for a municipality that is a
19 governmental aggregator to receive tier 1 capacity
20 pricing, the municipality needed to have been
21 approved to aggregate in or before November of 2011;
22 is that correct? And if you need to refer to your
23 testimony, this is page 15 of your testimony.

24 A. Page 15, any more specific?

25 Q. Yeah, roughly lines 12 going forward.

1 A. So could you state your question again?

2 Q. Sure. In order for a municipality that
3 is a governmental aggregator to receive tier 1
4 pricing, the municipality needed to have been
5 approved to aggregate in or before November of 2011;
6 is that correct?

7 A. I don't believe that's correct.

8 Q. Could you explain why it's not?

9 A. Well, in my mind's eye it says that we're
10 providing additional allotments at discounted
11 capacity at 146 for those government aggregations
12 that occurred before November 2011. I don't see
13 anything where we say that within the subsequent
14 31 percent and 41 percent set-aside levels the
15 government aggregation can't access that tier 1
16 capacity.

17 Q. Okay. Could you describe the concept of
18 "approved"? So --

19 A. I'm sorry. What was the word?

20 Q. The concept of "approved" in line 13.
21 What exactly does "approved" mean?

22 A. I believe that means that the city has
23 taken action or whatever their process is to decide
24 they wanted to aggregate.

25 Q. Okay.

1 A. And I'd refer you to Bill Allen to get
2 into more detail on that but that's my understanding.

3 Q. Okay. I'm going to ask a follow-up
4 question about that and if Mr. Allen's the
5 appropriate person, I'll ask him when he takes the
6 stand, but is it your understanding that "approved"
7 means that the city has legislatively done what it
8 needs to do and has filed the appropriate
9 documentation with the Commission, or is it that the
10 city needs to be actively aggregating in November of
11 2011?

12 A. I made no such attempt to be that
13 specific. I'm a practical guy. The city has
14 aggregated, whatever that means, they'd have access
15 to the tiered capacity as described here.

16 Q. So a city could have -- a city could
17 have, then, based on your answer, a city could have
18 been approved to aggregate by the PUCO in 2008, have
19 gone dormant in 2010 and '11 and then reinitiate
20 their aggregation program in 2012?

21 A. I don't know. I'd ask you to ask
22 Mr. Allen.

23 Q. Okay.

24 MR. HAQUE: I don't have any more
25 questions, thank you.

1 EXAMINER TAUBER: Thank you.

2 Commissioner Porter?

3 Actually, we'll wait on that. The
4 companies, redirect?

5 MR. SATTERWHITE: Can we just take five
6 minutes.

7 EXAMINER TAUBER: Yeah, let's go off the
8 record for five minutes.

9 (Recess taken.)

10 EXAMINER TAUBER: Let's go back on the
11 record.

12 Mr. Satterwhite.

13 MR. SATTERWHITE: Thank you, your Honor,
14 I just have one very narrow, make sure we got the
15 definition of something right here for the record.

16 - - -

17 REDIRECT EXAMINATION

18 By Mr. Satterwhite:

19 Q. Mr. Powers, do you remember yesterday
20 when Mr. Randazzo was discussing with you the belief
21 that SSO rates charged during the RSP period were
22 market based and you stated they were not?

23 A. Yes, I do.

24 Q. Just very succinctly, how were you
25 defining "market-based rates" when you gave your

1 answer there?

2 A. Well, you've all figured out by now I'm
3 not a lawyer, probably saying thank God, but I'm
4 giving a business perspective and that business
5 perspective was simply during this period that
6 AEP Ohio's rates were not at market.

7 Q. So just to clarify, you weren't giving a
8 statutory definition, you were just giving a general
9 definition.

10 A. I think all the attorneys in the room
11 were going to discuss that.

12 MR. SATTERWHITE: That's all I have, your
13 Honor, thank you.

14 EXAMINER TAUBER: Thank you.

15 Recross. Mr. Randazzo?

16 MR. RANDAZZO: Yes.

17 - - -

18 RECROSS-EXAMINATION

19 By Mr. Randazzo:

20 Q. Mr. Powers, you understand that the
21 Public Utilities Commission of Ohio is a regulatory
22 agency that is obligated to comply with the laws of
23 the state of Ohio? You have that basic understanding
24 with regard to the role of regulatory authority.

25 MR. SATTERWHITE: Objection, your Honor,

1 I believe the scope of my redirect was simply what
2 his definition was, not duties, responsibilities,
3 legal responsibilities of the Commission.

4 MR. RANDAZZO: Your Honors, this witness
5 has suggested that the Commission would not let
6 AEP Ohio go to market-based prices and -- throughout
7 his testimony, and this question and answer on
8 cross-examination -- redirect indicates that the way
9 the witness used "market-based" may be different than
10 the market-based parameter that was specified by law.
11 And I think it's -- the Commission's integrity is
12 being challenged here.

13 MR. SATTERWHITE: Your Honor, I don't
14 know about all that, all I know is on redirect it was
15 simply giving the context of what his statement was
16 and to the extent Mr. Randazzo wants to put any of
17 those arguments in his brief, he can, but the
18 redirect was simply focused on the context of his
19 definition, not to argue with the witness about what
20 that means now.

21 EXAMINER TAUBER: Mr. Randazzo, you've
22 gone outside the scope of redirect. Do you want to
23 rephrase your question or limit your question?

24 Q. (By Mr. Randazzo) What is the business
25 definition of "market" as you used in response to

1 your question to Mr. Satterwhite? Tell me what the
2 business definition is.

3 A. Let me give you my perspective of what
4 market is.

5 Q. I want you to give me the definition that
6 you used in describing the term "market" in your
7 answer to Mr. Satterwhite. I don't want your
8 perspective, I don't want --

9 MR. SATTERWHITE: Your Honor, if the
10 witness can answer the question, I believe the
11 question was done, I don't think he needs a lecture
12 with it.

13 A. Market would be a circumstance in which
14 capacity and energy are offered to CRES providers, to
15 customers through whatever mechanism the state
16 specifies that would establish those rates through
17 some sort of competitive bidding process.

18 Q. Okay. That competitive bidding
19 process --

20 EXAMINER TAUBER: One second,
21 Mr. Randazzo.

22 Q. Would the type of competitive bidding
23 process that you believe would establish market be
24 the type of competitive bidding process in which AEP
25 has successfully participated in the SSO auctions

1 held by FirstEnergy and Duke?

2 A. I think those auctions are examples of
3 what a competitive circumstance looks like.

4 Q. Do you know whether or not AEP Ohio is
5 relying upon the results of those auctions for
6 purposes of developing the market price that it uses
7 to induct the MRO versus the ESP test?

8 MR. SATTERWHITE: Objection, your Honor,
9 now we're again getting beyond his understanding, his
10 explanation of what his definition is to now applying
11 other areas of the case.

12 EXAMINER TAUBER: Mr. Randazzo, let's
13 keep it within the scope of redirect, please.

14 MR. RANDAZZO: I need, with great respect
15 here --

16 EXAMINER TAUBER: Yes, sir.

17 MR. RANDAZZO: -- are you precluding me
18 from asking this witness that question?

19 EXAMINER TAUBER: I think that's outside
20 the scope of redirect, so yes.

21 MR. RANDAZZO: Thank you.

22 Q. (By Mr. Randazzo) So in your testimony,
23 when you use the term "market-based" and suggest that
24 the Commission did not let AEP go to market-based
25 rates, your use of "market-based" in that context is

1 a reference to your inability to use a competitive
2 bidding process to establish the generation supply
3 price in the SSO --

4 MR. SATTERWHITE: Objection, your Honor,
5 I think the witness --

6 Q. -- is that correct?

7 MR. SATTERWHITE: I'm sorry, I'll object
8 now. I think the witness already answered the
9 question to Mr. Randazzo of what he meant in the
10 definition as well as the definition to me of what he
11 meant by that.

12 EXAMINER TAUBER: The question is
13 overruled.

14 MR. RANDAZZO: Do you need the question
15 read back? Could I have the question reread, please?

16 (Record read.)

17 A. My business perspective is that AEP Ohio
18 rates, during the period of time that we're talking
19 about, were not at market. I've given a definition,
20 my best definition of competitive -- of competitive
21 based rates. It's just a pragmatic business
22 description of reality, when rates weren't at market.

23 MR. RANDAZZO: I would ask the Bench to
24 instruct the witness to answer the question.

25 MR. SATTERWHITE: Your Honor, that was

1 answering the question. He was giving his definition
2 of what it was. The whole point in the whole scope
3 of the cross-examination is what did he mean by the
4 term, and that answer just said what he meant by the
5 term. If it's not answering the question it's
6 because the question is beyond the scope of redirect.

7 MR. RANDAZZO: We've already had a ruling
8 from the Bench that the question was not beyond the
9 scope of redirect.

10 EXAMINER TAUBER: Could you please answer
11 the question to the best of your ability?

12 Q. "Yes," "no," or "I don't know" is
13 perfectly acceptable.

14 A. That's fine, Mr. Randazzo.

15 THE WITNESS: Could I have the question
16 reread, please?

17 (Record read.)

18 A. I believe the answer would be yes.

19 Q. Did you ever request the Public Utilities
20 Commission of Ohio to use a competitive bidding
21 process to establish the generation supply price in
22 the SSO?

23 MR. SATTERWHITE: Objection, your Honor.
24 Again, we're beyond the definition.

25 EXAMINER TAUBER: Sustained.

1 Q. Did you ever request the Commission to
2 waive a competitive bidding process as part of
3 establishing the SSO generation supply price?

4 MR. SATTERWHITE: Same objection.

5 EXAMINER TAUBER: Sustained.

6 Q. Did you ever use a competitive bidding
7 process to establish a generation supply price during
8 the period between 2006 and 2011?

9 MR. SATTERWHITE: Same objection.

10 EXAMINER TAUBER: Sustained.

11 MR. RANDAZZO: May I ask the Bench's
12 guidance on why that objection was sustained?

13 EXAMINER TAUBER: We're, again, veering
14 past redirect examination, Mr. Randazzo.

15 MR. RANDAZZO: We're not veering past the
16 purpose of redirect. The purpose of redirect was to
17 have this witness explain the definition of what he
18 meant by "market based" in his direct testimony.
19 With that definition it changes the meaning of his
20 direct testimony.

21 His direct testimony was designed to try
22 and suggest that this Commission precluded this
23 company from using a competitive process as he has
24 now defined "market-based rates" to set the SSO
25 price. And I believe this is proper recross based

1 upon the significance of this re-specification of the
2 meaning of the words "market based."

3 MR. SATTERWHITE: If I may, your Honor.

4 EXAMINER TAUBER: Briefly.

5 MR. SATTERWHITE: Yesterday we spent 10
6 hours in here and about half of it was with
7 Mr. Randazzo going over the past and the history of
8 what's going on here. The witness said multiple
9 times yesterday he's not an attorney, he's not
10 referring to legal terms, and today he was simply
11 just verifying that exact statement that he was not
12 referring to any legal terms. And all these other
13 questions Mr. Randazzo's bringing up are well beyond
14 that area.

15 EXAMINER TAUBER: And the Bench is
16 sustaining the objection, we'll continue.

17 MR. RANDAZZO: Okay.

18 Q. (By Mr. Randazzo) So we're clear --
19 strike that.

20 MR. RANDAZZO: That's all I have.

21 EXAMINER TAUBER: Thank you.

22 Ms. Grady?

23 MS. GRADY: No questions, your Honor.

24 EXAMINER TAUBER: Mr. Smalz?

25 MR. SMALZ: No questions, your Honor.

1 EXAMINER TAUBER: Mr. Lang?
 2 MR. LANG: No questions, thank you.
 3 EXAMINER TAUBER: Mr. Boehm?
 4 MR. K. BOEHM: No questions, your Honor.
 5 EXAMINER TAUBER: Mr. Sugarman?
 6 MR. SUGARMAN: No questions.
 7 EXAMINER TAUBER: Ms. Thompson.
 8 MS. THOMPSON: No questions, your Honor.
 9 EXAMINER TAUBER: Mr. Barnowski?
 10 MR. BARNOWSKI: No questions, your Honor.
 11 EXAMINER TAUBER: Mr. Stahl?
 12 MR. STAHL: No questions.
 13 EXAMINER TAUBER: Mr. Petricoff?
 14 MR. PETRICOFF: No questions, your Honor.
 15 EXAMINER TAUBER: Mr. O'Brien?
 16 MR. O'BRIEN: No questions, your Honor.
 17 EXAMINER TAUBER: Mr. Yurick?
 18 MR. YURICK: No questions, thank you,
 19 your Honor.
 20 EXAMINER TAUBER: Mr. Haque?
 21 MR. HAQUE: No questions, your Honor.
 22 MR. SATTERWHITE: Ms. Spiller?
 23 EXAMINER TAUBER: Ms. Spiller, I
 24 apologize.
 25 MS. SPILLER: No questions, your Honor,

1 thank you.

2 MR. SATTERWHITE: Not feeling the love,
3 are you?

4 MS. SPILLER: Not today.

5 - - -

6 EXAMINATION

7 By Commissioner Porter:

8 Q. Mr. Powers, thanks for your testimony and
9 for appearing before the Commission.

10 A. Good morning, Commissioner.

11 Q. I have just a couple of questions and
12 again my purpose is simply to assist in building this
13 record going forward for things that I'm going to be
14 concerned about going forward when we make the
15 decision.

16 So the first one is certainly, both of
17 these are certainly less complicated than everything
18 you've been dealing with here in the past day or so,
19 but I want to explore your understanding on behalf of
20 AEP Ohio from what it means to go to RPM and it's
21 June 1st of 2015, as I understand, would be the
22 date.

23 And so what I want to understand is your
24 understanding of how the load is going to be treated
25 and then how the resources will be treated going

1 forward, and certainly I'll ask you these questions
2 and if you want to point me to someone else who can
3 answer these questions in detail, I'll accept that.

4 So I think you've testified certainly
5 that it's your understanding that the company has
6 made the election to go to RPM as of June 1, 2015; is
7 that correct, Mr. Powers?

8 A. That's correct.

9 Q. Okay. And with regard to the load, so
10 AEP Ohio's load as of June 1, 2015, will receive all
11 RPM price -- RPM-based price -- RPM-priced capacity;
12 is that your understanding?

13 A. That's my understanding.

14 Q. And it will be that way for a period of
15 five years running from June 1, 2015, through five
16 years thereafter?

17 A. I believe the commitment to PJM -- into
18 PJM for an election of RPM commits you to five years.

19 Q. Okay. So the company has no reason to
20 believe otherwise or to -- you haven't taken a
21 position in this proceeding otherwise that it won't
22 be for at least five years.

23 A. No, we have not.

24 Q. Okay. What about AEP Ohio -- what about
25 generation resources that will be either assigned to

1 AEP Ohio or -- let me restate that. So there will be
2 certain generation resources that as of June 1, 2015,
3 will also participate and receive RPM-priced
4 capacity; is that your understanding as well?

5 A. I'm not sure I exactly understand your
6 question.

7 Q. Let me see if I can be more clear. So
8 depending upon the decision of the Commission and
9 corporate separation going forward, there will be
10 certain resources that will receive RPM-priced
11 capacity, once the load goes to RPM there are going
12 to be certain resources that go to RPM, certain
13 generating resources that go to RPM.

14 A. That's correct.

15 Q. So for those generating resources,
16 whatever they are, they will also remain as RPM
17 resources for what period of time is your
18 understanding?

19 A. Well, there's an election for I believe
20 each of the annual periods of time for those
21 resources to support the RPM capacity.

22 Q. Okay.

23 A. So there's a commitment to RPM that's a
24 broad thing and then subsequently submit to PJM, as I
25 understand it, specific resources to support that RPM

1 capacity requirement.

2 Q. Okay. And for those specific resources
3 are they similarly committed for five years like the
4 load? This is just your understanding of how it
5 works and if you don't know, you can tell me to talk
6 to Mr. Allen or someone else.

7 A. Yeah, I'd refer you to probably
8 Mr. Allen.

9 Q. I like Mr. Allen, I'm going to talk to
10 him later on as well.

11 A. Because I just don't recall whether
12 there's an annual designation of which generation
13 resources support the RPM or whether it's over the --
14 I just don't remember.

15 Q. What I really want to understand is
16 whether the -- whether AEP Ohio has made any
17 determination regarding those generation resources
18 that will, as of June 1, 2015, be RPM resources, if
19 there are any subsequent plans for those resources
20 and whether they will continue to be RPM as if
21 there's -- as if there are other options, I want to
22 know what those other options are.

23 A. We have no other plans for those
24 resources other than assuming that the ESP is
25 approved to have them in healthy shape. At that

1 point they'll be competitive resources that will
2 hopefully be successful in bidding into various
3 auctions and the like. I'm not sure I understand
4 your --

5 Q. I think you've answered it. That's
6 sufficient.

7 So the following line of questions is to
8 assist me and hopefully the other Commissioners in
9 understanding price impacts from the proposed rate
10 plan, and let's see, I believe in your testimony --
11 in your testimony on page 13 there's a chart, and I
12 believe the same chart is also included in the
13 testimony of Witness Roush.

14 A. That's correct.

15 Q. So maybe these questions will be more --
16 will be answered in more detail by Mr. Roush, but
17 what I'm looking to understand here is from the
18 company's perspective and from a customer perspective
19 I want to understand the, rather than a typical bill
20 comparison for monthly bills, what I'd like to
21 understand and I want to ensure that this record is
22 absolutely clear about what the maximum increases on
23 a customer monthly bill basis, and if that is in the
24 record, if you believe it's in the record -- do you
25 believe that's in the record today? That I have the

1 maximum bill impacts rather than typical bill
2 impacts?

3 A. I believe you do but I believe Mr. Roush
4 would be a great witness to explore that further.

5 Q. Okay.

6 A. He has tables of rate impact for all
7 sorts of customer classes.

8 Q. All right.

9 A. I believe that's in the record.

10 Q. All right. So I'll follow up in detail
11 with Mr. Roush on the typical bill impacts and I'm
12 not sure if Mr. Roush is the room, but certainly what
13 I'll be asking him is to give us the maximum bills --
14 it's your understanding he's going to be able to give
15 us, rather than typical bill comparison, he'll be
16 able to give us an understanding of what the maximum
17 bill increases will be by customer class and he'll be
18 able to describe for the Commission where the range
19 of AEP Ohio customers fall on that range, spectrum of
20 price increases?

21 A. That's correct, Commissioner.

22 COMMISSIONER PORTER: All right. Well
23 that would be all I have for you, thank you. Thanks
24 for appearing here today.

25 THE WITNESS: You're welcome.

1 - - -

2 EXAMINATION

3 By Examiner See:

4 Q. Mr. Powers, if you could turn to page 23
5 of your testimony, well, 23 on to 24. Are you there
6 yet, Mr. Powers?

7 A. Page 23 and 24?

8 Q. Yes, where you discuss other options.

9 A. Yes.

10 Q. There you indicate that the company has
11 considered a single cost-based price for capacity be
12 charged to CRES providers.

13 A. That's correct.

14 Q. And am I correct in your testimony this
15 is the only place you discuss that option?

16 A. That's correct.

17 Q. Is this option discussed in any other AEP
18 witness's testimony?

19 A. Yes, it is.

20 Q. Which witness would that be?

21 A. And that would be witness, I believe it's
22 Witness Allen or Witness Dias.

23 Q. Are you able to answer general questions
24 on this option?

25 A. A general question, yes.

1 Q. Okay. What's the intent of the single
2 cost-based price for capacity to be charged to CRES
3 providers?

4 A. Well, it was an option that we considered
5 to help focus the benefit of this transition to
6 market and the balance between the CRES providers and
7 the customer to ensure that the incentive was
8 provided to the customer to shop and would assure --
9 I think I provided testimony this morning that
10 indicates that if RPM prices go low, there's no
11 guarantee that all the benefit of lower and lower
12 capacity prices are passed on to the customer.

13 So it was a way to make sure the
14 discounted -- a discount, credit, could be provided
15 the customer where we could be assured that all the
16 benefit went to the customer.

17 We didn't, at the end of the day, make
18 this our first recommendation, and the reason for
19 that is, again, we tried to be balanced in our
20 approach and suspected that the CRES providers
21 wouldn't like this option and realized that as
22 stakeholders in this process we needed to provide
23 balance between desires of the CRES providers,
24 customer rate impacts, as the Commissioner asked
25 questions about, our financial well-being, and we

1 presented it as an option by our recommendation is
2 the more comprehensive two-tiered ESP that we've
3 spent a lot of time talking about.

4 Q. Okay. Do you have a copy of Mr. Dias's
5 testimony with you on the Bench? The witness stand?

6 A. I think I do.

7 Q. Would you take a moment to scan his
8 testimony and tell me where that, where the single
9 cost-based price for capacity is discussed.

10 A. Do you want me to take time to do that?

11 Q. Yes.

12 A. Okay.

13 Q. Or if your counsel could assist you.

14 MR. SATTERWHITE: Your Honor, I believe
15 it's in the supplemental testimony of Mr. Dias, I
16 believe it's at page 7.

17 Mr. Powers, do you have that up there?

18 THE WITNESS: Yes, I do.

19 Q. That's sufficient.

20 MR. SATTERWHITE: Thank you.

21 Q. That's sufficient, Mr. Powers.

22 A. Okay.

23 Q. Am I correct that this option -- this
24 option is only being presented in the company's ESP
25 proceeding? It was not part of the company's

1 presentation in the capacity case?

2 A. I don't believe it was. But I'm not
3 certain about that.

4 Q. In general, how would this option work?

5 A. In general, I believe the company would
6 make available up to 300 or 350 million dollars worth
7 of shopping credits that would be provided to the
8 customers to energy prices currently their choice to
9 go to a CRES provider and get competitive generation
10 service.

11 EXAMINER SEE: Thank you, Mr. Powers.

12 - - -

13 EXAMINATION

14 By Examiner Tauber:

15 Q. Mr. Powers, I have a few questions for
16 you, most of them have been answered in your ten
17 hours on the stand so I probably won't be too long.

18 If you could turn to page 7.

19 A. In my testimony?

20 Q. Yes. That's correct.

21 Starting at line 19 and then going over
22 on to page 8 through line 4, you've talked about the
23 Commission requesting AEP to have a rate
24 stabilization plan.

25 As you've discussed several times

1 throughout your testimony these past two days that
2 because of that rate stabilization plan and the
3 Commission's request, that's part of what led to this
4 proposed ESP; is that correct? The need to strike a
5 balance, I believe was your terminology.

6 A. I think this testimony and the testimony
7 I've presented over the last couple days provides a
8 very good context for -- I mean the attorneys are
9 going to sit and talk about what this legal term and
10 that legal term represents.

11 I'm a businessperson, I think this
12 provides very interesting context about what actually
13 happened in Ohio and what actually happened in Ohio
14 is that when market rates went high, not faulting the
15 Commission for this, I understand where the
16 Commission is coming from, don't have rates go to
17 market. Keep rates regulated and keep them below
18 market.

19 And I think I provided the context to
20 describe that that's, from a businessperson's
21 perspective, what happened in Ohio since Senate
22 Bill 3.

23 Q. It's your understanding, is it not, while
24 the Commission requested it, AEP recommended it?

25 A. Again, I think I provided the context of

1 what my position was in AEP, so during some of these
2 periods of time I don't remember or recall or have a
3 perspective on whether AEP recommended it or not.

4 Q. So you're not sure --

5 A. Certainly my perspective and my -- my
6 perspective on this was there was a pretty rich level
7 of dialogue between staff and AEP, maybe even
8 Commissioners and AEP, about what to do, and that at
9 the end of the day through the richness of that
10 dialogue and discussion, as I said, rates were not at
11 market. Rates were in RSPs and other regulated-like
12 cost-of-service based tariffs.

13 Q. But in your broad overview and your
14 understanding of it, AEP did not ask to move towards
15 market-based rates at all during that timeframe, did
16 they?

17 A. In the broad period of time, we're
18 talking about a long time from 1999 to --

19 Q. Correct.

20 A. -- 2011, I know there were public
21 statements by AEP where AEP would have liked to go to
22 market.

23 Q. When did those public statements --

24 A. Rolling in the period of time prior to
25 Senate Bill 221 it was clear that AEP indicated a

1 desire to go to market and, as I mentioned in my
2 testimony yesterday, it appeared clear to us that at
3 least one of the practical, and again, lawyers are
4 going to talk about what the law says and does --

5 Q. Right.

6 A. -- and says specifically, but as a
7 practical businessman that Senate Bill 221 was in
8 large measure set up with provisions to ensure that
9 AEP, AEP principally because our rates, were the
10 lowest below market of any of the investor-owned
11 utilities in the state, that AEP would not be allowed
12 to go to market or certainly would be encouraged not
13 to go to market.

14 Q. Let me be clear, I think there's some
15 confusion with the way I asked the question. I'm
16 talking about the period prior to Senate Bill 221.

17 A. Yeah, and I can't recall whether AEP
18 asked to go to market during that period prior to --
19 well, again, leading up to Senate Bill 221 they did
20 indicate, 2007, 2008, AEP indicated the desire to go
21 to market.

22 Q. Okay.

23 A. Earlier in the period I can't recall.

24 Q. And in your testimony you cite to AEP's
25 RSP case. And you actually have a quote that says at

1 the outset --

2 A. Where is that, your Honor?

3 Q. I'm sorry. Page 8, lines 3 and 4. And
4 then also going through line 8.

5 A. Yes.

6 Q. When you refer to that case, are you
7 aware if AEP filed an application for rehearing for
8 that decision?

9 A. I'm not aware of that.

10 EXAMINER TAUBER: Thank you. I don't
11 have any other questions. You may be excused,
12 Mr. Powers.

13 THE WITNESS: Thank you.

14 MR. SATTERWHITE: Your Honor, at this
15 time I would move for the admission of AEP Exhibit
16 101.

17 EXAMINER TAUBER: Are there any
18 objections to AEP Exhibit 101?

19 MR. RANDAZZO: Yes. I believe the
20 cross-examination has identified that the witness is
21 incapable of supporting the conclusions and opinions
22 in the testimony, and with respect to the Bench I
23 believe the rulings that precluded me from conducting
24 cross-examination with regard to the citations and
25 the inconsistencies between the documents this

1 witness relied upon and the statements in his
2 testimony is fundamentally unfair and prejudicial,
3 therefore, I object to the admission of this
4 testimony.

5 EXAMINER TAUBER: Ms. Grady?

6 MS. GRADY: Yes, your Honor, I would
7 support Mr. Randazzo's motion. I would directly move
8 to strike pages 7, 8, and 9 where he goes through,
9 and carrying on to 10, where he goes through the Ohio
10 regulatory experience.

11 I think that cross-examination has shown
12 that the witness, though maybe had general knowledge,
13 had no specific knowledge and really was incapable of
14 being cross-examined on the specific statements
15 within his testimony and, therefore, really did not
16 uphold or did not withstand the classification of an
17 expert witness.

18 As a lay witness he could only testify as
19 to matters that are within his own personal knowledge
20 and, therefore, because he had no personal knowledge,
21 only had general knowledge and appears to have relied
22 upon the AEP team to present his testimony, we would
23 believe it's inappropriate expert testimony.

24 MR. LANG: And, your Honors, FES does
25 join both motions, thank you.

1 EXAMINER TAUBER: Mr. Satterwhite.

2 MR. SATTERWHITE: I think Mr. Powers made
3 it clear that he was using the footnotes, I guess to
4 start off with, as examples of where AEP management
5 views things were at that point in time.

6 I'd also point out there's no prejudicial
7 impact because the Bench took administrative notice
8 of everything that he had cited, so if there's any
9 inconsistency that any party wants to point out on
10 brief, they're able to point that fact out.

11 I think what we have here is the chief
12 operating officer of a large utility based in Ohio
13 willing to come in and testify before this Commission
14 and give his position and understanding of where
15 things were at the time. And I don't think the
16 Commission wants to chill someone at his level coming
17 in to express their view and the company's view of
18 where things were.

19 I think it's appropriate and it's
20 absolutely appropriate for a witness of this type
21 that's kicking off a case, introducing other
22 witnesses, to give this high-level perspective.

23 EXAMINER TAUBER: Mr. Randazzo.

24 MR. RANDAZZO: Yes. If I may. The
25 witness clearly relied upon documents, orders, and

1 drew from those, whether they were cited as examples
2 or an exhaustive list, conclusions. And regardless
3 of his station in life, he is being presented as a
4 witness in support of a proposal that adversely
5 affects the interest of my clients.

6 It is my duty to pursue in creation and
7 test his conclusions as zealously as I can. It's the
8 duty I owe to my clients, and is because of that duty
9 that I must now stand and object to the admission of
10 this testimony because you foreclosed me from
11 inquiring of this witness with regard to the basis of
12 his opinions in a way that would reflect upon this
13 individual's credibility as a witness.

14 This is not an assault on the fact that
15 an executive from AEP may have come to this PUCO and
16 presented information for the benefit of all of us
17 who regularly participate. It is an assault on the
18 interests of my clients.

19 MR. SATTERWHITE: Your Honor, if I may,
20 if zealousness equates with standing, I'll stand then
21 as well for my clients in position here. I think
22 Mr. Randazzo had full opportunity to cross the
23 witness and what was in there, the witness said they
24 were examples and he talked with the team and his
25 general knowledge and those were only examples, those

1 weren't the basis of all the decisions that he made.

2 And as far as attacking the Bench's
3 rulings today, I think that's inappropriate as well.
4 The redirect was very focused on what the definition
5 was and I think it's inappropriate to say the Bench
6 did something wrong and, therefore, Mr. Randazzo
7 needs to be even more zealous than he already has
8 been defying the Commission's or Bench's already not
9 to go beyond the redirect.

10 And he had five hours of creation
11 yesterday, it's hard to believe that we haven't
12 covered this ad nauseam, and he had his chance to be
13 as zealous as he wanted to be on these issues.

14 EXAMINER TAUBER: At this time the Bench
15 overrules the objections. The Commission will weigh
16 the evidence accordingly and parties will have
17 further opportunity on briefs to raise any issues
18 they feel are necessary.

19 MR. RANDAZZO: Thank you, your Honor.

20 MR. SATTERWHITE: Thank you.

21 (EXHIBITS ADMITTED INTO EVIDENCE.)

22 EXAMINER TAUBER: We have IEU Exhibits
23 101 through 111 outstanding.

24 MR. RANDAZZO: Yes. I would move for the
25 admission of IEU Exhibit No. 101.

1 No. 102, the witness did not indicate
2 familiarity with the list of the registered lobbyists
3 for AEP Ohio, I would move for its admission
4 nonetheless as a public record, it is a document
5 that's published by the -- by Jlec that identifies
6 all the registered lobbyists for AEP Ohio

7 103, Principles of Business Conduct was
8 inquired of the witness both by me and Ms. Spiller
9 who is right over there; and 104 is the summary of
10 electric transition plan order; 105 is the FERC
11 Form 1 from Columbus Southern for 2001.

12 106 is the opinion and order from the
13 DP&L case 02-2779, I would move the admission of that
14 as well simply to assist in the cross-examination. I
15 know the Bench has taken administrative notice of
16 that, but it may be helpful relative to the record.

17 Entry on hearing similarly, which is 107;
18 108 is the FirstEnergy entry in '03 similarly; 109 is
19 the rate stabilization application from AEP; and 110
20 is the Ormet-AEP stipulation, again, a public record,
21 all of these are public records; 111 is the
22 10-2376-EL-UNC entry that the witness relied upon in
23 a footnote.

24 I would move the admission of all of
25 these exhibits.

1 EXAMINER TAUBER: Are there any
2 objections to IEU's Exhibits 101 through 111?

3 MR. SATTERWHITE: I have a few, your
4 Honor.

5 EXAMINER TAUBER: Go ahead.

6 MR. SATTERWHITE: On 101, this I guess
7 could apply to 101 through 103, I don't think it was
8 ever really applied to anything made relevant in the
9 case. I believe your Honor on 102 even sustained an
10 objection after the witness said he didn't really
11 recognize anything within there, so there were no
12 other questions on that.

13 The policy statement on political
14 contributions really was never relevant to the case.
15 All he said was his name under "Owner," his name was
16 there and that there was -- a statement was there but
17 it wasn't tied to anything in the case.

18 Like I said, 102, he said he had never
19 seen the document before. As Mr. Randazzo admitted
20 just now, he just wants it in the record just because
21 it's a public document. Well, the witness didn't
22 know what it was and there was no relevance to the
23 case so we would oppose that.

24 And 103, the only questions were on page
25 9 dealing with antitrust issues and the witness very

1 clearly said he's not an antitrust lawyer so I don't
2 think there was any nexus to the case in that one
3 either.

4 Do you want me to stop with those? Those
5 are kind of grouped, I can go through the others all
6 at one time.

7 EXAMINER TAUBER: Please go through all
8 of them.

9 MR. SATTERWHITE: 104, no objection to,
10 in fact, I think we stipulated during the hearing
11 that could come in.

12 105, no objection, I'd just note, again,
13 that there were pages, I won't say missing in the
14 middle because I don't think Mr. Randazzo took stuff
15 out, just there was a front page that referred to a
16 footnote later, so he included the front page and the
17 footnote, so I just want to make sure the record is
18 clear on that.

19 106, the Bench did take administrative
20 notice of that so I don't know that that's needed for
21 the record but I'll defer to the Bench on that.

22 107, there's no objection.

23 108, the same objection, the
24 administrative notice was already taken of that so,
25 again, I'll defer to the Bench.

1 109, no objection.

2 110 I'll object, restate my objection to
3 this, this is the Ormet stipulation. This is the one
4 that there were questions about what's going to
5 happen post-Senate Bill 221 and the stipulation that
6 was presented was from '05, so we'd object to that.

7 On 111 also fits on the one where
8 administrative notice was taken.

9 EXAMINER TAUBER: Are there any other
10 objections?

11 (No response.)

12 EXAMINER TAUBER: Mr. Randazzo.

13 MR. RANDAZZO: With regard to the policy
14 statement, 101, your Honor, I used it in conjunction
15 with better understanding the scope of this
16 individual's responsibilities within the AEP system,
17 as you may recall, and inquired of him with regard to
18 his role in terms of dealing with political
19 contributions. That's the way it was used. It was
20 connected back to his responsibility.

21 The agents, registered agents for Ohio
22 Power, again, that is a public record, it is part of
23 the record of the state, it is appropriate for this
24 Commission to respect and recognize those records.
25 It identifies the, again, Mr. Powers indicated that

1 he had responsibility for government relations
2 activities.

3 With regard to the Principles of Business
4 Conduct, both myself and Ms. Spiller pursued that
5 document and Mr. Powers indicated that he would
6 expect the various people within AEP would abide by
7 those business rules or principles of business
8 conduct.

9 And I think they're relevant for purposes
10 of identifying some of the issues in this proceeding,
11 it was particularly with regard to those issues that
12 relate to competitive and anticompetitive behavior.

13 The orders, again, I appreciate and
14 respect the Bench's ruling taking administrative
15 notice of everything that was cited in the witness's
16 testimony in a footnote, I merely offered them
17 because I think it will facilitate the review of the
18 record and they have already been marked in that
19 regard. In some cases I referred back to the
20 exhibits rather than the case number and it would I
21 think help read the record or make sense of the
22 record if the exhibits are in the record.

23 With regard to the Ormet-AEP stipulation,
24 it is relevant in the stipulation that was submitted.
25 There is a paragraph that identifies that it was AEP

1 who introduced the exclusive service area concept,
2 not somebody else, it was AEP, and it was introduced
3 in the form of a proposed stipulation. It is
4 self-authenticating, it is a public record in this
5 Commission, and it is a statement from AEP that is
6 inconsistent with a statement that is made in
7 Mr. Powers' testimony.

8 For those reasons I would urge the Bench
9 to admit all the exhibits.

10 EXAMINER TAUBER: At this time we'll
11 admit all of IEU's exhibits with the exception of 102
12 because it wasn't utilized in the record. That
13 includes 101, 103, 104, 105, 106, 107, 108, 109, 110,
14 111. Specifically with regards to 106 through 111 we
15 did take administrative notice of those but for the
16 purposes of keeping the record clear and consistent,
17 we'll admit those in the record at this time.

18 MR. RANDAZZO: Thank you, your Honor.

19 (EXHIBITS ADMITTED INTO EVIDENCE.)

20 MR. SATTERWHITE: Would it help the Bench
21 if we late-filed exhibit the other documents taken
22 administrative notice of so, like Mr. Randazzo said,
23 they're there in the record?

24 EXAMINER TAUBER: That would probably be
25 helpful to keep the record consistent.

1 MR. SATTERWHITE: We'll do that.

2 EXAMINER TAUBER: Mr. Lang?

3 MR. LANG: Your Honors, FES moves Exhibit
4 No. 106.

5 EXAMINER TAUBER: Are there any
6 objections to FES Exhibit 106, which is the Return on
7 Equity chart?

8 MR. SATTERWHITE: Hold on one second,
9 your Honor.

10 Your Honor, the only concern I have with
11 FES 106 is the information came from other sources
12 beside the witness that he couldn't verify and it's
13 being offered, I believe, as these are the accurate
14 numbers, and if you look at the first star or the
15 first footnote, it represents this is from testimony
16 in the case, a case that was done, a case that
17 ultimately ended up changing what the numbers were
18 reflected, so the numbers on there are not reflective
19 of what was actually in the final in that. So there
20 was a refund associated with this that would change
21 these numbers so I don't think the document truly
22 represents history, I guess.

23 EXAMINER TAUBER: Any other objections?

24 (No response.)

25 EXAMINER TAUBER: Mr. Lang?

1 MR. LANG: Thank you, your Honor. It is
2 a compilation of public sources, we obviously believe
3 it's responsive to his claims of serious financial
4 harm.

5 I think the objection that it may not
6 truly represent history is ironic given the
7 discussion with Mr. Powers particularly at pages 7,
8 8, 9 of his testimony that I think should be clear by
9 now are not truly representative of history.

10 MR. SATTERWHITE: Objection, your Honor,
11 I think you've already ruled on that and I don't
12 appreciate that comment. It undermines the Bench's
13 ruling and I would move to strike.

14 MR. LANG: Your Honor.

15 EXAMINER TAUBER: Let Mr. Lang finish and
16 you can address anything you need to.

17 MR. LANG: Thank you, your Honor.

18 He did confirm several of the numbers on
19 the exhibit, the ones that he was unsure of I think
20 was only the 2009 that -- as shown on the exhibit
21 that is data from AEP Ohio Witness Mitchell and who
22 actually will be testifying next week, if there's an
23 issue with any of these, Mr. Mitchell can certainly
24 correct any of that.

25 But Mr. Powers, testifying as the senior

1 officer from American Electric Power, not AEP Ohio
2 but American Electric Power, identified his
3 responsibilities include review of these returns on
4 equity and as a result we believe it's a proper
5 exhibit.

6 EXAMINER TAUBER: Mr. Satterwhite, you
7 wanted to add something?

8 MR. SATTERWHITE: Yeah, first of all,
9 again, I object to the assertion attacking the
10 Bench's ruling earlier that allowed the testimony to
11 stay in the record.

12 Secondly, as I pointed out, Mr. Powers
13 said he can't argue with these cites that are on
14 here, he just wasn't sure. And what I'm pointing out
15 now to protect the record. And I think, as shown by
16 the number of parties in this case and the public
17 interest in this case and the Commissioner's
18 statement of wanting transparency in this case, we
19 have a number that's not representative of the actual
20 final number on the top line that's flowed all the
21 way down to the bottom to be the average ROE for 2009
22 and 2011.

23 It might have been correct that someone
24 put that in their testimony, but it's not correct
25 that that was the resultant ROE at that time so it

1 shouldn't be reflected in here, therefore, the whole
2 document is off.

3 EXAMINER TAUBER: Thank you.

4 Ms. Grady?

5 MS. GRADY: Your Honor, very briefly, we
6 would ask that administrative notice be taken of the
7 SEET order because I believe the return on equity is
8 reported in that order and it is relevant in terms of
9 the history that Mr. Powers testified to and the
10 serious financial harm that incurred -- that the
11 company incurred since 2009.

12 EXAMINER TAUBER: We'll take
13 administrative notice of the SEET order at this time
14 and we'll also admit FES Exhibit 106.

15 MR. SATTERWHITE: Thank you, your Honor.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 EXAMINER SEE: Mr. Nourse or
18 Mr. Satterwhite. Who is your next witness?

19 MR. SATTERWHITE: Ms. Moore.

20 EXAMINER SEE: Ms. Moore.

21 MS. MOORE: Thank you, your Honor. Ohio
22 Power Company called Renee Hawkins.

23 EXAMINER SEE: As Ms. Hawkins approaches
24 the stand, the Bench recognizes that there was a
25 motion to strike portions of Ms. Hawkins' testimony,

1 one filed by IEU and by FES. After reviewing the
2 testimony, those motions to strike are denied.

3 MS. MOORE: Thank you, your Honor.

4 EXAMINER SEE: Ms. Hawkins, if you'd
5 raise your right hand.

6 (Witness sworn.)

7 EXAMINER SEE: Proceed, Ms. Moore.

8 MS. MOORE: Thank you, your Honor.

9 - - -

10 RENEE V. HAWKINS

11 being first duly sworn, as prescribed by law, was
12 examined and testified as follows.

13 DIRECT EXAMINATION

14 By Ms. Moore:

15 Q. Ms. Hawkins, could you please state you
16 full name for the record.

17 A. It's Renee V. Hawkins.

18 Q. By whom are you employed?

19 A. I'm employed by the American Electric
20 Power Service Operation.

21 Q. And what is your position with the
22 American Electric Power Service Corp.?

23 A. It's Managing Director of Corporate
24 Finance.

25 EXAMINER SEE: Ms. Hawkins, as you turn

1 to look at your counsel move the mic with you so that
2 everyone in the room can hear you, please.

3 Q. Ms. Hawkins, did you cause testimony to
4 be filed under your name in this proceeding on
5 March 30th, 2012?

6 A. Yes, I did.

7 MS. MOORE: May I approach, your Honor?

8 EXAMINER SEE: Yes.

9 MS. MOORE: I would request that we mark
10 AEP Exhibit 102.

11 EXAMINER SEE: The exhibit is so marked.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 Q. Ms. Hawkins, can you identify the exhibit
14 marked as AEP Exhibit 102?

15 A. I presume that's my testimony.

16 Q. It is. Thank you.

17 And did you prepare or supervise the
18 preparation of your testimony?

19 A. Yes, I did.

20 Q. Do you have any additions or corrections
21 to your testimony at this time?

22 A. I do have two corrections to my
23 testimony. On page 4, line 4 I refer to the June 1,
24 2012 to May 31st, 2016, that should be May 31st,
25 2015.

1 Q. And what's your second correction?

2 A. And then in response to staff request
3 203-201, in my Exhibit 4 on line 4 we had a
4 correction to the property tax general and
5 administrative expenses line, that should be 3.76
6 across all the columns, and then mathematically we
7 would correct the final results in that, and when we
8 make the filings those will be corrected.

9 MR. PETRICOFF: Your Honor, could we have
10 that repeated?

11 EXAMINER SEE: Yes. Ms. Hawkins, if you
12 could repeat that last change that you made to
13 Exhibit RVH-4.

14 THE WITNESS: RVH-4, line 4, that line
15 across the columns should be 3.76 percent. We've
16 requested that in staff request 203-201.

17 Q. And, Ms. Hawkins, just for clarity of
18 record, the line that you changed presently contains
19 3.01 for each column; is that correct?

20 A. Yes, it does.

21 Q. Ms. Hawkins, if I asked you the questions
22 that are contained in your prefiled testimony today
23 under oath, would your answers be the same?

24 A. Yes, they would.

25 MS. MOORE: Thank you.

1 Your Honor, at this time AEP would move
2 for the admission of Exhibit 102 subject to cross.

3 EXAMINER SEE: I believe based on
4 yesterday's discussion FES is going to start off the
5 cross-examination.

6 MS. McBRIDE: That's correct, thank you.

7 EXAMINER SEE: Go ahead.

8 - - -

9 CROSS-EXAMINATION

10 By Ms. McBride:

11 Q. Good morning, Ms. Hawkins. My name is
12 Laura McBride and I'm one of the attorneys here for
13 FirstEnergy Solutions.

14 EXAMINER SEE: Ms. McBride, you're going
15 to need a microphone.

16 MS. McBRIDE: Good morning. Is that
17 better?

18 EXAMINER SEE: Yes.

19 Q. Ms. Hawkins, on page 8 of your testimony
20 in the question beginning on line 12 you discuss an
21 example of the timeline for the process for
22 securitization of assets. What is the basis for that
23 example?

24 A. The example is based on my recent
25 experience with Texas securitization from when,

1 basically, the Supreme Court gave us an order to when
2 the actually bonds were settled was approximately
3 nine months.

4 Q. And what year was that process initiated?

5 A. The Supreme Court decision was in July of
6 2011; the bonds were issued in March of 2012.

7 Q. And are you aware of any other examples
8 of the timeline for securitization?

9 A. Anecdotally Center Points timeline which
10 was, again, in Texas was similar. Their order --
11 their decision from the Supreme Court was two months
12 or three months ahead of ours and their bonds settled
13 in January of 2012. So it was a similar timeline.

14 Q. And have you or anyone that you work with
15 spoken with Goldman-Sachs or any other consultant
16 about what their expectations might be for the
17 timeline for securitization?

18 A. For Ohio?

19 Q. Yes.

20 A. No.

21 Q. Have you spoken with them about any other
22 jurisdiction's timeline?

23 A. Not particularly.

24 Q. Do you know if any AEP Ohio witness has
25 assumed that securitization would be completed in

1 2013 for the PIRR assets?

2 A. I do not believe so.

3 Q. Do you expect that securitization could
4 be completed in 2013?

5 A. For the PIRR assets?

6 Q. Yes.

7 A. It would depend on when we would receive
8 a final order, a non-appealable order on those cases.
9 But I don't know that it would be -- I don't know
10 what the timing would be.

11 Q. Is it AEP's intent to complete
12 securitization as soon as possible?

13 A. It is.

14 MS. McBRIDE: I have no further
15 questions. Thank you.

16 EXAMINER SEE: Mr. Haque?

17 MR. HAQUE: No questions.

18 EXAMINER SEE: Ms. Grady?

19 MS. GRADY: Thank you, your Honor.

20 - - -

21 CROSS-EXAMINATION

22 By Ms. Grady:

23 Q. Good morning, Ms. Hawkins.

24 A. Good morning.

25 Q. Can you turn to your testimony on page 4,

1 lines 22 through 23.

2 A. Yes.

3 Q. Now, there you indicate that the cost of
4 equity used in calculating the long-term debt assumed
5 a 10.2 percent; is that correct?

6 A. Yes.

7 Q. And you indicate that that 10.2 percent
8 is the cost of equity agreed to in Case No.
9 11-351-EL-AIR; is that correct?

10 A. That is what I indicate.

11 Q. Is it your understanding that that cost
12 of equity was part of a stipulation agreed to by
13 various parties in that case?

14 A. That is my understanding.

15 Q. And is it your understanding that that
16 stipulation comprised a package of -- let me strike
17 that.

18 Is it your understanding that the
19 stipulation also included many other components
20 related to the distribution rates?

21 A. I would assume so, but I don't know that
22 I have a particular understanding of what all was
23 included.

24 Q. And is it your understanding that the
25 Commission adopted the stipulation package as a

1 whole?

2 A. That is my understanding.

3 MS. GRADY: That's all the questions I
4 have. Thank you.

5 EXAMINER SEE: Mr. Smalz?

6 MR. SMALZ: Just one question, your
7 Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Smalz:

11 Q. Regarding securitization, has the company
12 done any analysis of what the likely savings would be
13 upon securitization?

14 A. For what?

15 Q. Of the PIRR, excuse me.

16 A. Actually, we did, you know, and -- I
17 think initial assessments, but there hasn't been
18 anything completed on it recently. I can tell you
19 the most recent bonds we issued in Texas which was,
20 again, in March, two months ago, the interest rate
21 realized in March of 2012 on those was 2.32 -- the
22 interest rate realized in March of 2012 was
23 3.2 percent.

24 MR. SMALZ: Thank you. I have no further
25 questions, your Honor.

1 EXAMINER SEE: Mr. Darr?

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

3 - - -

4 CROSS-EXAMINATION

5 By Mr. Darr:

6 Q. With regard to Exhibit 6 which is the
7 Fitch and -- turning to your Exhibit 6 to your
8 testimony which are the reports from the various
9 agencies that you mentioned in your testimony, did
10 you have any role in the preparation of those various
11 reports by Fitch, Standard & Poor's?

12 A. No.

13 Q. Did you provide any input into the
14 opinions that were made by any of those rating
15 agencies that you cited?

16 A. No. We do not provide input into their
17 opinions. We will occasionally check their facts to
18 the extent they refer to numbers, we may check them
19 to make sure they're accurate. But we do not provide
20 input into their opinions.

21 Q. So these are exclusively the statements
22 of the various rating agencies, correct?

23 A. Yes.

24 Q. Do you know whether or not any of these
25 rating agencies are going to be called upon to

1 testify in this case for AEP Ohio?

2 A. No, they will not.

3 Q. Now, you are relying on those statements
4 to indicate that the securities market has taken a
5 concerned view of the results of the Commission's
6 decision rejecting the stipulation; is that correct?

7 A. Yeah. I was identifying what the
8 publications were by the credit rating agencies after
9 that decision.

10 Q. And is it fair to say that neither of the
11 credit agencies, specifically Fitch or Standard &
12 Poor's, has revised its rating of AEP? Is that
13 correct?

14 A. Fitch revised Ohio Power's rating from
15 Stable to Negative Outlook upon, well, the date's on
16 the exhibit. So on February 27th, 2012, Fitch
17 revised Ohio Power's rating from Stable to Negative
18 Outlook.

19 "Negative Outlook" generally means that
20 it's more likely that a downgrade will occur in the
21 near to intermediate term, so basically within the
22 next 12 to 15 months.

23 Q. Did either agency actually downgrade AEP?

24 A. No.

25 Q. Now, you indicate in your testimony that

1 AEP plans or AEP Ohio plans to begin the process of
2 securitization when that opportunity occurs, I
3 believe that starts at page 7 of your testimony. As
4 part of the cash management function who actually
5 engages in securitization within the AEP structure?

6 A. Did you say as a cash management function
7 or --

8 Q. Yes.

9 A. I mean, cash management is just moving
10 the cash so there would be someone from Cash
11 Management. In terms of the corporate finance aspect
12 of it, I would be involved or someone on my team or
13 someone in Treasury.

14 Q. Are you familiar with an entity within
15 the AEP structure called AEP Credit?

16 A. Yes.

17 Q. Is that part of the Cash Management
18 function within the AEP structure?

19 A. Yes, it is.

20 Q. And is it responsible for securitization
21 within the AEP structure?

22 A. No. It's responsible for the sale of
23 receivables in the AEP structure.

24 Q. And, in fact, are not the sale of
25 receivables securitized by AEP Credit?

1 A. They are.

2 Q. And are you familiar with the rates that
3 AEP Credit has been able to secure with regard to
4 securitization of its receivables?

5 A. You know, not exactly, but, you know,
6 within the range. I can tell you what, you know,
7 they're effectively because that's a short-term
8 borrowing and they roll basically every day or every
9 30 days, so they're closer to LIBOR because those
10 rates reset every week.

11 Q. You used the term "LIBOR." For the
12 record can you define for us what LIBOR is?

13 A. London Inter -- it's a London bank,
14 basically, borrowing rate. I can get a definition
15 for you, but the LIBOR rate is one of the interest
16 rates that's utilized.

17 Q. And do you know what the current LIBOR
18 rates are?

19 A. You know, there's been a lot of activity
20 in the market in the last two days, so I can't tell
21 you where they are today. But last week, 30-day
22 LIBOR was in the like 25 basis points range and
23 90-day was more like 50 basis points.

24 Q. Are you familiar with the 10-Ks of the
25 AEP system?

1 A. Yes.

2 Q. Thought you might be.

3 A. I was going to say, there's 450 pages
4 but, yes, I'm familiar with it.

5 Q. And, in fact, you report rates of
6 interest that you've been able to secure through AEP
7 Credit for your securitization receivables; is that
8 correct?

9 A. You know, I am not familiar with that
10 footnote but it wouldn't surprise me.

11 Q. Would there be -- if I gave you the 10-K,
12 would that assist you in --

13 A. Absolutely.

14 MR. DARR: Can I have this marked as IEU
15 Exhibit, I believe it's 112?

16 MR. RANDAZZO: Yes.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 Q. Can you identify for us what I've handed
19 you, what has been marked as IEU Exhibit 112?

20 A. It's page 134 of the AEP 10-K which deals
21 with lines of credit and short-term debt.

22 Q. And for what year was this 10-K published
23 by AEP?

24 A. Year-end 2011.

25 Q. And just for the record, the 10-K is an

1 annual report published by the company of its
2 financial dealings; is that correct?

3 A. It's an SEC compliance document, it's our
4 annual statements.

5 Q. When you say "our annual statement," it's
6 the annual statement of whom?

7 A. AEP, Ohio Power, all the other SEC
8 registering utilities.

9 Q. And if we turn to -- well, and there's an
10 obligation to fairly and accurately report the
11 financial dealings of the company?

12 A. Yes, there is.

13 Q. And if we look at page 134, does that
14 help you with regard to your recollection of the
15 securitization?

16 A. Those were the interest rates as of
17 year-end 2011, 2012.

18 Q. And what were those rates?

19 A. For 2011 it was .27 percent and for 20 --
20 I'm sorry, 2011 and 2010. I believe I said "2012."

21 And for 2010 it was .31 percent. Now,
22 these are for the sale of receivables which
23 effectively what Ohio Power and the utilities were
24 doing is they're taking the receivables of our
25 customers and were selling them off to a bank, so

1 it's a special purpose entity just for receivables.

2 Q. Thank you for clearing that up. The
3 short-term rates that you're able to secure on these
4 receivables is in the less than 1 percent per annum,
5 correct?

6 A. Based on today's interest rates, that's
7 correct. They're based on where short-term interest
8 rates are in the market.

9 Q. And do you know, based on your -- well,
10 how many years have you been with AEP or the various
11 entities of AEP?

12 A. AEP. You know, I think just over 16
13 years now.

14 Q. Based on your experience do you know how
15 far back the securitization of receivables has been
16 taking place? How long has AEP been doing this?

17 A. You know, I believe it was late in 2000.

18 Q. So roughly 10 or --

19 A. 11.

20 Q. 11, 12 years now.

21 A. Yes.

22 MR. DARR: I believe that's all I have.

23 Thank you. Thank you.

24 EXAMINER SEE: Ms. Spiller?

25 MS. SPILLER: Thank you, your Honor.

1 - - -

2 CROSS-EXAMINATION

3 By Ms. Spiller:

4 Q. Ms. Hawkins, good morning.

5 A. Good morning.

6 Q. If you could, please, turn to page 9 of
7 your testimony. On line 18, please. Just a
8 clarification as to a word found on line 19. When
9 you talk about repayment of these bonds upon the
10 divestiture of the generation assets, do you mean,
11 ma'am, moving the assets from AEP Ohio, the regulated
12 utility, to the GenCo?

13 A. I do.

14 Q. So it's not moving the assets out of the
15 AEP family.

16 A. No.

17 Q. And the purchase of receivables or
18 receivables program of which you just spoke, does
19 that concern only the receivables of AEP Ohio
20 standard service offer customers?

21 A. That is correct.

22 MS. SPILLER: Thank you. Nothing
23 further.

24 EXAMINER SEE: Mr. Boehm?

25 MR. K. BOEHM: Thank you.

1 - - -

2 CROSS-EXAMINATION

3 By Mr. K. Boehm:

4 Q. Ms. Hawkins, can you please turn to
5 Exhibit RVH-1. Did the last two columns, or let's
6 start with the second-to-last column, the "Pretax
7 Weighted Cost" percentage. The bottom line there,
8 the 10.99 percent, it appears that you generated that
9 by adding to the 2.61 percent and the 8.39 percent;
10 is that correct?

11 A. Yes.

12 Q. Should that have been a weighted average
13 instead?

14 A. The weighted average occurred -- that is
15 a weighted average. So if you look, the cost of debt
16 is 5.46 but when you multiply it times the percentage
17 of the cap structure, you get the 2.61.

18 Q. I'm talking about the 10.99 percent for
19 the total capital. It appears that you added the
20 2.61 percent of long-term debt and the 8.39 percent
21 of common equity.

22 A. We did, and it is a weighted average.

23 Q. To get the 10.99 is a weighted average?

24 A. Yes.

25 Q. Can you take me through that?

1 A. You would multiply the 47.72 percent
2 times the 5.46 which gives you the weighted average
3 of the debt piece, and then the 52.28 percent of the
4 common equity times the 10.2 percent, and then since
5 it's pretax you gross it up and that gives you your
6 weighted average portion of the equity.

7 MR. K. BOEHM: No further questions.
8 Thank you.

9 EXAMINER SEE: Ms. McAlister?

10 MS. McALISTER: No questions, your Honor.

11 EXAMINER SEE: Mr. Sugarman?

12 MR. SUGARMAN: Thank you, your Honor.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Sugarman:

16 Q. Good morning, Ms. Hawkins.

17 A. Good morning.

18 Q. Is it fair to take away from your
19 testimony that you've not had the pleasure of
20 testifying in one of these proceedings previously?

21 A. I have not testified in one of these Ohio
22 proceedings.

23 Q. I have some questions that go to your
24 duties and responsibilities first and then some
25 specific questions on aspects of your testimony.

1 In your position you are responsible for
2 the activities across all the operating utility
3 companies of the parent company AEP, Inc.; is that
4 correct?

5 A. My responsibilities are the operating
6 companies of AEP, Inc.

7 Q. Okay. And the activities you list at the
8 bottom of page 1 of your prefiled testimony including
9 dividend recommendations, all of those activities
10 relate to all of those entities as well?

11 A. It does. It relates to the operating
12 companies.

13 Q. And is it correct to say that AEP, Inc.
14 is the only one of the entities with which you
15 have -- for which you have responsibility that issues
16 equity securities?

17 A. I don't have a responsibility of AEP,
18 Inc., but AEP, Inc. is the only entity that issues
19 common equity.

20 Q. So your testimony -- your testimony goes
21 to the debt issuance and debt aspects of the
22 operating companies within the AEP system.

23 A. And -- it does in the cost of capital as
24 well.

25 Q. Okay. With respect to establishing

1 dividend recommendations, you're involved in that
2 process at both the parent AEP, Inc. level and the
3 operating entities, correct?

4 A. My responsibility there is at the
5 operating company level.

6 Q. And describe, if you would, please, what
7 it is you do to establish dividend recommendations at
8 the operating company level.

9 A. Well, we look at, you know, we look at
10 basically payout ratios and return on equity both
11 and, you know, as well as we may also look at the
12 capital spending and any other relevant factors that
13 we need to take into account.

14 Q. And when you say "we," who are you
15 referring to?

16 A. Well, I'm referring to the operating
17 company.

18 Q. Okay. Do you make recommendations to the
19 board of directors of the operating companies as to
20 the appropriate dividend level based upon your
21 analyses of the financial conditions of the company
22 on a quarterly basis?

23 A. Yeah, I make recommendations to the
24 management team who then presents those.

25 Q. Okay. And do you make dividend

1 recommendations to the management team at the parent
2 company level, the public entity AEP, Inc., on their
3 dividends?

4 A. I would answer no to that.

5 Q. Okay.

6 A. It's at a higher pay grade than mine.

7 Q. Understood.

8 Am I correct that the operating company,
9 Ohio Power, at the end of the first quarter of 2012
10 approved a dividend to its shareholder?

11 A. Yes.

12 Q. And am I correct that the dividend that
13 was issued was \$150 million for the first quarter of
14 2012?

15 A. I believe my records are that it was
16 75 million.

17 Q. You're correct. I misstated that, I'm
18 sorry.

19 And how long have you been involved in
20 the process -- have you been involved in the process
21 of recommending to management dividends for the
22 operating companies during your entire tenure with
23 the company?

24 A. I wouldn't say my entire tenure but
25 certainly, you know, for the last six to eight years.

1 Q. And during the last six to eight years,
2 to your knowledge and based upon your experience, the
3 operating companies, specifically Ohio Power and
4 Columbus Southern Power, issued quarterly dividends
5 to its shareholder?

6 A. I believe there was a period during the
7 construction of some of the large environmental
8 spending that we had that there was no dividend, but
9 that's off the top of my head. I mean, we had some
10 capital contributions, I think we had some
11 dividend -- we had some period without dividend as
12 well, I believe.

13 Q. Do you recall what years those were?

14 A. You know, I recall the timing being such
15 that it would have been in the 2000 -- it would have
16 been some period between the 2005 to 2007 timeframe.

17 Q. And subsequent to that timeframe, to your
18 knowledge, there has been a quarterly dividend
19 regularly issued by the Ohio Power Company to its
20 parent.

21 A. I mean, there have been other periods
22 where we've had large capital spending where we may
23 have also suspended the dividend as well, or
24 supplemented it with capital contributions. There
25 have been other periods where we basically -- where

1 we added the SCR equipment to the plants and I
2 believe there may have been capital contributions and
3 dividend suspensions then as well.

4 Q. Tell me what you mean by "capital
5 contribution."

6 A. AEP, Inc. make the capital contribution
7 into Ohio Power or CSP at the time. It's an
8 investment AEP makes into the company.

9 Q. Do you recall --

10 A. It's a cash contribution and it's an
11 investment.

12 Q. Do you recall the last time in which that
13 occurred?

14 A. 2009, for \$550 million.

15 Q. Now, would you agree that for 2011 and in
16 2010 Ohio Power Company issued regular or quarterly
17 dividends to its parent AEP, Inc.?

18 A. I would.

19 Q. And do you recall that the quarterly
20 dividend for the first quarter of 2011 approximated
21 \$162,500,000?

22 A. I don't recall.

23 Q. Do you recall the annual dividend,
24 cumulative annual dividend paid by Ohio Power Company
25 to AEP, Inc. during 2011?

1 A. I don't have that off the top of my head.
2 I'm sorry.

3 Q. That's quite all right.

4 If I could ask you to look at the last
5 page of your prefiled testimony which is page 13, in
6 the context of your answer to the question posed "Are
7 the results of this ESP important to AEP Ohio's
8 credit ratings and resulting financing?" what is "an
9 appropriate regulatory outcome"?

10 A. An appropriate regulatory outcome is one
11 where AEP has financial stability during the period,
12 you know, during the ESP period.

13 Q. Is financial stability -- and what does
14 that mean as you're using it in your testimony?

15 A. Well, for me it means appropriate net
16 income and cash flow.

17 Q. And what do you mean by that? What is
18 appropriate net income and cash flow?

19 A. I would say that the amounts that were
20 included in our filed testimony. They were included
21 in Ollie Sever's exhibits.

22 Q. Under the current financial construct of
23 AEP Ohio, does that entity have access to liquidity?

24 Let me withdraw that and ask it this way:
25 Has there ever been a time in your tenure at the

1 company that liquidity has been a concern for the
2 operating company?

3 A. After Lehman went bankrupt in 2008,
4 liquidity was a concern for AEP and the operating
5 companies because of the fact that effectively it was
6 difficult to borrow money.

7 As I look at Ohio Power today, you asked
8 is liquidity a concern, and, you know, I have a
9 company that is an integrated company but I can't
10 tell you what that company's going to look like in a
11 year or so.

12 So for me right now, you know, I
13 mentioned in the corporate separation section that we
14 would be looking at funding using intercompany notes
15 and short-term debt, that's what we have to rely on
16 until we're through the transition because issuing
17 long-term bonds right now would be very difficult.

18 Q. And what access on an intercompany basis,
19 what is the amount that you can access on that line?

20 A. Well, what we have available under the
21 AEP money pool which is a short term is approximately
22 600 million today. We will be coming back in and
23 making a filing to, you know, effectively to request
24 additional long-term debt authority as well as
25 perhaps additional short-term debt authority.

1 Q. How much has been drawn on the \$600
2 million intercompany line?

3 A. That changes every day. You know, I
4 can't tell you what it is as of today.

5 Q. Is it greater than 50 percent that has
6 been drawn?

7 A. No, it's less than 50 percent, but Ohio
8 Power has a lot of debt maturities in the next 12
9 months so that's where our concerns arise.

10 Q. Have you made any analyses or studies or
11 reports to your senior management that call into
12 question the liquidity of Ohio Power Company over the
13 next 18 to 24 months?

14 A. I think what we've described for them is
15 the process that we'll need to go through to provide
16 liquidity, which is effectively to put in place, you
17 know, short-term debt lines as well as perhaps
18 intercompany notes.

19 Q. Is the access to liquidity and capital
20 provided on an intercompany basis done so at a
21 reasonable cost?

22 A. I didn't hear you, I'm sorry.

23 Q. Is the operating company's access to
24 liquidity and capital on an intercompany basis that
25 you described done so at a reasonable cost?

1 A. It is.

2 Q. And is it done at a below-market rate?

3 A. No.

4 Q. Is it at market?

5 A. Yes.

6 Q. And who -- what was the purpose of
7 including the rating agency reports in your
8 testimony?

9 EXAMINER SEE: Mr. Sugarman, what was
10 that question again, please?

11 Q. What was the purpose of including the
12 rating agency reports in your testimony?

13 A. The purpose was to identify the fact that
14 we need stability as we look at this, we need
15 financial stability over the next three years in that
16 the rating agencies reacted very strongly when they,
17 you know, when the order was rejected.

18 Q. Isn't the -- would you agree with one of
19 the primary thrusts of the reports issued by the
20 credit rating agencies that occurred after the
21 stipulation was rejected because of the uncertainty
22 that then existed as to what may happen in the
23 future? Isn't that the thrust of what those reports
24 are all about?

25 A. It was two pronged; one was the

1 uncertainty, and then the second was the uncertainty
2 of the cash flows.

3 Q. And the uncertainty of the cash flows is
4 caused by the fact that there's no definite rate set
5 going out into the future for a defined term,
6 correct?

7 A. There's no definite rate on, you know,
8 today and as well, depending on where, you know, what
9 happens in this ESP, the cash flows realized, you
10 know, is their fears are they may be much lower.

11 Q. Well, the greatest uncertainty is the
12 uncertainty that the markets are uncertain what's
13 going to happen, correct? Isn't that what those
14 rating -- the opinion of those rating agencies is all
15 about?

16 A. Can you repeat your question.

17 Q. Sure. Do you have RVH-6 in front of you?

18 A. I am, I'm looking at it.

19 Q. If you look at Moody's which is HVH-6 on
20 page 1, the bottom of the second -- well, if you look
21 at the page 2 at the conclusion, it talks about
22 uncertainty, correct?

23 A. The last paragraph talks about
24 uncertainty and then if you go back to page 1, the
25 second paragraph, they say that the original -- "The

1 agreement provided an important transition period
2 from a credit perspective because it would have
3 stabilized Ohio Power's cash flow during the
4 transition."

5 Q. So we went from a known result to an
6 unknown result; is that correct? Is that the
7 uncertainty?

8 A. Well, and then what's the overall level.
9 It's not just uncertainty, it's also what's the
10 overall financial condition of the company.

11 Q. Which is uncertain because of the unknown
12 rate and the unknown outcome.

13 A. It is -- yes.

14 Q. And that's true in any proceeding, rate
15 proceeding of any kind, there is uncertainty in the
16 credit markets until the final result is issued,
17 correct?

18 A. Yes, and depending on the dollars that
19 are involved, the agencies will react differently to
20 it.

21 Q. But there's really nothing unique about
22 this proceeding in a rate context as used in these
23 rating agency reports from what happens in all
24 utilities where there's a rate proceeding that until
25 it's concluded, there's uncertainty as to what the

1 final outcome may be, correct?

2 A. I disagree. There's a real difference
3 with most integrated utilities because you've got the
4 stability of basically having, you know, you've got
5 an integrated utility with everything in rate base,
6 so what they're looking at is, okay, they understood
7 that Ohio Power was transitioning over a three-year
8 period to basically a wires-only company, but then
9 all of a sudden with, you know, they don't know what
10 the transition period is.

11 So if you talk about any rate case or
12 any, you know, any rate case having it in the
13 ratings, they're usually looking at a rate base, you
14 know, a change in rate base. This is a change in the
15 business environment.

16 Q. And isn't that kind of change in any
17 proceeding that creates uncertainty in the credit
18 markets what's reflected in these three rating agency
19 reports?

20 A. I don't think so.

21 Q. Okay. That's your opinion.

22 A. Yes.

23 Q. And their opinion is what is stated in
24 here.

25 A. Yes.

1 Q. All right. Do you meet at all, do you
2 meet at all with the analysts that are reflected in
3 these reports?

4 A. I do meet with them.

5 Q. And is part of that to try and answer
6 questions?

7 A. Correct.

8 Q. And is part of that try to influence them
9 to provide the best possible rates that they could
10 issue with respect to your companies?

11 A. What we want to give them is a fair
12 representation of the credit.

13 Q. Okay. In all the operating companies and
14 for the parent itself you would agree that the rating
15 agencies have affirmed, other than with the exception
16 you've mentioned in your response to Mr. Darr,
17 they've affirmed the outlook for both the parent
18 company and the operating companies as Stable and
19 their ratings have been unchanged other than the
20 outlook you mentioned, correct?

21 A. That's right.

22 Q. Okay. Just a few more questions, bear
23 with me.

24 The redemption of the \$16.6 million of
25 preferred stock that you mention on page 6 of your

1 testimony, and who was the holder of that preferred
2 stock?

3 A. Generally it was retail investors. Those
4 have been outstanding since like the '40s or '50s.

5 Q. So how does stock get redeemed?

6 A. The board basically acts upon a, you
7 know, a decision to -- a board resolution to redeem
8 the stock and the notice goes to trustee and then
9 stocks are redeemed.

10 Q. What does it mean to redeem stock?

11 A. Cash is paid to the preferred stock
12 investors and the shares are retired.

13 Q. So is the \$16.6 million taken from which
14 company to redeem this stock?

15 A. It was Ohio Power.

16 Q. And that was done in December of 2011?

17 A. Yes.

18 Q. So I take it that means liquidity
19 position of the company on December 1st of 2011 was
20 sufficient to allow this redemption without harming
21 the capital position of the company; is that correct?

22 A. Yes.

23 Q. What was the capital structure of the
24 company before the redemption of this preferred
25 stock?

1 A. I mean, I think those are less than
2 1 percent of the cap structure.

3 Q. Okay. So it was immaterial to the
4 testimony on line --

5 A. It was immaterial, and the preferred
6 stock has some rights, so it's helpful just to
7 basically have them distinguished.

8 Q. Ms. Moore can ask you any questions after
9 we're all done to try and further illuminate
10 testimony, but let me ask you this: On page 12 -- on
11 page 6, line 12, the redemption is insignificant to
12 the resulting capital structure.

13 A. Yeah.

14 Q. In the last two years has Ohio Power
15 Company taken on debt -- has it been unable to take
16 on debt as a means to operate its business?

17 Let me withdraw that. That's very poorly
18 phrased.

19 Has the company been unable -- has the
20 company been unable to operate its business without
21 access to the debt markets over the last two-plus
22 years?

23 A. We've had access to the debt markets.

24 Q. And that has not been -- have you
25 performed any studies or analyses or projections for

1 Ohio Power Company that would suggest that that would
2 change in the future?

3 A. Well, the issue is today, it's an
4 integrated company and it's moving to a wires
5 company. So until we have a wires-only company,
6 investors don't know, you know, until we get through
7 this and investors know what they're purchasing, it's
8 a bit tricky.

9 Q. So there are no current studies,
10 analyses, or projections that suggest the company
11 would be unable to access the debt markets on a
12 going-forward basis; is that true?

13 A. That would be true.

14 Q. If you look on page 9 of your testimony
15 on line 15, the \$390 million in optional redemptions
16 that you refer to in your testimony, to what do those
17 redemptions refer?

18 A. That refers to bonds that Ohio Power has
19 issued that we have the ability to call them prior to
20 their final maturity.

21 Q. And that's the period between March 2012
22 and December 2013?

23 A. Yes.

24 Q. And does Ohio Power currently have the
25 requisite funds in order to redeem those if it so

1 desires?

2 A. No.

3 Q. Is that one of the purposes that you
4 believe comes as a result of this proceeding? One of
5 the outcomes?

6 A. I think one of the outcomes will be a
7 decision on, you know, what our plans will be and the
8 ability, then, to, you know, to take whatever
9 corporate finance actions we need to take.

10 Q. And the redemption, that particular set
11 of bonds, the redemption is optional, it's not
12 mandatory.

13 A. That's right.

14 Q. Continuing on in that strand of your
15 testimony into line 18, intercompany notes to AEP, is
16 that the, what I referred to earlier as the
17 intercompany line of credit? Are we using that the
18 same way?

19 A. No. When we refer to the short-term debt
20 we refer to the AEP money pool which has effectively
21 held AEP Ohio, Ohio Power has access to short-term
22 debt rates. As we look at corporate separation, we
23 would evaluate doing basically longer than short-term
24 debt to get through the transition period.

25 Q. What's the magnitude of that pool of

1 money that the operating company has access to in
2 this context?

3 A. You mean in terms of the short-term debt?

4 Q. Short-term debt and/or intercompany
5 notes.

6 A. Well, the intercompany debt we haven't
7 defined yet. Currently Ohio Power is authorized up
8 to 600 million of short-term debt.

9 Q. And the "AEP" referred to here is the
10 parent company; is that correct?

11 A. Yes.

12 Q. In your testimony --

13 A. Yes.

14 Q. -- on line 18 of page 9.

15 A. Yes, again.

16 MR. SUGARMAN: Thank you, Ms. Hawkins.

17 EXAMINER SEE: Ms. Thompson?

18 MS. THOMPSON: Thank you, your Honor.

19 - - -

20 CROSS-EXAMINATION

21 By Ms. Thompson:

22 Q. I have one quick question for you,
23 Ms. Hawkins, as a follow-up to a question asked by
24 Ms. Spiller. You said AEP Ohio sells its receivables
25 and those are the receivables of AEP Ohio?

1 A. Correct.

2 Q. And those receivables do not include the
3 CRES provider receivables that participate in the AEP
4 service territory.

5 A. Yes.

6 MS. THOMPSON: Thank you. No further
7 questions.

8 EXAMINER SEE: Mr. Yurick?

9 MR. YURICK: Thank you, your Honor.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Yurick:

13 Q. Good morning, Ms. Hawkins, I just have a
14 few questions for you.

15 If you look at page 12 of your testimony,
16 line 25, you say "In my opinion, the credit rating
17 agencies were comfortable that a three-year
18 transition to mark based generation rates provided
19 AEP Ohio with adequate time to implement corporate
20 separation and with adequate cash flows over the
21 transition period." Do you see that?

22 A. Yes.

23 Q. Okay. That opinion, I assume, is based
24 partially on the articles from the rating agencies
25 that you've attached; is that correct?

1 A. The articles from the rating agencies as
2 well they usually rate over a three-year period.

3 Q. Okay. But your opinion, right, is it
4 based primarily on the articles that you looked at?

5 A. The articles and my experience.

6 Q. You said earlier in response to a
7 question from Mr. Sugarman that you meet with
8 representatives of the rating agencies occasionally,
9 correct?

10 A. Yes.

11 Q. Is your opinion based at least in part on
12 conversations or feedback that you've received from
13 representatives from those rating agencies?

14 A. I don't know that it was specific
15 feedback, but, again, it's knowing that we had a
16 three-year transmission, their rating horizon was
17 three years, we were basically able to show a plan
18 that would get Ohio Power to a wires business in
19 fairly quick order as well.

20 So it's just a -- it's my experience and
21 as well knowing, you know, they publish rate research
22 that effectively shows, you know, that their ratings
23 are more or less, they're looking out three to five
24 years but, again, three years is their sweet spot.

25 Q. Let me ask you this: This is a

1 significant issue to you, correct?

2 A. Yes.

3 Q. And you meet with members of the rating
4 agencies, correct?

5 A. We do.

6 Q. And so my question is did you discuss
7 this with representatives of the rating agencies or
8 did this significant, very important issue just never
9 come up?

10 A. Oh, no. We talked to them about it.

11 Q. So would it be fair to say that your
12 opinions, at least partially, are based on
13 conversations that you had with representatives of
14 the rating agencies?

15 A. Based on their published research and
16 then, you know, as well -- I just, I don't recall the
17 specific feedback, that's why I can't say absolutely
18 it was because they told me that. I think a lot of
19 it's the publications and then as well, you know,
20 experience with them through the ratings process.

21 Q. Again, my question is: Is it fair to say
22 that your opinion was at least based in part on
23 conversations that you had with representatives of
24 the rating agencies?

25 MS. MOORE: Your Honor, I'll object.

1 She's already been asked and has answered this
2 question at least three times.

3 MR. YURICK: She's been asked, but --

4 MS. MOORE: And she's repeatedly stated
5 that her opinion is based on her experience and has
6 also explained the extent to which she has
7 interacted --

8 MR. YURICK: I appreciate the testimony
9 but --

10 EXAMINER SEE: Just a moment.

11 MS. MOORE: She's also explaining the
12 sentence in which she has interacted with rating
13 agencies' representatives and I believe has also
14 testified that she cannot recall specifically what
15 those conversations were.

16 EXAMINER SEE: The objection is
17 sustained. Move on, Mr. Yurick.

18 Q. (By Mr. Yurick) You did discuss this with
19 members of the rating agencies, correct?

20 A. Yes, we provided them copies of the
21 filings and then gave them, you know, the overview of
22 the filing.

23 Q. And you received feedback from members of
24 the -- representatives of the rating agencies, you
25 received feedback from them on this issue?

1 A. You know, it's more of a one-way street.
2 You know, their feedback a lot of times comes in the
3 published reports. We really provide them with a lot
4 of information, but they don't particularly give us a
5 lot of feedback back.

6 Q. Other than the published reports?

7 A. Pretty much, yes.

8 Q. So other than the published reports
9 you've gotten no feedback from rating agencies or
10 their representatives on this issue; is that your
11 testimony?

12 A. Yeah, I think that's fair. I mean, I
13 relied on the testimony -- I relied on the published
14 reports and the criteria and my experience with them.

15 Q. And in your opinion do rating agencies
16 get things incredibly wrong sometimes?

17 A. I don't know that I would agree to that.

18 Q. Really? So you're not aware of any
19 instance where, say, a AAA rated collateralized debt
20 obligation turned out to be not worth a lot? You're
21 not familiar with any issues surrounding that?

22 A. On the mortgage side, yes.

23 Q. And you stated earlier that the ratings
24 agencies responded very strongly; is that correct?
25 That's your opinion.

1 A. Responded strongly to what?

2 Q. To the issue that we're talking about.

3 Are you sure this is your first time testifying?

4 Anyway, responded very strongly to the
5 Commission's striking down the stipulation in the
6 ESP II case.

7 A. The fact that they published comments
8 immediately following that is unusual for them.

9 Q. But they didn't change their ratings.

10 A. No. What they did is they put out
11 special comments notifying investors of, you know,
12 their views of what occurred.

13 Q. So but they didn't change their ratings.

14 A. No; Fitch changed their outlook from
15 stable to negative.

16 Q. On AEP?

17 A. On Ohio Power.

18 Q. Okay. So as far as AEP went, the ratings
19 agencies didn't change their outlooks, correct?

20 A. Correct.

21 MR. YURICK: I have no further questions
22 at this point. Thank you.

23 - - -

24

25

EXAMINATION

By Examiner Tauber:

Q. I'm just going to interject for a second just to follow up on Mr. Yurick's questions.

You said your opinion on page 12 was based on the rating agencies and your experience and I noticed the rating agencies in the exhibits that were attached were Moody's, Standard & Poor's, and Fitch. Were those the only rating agencies you relied on? Were there others?

A. Those were the ones I relied on.

Q. How did you come up with those three rating agencies?

A. Those are the three rating agencies that rate the bonds of Ohio Power.

Q. Okay. So are those the only three or are there --

A. I believe so. There are other rating agencies that aren't followed as much by fixed-income analysts and they may, you know, publish something, but not, you know, basically not with any support from the company. I don't think so but I can't absolutely say that there's not someone else out there.

EXAMINER TAUBER: Thanks, I just wanted

1 to clarify that for the record.

2 EXAMINER SEE: Mr. Barnowski or Ms. Hand?

3 MS. HAND: Good morning.

4 - - -

5 CROSS-EXAMINATION

6 By Ms. Hand:

7 Q. Ms. Hawkins, at page 4 of your testimony
8 beginning at line 22 you state that you have assumed
9 a 10.2 percent cost of equity based on the most
10 recent distribution case before the Commission.

11 If the Commission were to determine in
12 this case, hypothetically speaking, that a lower
13 number should be used, a number lower than
14 10.2 percent, would you agree that in that
15 circumstance you would need to make changes to the
16 calculations in Exhibit RVH-1 to adjust for that, and
17 that if a number lower than 10.2 percent cost of
18 equity was used, it would ultimately result in a
19 lower weighted cost of capital?

20 A. Yes; the riders that have carrying
21 charges associated with them are generally calculated
22 using the most recently approved ROE, so if the ROE
23 approved is different, then those numbers would
24 differ.

25 Q. Thank you.

1 On page 8 of your testimony the answer
2 beginning at line 15 where you state that it is your
3 understanding that Ohio law requires a final
4 non-appealable order relating to the approval of the
5 recoverable of the underlying assets before they are
6 eligible for securitization.

7 Is it your understanding that there is no
8 final non-appealable order relating to the recovery
9 of the underlying assets in this case and that that
10 is a bar to seeking securitization at this time?

11 A. Yes.

12 Q. So even though -- are you aware that it
13 is the company's position that there is a final
14 non-appealable order that the company is presently
15 entitled to recover the deferred fuel expenses?

16 A. I'm not certain what order you're talking
17 about, so no.

18 MS. HAND: If I may approach the witness.

19 EXAMINER SEE: Yes.

20 MS. HAND: What I just handed the witness
21 is a pleading that was made in this docket so I am
22 not, because it's already a part of the docket I'm
23 not asking to have it marked or moved at this time,
24 but what I have handed her is AEP Ohio's reply to the
25 tariff objections filed by Industrial Energy

1 Users-Ohio, Ormet Primary Aluminum, and the Office of
2 Ohio Consumers' Counsel/Appalachian Peace and Justice
3 Network, that was filed in this proceeding on
4 November 11th, I believe. No, that's not right.
5 That's an attachment. Sorry.

6 It was filed March 6th of 2012 in this
7 proceeding. And I would ask the witness to please
8 turn to page 5 of that order.

9 MR. RANDAZZO: You said "order," did you
10 mean --

11 MS. HAND: I'm sorry. Of the pleading,
12 the filing that was submitted by AEP Ohio.

13 Q. And to review the first paragraph on page
14 5.

15 Are you ready?

16 A. Yes.

17 Q. So I would ask, again, if you would
18 please read that paragraph into the record.

19 A. "IEU attacks the proposed PIRR tariff (at
20 3-5) by claiming: (1) that there is no prior
21 authorization for the PIRR, (ii) that the weighted
22 average cost of capital carrying charge violates
23 prior Commission precedent, and (iii) that the
24 deferred fuel regulatory asset should be reduced by
25 the accumulated deferred income tax. Ormet's

1 pleading (at 2-4) and OCC/APJN's pleading (at 6-9)
2 echo the same points. These arguments are without
3 merit, as they amount to an untimely and improper
4 attack on the ESP I decision which is fully
5 adjudicated these issue and is a final non-appealable
6 order that cannot presently be lawfully challenged or
7 modified."

8 Q. So would you agree that this document
9 indicates that in this case AEP Ohio has taken the
10 position that there is a final non-appealable order
11 relating to the recovery of the deferred balance
12 assets? The deferred balances.

13 A. I mean, I read the paragraph. I'm not
14 familiar with this docket. I can't possibly have an
15 opinion either way.

16 Q. Okay. Thank you, then.

17 One final question. If the collection of
18 the PIRR is delayed as has been proposed by AEP in
19 this proceeding, do you believe it would be possible
20 that AEP could get the balances securitized before
21 collection of the assets begins?

22 A. If the underlying fuel can be settled,
23 theoretically, you know, and if there's a
24 non-appealable order, yes.

25 Q. Okay.

1 MS. HAND: Thank you, that's all I have.

2 EXAMINER SEE: Mr. Stahl?

3 MR. STAHL: No questions, your Honors,
4 thank you.

5 EXAMINER SEE: Mr. Petricoff?

6 MR. PETRICOFF: Just one housekeeping
7 question.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Petricoff:

11 Q. If you could, could you turn to your
12 Exhibit RVH-4, this is where you made the correction
13 this morning to your testimony.

14 A. Yes.

15 Q. You're there? Good. Now, this morning
16 you indicated that the line that's under property
17 taxes, general and administrative expenses, the
18 numbers all the way across were moving from 3.01 to
19 3.76.

20 A. Yes.

21 Q. And I assume then that the untitled row
22 that goes below it is just the sum of everything
23 that's in the column?

24 A. Yeah, that would mathematically change
25 from the 3.01 going to 3.76 across the form.

1 Q. Other than changing the sum line, if we
2 do that and just add in the .76, .75 all the way
3 across, was there anything else that would change in
4 your testimony?

5 A. Not related to this schedule.

6 Q. Okay.

7 MR. PETRICOFF: No further questions.
8 Thank you.

9 EXAMINER SEE: Mr. O'Brien?

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

11 EXAMINER SEE: Is there counsel for any
12 party that's not sitting at the table that wishes to
13 offer questions?

14 (No response.)

15 EXAMINER SEE: Mr. Margard?

16 MR. MARGARD: No, thank you, your Honor.

17 EXAMINER SEE: Ms. Moore, redirect?

18 MS. MOORE: Could we have just a moment?

19 EXAMINER SEE: Sure. Let's go off the
20 record.

21 (Discussion off the record.)

22 EXAMINER SEE: Ms. Moore.

23 MS. MOORE: We have no redirect, your
24 Honor.

25 EXAMINER SEE: Thank you very much.

1 THE WITNESS: Thank you.

2 (Witness excused.)

3 EXAMINER SEE: Ms. Moore.

4 MS. MOORE: Your Honor, at this time we
5 move for the admission of AEP Ohio Exhibit 102.

6 EXAMINER SEE: Are there any objections
7 to AEP Exhibit 102?

8 MR. DARR: Same objections as we raised
9 in the motion to strike, add to that based on the
10 questions I asked the witness that there are some
11 significant concerns with regard to Exhibit 6.

12 EXAMINER SEE: Any other objections to
13 the admission of AEP Exhibit 102?

14 MR. SUGARMAN: We join the motion, your
15 Honor.

16 MS. McBRIDE: We also restate our
17 objections.

18 EXAMINER SEE: Do you wish to respond to
19 those, Ms. Moore?

20 MS. MOORE: Just that I believe the Bench
21 has already considered these issues and has ruled on
22 them, your Honor, and we would ask that that ruling
23 stand.

24 EXAMINER SEE: AEP Exhibit 102 is
25 admitted into the record.

1 (EXHIBIT ADMITTED INTO EVIDENCE.)

2 EXAMINER SEE: Mr. Darr?

3 MR. DARR: Move the admission of IEU-Ohio
4 Exhibit 112, your Honor.

5 EXAMINER SEE: Any objections to the
6 admission of IEU Exhibit 112?

7 MS. MOORE: No, your Honor.

8 EXAMINER SEE: IEU Exhibit 112 is
9 admitted into the record.

10 (EXHIBIT ADMITTED INTO EVIDENCE.)

11 EXAMINER SEE: At this time we'll take a
12 40-minute recess until 12:30 for lunch and resume
13 with Mr. Nelson.

14 (Thereupon, a lunch recess taken at 11:51
15 a.m.)

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1 Friday Afternoon Session,
2 May 18, 2012.

3 - - -

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

6 Mr. Conway.

7 MR. CONWAY: Thank you, your Honor. At
8 this time the company calls Phil Nelson.

9 EXAMINER SEE: Mr. Nelson, if you would
10 raise your right hand.

11 (Witness sworn.)

12 EXAMINER SEE: Thank you.

13 Proceed, Mr. Conway.

14 MR. CONWAY: Thank you, your Honor.

15 - - -

16 PHILIP J. NELSON

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

19 DIRECT EXAMINATION

20 By Mr. Conway:

21 Q. Mr. Nelson, can you state your full name?

22 A. Philip James Nelson.

23 Q. And, Mr. Nelson, by whom are you
24 employed?

25 A. American Electric Power Service

1 Corporation.

2 Q. And what's your position?

3 A. Managing Director of Regulatory Pricing
4 and Analysis.

5 Q. Mr. Nelson, did you prepare or have
6 prepared under your supervision direct testimony in
7 these proceedings prefiled on March 30th, 2012?

8 A. Yes.

9 MR. CONWAY: At this time, your Honor, I
10 would request that Mr. Nelson's March 30th, 2012,
11 prefiled direct testimony be marked as AEP Exhibit
12 103.

13 EXAMINER SEE: The exhibit is so marked.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 Q. Mr. Nelson, did you also prepare or have
16 prepared under your supervision a piece of
17 supplemental Commission-ordered testimony that was
18 prefiled on May 2nd, 2012?

19 A. Yes.

20 Q. And is there a public version of that
21 May 2nd, 2012, testimony that was prefiled in the
22 docket?

23 A. There is.

24 Q. And then also related to the May 2nd,
25 2012, testimony is there also a confidential excerpt

1 of one of the exhibits being Exhibit PJN-5?

2 A. Yes.

3 MR. CONWAY: At this time, your Honor, I
4 would request that the supplemental
5 Commission-ordered testimony of Mr. Nelson, public
6 version, be marked as AEP Ohio Exhibit 104.

7 EXAMINER SEE: The exhibit is so marked.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 MR. CONWAY: And that the confidential
10 excerpt of Exhibit PJN-5 to the supplemental
11 Commission-ordered testimony be marked as AEP Ohio
12 Exhibit 104A.

13 EXAMINER SEE: That exhibit is also
14 marked --

15 (EXHIBIT MARKED FOR IDENTIFICATION.)

16 Q. (By Mr. Conway) Mr. Nelson, let me turn
17 your attention to what has been marked as AEP Ohio
18 Exhibit 103 which is your March 30th, 2012, direct
19 testimony. Do you have a copy of that with you?

20 A. I do.

21 Q. And do you have any additions or
22 corrections to make to that piece of your testimony?

23 A. Yes, I have two corrections. The first
24 one is on page 21, line 17, "a-n-d" should be "a-n."

25 Q. So you just would strike the "D"?

1 A. Yes.

2 Q. Okay.

3 A. And then on page 22 on line 8,
4 "companies" with an "i-e-s," should be changed to a
5 "y" apostrophe "s."

6 Q. Do you have any other corrections or
7 additions to make to the March 30th, 2012, direct
8 testimony?

9 A. No.

10 Q. And then turning your attention to your
11 supplemental Commission-ordered testimony prefiled on
12 May 2nd which has been marked as AEP Ohio Exhibit
13 104, do you have a copy of that with you?

14 A. Yes.

15 Q. And do you have any additions or
16 corrections to make to that piece of testimony?

17 A. No.

18 Q. And let me turn your attention, then, to
19 the excerpt of PJN Exhibit 5 to your supplemental
20 testimony. Do you have any additions or corrections
21 to make to that at this time?

22 A. No.

23 MR. CONWAY: Your Honor, may I approach
24 the court reporter and the Bench?

25 EXAMINER SEE: Yes.

1 MR. CONWAY: Just to make sure everybody
2 has the various pieces of the testimony.

3 Q. Mr. Nelson, if I were to ask you the
4 questions in your March 30th, 2012, direct
5 testimony which has been marked as exhibit, AEP Ohio
6 Exhibit No. 103, would your answers be as stated in
7 that exhibit as corrected by you today?

8 A. They would.

9 Q. And if I were to ask you the questions in
10 your supplemental Commission-ordered testimony which
11 has been marked as AEP Ohio Exhibit No. 104 including
12 the confidential excerpt of Exhibit PJN-5 to that
13 supplemental testimony today, would your answers be
14 the same as they appear in that document?

15 A. Yes.

16 Q. And is the testimony included as your
17 direct testimony on the one hand and your
18 supplemental Commission-ordered testimony on the
19 other hand, is your testimony true and accurate to
20 the best of your knowledge and belief?

21 A. It is.

22 MR. CONWAY: Your Honor, at this time I
23 would move for the admission of AEP Ohio Exhibits
24 103, 104, and 104A, and Mr. Nelson is available for
25 cross-examination.

1 EXAMINER SEE: First I'd note that there
2 was a motion to strike portions of Mr. Nelson's
3 testimony in regard to corporate separation citing to
4 a stipulation and the pool rider. After considering
5 those motions that motion is denied and we'll
6 commence cross-examination of Mr. Nelson.

7 Starting with Mr. Lang.

8 MR. LANG: Thank you, your Honor.

9 EXAMINER SEE: He's excited about it.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Lang:

13 Q. Good afternoon, Mr. Nelson.

14 A. Good afternoon.

15 Q. Seems like only a few days ago we were
16 talking. Good to see you again.

17 I want to start with corporate
18 separation. Now, the goal is for AEP Ohio to achieve
19 corporate separation by January 1, 2014; is that
20 correct?

21 A. Yes.

22 Q. Now, it could be earlier than January 1,
23 2014, correct?

24 A. It's possible. I wouldn't think it's
25 likely. It's not part of our plan.

1 Q. Now, prior to this Commission's rejection
2 of the previously filed ESP earlier this year, AEP
3 had made filings with FERC related to corporate
4 separation, correct?

5 A. It did.

6 Q. And a part of that filing was the
7 proposal to achieve corporate separation for AEP Ohio
8 in the first quarter of 2013, correct?

9 A. That's correct.

10 Q. And in order to achieve pool termination
11 prior to January 1, 2014, all of the pool members had
12 to agree to waive the three-year termination period
13 in the pool agreement, correct?

14 A. That's correct.

15 Q. And, in fact, all the pool members have
16 agreed to waive that provision so that the pool could
17 be terminated prior to January 1, 2014, correct?

18 A. That's correct.

19 Q. Now, at page 4 of your testimony, line
20 18, you state that corporate separation will promote
21 retail shopping in Ohio. Is it correct that what you
22 mean by that is that it will allow the AEP Ohio
23 generating facilities to participate more fully in
24 the market?

25 A. Yes.

1 Q. Now --

2 A. Well, I should say more fully in the
3 auction, they wouldn't be precluded from
4 participating for one reason or another, we're not
5 sure legally we would be precluded, but it's cleaner.

6 Q. Thank you for that.

7 Now, with regard to the generating units
8 that will be part of the corporate separation,
9 currently are some of those units that are co-owned
10 by AEP Ohio and another utility; is that correct?

11 A. That's correct.

12 Q. The co-owners include Duke and DP&L plus
13 other AEP East utilities; is that correct?

14 A. Yes, that's correct, other than I'm not
15 sure I put AEG into the category of East Utilities,
16 that's American Electric Generating Company.

17 Q. So AEP Generating Company is, they're
18 another co-owner of these assets?

19 A. They're an owner of -- I'm sorry. AEP
20 Generating owns Lawrenceburg which is a contractual
21 obligation that we're also planning to transfer.

22 Q. Okay. So following the transfer of
23 AEP Ohio's generating assets to AEP Generation
24 Resources, or the GenCo as it's called, there will be
25 assets that are then co-owned by the GenCo and

1 another utility; is that correct?

2 A. That's correct.

3 Q. That includes co-ownership by AEP
4 Generation Resources and another AEP affiliate.

5 A. Yes. And it depends somewhat on the
6 timing of the transfer.

7 Q. Okay. Now, the transfer of generation
8 units from AEP Ohio to the GenCo is proposed to be
9 done at net book value, correct?

10 A. Yes.

11 Q. And that's the same net book value that
12 we can all see at least on an annual basis on the
13 FERC Form 1.

14 A. Yes, you can calculate net book value
15 from a FERC Form 1.

16 Q. And then the transfer of generating
17 assets will be at the net book value as of the date
18 of the transfer.

19 A. Yes.

20 Q. Now, your understanding is that the
21 transfer as proposed at net book value instead of at
22 market value because it's a transfer between
23 affiliates within the AEP system; is that correct?

24 A. That's one of the reasons. Typically
25 transfers between affiliates are at book value or net

1 book value. Of course, there's other reasons, other
2 Ohio companies here in this state that have
3 transferred have also transferred at net book value.

4 And then one other good reason is that
5 obviously we're going to have a transfer of Amos and
6 Mitchell as part of our plan on to Appalachian Power
7 and Kentucky Power Company, that would also be at net
8 book value.

9 Q. Okay. Now, is it correct that you are
10 not aware of a single appraisal done by AEP Ohio
11 showing the market value of the assets to be
12 transferred?

13 A. I'm not aware of any appraisal.

14 Q. And is it also correct you are not aware
15 of a single analysis done by AEP Ohio determining
16 whether the market value of the generating assets
17 would be higher or lower than the net book value?

18 A. I've seen an analysis to rank various
19 units, and the question becomes what's a market
20 analysis. Typically if you're doing a market
21 analysis, that's based on a lot of assumptions, it's
22 over a long period of time, but you're typically
23 looking at to compare assets on a comparable basis
24 over that period of time. It's a little different
25 than a market appraisal.

1 Q. As part of the process of corporate
2 separation have you asked that a market value
3 analysis be performed internally?

4 A. I think we did a market value analysis --
5 I don't want to call it market value analysis. It is
6 a comparison among units. And one of the reasons we
7 did that toward the end of the year is we were
8 evaluating, as we were terminating the pool, which
9 assets might, you know, need additional capital
10 investment and so forth, and we were also evaluating
11 a lot of the EPA rules at that time and, you know,
12 using that analysis was part of the process of
13 selecting Amos and Mitchell to transfer on to
14 Kentucky and Appalachian Power Company.

15 Q. So with to what you said you used, does
16 it provide a market valuation of all of the assets
17 involved in the corporate separation?

18 A. I certainly wouldn't consider it a market
19 evaluation. I think it's a comparison, as I said,
20 between units based on a set of assumptions.

21 Q. So is the comparison -- how are the units
22 being compared? Is it on a cost basis?

23 A. It's based on net present value of future
24 cash flows over the life of the unit.

25 Q. So when you see a net present value of

1 cash flows over the life of a unit, that to you is
2 not a market value analysis?

3 A. I guess I'd ask you to explain what you
4 mean by "market value analysis" just so we don't get
5 at cross-purposes here.

6 Q. Well, is it something that suggests to
7 you what the market value of the unit would be? What
8 it may sell for in the market.

9 A. No. When, you know, what something may
10 sell for in the market may have nothing to do with
11 the operation and market prices of the unit, those
12 are just assumptions. For example, if you were
13 looking at selling the Mitchell plant, an appraisal
14 may take in a lot of other things.

15 For example, it doesn't have additional
16 land to put a new gas plant on, what kind of
17 transportation facilities does it have, what kind of
18 labor contracts does it have. There's a lot of
19 things involved in the market, a true market
20 appraisal, rather than an analysis is, just
21 dispatches against a market price.

22 So the studies I've seen are limited more
23 towards, you know, as I said, evaluation of a unit on
24 a given set of assumptions, but certainly it wouldn't
25 be useable for a market appraisal.

1 And one of the reasons I'd say that is
2 every person that does this type of valuation could
3 come up with a different answer just based on the
4 assumptions they use.

5 Q. So as part of the corporate separation
6 process, is it correct that you have not looked at
7 either market value estimates or market value
8 appraisals that would relate to the generating units
9 involved in the corporate separation?

10 A. That's correct. As far as I know we
11 haven't. We're not planning on selling these assets,
12 it's just an internal transfer for Amos and Mitchell
13 and the internal transfer of the other assets to the
14 AEP GenCo, so there's no sale involved so it would be
15 inefficient to do an appraisal for no apparent
16 purpose, it would just add cost.

17 Q. So you wouldn't think it would be a
18 prudent business practice to do an analysis like
19 that?

20 A. Not a market appraisal if you're not
21 planning on doing anything with the assets that you
22 would need that information for.

23 Q. Just a couple quick questions on your, if
24 I find the right one, your PJN -- your PJN-1, the
25 first exhibit, corporate structure.

1 There's been discussion over the last
2 couple days about the Commercial Operations group.
3 Do you have an idea where the Commercial Operations
4 group might fit into the general AEP structure?

5 A. The Commercial Operations group is a
6 business unit I think within the Service Corporation,
7 so it's not, I don't think it's a -- I'm not sure if
8 it's a legal entity or not. This, of course, isn't a
9 complete chart of AEP subsidiaries, but the
10 commercial offices has a role with regulated
11 utilities it markets and their generation output also
12 trades in the market for the regulated utilities
13 today and then I think as Mr. Robert Powers
14 mentioned, that it also has a deregulated component
15 to it.

16 So there's both the regulated trading
17 activity and marketing and a deregulated trading and
18 marketing activity.

19 So if you think about the operating
20 companies, there's a component of Commercial
21 Operations that trades on behalf of Appalachian Power
22 Company, I&M, Kentucky Power Company, Kingsport, and
23 Wheeling, and then there's a separate group that,
24 like Energy Partners, that may trade out in Texas and
25 so forth which is distinct from that group.

1 Q. So the Service Corp. operation, to the
2 extent that you know, is that a -- that would be a
3 separate subsidiary of AEP if we wanted to put it on
4 this chart?

5 A. I would think so. The Service Corp.
6 would be a legal entity. I know they write checks to
7 a lot of us on the AEP side, so I would think they
8 would be.

9 Q. You hope it's there.

10 And then there's also been reference made
11 to AEP Retail Energy, would that also be a separate
12 subsidiary under AEP, if we wanted to add it to this
13 chart?

14 A. Yeah, it's somewhere under AEP.

15 Q. Do you know whether after corporate
16 separation there will be any relationship between AEP
17 Retail Energy and AEP Generation Resources?

18 A. I don't know that the structure's been
19 set up yet. I really can't answer that, what the
20 relationship between those entities would be.

21 Q. Now, you've read the corporate separation
22 plan that will be in place after corporate
23 separation?

24 A. Yes, I've read our application for
25 corporate separation.

1 Q. And as part of that application you are
2 aware that cross-subsidies between AEP Ohio and the
3 future GenCo will be prohibited under that plan?

4 A. I believe that's the case, but that's
5 more of a legal question so I'd defer to the
6 attorneys on that.

7 Q. Is it also your belief that under the
8 corporate separation plan following corporate
9 separation that AEP Ohio and the GenCo will function
10 independently of each other?

11 A. In some sense independent, though there
12 are contractual obligations between the two
13 anticipated post corporate separation.

14 Q. Is it your understanding that AEP Ohio
15 and the GenCo in terms of negotiating those contracts
16 will operate independently of each other?

17 A. No, I don't know that.

18 Q. After corporate separation, is it fair to
19 say that AEP Ohio will continue to make decisions
20 that are in the best interests of its retail utility
21 customers?

22 A. Yes.

23 Q. And after corporate separation your
24 belief is that AEP Ohio will continue to make prudent
25 investments as a wires company, correct?

1 A. Yes.

2 Q. I thought I'd throw some easy ones in.

3 Between the date of corporate separation
4 and January 1, 2015, under the proposal you describe
5 in your testimony, the GenCo will sell energy and
6 capacity to AEP Ohio for the SSO load under a
7 wholesale full-requirements contract; is that
8 correct?

9 A. Yes.

10 Q. And your understanding is that that
11 contract will be filed with FERC and it has to be
12 approved by FERC, correct?

13 A. Yes.

14 Q. And that the price that the GenCo will
15 charge for the energy and capacity will be whatever
16 the -- whatever AEP Ohio collects for generation
17 services from SSO customers, correct?

18 A. It's primarily designed as a pass-through
19 of those costs, yes. There are other components too
20 like a fuel clause, there might be some charges
21 related from PJM that might have to be billed
22 through, but the general theory is that what AEP Ohio
23 receives around generation revenues will be passed
24 through to the GenCo for compensation of providing
25 that SSO load during this time.

1 Q. So the modified ESP generation rates plus
2 potentially other charges you've described will be
3 the price that the GenCo charges for capacity and
4 energy under that contract, correct?

5 A. Yes. I think that's the general concept.

6 Q. I think as you mentioned, the GenCo will
7 receive any revenues from the fuel adjustment clause
8 plus the base generation charges and also the retail
9 stability rider; is that right?

10 A. Yes. With the clarification on the fuel
11 clause, it's not necessarily the revenues passed
12 through, there may be a timing difference. GenCo
13 would bill the wires company monthly, the wires
14 company may change its rates quarterly under like the
15 current fuel clause, so there may be a time lag
16 there.

17 And you did go on to mention the rate
18 stability revenues. Yes, that would be part of the
19 compensation for generation service.

20 Q. So for the -- for fuel costs, that's
21 dealt with a little bit differently, as you said, the
22 AEP Ohio will pay the GenCo's actual fuel cost, that
23 would be on a monthly basis?

24 A. Yes.

25 Q. And then AEP Ohio would seek recovery of

1 those costs as it's traditionally recovered fuel
2 costs still through the FAC.

3 A. That's correct.

4 Q. The capacity pricing under the full
5 requirements contract for SSO customers would not be
6 based on the formula rate developed by Dr. Pearce in
7 that capacity case that we finished up earlier this
8 week, right?

9 A. No, it would be based, as I described, on
10 a pass-through of those generation revenues collected
11 by AEP Ohio. For the base G components.

12 Q. But the energy pricing will not be based
13 on the prevailing market price of energy in PJM,
14 correct?

15 A. No. Primarily it will be based on the
16 fuel, actual fuel costs to the GenCo during this
17 time.

18 Q. All right. So the contract between
19 AEP Ohio and the GenCo for this SSO load will not
20 have separate pricing for capacity and energy, it
21 will instead simply pass through the SSO generation
22 revenue?

23 A. That's correct.

24 Q. Now, at page 7 of your testimony, lines
25 10 through 13, you refer to AEP Ohio reimbursing the

1 GenCo on a dollar-for-dollar basis for any
2 transmission, ancillary, and/or other service
3 charges.

4 Does this mean that revenue from the
5 TCRR, the transmission cost recovery rider, will also
6 be passed through to the GenCo?

7 A. There may be some components in that.
8 I'm not real familiar with the TCRR. That would be a
9 better question for Company Witness Roush.

10 Q. So when you're thinking about what will
11 be passed through on a dollar-for-dollar basis, were
12 you thinking about something other than the TCRR?

13 A. Perhaps. There could be new charges
14 coming through from PJM, for example, related to our
15 generation service that may appropriately be passed
16 through. So this is somewhat of a general statement
17 in case there's some other charges. This isn't, of
18 course, the full contract. That would be filed when
19 we make our filing at FERC, so there might be more
20 detail at that time, but this is just kind of a
21 placeholder that the general concept is revenues that
22 are generation related will be passed through to the
23 GenCo for compensation of the generation service
24 during this time.

25 Q. And with regard to the retail stability

1 rider, that's -- that is a rider that would be put in
2 place under this plan prior to corporate separation,
3 correct?

4 A. That's correct.

5 Q. And prior to corporate separation the
6 revenue from that rider would go to AEP Ohio?

7 A. Yes. And all the generation assets would
8 also reside in AEP Ohio as well.

9 Q. And then with the move of the generation
10 assets to the GenCo, the retail stability rider
11 revenues would also move to the GenCo, correct?

12 A. That's correct.

13 Q. Now, assuming the plan is approved as
14 filed, the corporate separation is achieved as
15 planned, with regard to the nonfuel generation
16 charges that are part of the modified ESP that would
17 be passed through to the GenCo, is it correct that
18 you do not know whether those nonfuel generation
19 charges will fully compensate the GenCo for its
20 capacity during the contract time period?

21 A. Wouldn't know for certain. I would
22 expect they'd be compensatory, but that's just based
23 on the fact that we think they're comparable to the
24 full cost generation charge that was developed in the
25 capacity case, somewhere in that same 355 range that

1 we think they're compensatory.

2 Q. All right. Now, when you say you think
3 they're compensatory, that's not something you've
4 done a study on, correct?

5 A. That's correct.

6 Q. Now, other than the fuel cost
7 pass-through or how the fuel costs are addressed,
8 it's not a cost-of-service contract with regard to
9 the GenCo, correct?

10 A. I think it is not a full cost-of-service
11 based contract in the sense that we're not going to
12 file a period 1, period 2 at FERC and do a cost of
13 service there; however, I think generally I would
14 consider it cost based in the sense that it's
15 comparable to a cost-based calculation we did in the
16 capacity case for the generating assets.

17 Q. Well, isn't it true that the GenCo will
18 receive the stream of revenues from the generation
19 charges and the RSR, it's not necessarily receiving
20 specific cost recovery associated with any of the,
21 like, for example, any of the energy-related FERC
22 accounts, correct?

23 A. Could you explain that a little more,
24 Mr. Lang? What you mean by that.

25 Q. Well, maybe I can break it down. The

1 GenCo receives a stream of revenues that's, you
2 describe in your testimony, from different source,
3 correct?

4 A. Well, yeah, the primary source is the
5 generation component of the SSO rates, each
6 individual tariff generation service charges would be
7 the generation revenue that would be passed through.

8 Q. And except for the fuel there's -- with
9 regard to the GenCo's books following corporate
10 separation, there's no tracking of the revenues
11 received to the generation costs on the GenCo's
12 books, correct?

13 A. That's correct.

14 Q. Is it fair to say that the contract
15 between AEP Ohio and the GenCo for SSO load will not
16 be based on wholesale market prices?

17 A. And you're defining wholesale market
18 prices as the energy prices, the LMP prices?

19 Q. That would certainly be part of it, yes.

20 A. Yes, it wouldn't be based on the LMP
21 prices.

22 Q. Is it also fair to say that you are not
23 aware of FERC approving a contract of this type that
24 involves a pass-through to a wholesale provider of
25 retail pricing that doesn't relate to wholesale

1 market pricing?

2 A. I'm aware of different FERC approvals,
3 the contracts, you know, they approve the cost-based
4 contracts, they approve market-based contracts, they
5 also approve contracts entered into in settlement.
6 For example, the Wheeling Power/AEP Ohio contract was
7 a settled rate, it was settled in a West Virginia
8 proceeding and FERC went ahead and approved that or
9 accepted it for filing, I don't want to -- there
10 might be some distinguishing terminology there, but
11 yes, it could be based on just a settlement.

12 For example, if this Commission thought
13 the contract was proper, you know, that their
14 endorsement of the SSO contract would go a long way
15 towards getting FERC approval for that contract.

16 Q. I don't think you answered my question,
17 and maybe you were talking about the opportunity for
18 FERC to approve this contract in the future. I was
19 simply asking whether you were aware or not aware of
20 whether FERC has approved a contract like this in the
21 past that in --

22 A. I thought you had something about market.

23 Q. Well, specifically about the past, a
24 contract that has a pass-through to the wholesale
25 provider of retail pricing that doesn't relate to

1 wholesale market pricing.

2 THE WITNESS: Could I have that last
3 question and answer read, the one before this?

4 (Record read.)

5 A. Is that the same question, doesn't relate
6 to wholesale market prices?

7 Q. Yes; whether you know of something
8 similar in the past that FERC has approved.

9 A. Certainly that was my explanation, that,
10 yeah, they approve cost-based contracts, they approve
11 market-based contracts, and they approve
12 settled-rates contracts and that was my answer.

13 Q. Okay. So with that background of any of
14 those contracts, whether market contracts, cost-based
15 contracts, are you aware of any of those that are
16 like what I just described and what you're talking
17 about here?

18 A. Yes. I would consider a settled contract
19 might be similar, it doesn't necessarily have to be
20 cost based, certainly it might not have elements of
21 market in it, but, you know, if you've agreed with
22 a -- agreed, then you can file that contract and I
23 think FERC has approved those type of situations.

24 The example I gave is the Wheeling Power
25 and Ohio Power contract, it was a settled rate and it

1 was filed and approved.

2 Q. Is it correct that AEP Ohio will not
3 determine whether the cost to it of the SSO supply
4 contract could be reduced by contracting with someone
5 other than AEP Generation Resources?

6 A. Yes, that's correct. As I mentioned,
7 there's agreements that are going to be in place
8 between the two, and beyond the SSO contract we're
9 talking about here is the GenCo is going to fulfill
10 AEP Ohio's FRR capacity requirements during this
11 period. So we wouldn't expect, you know, during this
12 short period that we would do anything other than
13 have a relationship between the two which keeps the
14 wires company neutral.

15 That is whatever rates it's collecting
16 under the approved SSO plan would be passed through
17 to the GenCo for compensation, that would make sure
18 that the rates of the wires company are stable during
19 this period and that's the approved rates in the ESP
20 plan.

21 Q. So AEP Ohio won't make any effort to do a
22 market check of comparing that contract prices to
23 what's available in the market.

24 A. No, I wouldn't think so.

25 Q. After January 1, 2015, the relationship

1 between AEP Ohio and the GenCo changes a bit because
2 the GenCo will be selling only capacity to AEP Ohio
3 for the SSO load, correct?

4 A. That's correct.

5 Q. And that's because there will be an
6 energy-only auction for 100 percent of the load to be
7 provided starting January 1, 2015, correct?

8 A. Yes, that's part of our plan.

9 Q. Now, do you know whether the
10 capacity-only sale will be under the same contract
11 that we've been discussing as the full requirements
12 contract between AEP Ohio and the GenCo?

13 A. I don't know at this point. We haven't
14 prepared the FERC filing. It could be part of that
15 same contract.

16 Q. Now, in any event, whether it's part of
17 the same contract or a separate contract, again, that
18 would be -- I think that would have to be approved by
19 FERC, correct?

20 A. Yes; that would be the contract we just
21 talked about, you know, would be approved by FERC, so
22 if it's part of that, then that answer holds.

23 Q. Now, for the capacity-only contract for
24 2015 or what might be a capacity-only provision in
25 that contract for 2015, the proposal is that the

1 capacity will be priced at \$255 per megawatt-day,
2 correct?

3 A. That's correct.

4 Q. How is the \$255 per megawatt-day price
5 determined for the contract between the GenCo and
6 AEP Ohio?

7 A. Well, one thing, it probably should sound
8 familiar to a lot of folks, but it's just a, we think
9 a reasonable number for that purpose for those five
10 months. There's no particular calculation involved.
11 But it is consistent with the rest of our plan here,
12 the two-tiered capacity pricing and so forth.

13 Q. Now, you're certainly aware that the
14 \$255 per megawatt-day price that would be in place
15 for that contract time period is above the RPM market
16 price for that same time period, correct?

17 A. That's correct.

18 Q. And, again, AEP Ohio has no plans to
19 request proposals from any other company to see
20 whether it could obtain capacity at a price that is
21 better than the \$255 per megawatt-day price for that
22 five-month period, correct?

23 A. That's correct. The FRR obligation, of
24 course, runs through May 31st of 2015, so this
25 contract would be consistent with that timeframe and,

1 of course, AEP Ohio is the entity that has elected
2 FRR for that entire period. So it's consistent with
3 that concept.

4 Q. Do you know whether AEP Ohio has received
5 any offers from other companies for capacity at less
6 than \$255 per megawatt-day that would apply to that
7 time period?

8 A. I don't know for certain.

9 Q. Do you know generally?

10 A. I've heard folks, I think in this room,
11 maybe question witnesses on that. I assume there
12 might be something out there, but that's about all I
13 know. I'm only familiar with one particular offer,
14 it was post that period, so.

15 Q. Do you know who would have that
16 information?

17 A. Of the witnesses here?

18 Q. Yes, sir.

19 A. I'm not sure if any of our witnesses
20 would, but you could ask each of them, I guess.

21 Q. There's no one you're going to --

22 A. Point to? I could probably weed out a
23 few if you'd like. Let me think. Can I turn to
24 Bob's witness list, I could help you?

25 Q. That's all right.

1 A. Okay.

2 Q. I think the capacity provided for the
3 first five months of 2015 is in support of the
4 energy-only auction for 100 percent of the SSO load,
5 correct?

6 A. Yes.

7 Q. Now, with regard to that energy-only
8 auction for the first five months of 2015, is your
9 position that AEP Generation Resources should be
10 allowed to participate in that auction?

11 A. Yes.

12 Q. Is it also true at this time that you
13 don't know whether AEP Generation Resources would
14 participate in that auction?

15 A. I don't know.

16 Q. Now, I hope this is obvious, but would it
17 be your understanding that the auction rules will not
18 require AEP Ohio to select AEP Generation Resources
19 as a winning bidder in that auction?

20 A. Yes; I wouldn't think that would be part
21 of the rules.

22 Q. So if AEP Ohio were to favor a higher bid
23 from AEP Generation Resources, that would certainly
24 be unfair and unreasonable, correct?

25 A. The only thing -- I wouldn't say all bids

1 are taken on the lowest bid necessarily because there
2 might be, you know, credit issues with a particular
3 bidder or whatever, you'd have to evaluate whether it
4 was a legitimate bid, et cetera.

5 So I don't want to say that a higher bid
6 couldn't potentially win an auction but I think that
7 would probably be up to the review of the PUCO. I
8 think they conduct a rigorous review of how the
9 auction was conducted and so forth based on what I
10 know of auctions that have occurred so far.

11 Q. Well --

12 A. But I wouldn't think there would be any
13 favoritism toward the AEP GenCo, if that's what your
14 question is.

15 Q. Now, there's a separate auction, the
16 energy-only auction, for 5 percent of SSO load that
17 would occur prior to 2015, correct?

18 A. I think that's our proposal.

19 Q. And that auction could start, that could
20 be for the provision of energy as early as in 2013,
21 correct?

22 A. That's correct.

23 Q. So the auction could take place prior to
24 corporate separation and include periods both before
25 and after corporate separation.

1 A. Yes.

2 Q. Now, Mr. Powers the last couple days
3 referred to the FRR contract. Do you have an
4 understanding of what he was referring to as the FRR
5 contract?

6 A. Yes.

7 Q. And what is your understanding?

8 A. It's AEP East companies' commitment to
9 being an FRR entity within the PJM RTO.

10 Q. And is that the commitment expressed in
11 the reliability assurance agreement?

12 A. Well, the option is in that reliability
13 assurance agreement, but obviously you have to elect
14 that option and AEP Ohio and the other East members
15 have elected that option through planning year
16 '14-'15.

17 Q. So at least with -- with regard to the
18 use of the term "contract," is that a reference to
19 the reliability assurance agreement which is -- well,
20 is that a reference to the reliability assurance
21 agreement?

22 A. I think it definitely has a relationship
23 to the reliability assurance agreement. You know,
24 when you submit a plan, an FRR plan, I think that's a
25 contractual commitment with PJM and whether it's just

1 maybe governed by the RAA, again, I'm not an attorney
2 so I don't want to get too specific there what the
3 particular contract is.

4 But it certainly seems like a contract,
5 if you've elected FRR you have to follow that
6 commitment and that we do have to submit the FRR plan
7 with PJM and we're held accountable to that, we have
8 obligations under that, so that sounds like a
9 contractual commitment to me.

10 Q. Would you agree that there is nothing in
11 the FRR contract that precludes a competitive bid
12 process for SSO load?

13 A. I wouldn't -- I don't think there's
14 any -- I see this as two separate issues, but from a
15 practical standpoint I would have some problems with
16 it, but I mean if you just look independent, are they
17 independent items? Yes, I would say they're
18 independent ideas in some sense.

19 Q. And I guess certainly both the 5 percent
20 auction and the 100 percent energy-only auction for
21 2015 will both take place while the FRR contract, as
22 you say, is in place, correct?

23 A. That's correct.

24 Q. Now, with regard to the 5 percent auction
25 prior to 2015, is it correct that that auction could

1 result in changes to the SSO customer charges?

2 A. Yes.

3 Q. Is it your understanding that the cost of
4 the energy purchased for that 5 percent auction prior
5 to corporate separation would be recovered through
6 the fuel adjustment clause?

7 A. I think there would be a component
8 definitely that would touch the fuel adjustment
9 clause, essentially a purchased power expense, the
10 fuel clause includes purchased power in account 555.
11 So if you have a purchased contract as a result of
12 that auction, then I would expect that that component
13 would go to the fuel costs.

14 Q. Do you have an understanding, again,
15 still just talking about prior to corporate
16 separation, of any other rate component that the
17 auction would touch, as you say?

18 A. Not at this time. We haven't worked out
19 all the details of the auction. We don't know what
20 the 5 percent auction, what the exact products are at
21 this time.

22 Q. Now, if the auction is conducted prior to
23 corporate separation, is your understanding that AEP
24 Ohio would not participate in that auction?

25 A. Yes.

1 Q. Is your position that AEP Ohio should be
2 allowed to participate in that 5 percent auction if
3 it wanted to?

4 A. I haven't, to be frank, I haven't given a
5 lot of thought about the 5 percent auction, but my
6 take is that I wouldn't think we'd want to
7 participate in that. As a bundled company. You're
8 talking about pre-corporate separation?

9 Q. Yes.

10 A. No, I wouldn't think we would
11 participate, but I'm not -- I don't necessarily want
12 to commit the company one way or another, haven't
13 given it enough thought, but that's my opinion. And
14 you were talking about AEP Ohio participating?

15 Q. Uh-huh.

16 A. Okay. Rather than some other entity in
17 AEP.

18 Q. I think I'm going to the same place.

19 A. Okay.

20 Q. Is it possible that the Commercial
21 Operations group of the Service Corp. would
22 participate in that auction?

23 A. That could be a possibility, it might be
24 beneficial to the customer to have as many
25 participants as possible, so I wouldn't want to rule

1 that out.

2 Q. Now, again, still talking about the
3 circumstances of that 5 percent auction, and that's
4 energy only, so with regard to capacity, AEP Ohio
5 would continue to provide capacity prior to corporate
6 separation and then the GenCo would continue to
7 provide capacity after corporate separation; is that
8 right?

9 A. Yes. You said AEP Ohio would up until
10 corporate separation provide the capacity and then
11 the GenCo afterwards, that sounds right.

12 Q. Do you know whether there's any proposal
13 in the modified ESP for any capacity associated with
14 that 5 percent of load that would be priced at
15 \$255 per megawatt-day?

16 THE WITNESS: I'm sorry, I need that one
17 repeated.

18 (Record read.)

19 A. I don't believe there's anything in the
20 ESP filing around the 255 and that 5 percent, that's
21 correct.

22 Q. So on page 7 of your testimony, lines 18
23 through 20, where you say "...capacity payments will
24 be made by AEP Ohio to the GenCo at \$255 per
25 megawatt-day in connection with the energy-only

1 auctions....," there you're not intending to have that
2 apply to the 5 percent energy-only auction; is that
3 right?

4 A. I was really thinking when I wrote this
5 about the full energy auction beginning
6 January 1st, 2015, and just haven't given it much
7 thought in connection with the 5 percent.

8 Mr. Lang, in your previous question were
9 you -- I may have been thinking more corporate
10 separation date, I guess you were talking about the
11 5 percent for the whole period? Was that the basis
12 of your previous question?

13 Q. Well, I was actually also -- that's a
14 good clarification, but I was also thinking post
15 corporate separation.

16 A. Post corporate separation. I guess I'll
17 just have to say I haven't given any thought. I
18 think what we had planned is to, you know, develop an
19 auction process once this plan is approved and I
20 think it will be addressed there with respect to the
21 5 percent auction.

22 Q. So in your mind prior to January 1, 2015,
23 with regard to capacity payments, that the GenCo
24 would be compensated for capacity, as we had
25 described earlier this afternoon, through the

1 pass-through of the retail generation revenues.

2 A. Yes. Up until January 1st, 2015.

3 Q. Now, is your belief that the 5 percent
4 auction would be a, essentially a carve-out from the
5 full requirements contract for SSO supply between
6 AEP Ohio and the GenCo, obviously in post corporate
7 separation?

8 A. I'm sorry, I have to think more about
9 this because I haven't thought a great deal about the
10 5 percent. I mean, that's a definite possibility,
11 but I can't say that's the best way to handle it
12 because I don't know exactly what "carve-out" means
13 and so forth, so we'd have to develop something
14 around that.

15 MR. LANG: Your Honors, if we can
16 approach, we have one exhibit.

17 EXAMINER SEE: Yes, you can approach.

18 MR. LANG: If I could have this marked as
19 FES Exhibit No. 107.

20 EXAMINER SEE: The exhibit is so marked.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 Q. Mr. Nelson, FES Exhibit No. 107 is three
23 pages of discovery responses, actually from Ohio
24 Power to the Ohio Consumers' Counsel, interrogatories
25 2-36, -37, and -38. Do you recognize these questions

1 and these responses?

2 A. Yes, they look familiar. There's a lot
3 of cross-references which I don't have here, so it's
4 difficult to do a --

5 Q. There are. And for all three pages,
6 well, the first and third page you're shown as the
7 preparer of the responses and then it looks like on
8 the second page you shared that duty with Ms. Thomas;
9 is that correct?

10 A. That's correct.

11 Q. Now, the first two questions reference
12 the -- I'm sorry, the first two pages, the first two
13 interrogatories reference the 100 percent energy
14 auction in 2015, correct?

15 A. Yes.

16 Q. On the first page the question that is
17 lowercase "d," as in "David," is asking whether the
18 company has developed a forecast of expected auction
19 clearing price, the answer that you provided was not.

20 I just wanted to find out if there's been
21 any -- if there's been any update to that response.
22 Has there been a forecast developed since this
23 response was provided?

24 A. Not that I'm aware.

25 Q. Now, on the third page which deals with

1 the partial SSO auction prior to 2015, which is the
2 5 percent auction, question "b" as in "boy" asks
3 about whether the company's proposing to charge for
4 capacity support for the auction load, and if so what
5 is the proposed capacity price, and who would be
6 charged for capacity support, and as you said,
7 there's several cross-references. The question says
8 see the response to OCC interrogatory 2-37a. Correct?

9 A. Yes.

10 Q. So if we go back to the previous page,
11 that response is "Please refer to the testimony of
12 Company Witness Powers' page 19, line 22." Is that
13 correct?

14 A. Yes, it says refer to page 19, line 22.

15 Q. Do you happen to have page 19, line 22 of
16 Mr. Powers' testimony in front of you?

17 A. Yes, I do.

18 Q. What does line 22 say?

19 A. AEP Ohio would provide capacity support
20 for the auction load at 255 per megawatt-day.

21 Q. So that's the answer to the, at least the
22 interrogatory response to the price for capacity for
23 the 5 percent energy auction; is that correct?

24 A. Based on this response, I'd say that's
25 correct. But I'm not sure if it's in error. These

1 are prepared under my supervision, I've reviewed them
2 but I don't necessarily -- but I think -- so I can't
3 answer whether that's the right answer here.

4 Q. Okay. So at this point you don't know
5 whether the capacity for that 5 percent auction would
6 be priced at 255 or not.

7 A. I just haven't made that determination
8 myself.

9 Q. Okay. Now, the full requirements
10 contract that we've been talking about for the SSO
11 load will not apply to the GenCo's provision of
12 capacity for the non-SSO load, correct?

13 A. That's correct.

14 Q. So I wanted to ask you about the
15 provision of capacity by the GenCo to the non-SSO
16 load or the shopping load following corporate
17 separation. So during that bridge period between
18 corporate separation and June 1, 2015, AEP Ohio will
19 continue to fulfill its FRR obligation to provide
20 capacity for all load both shopping and nonshopping;
21 is that true?

22 A. Yes.

23 Q. Because the FRR obligation doesn't
24 distinguish between shopping and nonshopping load,
25 correct?

1 A. That's my understanding.

2 Q. Now, with regard to how the load will be
3 provided post corporate separation, how the FRR
4 obligation will be satisfied post corporate
5 separation, is it fair to say that you do not know
6 whether that will require a capacity-only contract
7 between AEP Ohio and the GenCo?

8 A. Fulfilling the -- you're talking about
9 fulfilling the FRR obligation was your question?

10 Q. Yes.

11 A. As far as fulfilling the FRR obligation,
12 the FRR entity is the AEP East companies, Service
13 Corp. did it on behalf of the East companies, so the
14 FRR obligations is not only AEP Ohio but all the East
15 companies.

16 Of course, at the time of the FRR
17 obligation the elections made were made up through
18 planning year '14-'15 the GenCo did not exist. Post
19 corporate separation, of course, AEP Ohio will not
20 have Generation Resources to fulfill its FRR
21 obligation so I expect there will be a contract
22 between the AEP Ohio and the GenCo and it would also
23 include the other AEP East companies that are part of
24 the FRR obligation.

25 And that contract will, you know, require

1 AEP generation to fulfill that obligation and it
2 would have been AEP Ohio prior to corporate
3 separation, so all of those entities would be in what
4 we call a bridge agreement.

5 We made that filing in February that had
6 that particular component for a contract in it. I
7 would expect that we would agree to file a similar
8 contract, you know, once this case is resolved.

9 Q. So under that contract, which would be
10 filed with FERC, again, that's another contract that
11 requires FERC approval, correct -- that requires --

12 A. That's correct.

13 Q. And is it your understanding that -- I
14 guess see if we can break this into pieces. For the
15 capacity provided to the shopping load, PJM would
16 continue to bill the CRES providers for that load,
17 correct?

18 A. I'm not actually sure who does the
19 billing. Could be AEP Ohio, but, you know, for --
20 because you said PJM continues to bill. I don't know
21 what the situation is today but I assume -- there's
22 probably someone, another witness may be able to help
23 you out on the mechanics of the billing a little
24 closer than I am. I would suggest maybe Witness
25 Roush might be a good one to say who bills who

1 currently and then I think he could perhaps --

2 Q. Well, so I guess regardless of whether
3 it's PJM doing the billing or AEP Ohio doing the
4 billing, the payments that would come in would then,
5 under the contract with the GenCo, be remitted to the
6 GenCo, correct?

7 A. Yes, anything related to capacity since
8 the GenCo is now -- has the obligation that AEP Ohio
9 had for fulfilling the FRR obligation, then any
10 revenue related to that obligation would always be
11 passed to the GenCo.

12 Q. So under that contract the GenCo would be
13 paid using the revenue from the two-tiered capacity
14 pricing that's proposed in the modified ESP; is that
15 right?

16 A. Yes.

17 Q. So the wires company would collect the
18 tier 1 and the tier 2 charges and then pass those
19 through to the GenCo.

20 A. It's possible that those charges could go
21 directly to the GenCo and -- but it's -- I'm not sure
22 of that. You know, it just depends on the accounting
23 and how the PJM bill comes in.

24 But I think the concept is the same, that
25 that revenue should get over to the GenCo, if it's

1 first collected by AEP Ohio, it would be passed
2 through; if it can be collected directly from the
3 GenCo, then you wouldn't need that step.

4 Q. Now, so this contract for capacity would
5 also be using above-market pricing; is that correct?

6 A. I'm not sure I ever considered RPM
7 necessarily market pricing. Marketing pricing can be
8 determined a lot of different ways, there's bilateral
9 contracts that we have with, for example, wholesale
10 customers that's a negotiated contract rate and they
11 have similar capacity charges to what --

12 The 355, for example, we had an example
13 where we used one of our wholesale contracts to
14 develop those rates and we have a lot of contracts on
15 the East wholesale customers that pay the same price
16 and are negotiated contracts, they did it freely
17 paying to us, we negotiated.

18 So I think what you're referring to is an
19 RPM short-term price for capacity so I just want to
20 make that -- if you're asking whether it's not going
21 to be RPM price, I'll agree. But I'm not going to go
22 as far as saying it's not market.

23 Q. Okay. The price on the contract will be
24 higher than the RPM price in effect during that same
25 time period, correct?

1 A. And you're comparing, Mr. Lang, the
2 two-tiered --

3 Q. Correct.

4 A. -- capacity pricing to that?

5 Yeah, I would think during that contract
6 period that, yeah, the highest rate I've seen during
7 that period it's \$20 starting June this year, goes to
8 \$34 and then I think about \$154. So I think the
9 blended rate would be above those numbers.

10 Q. Mr. Nelson, if the Federal Energy
11 Regulatory Commission does not approve the contract
12 that we've been discussing with the GenCo because it
13 is an above-market rate, do you know whether AEP Ohio
14 would terminate the modified ESP?

15 MR. CONWAY: Objection. He just
16 mischaracterized, I believe, the witness's prior
17 response to part of the current question,
18 above-market rate characterization.

19 EXAMINER SEE: Mr. Conway, you're going
20 to need to use the mic, pull it closer.

21 MR. CONWAY: I thought I was, your Honor,
22 sorry. I made an objection.

23 EXAMINER SEE: I heard that.

24 MR. CONWAY: And my objection was and is
25 I think he mischaracterized the witness's prior

1 response and then I referenced the part of the
2 question that referenced the above-market rate as
3 being the point at which I thought he
4 mischaracterized the witness's prior response as part
5 of the current question.

6 EXAMINER SEE: Mr. Lang.

7 MR. LANG: Your Honor, I'd like -- I'm
8 hoping to get an answer to my question, now that the
9 witness has been advised on the answer, potentially,
10 I would still like an answer to my question.

11 MR. CONWAY: Your Honor, I made an
12 objection, thank you, and I'll accept your ruling,
13 whatever it is.

14 EXAMINER SEE: Mr. Nelson, answer the
15 question to the best of your ability.

16 A. I didn't need the objection because I had
17 the same problem with the question. I'm not sure
18 that the FERC would look to the RPM rate and say just
19 because a contract doesn't use the RPM rate that
20 they'd have any problem with it.

21 As I said, we have many contracts, we
22 have 22 wholesale contracts in the East that have
23 been approved by FERC at a cost-based rate so I don't
24 think there's going to be any problem there at all.

25 Q. (By Mr. Lang) Well, if it's not approved,

1 if the contract is not approved, is that a key
2 element of the modified ESP that would result in
3 AEP Ohio terminating the modified ESP?

4 A. That's a little beyond my scope of my
5 testimony and my ability as a nonattorney to answer
6 what would become of, you know, what our legal
7 options are as well as I'm not here to testify on
8 what we may do in response to changes to our plan
9 either at FERC or at the PUCO level.

10 Q. Have you had any discussions internally
11 with the other AEP business folks about the risks
12 associated with obtaining approval of these contracts
13 from the FERC?

14 A. I've had conversations concerning the
15 FERC contracts. Of course, we had filed a set that
16 we ultimately withdrew back in February of this year.
17 I don't think we consider a lot of risk if the, you
18 know, PUCO was happy with the contract.

19 I think if the PUCO supported the ESP and
20 supported the contracts that we've developed, I would
21 think that we would not have a lot of risk at FERC.
22 That's just my opinion.

23 Q. And you had referenced earlier the, I
24 think you called it a bridge agreement as one of the
25 contracts that was filed with FERC in February?

1 A. Yes.

2 Q. And it's the bridge -- I know there were
3 a few different agreements filed with FERC in
4 February. It's your understanding that the bridge
5 agreement is the one that deals -- would deal with
6 the GenCo's provision of capacity for shopping load
7 in Ohio during the bridge period; is that right?

8 A. No. I'm referring to the bridge period,
9 the bridge agreement being the term we used I believe
10 at FERC. What we referred to in the contract we
11 talked about earlier between AEP Ohio and the GenCo
12 was related, that would be called the SSO contract.

13 The bridge agreement was the fact that it
14 involved more than just AEP Ohio and the GenCo, it
15 involves the other AEP East companies. It was how we
16 unwind the pool over this period. There's some
17 cleanup items related to the pool termination that
18 not only affects AEP Ohio but affects, you know, the
19 other operating companies in the pool agreement.

20 And, of course, one of the big ones is
21 the one we just talked about, there's the FRR
22 commitment that if AEP Ohio, if GenCo pulled out all
23 its capacity, the AEP East FRR commitment would fall
24 apart there. Would be not the generation to meet the
25 load that we self-scheduled.

1 So part of that agreement is to make sure
2 that the GenCo is still there supporting the FRR
3 obligation during this period. That's one of the
4 components of the bridge agreement.

5 Q. So if I wanted to find the price that the
6 GenCo was charging AEP Ohio for providing capacity
7 for the shopping load in Ohio during the bridge
8 period, would I find that price in that bridge
9 agreement or would I have to look elsewhere?

10 A. I don't believe that that price would be
11 in the bridge agreement for the shopping load, I
12 think that is either going to be set by the state
13 mechanism here or the FERC proceeding on the capacity
14 price so that would be a separate item.

15 Q. Now, for the capacity provided for the
16 shopping load is there a provision anywhere in the
17 modified ESP under which AEP Ohio would determine
18 whether it can acquire uncommitted capacity from
19 third parties at a price that is better than the
20 blended price that the GenCo would receive for that
21 capacity?

22 THE WITNESS: Could you reread that
23 question?

24 (Record read.)

25 A. Could you rephrase it?

1 Q. Asking again the capacity post corporate
2 separation that will be provided by the GenCo for the
3 shopping load.

4 A. Shopping load, okay.

5 Q. Is there any provision in the modified
6 ESP under which AEP Ohio could go out and determine
7 whether there's uncommitted capacity available from
8 third parties that it can buy for a lower price than
9 the blended rate that's going to be paid to the
10 GenCo?

11 A. No. I wouldn't think so. One of the
12 things I think we've got to recognize is that we,
13 during this period of the FRR commitment, AEP already
14 has capacity in the East to meet all its load, its
15 shopping and nonshopping load, and those resources
16 have been committed.

17 To go out and buy additional capacity to
18 me is just an additional cost that you don't need,
19 it's buying something you don't need. You've already
20 got the capacity to fulfill the obligation, there's a
21 cost with that capacity, so I don't know why you'd
22 ever -- it would be beneficial to anybody,
23 particularly the company, to go out and add capacity
24 you don't need. It's going to cost you something.

25 It's like if I was going out to buy a

1 washing machine, I search around, I find a washing
2 machine for \$800, two weeks later there's a sale and
3 I see it's \$600. I think the way people were
4 thinking is now I can go out and buy that for
5 \$600 and I just saved myself \$200.

6 The way I look at it is you just cost an
7 additional \$600, you already have the \$800 you
8 already spent so that's kind of the way I look at it.
9 It's just an added cost. We are not in the market
10 for capacity if we need capacity we'll buy for
11 customers but we'll just not go out and buy capacity,
12 because it's a cost for AEP.

13 East, by the way, if you buy capacity
14 from the market, it gets MLR'd. We have attorneys, I
15 don't see Mike Kurtz here today, but if we try to
16 pass through capacity we didn't need on the AEP
17 system through the pool we, you know, would have a
18 problem.

19 Q. So I guess your view is, as you said, the
20 costs don't go away just because there's something
21 cheaper out there.

22 A. That's correct.

23 Q. And as you said, the FRR commitment is a
24 system commitment, not a commitment of AEP Ohio as
25 the wires company, correct?

1 A. That's correct. It's a system
2 commitment. AEP Ohio is one of the system -- still
3 is today, and Appalachian Power Company,
4 Indiana-Michigan Power Company, Kentucky Power
5 Company, and then after corporate separation we are
6 adding the AEP GenCo to that agreement, AEP Ohio will
7 still be in there but we'll have an additional
8 entity.

9 Q. So after corporate separation as you
10 describe it the GenCo, because the GenCo will have
11 the resources to supply the load, it would just be an
12 extra cost to go out and acquire -- an extra cost for
13 AEP Ohio to go out and acquire capacity that it
14 doesn't need, correct?

15 A. Yeah, if you acquire capacity you don't
16 need, it would be an extra cost, it might be an extra
17 cost to the whole system. It depends on if you're
18 talking about pre or post corporate separation, who's
19 acquiring it. But certainly if you don't need
20 capacity, there's no point, I don't care if it's
21 almost free at 20 bucks or \$200, if you don't need
22 it, why buy it?

23 Q. So, and I can ask this question because
24 I'm totally unaware of what may have happened, but I
25 can ask you as a hypothetical, if, say, Exelon

1 offered AEP Ohio capacity for the 2014-'15 planning
2 year at, say, a hundred per megawatt-day, AEP Ohio
3 would decline that offer.

4 A. Certainly today it would be problematic
5 if it's -- you know, the first question I'd have is
6 is that an MLR transaction? They've offered it to
7 AEP Ohio but if you buy capacity short term
8 purchases, both energy and capacity tend to get MLR'd
9 so all the operating companies would get it. We'd
10 have to justify that decision, obviously, in every
11 state.

12 And if we don't need that capacity, you
13 know, if there's some legitimate reason for it,
14 perhaps, you know, and there could be, I'm just
15 saying in this instance where you really don't need
16 to meet your load you wouldn't purchase that capacity
17 I wouldn't think.

18 Q. All right. So for -- and you say it has
19 to be MLR'd so if that purchase was made, then,
20 approximately 40 percent of the cost of that purchase
21 would be borne by Ohio Power and the other
22 approximately 60 percent would be allocated to the
23 other East members, is that --

24 A. Yes, if it was considered a purchase from
25 the market, that's the way we handle that today, they

1 each would get their MLR share of that purchase.

2 Q. Now, on page 8 of your testimony starting
3 at line 10 there's a question and answer about
4 conducting an auction-based SSO before corporate
5 separation and before the pool is terminated. Is
6 what you're discussing here, could that include
7 either an energy-only auction or an energy and
8 capacity auction?

9 A. Yeah, I think either would be problematic
10 before the pool terminating.

11 Q. And are you also thinking about an
12 auction for 100 percent of the load?

13 A. That's the way I was thinking about it.
14 You know, I'm more pool focused and I, you know, I
15 have a little heartburn around the 5 percent auction,
16 but, you know, 75 percent of the nonshopping load, so
17 it's rather de minimis in the scheme of things, so I
18 suspect we can handle that level.

19 Q. And so the 5 percent auction can be
20 accommodated.

21 A. Can it be accommodated? Perhaps.

22 Q. Now, the SSO auction that you're
23 discussing here on page 8 of your testimony would
24 displace revenues that AEP Ohio receives from current
25 SSO generation rates, correct?

1 A. Yes. And let's talk about, I'm assuming
2 we're talking about the full hundred percent auction,
3 both capacity and energy.

4 Q. Let's use an example, a hundred percent
5 energy-only auction.

6 A. Okay. Yes, we wouldn't -- we no longer
7 get the energy rates from the SSO customers, so that
8 would go away. What AEP Ohio would receive would be
9 they would have purchased power coming in I assume
10 from the winning bidders, if it's a wholesale
11 auction, and then that would be a pass-through to the
12 customers and they would receive revenue offsetting
13 that.

14 And then what would happen, of course,
15 the next step is their generation would be -- have no
16 load to serve, it would be subject to the market,
17 energy market, and, of course, while the pool is in
18 existence they'd only get to 40 percent of that sale
19 into the market.

20 Q. So is this similar to what we just had
21 been talking about for -- on the capacity side that
22 if you have that 100 percent energy-only auction, you
23 still have -- AEP Ohio obviously still has generating
24 facilities but it doesn't have revenue supporting
25 those costs.

1 A. Yes, that's correct.

2 Q. And your view is that having existing
3 plant costs plus purchased power costs is not a good
4 thing because somebody needs to pay for all of those
5 costs; is that fair?

6 A. Yeah, duplicative costs for companies is
7 not a good thing, we would certainly want to only
8 have -- you don't want unnecessary costs, I think
9 I'll agree with that part of it.

10 Q. And even if the AEP Service Corporation
11 and its wholesale entity that participates in
12 auctions, even if they participated in the auction,
13 there is no guarantee that AEP would win and still
14 have that revenue; is that correct?

15 A. Mr. Lang, was it the participating AEP
16 entity did you say?

17 Q. Instead of -- well, let's ask you two
18 different ways. If AEP Ohio were to participate in
19 that auction, is it your understanding that -- let me
20 get to the right place.

21 Is it your understanding that for this
22 type of auction that would be held prior to corporate
23 separation and prior to pool termination, that's
24 something that AEP Ohio would not participate in
25 because it's prior to corporate separation?

1 A. I hate to make too many statements around
2 this because, one, I just don't see it being a viable
3 option to do this sort of thing prior to pool
4 termination and corporate separation because the
5 problems really aren't limited to AEP Ohio.

6 When the pool is involved, any cost that
7 goes into a pool flows among all its members and I
8 don't want to have to sit in front of the other state
9 commissions and, you know, justify something that's
10 happened in Ohio and has driven up their costs, and
11 there's that potential.

12 So I don't want to, I accept your
13 premise, I just can't answer your question because I
14 don't think it's a viable option.

15 Q. Is your answer the same if the Commercial
16 Operations group of the Service Corp. were to
17 participate in the auction?

18 A. Well, as I mentioned, the Service Corp.
19 is the marketing function of the AEP pool so I'm not
20 sure I can distinguish them from the pool itself.
21 They're acting as an agent I think on behalf of the
22 member companies in marketing their wholesale power,
23 so I'm not sure beyond that how to answer that
24 question.

25 I don't see them as a separate

1 participant in one of the member's own auctions, it's
2 just a very confusing scenario, and in fact, when you
3 start to get in the pool, that's one of my big
4 concerns. As I said it's all interrelated and to
5 even think some of these transaction through is very
6 difficult.

7 So, you know, the way I look at them is
8 that we've, you know, we gave notice on the pool even
9 a year in advance before we were going to do the
10 corporate separation and so forth and we planned to
11 separate it on 11/2014 and I think we're about a year
12 and a half from that termination, I think that we
13 should let that happen.

14 I think it will definitely help not only
15 in Ohio here but in all our states to let that run
16 its course. So I don't think we want to jeopardize
17 that.

18 And importantly is that it is a FERC
19 contract. We can't let each state pick and choose
20 what they would like to have a pool and how the pool
21 flows happen. We face that situation not necessarily
22 here but, you know, a lot of different states, they
23 like parts of it, they don't like parts of it, and
24 each would like to change the pool to meet its needs.

25 And I don't think with about a year and a

1 half left before that termination we should be -- I'd
2 heard the suggestion we might go in and modify it or
3 something. I just see that being something that
4 really couldn't happen in this timeframe. If you go
5 in for modification, any aspect of the pool, it would
6 be open to modify all aspects of the pool.

7 I know that was a long-winded answer, but
8 I'm trying to get to the fact that I just don't see
9 scenarios where the pool is in place that auctions
10 will really, other than a maybe de minimis 5 percent
11 auction or something like that would really work
12 well.

13 Q. So to take you back to my question about
14 the Commercial Operations group, is it your
15 understanding that whether it's the Commercial
16 Operations group participating in the auction or
17 AEP Ohio participating in the auction, either way
18 there's still the MLR issue that you described that
19 would allocate the costs of that auction among the
20 pool members?

21 A. Yes, there are a lot of pool issues
22 regardless of who's bidding in the auction, whether
23 AEP's participating or not, so I don't want to -- it
24 doesn't make any difference who's participating in
25 the auction. The pool is the issue.

1 Q. And then any of the -- any of the energy
2 that is Ohio Power, AEP Ohio energy that would be
3 freed up as a result of an auction, that could also
4 be sold into the PJM market but, again, that sale
5 would have the same MLR issue, the revenues would
6 have to be divided up among the pool members; is that
7 correct?

8 A. Yeah. As far as an energy sale in the
9 PJM market you really can't tag a kWh so any sale
10 into the PJM market under the pool gets MLR'd. And
11 that's MLR is member load ratio, it's a ratio you
12 apply. I used it as a verb, that's . . .

13 Q. Right. So it's good to explain, we've
14 been talking about it so often over the last several
15 months it's good to have the explanation in the
16 record. Thank you.

17 Is it fair to say that you have not made
18 any effort to quantify what the financial harm would
19 be from an auction-based SSO that would occur before
20 corporate separation?

21 A. No, I wouldn't have enough information to
22 estimate that anyway, you'd have to make a lot of
23 assumptions.

24 Q. Now, at page 10 of your testimony on line
25 10, actually it looks like it starts on line 9 going

1 on to line 10, you say "After Corporate Separation
2 the FRR generation obligation of AEP Ohio will be
3 assigned to the GenCo...." Is it your understanding
4 that that assignment will occur through a contract?

5 A. Yes; that's what we just talked about a
6 little earlier, that bridge contract.

7 Q. The bridge agreement.

8 A. Yeah, bridge agreement.

9 Q. Obviously, and I think you had said -- so
10 the bridge agreement is one of the contracts that
11 would be or will be filed at FERC so it would require
12 FERC approval.

13 A. Yes.

14 Q. So after corporate separation AEP
15 Generation Resources will be responsible for what
16 currently is AEP Ohio's FRR obligation; is that
17 right?

18 A. That's correct. AEP Ohio would also in
19 connection with this, assign its MLR to the GenCo.

20 Q. When you said it would assign its MLR, in
21 both -- would that occur in both directions?

22 A. There would be only one direction, the
23 GenCo wouldn't have a member load ratio but, you
24 know, the reason I mentioned that is each of the
25 companies now have one; AEP Ohio, Appalachian,

1 Kentucky, and I&M, and they add to a hundred percent.
2 And after corporate separation then Ohio Power's
3 40 percent obligation goes over to the GenCo.

4 Q. Now, is it fair to say that it is the AEP
5 East system that has committed to the FRR obligation
6 for all of the load in the East zone?

7 A. Yes. It was an election by the East
8 system. PJM does not look at AEP East as individual
9 operating companies.

10 Q. So AEP Ohio's generating facilities and
11 you also mentioned the contracts that AEP Ohio has
12 access to, both the generating facilities and the
13 generation it has access through contract that are
14 part of the total pool of resources that can be used
15 by the AEP East system to satisfy the FRR obligation;
16 is that correct?

17 A. I think the only exception might be
18 around some wind contracts and there's the Wyandot
19 Solar contract which I think is actually on the low
20 side, but the wind contracts would be the exception.
21 Our corporate separation plan is to leave the
22 renewable contracts with AEP Ohio.

23 Q. So but other than some of the renewable
24 contracts, the generating facilities, the other
25 contracts like with Lawrenceburg and OVEC, those are

1 all part of the total pool of the AEP East system
2 resources that are used to satisfy the FRR
3 obligation; is that right?

4 A. That's correct.

5 Q. Okay. And it's the pool of those
6 resources of the East system that satisfies the FRR
7 obligation for all of the load in the AEP East zone,
8 it's not done on a state-by-state basis, correct?

9 A. That's correct. That's my understanding.

10 Q. Now, AEP Service Corporation I guess has
11 many roles but for this purpose they are the agent
12 that acts on behalf of the AEP East system; is that
13 right?

14 A. Yes.

15 Q. And that's, in addition to that AEP --
16 the pool members, that also includes Wheeling Power
17 and Kingsport Power.

18 A. Yes. I think since Wheeling and
19 Kingsport have load, when you look at the load side
20 of it, they don't have generation resources, they
21 have purchased power contracts with affiliates that
22 they do have load obligations so I usually include
23 them in the mix.

24 Q. So it's the AEP Service Corporation as
25 the agent that designates the units and the contracts

1 that are used to meet the FRR obligation.

2 A. Yes. The Service Corporation would have
3 that role.

4 Q. Now, for the next three planning years,
5 this is the last three years of the FRR, that
6 designation has already taken place, correct?

7 A. Yes, load has been designated FRR and
8 utilities have been committed already for that
9 period.

10 Q. For the next three planning years do you
11 know which Ohio Power-owned units have not been
12 designated by AEP Service Corp. to meet the FRR
13 obligation?

14 A. For the next three years I don't know, it
15 might be a little different each year. I don't know.
16 I would assume that, you know, there might be some of
17 the ones that we thought might retire.

18 For example, Conesville 3 is going to
19 retire at the end of this year, so if you're looking
20 at the planning year beyond this year you wouldn't
21 expect to see Conesville 3 in that. So I think it's
22 primarily going to be related to our assumptions
23 around which units might retire during this period.

24 Q. Do you know whether all of the AEP Ohio
25 contracts, power contracts, have been designated for

1 the next three years?

2 A. I really haven't looked at a list of the
3 commitments for the next three years, or if I did, I
4 don't recall exactly what contracts were on there.

5 Q. Do you know whether AEP East system
6 resources that are not scheduled for retirement, so
7 it would be functioning during that three-year
8 period, whether -- do you know of any resources that
9 have not been designated to meet the FRR obligation?

10 A. I don't know any specific ones but it's
11 possible there have been, you know, you have units,
12 if you have more capacity than you need you might not
13 designate all those units and you would want to be a
14 little safe around units that might, for example,
15 you're not sure they would retire or are not
16 performing well, you may not want to rely on those
17 units, you may keep them out of that list. But I
18 don't know specifically any.

19 Q. Now, on your Exhibit PJN-2 you list
20 retirements estimated by June 1, 2015. Is it fair to
21 say that these retirements will not prevent AEP East
22 from meeting its capacity obligations to load through
23 May 31, 2015?

24 A. That's my understanding. I think we're,
25 you know, we're close, closer than we would have been

1 in the past, but my understanding is we have a plan
2 in place to file with PJM that meets our
3 requirements.

4 Q. Now, on page 13 of your testimony in the
5 question that starts on line 12, the answer starts on
6 line 14, here you're talking about AEP Ohio procuring
7 capacity resources after June 1, 2015, and the
8 question is about procuring those resources to serve
9 its SSO load obligation.

10 In this answer are you suggesting that
11 AEP Ohio might not put all of its load into the RPM
12 auction starting June -- on and after June 1, 2015?

13 A. No. I would think they'd bid all their
14 load in, they just would -- and I think there may be
15 somewhat independent transactions. AEP Ohio can also
16 bid in a resource into the RPM market as well, so I
17 think they would bid all their load in.

18 Q. So you can't pull load out of RPM to --
19 pull some portion of the load out to satisfy it with
20 your separately owned capacity; is that your
21 understanding?

22 A. I don't want to hold myself out as an
23 expert on all this stuff, but that's my
24 understanding. We do have another witness, Frank
25 Graves, who also testifies to the RPM market and, you

1 know, you may want to ask him these questions. I'll
2 defer to him.

3 Q. Now, you state resources owned would need
4 to be bid into the RPM auction. So is it your
5 understanding that if AEP Ohio has its own capacity
6 after corporate separation, owns its own generation,
7 that that does have to be bid into the RPM auction?

8 A. I believe it would, but, you know, there
9 could be exceptions or caveats and I can't be
10 absolute in my statement but I believe that they
11 would be required to bid that into the auction.

12 Unless they would, you know, designate
13 FRR, I think there's, you know, those two choices as
14 I understand it so I would see them bidding that --
15 those generating units into RPM.

16 Q. Now, certainly for the -- at least the
17 five years after June 1, 2015, FRR is not an option
18 so other than that are there any exceptions that you
19 would have in your mind to bidding that capacity into
20 the RPM auction?

21 MR. CONWAY: Excuse me, can I have the
22 question read back, please?

23 (Record read.)

24 A. One thing I'd want to state, and I think
25 this relates to a question that Commissioner Porter

1 had asked earlier, the load is obligated for five
2 years into the RPM market. You designate the
3 capacity resources year to year. And obviously that
4 allows things like retirement and so forth you would
5 designate each year. It's a year-by-year election
6 for those resources into the market.

7 Q. And thank you, I did ask that question
8 wrong, so thank you.

9 So is the -- so then is it your
10 understanding that, taking the Turning Point Solar
11 facility as an example, that the company would decide
12 on a year-by-year basis whether to offer Turning
13 Point into the auction?

14 A. Well, yes. Designating the resources is
15 a year-by-year decision.

16 Q. Now, if Turning Point is approved by the
17 Commission, is it fair to say at this point in time
18 you don't know one way or the other whether AEP Ohio
19 would offer it into the RPM auction?

20 MR. CONWAY: Your Honor, at this point I
21 just would like to caution the witness and Mr. Lang
22 to take some care with regard to trying to pin down
23 or divulge what might or might not be committed as a
24 matter of capacity resources.

25 Because I believe the witness can, I'm

1 sure, take care of himself, but I believe that in
2 some respects, if not all, that information, that is
3 proprietary and confidential, so.

4 MR. LANG: And that's -- with that
5 statement I certainly don't know whether or not that
6 is confidential, so if it is, please tell me.

7 A. I think to play it a little safe around
8 the confidentiality issue, we could talk about new
9 generating resources come on and what maybe the
10 process there is, whether it's Turning Point or
11 another generating resource, but until, you know, a
12 unit is built, you wouldn't necessarily put it in
13 until you know when it's going to be in service and
14 it has to be there.

15 So with that clarification, I mean, maybe
16 that answered your question.

17 Q. And also speaking generally whether it's
18 Turning Point or any other generating facility that
19 would be included under the generation resource
20 rider, you don't know whether if that resource were
21 offered into the RPM auction, whether it would clear
22 in that auction. Is that fair?

23 A. Yeah, you'd have to -- of course, you bid
24 in the units and you're not sure if they're all going
25 to clear.

1 Q. Now, with regard to AEP Ohio or the East
2 pool generally satisfying the FRR obligations prior
3 to June 1, 2015, there's no -- neither AEP Ohio nor
4 the East zone would need Turning Point as an
5 additional capacity -- as additional capacity to
6 satisfy those capacity obligations, correct?

7 A. I don't know ultimately if it will be
8 needed during that period, but I don't think it would
9 have been part of our plan submitted so far,
10 obviously, since it's not in existence yet. That's
11 about all I can say on that topic.

12 Q. So on that basis for as long as the FRR
13 remains in effect, for the next three planning years,
14 as you've described it, there's already a plan in
15 place that has sufficient capacity to meet the FRR
16 obligation, correct?

17 A. That's correct. The other thing I
18 mentioned, I think this Commission has set up a needs
19 process with Turning Point, I think they had a
20 hearing on the need. So I don't know if that
21 shortcuts any of this discussion, but I would -- I
22 don't know what was discussed around the needs issues
23 and the plan for Turning Point.

24 Q. Understood. I'm just asking specifically
25 about the FRR obligation for the next three years.

1 Just with regard to that FRR obligation you don't see
2 that Turning Point facility is needed to satisfy that
3 FRR obligation, correct?

4 A. Yeah, based on the fact that I wouldn't
5 believe it would be in there. I could be wrong, as I
6 told you I haven't looked at the actual plan, but I
7 doubt whether it was in there, in our plan.

8 Q. Now, starting June 1, 2015, AEP Ohio will
9 rely upon PJM to ensure there is adequate capacity
10 through the RPM auction, correct?

11 A. Yes, for its load it will rely upon PJM
12 auction.

13 Q. Now, with regard to Turning Point, you
14 have not prepared a revenue requirement analysis for
15 Turning Point; is that right?

16 A. In the supplemental testimony filed on
17 May 2nd in response to the Commission's request
18 we've provided a preliminary revenue requirement.

19 Q. Is there a difference between kind of the
20 preliminary, you know, filing that you made and what
21 you think of in your mind as a revenue requirement
22 analysis?

23 A. Yes. Only to the extent that we
24 anticipated that we would come back with subsequent
25 filing which would have more meat on the bones in

1 terms of estimates around, you know, what type of
2 costs Turning Point has.

3 So this is just -- I think it's a fairly
4 good estimate, I don't want to give that impression,
5 but we see that these numbers would be updated in the
6 subsequent filing.

7 Q. So as of now is it fair to say that you
8 do not know what the total cost will be that
9 customers will pay for Turning Point during the term
10 of the ESP? Assuming it's approved.

11 A. Again, I would say that we don't know
12 specifically what we're going to request in the next
13 stage as far as the revenue requirement, but we do
14 have a pretty reliable estimate here of the impacts
15 during the period.

16 Q. Now, is there some uncertainty related to
17 simply the fact that you never really know what the
18 total costs are of a facility ahead of time?

19 A. Yeah, there's the aspect that you have
20 contracts to sign, you have to obviously do the
21 construction and so forth, you only have estimates
22 around a project like this.

23 At some point the costs are known but
24 going forward obviously costs can change over time if
25 you have a facility in for 20 years.

1 So you'll have good estimates once you've
2 signed all the contracts and started construction and
3 then, of course, ultimately you're going to have the
4 actual costs of that facility.

5 Q. So we also don't know at this point what
6 the total costs would be for Turning Point over the
7 life of the facility. Is that fair?

8 A. I think with any generating facility you
9 never know total costs over the life of the facility.
10 You just have to make an estimate.

11 Q. Now, you have not been directly involved
12 in the negotiations of the contracts relating to
13 Turning Point.

14 A. No.

15 Q. You do have an understanding that there
16 are some open tax issues, correct?

17 A. Yeah, I haven't had a lot of discussions
18 since really last year. We had gone through a
19 process, we filed supplemental testimony, we had a
20 few more witnesses and we had a tax witness, you
21 know, accounting witness for structure and so forth
22 and I haven't had occasion to talk with those folks
23 to see if, you know, any of the tax issues have been
24 cleared up and so forth. But I think the tax folks
25 have put input into this, I just haven't had personal

1 contact with them.

2 Q. Is it your understanding that one of the
3 tax issues is whether the facility qualifies for the
4 federal investment tax credit?

5 A. As I recall that was one of the issues.
6 Again, this type of question would be better if we
7 had the, you know, we're in the subsequent case where
8 we're going to have more support for all these
9 issues.

10 Q. Well, with regard to the costs that are
11 reflected in your supplemental testimony, they are
12 not based on a signed contract with the developers of
13 the facility; is that true?

14 A. I really don't know what contracts have
15 been signed.

16 Q. Okay. So you don't know the status of
17 the contracts.

18 A. I don't know the status of the contracts.

19 Q. Do you know whether there is a contract
20 that establishes the price at which AEP Ohio would
21 purchase the output from Turning Point?

22 A. I don't know.

23 Q. Do you know whether any contracts
24 associated with the Turning Point facility have been
25 competitively bid?

1 A. Don't know.

2 Q. Do you know whether the selection of
3 Turning Point as a solar resource as opposed to some
4 other solar resource was competitively bid?

5 A. No. Again, I just haven't been involved
6 in that detail. Alls I was doing was providing the
7 revenue requirement here based on current estimates.

8 Q. So you also wouldn't know whether, for
9 example, the solar panels and the acquisition of the
10 solar panels was competitively bid.

11 A. Again, I just don't know about any status
12 of those things.

13 Q. Do you know how the cost of the solar
14 panels that is shown in your supplemental testimony
15 was determined?

16 A. No. Other than knowing that the folks
17 that were -- have been involved in this project all
18 along provided estimates to me for the revenue
19 requirements, but other than that I really don't know
20 the particulars.

21 Q. Do you know whether a contractor has been
22 selected yet for the actual construction of the
23 facility?

24 A. I don't know.

25 Q. Now, your supplemental testimony does not

1 include a levelized cost for Turning Point; is that
2 right?

3 A. That's correct.

4 Q. On your Exhibit PJN-5 on page 7 I think
5 there's confidential information but I don't want to
6 ask you about any of the actual numbers. Do you know
7 whether the numbers that do appear on page 7 of
8 PJN-5, whether they were prepared internally or
9 whether AEP used someone from the outside to put
10 those together?

11 A. I don't know which numbers were done
12 internally versus estimates from consultants,
13 et cetera. I don't know.

14 Q. Now, AEP Ohio currently has a long-term
15 contract with the Wyandot Solar facility, I think you
16 mentioned earlier; is that right?

17 A. Yes.

18 Q. And the cost of that contract with
19 Wyandot is currently recovered through the fuel
20 adjustment clause; is that right?

21 A. That's correct.

22 Q. And under the modified ESP the costs of
23 that contract would be, I guess, split between the
24 FAC and the alternative energy rider; is that right?

25 A. That's correct.

1 Q. And it would be the renewable energy
2 credit cost or the REC cost that would be collected
3 through the alternative energy rider; is that right?

4 A. Yes.

5 Q. Then while the, at least while the fuel
6 adjustment clause exists, the energy and capacity
7 costs of that facility would be on the FAC side,
8 correct?

9 A. Yes.

10 Q. And then when the FAC goes away, what
11 then happens?

12 A. That, as I mentioned earlier, that
13 contract would stay with AEP Ohio and what would
14 happen there is the contract would be -- would be
15 purchased power coming in per the contract on a kWh
16 basis I believe and that contract would be like for
17 Dayton in the PJM market would have a revenue
18 received from the PJM market would be offset against
19 the total cost of the contract and the remaining
20 amount would be the REC value of that contract, which
21 would then be recovered through our AER rider.

22 Q. Now, you are not proposing as part of the
23 modified ESP that the costs of Turning Point be
24 recovered in the same way that AEP Ohio currently
25 recovers the costs of the Wyandot facility, correct?

1 A. That's correct. That this would be an
2 owned facility, it would be under a different
3 provision of the ESP statute.

4 Q. And the purpose of treating it
5 differently is so that both AEP Ohio and the
6 developer on the project can be -- have a guarantee
7 that they will recover the costs of Turning Point
8 from AEP Ohio's customers, correct?

9 A. I don't know if that's the only reason,
10 Mr. Lang, but I would think that would be important.
11 You know, the life of the facility should be 20, 25
12 years, I would think. So yeah, you do need -- to
13 develop a project like that, you want to have some
14 assurance of cost recovery.

15 Q. Do you know how long the contract is for
16 the Wyandot facility?

17 A. I don't.

18 Q. Now, as part of corporate separation
19 AEP Ohio will not transfer any of its existing
20 alternative energy resources either owned or under
21 contract to AEP Generation Resources, correct?

22 A. That's correct. We plan to leave those
23 with AEP Ohio.

24 Q. So if the GenCo is going to own
25 alternative energy resources, it will have to acquire

1 them from someplace else.

2 A. That's my understanding.

3 Q. Now, on page 18, lines 15 through 19 of
4 your testimony, talking about the alternative energy
5 rider here, you state that "The Company will make the
6 quarterly filing of the AER in conjunction with the
7 fuel adjustment clause, while it exists."

8 Now, the fuel adjustment clause will end
9 on -- will end when? Is it December 31, 2014?

10 A. No, the fuel adjustment clause would go
11 through -- I'm sorry, could you repeat the date you
12 used?

13 Q. Is it December 31, 2014, for the end of
14 the FAC?

15 A. Yes.

16 Q. Okay.

17 A. I believe that's correct.

18 Q. So after the fuel adjustment clause ends,
19 do you know whether the AER, the alternative energy
20 rider, will continue as a quarterly filing?

21 A. I don't know what the structure of the
22 filing would be out that far, but we'd have some sort
23 of filing for recovery with the PUCO. It might be
24 quarterly.

25 Q. We're in the homestretch of my questions.

1 On page 21 you discuss the pool
2 termination provision in the modified ESP. And at
3 lines 20 through 22 you state "With the termination
4 of the AEP Pool, the Company will need to find new or
5 additional revenue to recover the costs of its
6 generating assets, or reduce the cost of those
7 assets."

8 Now, on line 20 here when your refer to
9 "the company," you mean AEP Generation Resources,
10 correct?

11 A. Yes. Technically from a legal stance I
12 would say, yeah, it would be AEP Generation
13 Resources. You know, I kind of look at these two
14 during this period as pretty much joined at the hip
15 in the sense that it's really AEP Ohio just split
16 into two pieces. But, yeah, in this particular
17 instance it could be interpreted as AEP GenCo.

18 Q. So post corporate separation and post
19 pool termination your view of AEP Ohio and the GenCo
20 is that they're really not quite independent during
21 that period? They're joined at the hip, as you say?

22 A. Yes, for the reasons we talked about
23 earlier, you know, the FRR commitment, there's a
24 bridge agreement, they're involved in the contractual
25 commitments between the two.

1 Q. Also on the next page, on page 22, lines
2 8 and 9, when you refer to "mitigating the financial
3 harm to the GenCo," there you're also referring to
4 AEP Generation Resources, correct? That's what the
5 GenCo is.

6 A. Yes, the GenCo is defined.

7 Q. So if the corporate separation plan is
8 approved including the transfer of Mitchell and Amos
9 3 to Appalachian Power and Kentucky Power, what you
10 describe in your testimony is that AEP Ohio is
11 committing not to seek recovery in the future of any
12 lost revenues associated with the pool termination;
13 is that an accurate summary?

14 A. Yes. If our Amos and Mitchell plan to
15 transfer those assets to APCo and Kentucky goes
16 through, we wouldn't seek any revenue under this
17 particular provision.

18 Q. Now, in your testimony, it's actually at
19 page 22, line 16, when you refer to the corporate
20 separation plan being approved as filed, does that --
21 the corporate separation plan obviously includes more
22 than the transfer of the generation assets and the
23 transfer of Mitchell and Amos, correct?

24 A. That's correct.

25 Q. And some parts of the corporate

1 separation plan are simply the code of conduct
2 provisions that are part of the -- part of the plan
3 that was filed in a separate proceeding with the
4 Public Utilities Commission, correct?

5 A. I believe that's part of that corporate
6 separation plan.

7 Q. So just if the Commission here were to
8 make some changes in the language to the code of
9 conduct which would be acceptable to the -- to
10 AEP Ohio, that's not something that would, you know,
11 trigger this pool termination provision; is that
12 fair?

13 A. I think it's fair in the sense that, you
14 know, we would use our judgment, you know, minor
15 changes to the plan probably, we wouldn't probably
16 come in -- I think we would probably be unsuccessful
17 if they changed a word or two in that plan and we
18 said oh, it didn't get approved so here we come.

19 I think it's meant to say that the plan,
20 the important parts of the plan that mitigate the
21 loss of capacity revenue is what I'm focusing on in
22 this piece of testimony.

23 Q. All right. So that's really what you're
24 describing on the middle of page 22 as the key part
25 is moving those megawatts over to Appalachian Power

1 and Kentucky Power which also moves the cost of those
2 megawatts over to Appalachian Power and Kentucky
3 Power.

4 A. Yeah, and that's what these companies
5 have been paying for, about those megawatts through
6 their pool purchases, so this is roughly equivalent
7 to the pool purchases they've been making.

8 Q. So if AEP Ohio did seek recovery of lost
9 revenues, your understanding is that it would be for
10 the -- the amount of the lost capacity payments under
11 the pool.

12 A. I think that's what we'd focus on, yes.

13 Q. And that has varied, but for the last few
14 years has been around 350 to 400 million dollars on
15 an annual basis; is that right?

16 A. Yeah, I haven't kept track of the actual
17 amounts. As we saw in the capacity case, I think
18 Ohio Power in '10 had received about 420 million. It
19 might be down a little bit from that I think, and
20 Appalachian's had a lower MLR, perhaps, but, yeah,
21 I'd say in that general range.

22 Q. Now, would you also offset against those
23 lost revenues the savings from no longer having to
24 make energy sales to pool members at below market
25 price?

1 A. Yes. I would think you'd take into
2 account things like that. Any, you know, offsetting
3 revenues that if you freed up sales that, you know,
4 primarily the cost and you could get a better margin
5 on those sales that might be one of the things that
6 we would include as an offset.

7 Q. Do you also adjust for -- well, if there
8 are generating assets that are authorized to be moved
9 out of the GenCo, would you also adjust for no longer
10 having the cost of those assets?

11 A. Yes. And in particular the Amos and
12 Mitchell units I think would be what we'd be talking
13 about there. One thing I'll mention is that, you
14 know, we haven't really laid out a complete plan or
15 list, we'd have to -- the provisions allows us to
16 come back in and request it in a future filing and of
17 course it will be debatable.

18 I don't want to say I have all the
19 answers, we just don't know what mitigating things
20 may occur. Obviously, we wouldn't come in and start
21 a proceeding like this again without a good plan or a
22 good rationale, so we haven't laid out a full plan.

23 Alls I'm suggesting is we're just asking
24 for the right to come back in if the corporate
25 separation plan isn't approved as filed, but we

1 haven't laid out all the details because I don't
2 think we know all the components at this time.

3 As I said, yes, you'd probably look at
4 the year before the termination and determine, you
5 know, what your revenues were then, you know, the
6 pool capacity revenues might be lower at that point,
7 et cetera.

8 Q. Is it correct that AEP uses a program or
9 a model that at the end of each month that calculates
10 all of the offsets, the capacity equalization
11 revenues under the pool?

12 A. What we have is a settlement system.

13 Q. Okay.

14 A. At the close of each month the pool has
15 to be settled, so we have a program that does settle
16 all the transactions among the pool members.

17 Q. Has AEP used that program to model the
18 impact of pool termination on different pool members?

19 A. Well, that program I'm talking about is
20 just a, it's a settlement system for actual
21 settlements. It wouldn't be used for this purpose.
22 I mean, there are other modeling that you could do
23 and if we made a filing under this we might run a
24 model at that time to figure out, we'd have to have
25 some support for why we're requesting what we're

1 requesting under this.

2 Q. Do you know if you have modeled that
3 internally?

4 A. We've modeled -- the pool obviously is
5 important to all our companies and finances so, yes,
6 we have that modeling capability. We've modeled a
7 pool, we model it today in our forecast, so, yeah, we
8 would have the capability like that.

9 Q. So have you used the model to estimate
10 the impact of pool termination on AEP Ohio?

11 A. We've used the model and we found with
12 various jurisdictions, you know, other jurisdictions
13 are very interested in what goes on here in Ohio.
14 Obviously, you know, we've presented information to
15 Virginia, Kentucky, I&M around our plan of
16 transferring Amos and Mitchell, and I think we
17 provided in discovery, you know, those studies here.

18 So, yeah, we would use that program, it's
19 PROMOD with post processing to take into account the
20 pool.

21 But, yes, that's something we have done
22 to look at the Amos and Mitchell transfers to show
23 particularly their states that from a cost of service
24 point of view it gives them a good solution that they
25 pay comparable costs to what they were paying in the

1 pool. And, again, I think we provided that in
2 discovery here.

3 Q. So that model, that modeling would have
4 been done for each of the four pool members?

5 A. I think the modeling I remember was for
6 the three, at that point we were thinking we were
7 done in Ohio pretty much and, you know, we didn't
8 focus on Ohio for that reason when we had done the
9 other members because, you know, we were taking that
10 information out to them and, you know, with respect
11 to the FERC filings and showing that this would be a
12 good result for them and meet the requirements once
13 the pool is terminated.

14 Q. So we talked earlier about the capacity
15 equalization payments being on the level of around
16 \$400 million per year. What was the modeling showing
17 as the impact for the other AEP East members, if you
18 remember?

19 A. I think it was, I would say if I had to
20 make a general conclusion about it, it was somewhat
21 of a wash. You know, it would change each period.

22 One thing is the payments themselves, the
23 capacity payments vary a good deal depending on, you
24 know, the MLR, which is set by your peaks, but that
25 particular period we looked at which was '11, you

1 know, it was somewhat of a trade-off. And of course
2 that's one of the reasons that we think we wouldn't
3 probably come in under this provision here is, from
4 what I'm seeing, the other companies are somewhat
5 afraid to have. I would assume we'd see the same in
6 Ohio.

7 Q. When you're talking about that modeling,
8 that's a modeling of the impact as the corporate
9 separation is proposed in your testimony with Amos
10 and Mitchell moving out to Appalachian Power and
11 Kentucky Power?

12 A. Yes.

13 EXAMINER SEE: Mr. Nelson, pull the mic
14 closer to you. I know that you feel like you've been
15 doing this repeatedly for day after day for a few
16 weeks now, but you're trailing off.

17 Q. Potentially two more questions. We've
18 talked about Turning Point and whether it would be --
19 or instead of talking about Turning Point we're
20 talking generally about how a unit would be offered
21 into RPM. Are you familiar with under what
22 circumstances a unit would not be offered into RPM?

23 A. I generally, again, I would recommend
24 maybe following up also with Mr. Graves, he might be
25 able to help you, but pretty much if you have an

1 existing unit my understanding is you're going to
2 offer those units, in and then new units have
3 different rules, but that's about -- I probably
4 shouldn't be the one going too much further on this.

5 Q. And in a section of Mr. Powers' testimony
6 he just -- he raises a, I think it's called an
7 alternative option or an alternative proposal that
8 involves a single capacity price. Do you address in
9 your testimony how that single capacity price might
10 work or, you know, might be run through the corporate
11 separation issues that we've discussed today?

12 A. No, I haven't.

13 MR. LANG: Thank you, Mr. Nelson.

14 And thank you, your Honors.

15 MR. CONWAY: Your Honors -- excuse me.

16 EXAMINER SEE: Let's take a ten-minute
17 break until 10 after 3.

18 (Recess taken.)

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

21 Mr. O'Brien.

22 MR. O'BRIEN: Your Honor, I have no
23 questions for this witness.

24 EXAMINER SEE: Ms. Kaleps-Clark.

25 MS. KALEPS-CLARK: Thank you, your Honor,

1 I just have a quick question or two.

2 - - -

3 CROSS-EXAMINATION

4 By Ms. Kaleps-Clark:

5 Q. Good afternoon, Mr. Nelson. I just have
6 a couple quick questions. I just wanted to start off
7 with the cost of service for AEP Ohio's generation
8 has been valued by AEP Ohio at approximately 356
9 megawatt-hours per day, I'm sorry, megawatts per day,
10 correct?

11 A. Dollar per megawatt-day.

12 Q. Yes, that's what I was going for.

13 A. That's based on 2010.

14 Q. Okay. And after the pool is terminated
15 and the generation units are transferred to AEP
16 GenCo, AEP is proposing a contract between the GenCo
17 and Ohio Power for approximately \$255 per
18 megawatt-day plus the RSR payments. Is that correct?

19 A. Yeah, I just wanted to get a full
20 reference, on page 6 and 7 it goes into the SSO
21 contract so I don't know if your description was
22 complete, but I think those could be considered
23 components of it.

24 There's also the period from
25 January 1st, 2014, through the end of that year is

1 a full requirements contract, energy and capacity,
2 and then, of course, January 1st, 2015, is just a
3 capacity contract.

4 So I don't know if that answers your
5 question, but that's a fuller description. And,
6 again, it's on pages 6 and 7 of my testimony.

7 Q. Okay. So, I mean, is the goal of the
8 contract so that basically the GenCo would recover
9 the 255-megawatt per day as well as the fuel cost and
10 the RSR during that time period?

11 A. Yes. Those are all components of the SSO
12 contract during that period. Well, I should say the
13 first period, the period up to January 1st, '15.
14 At that point the GenCo's no longer supplying the
15 energy because of the full energy auction, so there's
16 only a demand component and that's the 255.

17 Q. Okay.

18 A. At that point. Now, prior to that, as we
19 talked earlier, it's the pass-through of the
20 generation like fixed costs that AEP Ohio's
21 collecting from its retail customers will be passed
22 through to the GenCo for serving that load.

23 Q. Okay. And for the time period why not
24 just have the GenCo charge Ohio Power the
25 356-megawatt per day and have Ohio Power keep the RSR

1 payments?

2 A. Well, one of the reasons is what we're
3 trying to do in this contract is that the Commission
4 is going to approve a plan, say they approve our ESP
5 plan and it has a lot of elements to it, Mr. Powers
6 talked earlier, and one of them is around rate design
7 and so forth.

8 If you start -- and that's one of the
9 reasons, you know, just passing through the revenue
10 that's received under the plan makes sense, it keeps
11 everything the way you expect it to behave, that is
12 that the design of the rates and everything is set by
13 the other parameters of the ESP and that revenue is
14 just passed through.

15 If you start to design a single charge
16 from the GenCo for this period where they're
17 supplying energy, you get into issues around what's
18 rate design and so forth and how is the demand charge
19 passed through.

20 So it's a simpler process that says,
21 well, whatever is set in the ESP for rates is then,
22 you know, if our plan is approved, then that's passed
23 through to the GenCo and that compensation doesn't
24 affect any of the rate designs and such.

25 Mr. Roush might be a good person to

1 follow up. I touched on rate design, I don't want to
2 go any deeper, but he can also help in that regard.

3 Q. Just to follow up, does the RSR then have
4 cost components that would be different than the
5 difference between the 255 and the 356 megawatt per
6 day?

7 A. I'll let Mr. Allen talk to the RSR, I
8 think he's up next and there's no point in me
9 muddying the water. I think you want to ask the
10 witness who knows more about it.

11 MS. KALEPS-CLARK: Thank you, Mr. Nelson,
12 that's all I have.

13 EXAMINER SEE: Ms. Hand?

14 - - -

15 CROSS-EXAMINATION

16 By Ms. Hand:

17 Q. Good afternoon.

18 A. Good afternoon.

19 Q. If you turn to PJN-2, you've got there
20 the list of generating unit retirements that are
21 currently estimated to be retired by June 1, 2014; is
22 that correct?

23 A. That's correct.

24 Q. Now, isn't it true that a continuation of
25 the current low cost for natural gas could cause

1 AEP Ohio to start to become out of merit or the need
2 to shut down additional coal-fired generating units
3 for economic reasons?

4 A. It's possible they wouldn't dispatch if
5 the coal -- gas prices stay down, but I don't think
6 that would necessarily mean that you're going to
7 retire a unit. You'd look at that unit over a longer
8 period to see if it's just a temporary situation or
9 something that required retirement.

10 But I would think, based on our analysis
11 that this should be the list of units that retire
12 during this period. Of course, we don't know the
13 final EPA regulations as well so there's
14 possibilities of change, but I'd say this is a pretty
15 good list.

16 Q. And if you were in a situation where
17 there were additional shutdowns beyond what's on this
18 list, would there be a possibility that that could
19 begin to cause problems maintaining voltage and/or
20 security of the system?

21 A. Yes. It depends on the units that might
22 be affected, but, yeah, they'll have to be looked at,
23 even the units on this list, to see if, you know,
24 they cause any problems with respect to shutdown.

25 Q. And if that situation arises, then there

1 would be a possibility, wouldn't there, that AEP
2 could be required to file for must-run status on one
3 or more of those coal units that it would otherwise
4 shut down?

5 A. Yes; there's an arrangement in PJM that
6 if you're required to run for reliability purposes,
7 they could get what's called an RMR status I believe.

8 Q. And isn't it true that at this time you
9 don't know how revenues from RMR status for capacity
10 or energy would be treated under the fuel adjustment
11 clause or the RSR either before or after the
12 corporate separation?

13 A. I don't personally know those facts, but,
14 you know, I think the accountants might have an idea
15 of how things are accounted for.

16 Q. Moving on to the GenCo, is it correct
17 that at this time you've not yet determined what the
18 capital structure of the GenCo will be?

19 A. That would have been a good question for
20 Renee Hawkins earlier. I don't know, did you ask
21 that question to her?

22 Q. No.

23 A. Okay. I can just stop there but I would
24 say that, yeah, we don't know.

25 Q. Okay. Now, in your deposition you

1 indicated that you would expect it to be more heavily
2 weighted toward equity than the capital structures of
3 the other AEP affiliates; is that correct?

4 A. I would. I hope Renee would agree with
5 me.

6 Q. Hypothetically speaking, if the opposite
7 were true, if the GenCo had a higher debt-to-equity
8 ratio, something along the lines of 70 percent debt
9 and 30 percent equity, wouldn't the GenCo then be
10 able to achieve a lower cost of capital?

11 A. I think I'll stop there. I think those
12 are questions better posed to Renee Hawkins.

13 Q. So you don't know?

14 A. I don't.

15 Q. Now, isn't it true that AEP Ohio is
16 proposing to transfer the generation assets to the
17 GenCo at net book value?

18 A. Yes.

19 Q. Okay. And do you know what the
20 approximate net book value of those assets would be?

21 A. I don't recall. It's probably contained
22 in our FERC filing that got withdrawn in February.
23 There would have been an estimate, I think it was
24 based on September 30th, 2011, so, you know, it
25 could be looked up there, that would be a good place

1 to look.

2 Q. Would you think that a figure like
3 \$6 billion might be somewhere in the right
4 neighborhood? Ballpark, not an exact number, but
5 approximate.

6 A. I just wouldn't hazard a guess. You
7 know, Witness Mitchell might remember the pro forma
8 accounting adjustments relating to the filing I just
9 mentioned.

10 Q. And there is a deferred tax liability
11 associated with those assets, isn't there?

12 A. You mean a ADFIT type adjustment?

13 Q. Correct.

14 A. Yes.

15 Q. And that would have arisen largely as the
16 result of tax depreciation being in excess of book
17 depreciation; is that correct?

18 A. That's my understanding. Again, I'd ask
19 Witness Mitchell you've got an accountant here, a CPA
20 who's going to be following, so those are better
21 questions to him.

22 Q. Okay. Now, is it correct that there will
23 not be any income tax on the tax gain associated with
24 the transfer of the generating assets when the --
25 that will come due when the assets are transferred?

1 Is that correct?

2 A. I think you said there was going to be a
3 tax gain.

4 Q. No income tax --

5 A. You said something about no income tax on
6 the tax gain.

7 Q. No income tax on the tax gain.

8 A. I don't know if there was any gain, no,
9 if you were transferring at net book value again,
10 better question for Mr. Mitchell.

11 Q. Assuming that there would be a gain and
12 that that would not be a taxable event at the time of
13 the transfer, when the assets are transferred to the
14 GenCo, if they're transferred as proposed, where, if
15 at all, would ratepayers receive recognition for the
16 the ADFIT type of taxes that Ohio Power -- that are
17 currently on the books?

18 MR. CONWAY: Objection, first to the
19 form, second to the premise which I think he's
20 already disagreed with, so on both scores it's
21 objectionable.

22 MS. HAND: I can try to rephrase, if that
23 would be helpful.

24 EXAMINER SEE: Please, Ms. Hand.

25 Q. You've agreed that there is an ADT

1 associated with the assets that are going to be
2 transferred, correct?

3 A. Yes.

4 Q. Yes. And if there is no tax -- if the
5 transfer of assets is not a taxable event, where, if
6 at all, will ratepayers receive the value of the ADIT
7 or the -- back?

8 A. I guess I have a problem with the premise
9 of your question, I don't quite understand it.
10 Again, if you want to pursue that question, I would
11 pursue it with Mr. Mitchell. I don't think it's a
12 valid question myself.

13 Q. Okay.

14 MS. HAND: That's all I've got. Thank
15 you.

16 EXAMINER SEE: Mr. Yurick?

17 MR. YURICK: No questions for this
18 witness, your Honor, thank you.

19 EXAMINER SEE: Ms. Thompson?

20 MS. THOMPSON: Thank you, your Honor,
21 just a few questions.

22 - - -

23 CROSS-EXAMINATION

24 By Ms. Thompson:

25 Q. Good afternoon, Mr. Nelson.

1 A. Good afternoon.

2 Q. I have a few questions for you regarding
3 the generation resource rider.

4 A. Okay.

5 Q. On page 20, lines 9 through 11 you
6 testify that the GRR will be a nonbypassable rider to
7 recover the costs of new generation resources,
8 correct?

9 A. Yes.

10 Q. And am I correct that all AEP customers
11 will pay for the rider?

12 A. Yes.

13 Q. And that includes customers in AEP's
14 default service load?

15 A. Both shopping and nonshopping.

16 Q. Both shopping and nonshopping.

17 A. Yes.

18 Q. Then the renewable energy credits, or
19 RECs, generated from assets that are funded by the
20 GRR would be credited to both shopping and
21 nonshopping customers, correct?

22 A. I think they should, yes.

23 Q. Are they under the proposed GRR?

24 A. I don't think we've gotten to that point
25 yet because we haven't yet filed the Turning Point

1 request, but I would expect, you know, the treatment
2 of RECs or any entitlement to, you know, the shopping
3 customers could be addressed in that next filing.

4 At this point we're just asking for a
5 placeholder rider and haven't actually made the
6 request around Turning Point.

7 MS. THOMPSON: I have no further
8 questions, thank you, your Honor.

9 EXAMINER SEE: Thank you.

10 Ms. McAlister?

11 MS. McALISTER: Thank you, your Honor.

12 - - -

13 CROSS-EXAMINATION

14 By Ms. McAlister:

15 Q. Just a few follow-up questions, Mr.
16 Nelson. In response to a question from Mr. Lang, I
17 think that I heard you say that you don't know
18 whether the pass-throughs of nonfuel costs will fully
19 compensate GenCo for its cost. Did I hear that
20 correctly?

21 A. I don't know whether they would or not,
22 but --

23 Q. Do you anticipate that the GenCo's
24 nonfuel costs would exceed AEP Ohio's costs during
25 the time period at issue?

1 A. I don't think we're talking about the
2 cost side being -- the cost side should be comparable
3 because it's the same cost on each side. Maybe I
4 misstated it.

5 I think it was whether the revenues that
6 are passed through from AEP Ohio to the GenCo I think
7 was the question, therefore, they'd recover the
8 GenCo's cost of service. I thought they'd be
9 compensatory. It's just not quite a cost-based rate
10 so we're not doing a cost of service and that sort of
11 thing, but it should be, I would think it would be
12 compensatory.

13 Q. Okay. And you've talked quite
14 extensively this afternoon about the contract between
15 AEP Ohio and GenCo. Other than all the components
16 that you've already described, which I'm not going to
17 go back over, do you anticipate any other markups or
18 transaction costs that you haven't already talked
19 about?

20 A. I don't at this time.

21 Q. Okay. And you've also talked quite a bit
22 about the energy-only auction period January 1, 2015,
23 through June 1, 2015, and you described that AEP Ohio
24 would pay GenCo \$255 per megawatt day.

25 Does that capacity price for the period

1 depend on the outcome of the capacity case before
2 this Commission in Case No. 10-2929?

3 A. I think it's more dependent upon this
4 proceeding.

5 MS. McALISTER: That's all I have. Thank
6 you, Mr. Nelson.

7 EXAMINER SEE: Mr. Boehm?

8 MR. K. BOEHM: No questions.

9 EXAMINER SEE: Ms. Spiller?

10 MS. SPILLER: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Ms. Spiller:

14 Q. Mr. Nelson, if I may direct your
15 attention to page 4 of your testimony, please, line
16 16, sir. And, sir, on page 4, line 16 of your
17 testimony you acknowledge that Ohio has a corporate
18 separation mandate, correct?

19 A. That's what I say, yes.

20 Q. And on the following line, sir, you
21 further acknowledge that corporate separation is a
22 fundamental requirement of AEP Ohio's modified ESP
23 which has a proposed effective date of June 1, 2012,
24 correct?

25 A. I don't see those words in the next line.

1 Q. Well, the sentence that begins at the end
2 of line 16 says that "Corporate Separation is a
3 fundamental requirement of the Company's plan..., "
4 correct?

5 A. That's correct.

6 Q. And the plan, sir, to which you're
7 referring is the modified ESP that has a proposed
8 effective date of June 1st, 2012, correct?

9 A. That's the beginning of our proposed ESP,
10 yes.

11 Q. Thank you.

12 Now, AEP Ohio had filed in the fall of
13 2011 for Commission approval to corporately separate
14 or transfer its generating assets, correct?

15 A. Did you say the fall of '11?

16 Q. Yes, sir.

17 A. Under, yeah, the previous stipulation, I
18 guess, we filed a corporate separation plan, yes,
19 once before.

20 Q. Sure. And that proceeding, sir, was
21 certainly well on its way to resolution because the
22 Commission had ordered -- had issued an order in that
23 case earlier this year, correct?

24 A. Yes, it issued an order.

25 Q. But then AEP Ohio voluntarily withdrew

1 that application for approval for corporate
2 separation, correct?

3 A. I thought the Commission denied our
4 corporate separation filing, but I could be wrong.

5 Q. Okay. And we could certainly look to the
6 docket in that filing to see how it was disposed of,
7 if you will.

8 A. I would suggest that.

9 Q. Thank you, sir.

10 And I believe you have said that AEP Ohio
11 has also withdrawn the filing that it made at the
12 FERC earlier this year to transfer the generating
13 assets, correct?

14 A. That I'm sure that we did withdraw.

15 Q. So, sir, would you agree with me that the
16 regulatory approval clocks will start anew with
17 respect to corporate separation now?

18 A. If you mean by that that we've been
19 pushed back and delayed a bit through all that's
20 happened in the last half-year, I would say that
21 that's a fact.

22 Q. And I just want to make sure I heard
23 correctly a response that you gave to one of
24 Mr. Lang's questions. But you believe corporate
25 separation will promote retail shopping in Ohio

1 because AEP's generating facilities will be able to
2 participate in that competitive market, correct?

3 A. Yeah, I think we might have been talking
4 more about an auction but I think the concept is
5 along the same lines, that, you know, you want as
6 much competition as you can get. If there's
7 generating resources out there to participate in the
8 auction, for example, that's a good thing for
9 customers. The more resources that participate in an
10 auction should drive down prices in that auction.

11 Q. And delaying the competitive process
12 until such time that the GenCo is up and running and
13 owns generation is a benefit to that GenCo, correct?

14 A. I'm not sure I follow your question.

15 Q. Sure. You just talked about the benefit
16 to customers of a competitive process. Delaying the
17 implementation of the auction process until such time
18 as the generation company exists and owns generation
19 is a benefit to that GenCo, correct?

20 A. A benefit to that GenCo.

21 Q. When I used the --

22 A. I have a little problem with the concept
23 just because I think we've talked at length about the
24 obligations we have before we can do corporate
25 separation, pool termination and so forth.

1 So I think what we're doing in the plan,
2 again, as Mr. Powers said, it's balanced in the sense
3 that we're moving, what we think, at an expeditious
4 rate towards corporate separation, pool termination
5 and auctions and, you know, under an MRO we would be
6 moving less swiftly to a full auction. So I think
7 that's kind of the concept here.

8 So when I'm talking about benefits
9 related to our plan, I'm not suggesting, yeah, maybe
10 if we corporately separated two years ago there would
11 have been additional benefits, but to me that's not
12 something that could happen. We can't accelerate
13 this more than what we've attempted to do here, in my
14 opinion, and keep the balance that's been talked
15 about.

16 Q. We'll get to the pool agreement and the
17 FRR plan a little bit later, but when you say "our
18 plan," sir, the participation in competitive auctions
19 by the AEP entity will be the GenCo or another
20 affiliate of AEP Ohio, correct?

21 A. Yeah. I don't know who the participants
22 are going to be at this point.

23 Q. I believe you agreed with Mr. Lang that
24 AEP Ohio, after corporate separation, will continue
25 to make decisions in the best interest of its

1 customers and will continue to make prudent
2 decisions, correct?

3 A. Yes.

4 Q. Sir, would you agree with me that
5 AEP Ohio, even before corporate separation, will make
6 decisions in the best interest of its ratepayers?
7 And make decisions that are prudent?

8 A. Yes. And make the best decisions with
9 respect to the shareholder as well. There has to be
10 a balance.

11 Q. And AEP Ohio has already determined that
12 after corporate separation it will enter into a
13 contract with a nonregulated affiliate for purchased
14 power, correct?

15 A. That's our plan, yes.

16 Q. And AEP Ohio has already identified the
17 amounts that it will pay its nonregulated affiliate
18 for capacity and energy through the term of this ESP,
19 correct?

20 A. Conceptually that's how it would work,
21 yes. We haven't filed the actual contract at this
22 point.

23 Q. And with respect to the period between
24 January 1, 2015, and May 31, 2015, AEP Ohio has
25 already decided that it will pay its nonregulated

1 affiliate \$255 per megawatt-day for capacity,
2 correct?

3 A. No, I don't think that that's correct. I
4 think you started it January 1, 2014.

5 Q. '15, sir.

6 A. Oh, yeah, I'm sorry.

7 Q. The last five months of the --

8 A. Yes, the last five months. That's
9 correct, then.

10 Q. And that price, \$255 per megawatt-day,
11 has not been benchmarked to the prices, terms, or
12 conditions of sales involving nonaffiliated
13 companies, correct?

14 A. No, it hasn't been benchmarked.

15 Q. And that price, \$255 per megawatt-day,
16 does not reflect what nonaffiliated suppliers may
17 charge AEP Ohio for the same service, correct?

18 A. Could I have that one back?

19 Q. Sure. The price, \$255 per megawatt-day,
20 does not reflect what nonaffiliated suppliers would
21 charge AEP Ohio for the same service, correct?

22 A. I don't know. I haven't done any
23 comparison.

24 Q. And, sir, the price \$255 per megawatt-day
25 also does not reflect the base residual or PJM market

1 prices for capacity, correct?

2 A. No, it wouldn't reflect the PJM RPM
3 market.

4 Q. And, sir, when you talk about the PJM
5 market and whether the BRA results in a market price,
6 would you agree with Mr. Powers' definition of market
7 pricing?

8 A. I don't -- no, not necessarily.

9 Q. And you were here for his testimony,
10 correct, sir?

11 A. I was here for his testimony but I'm not
12 sure I heard all that part of it.

13 Q. You didn't hear Mr. Powers --

14 A. I mean, each person -- my point around
15 market is it's in the eye of the beholder. It
16 depends on what market you're talking about. You
17 know, I might consider a true market being a
18 bilateral transaction between a willing buyer and a
19 willing seller.

20 I don't consider the RPM market to be a
21 true market in the sense that it's an
22 administratively-determined market price.

23 You know, market's a very broad term and,
24 you know, so I don't know exactly if I would use it
25 the same way he did, that's all I'm saying.

1 Q. Do you recall how Mr. Powers used the
2 term?

3 A. No. Not necessarily.

4 Q. Again, sir, if we could focus on the
5 contract between AEP Ohio and its nonregulated
6 affiliate GenCo, it is AEP Ohio's expectation that
7 this contract would result in the GenCo recovering
8 the tiered capacity prices that have been set forth
9 in this plan, correct?

10 A. Yes. During the SSO contract up until
11 the 255 kicks in, it would be a pass-through of the
12 ESP-determined base generation rates and that should
13 include the -- I'm sorry, I'm getting a little off
14 track. We're talking about the shopping customers.

15 Q. The shopping load, yes, sir. Yes, sir.

16 A. And, I'm sorry, since I got off track,
17 what's your --

18 Q. Sure. With respect to the shopping load
19 it's AEP Ohio's intention that it will pay the GenCo
20 for the capacity consistent with the tiered capacity
21 structure set forth in this filing, correct?

22 A. Yes. As discussed earlier, if AEP Ohio
23 were to be the recipient of those payments from a
24 CRES provider, then they would pass that through as
25 compensation to the GenCo.

1 As I mentioned, we don't know exactly how
2 the accounting will be done. It could be that the
3 CRES providers are paying or PJM's remitting it
4 directly through the GenCo and it may be determined
5 by just our internal accounting how it gets booked.

6 Q. Sure. Thank you. And this tiered
7 capacity pricing mechanism has not been benchmarked
8 to what other nonaffiliated suppliers may charge
9 AEP Ohio, correct?

10 A. Not that I'm aware.

11 Q. And the tiered capacity mechanism, sir,
12 has not been built from the PJM base residual auction
13 price, correct?

14 A. No, it hasn't.

15 Q. Mr. Nelson, I believe you testified that
16 it's your opinion that if the Ohio Commission were to
17 approve the contract between AEP Ohio and the GenCo,
18 that that may assist with the efforts at the FERC for
19 the FERC's approval of that contract. Is that a fair
20 recitation of your testimony?

21 A. Yeah, I would think so. I would think
22 the FERC would respect the Ohio Commission's opinion
23 on that contract, and if the Commission approves our
24 ESP including, you know, the contract, then I think
25 FERC would accept that.

1 Q. But, sir, AEP Ohio has not proposed --
2 strike that.

3 AEP Ohio has not in this filing shared
4 that proposed contract between it and its GenCo,
5 correct?

6 A. We haven't developed a full contract.
7 The concept on compensation has been put through here
8 and, of course, we'd make a filing at FERC, and I
9 would expect that the PUCO would review that contract
10 and offer an opinion on it. But it will be designed
11 to be consistent with whatever is approved here in
12 the CSP plan if our plan is approved.

13 Q. Mr. Nelson, do you know what pricing
14 restrictions the FERC will impose upon new wholesale
15 contracts between AEP Ohio and its nonregulated
16 affiliates?

17 A. I don't know what -- if there's some FERC
18 statutory requirement there. I'm not aware of any
19 restrictions myself.

20 Q. Mr. Nelson, given your experience in
21 state regulatory proceedings, you are aware of the
22 state policies that will guide the Ohio Commission's
23 review of this filing, correct?

24 A. I'm aware they have a list of policies.

25 Q. Sir, are you aware of the Ohio policies

1 in respect of affiliate interaction?

2 A. I think the question's better served to
3 Witness Dias -- Dias. I fell into that trap.

4 THE WITNESS: Sorry, Selwyn.

5 Q. Help me, sir, because you're the witness
6 on corporate separation, correct?

7 A. I am sponsoring a corporate separation
8 plan, yes.

9 Q. And you've read the proposed plan that's
10 been made in a separate filing, correct?

11 A. Yes.

12 Q. And certainly, sir, you're aware of
13 AEP Ohio's existing corporate separation plan,
14 correct?

15 A. Yes. I'm aware that we had a plan
16 currently on file that's been approved by the
17 Commission and audited by the Commission.

18 Q. And you probably could get trained on
19 that plan through your compliance group, right?

20 A. Yes. We take code of conduct training
21 FERC and it also meets Ohio requirements.

22 Q. So, sir, you are aware of the Ohio
23 Commission's regulations related to corporate
24 separation, correct?

25 A. Yes, I believe they're set out in

1 attachment A to the corporate separation filing that
2 we made.

3 Q. And, sir, is it your testimony that after
4 corporate separation when AEP Ohio collects
5 generation-related revenues under the RSR from all of
6 its retail customers and remits those revenues to its
7 nonregulated affiliate, that that is in compliance
8 with Ohio regulation on corporate separation?

9 A. I would expect so.

10 Q. Mr. Nelson, with regard to the FRR
11 obligation, that obligation is such that the AEP East
12 utilities are required to supply capacity to PJM,
13 correct?

14 A. No, the FRR obligation is we self-supply.

15 Q. You supply the capacity to PJM?

16 A. We supply the capacity to meet our load
17 and we're out of the PJM market for capacity.

18 Q. I understand you don't participate in the
19 BRA but you supply the capacity to PJM for your
20 footprint, correct?

21 A. Maybe you're correct but that's not the
22 way I would understand it. We are self-supplying and
23 we are required to cover our own load with the FRR
24 obligation.

25 Q. And not required to use AEP Ohio-owned

1 generation for purposes of fulfilling that
2 obligation, correct?

3 A. I'm not sure what you mean by that.

4 Q. The obligation, sir, is to provide
5 capacity, correct?

6 A. The FRR obligation is to have sufficient
7 capacity to meet your load.

8 Q. And that sufficient capacity can come
9 from a variety of resources, including non-owned
10 generation resources, correct?

11 A. Yes, you don't have to own the assets,
12 however, you know, our plan for the next three years
13 is already committed and we've already submitted what
14 resources are a part of that plan so we don't -- we
15 can't just change that plan willy-nilly.

16 Q. But you can substitute resources under
17 that plan, correct?

18 A. My understanding, you can substitute.

19 Q. The pool agreement that you've mentioned
20 today, sir, that agreement was originally drafted or
21 executed in I believe 1951, correct?

22 A. Yes.

23 Q. And the FRR election made by the AEP
24 utilities was in approximately 2007, correct?

25 A. I believe so.

1 Q. And so the pool agreement, Mr. Nelson,
2 does not set the price at which AEP is compensated
3 for capacity provided to PJM under the FRR construct,
4 does it?

5 A. The pool is an internal among AEP
6 affiliates, it's a settlement among AEP affiliates,
7 it doesn't have anything to do with the FRR. But the
8 FRR commitment is a pooling of those same companies
9 and committing the resources as a group.

10 Q. Sir, if you could please turn to page 8
11 of your testimony. And beginning on line 13 you
12 discuss the potential exposure to both AEP Ohio and
13 other pool members, correct?

14 A. Yes.

15 Q. Now, historically AEP Ohio has collected
16 about \$400 million per year under the pool agreement,
17 correct?

18 A. No.

19 Q. No? What have they collected per year,
20 sir?

21 A. I suspect they've collected a great deal
22 more than that. I don't think you mentioned
23 capacity, did you, in your comment -- or question?

24 Q. Is the \$400 million annually a collection
25 for off-system sales?

1 A. No. It's not what we've been talking
2 about if you're referring to the 400 million that's
3 been discussed previously.

4 Q. And, I'm sorry, it was an incorrectly
5 stated question. The annual pool capacity revenue
6 for AEP Ohio is approximately \$400 million annually,
7 correct?

8 A. That's approximate, yeah. It does vary.

9 Q. And does AEP Ohio --

10 A. And that's, by the way, you said
11 AEP Ohio's pool capacity receipts revenue, right? I
12 wanted to make sure that you tied that 400 million to
13 AEP Ohio, that's what they receive in selling
14 capacity to other members.

15 Q. Right. Okay.

16 A. Okay.

17 Q. And does AEP Ohio share in those annual
18 revenues with its ratepayers?

19 A. I think they do in the sense that, you
20 know, the rates have -- there's not a cost-of-service
21 rate or anything but we would have had credit to cost
22 of service back when rates were set and unbundled
23 back around 2000. So there's some level of capacity
24 payments in the rates.

25 Q. And what is the level of capacity

1 payments that you believe is in the rates now?

2 A. I don't know. One of the things you'd
3 have to do is you'd have to assume load growth and
4 stuff because once a cost is converted to a rate,
5 then that number may grow. But I haven't done any
6 calculation on it.

7 Q. Mr. Nelson, with respect to the pool
8 termination provision, AEP Ohio is asking for the
9 ability or asking for the reservation of the right
10 after pool termination to recover from all customers
11 for lost revenues, correct?

12 A. Is your question whether we're asking for
13 a nonbypassable rider if we come in for the pool
14 provision?

15 Q. I'll rephrase. In this case AEP Ohio is
16 asking for the option after pool termination to seek
17 recovery from all customers for lost revenues,
18 correct?

19 A. Yes; we've got a provision, pool
20 termination provision that we are proposing if we do
21 come in again, we're not sure we would, but if we do
22 come in, then it would be a request against all
23 customers, that's correct.

24 Q. And this would be lost generation revenue
25 that AEP Ohio would look to recover under the pool

1 termination provision, correct?

2 A. The way I described it, yes, it's looking
3 at the capacity revenues that were paid under the
4 pool to Ohio Power Company and seeing if there was a
5 lost revenue -- or, net. I look at the net revenues.

6 Q. And if all goes according to AEP Ohio's
7 plan, when the pool is terminated effective
8 January 1, 2014, the assets -- the generating assets
9 will have also been separated from AEP Ohio, correct?

10 A. Yes; we would want those things to happen
11 simultaneously. That's our plan.

12 Q. So after pool termination AEP Ohio will
13 not be at risk for incurring lost generation revenue,
14 correct?

15 A. Well, the generating assets will be with
16 the AEP GenCo at that -- post corporate separation.

17 Q. So --

18 A. So, yes, the provision is related to the
19 GenCo's lost revenue at that point.

20 Q. Mr. Nelson, if you could turn to page 22
21 of your testimony, please. Your answer, sir, that
22 begins on line 16, and if I read your testimony
23 correctly, sir, AEP Ohio has reserved the right to
24 seek cost recovery associated with pool termination
25 if its corporate separation plan is amended in any

1 way, correct?

2 A. Yeah, I think we haven't limited it but I
3 would say it would have to be -- we'd use our
4 judgment to see if it's a significant amendment and
5 then, of course, it's our decision whether we come in
6 or not. But we'd have to justify -- you know, if we
7 come in and it wasn't a significant amendment, I'm
8 not sure we'd get very far with the filing.

9 Q. And, sir, what would you describe or
10 define as a significant amendment to the corporate
11 separation plan that would cause AEP Ohio to seek to
12 recover lost generation revenue from all of its
13 customers?

14 A. I'm not going to speculate at this time.

15 Q. Mr. Nelson, if we could turn to page 17
16 of your testimony, please. And here, sir, you're
17 talking about the fuel adjustment clause with the
18 question that begins on line 16, correct?

19 A. Yes, on line 16 I provide the additional
20 information required by the rules that were
21 promulgated by the Commission with respect to fuel
22 clauses.

23 Q. And, sir, those policies and procedures
24 that AEP Ohio currently files with respect to its
25 fuel clause are policies and procedures that you

1 state will expire at the end of December 2013,
2 correct?

3 A. I'm not sure I say that policies expire.
4 What I say is the information presented in this
5 application is kind of a pre-corporate separation
6 view. I don't know about the policies of the
7 Commission, whether they continue or not. But I just
8 wanted to point out that the information provided is
9 more of a view before corporate separation.

10 Q. Okay. And so the company's procurement
11 policies, sir, you indicate here will be in effect
12 were applicable until corporate separation, correct?

13 A. They will be in at least that long.

14 Q. And in asking the Ohio Commission to
15 perhaps approve the concept of a contract between
16 AEP Ohio and its affiliate GenCo, AEP Ohio has not
17 identified or provided for the Commission any
18 guidance on how the GenCo will -- what procurement
19 policies and practices the GenCo will follow in
20 respect of fuel procurement, correct?

21 A. Not specifically in this filing here. I
22 do talk about the GenCo will provide the same type of
23 information that's included in the current
24 calculation, the monthly fuel clause, so that it can
25 be audited in a similar manner.

1 Q. And, sir, that actually led to my next
2 question. Is it AEP Ohio's expectation that the fuel
3 clause will be audited and if the Ohio Commission
4 were to find that the GenCo's procurement policies
5 were imprudent or resulted in unreasonable costs,
6 that there would be an adjustment to the cost for
7 which recovery is sought from ratepayers?

8 A. I haven't thought that through. I
9 wouldn't expect that we'd have any imprudency. Alls
10 I'm saying is that the fuel costs will be their
11 actual fuel costs, it will be presented in a similar
12 manner. But, yeah, I'm not going to make any
13 commitments about future audits and so forth.

14 The Commission sets an audit procedure
15 each year I think for fuel and I don't have any
16 specific recommendations with regard to that at this
17 point.

18 Q. Well, so that I'm clear, when you talk
19 about a pass-through, are you suggesting, sir, that
20 whatever costs the GenCo incurs AEP Ohio will seek to
21 recover from ratepayers dollar for dollar?

22 A. The contract between the two, yes, I
23 would expect that, you know, our billing for fuel
24 would be recovered. It's going to be the actual fuel
25 costs for the contract and that would be a

1 pass-through, the GenCo would bill AEP Ohio, and I'd
2 expect the GenCo be paid that amount for fuel.

3 Q. And in thinking about the general concept
4 of the contract between AEP Ohio and the GenCo that
5 AEP Ohio would like the Ohio Commission to approve,
6 would AEP Ohio agree to an audit process with respect
7 to the fuel procurement policies of its affiliate?

8 A. I don't know that I could speak for the
9 GenCo at this time.

10 Q. Who on behalf of the GenCo negotiated the
11 contract between it and AEP Ohio?

12 A. There isn't a contract yet.

13 Q. But has anyone represented the interest
14 of GenCo in respect of this contract for purchased
15 power that AEP Ohio describes in its filing?

16 A. The GenCo, though it's created as a legal
17 entity, I think it was created at the end of 2012, it
18 doesn't yet exist with any assets, so the folks that
19 have been involved and working on this contract are
20 AEP Service Corporation folks acting on behalf of
21 both sides of this transaction.

22 MS. SPILLER: One moment, please, your
23 Honor.

24 EXAMINER SEE: Sure.

25 MS. SPILLER: Nothing further. Thank

1 you.

2 EXAMINER SEE: Mr. Oliker?

3 MR. OLIKER: Thank you, your Honor. I
4 just wanted to say before I start that I do have some
5 confidential questions so I can either go now and
6 then break out those questions, or if you'd like, I
7 can wait and go last and do it all at once.

8 EXAMINER SEE: Do any of the other
9 parties have any confidential -- you already had your
10 turn, Mr. Lang.

11 MR. LANG: And I don't have any.

12 EXAMINER SEE: Do any of the other
13 parties have any confidential questions for this
14 witness?

15 MS. GRADY: I have questions. I don't
16 believe they are confidential.

17 EXAMINER SEE: Okay. Then you can go
18 ahead and start, Mr. Oliker, hold your confidential
19 questions to the end, we'll go to the other parties
20 and that way, if Ms. Grady has some confidential
21 questions, we can do both after everybody else has
22 completed their cross-examination.

23 MR. OLIKER: Thank you, your Honor.

24 - - -

25

CROSS-EXAMINATION

By Mr. Olikar:

Q. Good afternoon, Mr. Nelson.

A. Good afternoon.

Q. I guess to start we've heard a lot of talk about the reliability assurance agreement and the interconnection agreement, also known as the pool agreement. I was wondering, is there any AEP witness that is sponsoring any of these agreements in their testimony as exhibits perhaps?

A. Not specifically as exhibits, no.

Q. Okay. Thank you. I'm going to try not to plow any old ground, but forgive me. To start with, did you have any help preparing your testimony?

A. I prepare it and then I have it reviewed by various folks, including our attorneys.

Q. And any specific parts they assisted you with or just the whole thing, would you say?

A. I would say I provided the whole document for review and feedback.

Q. Okay. Page 18 of your testimony you talk about the alternative energy rider, correct?

A. That's correct.

Q. Would you agree that under the current electric security plan there isn't a line item charge

1 on customer bills for a charge associated with
2 alternative energy?

3 A. No, since we don't have a separate AER at
4 AEP, when I look at my bill, I don't see one. I'm
5 not sure if there's a restriction on that or
6 encouragement to do that, I just don't know.

7 Q. That's fine. And under the proposed ESP
8 would you agree there also will not be a line-item
9 charge associated with alternative energy?

10 A. I don't know that I agree. If the
11 Commission wanted and it was appropriate, we'd
12 probably do it. I wouldn't see that as being a
13 make-or-break situation for us.

14 Q. But as you know it's not part of the
15 proposal though, is it?

16 A. I haven't thought about it. You might
17 ask Witness Roush to see if he's given it any
18 thought.

19 Q. Okay. Thank you.

20 There's been a lot of discussion about
21 pool termination and that's regarding the
22 interconnection agreement between -- what are the
23 companies again? Could you remind me?

24 A. They're Appalachian Power Company,
25 Kentucky Power Company, Indiana-Michigan Power

1 Company, and Ohio Power Company.

2 Q. Okay. And the capacity payments under
3 the pool agreement that you talk about, those are
4 cost-based payments, correct?

5 A. That's correct.

6 Q. And the pool termination rider you talk
7 about, that would be if the GenCo can't replace the
8 cost-based payments with market-based transactions;
9 is that correct?

10 A. The market-based transactions might be
11 part of that offset, but there's other offsets
12 potentially, and the biggest one, as we talked about,
13 is transferring Amos and Mitchell because the costs
14 associated with Amos and Mitchell are part of that
15 cost-based capacity rate. So that's our prime
16 mitigation strategy at this point.

17 Q. But on the compensation side it's the
18 replacement transactions that would have to be taken
19 once the pool's gone, correct?

20 A. Just to be clear that you don't need the
21 same amount of revenue if you've reduced your costs.
22 So in transferring Amos and Mitchell you're
23 transferring away a lot of costs, and that's one of
24 the reasons that put it here. If we get our wish and
25 have our corporate separation plan approved, we're

1 not going to come in and seek any pool modification
2 recovery rider or anything like that.

3 Q. Okay. And this is a general question.
4 Is it your belief that generation is deregulated in
5 Ohio right now?

6 A. I don't know what the heck Ohio is. I've
7 been to lots of proceedings and, yeah, in Ohio I'm
8 just -- I don't want to characterize it. It is what
9 it is.

10 MR. OLIKER: Your Honor, I'd like to mark
11 an exhibit. I'd like to mark for identification
12 purposes IEU-Ohio No. 113.

13 A. By the way, I wouldn't expect this many
14 lawyers to be involved in a hearing on deregulated
15 generation.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. The document I just marked is IEU-Ohio
18 Exhibit No. 113, it's the prefiled testimony of
19 Philip Nelson in Case No. 11-346 filed on
20 January 27th. Mr. Nelson, do you recognize this
21 testimony?

22 A. Yes.

23 Q. Did you prefile this testimony
24 previously?

25 A. Yes.

1 Q. Could you turn to page 29. And tell me
2 if I read this statement correctly on line 1 of 29,
3 "SB 221 requires the eventual corporate separation of
4 CSP's and OPCo's generation. However, under the
5 current AEP Pool the Ohio 'deregulated' generation is
6 pooled with the generation of other members whose
7 generation is 'regulated.'"

8 Did I read that correctly?

9 A. Yes.

10 MR. CONWAY: Your Honor, I'd just note
11 for the record that the "deregulated" and "regulated"
12 are in quotation marks.

13 Q. Sorry to jump around here, a lot of my
14 best questions have been taken, I'll try to make
15 sense here.

16 Would you agree that AEP Ohio's a member
17 of PJM?

18 A. Yes.

19 Q. Don't worry, most of these are easy.

20 And as a member of PJM, American Electric
21 Power Service Corporation has elected the FRR status
22 on behalf of the AEP East operating companies,
23 correct?

24 A. Yes.

25 Q. And I think I heard this earlier, the AEP

1 East companies submit a capacity plan; is that
2 correct?

3 A. Yes.

4 Q. While there's a capacity plan, you would
5 agree that PJM dispatches resources to serve load,
6 correct?

7 A. Yes; they dispatch obviously energy and
8 the units including AEP's units.

9 Q. And that's based upon security
10 constrained economic dispatch, correct?

11 A. I'm not positive. I don't typically talk
12 in those terms day to day; I'm not involved in the
13 dispatch.

14 Q. But you're familiar with the term
15 "economic dispatch," right?

16 A. Economic dispatch, yes.

17 Q. And that's generally the way that PJM
18 dispatches generation.

19 A. I would think so.

20 Q. And to follow that a little further, is
21 it correct that in the day-ahead market and in
22 realtime PJM requires capacity resources to submit
23 offers to PJM with a price at which the resource is
24 willing to run to produce energy to be dispatched in
25 accordance with PJM's directions?

1 A. Again, I'm not real close to the actual
2 mechanics of dispatch, but that sounds reasonable to
3 me.

4 Q. PJM dispatches resources based upon the
5 least cost set of offer prices to meet the actual
6 load that materializes within the PJM footprint,
7 correct?

8 A. That general concept sounds like it would
9 be what they do. There may be certain caveats around
10 constraints and so forth if they're not built into
11 the price.

12 Q. And would you agree that economic
13 dispatch occurs without regard to retail service
14 areas?

15 A. Yes, I think it's independent. I think
16 it's just looking at the generation resources.

17 Q. So is it correct that even if an electric
18 distribution utility did not own generation, PJM
19 would dispatch generation to meet load requirements?

20 A. If that's load -- load is in PJM, then
21 you would dispatch resources to meet that load.

22 Q. Thank you.

23 I also heard a lot of talk about the
24 wholesale contract that would be in place between the
25 GenCo and AEP Ohio. If post-corporate separation

1 there was -- there's a contract between AEP Ohio and
2 the GenCo and FERC were to reject the contract saying
3 that it needed to incorporate RPM-priced capacity,
4 would the structure of your proposal pass that
5 lower-priced capacity to SSO customers?

6 A. I don't want to speculate. I haven't
7 thought about that possibility. I would hope it's
8 pretty remote. If the Commission has approved an ESP
9 plan that includes the plan we laid out with the
10 contract, again, I would think that FERC would be
11 content with what we file.

12 Q. But in the event that they're not, do
13 you --

14 A. I just haven't thought all that through.
15 That's a big change and I'm just not anticipating
16 that so I wouldn't know what the repercussions are.

17 Q. So I guess the reverse of the question is
18 you also don't know whether the GenCo would seek to
19 continue to charge the \$355 or two-tiered capacity
20 price to SSO customers?

21 A. Again, I haven't thought through that
22 particular scenario so I hate to give you an answer.

23 Q. Fair enough.

24 Turning to page 12 of your testimony,
25 Mr. Nelson, you state that, 12, line 16, that

1 AEP Ohio has capacity and energy well in excess of
2 its own internal customer needs and that this
3 continues for a number of years; is that correct?

4 A. Yeah. The statement is somewhat from a
5 historical perspective. I just say AEP Ohio's
6 capacity and energy has had capacity and energy well
7 in excess of its internal customers' needs and it has
8 been selling a significant amount to its sister
9 companies in the pool.

10 Q. That was my next question. And that
11 amount that you sold in 2010 and 2011 is
12 approximately 2,500 and 2,200 megawatts respectively.

13 A. Yes.

14 Q. You indicated these numbers on PJN-3,
15 correct?

16 A. That's correct.

17 Q. Can you turn there for a second? I'm
18 just trying to understand some of the acronyms you
19 might have used here and so I can eliminate this
20 information. What does "kW" stand for on PJN-3?

21 A. Kilowatt.

22 Q. And --

23 A. So if you want megawatts, if you're more
24 used to that, just divide by a thousand.

25 Q. My math is pretty bad but at least I know

1 that one.

2 Looking at member required capacity,
3 member of what? What does that mean?

4 A. The member refers to each of the
5 operating companies, each operating company is a
6 member of the pool.

7 Q. Okay. And when you talk about capacity
8 on this page, is that nameplate capacity by any
9 chance?

10 A. No. Actually, that's annual average
11 capacity I think is the way the pool defines it.

12 Q. What is "annual average capacity"?

13 A. It's the capacity expected over the
14 course of an entire year. What it brings into is
15 there's potential derates in summer when temperatures
16 are higher and we have some plants derated so it
17 would take into account what you would expect the
18 capacity to be over the course of a year considering
19 it may fluctuate at times during the course of the
20 year, because, as I mentioned, the thermal conditions
21 and so forth.

22 Q. Okay. And when it says "member required
23 capacity kilowatts," what does that mean?

24 A. I'm sorry, I flipped off the exhibit.

25 That's kind of their obligation based on

1 their MLR, so in the first column you have what the
2 companies actually have, the next column shows you
3 what under the pool agreement that they should have,
4 and the difference is either your deficit or surplus.

5 Q. And, again, you said these are amounts
6 that are required under the pool agreement, correct?

7 A. Yes. These are actual amounts for those
8 two years that were settled in the pool agreement.

9 Q. And seeing as there's a required capacity
10 and there's only 2010 and 2011 here, there would also
11 be numbers for 2012 and 2013 until the pool's
12 terminated, correct?

13 A. Yeah, these transactions will go under
14 monthly transactions. Yeah, we continue to settle
15 the pool up until it goes away.

16 Q. Do you know how much capacity will be
17 required for AEP Ohio in 2012 and 2013? If you know.

18 A. I don't have any forecasts of their
19 obligation with me.

20 Q. Does somebody at AEP have that
21 information?

22 A. A person that would typically have that
23 would be Ollie Sever, he would -- he's our forecast
24 person so he may have available the -- any forecasted
25 information with respect to the pool.

1 Q. Do you know if the member required
2 capacity under the pool is in his testimony for 2012
3 and 2013?

4 A. I don't think he specifically set it out
5 in his testimony. I don't believe he has.

6 Q. From a general standpoint do you know if
7 the member required capacity amount for AEP Ohio will
8 be higher or lower in 2012, 2013, 2014?

9 A. I'm not sure. I'd say it's dependent on
10 the MLR which is dependent on the peaks of the
11 company, so it can change. And of course, the other
12 side of the transaction is, you know, what happens
13 with your capacity. For example, if you're retiring
14 units, then that has an effect. So, no, I haven't
15 done any forecast of what those numbers would be --

16 Q. Okay.

17 A. -- myself.

18 Q. And can you turn to PJN-2. It's not too
19 far. Now, am I correct here you list total current
20 generation by operating company, the generation
21 expected to be retired, generation transfers, and the
22 total generation that will exist after the transfers,
23 correct?

24 A. The only thing I want to point out, this
25 is fossil generation, it doesn't include the Cook

1 nuclear unit and so forth. Because the purpose of
2 this exhibit was to show that with the environmental
3 regulations we've got kind of a balanced approach to
4 retirements of units, we're not weighting it more
5 towards AEP Ohio or another company, it's fairly
6 balanced.

7 The regulations are affecting the
8 companies similarly. So with that caveat it's not
9 total generation is my point, we got a little more
10 than that.

11 Q. And just to be clear, that Cook unit you
12 spoke of, that's not owned by AEP Ohio, is it?

13 A. No. It's an I&M unit.

14 Q. Thank you. And on this exhibit, again,
15 you use the -- you have "MW," that stands for
16 "megawatts," correct?

17 A. Correct.

18 Q. And next to that you have "nominal
19 capability." Can you give me a definition for that?

20 A. I'd say nominal capability is typically
21 higher than summer capability. There's a lot of
22 different definitions of capacity. As you can
23 imagine, I get confused myself.

24 But nominal --

25 Q. Is it nameplate capacity?

1 A. Let me look. I'm drawing a blank, I'm
2 not sure it's nameplate.

3 Q. That's okay, if you don't know the answer
4 to that questions, it's fine to say "I don't know."

5 And if I look at the bottom of PJN-2 for
6 Ohio Power Company, am I correct that it shows
7 10,635 megawatts of non-capacity?

8 MR. CONWAY: Could I inquire, which page
9 are you on right now, Mr. Olikier?

10 MR. OLICKER: PJN-2, 2. Thank you for
11 that clarification, Mr. Conway.

12 MR. CONWAY: Could I have the question
13 read back?

14 (Record read.)

15 A. It does, but there's certainly
16 transactions already taking it out of this
17 requirement, the transfer of Amos and Mitchell, and
18 again this is just fossil capacity and in parenthesis
19 it shows you what's excluded. Or tells you what's
20 excluded.

21 Q. And if I look back that PJN-3, would I be
22 correct that the nominal capability that Ohio Power
23 Company would be less than the amount of required
24 capacity for 2010 and 2011 for AEP Ohio?

25 A. Again, I'd caution on using numbers on

1 PJN-2, 2 of 2, versus PJN-3. And you were talking,
2 Mr. Oliker, about required capacity? That itself
3 changes. It's -- the formula is the MLR times the
4 total capacity installed in the system.

5 So if you have retirements, you know,
6 both you -- you're multiplying by a smaller number
7 MLR so there are a lot of parts there so I wouldn't
8 make any conclusions between those two numbers.

9 Q. And I'm sorry to jump around, Mr. Nelson.
10 Going back that page 7 of your testimony you talk
11 about the reliability assurance agreement. Is that
12 correct?

13 A. Yes.

14 Q. And you also talk about whether
15 AEP Ohio's capacity plan will have adequate capacity
16 to serve Ohio customers, correct?

17 A. I begin that I think on page 9, yes.

18 Q. How familiar are you with reliability
19 assurance agreement?

20 A. Not very familiar with it, the whole
21 document. I've become more familiar with the section
22 that's related to state compensation mechanisms,
23 that's sort of the area we've had a lot of
24 discussions around.

25 Q. I bet you have.

1 And what is your understanding of the
2 purpose of the reliability assurance agreement?

3 A. I think it's in the title itself, that it
4 governs some rules around PJM's capacity markets and,
5 you know, and making sure that they have adequate
6 capacity that meet the load of PJM. I'm assuming
7 that that's what's contained in there. Again, I
8 haven't read the whole document, but that's my guess.

9 Q. Would the document help?

10 A. It's probably a hundred-plus pages.

11 Q. It is. My copier's very angry with me.

12 A. I don't know if it's going to help me a
13 lot to try to sit here and read it and then interpret
14 it. I'm not real close to all the nuances of that.

15 MR. OLIKER: Your Honor, I'd like to mark
16 an exhibit right now. I'd like to mark for
17 identification IEU-Ohio Exhibit 114.

18 EXAMINER SEE: Exhibit 114.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 Q. Marked for identification as IEU Exhibit
21 114, the reliability assurance agreement. Mr.
22 Nelson, are you familiar with this document?

23 A. As I mentioned, I'm not very familiar
24 with it. You know, one thing I'd suggest is we do
25 have a witness that's more expert in some of these

1 matters and that's Frank Graves, so I'd suggest you
2 may want to take up any topic on the reliability
3 assurance agreement with him.

4 Q. But you mention it in your testimony,
5 don't you, Mr. Nelson?

6 A. Yes, with respect to our commitments and
7 the election of FRR.

8 Q. Okay. Thank you.

9 A. Primarily.

10 Q. And does this document appear to be the
11 reliability assurance agreement?

12 A. It does.

13 Q. I asked you a question about what was the
14 purpose of the reliability assurance agreement.
15 Could you turn to page 21. Can you just take a
16 minute to read it. It's not too long of a
17 definition. It's the Article 2 called "Purpose."

18 A. Okay.

19 Q. So would you agree that one of the
20 purposes of the RAA -- do you mind if I call it that?

21 A. That's fine.

22 Q. One of the purposes of the RAA is the
23 intention and objective of the parties to implement
24 this agreement in a manner consistent with the
25 development of a robust competitive marketplace?

1 A. I wouldn't see any reason to disagree
2 with that, since it's in the purpose of this
3 document.

4 Q. Thank you.

5 A. I'll add that obviously this allows an
6 FRR election under that.

7 Q. What I'd add that, too, you'd agree that
8 this document governs both the PJM base residual
9 auction events and also the FRR auction.

10 A. Right, and I believe it provides both
11 auctions would be consistent with that statement.

12 Q. And have you reviewed the testimony of
13 Kevin Murray?

14 A. No, I have not.

15 Q. So you didn't know that Kevin Murray
16 includes a copy of this document in --

17 A. No.

18 Q. -- as I believe KMM-15.

19 A. No. I haven't started reading the other
20 parties yet.

21 Q. That's what the weekend is for.

22 So have you had any PJM training classes
23 or other familiarity with information on capacity
24 markets or the RAA?

25 A. I think I took PJM 101 a number of years

1 ago.

2 Q. I see.

3 A. I rely more on our internal folks that
4 are closer to it when I have a question.

5 Q. So you're probably familiar with some of
6 the PJM manuals as well, I think you even cited one
7 in your testimony?

8 A. I know there's a lot of manuals, I'd hate
9 to say I'm familiar with them.

10 Q. Don't you cite one in your testimony?

11 A. I don't believe so.

12 Q. Okay.

13 A. But if I did, you can point me to it, I
14 guess.

15 Q. Maybe later. I guess I'd like to also at
16 this time turn to another portion of the document.
17 Can you turn to page 68 of the RAA. The subject
18 called "Governing Law." While I know you're not an
19 attorney --

20 A. Mine says relationship of the parties on
21 68.

22 Q. I'm sorry, mine has two pages, it would
23 be 69. Thank you for that clarification.

24 It's the only topic on the page called
25 "Governing Law." And am I correct that the RAA must

1 be interpreted, construed, and governed by the laws
2 of the state of Delaware?

3 A. That's what it says.

4 Q. So, and I understand you're not a lawyer,
5 but based on reading that, if the RAA has to be
6 interpreted, construed, and governed by the law of
7 Delaware, would I be correct that whatever contract
8 obligations AEP Ohio may have under the RAA must be
9 determined based upon the law of Delaware?

10 MR. CONWAY: Your Honor --

11 Q. If you know.

12 MR. CONWAY: Your Honor, at this point I
13 just would object to asking the witness to clearly
14 provide legal opinions about what the meaning of this
15 provision is as far as how the agreement shall be
16 interpreted, construed, and governed by which set of
17 laws it would be so interpreted, construed or
18 governed. I think it's beyond the scope of his
19 expertise.

20 He said he was not familiar with the
21 document beyond the FRR election provision, I
22 believe, which is one relatively small fraction of
23 this whole thing.

24 EXAMINER SEE: I heard you up until that
25 point, but keep going.

1 MR. CONWAY: I think that's all I have to
2 say at this point. I object.

3 EXAMINER SEE: Okay. Did you want to
4 respond, Mr. Olikier?

5 MR. OLICKER: Your Honor, I think I said
6 it in the question that I'm not asking for a legal
7 opinion. I'm asking him for just his understanding
8 based upon looking at the document that he cites in
9 his testimony, and he doesn't just cite it about the
10 FRR option, he talks about capacity obligations and
11 several other aspects of the RAA and he says that
12 that governs essentially many of the issues in his
13 testimony.

14 EXAMINER SEE: You can answer the
15 question to the extent that you're not an attorney,
16 Mr. Nelson.

17 But don't move too far afield of his
18 testimony, Mr. Olikier.

19 THE WITNESS: Well, there's only one
20 sentence here and it seems like a legal sentence so I
21 don't want to interpret it. It's just not my field.
22 We've got enough attorneys here that I'd leave it to
23 them.

24 Q. Okay. Going away from the legal things
25 and this hopefully is more in your realm of

1 expertise. Are you familiar with the term "capacity
2 resources"?

3 A. Yes.

4 Q. What does that mean to you, that
5 definition?

6 A. Well, the first thing I'd know is
7 resource is a little broader than generating units so
8 it brings in certain demand side and supply side
9 options or resources.

10 Q. Just to make sure we get all of them, can
11 you turn to page 6 of the reliability assurance
12 agreement? I believe it's 1.8, "Capacity Resources."

13 A. Okay.

14 Q. And can you just take a look at that one
15 second and see if there's anything you might have
16 left out?

17 A. I think it's kind of consistent with what
18 I was saying there's both supply-side resources and
19 demand-side resources.

20 Q. Would you agree that planned generation
21 is also a resource, capacity resource?

22 A. Planned generation? I would think it
23 would be a resource, yes.

24 Q. I'm sorry to jump around here but I'd
25 like to go back that PJN-2, page 2 of 2 again.

1 A. Okay.

2 Q. Earlier we talked about nominal
3 capability and summer capability. Can you -- I think
4 you did an okay job of just defining summer
5 capability but could you walk me through that again?

6 A. Summer capability is just what you would
7 expect the output of units to be during the summer
8 period and, as I mentioned, that is the period that I
9 believe typically the capability of is slightly lower
10 and I think also a significance there is that I think
11 PJM maybe in their testing requires a summer ratings
12 and so forth, but I'm not positive.

13 Q. And you said in their testing they
14 require that. Is that because summer capability or
15 the ability of the units that operate in the summer
16 is important for reliability purposes?

17 A. Yes. PJM is a summer peaking system, so
18 their peaks occur in the summer.

19 Q. So have you heard the term "summer net
20 dependable rating of a unit"? Is that the same
21 definition that you've used here?

22 A. It could well be, I'm just not positive
23 because I used the simpler term there.

24 Q. Are you aware of whether PJM defines that
25 as a specific term for reliability purposes in the

1 capacity markets?

2 A. I have PJM definitions. If you want me
3 that dig them up, I can look it up, but if you know.

4 Q. You mentioned before there are several
5 PJM capacity manuals out there or PJM manuals. Some
6 of them may be designed regarding PJM capacity, would
7 you agree with that?

8 A. I don't know.

9 MR. OLIKER: Your Honor, I'd like to mark
10 for identification IEU Ohio Exhibit 115.

11 A. You'll have quite a copier bill.

12 MR. DARR: You have no idea.

13 MR. OLIKER: You have no idea, it's hard
14 to be an associate when the partners look at the
15 charges.

16 Q. Could you please turn to page 13,
17 actually, let's start over there. I put in front of
18 you what has been marked as IEU-Ohio Exhibit 115, PJM
19 Manual 18, PJM Capacity Market. Does the document
20 appear to be a true and accurate copy of that manual?

21 A. I couldn't tell you.

22 Q. And do you have any reason to believe
23 that it's not an accurate copy?

24 A. No.

25 Q. Can you please turn to page 13? Can you

1 look at 2.4, reliability requirements. Tell me if I
2 read this right, and this is about midway through
3 that paragraph on 2.4 "The IRM as expressed as the
4 installed capacity reserve as a percent (e.g.,
5 15 percent) of forecast peak load, whereas the FPR,
6 when multiplied by forecast peak load provides the
7 total unforced capacity required. The installed
8 capacity (ICAP) value of a generation resource is
9 based on the summer net dependable rating of a unit
10 as determined in accordance with PJM's Rules and
11 Procedures, also referred that as 'Iron in the
12 Ground.'" Did I read that correct?

13 A. Yes.

14 Q. So have you heard the term "ICAP" before?

15 A. Yes.

16 Q. So would you consider summer capability
17 the same as ICAP?

18 A. You're asking about on my schedule?

19 Q. Yes, I'm sorry, I'm trying to determine
20 what you mean by "summer capability" in PJN-2, page 2
21 of 2.

22 A. Oh, you know what may help is I have
23 workpapers backing up this schedule which have a
24 little more detail that I could see.

25 Q. Do you have those with you, Mr. Nelson?

1 A. I have them with me, yes.

2 Q. And I'm sorry to bother you, but could
3 you possibly confirm that? That would help our
4 discussion go much faster.

5 A. I don't see anything specific here that I
6 can say, I think your question was whether summer
7 capability as defined here on my schedule is the same
8 as ICAP as defined in the PJM document?

9 Q. Right, either ICAP or summer net
10 dependability rating of unit which I think is the
11 same thing.

12 A. No, I don't have numbers here that show
13 summer net capability.

14 Q. Okay. So then just to be clear --

15 A. I'm going that go out on a limb and say
16 it's probably comparable as a term, but again, I'm
17 not representing -- these are nominal so they're not
18 summer.

19 Q. Okay. And to be clear, the nominal
20 capacity, that's a higher number than ICAP, correct,
21 for liability purposes?

22 A. Yeah, if ICAP I believe is defined as
23 summer net dependability rating, I would think that
24 the nominal might be higher.

25 Q. Thank you.

1 You've also heard of the term "UCAP," I
2 would imagine.

3 A. Yes.

4 Q. That's also under, on page 13 of PJM
5 Manual 18, correct?

6 A. Yes, I see it here.

7 Q. And that's typically a smaller number
8 than ICAP, that?

9 A. That's correct.

10 Q. And why is that, Mr. Nelson?

11 A. It takes into account E-4D, that's a
12 forced outage rate based on historic experience.

13 Q. Thank you. And, again, I would ask you
14 on PJN-2 you do not have UCAP values listed, do you?

15 A. No, I don't. It wasn't the purpose of
16 this exhibit which is to show, you know, the balance
17 between retirements across the system, so I chose to
18 use nominal.

19 Q. As PJM uses the term are you familiar
20 with "installed reserve margin"?

21 A. To some extent. I've heard the term.

22 Q. I'm sure it's an important term as far as
23 the reliability assurance agreement goes.

24 A. I would believe it would be, yes.

25 Q. Could you look back at the reliability

1 assurance agreement, please, at, I believe it's 1.68.
2 Let me try to find you a page. I think it's page 16.
3 Have you found it Mr. Nelson?

4 A. No, I didn't. Did you say "1.68"?

5 Q. 1.68 on page 16. It might be my fault
6 for having you jump back and forth between exhibits.

7 A. Okay, I'm on page 16.

8 Q. Okay. And do you see 1.68 PJM region
9 installed reserve margin?

10 A. On page 16, make sure I'm in the right
11 document.

12 Q. Are you on PJM Manual 18?

13 A. Yeah, are you in -- I'm sorry.

14 Q. I'm sorry, I'm looking in the reliability
15 assurance agreement.

16 A. That's no problem. Okay, I'm there.

17 Q. Can you take a minute to look at the
18 definition for PJM region installed reserve margin.
19 And would I be correct that, and I'll just read the
20 definition if it makes it easier, "PJM Region
21 Installed Reserve Margin shall mean the percentage
22 installed reserve margin for the PJM Region required
23 pursuant to this Agreement as approved by the PJM
24 Board pursuant to Schedule 4.1." Did I read that
25 correct, Mr. Nelson?

1 A. Yes, you did.

2 Q. Thank you.

3 And if you know, is it correct that the
4 installed reserve margin is the level of capacity
5 resources that PJM calculates are needed to meet a
6 one-day in ten-year loss of load possibility? If you
7 know.

8 A. No, I don't. I think you're getting a
9 little deeper than I would typically get into, so I
10 wouldn't be able to answer that.

11 Q. That's fine, thank you. That's the right
12 answer.

13 Going back to unforced capacity, do you
14 know what the significance of -- I'm sorry, UCAP.
15 Would you agree that's defined as "unforced
16 capacity"?

17 A. That sounds right.

18 Q. Do you know what the significance of
19 unforced capacity, or UCAP, is for the PJM capacity
20 market?

21 A. Yes. That's what you're measured
22 against, you have to have, for example if you're
23 comparing load to tie, you'd want to tie into
24 account, UCAP rather than ICAP.

25 Q. And is it.

1 A. It provides a reserve margin for
2 unplanned outages and events.

3 Q. Okay. And as a generator's unforced
4 capacity, does that operate as a cap on the amount of
5 capacity that can be offered into a PJM-based
6 residual auction?

7 A. I can't answer that.

8 Q. That's fine. So you wouldn't know if the
9 amount of capacity that could be offered into the BRA
10 is based upon UCAP? Or that the supply side of the
11 PJM auction is measured by UCAP?

12 A. I think I know, as I mentioned, UCAP is a
13 relevant measure for determining whether you have
14 adequate capacity.

15 Q. You would agree that nameplate capacity
16 is not an accurate measure of the amount of megawatts
17 that can be offered to the base residual auction.

18 A. Yeah, I don't think it would be on
19 nameplate capacity. I haven't, you know, we've been
20 an FRR entity so I'm not this familiar with all the
21 rules around RPM, but that sounds like the way I
22 would judge, you know, our offer into the RPM market
23 would be UCAP driven, not ICAP. That makes sense.

24 MR. OLIKER: Can I have that answer read
25 back, please?

1 (Record read.)

2 MR. OLIKER: Thank you.

3 Q. Earlier we talked about installed reserve
4 margin and some of the measures that PJM uses to
5 model load. Are you aware of PJM's peak load
6 forecast for the AEP footprint for 2015 and 2016?
7 And by "AEP" I mean AEP Ohio?

8 A. No, I haven't seen that.

9 Q. Are you aware of whether a peak load
10 forecast by PJM would include shopping and
11 nonshopping load for 2015-2016?

12 A. Well generally I think any PJM forecast
13 would include all load.

14 Q. I agree that makes sense. And are you
15 aware of where the 2015-2016 base residual auction
16 has concluded?

17 A. I think all the offers are in. I think
18 they haven't yet come out with the results of the
19 auction. I think they're due out tomorrow. No,
20 today's Friday, right? I think it may be the end of
21 today.

22 Q. And, I'm sorry to jump around, but am I
23 correct that part of your proposal in this modified
24 security plan is to transfer the Amos and Mitchell
25 units to affiliates?

1 A. That's correct.

2 Q. And I'm not asking for a value, but are
3 you aware of the unforced capacity values of those
4 individual units? And don't tell me the number.

5 A. Yeah. Yes, I am aware.

6 MR. OLKER: Your Honor, if I can have
7 one minute, I can see if I have anything else that's
8 not confidential.

9 EXAMINER SEE: While you're doing that
10 can you determine if it's possible for you to ask
11 your questions without going into closed session or
12 have you done that already?

13 MR. OLKER: I'm sorry, I didn't hear,
14 your Honor.

15 EXAMINER SEE: Have you determined
16 whether or not you can ask any of the questions that
17 you have that you initially requested be as part of a
18 closed session, if it's possible for you to get the
19 information that you're looking for in the record
20 without closing the session?

21 MR. OLKER: Unfortunately, I do not
22 think it's possible, your Honor.

23 EXAMINER SEE: Okay. Take a minute.
24 Mr. Olier. While you're taking a minute let's go
25 off the record and I want to do something else, okay.

1 MR. OLIKER: That's fine, your Honor.

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

4 Mr. Oliker.

5 MR. OLIKER: The remainder of my
6 questions are confidential, your Honor.

7 EXAMINER SEE: Okay. Mr. Oliker, we'll
8 take your confidential up at the end of Mr. Nelson's
9 cross-examination.

10 Mr. Maskovyak?

11 MR. MASKOVYAK: No questions, your Honor.

12 EXAMINER SEE: Ms. Grady.

13 MS. GRADY: Thank you, your Honor.

14 Your Honor, may I approach?

15 EXAMINER SEE: Yes.

16 MS. GRADY: I have handed -- let the
17 record reflect that I have handed to Mr. Nelson
18 copies of OCC's exhibits which I will introduce as
19 the cross-examination proceeds if that would be more
20 expedient to give copies right up front.

21 - - -

22 CROSS-EXAMINATION

23 By Ms. Grady:

24 Q. Good evening, Mr. Nelson.

25 A. Good evening.

1 Q. Mr. Nelson, in your testimony at page 3
2 you indicate that you're providing an overview of the
3 corporate separation plan; is that correct?

4 A. Yes.

5 Q. And you're responding to the Commission's
6 directive in the corporate separation case to address
7 the plan for AEP's generating assets including
8 retirements and divestitures; is that correct?

9 A. Yes.

10 Q. Now, we've had some discussion throughout
11 today of AEP GenCo. Is AEP GenCo the same entity
12 that you referred to as AEP Generation Resources,
13 Inc.?

14 A. Yes.

15 Q. There was some discussion with counsel
16 for Ormet about the general value of the assets being
17 transferred to the GenCo. Do you remember that?

18 A. Yes.

19 Q. Would you accept that that figure is
20 \$5.9 billion value associated with the generating
21 assets that are to be transferred?

22 A. No. I wouldn't accept that without
23 looking at the source of it.

24 Q. Are you, Mr. Nelson, are you involved at
25 all in the presentations to analysts on various

1 issues including corporate separation in Ohio?

2 A. No.

3 Q. And if I had questions, if I have
4 materials that were presented to the analysts with
5 respect to corporate separation in Ohio, what witness
6 should I address those to?

7 A. I'm not sure we have a witness on that
8 topic.

9 Q. Who within the company would be able to
10 address questions with respect to, for instance, the
11 Japan Roadshow presentation on corporate separation
12 in Ohio?

13 A. And you're talking about someone other
14 than a witness in this case?

15 Q. Yes, you've indicated it's not a witness
16 but I would like you to identify someone in the
17 company who would be able to answer questions with
18 respect to the corporate separation in Ohio
19 presentation that was part of the Japan Roadshow in
20 Tokyo, Japan, February 21st through 24th, 2012.

21 A. Are you going to make me put someone on
22 the spot?

23 Q. Yes, I am.

24 A. I think a good source would be our
25 Investor Relations Director, which would be Bette Jo

1 Rozsa.

2 Q. Now, you indicated that Amos and Mitchell
3 are going to be transferred, correct?

4 A. That's our plan, yes.

5 Q. And they are transferred to APCo and
6 Kentucky Power; is that correct?

7 A. That's correct.

8 Q. And that represents about 2,300
9 megawatt-hours of capacity?

10 A. Megawatts.

11 Q. Megawatts, I'm sorry.

12 A. Yeah, it's in that ballpark.

13 Q. And additionally you have retirements of
14 approximately 2,000 megawatts; is that what's
15 indicated on PJN-2?

16 A. For AEP Ohio, yes, roughly 2,000.

17 Q. So am I correct that the remainder of
18 assets, megawatt capacity transferred to the AEP
19 GenCo would be around 8,900 megawatts?

20 A. Where did you get that figure?

21 Q. That's from the Japan Roadshow.

22 A. Oh, Japan Roadshow? Okay.

23 Q. Would you accept that that's a correct
24 figure?

25 A. I'm not sure exactly what all is included

1 in that I usually like to look at the units, but if
2 you wanted to show it to me.

3 Q. Would it be helpful to show you the
4 slide?

5 A. Or is there a description of what that
6 represents?

7 Q. Why don't I show that to you and see if
8 that will help. Thank you.

9 MS. GRADY: May I approach the witness?

10 EXAMINER SEE: Yes.

11 Q. Have you had a chance to look at what I
12 handed to you, which is the presentation, the Japan
13 Roadshow?

14 A. Yes.

15 Q. And my question, then, is it your
16 understanding taking into account the transfer of
17 Amos and Mitchell and the retirements that the
18 transfer of generating assets to AEP Generation
19 Resources would be approximately 8900-megawatt
20 capacity?

21 A. That's what this slide indicates. I
22 don't have the list of all the units and whether it's
23 ICAP or UCAP, but the slide indicates that.

24 Q. And would you believe that that is an
25 accurate representation of the coal and natural

1 gas-fired resources that will be transferred to the
2 AEP GenCo?

3 MR. CONWAY: Your Honor, at this point I
4 would object. The witness has not seen this document
5 before. He indicated that he's not clear about what
6 the context is, what the lineup of assets are that
7 are being included in the value that counsel for OCC
8 is addressing.

9 And so I just object to leading down this
10 path because the witness is not familiar with the
11 document or what the context of the frame of
12 reference is that underlies the document.

13 He's got his testimony which, of course,
14 you're free to pursue in whatever detail you'd like
15 to, but I think it's unfair to do this examination
16 with this witness after what he's had to say about
17 it.

18 EXAMINER SEE: Did you want to respond,
19 Ms. Grady?

20 MS. GRADY: Your Honor, I think as he
21 presents information, this is certainly relevant. It
22 is a fact that these assets will be transferred and I
23 believe it's pertinent to the case to determine what
24 the megawatt-hour capacity of these resources are.

25 MR. CONWAY: Well, your Honor, he's got

1 information in his testimony, he can provide the
2 context about what that presentation of
3 megawatt-based values is. He's already said he
4 doesn't know where the megawatt basis of the values
5 are in the document that OCC is using. He says he
6 doesn't know whether it's UCAP or ICAP. He's not
7 seen it before I believe is what he said. So I just
8 think it's not really something that advances the
9 cause here to go further with it.

10 EXAMINER SEE: The objection is
11 sustained.

12 Q. (By Ms. Grady) Mr. Nelson, do you know
13 how many megawatts of capacity are going to be
14 transferred to AEP Generation Resources, Inc.?

15 A. Not off the top of my head, no.

16 Q. Do you have a rough estimate of the
17 amount of capacity or amount of megawatt-hours --
18 megawatts in the coal and natural gas-fired capacity
19 that is being transferred to AEP GenCo?

20 A. Can I do a little bit of a calculation?

21 Q. Surely, you may.

22 A. I could give you a rough estimate, I
23 think.

24 Q. I'd appreciate it. Thank you,
25 Mr. Nelson.

1 A. Do you mind a real round figure? This is
2 quick and dirty, but I would say the 9,000ish number
3 is in the ballpark.

4 Q. Okay.

5 A. I do want to mention one thing, on the
6 other exhibit that Cardinal 2 and 3 were shown on it,
7 which gives you a little higher number, units
8 Cardinal 2 and 3. Let me take you there so there's
9 no confusion.

10 Q. Thank you.

11 A. In my Exhibit PJN-2, page 2 of 2.

12 Q. Yes.

13 A. The first footnote includes Cardinal 2
14 and 3, and you may recall that Cardinal 2 and 3 are
15 owned by Buckeye Power Company. We generally take
16 over their load responsibility, so in planning, you
17 know, our planning for planning purposes we usually
18 included both the generation and the load. But those
19 would transfer so that's a big difference I wanted to
20 mention for you.

21 Q. Okay. I do appreciate it, and thank you
22 for checking.

23 So we're, just to be clear, your
24 testimony today, Mr. Nelson, is that approximately
25 9,000 megawatts of coal and natural gas-fired

1 resources will be transferred to the AEP GenCo.

2 A. Yeah, including contractual entitlements.

3 Q. Now, you had some questions early on
4 today and I believe they were perhaps from Mr. Olikar
5 about --

6 A. Oh, one other thing I would mention,
7 sorry. You know, when we say what we'll transfer,
8 some of these units may not be retired. I think the
9 schedule that you showed me here is after retirements
10 and transfers.

11 Q. Correct.

12 A. So if corporate separation were to happen
13 12/31/13 --

14 Q. Yes.

15 A. -- some of those units wouldn't be
16 retired yet so there may be more megawatts
17 transferred than the 9,000, that's all I wanted to
18 point out because all of these units may not retire
19 until a few years later.

20 Q. Thank you.

21 A. I was going -- I've done the calculation
22 post transfers and post retirements, for those units
23 I've listed on my schedule I should say.

24 Q. Now, you've indicated at various times
25 today that the goal or -- that AEP is shooting for

1 corporate separation to be approved January 1, 2014,
2 correct?

3 A. Yes.

4 Q. And you've also indicated that once
5 corporate separation is approved, that there will be
6 a contract between the AEP GenCo and AEP Ohio to
7 provide standard service offer energy and capacity;
8 is that correct?

9 A. Yes.

10 Q. Now, would you agree with me, Mr. Nelson,
11 that given the amount of megawatt capacity
12 transferred, that there will be excess energy after
13 supplying the SSO that would be available for the
14 GenCo to sell on the competitive market?

15 A. At times they may have excess beyond the
16 SSO requirements, I would agree.

17 Q. And do you know the magnitude -- well, do
18 you have a rough estimate of the magnitude of the
19 excess above supplying SSO given the approximately
20 9,000-megawatt transfer?

21 A. No, I don't have any estimate.

22 Q. If we would look to Mr. Allen's
23 testimony, would we be able to pull a load figure off
24 of Mr. Allen's that would correlate to the SSO load
25 that we could compare the SSO load to the

1 9,000-megawatt transfer?

2 A. I don't know, you'd have to ask
3 Mr. Allen.

4 Q. And under your corporate separation plan
5 and under your modified ESP post May 2015, all the
6 energy and capacity that is transferred to the AEP
7 GenCo would become available for marketing on the
8 competitive market; is that correct?

9 A. You said all of the generation is
10 transferred --

11 Q. Yes.

12 A. You said post what date?

13 Q. Post May 2015.

14 A. Oh, post May 2015. I don't know what
15 commitments they may have at that time, the GenCo
16 that is, so it's hard to say.

17 Q. Thank you.

18 Now, under the calculation of the RSR,
19 the retail stability rider, do you know if any of the
20 profits from the excess energy that's available --
21 let me strike that.

22 Do you know if the RSR is credited for
23 any of the capacity or energy that is to be sold --
24 that can be sold by the AEP GenCo after supplying SSO
25 service?

1 A. No, I don't know anything about the RSR.

2 Q. And would that be a question to ask

3 Mr. Allen?

4 A. Yes.

5 Q. Thank you.

6 Now, if we wanted to get to the -- I
7 think earlier you testified that the net book value
8 of the generating units would be found on the FERC
9 Form 1.

10 A. You could calculate the net book value.
11 I'm not sure about -- yeah, I think it could be
12 calculated from FERC Form 1.

13 Q. And to get the net book value we would
14 just look at the value of the utility plant and then
15 subtract from that value the depreciation related to
16 that plant?

17 A. That's a measure of net plant in service,
18 it's not necessarily what would transfer in terms of
19 net book. There's a lot of other components to that,
20 and Mr. Mitchell could tell you what the other
21 components are.

22 Q. Thank you. Now, you testified earlier
23 that, in response to questions from FES counsel that
24 you were not aware of a market value study being done
25 with respect to the transfer of the generating

1 assets; is that correct?

2 A. What I've said is I'm not aware of any
3 market appraisal. We've got to be real careful when
4 we talk market studies, anybody can apply -- there's
5 a lot of market prices out there. I mean, I don't
6 know what qualifies as a market study. A lot of
7 people do analysis around using a market price, an
8 LMP or whatever so there could be an infinite number
9 of those type of studies.

10 The one that I discuss when I last was
11 around looking at different units and using a market
12 price but, no, there hasn't been any market
13 appraisals I'm aware of.

14 Q. Would you agree that the company has
15 valuation estimates of its generating plants that may
16 be calculated for other purposes besides corporate
17 separation?

18 A. Could you repeat that?

19 Q. Would you agree, Mr. Nelson, that the
20 company has valuation estimates of its generating
21 plants that are calculated for other purposes besides
22 corporate separation?

23 A. I guess I'm struggling with "valuations
24 of plants." As I said, there's -- it's in the eye of
25 the beholder. I just don't know whether I define

1 just applying the market price for some analysis to
2 be a market valuation study, so I want to be a little
3 careful there.

4 Q. I think earlier you talked about, at
5 least I got the impression you were talking about
6 cash flow studies that may have valuations associated
7 with generating units owned by AEP Ohio?

8 A. Yeah, I think we provided in discovery an
9 analysis that was done towards the end of last year
10 or the start of this year with respect to, primarily
11 related to investment decisions in particular units
12 and it was done on a net-present-value basis, and so
13 I'm familiar with that study. I think we provided it
14 here and I think we provided it in like Virginia and
15 so forth.

16 Q. Yes, that's the study I would be --

17 A. And that's the one I've seen and I can
18 explain that. I'm comfortable with that one if you
19 lay that in front of me.

20 Q. I'm not going to lay it in front of you,
21 but is it your understanding that the study that
22 we're talking about that shows cash -- would show the
23 cash flows associated with the generating units that
24 are to be transferred to the GenCo?

25 A. It's, again, a net-present-value study

1 based on discounted cash flows over the life of the
2 units.

3 Q. And do you know the result of that study?

4 A. I don't know that there's one result from
5 that study. It looks at each unit and does a
6 net-present-value calculation for that unit.

7 Q. And was it your understanding that the
8 net present value was positive, it was a positive
9 value as opposed to a negative value?

10 A. As compared to what I guess is -- again,
11 it's more for ranking of units, relative position of
12 the units. The primary purpose that I think it was
13 used for was just to look at, you know, where we were
14 going to make investments in the units. So a unit
15 that -- I think there was a, do you recall a bar
16 chart associated with that?

17 Q. Yes.

18 A. Yes. It showed, you know, which units
19 would -- kind of ranked them to see where you might
20 ultimately retire or put capital investment into
21 those units.

22 Q. And wasn't this study one of the bases
23 for determining that Mitchell and Amos should be
24 transferred to APCo and Kentucky Power?

25 A. I looked at it for the purpose of I knew

1 there was a good set of data to see if those units
2 had a lot of capital expenditures coming down the
3 pike and so forth because we wouldn't want to
4 transfer units to Appalachian Power that didn't meet
5 their needs, we wanted to represent those units as
6 units that would continue to produce power in a
7 reliable fashion and economic fashion over the life
8 of the unit, so in that sense, yes.

9 I in some sense looked at that to make
10 sure there was nothing unexpected in respect to the
11 Mitchel and Amos units.

12 Q. So is it your -- do you recall that the
13 Amos and Mitchell units were units that there would
14 be a considerable amount of expenditures related to
15 environmental compliance coming up in the future?

16 A. Yes, what I could tell you about Mitchell
17 and Amos, they're both fully controlled units. We're
18 talking about Amos unit, they have FGRs and FGDs on
19 them and that's, you know, typically a pretty big
20 environmental expenditure, particularly the scrubber
21 or FGD. So we knew that those units had those
22 controls on them so most likely they were going to
23 not retire.

24 What we also looked at was whether there
25 was any additional environmental requirements for

1 these controlled units and as far as Amos and
2 Mitchell I think, you know, it didn't look like there
3 was any major expenditures over the course of the
4 next several years, though I think there might have
5 been a precipitator upgrade or something at I believe
6 it was Mitchell, but it was manageable.

7 Q. Now, is Mr. Mitchell also familiar with
8 these studies and the results of these studies?

9 A. I don't know. It wouldn't be necessarily
10 something he would look at.

11 Q. Do you know, Mr. Nelson, what the percent
12 of the AEP East generation book value is attributable
13 to the CSP and OP generation plant?

14 A. The book value?

15 Q. Yes.

16 A. Of the East fleet?

17 Q. In relation to the OP/CSP generation
18 units.

19 A. No.

20 Q. Now, at page 5 of your testimony on lines
21 5 through 6 you indicate that the GenCo will assume
22 the liabilities associated with the assets that are
23 to be transferred in the corporate separation. Do
24 you see that?

25 A. Yes.

1 Q. Would you agree with me that the company
2 currently has environmental contingencies associated
3 with some of its generating units?

4 A. I would expect they would, yes.

5 Q. And by "environmental contingencies" I
6 mean things like CERCLA, reliability, state mediation
7 or nuisance claims as described in the company's FERC
8 Form 1.

9 A. I'll go as far as thinking they have some
10 regulatory or environmental liabilities perhaps, but
11 I don't want to get into particular liabilities, I'm
12 not familiar with that.

13 Q. Is it your understanding those would be
14 reported in the company's FERC Form 1?

15 A. I'm sure there's things reported, I just
16 haven't looked at that.

17 Q. Is it your testimony that those
18 environmental contingencies that are associated with
19 the generating units would be transferred with the
20 units?

21 A. I believe so. I would ask, you might
22 want to check with Witness Mitchell particularly with
23 respect to any items in the FERC Form 1.

24 Q. Is it your understanding that, then, the
25 environmental contingencies would become -- the

1 environmental contingencies of AEP GenCo and APCo or
2 Kentucky Power associated with those generating units
3 that are transferred?

4 A. I'm uncomfortable going any further
5 without linking environmental liabilities directly
6 with units and so forth. I just don't know the
7 relationship, I don't know what's reported in the
8 FERC Form 1s so I want to stop there.

9 Q. With respect to the relationship on
10 environmental liabilities would it be your testimony
11 that Ohio's SSO customers would not have any
12 responsibility for potential future costs associated
13 with environmental contingencies on the units that
14 are to be transferred?

15 A. I think if the liabilities do get
16 transferred with those units, then, yeah, I would
17 have agree with that statement.

18 Q. Is it your testimony that those
19 liabilities would get transferred?

20 A. Again, without knowing what the
21 liabilities are, I don't know, you know, if they can
22 be linked up. I'd need to see it. I haven't looked
23 at that, I don't know what the liabilities are.

24 Q. Now, you discuss with respect to the
25 corporate separation and the asset transfer the -- on

1 page 12 of your testimony you indicate that you are
2 seeking to equitably terminate the pool transfer and
3 that as part of that equitable termination you are
4 planning to transfer Amos 3 and Mitchell to APCo and
5 Kentucky Power, do you see that reference?

6 A. Yes.

7 Q. And you also indicate on page 12 of your
8 testimony that AEP Ohio has had capacity and energy
9 well in excess of its own internal customers' needs
10 for a number of years. Do you see that?

11 A. Yes.

12 Q. And you also indicate that AEP Ohio has
13 been selling a significant amount of its surplus
14 generation through the pool to its affiliates?

15 A. Yes.

16 Q. Can you define for me what number of
17 years you referred to there?

18 A. As far as Ohio Power they've been surplus
19 I think as long as I can remember.

20 Q. How long can you remember?

21 A. I think I can at least go into the '90s,
22 perhaps '80s.

23 Q. Now, when you say a significant amount of
24 surplus generation, are you referring there to
25 capacity and generation or are you just referring to

1 generation?

2 A. With respect to Ohio Power I think it
3 would be both energy and capacity.

4 Q. And can you tell me -- can you define for
5 me what you mean by "significant"?

6 A. I would certainly define "significant" as
7 what they are receiving in capacity payments
8 recently, the \$400 million range, they do sell a lot
9 of primary energy as well, so I would consider those
10 types of numbers significant.

11 Q. Has customer switching added to the
12 amount of generation -- of the generation surplus?

13 A. As far as energy, they would contribute
14 to a surplus, not as far as capacity.

15 Q. And given the increasing level of
16 customer shopping would you expect that the surplus
17 generation that's made available from customer
18 switching will become a larger percentage of the
19 total off-system sales revenues in future years?

20 A. All things being equal, the pool is still
21 in place, yes, the switching would contribute to more
22 off-system sales.

23 MS. GRADY: Your Honor, at this time I
24 would direct your attention to what I have -- what I
25 would like marked as OCC Exhibit No. 101, that is the

1 company response to interrogatory 143, the fourth
2 set.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 Q. Now, Mr. Nelson, can you identify this
5 response?

6 A. One question I have, is it from this
7 proceeding or is it from last year?

8 Q. It is from the initial stage of this
9 proceeding.

10 A. Oh, so it would be related to my
11 January 27th, 2011, testimony?

12 Q. I'm not sure what -- it was discovery
13 that was served and responded to in the first stage
14 of this proceeding.

15 A. So 2011?

16 Q. Yes.

17 A. That's why it didn't look real familiar,
18 it's an older one. I would expect that, you know,
19 now that Mr. Sever would be on the list, not me.

20 Q. I think -- go ahead. Can you identify
21 it?

22 A. I don't remember the particulars of this,
23 no, but it has my name on it and it looks like a
24 discovery response.

25 Q. And would you assume it was prepared by

1 you or under your supervision?

2 A. I would assume so.

3 Q. And would you also assume it's accurate
4 and complete to the best of your knowledge?

5 A. I hate to say a forecast that was done
6 last year under different circumstances, I wouldn't
7 swear to the accuracy of any of the numbers in it. I
8 know numbers have changed pretty dramatically. But
9 at the time this would have been an accurate
10 estimation.

11 Q. And is that an estimation, is it really a
12 forecast or is it a historic information?

13 A. I'm sorry. No; you're right, it is --
14 no, I was looking at the last one.

15 Q. I'm sorry, yeah, there are three exhibits
16 but I want to start with the first one being 101, the
17 response to interrogatory 143. Do you have that one?

18 A. Yes.

19 Q. Okay. Mr. Nelson, that depicts the
20 significant amount of surplus generation that
21 AEP Ohio has been selling through the pool as a
22 percentage of the annual generation from 2000 to 2010
23 that was assigned to off-system sales; is that
24 correct?

25 A. It's described as Ohio Power and CSP

1 annual percentage of generation assigned to
2 off-system sales.

3 Q. Yes. And is this the type of surplus
4 generation you refer to in your testimony that has
5 been -- that has been -- that AEP Ohio has had
6 since -- for a long period of time as far as you can
7 remember?

8 A. Unfortunately these numbers aren't making
9 a lot of sense to me. I just can't put them in any
10 context at the moment. This may be related to the
11 units that are assigned to off-system sales and that
12 may not be the same as off-system sales sharing in
13 the pool. It depends on how this is defined.

14 You know, just seeing it in 2010, Ohio
15 Power had 8.9 percent of its generation assigned to
16 off-system sales and CSP 15.3 percent, it may be just
17 related to the -- particular units that were assigned
18 to off-system, but I don't want to characterize those
19 pool transactions, that's what I mean.

20 Q. And I'm really not trying to characterize
21 it as pool transactions, I'm just trying to tie it
22 into your testimony where you indicated that AEP Ohio
23 has had capacity and energy well in excess of its own
24 internal customer needs for a number of years and has
25 been selling a significant amount of this surplus

1 generation.

2 A. Oh, I'm sorry. Yeah, I was really
3 talking about actions within the pool to other
4 affiliate members of the pool, primary energy, not
5 off-system sales in making that statement. So it
6 didn't relate to the off-system sales issue.

7 Q. Was your testimony on page 12 solely
8 related to the off-system sales issue?

9 A. No. It was related to the, as I said, it
10 was related to primary energy sales because I'm
11 talking about sales of surplus generation through the
12 AEP pool to its affiliates. Those are not off-system
13 sales.

14 Q. And is it your -- what is your
15 understanding of that, the document that I provided
16 to you? Does that depict primary energy sales, if
17 you know, or is that off-system sales?

18 A. No; this is labeled off-system sales.

19 Q. Okay. Now, I would ask you to turn to
20 the second document that I provided to you and I
21 would ask that that be marked as OCC Exhibit 102, and
22 that is the company response to OCC interrogatory
23 139, fourth set.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

25 Q. Do you have that in front of you,

1 Mr. Nelson?

2 A. Yes.

3 Q. And can you identify that?

4 A. Identify it as, looks like a response, my
5 name is on it, and it looks responsive to the
6 question, I think.

7 Q. And you would assume it was prepared by
8 you or under your supervision?

9 A. I would assume so.

10 Q. And are you -- would you assume that it
11 is accurate and complete to the best of your
12 knowledge?

13 A. I would hope so.

14 Q. Okay. Now, this exhibit, Mr. Nelson,
15 depicts the actual margins from off-system sales for
16 CSP and Ohio Power?

17 A. Yes.

18 Q. And can we equate margins to profits; is
19 that what that means?

20 A. Gross margins are before other expenses,
21 but, yes.

22 Q. Would this correspond to OCC Exhibit
23 No. 1, if you know? 101.

24 A. No.

25 Q. You don't know or it does not?

1 A. No, I don't think the relationship is
2 there. I think this is probably the MLR share of the
3 margins on this particular one, the other one just
4 related to which units were providing off-system
5 sales of the system, but that doesn't -- that just
6 means where the unit was in the stack and so forth,
7 so there's no relationship between these numbers.

8 Q. So the MLR share was what AEP, the member
9 load ratio share there was of the profits that's
10 AEP's profits that it kept from off-system sales; is
11 that your understanding of those figures?

12 MR. DARR: Can I have a clarification of
13 that question. When you say "AEP," what do you mean?

14 MS. GRADY: I'm sorry, that would be
15 AEP Ohio, CSP, and Ohio Power.

16 MR. DARR: Thank you.

17 A. There may be some other things in there
18 but it looks to be an MLR relationship is a prime
19 driver in this documents.

20 Q. Now, if we go to PJN Exhibit No. 3 in
21 your testimony in this proceeding, you show the sale
22 of capacity among members of the AEP pool; is that
23 correct?

24 A. Yes.

25 Q. And that exhibit refers to capacity and

1 not energy; is that right?

2 A. That's correct.

3 Q. And the document that I had marked as
4 Exhibit 102 would show the sale of energy among
5 members of the AEP pool; was that correct?

6 A. No.

7 Q. And can you tell me why that is not
8 correct?

9 A. This is margins of off-system sales so
10 this is sales of the pool to non-affiliates.

11 Q. Thank you.

12 Do you have information which would show
13 the sales of energy among the members of the AEP
14 pool?

15 A. No, not in my testimony.

16 Q. So there are revenues that were derived
17 from the pool related to the sale of capacity as well
18 as energy in the AEP pool, correct?

19 A. Yes. There's internal transaction among
20 the pool members where both capacity and energy is
21 sold among the members and we've talked about
22 capacity energy transactions are called primary
23 energy sales.

24 And any other facet of the pool that's --
25 a big component is when the system, AEP, or the pool

1 makes external sales, then there's a sharing of the
2 off-system sales margin among the members on an MLR
3 basis.

4 Q. Now, we also talked about the sales to
5 non-affiliates as being off-system sales; is that
6 correct?

7 A. That's correct.

8 Q. So we also have the sale -- do we have
9 the sale of capacity as well as energy in off-system
10 sales?

11 A. I would consider the sale of capacity is
12 in a 447 account which is a sale for resale and I
13 think it would appear in these numbers but I can't
14 guarantee that.

15 Q. Now, in PJN-3 where you have parentheses
16 around the sales in the third column, that would show
17 that the members with the parentheses were considered
18 capacity short?

19 A. Yes.

20 Q. Now, Mr. Nelson, in the current ESP
21 filing how are off-system sales profits treated, if
22 you know?

23 A. Current ESP filing how are they treated?

24 Q. Yes.

25 A. I don't think there's any specific

1 treatment of off-system sales. They may impact some
2 of the, some of the components. You might want to
3 ask Witness Allen that question. I'm not aware of
4 anything specific around that issue.

5 MS. GRADY: May I have his answer reread,
6 please?

7 (Record read.)

8 Q. When you said it may impact some of the
9 components, what are you referring to?

10 A. Well, Mr. Allen does -- I just don't know
11 what's reflected, for example, in the RSR, I think
12 it's a better question -- that's the thing that came
13 to mind. There may be other things that come to
14 mind, but the way I look at it is, you know, since
15 we're kind of looking at a balanced package that, you
16 know, if we've got the off-system sales margins
17 contributing to where we think we're going to be, you
18 know, what we need, then that would probably be
19 factored into our thinking. So in that sense it
20 would be kind of incorporated.

21 MS. GRADY: Your Honor -- are you
22 finished, Mr. Nelson?

23 A. Yes.

24 MS. GRADY: Your Honor, I would move to
25 strike Mr. Nelson's response, I think it was

1 nonresponsive and gratuitous.

2 MR. CONWAY: Your Honor, she asked him to
3 explain his prior answer which was that the
4 off-system sales margins might affect other aspects
5 of the ESP, and he's trying to explain to her how
6 that might be possible that the off-system sales
7 margins may affect other aspects of the ESP. And his
8 answer was that how they are treated is part of the
9 package of costs and benefits that the company has
10 proposed as a total ESP proposal. So I think it's
11 very responsive.

12 EXAMINER SEE: Motion to strike is
13 denied.

14 Q. (By Ms. Grady) Mr. Nelson, can you say as
15 you sit here today that the margins from off-system
16 sales profits are recognized as an offset to the
17 costs that are passed through in the ESP?

18 A. And what specific costs are we passing
19 through in the ESP that you --

20 Q. That's a good question. In the ESP
21 package, in any of the provisions that you are aware
22 of, do you know whether or not the profits from
23 off-system sales are recognized?

24 A. My testimony is fairly limited to the
25 topics I've laid out, so I don't think that's a

1 question that I feel real comfortable answering.

2 Q. Thank you.

3 Do you know, Mr. Nelson, if the
4 companies -- in the company's pro forma financial
5 statements whether they've adjusted out the profits
6 from off-system sales?

7 A. A question for Mr. Sever. I don't know,
8 to answer your question.

9 Q. Do you know in the retail stability rider
10 if the company recognizes the additional revenues it
11 receives through the sale of energy and capacity and
12 off-system sales?

13 A. A better question for Witness Allen.

14 MS. GRADY: Your Honor, at this time I
15 would ask to be marked for identification purposes
16 OCC Exhibit No. 103, the company's response to OCC
17 interrogatory 140, fourth set.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Mr. Nelson, can you identify this
20 document that has been marked as OCC Exhibit No. 103?

21 A. It looks to be a data request, I'm
22 assuming filed sometime last year, with my name on
23 it.

24 Q. Was it prepared by you or under your
25 supervision, if you recall?

1 A. I would think it would be.

2 Q. Does it appear to be accurate and
3 complete to the best of your knowledge?

4 A. I believe if we replied in this manner I
5 hope it would be accurate. However, again, this is I
6 think where we get into the forecast so I wouldn't
7 necessarily rely on the numbers on the document at
8 this time.

9 Q. Would you -- let me strike that.

10 With respect to OCC Exhibit No. 103, does
11 it appear that that exhibit depicts an estimate of
12 the total profits from off-system sales that is CSP's
13 and Ohio Power's portion during the term of the ESP?

14 A. Yes, I think that's what the question
15 asked for.

16 Q. Do you know what assumptions for shopping
17 this estimate entails?

18 A. I don't recall.

19 Q. Do you know whether or not this estimate
20 reflects the fact that the pooling agreement will end
21 and sharing of off-system sales profits with others
22 within the pool will end?

23 A. I don't recall.

24 Q. Mr. Nelson, let's move along to the pool
25 termination provision part of your testimony. I

1 think your testimony on pool termination begins on
2 page 21. Do you see that?

3 A. Yes.

4 Q. Now, if corporate separation -- if the
5 company's corporate separation plan is approved
6 without modification, then the company is -- then you
7 are testifying that the company would not seek to
8 collect any lost net revenues associated with
9 terminating the pool; is that correct?

10 A. Yes.

11 Q. And is that, when you refer to the
12 corporate separation plan, you mean the plan that's
13 under consideration in Case No. 12-1126?

14 A. Yes.

15 Q. And you're not referring to any corporate
16 separation plan that is to be filed at FERC?

17 A. The corporate separation filing at FERC
18 should be the same plan, so I think it covers both.

19 Q. So if the corporate separation plan is
20 modified by FERC, will the company seek to collect
21 lost net revenues associated with terminating the
22 pool, if you know?

23 A. I didn't want to preclude that
24 possibility for us.

25 Q. So you're saying that is a possibility if

1 FERC amends your corporate separation plan, that that
2 may trigger you to file for a pool termination lost
3 revenues in Ohio?

4 A. Yes.

5 Q. If the company modifies the corporate
6 separation -- let me strike that.

7 If the Commission modifies the corporate
8 separation plan, and now I'm speaking of either the
9 PUCO or the FERC, the company -- is it the company's
10 testimony that it would not seek compensation unless
11 its lost AEP net revenues exceed \$35 million in any
12 given year?

13 A. Yes, the 35 million would be a threshold.
14 When you say "any given year," I think it would be
15 kind of a one-time calculation, that is we'd probably
16 use a test period to identify the amount and then
17 take 35 million off the top and, you know, if it
18 exceeded that amount, then we might make a request
19 under this provision.

20 Q. And if it exceeded the amount of
21 35 million, would you be seeking to recover the
22 amount that exceeded 35 million or the 35 million
23 plus?

24 A. Just the amount that exceeded the
25 35 million.

1 Q. And how did the company arrive at a
2 \$35 million figure, if you know?

3 A. Well, for this filing I went back to the
4 last filing which I think I had 35 million in there.
5 And, as I recall, the 35 million would have been
6 discussed with the AEP Ohio president at the time,
7 Joe Hamrock.

8 I also recall that, you know, it's just a
9 reasonable threshold. I think at the time we may
10 have looked at, you know, how many basis points on
11 equity return that represented to make sure it wasn't
12 significant; it was fairly de minimis.

13 Q. Do you recall how many basis points on
14 equity that represented?

15 A. As I recall it might have been 50 basis
16 points at the time, but I'm not positive.

17 Q. When you used the term "net revenues,"
18 can you tell me what you mean by that term?

19 A. Yeah, I wanted to capture the idea that
20 you may have cost reductions as well and didn't want
21 to -- I just didn't want to compare revenue to
22 revenue. Of course, I haven't laid it exactly out
23 what the filing might look like, I just want to give
24 an idea of how we may look at it.

25 But the idea is that if you can be in the

1 same place, whether you reduce costs or, you know,
2 produce additional revenues, that satisfies our
3 requirement. We wouldn't just look at the revenue
4 side, that's what that's meant to convey.

5 Q. I'm sorry, I didn't mean to interrupt
6 you.

7 A. I'm sorry, I paused. I just said
8 "convey." I'm done.

9 Q. Thank you. What kind of cost reductions
10 would you expect associated with the pool
11 termination?

12 A. The biggest one is related to the
13 transfer of the assets, you know, you would be
14 transferring the book value of the assets and all the
15 operating costs of those generating units so that
16 would be a big cost reduction, that's our plan and
17 that kind of makes us whole in that sense.

18 Q. And the cost reduction, the cost of
19 operating the plants, that would then be borne by the
20 AEP GenCo; is that correct? After corporate
21 separation.

22 A. Yes, all the generation expenses would be
23 on the books of the GenCo after corporate separation.

24 Q. Now, you mention in your response that
25 there may be increased revenues associated with

1 terminating the pool; is that correct?

2 A. There may be the ability to find
3 replacement revenues with respect to terminating the
4 pool. For example, you know, market, we'll sell the
5 output in the market, may compensate us somewhat for
6 those, we might have other sales agreements, new
7 affiliate agreements, for example, or something else
8 that would mitigate the need for the pool termination
9 provision.

10 Q. So those increased revenues would be
11 netted against any pool termination costs and lost
12 revenues to determine the level of the rider; is that
13 correct?

14 A. Yeah. For example, I'm just speculating
15 here, but the things I envision is, you know, if we
16 entered into a new wholesale contract with an
17 affiliate or non-affiliate, then you're getting some
18 compensation for that capacity that then could be
19 used in comparison to the compensation you get under
20 the pool.

21 Q. Now, you had indicated -- let me go to
22 what you said. You said if you enter into a new
23 contract for wholesale supply; is that what you said?

24 A. Sure. Wholesale customer, you know, we
25 have munis, we sign up a new municipal customer, you

1 know, then that might be considered replacement for
2 the lost pool capacity.

3 So we're meant to, you know, it's kind of
4 a fair treatment if we can take that unused capacity
5 that's now freed up because we don't have the pool
6 agreement anymore and resell it, we'll consider that
7 in looking at the net position of the company.

8 Q. So would the capacity have to relate to
9 what generating units remain at AEP Ohio?

10 A. I would think so. I'm not sure.

11 Q. So in order to, I guess I'm trying to
12 understand what the offsetting revenues would be when
13 you transfer your generating assets. You're not
14 going to have generating assets, are you, once the
15 corporate separation occurs?

16 A. Yeah, I'm talking about the GenCo, in the
17 year before you look at, the way I think we probably
18 would model it is we look at the year prior to
19 corporate separation, model the flows under the pool,
20 model it without the pool in place and see what the
21 change in revenues are.

22 Q. So it would be the change in revenues for
23 the AEP GenCo, not necessarily the change in revenues
24 for AEP Ohio.

25 A. Yes. As far as going forward, I mean,

1 the period that we'd be looking at would be a bundled
2 period because we'd be looking back, is my suggestion
3 for the period the pool was in place. Going forward,
4 of course, you terminate the pool with corporate
5 separation so you're talking about the GenCo post
6 corporate separation.

7 Q. And the period that you're looking back
8 at is a period when AEP had those generating assets
9 and actually did incur costs and did have revenues
10 associated with, for instance, off-system sales or
11 sales to other members of the pool.

12 A. Yes.

13 Q. So the pool termination revenues, am I
14 correct in understanding that those pool termination
15 revenues would then flow to the AEP GenCo as opposed
16 to AEP Ohio?

17 A. I believe that would be appropriate, yes.

18 Q. And this would be in the form of a
19 nonbypassable charge; is that correct?

20 A. Yes.

21 Q. Meaning it would go to shopping customers
22 as well as SSO load customers?

23 A. That's correct.

24 Q. Can you tell me who at AEP developed the
25 pool termination provision in the ESP?

1 A. I did.

2 Q. Was there anybody else involved at AEP
3 that helped develop that provision of the ESP?

4 A. I had discussions with Rich Munczinski,
5 the pool manager, and I think maybe Bill Allen may
6 have had some input on it.

7 Q. Did you have any discussions with your
8 counsel with respect to the lawfulness of the pool
9 provision?

10 A. I would hope if it was unlawful that my
11 counsel would speak up.

12 Q. And I assume --

13 A. But, no, I didn't specifically ask that
14 question.

15 Q. And I'm assuming your counsel did not
16 speak up; is that correct?

17 A. That's correct.

18 Q. Now, in developing the pool provision did
19 you consider whether there was any specific provision
20 of Ohio law that would allow you to collect the lost
21 revenues from the pool termination through the
22 electric security plan?

23 A. I did not look at all the provisions of
24 the law.

25 Q. Are you familiar with the statutes

1 governing the electric security plan?

2 A. Yes, I've flipped through them before.

3 Q. Do you know of any --

4 MS. GRADY: May I have a moment, your
5 Honor?

6 EXAMINER SEE: Yes.

7 Q. Are you aware, Mr. Nelson, of any
8 provision within the ESP law that allows an electric
9 distribution utility to collect the lost net
10 generation revenues from a pool in its electric
11 security plan?

12 A. I don't think there's anything that
13 specific as I recall.

14 Q. Mr. Nelson, I'm down to the last topic
15 with you and I will hopefully get through with it
16 very shortly. And I think we're past the realm of
17 confidential information.

18 With respect to the generation resource
19 rider, you present testimony on that, do you not?

20 A. Yes.

21 Q. Now, in your testimony you talk about the
22 generation resource rider which is used to collect
23 the cost of renewable and alternative capacity
24 additions; is that correct? And I'm referring to
25 your testimony at page 20.

1 A. Yes.

2 Q. And at this particular moment the only
3 project that the company anticipates that it will
4 include in this rider is the Turning Point Solar
5 Project; is that correct?

6 A. Yes.

7 Q. Now, in your supplemental testimony filed
8 May 2nd of 2012 you provided, did you not, an
9 estimated revenue requirement that the company
10 expects will be needed to be collected through the
11 GRR?

12 A. Yes, at the request of the Commission we
13 provided some revenue estimates or revenue
14 requirement estimates.

15 Q. And would you agree that most of this
16 revenue requirement is comprised of capital
17 expenditures?

18 A. Yes.

19 Q. Now, on page 2 of your supplemental
20 testimony, and I'll give you a moment to get there.

21 A. Okay.

22 Q. Page 2, you state that the capital costs
23 of the three construction phases of the project will
24 be recovered through capital leases between AEP Ohio
25 and Turning Point Solar Generation. Do you see that

1 reference?

2 A. Yes.

3 Q. Recovered by whom?

4 A. In this instance it's the -- the capital
5 costs, this implies there's a lease involved.
6 Ultimately the recovery would be from AEP Ohio's
7 customers.

8 Q. Meaning --

9 A. The GRR.

10 Q. Recovery meaning collection?

11 A. Collection, right.

12 Q. And would those revenues then go to
13 AEP Ohio or would they go to Turning Point Solar
14 Generation?

15 A. The revenues in the first instance would
16 go to AEP Ohio. Of course, AEP Ohio would have a
17 lease payment due to TPS Generation.

18 Q. So the revenues then would ultimately end
19 up with Turning Point Solar Generation.

20 A. Yeah, the lease payments would go over to
21 TPS.

22 Q. Are the cost of the leases to AEP Ohio
23 the figures that are shown on the lease expense
24 column on page 2 of Exhibit PJN-5?

25 A. Yes.

1 Q. Now, on pages 2 and 3 of your
2 supplemental testimony you mention additional capital
3 investment will be required over the life of the
4 facility. Do you see that reference?

5 A. I remember it, but if you want me to look
6 at it, could you give me the reference again?

7 Q. I'll try to find that. Top of page 3,
8 line 1.

9 A. Yes.

10 Q. And you indicate there that certain of
11 the components are not expected to last as long as
12 others and will need to be replaced before the lease
13 term of 25 years is over. Do you see that reference?

14 A. Yes.

15 Q. Mr. Nelson, do you anticipate that any of
16 these components will need to be replaced during the
17 term of the ESP?

18 A. The term of the ESP?

19 Q. Yes.

20 A. That's a short period. I wouldn't expect
21 any major replacements during that period.

22 Q. Now, moving to page 1 of Exhibit PJN-5,
23 you have a list of assumptions. Are you there yet?

24 A. No, not yet. Okay.

25 Q. Assumption No. 5 is the cost of RUS debt.

1 Do you see that?

2 A. Yes.

3 Q. Can you tell me what "RUS" stands for?

4 A. Rural -- somewhere there should be a
5 definition of that, but I don't recall what exactly
6 that stands for at the moment. I think if I had my
7 prior testimony that we filed last year on this, it
8 might be in there.

9 Q. Well, we can move along, I guess that's
10 something that we can do without at this late hour.

11 Would you agree, now that I've been
12 slipped a note, that that would be the Rural Utility
13 Service? Does that ring a bell?

14 A. Probably.

15 Q. Okay. Now, you mentioned there that the
16 assumption is that the long-term financing rate is --
17 or you, you mention there that there's an assumption
18 regarding the long-term financing rate offered by
19 RUS; do you see that?

20 A. Yes.

21 Q. Do you know what the current RUS rate is?

22 A. No, I do not.

23 Q. Do you know whether RUS financing has
24 been received for the project?

25 A. I wouldn't think so yet, but I'm not

1 sure. We do -- I do have an estimate of RUS debt on
2 the confidential exhibit.

3 Q. And that RUS estimate is confidential,
4 then, I take it?

5 A. We marked this section as confidential,
6 yes. And it's included within the books.

7 Q. Now, on page 2 of PJN-5, down at the
8 bottom of the page there's a column called Credit for
9 Energy and Capacity Revenue. Do you see that?

10 A. Yes.

11 Q. And that applies to the last 17 months of
12 the proposed ESP; is that correct?

13 A. This is the credit for energy and
14 capacity revenue during the term of the ESP.

15 Q. Where is that revenue expected to come
16 from, if you know?

17 A. Sales into the market.

18 Q. Is that the sole source of the revenue or
19 will the revenue come from SSO customers?

20 A. This is a revenue credit, the concept is
21 that, you know, the total cost of the facility will
22 have an offsetting revenue credit that will liquidate
23 it in the market and then the remainder will be the
24 REC value that we need to recover.

25 Q. So the revenues would come from any other

1 source besides the SSO customers.

2 A. This is meant to get down to a net
3 revenue requirement for SSO customers. And Witness
4 Roush can talk to that a little more.

5 Q. Mr. Nelson, will Turning Point Solar
6 facility be used to help the company meet its
7 renewable energy requirements under Senate Bill 221?

8 A. Yes.

9 Q. Will the Turning Point capacity be used
10 to offset any REC purchases that the company will
11 need to meet -- will need to make to meet the
12 renewable energy requirements?

13 A. Yes, it would reduce the need for REC
14 purchases.

15 Q. Will the Turning Point capacity then
16 lower the amount of RECs that the company plans to
17 collect through the alternative energy rider that
18 starts in 2015?

19 A. It will reduce the need for solar RECs.
20 It will contribute to that so I would assume it would
21 reduce, all things being equal, the cost of RECs
22 needed elsewhere or retained elsewhere.

23 Q. Could it possibly eliminate the need for
24 an alternative energy rider, if you know?

25 A. I don't know.

1 Q. Is this credit for energy and capacity
2 revenue above and beyond any anticipated capacity
3 needed to meet the company's renewable energy
4 requirements under SB 221?

5 A. I'm not sure I follow that question.

6 MS. GRADY: If I may, may I have a
7 moment, there are a few areas to follow up that I
8 have notes, I may have already covered them. If you
9 give me a moment, maybe more than a moment, a minute,
10 I will go through my notes and conclude very shortly.

11 EXAMINER SEE: Sure. Better yet, let's
12 go off the record for a moment.

13 (Off the record.)

14 EXAMINER SEE: Go ahead.

15 Q. Mr. Nelson, I think you testified earlier
16 or you at least answered questions with respect to
17 the energy-only auction in 2015 and I believe you
18 indicated that it was your understanding that AEP
19 Retail would be able to participate in that
20 energy-only auction; is that correct?

21 A. I would think AEP Retail would be able
22 to. I also thought we were talking about the GenCo
23 or, you know, other, perhaps other participation, I
24 said I really don't know exactly who might
25 participate.

1 Q. And would it also be your understanding
2 that possibly AEP Commercial Operations group would
3 participate in the energy-only auction?

4 A. I would think that could happen.

5 MS. GRADY: That's all the questions I
6 have. Thank you, Mr. Nelson.

7 EXAMINER SEE: Mr. Haque?

8 MR. HAQUE: No cross.

9 EXAMINER SEE: Mr. Margard?

10 MR. MARGARD: No, thank you, your Honor.

11 EXAMINER SEE: Redirect -- I'm sorry, is
12 there --

13 MR. OLIKER: Confidential questions, your
14 Honor.

15 EXAMINER SEE: Mr. Conway.

16 MR. OLIKER: Excuse me, your Honor.

17 EXAMINER SEE: Can you indicate who --
18 Mr. Conway, can you indicate which parties here have
19 entered into a protective agreement and can be within
20 the room for a closed session?

21 MR. CONWAY: Can everyone raise their
22 hand?

23 MR. SATTERWHITE: Your Honor, I have a
24 book with all the signed agreements and we have lead
25 counsel that signed it, and we can have them ask, the

1 lead counsel that have signed this, to ensure that
2 anyone associated with them gets out of the room if
3 they haven't provided a sheet.

4 EXAMINER SEE: Off the record.

5 (Discussion off the record.)

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

8 Mr. Olikar, this part of the transcript
9 is closed, it will be held separately

10 (Confidential portion excerpted.)

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(Open record.)

EXAMINER SEE: You required a few

1 minutes, Mr. Conway?

2 MR. CONWAY: Yes, just a minute.

3 EXAMINER SEE: To consider redirect?

4 (Discussion off the record.)

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

7 Mr. Conway.

8 MR. CONWAY: Thank you, your Honor. The
9 company has no redirect for Mr. Nelson. And I would
10 move for the admission of AEP Ohio Exhibit Nos. 103,
11 which is his original direct testimony, 104 which is
12 his supplemental Commission-ordered testimony, the
13 public version, and then Exhibit 104A which is the
14 confidential excerpt of Exhibit PJN-5 to the
15 supplemental Commission-ordered testimony.

16 EXAMINER SEE: Before we move to any
17 objections the parties might have to AEP Exhibits
18 103, 104, and 104A, I have a question for you,
19 Mr. Nelson.

20 And I forget exactly when this was but
21 clarify this for me is AEP Ohio proposing that the
22 pool modification required continue after corporate
23 separation?

24 THE WITNESS: Yes, your Honor, to correct
25 it, we're classifying it as a provision because it's

1 just an ability to come in. But the revenue
2 requirement that we established in that would be a
3 charge through the period that we filed it till the
4 end of the ESP period. So yes, it would continue
5 afterwards.

6 EXAMINER SEE: So it could actually start
7 after.

8 THE WITNESS: Yeah, just because of the
9 timing it could start a little late. But would
10 continue, that would be our intention, to continue it
11 through the end.

12 MS. GRADY: Your Honor, I'm sorry, I
13 cannot hear any of the conversation that's going on,
14 I'm not sure if other parties can.

15 EXAMINER SEE: Okay. Could you not hear
16 me, Ms. Grady?

17 MS. GRADY: I could not.

18 EXAMINER SEE: Maria, could you read back
19 the question and the answer.

20 (Record read.)

21 THE WITNESS: And I'd add of the ESP.

22 - - -

23 EXAMINATION

24 By Examiner Tauber:

25 Q. Do you still have your testimony in front

1 of you, Mr. Nelson?

2 A. Yes.

3 Q. I promise it will be quick. I'm on page
4 12 specifically.

5 A. Let me grab my workpapers.

6 Q. In your testimony you indicated because
7 there's a surplus of generation within AEP Ohio it
8 makes sense to transfer the shares of Amos 3 and the
9 Mitchell units to Kentucky Power Company and
10 Appalachian Power Company, and earlier you said those
11 was preferred as opposed to Appalachian Power Company
12 and Kentucky Power Company entering into bilateral
13 transactions for the capacity?

14 A. I'm not sure we talked about that that
15 much today but that was what we ended up with as a
16 plan to satisfy APCo and Kentucky. We had thought
17 about maybe bilateral contracts, but the indications
18 from those states were that they actually would
19 prefer the asset transfers, so that's the plan we
20 ended up with.

21 Q. So the decision to avoid bilateral
22 transactions was reflected on conversations with
23 other states or other --

24 A. We at least got that feedback from other
25 states, I think, and from management at Appalachian

1 Power Company and Kentucky Power Company as well, I
2 think they got that feedback.

3 Q. Okay. And then could you turn to PJN-3,
4 just one more quick follow-up on that.

5 A. Okay.

6 Q. Under your Member Required Capacity
7 column.

8 A. Yes.

9 Q. AEP Ohio 2010 was at 10,844 and then 2011
10 was at 11,124.

11 A. Yes.

12 Q. Could that be problematic that it looks
13 like AEP's required capacity is increasing while
14 Appalachian Power and Kentucky Power, they're both
15 decreasing? Could there be any issues that might
16 arise down the road?

17 A. I wouldn't expect any issues from the
18 perspective of APCo and Kentucky. Is that your
19 question or --

20 Q. More along the lines of AEP Ohio,
21 actually.

22 A. AEP Ohio?

23 Q. Yeah.

24 A. The change is really reflective of the
25 MLR which is, what you do is you take the MLR of the

1 companies times the total generation.

2 Q. Okay.

3 A. So, for example, if APCo were -- I'm
4 sorry, let's do Ohio. If Ohio were about 40 percent,
5 you could take 40 percent of the 26,599,008 and that
6 would give you what their required obligation is
7 under the pool. And the reason it might change year
8 to year is that MLR changes based on the peak of the
9 companies.

10 Now, this -- don't relate what's
11 happening into the pool as far as capacity payments
12 and receipts with any obligations for load within
13 PJM. They're not directly related.

14 Q. Right.

15 A. They're somewhat independent. You've got
16 to be a little careful.

17 Q. Between the two, there are some
18 distinctions between the two.

19 A. Right.

20 EXAMINER TAUBER: I think that's all I
21 have. Thank you. You may be excused.

22 EXAMINER SEE: Are there any objections
23 to the admission of AEP 103, 104, and 104A?

24 (No response.)

25 EXAMINER SEE: Hearing none, AEP Exhibit

1 103, 104, and 104A are admitted into the record.

2 (EXHIBITS ADMITTED INTO EVIDENCE.)

3 EXAMINER SEE: Mr. Lang.

4 MR. LANG: Thank, your Honor. FES moves
5 FES Exhibit No. 107.

6 EXAMINER SEE: Are there any objections
7 to the admission of FES Exhibit 107?

8 MR. CONWAY: No, your Honor.

9 EXAMINER SEE: FES Exhibit 107 is
10 admitted into the record.

11 (EXHIBIT ADMITTED INTO EVIDENCE.)

12 EXAMINER SEE: Mr. Olikier.

13 MR. OLIER: Your Honor, I would move
14 Exhibits 113, 114, 115, and 116 into the record, and
15 I would also like to add another note that we
16 currently have a motion to compel against AEP Ohio
17 outstanding, and in the event that the information is
18 produced, the motion to compel is granted, we would
19 like to reserve the right to put Phil Nelson back on
20 the stand.

21 EXAMINER SEE: We're going to look just
22 at your exhibits right now on Friday, not dealing
23 with anything else other than what I asked for at
24 this moment. You moved 113, 114, 115 did I hear you
25 say?

1 MR. OLIKER: And 116, your Honor.

2 EXAMINER SEE: Any objections?

3 MR. CONWAY: Yes, your Honor.

4 EXAMINER SEE: Go ahead.

5 MR. CONWAY: First, from an efficiency
6 standpoint as well as the use of the documents
7 standpoint, No. 113, which is Mr. Nelson's testimony
8 that was filed back in January of 2011 at the outset
9 of this first iteration of this proceeding, there was
10 one question or maybe two questions asked about the
11 testimony, it was on page 29, and he had the witness
12 read the passage which he was interested in. I then
13 pointed out that the way he read it did not have the
14 quotation marks around the word "deregulated" and the
15 word "regulated" and then the examination ended. So
16 I suppose the first question is why do we have to --
17 what's the point of, what's the purpose of
18 introducing the entire 35-, 40-page exhibit in light
19 of the extremely limited use that he made of it and
20 which resulted in him getting into the record the
21 quote that he was -- was apparently interested in.

22 So I would suggest that it's probably,
23 it's either not relevant or he hasn't demonstrated
24 for what purpose other than the use he's already made
25 of the document and which is now reflected in the

1 record. So that's 113.

2 114 is the reliability assurance
3 agreement. I think it's already attached to
4 Mr. Murray's testimony.

5 Is that what you said?

6 MR. OLIKER: I did.

7 MR. CONWAY: Okay, so we're going to be
8 seeing this document again as an attachment to
9 Mr. Murray's testimony, and I would, I mean, I can
10 tell you that I won't be objecting to this attachment
11 to Mr. Murray's testimony, if that's what you're
12 concerned about, but it seems superfluous to enter
13 this into the record twice.

14 With regard to 115, the PJM capacity
15 market document, the witness did not indicate much
16 familiarity or any familiarity I think with this PJM
17 capacity market manual. There were some select
18 provisions which Mr. Oliker asked him to either read
19 out loud or that Mr. Oliker read out loud, but I
20 don't think that this witness was a proper witness to
21 introduce the entire 170-page document into this
22 record.

23 And then with regard to 116, I've already
24 objected to its use on the ground of relevance. At
25 the very least if it's going to be -- if that

1 objection is overruled, which I now renew, if that
2 objection is overruled, at least the cover sheet
3 ought to be updated so that the correct, accurate
4 interrogatory response is included with that
5 document.

6 Thank you.

7 MR. OLKER: Your Honor, to the last
8 point --

9 EXAMINER SEE: Did you --

10 MR. OLKER: I'm sorry.

11 EXAMINER SEE: I'm sorry?

12 MR. OLKER: I just wanted to tell you
13 we're fine with the last statement he made about
14 substituting the cover sheet. We'll agree to that,
15 your Honor.

16 EXAMINER SEE: Did you want to respond to
17 any of the other objections raised by Mr. Conway to
18 your exhibits?

19 MR. OLKER: Yes, your Honor. To start,
20 I'm not sure efficiency of paper use is a valid
21 objection. The witness submitted that testimony in
22 this proceeding in a prior stage of it so it's very
23 difficult to argue that the information in the
24 document isn't relevant.

25 I mean, it's -- efficiency, that was

1 essentially all I heard provided about that. And it
2 illuminates his testimony and his statements, I don't
3 see how they can be harmed by their own statements.

4 And going to 114, again, the reliability
5 assurance agreement, for the record to be sure we
6 have to be able to cite to that exhibit otherwise the
7 record will suffer. And I don't think I heard myself
8 referring to the exhibit of Kevin Murray as I was
9 asking him questions. I referred to IEU-Ohio 114,
10 and if that does not go into the record, this is
11 going to affect the readability of it.

12 And I would also stress that most of
13 their case or many of the important parts of their
14 case are based upon this agreement. It's very
15 important that we can refer to it to understand his
16 testimony. He talking about their ability to meet
17 capacity obligations that are set by this agreement
18 and that he may or may not have understood it because
19 he wasn't able to answer many of the questions about
20 the capacity values provided.

21 This agreement illuminates that
22 testimony, allows us to see what is really there and
23 allows the definitions that are important to PJM in
24 determining their capacity obligations.

25 And I would say the same applies to

1 IEU-Ohio Exhibit 115 about the PJM capacity market.
2 This is the information that PJM looks at in
3 measuring capacity obligations. If you take that
4 information out of the record, how can the Bench make
5 an informed decision about their capacity position
6 because his testimony itself doesn't give you the
7 necessary information; you have to look at the
8 documents and that's why I provided them to the
9 Bench, to provide some context.

10 And regarding 116, if you would like for
11 me to repeat what I said earlier, there are a host of
12 reasons why that document is relevant to this
13 proceeding. First, I would say they have put these
14 issues in front of the Commission in this proceeding
15 by saying that they're going to go to a capacity
16 market in 2015-2016.

17 This is the AEP Ohio information that's
18 specific to that move, and they've also put the
19 transfer of the Mitchell and Amos units as a part of
20 that. It is a condition for any transfer of
21 generating assets to show the impact on the future
22 standard service offer which will be impacted based
23 upon the reliability pricing agreement auction.

24 And the fact that they may or may not be
25 transferring more generation than load should be

1 relevant to that analysis, and I would also add that
2 it's important to show it's the only accurate
3 document regarding the unforced capacity levels or
4 installed capacity levels that will be available for
5 the company after they retire and transfer their
6 generation.

7 It is the most accurate evidence for the
8 Commission to determine the capacity obligations and,
9 I'm sorry, the capacity abilities of AEP Ohio.

10 As Mr. Nelson told us, he talked about
11 nominal capacity in his testimony and we know that's
12 not a meaningful number as far as PJM is concerned
13 for capacity obligations.

14 EXAMINER SEE: Thank you both. We're
15 going to take IEU's exhibits under advisement and
16 we'll let you know the Bench's ruling later in this
17 proceeding. Not today. Let me clarify that. Monday
18 morning.

19 MR. OLIKER: Thank you, your Honor.

20 EXAMINER SEE: Ms. Grady?

21 MS. GRADY: Yes, your Honor, we would
22 move for the admission of OCC Exhibits 101, 102, and
23 103.

24 EXAMINER SEE: Any objections to the
25 admission of OCC Exhibits 101 through 103?

1 MR. CONWAY: Your Honor, with regards to
2 101 and 102, we don't have any objection. I think
3 Mr. Nelson was able to explain the context in which
4 the interrogatory responses were prepared and he
5 explained the meaning of the responses as well as I
6 believe he confirmed the accuracy of the responses.

7 With regard to OCC Exhibit 103, I think
8 Mr. Nelson explained that that document was a
9 forecast document that while at the time would have
10 been an accurate representation of what the company
11 forecasted would take place, I don't believe that he
12 agreed that it remains an accurate forecast.

13 So I think 103 is not appropriate to
14 admit into the record based on the testimony we
15 received about it, and I would -- I'm not sure what
16 purpose Ms. Grady wanted to or would like to now make
17 of this document, but I would just ask her to
18 reconsider and, if not, then I object to it because
19 it's not accurate.

20 EXAMINER SEE: Ms. Grady, did you want to
21 respond?

22 MS. GRADY: Yes, your Honor. This
23 exhibit, specifically 103, relates to the
24 company's -- an estimate that the company gave in the
25 first part of this case which is still part of the

1 record in this proceeding, an estimate of the total
2 profits from off-system sales for each year during
3 the term of the ESP.

4 Mr. Nelson testified that AEP has energy
5 and capacity in excess of its own internal customer
6 needs and that it has sold the surplus energy and
7 capacity in two ways; through off-system sales and
8 through the pool.

9 The company proposes in this proceeding
10 to implement a rate -- a retail stability rider which
11 represents lost revenue associated with shopping.

12 Mr. Nelson testified that customers -- the more that
13 customers shopped, the more surplus generation there
14 is available, meaning there's more generation out
15 there available, generation, capacity, and energy,
16 available for off-system sales.

17 Yet the company is not proposing to
18 offset the retail stability rider or any part of its
19 ESP plan to show the increased off-system sales
20 resulting from customers shopping. We believe this
21 is an asymmetrical, unfair, and unreasonable
22 proposal, and that this Commission should consider in
23 establishing just and reasonable rates and rates that
24 are reasonably calculated under 4928.02(A) in the
25 provision of the ESP plan.

1 MR. CONWAY: Well, your Honor, if I might
2 just respond, I understand the argument, I think,
3 about OCC's position, they want to get off-system
4 sales margins used to defray revenue requests or
5 costs of the company. I get that.

6 But the point that I made on the
7 objection to this exhibit is that the witness
8 indicated, as I recall, that he didn't believe it
9 was -- that it was currently accurate. It may have
10 been accurate at the time it was prepared, but it's
11 now stale.

12 And I would also point out that there's
13 some loose language references to the ESP. The ESP
14 that was proposed back in January of 2011 had even a
15 different period than the current ESP that's being
16 proposed. And so this is not even a stale forecast
17 of what's going on during the ESP period here, it's
18 only for part of the period.

19 In any event it's stale, it's not
20 accurate, I just don't understand what the purpose is
21 of trying to admit information which the witness said
22 basically isn't accurate anymore. So that's my
23 objection to that.

24 Thank you.

25 EXAMINER SEE: We'll take the admission

1 of OCC Exhibit 103 under advisement. OCC Exhibit 101
2 and 102 are admitted into the record.

3 (EXHIBITS ADMITTED INTO EVIDENCE.)

4 EXAMINER SEE: And we are adjourned for
5 this evening. I'm sorry, we'll also take up the
6 motion to compel and your request, Mr. Olikar, first
7 thing Monday. We're adjourned, we'll reconvene 8:30
8 a.m. on Monday.

9 (Hearing adjourned at 7:33 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 Friday, May 18, 2012, and carefully compared with my original stenographic notes.

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

My commission expires June 19, 2016.

(MDJ-4014)

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Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 05/18/12 - Volume II electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.