

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
8:30 a.m. on Monday, May 21, 2012.

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VOLUME III

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Monday Morning Session,

May 21, 2012.

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EXAMINER TAUBER: Let's go on the record.

Let's begin this morning with brief appearances starting with the company and then we'll work our way around and catch up with everybody in the back.

MR. CONWAY: Thank you, your Honor. On behalf of AEP Ohio Steven T. Nourse, Matthew J. Satterwhite, from AEP Service Corporation. Daniel R. Conway and Christen Moore from Porter-Wright.

MS. GRADY: Thank you, your Honor. On behalf of the residential customers of the Ohio Power Company, Maureen R. Grady, Terry L. Etter, and Joseph P. Serio.

MR. HAYDEN: Good morning, your Honors. On behalf of FES, Mark Hayden, David Kutik, Jim Lang, and Laura McBride.

MR. DARR: Good morning. On behalf of the Industrial Energy Users of Ohio, Sam Randazzo, Matt Pritchard, Joe Olikier, and Frank Darr.

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

1 Phil Sineneng.

2 MS. KYLER: Good morning. On behalf of
3 the Ohio Energy Group, Michael Kurtz, Kurt Boehm, and
4 Jody Kyler.

5 MS. McALISTER: On behalf of the OMA Lisa
6 McAlister and Thomas Siwo.

7 MS. THOMPSON: On behalf of Interstate
8 Gas Supply, Inc. Mark Whitt, Andrew Campbell, Vincent
9 Parisi, and Matthew White.

10 MR. YURICK: Good morning, your Honor.
11 On behalf of the Kroger Company, Mark Yurick and Zach
12 Kravitz.

13 MR. BARNOWSKI: Good morning, your Honor.
14 On behalf of Ormet, Dan Barnowski, Emma Hand, Tom
15 Millar.

16 MS. KALEPS-CLARK: Good morning, your
17 Honor. On behalf of Exelon Generation, Constellation
18 NewEnergy, Constellation Energy Commodities Group,
19 David Stahl, Howard Petricoff, and Lija Kaleps-Clark.
20 And on behalf of the Retail Energy Supply Association
21 and Direct Energy, Lija Kaleps-Clark and Howard
22 Petricoff.

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

1 MR. MARGARD: Assistant Attorneys General
2 Werner Margard and Stephen Beeler on behalf of the
3 Commission staff.

4 EXAMINER TAUBER: Are there any other
5 parties that have not made an appearance this
6 morning?

7 Mr. Conway.

8 MR. CONWAY: Thank you, your Honor. At
9 the end of the day on Friday we were discussing and
10 arguing about the admission of cross-examination
11 exhibits. I'd just like to inform the Bench and the
12 parties that the company is withdrawing its objection
13 to the admission of IEU Exhibit 116, although it is a
14 confidential exhibit and we'd ask that it be kept
15 under seal.

16 And also, also request that the correct
17 cover sheet be attached to the exhibit. I think I
18 mentioned that there was a supplemental response to
19 the discovery request and it was not presented as
20 part of the cross-examination exhibit, we ask that it
21 be substituted.

22 With regard to IEU Exhibit 114, which is
23 the PJM reliability assurance agreement, I just want
24 to clarify that I did not -- I didn't intend -- I
25 don't mean to object to the admission of the exhibit,

1 I was simply suggesting that since it's going to be
2 made part of the testimony of IEU Witness Murray, it
3 wasn't necessary to seek its admission twice. But if
4 that's the preference of counsel for IEU, I just want
5 to be clear I don't object to the admission of the
6 reliability assurance agreement, that's IEU Exhibit
7 114.

8 With regard to IEU Exhibit 113, which is
9 the Phil Nelson testimony from, I believe it was
10 January of 2011 which related to the original ESP II
11 filing which was subsequently superseded by the
12 stipulation proceeding and the stipulation-related
13 ESP, and then subsequent to that by the modified
14 ESP II, sometimes referred to as ESP II.5, I just
15 want to be clear that I don't object -- well, I don't
16 object to the admission of the testimony, although I
17 would ask that its admission be restricted to the
18 purpose for which it was used, which was to reference
19 the statement, I believe it was on page 29, but the
20 record will indicate which page it was if that was
21 not the right quote.

22 At any rate, I would simply ask that the
23 admission of the exhibit, if it's allowed, is simply
24 for the purpose of the cross-examination and the
25 excerpt of the testimony that was quoted into the

1 record on cross-examination.

2 So that leaves for IEU the Exhibit 115,
3 the PJM Capacity Market Manual, and I just would
4 stand on the argument and objections I previously
5 made with regard to 115 which, again, I guess it
6 wasn't quite a brief statement, but at the end of the
7 brief statement is the only cross exhibit for IEU
8 that we remain objecting to.

9 And then with regard to OCC, we stand on
10 the objection that we made on Friday. Thank you.

11 EXAMINER TAUBER: Thank you.

12 Mr. Oliker, do you have anything you want
13 to add to that?

14 MR. OLIKER: I guess I can take them one
15 at a time. Starting with 113, while it would be a
16 preference to have the entire document because the
17 context helps in reading it, and I think on the
18 specific pages that are referenced it was one of
19 several bullet points, possibly under a subject, but
20 if the Bench would like, we can limit it to maybe a
21 few pages around that reference so the context can be
22 admitted.

23 For the reliability assurance agreement,
24 the problem I have with counsel's suggestion is
25 Mr. Murray has not testified in this proceeding yet

1 and for the record to refer to that exhibit number it
2 would be confusing for us to substitute Mr. Murray's
3 testimony because we can't go back and change the
4 record.

5 And also, I'd add that while we would
6 expect that Mr. Murray is going to testify, there are
7 no guarantees, of course, and it would be problematic
8 to hold the exhibit out on that reason right now.

9 Going to 115 on the PJM market manual,
10 Mr. Nelson's testimony, as you remember, does not use
11 the correct PJM definitions and it's difficult to
12 understand what exactly he's saying about the PJM
13 capacity market without being able to refer to the
14 manuals when that's necessary to help the Bench and
15 the Commission to understand what may be in
16 Mr. Nelson's testimony.

17 These are public documents, and this is
18 the document that PJM relies upon in determining the
19 capacity market, so I think it would be very helpful
20 for the Commission to have this resource at its
21 disposal in understanding Mr. Nelson's testimony.

22 And for 116, we have no problem in
23 substituting the cover page for the supplemental
24 testimony, your Honor. We would stipulate to that.
25 I think that's it.

1 EXAMINER TAUBER: Thank you.

2 MR. OLIKER: Thank you, your Honor.

3 EXAMINER TAUBER: The Bench will continue
4 to take all of those admissions of those exhibits
5 under advisement as well as the motion to compel and
6 we'll address those later on today.

7 So if we can begin this morning,
8 Mr. Conway.

9 MR. CONWAY: Thank you, your Honor. At
10 this time AEP Ohio calls Frank Graves.

11 (Witness sworn.)

12 - - -

13 FRANK C. GRAVES
14 being first duly sworn, as prescribed by law, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 By Mr. Conway:

18 Q. Mr. Graves, when you're situated, could
19 you give your full name for the record, please.

20 A. Certainly. My name is Frank C. Graves.
21 I am a principal with The Brattle Group with offices
22 in Cambridge, Massachusetts, and other cities.

23 Q. And Mr. Graves, were you retained by
24 AEP Ohio in this case to present testimony?

25 A. I was.

1 Q. And did you prepare testimony for this
2 proceeding that has been prefiled?

3 A. Yes, sir.

4 MR. CONWAY: Your Honors, at this time I
5 would like to mark as, I believe we're at AEP Ohio
6 Exhibit 105 Mr. Graves' prefiled testimony.

7 EXAMINER TAUBER: AEP Exhibit 105?

8 MR. CONWAY: Yes, your Honor.

9 EXAMINER TAUBER: Thank you.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Mr. Graves, do you have a copy of your
12 prefiled testimony with you?

13 A. Yes.

14 Q. And do you have any corrections to make
15 to your testimony at this point?

16 A. One minor one.

17 Q. What is that?

18 A. On page 20 -- I'm sorry, page 3, line 20,
19 I refer to the price in the RPM market equally PJM's
20 net CONE, C-O-N-E, if reserves are equaling to the
21 PJM target reserve margin, so it should say "target
22 reserve margin plus 1 percent."

23 Q. So after the word "margin" on line 20 you
24 would add the words "plus 1 percent"?

25 A. Correct. Which is the way the rest of my

1 testimony is structured. It's just an oversight.

2 Q. Do you have any other corrections?

3 A. No.

4 Q. And, Mr. Graves, has there been any
5 development since you prefiled your testimony that
6 relate to or affect the conclusions in your
7 testimony?

8 A. Yes.

9 Q. And could you describe that for us,
10 please?

11 A. When I filed my testimony in March, the
12 auction for capacity for the years 2015 and '16 in
13 PJM was pending. It was held on Friday and the
14 results are now in and are, I believe, generally
15 supportive of my opinions in this piece of testimony.

16 Q. Could you describe in more particularity
17 how that is?

18 A. Sure. There's a couple of ways in which
19 I think there's a consistency. I apportioned a
20 significant part of -- my testimony addresses the
21 question of when pending changes in supply conditions
22 in PJM might strongly and adversely affect the prices
23 of capacity including the possibility of coal
24 retirements and things like AEP transferring the Amos
25 and Mitchell units to its APCo and Kentucky FRR

1 affiliates.

2 And I averred in my report that that was
3 not likely to be a material effect it turns out
4 that's the case. The new RTO prices for capacity in
5 the AEP region are \$136 per megawatt-day, quite close
6 to what they've been. So there's no sign of an
7 adverse affect of withdrawing from FRR status,
8 transferring resources, or retiring coal plants.

9 Q. Mr. Graves --

10 MR. CONWAY: Your Honor, I'd like to
11 approach, please.

12 EXAMINER TAUBER: You may approach.

13 MR. CONWAY: Thank you. And I'd like to
14 have marked, your Honors, as an exhibit AEP Ohio
15 Exhibit 106, a press release from PJM issued on
16 Friday relating to the auction results that
17 Mr. Graves just described.

18 EXAMINER TAUBER: It shall be so marked.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 MR. CONWAY: Your Honor, I have one
21 remaining copy that hasn't been distributed. I
22 apologize to the parties but ask that they share for
23 the time being.

24 Q. (By Mr. Conway) Mr. Graves, is this press
25 release reflective of the announcement by -- or, is

1 it the press release from PJM issued Friday relating
2 to the auction results?

3 A. Yes, it is.

4 Q. And the auction results to which it
5 relates, is that the base residual auction for PJM
6 for the 2015-2016 delivery year?

7 A. Correct.

8 Q. Okay.

9 MR. CONWAY: Your Honors, at this time I
10 would move for the admission of AEP Ohio Exhibit 105
11 and AEP Exhibit 106, and Mr. Graves is available for
12 cross-examination.

13 EXAMINER TAUBER: Thank you, Mr. Conway.

14 At this time we have two outstanding
15 motions to strike Mr. Graves' testimony, one filed by
16 Industrial Energy Users of Ohio and one filed by Duke
17 Energy Retail and Duke Energy Commercial Asset
18 Management. We will deny both of those motions to
19 strike, however, we'll remind the parties they'll
20 have opportunity during cross-examination to raise
21 any issues.

22 MR. OLIKER: Thank you, your Honor.

23 MS. SPILLER: Thank you, your Honor.

24 EXAMINER TAUBER: We'll start this
25 morning with Mr. Kutik.

1 MR. KUTIK: Thank you, your Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Kutik:

5 Q. Good morning. Mr. Graves, your firm,
6 Brattle Group, has made considerable study of the PJM
7 market; has it not?

8 A. Yes. Many times.

9 Q. And some of those have been -- some of
10 those studies have been published in reports that
11 have been sponsored by PJM, correct?

12 A. I don't know if "sponsored" is the right
13 formal description of the relationship but we've done
14 studies for them that they have published as findings
15 they're accepting or recognizing as informative and
16 dispositive, I guess.

17 Q. Other folks in Brattle have been retained
18 by PJM and then Brattle has prepared a report as a
19 result of that retention, correct?

20 A. Yes.

21 Q. And you have read those reports.

22 A. I have.

23 Q. And from time to time you've relied upon
24 that, including your testimony in this case, correct?

25 A. Yes, sir.

1 Q. It would be fair to say that FERC regards
2 the RPM process as a market-based process, correct?

3 A. I suspect they generally do. They're no
4 doubt aware that it has administrative elements but
5 certainly it is market-like in design and intent.

6 Q. And, in fact, FERC has indicated that it
7 approximates, that is RPM approximates a market-based
8 process; does it not?

9 A. Yes, I believe that's right.

10 Q. And FERC has also determined, has it not,
11 that the RPM process is just and reasonable?

12 A. Yes.

13 Q. And in so doing the FERC has noted that a
14 just and reasonable standard does not require
15 cost-based formula rates, correct?

16 A. That would be consistent with that. I
17 don't recall whether they said that explicitly in the
18 context of RPM.

19 Q. Now, in a competitive market would it be
20 fair to say that the price for capacity doesn't
21 differ depending on whether the plant that's
22 producing the capacity is efficient or inefficient?
23 Correct?

24 A. Yes. Assuming that the capacities you're
25 comparing are competing in the same market region.

1 Q. Right. And competitive markets can
2 produce advantages to electric customers in
3 comparison to cost-of-service rates or
4 cost-of-service regulation, correct?

5 A. Yes.

6 Q. One of those that could happen is that
7 where you have a single clearing price, that is an
8 incentive for suppliers to be efficient, correct?

9 A. Sure, that could also be the case with
10 multiple prices but if you mean compared to, say,
11 index cost-of-service price, that would be a stronger
12 incentive.

13 Q. And the incentive to be efficient is
14 because the more efficient a supplier is, the more
15 profit that a supplier might get.

16 A. Yes.

17 Q. In a competitive market where sellers are
18 working to minimize their costs, competition will
19 keep prices as low as possible, correct?

20 A. Yes. Again, subject to a lot of other
21 constraints which may significantly alter their
22 ability to manage their costs or to compete,
23 regulatory constraints, for instance, are important.

24 Q. Well, you're aware that FERC has taken
25 the view that in a competitive market when sellers

1 are working to minimize their costs, competition will
2 keep prices as low as possible.

3 A. Generally I agree with that.

4 Q. Now, a competitive market can result in
5 benefits to customers by having more efficient
6 suppliers and lower prices than would be absent
7 competition, correct?

8 A. Yes.

9 Q. Now, you're aware, are you not, that
10 states like Ohio have policies that support a
11 diversity of suppliers in the provision of electric
12 service?

13 A. I'm aware there are a wide range of
14 suppliers. I'm not aware of a policy that Ohio
15 explicitly has as to diversity.

16 Q. Well, are you aware that there are states
17 that support diversity of suppliers in the provision
18 of electric service, particularly competitive
19 electric service?

20 A. Again, I'm not aware of any state that
21 has a formal diversity criterion, if you could be a
22 little more specific I could comment on it, but it's
23 certainly a fact that every state has many kinds of
24 technology in place but it's a difficult problem to
25 decide how to value diversity for its own sake.

1 Q. Sure. Well, you perhaps anticipated my
2 next question. There is a policy that supports
3 diversity of suppliers. The rationale behind that
4 policy is that a diversity of suppliers will produce
5 competition which in turn will keep downward pressure
6 on prices. Would you agree with that?

7 A. Okay. I think I was partly
8 misunderstanding what you meant by "diversity." I
9 was thinking more of technological diversity but you
10 mean sort of numerosity of suppliers independently
11 competing with each other?

12 Q. Yes.

13 A. Sure. The more of them there are, the
14 better the competition is.

15 Q. And the potential for lower prices.

16 A. Yes.

17 Q. Now, in Ohio and in AEP Ohio you're not
18 aware of any particular supplier -- CRES supplier,
19 excuse me, that exercises market power, correct?

20 A. Right.

21 Q. And if we assume that within AEP there
22 are about a dozen or more active CRES suppliers and
23 they all have the same cost structure in terms of
24 components, that one would expect that competition
25 would put downward pressure on suppliers' margins.

1 A. Yes.

2 Q. And in order to keep customers, a CRES
3 provider would be motivated to offer prices lower
4 than its competition if a CRES supplier could do
5 that.

6 A. I agree.

7 Q. And a CRES supplier would try to keep its
8 margins as low as reasonable.

9 A. I would say they would try to keep them
10 as high as reasonable, but it would turn out there
11 was pressure for that to be so.

12 Q. How about as lean as reasonable?

13 A. I'm sorry?

14 Q. As lean as reasonable.

15 A. Well, I guess the supplier's motivation
16 is to make as much money as possible. They face
17 pressures that limit how successful they can be in
18 that regard but certainly their goal is not to
19 minimize their margins.

20 Q. Right. But their motivation in terms of
21 what results end up a result of a margin as lean as
22 reasonable.

23 A. Okay. Generally that's probably true,
24 it's just not their motivation.

25 Q. All right. fair enough.

1 CRES suppliers that are -- that own
2 generation and that are receiving RPM-based
3 capacity -- RPM-based capacity prices would not
4 expect to recover their fully embedded costs; fair to
5 say?

6 A. Not formulaically. They might recover
7 them depending on the character of the resources they
8 hold or they might not.

9 Q. It's not impossible, but it would be
10 unlikely, correct?

11 A. It would be coincidental.

12 Q. Now, do you believe that in a
13 well-functioning electric power market the value of
14 generating capacity will be nothing more nor less
15 than the present value of electric energy it is
16 expected to produce net of the cost of producing it?

17 A. Can I hear that again?

18 Q. Sure. In a well-functioning electric
19 power market the value of generating capacity will be
20 nothing more nor less than the present value of
21 electric energy it is expected to produce net of the
22 cost of producing it.

23 A. So resource by resource that should be
24 true. Each resource could have a different value
25 because of the relative differences in those

1 parameters. So it's not a clearing value for the
2 market, but that would be true of each production
3 asset.

4 Q. Right. And in that description of the
5 value of capacity, that doesn't refer to embedded
6 costs, correct?

7 A. Correct.

8 Q. And PJM is a well-functioning market, is
9 it not?

10 A. Yes, it appears to be.

11 Q. Now, it's also true, is it not, that in
12 AEP Ohio's proposed modified ESP there is no
13 reference to the value of capacity in terms of the
14 present value of electric energy? Correct?

15 A. I certainly have not reviewed their whole
16 filing so I couldn't tell you.

17 Q. So you don't know.

18 A. I do not know.

19 Q. Would you also agree that bidding for
20 supply will allow the price of power to rise as
21 demand grows and capacity is retired to a level
22 sufficient to induce capacity expansion, high enough,
23 that is, to justify the cost and risk of new
24 investments in capacity?

25 A. Well, that's the intent of capacity

1 pricing, it's not clear whether that's been fulfilled
2 or not all the time, but that is what the aspiration
3 is that the market will signal that need in an
4 appropriate way.

5 Q. Now, if the Commission adopted RPM-based
6 pricing as a state compensation mechanism, you would
7 agree, would you not, that there would be more CRES
8 providers serving customers in AEP Ohio than if the
9 Commission adopted higher than market-based prices?

10 A. I suspect that's true. There are other
11 factors, but it would move in that direction.

12 Q. And if the Commission adopted RPM-based
13 prices as the state compensation mechanism, shopping
14 customers would see market-driven pricing for both
15 capacity and energy.

16 A. Yes.

17 Q. Now, most customers for retail generation
18 service would consider price as part of their
19 decision as to whether to switch, correct?

20 A. I hope so.

21 Q. It's reasonable economic behavior, and
22 you're an economist --

23 A. Yes.

24 Q. -- for a customer to choose retail
25 electric service based upon price.

1 A. I certainly agree.

2 Q. And industrial and commercial firms, in
3 looking whether to locate or relocate, may consider
4 electric prices as one factor in that decision,
5 correct?

6 A. Yes.

7 Q. Now, AEP is long on capacity, correct?

8 A. As a whole, that's right.

9 Q. And PJM is long on capacity, correct?

10 A. Yes, it is.

11 Q. And between now and the time that AEP is
12 no longer an FRR entity there is no need to develop
13 new capacity in AEP Ohio's territory to maintain
14 adequate reliability.

15 A. To my knowledge, that's correct.

16 Q. PJM, with its reliance on RPM, has been
17 functioning effectively since 2007.

18 A. Yes.

19 Q. And these markets have brought forward a
20 large amount of new capacity.

21 A. Yes.

22 Q. And you don't expect there will come a
23 time when RPM will fail in its purpose to ensure a
24 sufficient and reliable capacity within PJM.

25 A. That's correct.

1 Q. You don't expect there will be a shortage
2 of capacity in the next three years in the PJM region
3 to cover AEP Ohio's load.

4 A. That's right, and the recent auction
5 further demonstrates that.

6 Q. We'll get to that in a second.

7 And so we shouldn't be concerned, should
8 we, about attracting capital for investment for
9 facilities to assure reliability for the next three
10 years?

11 A. I believe that's safe.

12 Q. And after three years AEP Ohio has agreed
13 to participate in the RPM process.

14 A. Correct.

15 Q. That commitment will be for five years?

16 A. Or longer, but at least five.

17 Q. Yes. So the minimum commitment is five
18 years.

19 A. Yes, that's my understanding.

20 Q. And AEP's incentive to build or add new
21 capacity then will not be any different than any
22 other generator within PJM.

23 A. Correct.

24 Q. Now, we talked a little bit about, or you
25 mentioned before and you mentioned with Mr. Conway

1 the 2015-2016 base residual auction.

2 A. Right. That was the press release I was
3 referring to.

4 Q. And did you read the report from PJM?

5 A. Yes.

6 Q. And would it be fair to say that,
7 according to PJM, the auction sent a strong signal
8 that there would be a need for new resources?

9 A. I believe they said that. I don't recall
10 the exact language, but the prices are moving in that
11 direction and in some places are high.

12 Q. And in the auction there was a record
13 number of new generation offers.

14 A. Yes.

15 Q. And there was a record number of new
16 generation sources that cleared.

17 A. Yes.

18 Q. There was a record number of demand
19 resource offers.

20 A. Yes; 19,000 megawatts.

21 Q. There was a record number of energy
22 efficiency resource offers.

23 A. Correct.

24 Q. And, indeed, there was a net increase of
25 capacity of about 6,000 megawatts.

1 A. All together, that's right. Net of
2 retirements and things like that.

3 Q. Right.

4 So, in other words, there was more
5 capacity offered in even with retirements.

6 A. Yes.

7 Q. From the -- as opposed to the prior
8 auction, correct?

9 A. That is correct.

10 Q. Now, within PJM there are locational
11 delivery areas.

12 A. Yes.

13 Q. And those are called "LDAs," right?

14 A. Yes.

15 Q. And the LDAs are areas with identified
16 locational constraints.

17 A. Right. They have generally less
18 transport -- transmission capability into them than
19 is desired to maintain adequate reliability on their
20 own.

21 Q. Occasional constraints are identified by
22 comparing the amount of capacity that might be
23 required to be imported in an emergency with how much
24 capacity could actually be imported.

25 A. Correct.

1 Q. And the former, that is how much capacity
2 would be required, is called capacity emergency
3 transfer objective, or CETO.

4 A. Right.

5 Q. And the latter, which is how much might
6 be imported, is called the capacity emergency
7 transfer limit or CETL.

8 A. Yes.

9 Q. And when the CETL-to-CETO ratio of an
10 area falls below 1.15, that area is determined to be
11 an LDA.

12 A. Yes. That's correct.

13 Q. And then it becomes separately modeled
14 and administered in the base residual auction,
15 correct?

16 A. That is right.

17 Q. And currently within PJM there are two
18 LDAs.

19 A. Yes.

20 Q. And one of those is for American
21 Transmission Systems, Inc., or ATSI.

22 A. Yes, the ATSI region is one and eastern
23 PJM is the other, of MAAC.

24 Q. And with respect to the ATSI region, the
25 first time it was determined or it was modeled as an

1 LDA was in the 2015-2016 auction, correct?

2 A. Yes, sir.

3 Q. And that was because there were planned
4 retirements of 25,000 megawatts of generation without
5 the ability to obtain or attract offsetting new
6 resources -- new sources of capacity, correct?

7 A. I think you have to multiply it by 10, I
8 think it was more like 2,500 megawatts of retirement.

9 Q. Thank you.

10 A. But that's right, that caused that region
11 to have a CETL-to-CETO ratio that's 1.03, I believe,
12 as opposed to 1.15, so it is now below the LDA
13 threshold.

14 Q. And these retirements, that is the
15 retirements within ATSI, were part of what PJM
16 described as an unprecedented amount of retirements
17 to the tune of about 14,000 megawatts throughout PJM.

18 A. Yes; that's more than the ATSI
19 retirements. That's all of PJM.

20 Q. Right. In other words, the ATSI
21 retirements were part of a trend that occurred
22 throughout PJM.

23 A. Correct.

24 Q. And these retirements, according to PJM,
25 were driven largely by environmental regulations?

1 A. Yes, the MATS and CSAPR and New Jersey
2 high energy degree day constraints.

3 Q. As part of the constraints that were
4 identified within the ATSI region, FirstEnergy has
5 committed \$1 billion, at least \$1 billion for
6 transmission improvements, correct?

7 A. That's the number I've seen in the press.
8 I have no independent knowledge of it.

9 Q. Now, you believe that AEP Ohio should be
10 allowed to recover its embedded costs from CRES
11 providers because AEP Ohio built or acquired its
12 fleet under criteria that sought to minimize the
13 riskiness and cost of service over long-term horizons
14 such as decades or the life of the assets.

15 A. That's correct.

16 Q. So what we are talking about here is
17 giving AEP Ohio an opportunity to recover its
18 stranded costs, correct?

19 A. No. Not quite. We're talking about just
20 continuity of the cost recovery terms and conditions
21 through the end of the FRR period, not stranded cost
22 recovery.

23 Q. Well, let me ask you, would it be fair to
24 say that stranded costs may be defined as investments
25 or cost commitments made by incumbents in the prior

1 regime of cost-of-service regulation that is sunk
2 costs that cannot expect to earn their cost of
3 capital and/or be recovered from customers under the
4 proposed new rules of a competitive access to utility
5 systems?

6 A. Okay, I'm all right with that definition.

7 Q. Now, you're aware of Senate Bill 3 in
8 Ohio, right?

9 A. Generally.

10 Q. And that was the first step towards a,
11 I'll use Mr. Randazzo's term, restructured market in
12 Ohio.

13 A. Okay.

14 Q. You're aware of that?

15 A. Yes.

16 Q. And that was enacted in 1999.

17 A. That's my understanding.

18 Q. There was a transition mechanism
19 established as part of the process of setting up a
20 competitive market.

21 A. Yes, sir.

22 Q. And the transition allowed for the
23 recovery of stranded costs.

24 A. Yes.

25 Q. And AEP Ohio --

1 A. Or a period to try to recover stranded
2 costs, I don't know that it was fully successful but
3 there was a transition mechanism.

4 Q. And AEP Ohio participated in a so-called
5 ETP case, and initially proposed recovering its
6 stranded costs, you're aware of that.

7 A. I'm generally aware of it but I'm not a
8 good witness to describe the assumptions or mechanics
9 of that process.

10 Q. We won't get too deep into it.

11 A. Okay.

12 Q. But you are aware that AEP Ohio waived
13 its right to recover stranded costs.

14 A. Yes.

15 Q. Now, plants built or acquired after
16 Senate Bill 3 would have been built or acquired with
17 the attendant risks that market rates for generation
18 service would produce revenue below the level needed
19 to produce -- to support investments.

20 A. That's a possibility.

21 Q. Well, it's true, is it not?

22 A. I mean, yes, it's possible that that
23 would happen to such plants.

24 Q. And that AEP, if it built or acquired
25 plants after SB 3, would understand the attendant

1 risks that I just mentioned.

2 MR. CONWAY: Objection. He is not
3 presented as a witness who can vouch for AEP's
4 expectations on what might or might not have happened
5 with restructuring in Ohio as a result of SB 3 or any
6 other iterations of the restructuring process. This
7 is outside the scope of his testimony.

8 MR. KUTIK: Your Honor, he's an economist
9 who is familiar with restructuring and deregulation
10 within Ohio and other parts of the country, including
11 PJM.

12 MR. CONWAY: He said his understanding
13 was limited. In any event, he's not -- was not and
14 is not an employee of AEP during the course of
15 restructuring activities and is not competent to --
16 qualified to explain what AEP's corporate view of its
17 capability or its entitlements to recover this or
18 that type of cost.

19 EXAMINER TAUBER: The objection is
20 overruled.

21 Mr. Graves, if you could please answer
22 the question, we'll acknowledge that your
23 understanding may be limited in this area.

24 THE WITNESS: Okay. Could you repeat the
25 question for me?

1 (Record read.)

2 Q. (By Mr. Kutik) Let me ask you again.

3 A. Okay.

4 Q. Previously we had -- I described that
5 there would be a risk that market rates for
6 generation would produce revenue below the level
7 needed to support investments of generation. Do you
8 remember that?

9 A. Yes, sir.

10 Q. And my question is you would expect that
11 if AEP Ohio built or acquired plants after SB 3, that
12 they would have appreciated that risk.

13 A. I don't know formally as to how or
14 whether they took that risk into consideration, but I
15 would have personally expected that they would have
16 subject to also understanding the context under which
17 they believed they were going to be asked to stay an
18 FRR entity and continue to supply capacity needs
19 outside of the market. So there's a trade-off
20 between those two factors.

21 Q. Now, I want to get to the FRR entity and
22 what FRR entities are entitled to in a minute. But
23 they would have understood the risks of
24 below-market -- of having market recovery and not
25 being able to recover their investments on

1 generation, correct?

2 A. Again, I'm offering my opinion of what I
3 think they would have expected. I don't know that
4 they did, but I agree they probably would have
5 expected that to be a possibility.

6 Q. Now, in 2007 AEP Ohio voluntarily elected
7 to become an FRR entity, correct?

8 A. Yes. Again, I don't know that it was a
9 unilateral decision, but they decided to do so with
10 the understanding of the Ohio PUC.

11 Q. Was there any order from the Public
12 Utilities Commission that required AEP Ohio to be an
13 FRR entity?

14 A. Not to my knowledge. It would be better
15 to ask company witnesses about that.

16 Q. But you're not aware, correct?

17 A. Correct.

18 Q. And once they became an FRR entity, they
19 were submitted for at least five years.

20 A. That's right. That's the minimum period
21 on initiating your FRR status.

22 Q. So they submitted their first FRR plan in
23 spring of 2007 and that would have covered through
24 May of 2012, correct?

25 A. Yes.

1 Q. And then they submitted another plan, an
2 FRR plan, in the spring of 2009, correct?

3 A. Yes, because thereafter you have to do it
4 with three years' notice.

5 Q. That would have covered through May of
6 2013.

7 A. Correct.

8 Q. And then they submitted another plan,
9 their third plan, in the spring of 2010.

10 A. Yes. I agree.

11 Q. And that would have covered through May
12 of 2014.

13 A. Right.

14 Q. And in November of 2010 AEP filed a
15 petition with the FERC to change the way they had
16 been charging for capacity to CRES providers,
17 correct?

18 A. Yes.

19 Q. Up until that time they were charging
20 RPM-based prices, correct?

21 A. That's right.

22 Q. And they asked for the charges to be
23 placed upon their embedded costs.

24 A. Yes.

25 Q. And within a month or so of the petition

1 that was filed by AEP, the PUCO acted to establish a
2 state compensation mechanism, correct?

3 A. That sounds like the right calendar.

4 Q. And that state compensation mechanism was
5 that there should be RPM-based pricing, correct?

6 A. As I recall, that was the decision.

7 Q. And so by May of 2011 a CRES provider
8 looking at the situation would have seen that at
9 least through May of 2015 there would be RPM-based
10 prices, correct?

11 A. Yes.

12 Q. Now, certainly as of November when they
13 made -- when AEP made their November filing, that was
14 the first time, at least in writing, that AEP Ohio
15 had indicated that it wanted to be compensated on a
16 basis other than RPM-based prices, correct?

17 A. I'm not aware of any other prior such
18 statement, so that is correct.

19 Q. Now, as of May of 2011, would it be fair
20 to say that a CRES provider -- let me restate the
21 time period. From the time that AEP Ohio was first
22 an FRR entity up through May of 2011, a CRES provider
23 would have had no incentive to opt out of receiving
24 capacity from AEP Ohio, correct?

25 A. Not based on the notion that it had a

1 better RPM alternative. If they had their own
2 capacity developed that they thought they could do so
3 at a better price, they always had that option to
4 become an FRR, but it wouldn't have been driven by
5 comparing the AEP price to RPM.

6 Q. Right. In other words, if all -- if the
7 other alternative was RPM, they might as well stay
8 with taking capacity from AEP, right?

9 A. Well, if anything, it's more convenient
10 for them to take it from AEP because they don't have
11 to commit three years forward. They can take it at
12 the time they need it.

13 Q. So they had no incentive to change.

14 A. Right.

15 Q. Now, starting in June of 2015, AEP Ohio
16 will be setting the price for SSO customers based
17 upon a competitive bidding process; you're aware of
18 that.

19 A. Yes.

20 Q. And it's likely that bidders will base
21 their bid prices on, among other things, the PJM RPM
22 price of capacity.

23 A. I think that's generally true.

24 Q. And if AEP charged its customers the RPM
25 price, AEP Ohio would not be earning its cost of

1 capital on its generation.

2 A. You mean in the SSO price if it's based
3 on RPM?

4 Q. Yes.

5 A. Right. It will only coincidentally be
6 connected to the cost of service of those embedded
7 assets.

8 Q. Now I want to ask a couple questions
9 about the FRR obligation. It would be correct to say
10 that nothing in the reliability assurance agreement
11 requires an FRR entity to use its own resources,
12 correct?

13 A. That's true. It can use other resources
14 but it has to have dedicated control of it.

15 Q. And there's nothing in the RAA, and
16 particularly the provisions relating to the FRR, that
17 prohibits an FRR entity from having a competitive
18 bidding process for its SSO load.

19 A. To my knowledge, the RAA is silent on
20 that.

21 Q. And, in fact, there are two other
22 entities that were FRRs that have engaged in
23 competitive bidding processes, correct, for their SSO
24 load?

25 A. Yes.

1 Q. It's also true, is it not, that nothing
2 in the reliability assurance agreement and provisions
3 relating to FRR requires that an FRR entity charge
4 its costs?

5 A. That's true. It's not required to. I
6 interpret it as having an option to file for that
7 right.

8 Q. So someone who describes the FRR entity
9 or FRR provisions of the RAA as requiring a
10 cost-based charge would be incorrect; is that fair to
11 say?

12 A. In my reading of the RAA that would be
13 correct.

14 Q. Now, an FRR entity has to commit certain
15 resources to meet a projected load, correct?

16 A. Yes.

17 Q. And an RPM participating entity has to
18 offer its resources into the base residual auction
19 and if the resource clears the auction, the resource
20 must be committed to RPM, correct?

21 A. Yes, that's true.

22 Q. And someone who's participating in the
23 RPM process that is not an FRR entity or does not
24 have a bilateral contract with respect to certain
25 capacity must offer that capacity into the base

1 residual auction, correct?

2 MR. CONWAY: Could I have the question
3 read back, please?

4 (Record read.)

5 A. I think that's a tiny bit strong. There
6 are I believe some -- an exception such as planned
7 generation that is not yet built but existing
8 resources that are not FRR do have to offer into the
9 BRA. Nonsupply-side resources do not. DR energy
10 efficiency for capacity, those are optional.

11 Q. So with respect to existing resources,
12 once that resource is either -- or, with respect to
13 existing resources, once an FRR entity puts that
14 resource in its plant or once an RPM-participating
15 entity offers that into the BRA and that clears,
16 would it be fair to say that both an FRR entity and a
17 RPM-participating entity would be subject to
18 penalties if that resource is unavailable to PJM when
19 needed?

20 A. Yes. There are penalties for
21 nonperformance, whether you're FRR or RPM.

22 Q. Now, you participated in at least one
23 matter relating to base generation in the state of
24 New Jersey, correct?

25 A. Yes.

1 Q. And in the state of New Jersey there is a
2 base generation auction, correct?

3 A. Yes.

4 Q. And winning bidders in that auction are
5 not considered to be retail load-serving entities
6 under the reliability assurance agreement, correct?

7 A. That's right. I think it's actually
8 called "basic generation service" -- not "base
9 generation service" but the BGS suppliers provided
10 the equivalent of SSO service in Ohio but they
11 provide it through the distribution company and the
12 distribution company is the load-serving entity.

13 Q. So the winning bidders are not retail
14 LSEs, correct?

15 A. That's my understanding.

16 Q. And with respect to competitive bidding
17 processes for SSO load in Ohio, you would not deem a
18 winning wholesale bidder to be a retail LSE either,
19 would you?

20 A. I suppose it could be structured that way
21 but I don't know that it necessarily would. I think
22 so far they have not been structured to be the LSEs.

23 Q. So in terms of the competitive bidding
24 processes for SSO load in Ohio that you're aware of,
25 the winning bidders would not be retail LSEs,

1 correct?

2 A. That's my understanding so far, but it
3 could change.

4 Q. Now, the provisions of the RAA that
5 relate to the state compensation mechanism, those
6 provisions relate to the charge to retail LSEs,
7 correct?

8 A. I believe that's right.

9 Q. And, therefore, a winning bidder in an
10 SSO competitive bidding process would not be
11 necessarily subject to a charge under the state
12 compensation mechanism because those winning bidders
13 would not be retail LSEs, correct?

14 A. I believe that's correct.

15 MR. KUTIK: May I have one moment, your
16 Honor?

17 EXAMINER TAUBER: You may.

18 MR. KUTIK: I have no further questions.
19 Thank you, Mr. Graves.

20 EXAMINER TAUBER: Ms. Grady?

21 MS. GRADY: No questions, your Honor.

22 EXAMINER TAUBER: Mr. Maskovyak?

23 MR. MASKOVYAK: No questions, your Honor.

24 EXAMINER TAUBER: Mr. Darr?

25 MR. DARR: Thank you, your Honor.

1 - - -

2 CROSS-EXAMINATION

3 By Mr. Darr:

4 Q. We've been talking, Mr. Graves, about the
5 RAA, or reliability assurance agreement, this
6 morning, and I believe you had indicated previously
7 that you're familiar with this agreement, correct?

8 A. Yes, generally.

9 Q. And if -- do you have in front of you --

10 MR. DARR: Dan -- I'd ask counsel, do you
11 have a copy of IEU Exhibit 114? Could you give that
12 to the witness if you do?

13 Q. Do you have in front of you what's been
14 previously marked as IEU Exhibit 114?

15 A. I do; this is the RAA.

16 Q. And if we turn to page 15 of the RAA,
17 would you do that for us, please.

18 A. Okay, I have it.

19 Q. Definition 1.65 indicates that there's
20 something called a PJM manual. Do you see that?

21 A. I do.

22 Q. And it defines a manual as a set of
23 instructions prepared by the Office of
24 Interconnection. Do you see that?

25 A. Yes, sir.

1 Q. What is the Office of Interconnection?

2 A. Well, I'm not extremely well versed in
3 all the layers of governance of PJM, but there is an
4 entity that oversees the consistency and
5 documentation of the rules of PJM and I think that's
6 called the Office of Interconnection.

7 Q. And are you familiar with these documents
8 that are described as the PJM manuals?

9 A. Some of them. There are plenty of them
10 and they're voluminous.

11 Q. And how do they relate to interpretation
12 of the RAA? What's the point of the PJM manuals?

13 A. Well, they are cross-referenced in some
14 cases in the RAA and they describe much more so than
15 the RAA the mechanics of how the reliability
16 mechanisms are accomplished in PJM. So, for
17 instance, there's manual 18 which is the capacity
18 markets manual, and it goes through all the rules
19 about how the RPM market works. There's others
20 regarding demand response and things like that.

21 Q. And, in fact, for example, if you turn to
22 page 83 of the RAA, they're specifically referenced
23 in terms of how the RAA is to be interpreted; is that
24 correct? Now I'm looking at Schedule 2.B.2. on page
25 83 of the RAA.

1 A. Yes. This refers to one of those manuals
2 or one set of issues that are covered by those
3 manuals related to the performance of the assets that
4 are used and the integration of a subsystem into PJM.

5 MR. DARR: May I approach, please.

6 EXAMINER TAUBER: You may.

7 Q. A second ago you referred to a manual
8 which I think was PJM Manual 18.

9 A. Yes, sir.

10 Q. Do you recall that?

11 A. Yes.

12 Q. Let me show you what's been previously
13 marked as IEU Exhibit 115. Do you recognize that
14 document?

15 A. I do. This is Manual 18.

16 Q. This is the manual you were referring to
17 a few minutes ago.

18 A. Yes, it is.

19 Q. And is this a document that you would
20 have relied upon for purposes of understanding the
21 operation of the capacity market in PJM?

22 A. Yes, from time to time.

23 Q. Now, in response to a series of questions
24 from Mr. Kutik a few minutes ago I believe you
25 indicated that there are some additional electric

1 distribution companies in Ohio which are FRR -- which
2 have made the FRR election; is that correct?

3 A. Yes.

4 Q. And these companies would be FirstEnergy
5 and Duke Energy, correct?

6 A. Yes. Duke of Ohio.

7 Q. And both of those companies are operating
8 under electric security plans currently; is that
9 correct?

10 A. I believe so.

11 Q. And each of those companies has either
12 initiated or completed a bidding process for purposes
13 of their SSO load or default load; are you aware of
14 that as well?

15 A. Generally. I have not followed the
16 details of those procurements, but I understand they
17 have taken place.

18 Q. And with regard to each of those
19 companies, has either elected to charge CRES
20 providers an embedded cost for capacity, if you know?

21 A. To my knowledge, no, the SSO price is not
22 based on their capacity charges but on the auction
23 results of their procurement.

24 Q. And that would be based on the RPM price,
25 correct?

1 A. It's generally not observed. It's based
2 on the supplier's willingness to provide the whole
3 package of SSO services but there's capacity implicit
4 in it and probably it's based on RPM.

5 Q. You have no reason to doubt that,
6 correct?

7 A. If I were a bidder, I would base it on
8 RPM.

9 Q. In your credentials you note that you've
10 worked in the area of marginal cost analysis,
11 correct?

12 A. Yes; many times.

13 Q. And marginal cost analysis looks at the
14 long-run or short-term avoidable cost of future
15 service, correct?

16 A. Yes.

17 Q. And in contrast of that, embedded cost is
18 the average cost of the investment and operating cost
19 of historically acquired assets, correct?

20 A. Yes.

21 Q. Would you believe it would be reasonable
22 to rely on an economic model that relies on
23 exclusively embedded cost to identify an economically
24 efficient outcome?

25 A. Generally it's hard to think of such

1 circumstances where that would be a good idea.

2 Q. You haven't done so, have you?

3 A. No.

4 Q. In fact, you've testified before that you
5 believe a truly competitive market can produce
6 advantages to electricity customers in comparison to
7 cost-of-service regulation that you shared with
8 Mr. Kutik, correct?

9 A. Yes, I agree with that.

10 Q. And you also believe, do you not, that it
11 would be opportunistic of AEP Ohio to request to be
12 compensated at the higher of embedded cost or market,
13 correct?

14 A. Yes, if I thought it was doing that. If
15 it was switching to do something because it was a
16 better opportunity, that would be purely
17 opportunistic.

18 MR. DARR: May I approach again, please?

19 EXAMINER TAUBER: You may.

20 MR. DARR: IEU Exhibit 105.

21 EXAMINER TAUBER: Mr. Darr, you said
22 that's IEU Exhibit 105, the FERC form?

23 MR. DARR: Yes.

24 A. I have it.

25 Q. Do you have in front of you what has been

1 previously admitted as IEU Exhibit 105?

2 A. Yes, sir.

3 Q. And I believe you've seen this before,
4 correct?

5 A. Yes, I believe so.

6 Q. And that would have been several weeks
7 ago when you were here testifying in the 10-2929
8 case, correct?

9 A. Yes.

10 Q. And you would agree that the FERC Form 1
11 requirements generally seek disclosures of changes in
12 regulatory and accounting policy, correct?

13 A. Yes.

14 Q. And that utilities are generally
15 obligated to provide accurate and complete
16 information in this form, correct?

17 A. Yes, sir.

18 Q. And could I ask you to turn to page 123.5
19 and take a look at the section under "Customer Choice
20 and Industry Restructuring."

21 A. Okay.

22 Q. And am I correct that CSP was reporting
23 that Ohio had new legislation allowing customer
24 choice that was effective on January 1, 2001? They
25 reported that in the FERC Form 1, correct?

1 MR. CONWAY: Mr. Darr, have you
2 identified what year this FERC Form 1 is relating to?

3 MR. DARR: I think it was previously
4 identified as the 2001. And, in fact, if you take a
5 look at the first page, year of report, it indicates
6 December 31, 2001.

7 A. Yes, and in the paragraph numbered 3 at
8 the bottom of that page, 123.5, it has a few
9 sentences describing the beginning of customer choice
10 on January 1, 2001.

11 Q. And would you agree that as a result of
12 the restructuring legislation that there was no
13 franchise service territory for generation service?

14 MR. CONWAY: Again, I object to the
15 question because it has lack of specificity which,
16 you know, which restructuring legislation does it
17 refer to. Which vintage?

18 MR. DARR: I'm not sure that it matters
19 here, your Honor, but I'll settle for Senate Bill 3.

20 EXAMINER TAUBER: Thank you.

21 A. I can't speak to how SB 3 described the
22 demise of franchise service territories, but that is
23 broadly consistent with introducing retail choice
24 subject to the fact that under FRR in 2007 and beyond
25 the franchise territory is an obligation for capacity

1 of AEP.

2 Q. So with regard to the AEP system or AEP
3 footprint there's an obligation to have capacity
4 available to serve that footprint, correct?

5 A. Yes, sir.

6 Q. And that would be under the FRR
7 obligation.

8 A. Right.

9 Q. Are you aware of any similar requirement
10 under the law that's governing AEP Ohio to segregate
11 or to have available within its service territory
12 generation resources to serve its SSO load?

13 A. Not to my knowledge. It's a bit of a
14 legal question, but I'm not aware of any such
15 distinction.

16 Q. As you indicated with Mr. Kutik, you
17 understood that there was a transition period in Ohio
18 for the recovery of stranded generation costs.

19 A. Yes, a few years of transition.

20 Q. And I think you have previously indicated
21 that you understood that transition period to be five
22 years, correct?

23 A. That's my recollection.

24 Q. And is it your understanding that CSP
25 discontinued regulatory accounting for the generation

1 portion of its business?

2 A. I have not reviewed that, but I would not
3 be surprised. That would be consistent with the
4 restructuring.

5 Q. Well, if we turn to page 123.7, is it
6 fair to say that -- and I'm speaking now of IEU
7 Exhibit No. 105, the document that you reviewed in
8 the past -- that AEP, in fact, reported -- or, excuse
9 me, CSP, Columbus Southern reported that it was
10 suspending accounting treatment under SF 71 or SFAS
11 71?

12 A. I see that.

13 Q. And are you familiar with what SFAS 71
14 was?

15 A. Broadly, yes.

16 Q. And what was that?

17 A. It was a regulation for the recognition
18 of the book value of regulatory assets that were
19 being allowed cost recovery under regulatory
20 rulemaking that might not otherwise apply in
21 conventional accounting.

22 Q. And at the time the company was
23 indicating that it was not expecting that it would
24 incur any impairment, do you see that in the second
25 paragraph under the "Discontinuance of Accounting

1 Treatment"?

2 A. Yes, I see that they must determine if
3 plant assets are impaired.

4 Q. What does it mean to have a plant asset
5 impaired?

6 A. "Impairment" is an accounting term that
7 refers to whether the value that the assets have been
8 reflected at on your books is a fair representation
9 of their value going forward.

10 Q. And at this --

11 A. If not, if the value is too high on your
12 books, then the difference is an impairment.

13 Q. And so would it be fair to say that based
14 on this statement that CSP at least was indicating
15 that it had determined that there was no significant
16 or reportable event that required them to indicate
17 that their assets were misvalued?

18 A. At least at that time that appears to be
19 the case. It's an analysis one repeats over time.

20 Q. Now, is this a short-term analysis or a
21 long-term analysis, this impairment analysis?

22 A. It's a long-term analysis.

23 Q. And when we talk about long term, what
24 sort of term are we talking about?

25 A. I don't recall that there's any specific

1 term in the FAS guidelines, it generally refers to
2 the remaining useful life of the affected assets.

3 Q. So --

4 A. Which could be different by asset type.

5 Q. With regard to a generation plant, what
6 would be the anticipated or expected life of a
7 generation plant?

8 A. As an engineering matter they can last 40
9 to 60 years or longer. As an economic matter they
10 can become obsolete if they're not profitable to run
11 over much shorter horizons or they can be worth
12 rejuvenating and extending for longer periods of
13 time.

14 Q. With regard to a impairment analysis of a
15 generating plant, would you be looking at that longer
16 lifespan?

17 A. You would be looking at a long lifespan
18 of remaining life, yes.

19 Q. And the question you be would asking is
20 whether or not the cash flow would be sufficient to
21 recover the value of that plant as represented by the
22 books of the company, correct?

23 A. Yes. It's not just market cash flow,
24 it's whatever sources of cash flow you have under
25 long-term contracts, regulatory arrangements,

1 tariffs, the entire suite of mechanisms whereby you
2 expect to recover future revenues. But with all
3 those taken into account you then look to see whether
4 there is net value loss.

5 Q. So this would include such things as
6 energy and ancillary services as well as any revenues
7 derived from, say, your default service obligation.

8 A. Sure. You could look for your SSO costs,
9 pool revenues within the AEP pool, there would be
10 lots and lots of different sources of revenue which
11 all ought to be considered.

12 Q. You need to be comprehensive, is that
13 what it amounts to?

14 A. I think so.

15 Q. Now, in response to some questions asked
16 by Mr. Kutik you went through some of the details
17 with regard to the two filings that American Electric
18 Power Service Corporation made with the Federal
19 Energy Regulatory Commission; do you recall that?

20 A. I do.

21 Q. The first filing, as you described it,
22 was the Service Corporation's attempt to identify a
23 cost-based capacity charge; is that a fair
24 characterization?

25 A. That was certainly part of the filing.

1 Q. Are you familiar with the second filing?

2 A. Only generally. I haven't reviewed it in
3 its original documents. That is the filed documents
4 themselves and testimonies, but I'm aware of it.

5 Q. Based on your understanding is it --
6 well, strike that.

7 MR. DARR: I don't think I have anything
8 further. Thank you, your Honor.

9 EXAMINER TAUBER: Thank you.

10 Ms. Spiller.

11 MS. SPILLER: Briefly, your Honor. Thank
12 you.

13 - - -

14 CROSS-EXAMINATION

15 By Ms. Spiller:

16 Q. Good morning, Mr. Graves.

17 A. Hi.

18 Q. Sir, from the time that the AEP entities
19 voluntarily elected FRR status in 2007 through 2011,
20 AEP Ohio has consistently charged CRES providers for
21 capacity consistent with RPM-based pricing, correct?

22 A. That's my understanding.

23 Q. And, sir, I believe you said in response
24 to a question from Mr. Kutik that the FERC has
25 concluded that RPM-based pricing for capacity is just

1 and reasonable; is that correct?

2 A. That is also my understanding.

3 Q. Mr. Graves, this principle of just and
4 reasonable rates is not limited to the FERC that this
5 Ohio commission will also review rates to ensure that
6 they are just and reasonable, correct?

7 A. Sure.

8 Q. And in Ohio all CRES providers outside of
9 the AEP Ohio service territory pay RPM-based pricing
10 for capacity, correct?

11 A. Yes, I believe that's right.

12 Q. And, in fact, sir, the same would hold
13 true in other states in PJM that have retail choice
14 and that all retail generation providers pay
15 RPM-based prices for capacity, correct?

16 A. Yes.

17 Q. Mr. Graves, would you agree with me that
18 Duke Energy Ohio, also operating as an FRR entity,
19 initially built or acquired its generation fleet for
20 purposes of being an integrated utility?

21 A. I'm sorry, could I hear the question
22 again?

23 Q. Sure. Would you agree with me, sir, that
24 Duke Energy Ohio, which is also functioning as an FRR
25 entity, initially built or acquired its generation

1 fleet for purposes of being an integrated utility?

2 A. Yes, that's certainly generally true.

3 Q. And we just talked about the charges to
4 CRES providers outside of AEP Ohio's territory, and
5 are you aware, sir, that CRES providers in the Duke
6 Energy Ohio territory are charged the final zonal
7 capacity price for capacity?

8 A. Yes, that's my understanding.

9 Q. And the final zonal capacity price is a
10 compilation of the results of the base residual
11 auction as well as the incremental auctions in PJM,
12 correct?

13 A. Yes, I think it's a weighted average of
14 the incremental and base auction.

15 Q. And with regard to standard service offer
16 customers and that SSO load within the Duke
17 Energy Ohio service territory, I believe your
18 response to Mr. Darr was that you could not determine
19 the specific capacity charge included in that SSO
20 rate?

21 A. As a general rule that will be true if
22 SSO is procured as a bundled service, that is in the
23 sense that energy, capacity, ancillaries, congestion,
24 all of those are implicit in the price. The bidders
25 offer it at whatever they think is a cumulative

1 number sufficient to cover their costs.

2 Q. Do you have any reason to dispute,
3 Mr. Graves, that wholesale suppliers participating in
4 Duke Energy Ohio's standard service offer are charged
5 the final zonal capacity price for capacity?

6 A. To the extent they're getting their
7 capacity from Duke, I would guess that's true. I
8 believe that is true.

9 Q. Thank you, sir.

10 And with regard to FirstEnergy, they're
11 also operating under the FRR status, correct?

12 A. Yes.

13 Q. And when the FirstEnergy utilities
14 transferred or re-allied from the Midwest ISO to PJM,
15 that election included competitive auctions for
16 capacity within the FirstEnergy service territories,
17 correct?

18 A. Yes; there were supplemental auctions to
19 price their -- the capacity they were bringing to
20 PJM.

21 Q. So whether a standard service offer
22 customer or a shopping customer within the
23 FirstEnergy service territory, customers are seeing
24 retail-based prices for capacity, correct?

25 A. Could I hear that question again?

1 Q. Sure, and let me rephrase, I believe I
2 may have misspoken.

3 Whether a standard service offer customer
4 or a shopping customer within the FirstEnergy service
5 territory, those customers are seeing market-based
6 prices for capacity, correct?

7 A. To the extent they're taking their
8 capacity from FirstEnergy, that would be true. Or in
9 the case of FirstEnergy being the supplier, they have
10 the capacity so they're enjoying its embedded cost
11 but its opportunity cost is the RPM price, so
12 directly speaking, their cost is not the RPM price
13 but it's the value of their capacity per
14 megawatt-day.

15 Q. And I believe, sir, you said in response
16 to a question from Mr. Darr that the standard service
17 offer price in the FirstEnergy territories is not
18 based upon their embedded cost, correct?

19 A. Right. That's true in general.

20 Q. Sir, if you could refer, please, to page
21 16 of your testimony. The sentence, sir, that begins
22 on line 19 and carries over into line 20, please.

23 A. Okay.

24 Q. And there you indicate, sir, that in your
25 view AEP is entitled to cost recovery on investments.

1 And who is the AEP entity to which you refer in that
2 testimony?

3 A. Well, I'm referring to AEP Ohio, or Ohio
4 Power now they've been consolidated, the two
5 companies, in regard to its share of the generation
6 by AEP.

7 Q. And you are aware, sir, that AEP Ohio
8 intends to transfer its generation to a nonregulated
9 affiliate effective January 1, 2014, correct?

10 A. Yes.

11 Q. Are you also aware, sir, that it is
12 AEP Ohio's intention to enter into a contract, a
13 purchased power agreement, with its nonregulated
14 affiliate following that asset transfer through the
15 term of the ESP?

16 A. Yes, I believe that's right. I think all
17 of that's taking place on a cost basis as well.

18 Q. And with respect to that purchased power
19 agreement that you believe would occur on a cost
20 basis, you would not be surprised if that agreement
21 were, in fact, subject to the EDGAR standards under
22 the FERC, would you?

23 A. It might be.

24 Q. And as an expert who has testified before
25 the FERC, sir, on prior occasions, you know that

1 those EDGAR standards are designed to ensure that
2 there is no self-dealing favoritism in intercompany
3 transfers and that they are comparable to what would
4 have taken place in a market process, correct?

5 A. Yes, that's the basic intent of the EDGAR
6 review process.

7 MS. SPILLER: Nothing further. Thank
8 you.

9 EXAMINER TAUBER: Thank you.

10 Ms. Kyler.

11 MS. KYLER: No questions, your Honor.

12 EXAMINER TAUBER: Ms. McAlister?

13 MS. McALISTER: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Ms. McAlister:

17 Q. Good morning, still, Mr. Graves. Just a
18 few follow-ups.

19 A. Okay.

20 Q. I believe you said in response to a
21 question from Mr. Darr that if you believed AEP Ohio
22 was electing to take the higher of cost or market,
23 that would be truly opportunistic. Do you recall
24 that statement?

25 A. I don't recall using the word "truly,"

1 but I do agree you've effectively captured the
2 conversation.

3 Q. And I take it from that statement that
4 you don't believe that AEP Ohio is being
5 opportunistic; is that correct?

6 A. Right. I think they're ending what was a
7 lower-cost market convenience they were offering in
8 the past but not doing so because this is a chance to
9 game the regulatory choice.

10 Q. Okay. And I believe you said that you're
11 aware that AEP Ohio charged CRES providers the RPM
12 price prior to its November '11 application at FERC,
13 right?

14 A. Yes, that's what I'm referring to as the
15 previous lower of cost or market situation.

16 Q. Right. And you're aware that AEP Ohio's
17 plan is to use the RPM prices again beginning June 1,
18 2015?

19 A. Yes, ma'am.

20 Q. And you're aware that the prices, the RPM
21 prices for the planning years 2012, '13, and '14 are
22 all below the prices that AEP Ohio has proposed for
23 capacity during that same timeframe?

24 A. Yes. Very much so, by 2013 and '14.

25 MS. McALISTER: No further questions,

1 your Honor.

2 EXAMINER TAUBER: Thank you.

3 Ms. Thompson?

4 MS. THOMPSON: A few questions, your
5 Honor.

6 - - -

7 CROSS-EXAMINATION

8 By Ms. Thompson:

9 Q. Good morning, Mr. Graves.

10 A. Hi.

11 Q. Mr. Kutik asked you some questions about
12 the SSO auction. Do you remember that?

13 A. I do.

14 Q. And specifically he asked you whether
15 retail LSEs could win an SSO auction. Do you
16 remember that as well?

17 A. Yes, in regard to New Jersey and a couple
18 of other places.

19 Q. And he also mentioned Ohio?

20 A. Yes.

21 Q. And you acknowledge that retail LSEs
22 could not win an SSO auction.

23 A. Yes, I believe that to be the case but I
24 have not studied the terms and conditions of those
25 auction restrictions, but that's generally the way

1 they've been conducted.

2 Q. And you also acknowledge that if there
3 were more suppliers in the market, that there could
4 also be inter-competition to lower the price. Do you
5 remember that, saying that also in that examination?

6 A. Yes; that's an economic truism.

7 Q. And would you also agree that if AEP were
8 to hold a retail auction allowing retail LSEs to bid
9 for the right to serve customers, there would be more
10 competition and potentially -- that could potentially
11 lower the capacity and energy price?

12 A. So do you mean if they held a retail SSO
13 auction?

14 Q. A retail, similar to that, it's also
15 termed an SCO auction in Ohio.

16 A. So this would be to auction off customers
17 to retail LSEs?

18 Q. Yes.

19 A. Not to provide the SSO service through
20 the distribution company.

21 Q. Exactly.

22 MR. CONWAY: Your Honor, I just would, I
23 think I object to the statement by counsel about what
24 the electric standard service offer auctions are
25 called or referred to. I think that's confusing.

1 MS. THOMPSON: I'll term it whatever you
2 would prefer, Counsel.

3 Q. So we'll just call it generally a retail
4 auction.

5 A. So the question is would a retail auction
6 increase the competition among retail suppliers?

7 Q. Would it potentially lower price with the
8 increase of suppliers in the market?

9 A. I guess we have to say compared to what?
10 It can be, under certain circumstances auctions can
11 be a very nice way of creating competition, but it
12 depends on what you're displacing with the auction.

13 Q. Okay.

14 MS. THOMPSON: I have no further
15 questions. Thank you, your Honor.

16 EXAMINER TAUBER: Thank you.

17 Mr. Yurick?

18 MR. YURICK: One or two, your Honor.

19 Thank you.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Yurick:

23 Q. Sir, if AEP were to charge CRES providers
24 the RPM price for capacity, would you expect that to
25 have an impact on shopping?

1 A. Yes; it would probably increase the
2 number of CRES providers and increase the number of
3 interested buyers.

4 Q. So you would expect shopping activity to
5 increase, would you not, if AEP were to restrict
6 itself to charging the RPM price for capacity?

7 A. I wouldn't be surprised at all.

8 Q. Okay. But that's not exactly my
9 question. My question is would it make sense that it
10 would increase?

11 A. Sure. I think it would. And the intent
12 to give them a lower cost, the CRES providers would
13 have a lower cost and everything else being equal,
14 that has to increase their ability to sell and
15 others' desire to buy.

16 Q. I agree. Thank you.

17 MR. YURICK: No further questions.

18 EXAMINER TAUBER: Thank you.

19 Ms. Hand?

20 MS. HAND: No questions, your Honor.

21 EXAMINER TAUBER: Ms. Kaleps-Clark?

22 MS. KALEPS-CLARK: No questions, your
23 Honor. Thank you.

24 EXAMINER TAUBER: Mr. O'Brien?

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

1 EXAMINER TAUBER: Mr. Margard?

2 MR. MARGARD: No questions, thank you.

3 EXAMINER TAUBER: Is there anybody else
4 we missed?

5 Mr. Conway, redirect?

6 MR. CONWAY: May I have a few minutes,
7 your Honor?

8 EXAMINER TAUBER: Sure. Let's take ten
9 minutes. Let's off the record.

10 (Recess taken.)

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

13 Mr. Conway, redirect?

14 MR. CONWAY: Thank you, your Honor.

15 - - -

16 RECROSS-EXAMINATION

17 By Mr. Conway:

18 Q. Mr. Graves, you recall at one point or
19 another a discussion from counsel during
20 cross-examination about whether the RPM price that
21 results from the PJM auctions has been determined to
22 be a just and reasonable rate by the FERC? Do you
23 recall that?

24 A. Yes, that came up a couple times.

25 Q. In your understanding is it possible to

1 have more than one rate that is a just and reasonable
2 rate?

3 A. Yes, I believe that is possible. The
4 notion of being just and reasonable is a broad
5 concept that encompasses efficiency, fairness,
6 continuity, stability, lots of factors, not just of
7 recent market conditions.

8 Q. Have there been instances in the past and
9 would you expect there to be instances in the future
10 when the FERC or the Ohio Commission could find that
11 a rate based on cost is just and reasonable?

12 A. Yes; I think that certainly has been the
13 case traditionally and can be going forward.

14 Q. And then do you recall questions, I
15 believe from counsel from FirstEnergy Solutions,
16 regarding the recovery of embedded costs through
17 capacity prices including RPM-based prices? Do you
18 recall that?

19 A. Yes.

20 Q. And do you recall questions regarding the
21 amount of investment that FES might be making over
22 some future period, I believe I heard the reference
23 of a billion dollars in transmission? Do you recall
24 that?

25 A. I recall that discussion.

1 Q. And that would be for the A-T-S-I, or the
2 ATSI, area; is that right?

3 A. That's my understanding of the purpose.

4 Q. And by the way, what is the rate for
5 capacity that the recent PJM RPM auction established
6 for the ATSI zone for 2015-'16?

7 A. I believe it was \$357 a megawatt-day.

8 Q. And I believe you indicated that whether
9 or not an RPM-based price would recover, embedded
10 costs would be coincidental. Do you recall that?

11 A. Yes.

12 Q. If AEP Ohio was subject to an RPM price
13 and it was at that level, how would that compare to
14 AEP Ohio's embedded cost, and would such a price
15 recover those costs?

16 A. As it happens, the ATSI price is quite
17 close to the embedded capacity cost that AEP Ohio has
18 proposed in this case of 355, so it's within \$2 per
19 megawatt-day and, hence, would be essentially the
20 same as a cost-based rate.

21 Q. Do you recall questions regarding the
22 nature of the commitment that is made when an entity
23 selects the RPM approach for procuring capacity, and
24 I believe the five years was a reference in that
25 respect? Do you recall that?

1 A. Yes. There were two references to five
2 years; one was the initial five-year commitment to
3 being an FRR provider, and then there's a five-year
4 stay-out period that now will affect AEP from 2015 on
5 to not return to being an FRR provider for its load
6 over a five-year period.

7 Q. And during that five-year period when
8 it's staying out of the FRR election it is
9 participating in the RPM auction at that point; is
10 that right?

11 A. Yes. Its generation would participate in
12 the RPM process to the extent it cleared and would be
13 disconnected from its load. Its load would be
14 committed to staying in the RPM for five years as
15 well.

16 Q. So the five-year -- if it doesn't have
17 capacity resource, generation resources, the
18 five-year commitment of AEP Ohio would be a
19 commitment to procure capacity to leave its load from
20 the RPM auction for the five-year period?

21 A. That's right. The load is committed, not
22 the generation, although it would no doubt
23 participate.

24 Q. Do you recall questions regarding what I
25 will term as the fungibility of capacity megawatts

1 between the FRR option on the one hand and the RPM
2 election on the other hand? Do you recall that?

3 A. Sure. There were two -- there was a
4 question of whether FRR resources incurred any
5 different kinds of performance obligations than other
6 kinds of capacity in the BRA auctions, if that's what
7 you're referring to.

8 Q. Yes, thank you.

9 A. Capacity with equivalents, I guess.

10 MR. KUTIK: Well, I'll object. That's
11 not what the questions were about. The questions
12 were about whether they both have penalties, and
13 that's it. That is overbroad and misstates the
14 testimony and it's beyond the scope of
15 cross-examination.

16 MR. CONWAY: Well, your Honor, I believe
17 there were questions from more than one counsel, not
18 just from Mr. Kutik, on this score, and I believe
19 Ms. Spiller perhaps may have asked questions along
20 this line regarding the nature of megawatts being the
21 same or different depending on how they're being
22 procured or supplied. I have just one or two
23 follow-up questions on it.

24 MR. KUTIK: I'll renew my objection, your
25 Honor. I don't recall Ms. Spiller talking about

1 that.

2 MS. SPILLER: And, your Honor, I would
3 join in that objection. I don't believe the
4 phraseology "megawatts" was used at all in my
5 examination of the witness.

6 EXAMINER TAUBER: The objection is
7 sustained.

8 Please move on, Mr. Conway.

9 MR. CONWAY: Okay.

10 Q. (By Mr. Conway) With regard to the
11 AEP Ohio's position as an FRR entity on the one hand
12 and the positions of RPM participant's suppliers on
13 the other hand, could you explain what the difference
14 is and the nature of the obligations for each of
15 those types of entities?

16 A. Sure. The fundamental difference that I
17 see is that the FRR obligation is a constraint that
18 applies regardless of how much load is being served
19 and it's a multiyear commitment through 2015.

20 The CRES provider can move in and out of
21 the market according to when market prices make it
22 attractive to try to compete for supply, and if that
23 condition changes next year, they can move the other
24 way or they can move in further.

25 So they can fungibly choose capacity to

1 choose and participation in the market as suits them
2 while the capacity of AEP is tied up, its FRR
3 obligation, regardless of whether CRES usage
4 increases or decreases, that is regardless of whether
5 shopping increases or decreases.

6 And so it's fundamentally a more
7 restrictive obligation, less flexible, and less able
8 to clear in the market. For instance, if capacity is
9 not needed because customers leave, there's still
10 restrictions on how much capacity AEP can release
11 into the markets to make up for it.

12 Q. Thank you.

13 One final topic, Mr. Graves. I believe
14 you were asked questions regarding the nature of CRES
15 incentives to utilize options for capacity other than
16 capacity supplied by AEP while -- AEP Ohio while
17 AEP Ohio was an FRR entity. Do you recall that?

18 A. I do.

19 Q. Do CRES suppliers have any incentive to
20 bring or not to bring their own resources to the
21 market in order to serve the retail loads that they
22 attract?

23 A. I believe they do have an incentive not
24 to bring their own capacity to the market under the
25 conditions where they can get it from AEP at RPM

1 prices.

2 And, again, the issue there is the
3 timeframe of decision-making and commitment that's
4 involved. It's not simply a matter of whether they
5 could get the RPM price through AEP or through the
6 RPM itself, but when they have to make their choice
7 to do so and for how long they have to choose to do
8 so.

9 So if they -- there's more optionality
10 and flexibility to take it from AEP in the years when
11 it turns out the market circumstances are favorable,
12 that is generally on the basis of short-term changes
13 in the market, rather than to commit over a longer
14 timeframe. So they have an incentive. It's not
15 merely that the price was equivalent, it was actually
16 a better deal for them to take it under AEP and AEP
17 was bearing the burden of covering that supply value
18 risk.

19 MR. CONWAY: Thank you, Mr. Graves.

20 Thank you, your Honor. That's all I
21 have.

22 EXAMINER TAUBER: Thank you.

23 Mr. Kutik?

24 - - -

RECROSS-EXAMINATION

Q. Mr. Graves, you have read, have you not, FERC's opinions relating to its approval of the RPM process and RPM prices?

Q. And you have read those opinions in describing the RPM process as just and reasonable in contrasting the approach used by the RPM model to cost-based regulation, correct?

Q. But in determining that RPM prices were just and reasonable, they were contrasting, FERC was, the RPM rates to cost-based regulation; were they not?

Q. Now, you're not suggesting, are you, in your questions to Mr. -- in your responses to Mr. Conway's questions that ATSI's transmission costs are the same as AEP's generation costs? Are you?

1 AEP and ATSI is an LDA that is constrained by
2 transmission limitations.

3 Q. And the cost or the capacity charges with
4 respect to ATSI that you cited, those were prices
5 that will obtain in the delivery year 2015 and 2016,
6 correct?

7 A. Yes.

8 Q. And the 355 capacity price that's been
9 suggested as a cost for AEP were prices for the
10 delivery years '12-'13, '13-14, and '14-'15, correct?

11 A. That's right, they're not the same time
12 frames.

13 Q. And, in fact, there is a credit to be
14 applied with respect to the 2015-2016 clearing price
15 within ATSI. Are you aware of that?

16 A. Yes, I believe there's a UCAP import,
17 yes, for something like that. I forget what it's
18 called.

19 Q. So that actually would get the net price
20 below \$300, correct?

21 A. Subject to check, I don't recall what the
22 credit is, but there would be some kind of credit.

23 Q. All right. Now, after the first year or
24 the first five years that an FRR entity has that
25 status, the FRR entity renews the status each year

1 for three years hence, correct?

2 A. Yes.

3 Q. So that the FRR entity can get out in
4 three years, or in three years on a year's notice,
5 correct?

6 A. That's right. The third -- you can
7 choose to get out three years in advance of when you
8 would do so.

9 Q. Okay. And if someone was an RPM entity
10 and wanted to go to be an FRR entity or wanted to
11 enter into a bilateral contract, they could do that,
12 again, three years hence, correct?

13 THE WITNESS: Can I hear that against?

14 (Record read.)

15 A. Yes, that's my understanding.

16 Q. And when someone or an entity is not in a
17 bilateral contract and is not an FRR entity and
18 they're a generation owner within PJM, they must
19 offer -- they're required to offer into the base
20 residual auction; are they not?

21 A. Yes, that's right.

22 Q. And if that capacity clears the base
23 residual auction, that capacity is, to use your
24 terms, tied up for that delivery year, correct?

25 A. Yes; they've sold it forward for the

1 third year ahead and they're obligated to perform.

2 Q. Now, with respect to the two prices that
3 you were comparing earlier, or the proposed embedded
4 cost-based price of 355 and the ATSI RPM clearing
5 price in 2015-2016, you said earlier that we're
6 talking about different time frames, correct?

7 A. Yes. I agree with that.

8 Q. And, in fact, it's your understanding, is
9 it not, that with respect to the embedded costs that
10 are used to come up with that 355, those are embedded
11 costs for the year 2010, correct?

12 A. I believe they were based on the 2010
13 Form 1, that's right.

14 MR. KUTIK: May I have a minute, your
15 Honor?

16 I have no further questions. Thank you,
17 Mr. Graves.

18 EXAMINER TAUBER: Thank you.

19 Ms. Grady?

20 MS. GRADY: No questions, your Honor.

21 EXAMINER TAUBER: Mr. Maskovyak?

22 MR. MASKOVYAK: No questions, your Honor.

23 EXAMINER TAUBER: Mr. Darr.

24 MR. DARR: Very briefly, your Honor.

25 - - -

RECROSS-EXAMINATION

By Mr. Darr:

Q. The \$357 per megawatt-day that you mentioned with regard to the ATSI LDA, you've already indicated that that may be subject to a credit; is that correct?

A. Yes. I don't know the size of that credit, but I believe there will be one.

Q. And is it also correct that there would be additional incremental auctions that may adjust the price associated with that LDA?

A. Yes, that's true in general. There are incremental auctions for all areas in the future.

Q. Now, with regard to the RPM system, substantively or philosophically what's happening here is the RPM is designed to assure the reliability of the PJM service area, correct?

A. Yes. That's a fair characterization.

Q. And RPM is designed to attract resources when there is a constraint or a capacity shortfall by giving a pricing signal; is that also correct?

A. Yes. The intent is for the price to rise when markets are tight.

Q. And the clearing price, would you agree, is a efficient means of signaling whether or not

1 added capacity resources are needed?

2 MR. CONWAY: Could I have the question
3 reread -- read back, excuse me.

4 (Record read.)

5 A. Let me say generally I agree, but the
6 notion of an efficient signal is actually quite
7 complex as to whether it's reflecting all the
8 required information.

9 It's certainly directionally correct in
10 signaling the need, but there's not agreement that it
11 provides all the information needed for those
12 decisions or a timeframe long enough for those
13 decisions, so it's helpful but perhaps not fully
14 efficient.

15 Q. With regard to the three-year window
16 under this current RPM model, would you agree that
17 it's an efficient way of identifying whether or not
18 there is a resource need?

19 A. Yes.

20 Q. And would you agree that at this point in
21 time, with regard to the service territory that is
22 within the AEP Ohio -- that constitutes AEP Ohio
23 within the PJM footprint, that is considered an
24 unconstrained portion of the PJM footprint?

25 A. Yes, that's correct. It was not

1 designated as an LDA and I would not expect it to be
2 due to the strong transmission grid in the region.

3 Q. And would you agree, subject to check,
4 that the preliminary zone load price for the ATSI
5 region is going to be with the credit of \$294.03 per
6 megawatt-day?

7 A. I have no independent knowledge but,
8 subject to check, that's plausible.

9 Q. Now, in response to a question raised on
10 redirect you indicated that the FRR entity is subject
11 to some restrictions on the amount of capacity it can
12 release into the RPM market. Did I correctly
13 summarize that?

14 A. Yes.

15 Q. Now, the extent to which they can release
16 capacity would be dependent on that capacity which
17 they had previously dedicated; would that be fair
18 also?

19 A. I believe, broadly my understanding is
20 those restrictions arose when AEP elected FRR status
21 in the first place and there were some restrictions
22 on what they could do with additional capacity in
23 RPM.

24 Q. So with regard to what particular units
25 or, well, let's do it in that term. We would need to

1 know what units or what facilities had been dedicated
2 into the PJM FRR election by a particular FRR entity,
3 correct?

4 A. In order to what?

5 Q. To determine what could be released.

6 A. Sure. There's ultimately, I believe, a
7 quantity limit and then as to what capacity would be
8 able to participate in that, that would depend on
9 what specific capacity had been dedicated to FRR.

10 Q. Can an individual customer be a
11 load-serving entity?

12 MR. CONWAY: Your Honor, at this point I
13 think the recross is beyond the scope of my redirect.

14 MR. DARR: I believe what we're
15 investigating here is -- follows from the questions
16 raised by Mr. Conway with regard to FRR participation
17 and how that was structured and how it affected
18 others.

19 EXAMINER TAUBER: I'll allow it.

20 MR. DARR: Thank you, your Honor.

21 Q. Do you need the question repeated?

22 A. I haven't studied that but I don't know
23 of any reason why there couldn't be. I don't know of
24 any scale restrictions on become in LSE, for
25 instance.

1 Q. For example, could a demand response
2 customer operate as an LSE?

3 A. Well, I guess I need some clarification,
4 there. Do you mean can they use their demand
5 response as capacity satisfaction of their own load
6 requirements?

7 Q. Yes.

8 A. I would be extremely surprised if that's
9 feasible because they don't get full capacity credits
10 for their demand response and yet they would be, at
11 best, able to curtail 100 percent of their own. So
12 they would get partial credit for turning themselves
13 entirely off. It doesn't seem like that would add up
14 to be enough.

15 MR. DARR: Nothing further, thank you.

16 EXAMINER TAUBER: Thank you.

17 Ms. Spiller?

18 MS. SPILLER: Briefly, your Honor.

19 - - -

20 RECROSS-EXAMINATION

21 By Ms. Spiller:

22 Q. Mr. Graves, on redirect examination you
23 were comparing and contrasting the FRR and RPM
24 structures. Within the FRR construct there is a cap
25 above which an FRR entity is precluded from selling

1 their excess capacity into the market, correct?

2 A. Yes.

3 Q. And to your knowledge, sir, is that cap
4 3,500 megawatts for the AEP East utilities?

5 A. It sounds about right. I don't remember
6 specifically.

7 Q. Are you aware of AEP Ohio being precluded
8 from selling excess capacity into the market because
9 of this cap?

10 A. More of a legal question than I'm really
11 able to answer, but I don't believe the restriction
12 is on AEP Ohio but on AEP as a whole.

13 Q. But are you aware of AEP Ohio being
14 restricted in its ability to sell excess capacity
15 into the market because of the cap?

16 A. Again, I guess my answer is no, I'm not
17 aware of that restriction applying specifically to
18 AEP Ohio.

19 Q. Now, with respect to the RPM process,
20 there is no assurance that capacity that is bid into
21 the base residual auction will clear the auction,
22 correct?

23 A. Correct.

24 MS. SPILLER: Thank you, sir. Nothing
25 further.

1 EXAMINER TAUBER: Thank you.

2 MS. KYLER: No questions, your Honor.

3 MS. McALISTER: No questions, your Honor.

4 MS. THOMPSON: No questions, your Honor.

5 MR. YURICK: Thank you, your Honor. No
6 questions.

7 MS. HAND: No questions, your Honor.

8 MS. KALEPS-CLARK: No questions, your
9 Honor. Thank you.

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

11 MR. MARGARD: No questions.

12 EXAMINER TAUBER: Is there anybody else
13 we missed?

14 Commissioner Porter.

15 COMMISSIONER PORTER: Yeah, thank you.

16 - - -

17 EXAMINATION

18 By Commissioner Porter:

19 Q. Mr. Graves, thanks for appearing today.

20 A. Certainly. Thank you.

21 Q. Looking back at page 5 of your testimony
22 where there's a question with regard to the clearing
23 price, a point that's depicted on the graph just
24 above. I just want to discuss clearing price, the
25 concept of clearing price with you briefly, and your

1 understanding is that the clearing price represents
2 the marginal price of a unit that's bid into the RPM?

3 A. Basically that's right. The sort of
4 upward sloping curve that you see on this picture
5 that starts at the X axis and swoops up to the right
6 is the sum of the capacity bid prices ranked --
7 stacked in order, that is, the ordered listing of the
8 bids, and at some point there's enough offers to
9 intersect the so-called VRR demand curve, and
10 wherever that does that, whatever unit or bidder has
11 set that price is the price for that region of
12 capacity.

13 Q. Okay. So as a bidder you're determining
14 the amount or level of your bid, again, based upon
15 your marginal cost; is that correct?

16 A. Yes. In principle you're allowed to bid
17 whatever you want, but in fact the independent market
18 monitor has determined that most of PJM doesn't have
19 adequate capacity competition to allow unrestricted
20 bidding so you're capped usually at your avoided cost
21 rate plus 10 percent.

22 Q. Okay. So there's certain regions that
23 PJM -- that the market monitor places caps on the
24 bids into the RPM?

25 A. As far as I know, it's pretty much PJM.

1 Q. Okay. Great, and there was a question a
2 few moments ago with regard to the differences
3 between the price that we recently learned about
4 within the ATSI zone for the 2015-2016 period, I
5 believe that price being 357, and the 355 that's been
6 suggested by AEP in a separate proceeding here. And
7 your testimony was that the price requested by
8 AEP Ohio is based upon 2010 costs. That was your
9 answer in response to Mr. Kutik.

10 A. Yes. My understanding is they use their
11 2010 FERC Form 1 to develop the embedded cost basis
12 for that price and that it would be updated annually
13 as subsequent FERC Form 1s are rolled out. But it
14 starts at 355.

15 Q. What about prices, I'm sorry, costs --
16 let me ask it a different way.

17 What costs would a bidder use to
18 establish its bid for bidding into the forward
19 pricing market? So, FERC's, the 357 number that we
20 have for ATSI for the 2015-2016 period, as a bidder
21 what costs are you considering for that period as a
22 cost that you've predicted or forecasted for the
23 2015-'16 delivery period?

24 A. Basically, you are -- you're going to
25 tend to bid what is so-called your avoided cost which

1 is some combination of all the annual costs you will
2 have to spend to keep your unit alive in that year
3 and available, plus in the case that you need to do
4 environmental retrofits, FERC has an allowance for
5 you to include those in your bid as a future
6 avoidable cost and you amortize those over a
7 four-year period in your bid.

8 And then if you're a brand-new unit
9 starting from scratch, then in a sense the entire
10 cost of your future plant is an avoidable cost, and
11 principally you could bid up that amount and, in
12 fact, the FERC has some rules that you have to bid a
13 minimum portion of your to-go costs as a new unit if
14 you're getting any other kind of public support for
15 your cost recovery.

16 So there's various restrictions, those
17 applied to the physical generation, if you're bidding
18 in a demand re -- demand-side resource you can bid in
19 at whatever price you want.

20 Q. Mr. Graves, are you also aware of the
21 different components that are included within the
22 total clearing price for resources? So, for example,
23 if I were to ask you if you're aware of a concept
24 called a "locational price adder," are you aware of
25 how that's calculated?

1 A. Generally, although the mechanics are a
2 little arcane, but these clearing prices are adjusted
3 ultimately for zonal differences and for ultimate
4 load responsibilities, so there's some refinements
5 that come to bring them to the specific delivery
6 location which generally raises the price a little
7 bit.

8 Q. Okay. Is it your understanding that as a
9 bidder in the RPM auction that you're aware of what
10 the locational price adder would be?

11 A. I don't know when they release the final
12 locational price adders. I believe there are -- many
13 of these types of estimates are stated in around
14 February of the year so that you know at least what
15 the installed reserve margin requirement is going to
16 be and various assumptions about these avoided cost
17 rates and so on that you're allowed to bid within,
18 and then you have a couple of months to decide how to
19 use those in your bids. But some are subject to
20 after-the-fact trueup.

21 COMMISSIONER PORTER: Okay. That's all I
22 have. Thank you.

23 - - -

EXAMINATION

By Examiner Tauber:

Q. Mr. Graves, could you turn to page 14 of your testimony.

A. Okay, I have it.

Q. In your direct testimony you provide that a lot of new generation will be developed and you provide examples citing PJM's report in 2011 but then later on around lines 10 and 11 you say much of it won't be built or there's a possibility of it won't be built and, actually, that's based on economic positions of this generation, or what is the basis behind that, I guess?

A. Behind the belief that it won't mostly get built?

Q. Right.

A. Well, a couple things, one is historical experience. There's almost always many more units proposed than are ultimately completed, and it's maybe on the order of five to -- one/fifth to one/tenth of what's in the queue at any one time ultimately seems to be realized. Partly that's because circumstances change over time and partly it's because the cost that PJM assesses for you to complete your interconnection are not fully known at

1 the time you first get in the queue and as those
2 numbers evolve you can change your mind about
3 completing a plant.

4 You may also change your mind because you
5 see how many other people change their mind. But it
6 turns out there's always a lot more in the queue than
7 are realized.

8 Q. With those considerations what leads you
9 to believe there is still being -- sufficient
10 generation being developed?

11 A. Well, again, historically it's been the
12 case even though there's a lot more in the queue that
13 doesn't get built than does get built, each year
14 since 2007 when the RPM process was instituted
15 several thousand megawatts have been added to the
16 supply and PJM has reliably had more reserves
17 clearing in the market than it takes to even hit its
18 target reserve margins.

19 So, for instance, this year we have a
20 20.6 percent reserve margin in the RPM process when
21 they were shooting for 15.4 percent and, as discussed
22 earlier, some 6,000 or so net megawatts were added to
23 the pool even though there were a lot of other
24 retirements. So it just seems to be working quite
25 steadily to bring forth new resources.

1 Q. To the extent you describe that as well
2 in your testimony, you say there should be some point
3 of development, do you know where the processes are
4 in any of these plant developments, any details as to
5 where they're at, how far out or how conceptual?

6 A. Yes. There's pretty good data on that as
7 to whether they've -- to what extent they've broken
8 ground, to what extent they've received all their
9 environmental permits, or have a final assessment of
10 their interconnection costs and so on, and there's a
11 report that's available or data available from PJM.

12 Q. Do you know any of the information
13 offhand from that report?

14 A. Actually, I provided a workpaper
15 associated with my observation here that there is
16 about 3,000 gigawatts of new capacity currently under
17 construction which also listed all the types by fuel
18 type and region and so on. So -- but it's a pretty
19 detailed list.

20 EXAMINER TAUBER: We'll leave it at that.
21 Thank you. You may be excused.

22 THE WITNESS: Okay. Thank you.

23 EXAMINER TAUBER: Mr. Conway.

24 MR. CONWAY: Thank you, your Honor. At
25 this time I would renew my motion, if I didn't

1 already make it, but my motion for admission of
2 AEP Ohio Exhibits Nos. 105 and 106.

3 EXAMINER TAUBER: Are there any
4 objections to AEP Ohio Exhibits 105 and 106?

5 MR. DARR: Renew the motion to strike,
6 your Honor.

7 EXAMINER TAUBER: The Bench, noting that,
8 will admit Exhibits 105 and 106 into the record at
9 this time.

10 (EXHIBITS ADMITTED INTO EVIDENCE.)

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

12 EXAMINER SEE: I'm sorry?

13 MR. DARR: If we're reviewing admission
14 of exhibits, I'd like to address that with regard to
15 this witness as well.

16 EXAMINER SEE: Reviewing the admission of
17 which exhibits are you referring to, Mr. Darr?

18 MR. DARR: Specifically IEU, I believe
19 it's 115.

20 EXAMINER SEE: The Bench has discussed or
21 reconsidered the objections made to IEU 113, 114,
22 115, and 116. In light of the discussion of the
23 parties this morning, the Bench will be admitting
24 113, 114, 115, to the extent that they were referred
25 to in cross-examination of Mr. Nelson and Mr. Graves,

1 and we will also be admitting 116 with the caveat
2 that the new cover page for that exhibit be provided
3 to the Bench.

4 MR. DARR: Thank you, your Honor.

5 (EXHIBITS ADMITTED INTO EVIDENCE.)

6 EXAMINER SEE: AEP, your next witness.

7 MR. SATTERWHITE: Thank you, your Honor.

8 The company would call Thomas Mitchell to the stand.

9 EXAMINER SEE: Let me also back up for a
10 moment. We were also considering OCC Exhibit 103.

11 MS. GRADY: Yes, your Honor.

12 EXAMINER SEE: The Bench will also admit
13 Exhibit OCC 103.

14 MS. GRADY: Thank you.

15 (EXHIBIT ADMITTED INTO EVIDENCE.)

16 EXAMINER SEE: Mr. Mitchell, if you would
17 please raise your right hand.

18 (Witness sworn.)

19 EXAMINER SEE: Thank you. Have a seat.

20 THE WITNESS: Thank you.

21 MR. SATTERWHITE: Thank you, your Honor.

22 - - -
23
24
25

1 THOMAS E. MITCHELL

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

4 DIRECT EXAMINATION

5 By Mr. Satterwhite:

6 Q. Mr. Mitchell, can you please state your
7 name, title, and business address for the record?

8 A. Thomas E. Mitchell, 1 Riverside Plaza,
9 Columbus, Ohio 43215, and I'm the Managing Director
10 of Regulatory Accounts and Services.

11 Q. Thank you, Mr. Mitchell. Did you cause
12 testimony to be filed that was prepared by you or
13 under your direction in this case on March 30th,
14 2012?

15 A. Yes.

16 MR. SATTERWHITE: May I approach, your
17 Honor?

18 EXAMINER SEE: Yes.

19 MR. SATTERWHITE: I'd like to mark the
20 direct testimony of Thomas E. Mitchell filed
21 March 30th, 2012, as AEP Exhibit 107.

22 EXAMINER SEE: The exhibit is so marked.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 Q. Mr. Mitchell, is AEP Exhibit 107 the
25 testimony that we just discussed?

1 A. Yes, sir.

2 Q. Do you have any changes or corrections to
3 this testimony?

4 A. No, sir.

5 Q. Do you adopt this testimony as your
6 testimony in this case today?

7 A. Yes.

8 MR. SATTERWHITE: Your Honor, at this
9 point I would move for admission of AEP Exhibit 107,
10 subject to cross-examination.

11 EXAMINER SEE: Ms. McBride?

12 MS. McBRIDE: No questions, your Honor.

13 EXAMINER SEE: Ms. Grady?

14 MS. GRADY: Thank you, your Honor.

15 - - -

16 CROSS-EXAMINATION

17 By Ms. Grady:

18 Q. Good morning, Mr. Mitchell.

19 A. Good morning.

20 Q. Mr. Mitchell, you are familiar, are you
21 not, with the company's corporate separation plan?

22 A. Somewhat.

23 Q. And, in fact, in your testimony on lines
24 15 through 16 you indicate that you provide support
25 for regulatory filings. Do you see that?

1 A. What page are you on, please?

2 Q. I'm sorry. That would be page 1 of your
3 testimony, lines 15 through 16.

4 A. Yeah, the accounting support is related
5 to filings involving accounting matters.

6 Q. And would you have provided accounting
7 support with respect to matters associated with
8 corporate separation?

9 A. Only in a kind of a general sense.

10 Q. Would you have responded to -- further on
11 down you indicate that you direct -- I think it's
12 carrying over into page 2, that you direct and
13 respond to data requests in connection with rate
14 filings. Do you see that?

15 A. As we do indeed respond to data requests.

16 Q. And in the course of this proceeding you
17 responded to a number of data requests, did you not,
18 related to corporate separation and accounting
19 matters related to corporate separation?

20 A. Yes; there were a few questions.

21 Q. Now, is it your understanding,
22 Mr. Mitchell, that the company is proposing to
23 transfer the generating assets that it owns at a net
24 book value to AEP GenCo?

25 A. Yes. The accounting -- or, the

1 application is proposing to transfer all
2 generation-related items at whatever is on the books
3 at the time of the transfer.

4 Q. Now, Mr. Mitchell, are you familiar with
5 the term "generation asset impairment testing"?

6 A. Absolutely.

7 Q. And can you tell me what that means?

8 A. It's a standard of the Financial
9 Accounting Standards Board section 980 and section
10 360 that has to do with when there is a trigger, an
11 event, that raises the question as to whether
12 long-term assets are recoverable or not, you simply
13 need to schedule out the cash flows from those assets
14 and compare them to the book value.

15 If the cash flow's exceed it, then you're
16 done. If they don't exceed it, then you need to look
17 into a present value or some sort of fair value to
18 determine what the extent of the loss is, unless you
19 are regulated, in which case you may be able to put
20 up a regulatory asset for the shortfall.

21 Q. Thank you. Now, you mention in your
22 response long-term assets. Would those include
23 generation assets?

24 A. If that's what the subject being reviewed
25 was, yes.

1 Q. Now, are you aware of whether or not the
2 company has done generation asset impairment testing
3 relating to the generation assets to be transferred
4 to AEP GenCo?

5 A. We've made no specific study related to
6 those particular assets. There was a study that we
7 made relative to the CSAPR impact back in September
8 of 2011.

9 Q. And that would have been -- I'm sorry,
10 were you finished?

11 A. Yes.

12 Q. And that would have been a generation
13 asset impairment testing for the East fleet, the East
14 generation fleet, correct?

15 A. Yes. It was not done on an Ohio basis
16 per se. We compared the total cash flows of the pool
17 generation assets to the total book value of the
18 generation fleet and it passed by some \$22 billion.

19 Q. Yes. Now I want to talk to you for a
20 moment about that. The East fleet would include all
21 the generating assets that are to be transferred from
22 AEP Ohio to AEP GenCo, correct? That's a subset of
23 the East fleet.

24 A. Yes.

25 Q. Is it your understanding that the subset

1 of the East fleet is -- approximately 20 percent of
2 the AEP East fleet is AEP Ohio?

3 A. I don't know.

4 Q. Would you accept that, subject to check,
5 that Mr. Powers testified that the AEP Ohio units are
6 approximately 20 percent of the AEP East fleet?

7 A. You mean in terms of output or dollars?

8 Q. In terms of output, I believe.

9 A. Yeah, it would bear no necessary
10 relationship to dollars, but, you know, I haven't
11 made the calculation. I don't know.

12 MS. GRADY: Your Honor, may I approach
13 the witness?

14 EXAMINER SEE: Yes.

15 MS. GRADY: At this time I would like
16 marked for identification purposes OCC Exhibit
17 No. 104, and that document is a multipage document,
18 five pages, with the date November 4th, 2011.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 Q. Do you have that document?

21 A. Yes.

22 Q. Can you look through that document very
23 quickly.

24 A. I'm familiar with it.

25 Q. Okay. Now, you referred earlier to a

1 CSAPR generation asset impairment testing. Is this
2 the study that you were referring to?

3 A. Yes.

4 Q. Now, am I correct in assuming that the
5 accounting standard that you reference provides that
6 a cost recovery test is required for an asset
7 whenever events or changes in circumstances indicate
8 that its carrying amount may not be recoverable?

9 A. The test relates to a long-term asset.

10 Q. Yes.

11 A. And when you enter into the test, you
12 don't know if it's recoverable or not, so the trigger
13 is, if you've had some event happen and you want to
14 determine if, indeed, the cash flows are sufficient,
15 but there's no bias one way or the other.

16 Q. When I use the term "carrying amount,"
17 what do you understand that to mean?

18 A. That would be your net investment. Net
19 book value.

20 Q. Now, with respect to the East fleet am I
21 correct that the triggering event occurred for this
22 study in July of 2011 and that required the test to
23 be conducted?

24 A. I believe that's correct. It was in the
25 third quarter.

1 Q. And in your capacity as Managing Director
2 of Regulatory Accounting Services, would you have had
3 the opportunity to review this study or this analysis
4 by Mr. Baird and Mr. Pennino?

5 A. No.

6 Q. You did indicate you are familiar with
7 this analysis; are you not?

8 A. It's been the subject of several data
9 requests that I have authored as a result of the
10 questions.

11 Q. Do you have any reason to question the
12 validity of the study or the \$22 billion figure that
13 you referenced in your response earlier?

14 A. No.

15 Q. Now let's turn to page 4 of 5 of that
16 document. You had indicated earlier that there was a
17 \$22 billion cash flow figure associated with the East
18 generation units. Is that found, the table found
19 under the C, "Conclusion"?

20 A. Yes. It's in the column called "Excess
21 Estimated Cash Flow," the next-to-last column there.

22 Q. Again, could you tell me what the excess
23 estimated cash flow means in terms of this study?

24 A. Well, in this case we -- the study starts
25 off with total cash flows of \$70 billion and then

1 prorates that 49.8 percent to generation, so you've
2 got about 35 billion there, you compare that to the
3 \$12.5 billion of generation property plant and
4 equipment, that's the net book value number, and the
5 excess is 22, so you're done and there is no
6 impairment that's relevant.

7 Q. And the \$12 billion net book value,
8 that's for the AEP East generation fleet; is that
9 correct?

10 A. Yes. It's done on an East basis because
11 they're still a member of the pool.

12 Q. Okay.

13 A. AEP East pool.

14 Q. So if I wanted -- let me strike that.

15 So looking at the table that's shown on
16 page 4 of 5 that you've been referring to, am I
17 correct in saying that what this shows is that for
18 AEP's entire East generation fleet the results of the
19 study indicate that over the next ten years on a
20 present-value basis that the generating assets are
21 expected to generate cash flows exceeding their net
22 costs by more than \$22 billion?

23 A. No.

24 Q. Can you tell me why that is not right?

25 A. The test was done over the 30-year life,

1 first of all. That's what the column headings were
2 there. The forecast was ten. Then extrapolating
3 another 20 years. So they have now 30 years of cash
4 flow. And these are cash flow, as I indicated
5 earlier, they're gross cash flow, they haven't been
6 present valued; you don't need to do that, you see,
7 if you get over the net book value.

8 So you just simply compare gross cash and
9 we haven't present valued it, okay, so that's why I
10 answer no. Because it wasn't present valued. It
11 wasn't needed to be. And we have 30 years, not, I
12 think you said 10 maybe.

13 Q. Okay. Mr. Mitchell, do you know if the
14 AEP Ohio fleet results have been extrapolated from
15 this study by the company?

16 A. There would be no need to do that because
17 we measure at the pool level. That's how we do the
18 impairment test.

19 Q. Even though there's no need to do so,
20 have you done so? Or are you aware of whether the
21 company has done so, that is, provided AEP Ohio East
22 units studies showing the cash flows associated with
23 those units over the next 10 to 30 years?

24 A. Let me just be clear, on page 4 in the
25 calculation of 70 billion and in the calculation of

1 the book value of 12 billion there are increment
2 dollars there for Ohio.

3 Q. Yes.

4 A. I don't know what they are but it's not
5 relevant in terms of what this document is for. This
6 is an impairment test.

7 Q. Understood.

8 A. And the company's methodology is that
9 since they're in the pool, we use total pool cash.
10 We don't segregate or bifurcate or anything of that
11 nature.

12 Q. Just so I understand, even though you do
13 not consider it relevant, do you know whether the
14 company has a value for the AEP Ohio only East units
15 to be transferred that would show the cash values
16 associated with those units over the next 10 to 30
17 years?

18 A. Maybe I wasn't clear. I was using that
19 in the \$70 billion there, yes. And in the 12 billion
20 book value there is a number.

21 Q. Yes.

22 A. I don't know what those specifics numbers
23 are because I didn't do the calculations.

24 Q. Do you know if those calculations are
25 available from AEP Ohio?

1 A. I would say in terms of going back to the
2 purpose of the document, they're irrelevant.

3 Q. I understand that you consider them
4 irrelevant. I am asking you whether or not you know
5 whether the company, AEP Ohio, has the value of the
6 AEP Ohio East generating plant units such that we can
7 determine whether or not there is a positive cash
8 flow or what portion of the positive cash flow shown
9 on this exhibit is attributable only to AEP Ohio
10 generating utilities.

11 A. Yeah, and my answer is I don't have those
12 details. I didn't do the test.

13 Q. One more time. I understand you did not
14 do the test. I also understand you consider it to be
15 irrelevant. I'm asking you whether you know within
16 AEP Ohio, whether there is a value for the AEP Ohio
17 East only plants that would show the cash -- what
18 portion of the cash -- estimated cash flows coming
19 from the AEP East generating units are associated
20 with AEP Ohio only.

21 A. I guess I'm not communicating with you.
22 I don't know the number. The number was obviously
23 embedded in these numbers. I didn't do the study. I
24 don't know what else to tell you.

25 Q. Is there anyone -- is there any other

1 witness that is presenting testimony in this
2 proceeding that you are aware of that may have that
3 information?

4 A. No; and I would add that that information
5 shouldn't be relevant. It should be confidential and
6 highly restricted because there are competing parties
7 present at the table.

8 Q. Let's move along, Mr. Mitchell. We
9 talked about your responsibilities and your
10 familiarity with the corporate separation. Now I
11 want to move to the actual accounting entries that
12 would have to be made in order to -- on the books of
13 the company in order to record the corporate
14 separation. You would be familiar with those type of
15 accounting entries, would you not, Mr. Mitchell?

16 A. Yes. There were data requests where we
17 simply made a copy of what we filed at the FERC that
18 simply showed the reduction in the generation ledger
19 and the transfer to the other company at book.

20 MS. GRADY: May I approach the witness,
21 your Honor?

22 EXAMINER SEE: Yes.

23 MS. GRADY: Your Honor, at this time I
24 would like to mark for identification purposes as OCC
25 Exhibit No. 5 --

1 EXAMINER SEE: OCC Exhibit 105?

2 MS. GRADY: I'm sorry, 105. Thank you.

3 -- the company's response to OCC
4 interrogatory 1-22, a three-page document with a
5 cover sheet.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 Q. Mr. Mitchell, do you have that document
8 in front of you?

9 A. Yes.

10 Q. Can you identify that document for me?

11 A. I prepared it.

12 Q. Is it -- does it appear to be a true and
13 accurate response as far as you know?

14 A. Yes. Again, these are just basically
15 what we filed at FERC and then withdrew indicating
16 that we would make reductions of the assets and
17 liabilities on the generation ledger, take them off
18 of Ohio Power and put them onto the other company,
19 the GenCo.

20 Q. Would I be correct in characterizing this
21 as the pro forma entry that Ohio Power would record
22 on its books of accounts to transfer its generation
23 assets and related liabilities to AEP GenCo?

24 A. Yes. With the caveat, of course, that,
25 as the response indicates, these values here are only

1 September '11, so they're just, you know, indicative,
2 whenever the transfer is made it will be whatever is
3 on the books.

4 Q. You would not expect that transfer value
5 to differ significantly, would you?

6 A. Never say never. I don't really know
7 but, you know, this is just what's on the books.

8 Q. But this would be representative --

9 A. Right.

10 Q. -- if the corporate separation had
11 occurred 9/30/11.

12 A. Right. We indicate in the data request
13 that, as you say there, reasonably represent, but the
14 actual amounts will differ.

15 Q. I'd like for to you focus on the values
16 as shown for accounts 281, 282, and 283. Do you have
17 that reference?

18 A. Yes.

19 Q. Would you accept, subject to check, that
20 if you total those values up they add up to
21 \$1,580,129,000 as of September 30th, 2011?

22 A. Well, I brought my calculator just to be
23 sure. If you don't mind.

24 Q. That would be wonderful.

25 A. 1-billion-580,129.

1 Q. That's the number I got.

2 A. Great.

3 Q. On this exhibit you show you are debiting
4 these three accounts; is that correct?

5 A. Yes. They are currently credit balances
6 so when we remove them we have to go the other way
7 and sweep them off, presumably for the plant which
8 was a debit balance, we're crediting it so we have
9 both sides.

10 Q. Okay. Could you describe for the record
11 what each of these accounts represent?

12 A. Basically just to defer taxes on
13 accelerated amortization of property and, you know,
14 miscellaneous timing difference, basically.

15 Q. Would I be correct in stating that these
16 values represent what Ohio Power has accumulated on
17 its books of accounts over the years for deferred
18 federal income taxes?

19 A. Sure.

20 Q. And based on your knowledge,
21 Mr. Mitchell, has the PUCO allowed Ohio Power to
22 practice deferred accounting tax accounting for rate
23 regulatory purposes?

24 A. Yes.

25 Q. Do you know approximately when the year

1 was that the PUCO started to allow Ohio Power to
2 practice deferred tax accounting?

3 A. No.

4 Q. Would it surprise you to learn that such
5 practice started in the early-1980s? Would you
6 accept that?

7 A. I just don't know.

8 Q. Would it be your understanding that Ohio
9 Power has practiced deferred tax accounting for many
10 years?

11 A. Sure.

12 Q. And presumably, Mr. Mitchell, these
13 deferred taxes were reflected in the company's
14 revenue requirements over the period that the
15 deferral accounting was permitted assuming there were
16 rate case filings?

17 A. No.

18 Q. And can you tell me why not?

19 A. As everyone knows, there haven't been a
20 lot of rate case filings and certainly in the last
21 three years we haven't been cost based, so there's no
22 really tracking one way or the other that you can say
23 these are or aren't particularly in rates.

24 Q. But you did have a rate case filing; your
25 last rate case filing would have been in

1 approximately 1999?

2 A. Are you're talking about RPS, a --

3 Q. An application to increase rates prior to
4 SB 3.

5 A. I wasn't involved at that point in Ohio
6 Power's ESP.

7 Q. Would you presume that if there had
8 been -- let me strike that.

9 You indicated that you understood that
10 the PUCO allowed the company to practice deferred tax
11 accounting, correct, for regulatory purposes?

12 A. Yes.

13 Q. And would you presume that in the last
14 company actual rate case that the deferred taxes
15 would have been reflected in the company's revenue
16 requirements?

17 A. You mean back in 1999?

18 Q. Yes.

19 A. There was a case, there would have been a
20 value in there, it certainly wouldn't have been this
21 value, it would have been at some level. And these
22 are the numbers as we sit today.

23 Q. Yes. Would I be correct in stating that
24 the way the balances we have been discussing were
25 accumulated, because there was recorded an expense

1 for deferred tax on your income statement while at
2 the same time you recorded a credit on your balance
3 sheet for those same taxes?

4 A. Sure.

5 Q. Can you tell me what happens to deferred
6 taxes that Ohio Power accumulates on its balance
7 sheet?

8 A. They reverse as the assets reverse and
9 the book tax difference is turned around. I mean,
10 there was depreciation, as an example, that was, you
11 know, accumulated. In one sense or another these
12 costs had been involved, but now we are segregating,
13 making a split, and we're moving the whole balance
14 sheet basically over to the new GenCo.

15 Q. Now, when you indicated the taxes turn
16 around, you were indicating that they ultimately come
17 off the balance sheet; is that right?

18 A. Sure.

19 Q. And what happens to tax expense at that
20 time? Does it increase or decrease?

21 A. Well, you have a change between current
22 and deferred; one goes up, the other goes down.

23 Q. And which goes up and which goes down?

24 A. Current usually goes up on a net basis
25 and deferred goes down.

1 Q. Mr. Mitchell, getting back to the entry
2 that we were discussing, the three accumulated
3 deferred tax lines that totaled approximately
4 1.6 billion, would I be correct that these
5 accumulated deferred tax balances are being
6 transferred to AEP GenCo? Correct?

7 A. Yes. This is an example where, as I
8 indicated, the entire ledger of which taxes are a
9 subset would be transferred at the time.

10 Q. Would I also be correct that the retail
11 customers in Ohio will not see a reduction in taxes
12 for that \$1.6 billion deferred tax item?

13 A. Right. Neither will they see that nor
14 will they see the depreciation on the remaining
15 \$9.6 billion.

16 Q. Let's turn your attention now to account
17 255. Can you describe for the record what that
18 account is and what the value was as of
19 September 30th, 2011?

20 A. Yeah, I don't have any detail on it, but
21 this is \$12 million of accumulated ITC. On plant.

22 Q. And since you are debiting account 255
23 and the transfer entry, am I correct stating this is
24 a credit value on Ohio Power's books of account?

25 A. Yes.

1 Q. And so approximately 12.5 million
2 represents what Ohio Power has accumulated on its
3 books of account over the year for the deferred
4 investment tax credits?

5 A. Yes.

6 Q. And based on your knowledge has the PUCO
7 allowed Ohio Power to practice deferred tax
8 accounting for investment tax credits for rate
9 regulatory purposes?

10 A. Yes.

11 Q. And do you know, Mr. Mitchell,
12 approximately when the PUCO started to allow Ohio
13 Power to practice deferred tax accounting for ITC for
14 regulatory purposes?

15 A. No.

16 Q. Would you accept that it's been for many
17 years?

18 A. Yes.

19 Q. And presuming there was a rate case in
20 1999, would those deferred ITC amounts have been
21 reflected in the company's revenue requirements?

22 A. This is the balance, so, you know, it
23 wouldn't have been this number. This is where we are
24 now. Some other number would have been in a rate
25 case. Could be bigger, could be smaller.

1 Q. And would I be correct in stating that
2 the way the deferred investment tax credit balance
3 accumulated was that Ohio Power recorded an expense
4 for deferred ITC on its income statement while at the
5 same time it recorded a deferred credit on its
6 balance sheet?

7 A. Yes; it was probably normalized.

8 Q. What happens to the deferred ITC that
9 Ohio Power accumulates on its balance sheet?

10 A. It turns around, again, similar to the
11 depreciation over the life, residual life of the
12 asset.

13 Q. And after it turns around what happens to
14 the tax expense? Does it increase or decrease?

15 A. Goes down.

16 Q. So focusing solely on the accumulated
17 balance of the deferred ITC the -- let me strike
18 that.

19 Would I be correct that if the
20 accumulated deferred ITC balance totaling
21 approximately, you said 12.5 million?

22 A. Yes.

23 Q. -- is transferred to AEP GenCo, that the
24 retail customers in Ohio will not receive the
25 reduction in taxes that the 12.5 million would have

1 provided but for corporate separation?

2 A. No. We have not been a cost-of-service
3 state for several years. That's been one of the
4 predicates that we've been discussing over the last
5 few days.

6 There is no cost-of-service calculation
7 on the generation rate base, so to speak. So, I
8 mean, ratepayers are paying for product, they're not
9 paying for assets or for clawbacks or anything like
10 that, it's just like Hertz renting a car.

11 Q. As far as the entry for transferring
12 assets to AEP GenCo, you show it all as a line item
13 for account 228.3. Do you see that reference?

14 A. Sure.

15 Q. Can you describe for the record what that
16 account is and what the value is as of
17 September 30th, 2011, and what it represents?

18 A. Let me caveat by saying I'm not a pension
19 expert, but these are basically the accumulated
20 dollars that have gotten there in the various FERC
21 accounts for accruals for pensions and benefits,
22 miscellaneous provisions, injuries, and like I said,
23 everything's going. You know, there's no selectivity
24 here. Everything's going. The transfer of whatever
25 is on the books at the cutover date.

1 Q. Have you ever submitted testimony before
2 on pension expenses, Mr. Mitchell?

3 A. No.

4 Q. Am I correct that as part of the
5 separation proposal the company transfers all the
6 accumulated retirement and post-employment benefits
7 related to its generating function employees to AEP
8 GenCo?

9 A. Yes.

10 MS. GRADY: That's all the questions I
11 have, Mr. Mitchell. Thank you.

12 EXAMINER SEE: Mr. Darr or Mr. -- I'm
13 sorry, Mr. Maskovyak.

14 MR. MASKOVYAK: No questions, your Honor.

15 EXAMINER SEE: Mr. Olikar.

16 MR. OLIKER: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 By Mr. Olikar:

20 Q. Good morning, Mr. Mitchell.

21 A. Good morning.

22 Q. I think I heard you talk about an
23 impairment test memo with Ms. Grady.

24 A. Yes.

25 Q. Did you answer responses to discovery

1 about the impairment test, and also known as
2 recoverability test?

3 A. Yes; she presented me this memo as a
4 result of that data request.

5 Q. And were there additional data requests
6 on the recoverability memo?

7 A. Yes.

8 MR. OLIKER: I'd like to mark an exhibit,
9 your Honor.

10 EXAMINER SEE: Okay.

11 MR. OLIKER: Your Honor, I'd like to mark
12 for identification IEU-Ohio No. 117.

13 (EXHIBIT MARKED FOR IDENTIFICATION.)

14 Q. I've had marked for identification
15 IEU-Ohio Exhibit No. 117 AEP Ohio's response to
16 interrogatory IEU-INT-6-001. Do you recognize this
17 interrogatory response, Mr. Mitchell?

18 A. Yes.

19 Q. And do you agree that this interrogatory
20 describes the recoverability test memo that Ms. Grady
21 previously admitted as OCC Exhibit 104?

22 A. It's related to it. Is that what you
23 mean? It doesn't describe the memo.

24 Q. Would you agree that it's referring to
25 that memo?

1 A. Sure.

2 Q. And would you agree that it discusses the
3 capacity prices --

4 A. Sure.

5 Q. -- that were assumed by AEP Ohio?

6 A. Yes.

7 Q. So would you agree that the
8 recoverability test memo assumed \$174.29 per
9 megawatt-day for May 2011?

10 A. Yes. I mean, I answered the question,
11 this is what we used, this was done in approximately
12 second quarter, that's when the forecast was done.
13 But it doesn't matter what price was used because,
14 again, we passed by \$22 billion on a system basis.
15 So this is somewhat irrelevant as to what price is
16 used.

17 Q. I appreciate that. But do you agree that
18 for June 2011 through May 2012 you used \$110 per
19 megawatt-day as the forecast price for capacity?

20 A. Yes.

21 Q. And for June 2012 through May 2013 it
22 assumed a price of capacity of \$16.46 per
23 megawatt-day?

24 A. Yes.

25 Q. And for June '13 through May 2014 the

1 memo assumed a price of capacity of \$27.73 per
2 megawatt-day.

3 A. Just a small comment: The cash flow
4 assumed that and the memo used the cash flow.

5 Q. Thank you for that clarification.

6 And finally for June 2014 through
7 May 2015 the memo assumed a price of capacity of
8 \$125.99 per megawatt-day?

9 A. It did.

10 Q. Would you agree that these are the
11 prices, the RPM prices for capacity for those
12 delivery years?

13 A. I don't know.

14 Q. Would you accept that, subject to check?

15 A. No. I have no basis to know.

16 Q. And I think earlier I heard you mention
17 that the memo was done for the AEP East fleet and
18 that the Ohio Power numbers were irrelevant.

19 A. Yes.

20 Q. Is that true?

21 A. Yes.

22 Q. Wasn't the purpose of the memo to measure
23 the recoverability of the unregulated companies,
24 Mr. Mitchell?

25 A. Well, the memo talks about that CSAPR

1 came into vogue and there's a concern about whether
2 or not that could have a significant effect and
3 potentially cause impairment.

4 There's a paragraph or so that talks
5 about that the regulated entities, the other members
6 of the pool, are not a concern because they're
7 regulated, they have full generation in the rate
8 base, and so there's a belief that we would get full
9 cost recovery for those.

10 The memo does go on to talk about is that
11 also true for the unregulated, which is the immediate
12 concern, but the fact that you add up all the cash
13 flows and compare them to the book value on a pool
14 basis is where I'm coming from that because of that
15 headroom you really can't get there on an Ohio basis
16 at the moment because they're in a pool.

17 Q. Moving on to a slightly different topic,
18 I think I heard you say this earlier, but you would
19 say that AEP Ohio has to comply with Generally
20 Accepted Accounting Principles, correct?

21 A. Yes.

22 Q. And since January 1st, 2001, CSP and OP
23 have been functionally separated between
24 distribution, transmission, and generation service,
25 correct?

1 A. Yes.

2 Q. And that since January 1st, 2001, CSP
3 and OP have accounted for these functionally
4 separated services on separate ledgers?

5 A. Yes.

6 Q. And also in 2001, CSP and OP discontinued
7 regulatory accounting for the generation function,
8 correct?

9 A. No. We actually discontinued it in the
10 third quarter, September 2000.

11 Q. Thank you for that clarification.

12 Could you explain the impacts of
13 discontinuing regulatory accounting?

14 A. You mean specifically what we wrote off?

15 Q. Well, I can rephrase the question.

16 Would you agree that CSP and OP have not
17 been able to book regulatory assets or liabilities in
18 the generation ledger since the third quarter of
19 2000?

20 A. Not specifically related to deferred
21 fuel. I think we're all aware that there's a large
22 phase-in deferred fuel balance and when you have a
23 specific subset of your generation business that is
24 able to be recouped and the Commission indicates that
25 that is permissible, that you can establish

1 regulatory assets or liabilities for that.

2 But in general, other than that, we have
3 not established regulatory assets or liabilities for
4 generation matters and that's probably what you're
5 referring to.

6 Q. And I think you said you need specific
7 permission to do that type of accounting; is that
8 correct?

9 A. Yes. We need some sort of showing of
10 probability of recovery and we currently have a
11 Commission order that approves that phase-in plan.

12 Q. And in 2011 CSP and OP were merged and
13 the surviving entity was called OP, correct?

14 A. Yes.

15 Q. With respect to this ESP proposal and the
16 retail stability rider, OP will not be able to create
17 a regulatory asset or a regulatory liability without
18 some treatment that would create a probability of
19 recovery, correct?

20 A. Yes; we've asked for the
21 over/underrecovery, we've asked for a nonbypassable
22 rider and, therefore, would be, if approved, that
23 would be the genesis of approval.

24 Q. And I think you just mentioned it, but
25 with respect to some of the riders, several of the

1 riders, you proposed to use over/under accounting; is
2 that correct?

3 A. Yes.

4 Q. And the over/under accounting you would
5 agree, if it incurred expenses less than approved
6 revenues the company creates a regulatory liability?

7 A. Yes.

8 Q. And the reverse would be if incurred
9 expense is greater than in revenues, then the company
10 creates a regulatory asset?

11 A. Right.

12 Q. Would you agree that not all of the
13 riders that employ over/under accounting would have
14 carrying charges?

15 A. Yeah, I've listed them in my testimony on
16 pages 8 and 9.

17 Q. Okay. And several of the riders,
18 including the retail stability rider, have a trueup
19 mechanism?

20 A. Right. That's really what we mean by
21 over/under accounting, that we will trueup to the
22 final number.

23 Q. Can you tell me how the trueup process
24 will work for the retail stability rider?

25 A. Recognizing that we haven't developed

1 specific procedures, which I think is what our data
2 request answer was, all I can tell you is I think it
3 would work in the normal fashion that if we have a
4 targeted number and we don't hit it over the period,
5 then we would have a, either a reg asset or a reg
6 liability, one way or the other, and the Commission
7 would come in and adjust the rate so that the
8 ratepayer pays no more or no less than the
9 agreed-upon number.

10 Q. Would you agree that the level of the
11 proposed retail stability rider is a fixed charge in
12 the ESP proposal for each year?

13 A. Yeah, I think it was Witness Roush, and I
14 forget what the number is, but he levelized it, I
15 think is what he proposed, rather than just let it
16 float depending upon his forecast. It could be done
17 any way, you know, whether it's flatlined or -- but
18 in the estimate for the particular year wouldn't
19 matter.

20 Q. Are you aware that in the ESP proposal
21 using a fixed charge, the retail stability rider
22 would overrecover approximately \$50 million in the
23 first year?

24 A. I haven't looked lately at Witness
25 Allen's testimony. I vaguely remember some numbers

1 in the \$40 million range compared to his roughly
2 \$90 million number, so it's close. Probably close to
3 that.

4 But, again, it doesn't really matter.
5 The Commission can put in whatever rate it wants. If
6 it wants to put in the 40 million, it can do that and
7 there would be no over or underrecovery. But if
8 there was an overrecovery, the retail stability rider
9 is one of the riders that the not accrue charges; is
10 that correct?

11 A. As proposed.

12 Q. I believe you were in the hearing room
13 for the past few days --

14 A. Yes.

15 Q. -- am I correct?

16 A. Yes; it's important to be here to see
17 what they say about you.

18 Q. I thought I saw you in the back of the
19 room.

20 A. I'm in the back.

21 Q. You're aware that many of the accounting
22 issue questions have been deferred to you?

23 A. Absolutely.

24 Q. And I think specifically, and we may have
25 already touched on this issue, I think Mr. Powers

1 deferred issues relating to accumulated deferred
2 income taxes to you, also known as ADIT.

3 A. Okay.

4 Q. Are you aware that part of the
5 Commission -- sorry, strike that.

6 Are you aware that part of AEP Ohio's
7 proposal is to delay the implementation of the
8 phase-in recovery rider?

9 A. Yes.

10 Q. And you're aware that the proposal to
11 delay the implementation of the phase-in recovery
12 rider does not indicate whether AEP Ohio intends to
13 calculate carrying charges on a balance that includes
14 ADIT.

15 A. I would say I know there's a lot of
16 dispute about this, but it's AEP Ohio's position that
17 the Commission's already spoken on how things should
18 be calculated, that the order as approved in the ESP
19 approved a WACC, it approved the amount without any
20 deduction for accumulated deferred income tax, and
21 the testimony that was filed by Mr. Ashanti certainly
22 corroborated that as did his examples. So we believe
23 we're simply following what has already been
24 approved.

25 Q. Would you agree that you have filed

1 testimony in the past that recommends that ADIT
2 should not be included in the balance from which
3 carrying charges are applied?

4 A. I would answer the question by saying
5 yes, but. If you read the full context of the
6 testimony that you're referring which is the
7 West Virginia testimony, in that case they did not
8 want to give us a very high carrying cost so they
9 were asking for a debt carrying cost on deferred
10 fuel.

11 So the purpose of my testimony in that
12 case was to basically indicate that in a
13 cost-regulated state like West Virginia that has
14 rate-based generation, that that would be appropriate
15 in that case as long as you used a full WACC. So we
16 were defending the WACC versus the debt.

17 We would, as I indicated earlier, the
18 Commission has already spoken on that tax, we believe
19 it was not appealed to the Supreme Court and the ship
20 has sailed.

21 Q. Would you agree that there is some
22 disputes over whether the Commission decided that
23 issue? Correct?

24 A. I am aware that parties have different
25 positions. I was just trying to verbalize ours.

1 MR. OLIKER: Could I have one minute,
2 your Honor?

3 EXAMINER SEE: Yes.

4 MR. OLIKER: Thank you.

5 That's all I have, your Honor.

6 EXAMINER SEE: Ms. Spiller?

7 MS. SPILLER: Briefly, your Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Ms. Spiller:

11 Q. Mr. Mitchell, can I ask you, sir, to turn
12 to page 5 of your testimony, please?

13 A. Okay.

14 Q. And on line 21 you indicate that the
15 retail stability rider will track and true up
16 revenues, correct?

17 A. Yes.

18 Q. And the amounts collected under the
19 retail stability rider will be trued up to a final
20 number, correct?

21 A. Yes. Whatever would be approved.

22 Q. And with respect to the modified ESP,
23 AEP Ohio is proposing to true up and adjust the
24 amounts collected from all of its customers under the
25 retail stability rider so that it earns \$929 million

1 annually in nonfuel generation revenues, correct?

2 A. I believe that's the number Witness
3 Allen's recommending.

4 MS. SPILLER: Thank you, sir. Nothing
5 further.

6 A. But I'm not sure if it's annually, I
7 don't really remember. I'd have to look at his
8 testimony.

9 Q. But the point is, sir, that that number,
10 whether it's annually or not, is a number to which
11 AEP Ohio would propose to adjust the retail stability
12 rider to achieve that final number, correct?

13 A. Yes. Yes.

14 MS. SPILLER: Thank you, sir. Nothing
15 further.

16 EXAMINER SEE: Ms. Kyler?

17 MS. KYLER: No questions, your Honor.

18 EXAMINER SEE: I'm sorry.

19 MR. SIWO: We switched up on you.

20 Mr. Siwo in place of Ms. McAlister, and I have no
21 questions for you.

22 EXAMINER SEE: Thank you, Mr. Siwo.

23 MR. SUGARMAN: I have no questions your.

24 EXAMINER SEE: Mr. Sugarman, thank you.

25 Ms. Thompson?

1 MS. THOMPSON: No questions, your Honor.

2 Thank you.

3 EXAMINER SEE: Mr. Yurick?

4 MR. YURICK: None. Thank you, your
5 Honor.

6 EXAMINER SEE: Ms. Hand or.

7 MS. HAND: Very briefly, your Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Ms. Hand:

11 Q. Mr. Mitchell, going back to your
12 discussion with Ms. Grady regarding Exhibit OCC 104,
13 the memorandum that she showed you and the chart at
14 page 4 of 5, and the question she was asking about
15 whether you know the estimated cash flows for what
16 the AEP Ohio's portion of those figures would be for
17 the generation assets being transferred to the GenCo.
18 Now, I understand that you do not have personal
19 knowledge of what that figure would be. Has that
20 number been calculated?

21 MR. SATTERWHITE: Your Honor, I'll
22 object. At this point, I think we've been over this
23 multiple times and the witness has stated there's
24 some number within there but he doesn't know what
25 that number is. I think we're just going back to the

1 same questions.

2 MS. HAND: Your Honor.

3 EXAMINER SEE: Yes.

4 MS. HAND: As I recall, the witness
5 stated that there must be a value within that, but he
6 did not state specifically whether what that value
7 was -- had been determined and I'm just looking for a
8 "yes" or "no" answer here.

9 EXAMINER SEE: I'll allow it. The
10 objection is overruled.

11 A. Let me say this slowly. On page 4 of 5
12 in the calculation of the \$70 million of cash flow
13 there is a value for Ohio Power, and similarly there
14 is a value in property, plant, and equipment at July
15 '11 in the 12 billion. It has been determined. I
16 just don't know what it is.

17 Q. Is there a document in the company's
18 possession that would reflect what that value is?

19 A. Yes; or else it couldn't have been
20 totaled.

21 Q. Could you identify the individual within
22 the condition who knows what that value is, and if
23 it's not the same person, the individual who has
24 possession of that document?

25 A. I think we indicated in a data request

1 that that value, those values, were confidential and
2 restricted because of competitive sensitivities by
3 parties present at the table.

4 Q. Yes, I understand that, Mr. Mitchell.
5 I'm asking you to not provide the document right here
6 and right now, but if you could identify the
7 individual who has possession of the document.

8 A. I mean, obviously the people who wrote
9 it, wrote the memo, have possession, and I would just
10 say, you know, I don't have the number.

11 Q. So that would be Mr. Baird and
12 Mr. Pennino, then?

13 A. Yes.

14 MS. HAND: Thank you. That's all I have,
15 your Honors.

16 EXAMINER SEE: Ms. Kaleps-Clark?

17 MS. KALEPS-CLARK: No questions, your
18 Honor. Thank you.

19 EXAMINER SEE: Mr. O'Brien?

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

21 EXAMINER SEE: Mr. Margard?

22 MR. MARGARD: No questions, thank you.

23 EXAMINER SEE: Any redirect?

24 MR. SATTERWHITE: I think I just need one
25 minute. I'll be really short.

1 EXAMINER SEE: Okay. Go ahead.

2 (Discussion off the record.)

3 EXAMINER SEE: Are you ready to move
4 forward, Mr. Satterwhite?

5 MR. SATTERWHITE: Yes, just one question.

6 - - -

7 REDIRECT EXAMINATION

8 By Mr. Satterwhite:

9 Q. Mr. Mitchell, do you recall what counsel
10 for OCC was asking you on OCC Exhibit 105?

11 A. Yes.

12 Q. She took you to a couple of line items
13 and asked you what the impact of the transfer of
14 those line items would be in the future. Do you
15 remember that?

16 A. Yes, sir.

17 Q. She took you to a few of the lines. What
18 is the impact of the overall document? What does
19 this stand for just besides those few lines?

20 A. Yeah, just kind of the overall view is if
21 you look down here, particularly on the left side of
22 the document you'll see a lot of words there like
23 "payables" and "liabilities" and "asset retirement
24 obligations." It's not all just a one-way street.
25 We're talking about that the GenCo, once they get

1 this stuff, has got to consummate the transaction.

2 So they will have to pay the cash to
3 relieve whatever bills are there, whatever debt's
4 there, and, you know, it's just not a one-way street,
5 I guess is the impression I want to make. Both good
6 and bad are there and there is a lot of cash needs
7 here.

8 Q. So are there other liabilities embedded
9 within here that the --

10 A. Yeah, everything -- particularly if you
11 look at the asset retirement obligations,
12 \$194 million, that's a pretty big number. If you
13 look at the obligations on leases, pensions,
14 dividends, taxes, all those sorts of things have to
15 settle and will need to be paid in cash.

16 MR. SATTERWHITE: That's all I have.
17 Thank you.

18 EXAMINER SEE: Ms. Grady?

19 MS. GRADY: Your Honor, at this time we
20 would move for the admission of OCC Exhibit No --

21 EXAMINER SEE: Ms. Grady, any recross?

22 MS. GRADY: Oh, I'm sorry.

23 EXAMINER SEE: I know, you're trying to
24 get to lunch. I know.

25 MS. GRADY: I've only had a granola bar

1 so far.

2 No questions.

3 EXAMINER SEE: Mr. Maskovyak?

4 MR. MASKOVYAK: No questions, your Honor.

5 EXAMINER SEE: Ms. McBride?

6 MS. McBRIDE: No questions, your Honor.

7 EXAMINER TAUBER: Mr. Olikar?

8 MR. OLICKER: No questions, your Honor.

9 EXAMINER TAUBER: Ms. Spiller?

10 MS. SPILLER: No questions, your Honor.

11 EXAMINER TAUBER: Ms. Kyler?

12 MS. KYLER: No questions, your Honor.

13 EXAMINER SEE: Mr. Siwo?

14 MR. SIWO: No questions, your Honor.

15 EXAMINER SEE: Mr. Sugarman?

16 MR. SUGARMAN: No questions, your Honor.

17 EXAMINER SEE: Ms. Thompson?

18 MS. THOMPSON: No questions, your Honor.

19 EXAMINER SEE: Mr. Yurick?

20 MR. YURICK: No, thank you, your Honor.

21 EXAMINER SEE: Ms. Hand?

22 MS. HAND: No questions, your Honor.

23 EXAMINER SEE: Ms. Kaleps-Clark?

24 MS. KALEPS-CLARK: No questions.

25 EXAMINER SEE: Mr. O'Brien?

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

2 EXAMINER SEE: Thank you very much,

3 Mr. Mitchell.

4 THE WITNESS: Thank you.

5 EXAMINER SEE: You're dismissed.

6 MR. SATTERWHITE: Your Honor, at this
7 point I'd re-move for admission of AEP Exhibit 107.

8 EXAMINER SEE: Are there any objections
9 to the admission of AEP Exhibit 107?

10 (No response.)

11 EXAMINER SEE: Hearing none, Exhibit AEP
12 107 is admitted into the record.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER SEE: Ms. Grady.

15 MS. GRADY: Yes, your Honor. We would
16 move for the admission of Exhibits 104 and 105.

17 EXAMINER SEE: Are there any objections?

18 MR. SATTERWHITE: No objection, just a
19 request that a clean copy be put in without the
20 highlights and writing on -- sorry, you said 105?

21 MS. GRADY: 104 and 105.

22 MR. SATTERWHITE: On 104, just a clean
23 copy be put in.

24 MS. GRADY: We can do that but probably
25 not today.

1 MR. SATTERWHITE: Understood. No
2 problem.

3 EXAMINER SEE: OCC Exhibits 104 and 105
4 are admitted into the record.

5 (EXHIBITS ADMITTED INTO EVIDENCE.)

6 EXAMINER SEE: Mr. Olier.

7 MR. OLIER: Your Honor, IEU would move
8 for the admission of IEU Exhibit 117.

9 EXAMINER SEE: Any objections?

10 MR. SATTERWHITE: No objection.

11 EXAMINER SEE: IEU Exhibit 117 is
12 admitted into the record.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER SEE: And at this -- Ms. Grady?

15 MS. GRADY: Yes, your Honor.

16 Mr. Mitchell testified there is Ohio -- AEP Ohio
17 plant values or generation asset cash flow values
18 available out of the -- out of Exhibit No. 104 that
19 would be what we consider to be highly relevant to
20 the corporate separation case and the value of assets
21 being transferred and we would ask that this
22 Commission order the company to produce that
23 information for purposes of the record and for the
24 purpose of this case because we believe it is highly
25 relevant and would be useful and helpful for the

1 Commission to understand the value of those
2 generation assets by looking at the cash flows to be
3 generated.

4 MR. SATTERWHITE: If I may, your Honor.
5 First of all, this is the SSO modified ESP case, not
6 the corporate separation case.

7 And secondly, I think Mr. Mitchell
8 testified he doesn't know. There's a number here, so
9 there must be something underneath it, but he didn't
10 say -- he couldn't verify what's been represented
11 that something does exist.

12 One, the relevance of if it's appropriate
13 in that case to be considered, it can be considered
14 in that case, it doesn't belong in this case
15 Mr. Mitchell didn't say he couldn't identify what it
16 was.

17 MS. GRADY: Very quickly, your Honor.
18 Corporate separation is an issue in this case.
19 They've asked for the corporate separation plan to be
20 adopted as part of this ESP. It is a big building
21 piece of this ESP.

22 Furthermore, the corporate separation
23 case at this point, there has been no opportunity
24 other than the filing of comments to present evidence
25 or information, so we ask that this is an avenue, it

1 is an issue, the corporate separation is an issue in
2 this case, there is testimony presented on it, we
3 think it's highly relevant and would be helpful for
4 the Commission to understand.

5 MR. SATTERWHITE: Your Honor, I'd like to
6 add one more thing. I hope this isn't a trend in the
7 case where people start to do discovery in the middle
8 of the case past the discovery timeline being closed
9 just because now they think something is relevant.

10 EXAMINER SEE: The Bench will take the
11 motion under advisement and break for lunch until
12 1:00 o'clock.

13 MR. SATTERWHITE: Thank you.

14 MS. GRADY: Thank you.

15 (Thereupon, at 12:14 a lunch recess
16 taken.)

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1 Monday Afternoon Session,
2 May 21, 2012.

3 - - -

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

6 Mr. Satterwhite.

7 MR. SATTERWHITE: Thank you, your Honor.
8 The company would called Oliver Sever to the stand,
9 please.

10 EXAMINER SEE: Mr. Sever, if you'd raise
11 your right hand.

12 (Witness sworn.)

13 EXAMINER SEE: Have a seat. Cut your mic
14 on.

15 MR. SATTERWHITE: Thank you, your Honor.

16 - - -

17 OLIVER J. SEVER, JR.

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

20 DIRECT EXAMINATION

21 By Mr. Satterwhite:

22 Q. Mr. Sever, can you state your name,
23 business title and address for the record?

24 A. My name is Oliver J. Sever, Jr. I'm
25 currently Managing Director of Financial Forecasting.

1 My business address is 1 Riverside Plaza, Columbus,
2 Ohio, 43215.

3 Q. Thank you, Mr. Sever. And did you cause
4 testimony to be filed under your name in this case on
5 March 30th, 2012?

6 A. I did.

7 MR. SATTERWHITE: May I approach, your
8 Honor?

9 EXAMINER SEE: Yes.

10 MR. SATTERWHITE: I'd like to mark
11 Mr. Sever's prefiled testimony as AEP Exhibit 108.

12 EXAMINER SEE: Okay.

13 (EXHIBIT MARKED FOR IDENTIFICATION.)

14 Q. Mr. Sever, can you please identify the
15 document I've placed in front of you marked as AEP
16 Exhibit 108?

17 A. Sure. Let me take a quick look.

18 It is my prefiled direct testimony.
19 There's nine pages of Q and As with two exhibits,
20 OJS-1 and OJS-2.

21 Q. And was this testimony prepared by you or
22 under your direction?

23 A. Yes, it was.

24 Q. Do you have any corrections to this
25 testimony?

1 A. No, I do not.

2 Q. And do you adopt this testimony as your
3 testimony today in this proceeding?

4 A. I do.

5 MR. SATTERWHITE: With that, your Honor,
6 I will move for admission of AEP Exhibit 108 and
7 tender the witness for cross-examination.

8 EXAMINER SEE: Ms. McBride?

9 MS. McBRIDE: Thank you.

10 - - -

11 CROSS-EXAMINATION

12 By Ms. McBride:

13 Q. Good afternoon, Mr. Sever.

14 A. Good afternoon.

15 Q. In your testimony you provide a financial
16 forecast for AEP Ohio for the term of the modified
17 ESP; is that correct?

18 A. That's correct.

19 Q. And turning to page 1 of Exhibit OJS-2 at
20 the back, you have forecasted that AEP Ohio's total
21 revenue will increase from 2012 to 2013; is that
22 right?

23 A. That is correct.

24 Q. And you have also forecasted that
25 AEP Ohio's total taxes, income and other taxes, will

1 decrease from 2012 to 2013; is that right?

2 A. Did you say "decrease"?

3 Q. Yes.

4 A. Yeah, the dollar level associated with
5 income taxes will decrease, yes.

6 Q. Looking at line 10, what is the basis for
7 your increase forecast of O&M expenses?

8 A. As I described in my assumptions, we
9 effectively established a base level of O&M that we
10 grew at 2 percent, effectively trying to recognize
11 the affects of inflation. There were certain items
12 that were specifically forecasted that would not
13 necessarily follow that 2 percent assumption.

14 Q. And what are those other items?

15 A. Is there a particular year you're
16 interested in?

17 Q. The change from 2012 to 2013.

18 A. The most significant item affecting that
19 change between those two years is the -- in 2012 --
20 let me back up.

21 Back with the original stipulation there
22 was commitment to make contributions for the
23 Partnership With Ohio or the Ohio Growth Fund, I've
24 heard it referred to several ways. The financial
25 effect of that equipment was accrued on the company's

1 books at the end of 2011 with the -- effectively the
2 whole stipulation falling apart in 2012.

3 I assume that that was approximately
4 \$35 million would be reversed which is causing, when
5 you look at '13 versus '12, to look like a larger
6 increase than one might suspect and it's because '12
7 has been artificially pushed down by that reversal.

8 Q. Stepping back, in order to develop the
9 financial forecast, you needed to make a number of
10 assumptions, correct?

11 A. Quite a few, yes.

12 Q. And one of the major assumptions that you
13 had to make was the load and demand forecast?

14 A. Yes.

15 Q. And the load and demand forecast
16 assumption includes an estimate of the load choosing
17 an alternative electric service provider; is that
18 right?

19 A. Well, I guess I'll describe that as a
20 nuance that up until the last couple years we didn't
21 necessarily worry about. The load forecast
22 traditionally has been prepared on what I'll call a
23 connected basis, effectively the customers at the end
24 starting with the switching activity that began in
25 the middle of 2010, we now have to estimate a portion

1 of how much of that connected load would choose an
2 alternative supplier.

3 Q. So you are making that estimate for the
4 2012 and 2013 forecast; is that right?

5 A. An estimate was made, yes.

6 MS. McBRIDE: Your Honor, may I approach?

7 EXAMINER SEE: Yes.

8 MS. McBRIDE: I'd like to mark as, we
9 believe FES Exhibit 108.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Mr. Sever, looking at what's been marked
12 as FES Exhibit 108, have you seen this document
13 before?

14 A. I have.

15 Q. And what is it?

16 A. It's a presentation that was made by, I
17 guess I'll describe it as senior financial
18 management, in Japan in the first or, I'm sorry, in
19 the third week of February 2012.

20 Q. And to whom was the presentation made?

21 A. I don't know specifically. I know that
22 the IR group makes numerous presentations to
23 investor, you know, investor groups both domestically
24 as well as internationally.

25 Q. So is it your understanding that this

1 presentation was given to the investor community in
2 Japan?

3 A. I believe so.

4 Q. And were you involved in the preparation
5 of any part of this presentation?

6 A. I was involved in certain pages of it,
7 not all of them.

8 Q. And do you recall responding to discovery
9 in this proceeding relating to this presentation?

10 A. Yes, I do.

11 Q. And the parts of the presentation that
12 you were responsible for preparing, did you prepare
13 those based on the best available information you
14 had?

15 A. Yes.

16 Q. I'd ask you to turn to page 18. There
17 are page numbers in the lower right-hand corner.

18 A. Okay, I'm there.

19 Q. And were you involved in preparing this
20 slide?

21 A. Yes, ma'am, I was.

22 Q. And this table reflects AEP's ongoing
23 earnings guidance for 2012, right?

24 A. It was our ongoing earnings guidance at
25 the time of this presentation.

1 Q. And I believe you said that was at the
2 end of February 2012?

3 A. It was, again, it was dated -- they
4 actually were in Japan the 21st through the
5 24th of February.

6 Q. And looking on line 5, this chart
7 identifies off-system sales revenues; is that
8 correct?

9 A. Well, it's actually not revenues. It's
10 off-system sales net margin or gross margin as
11 opposed to revenues.

12 Q. And, let's see, that estimate on line 5
13 includes capacity revenues from CRES providers; is
14 that correct?

15 A. It does.

16 MS. McBRIDE: Your Honor, may I approach
17 again?

18 EXAMINER SEE: Yes.

19 MS. McBRIDE: I'd like to mark this as
20 Exhibit 109.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 Q. Mr. Sever, is this one of the discovery
23 responses that you were involved in preparing the
24 response to?

25 A. Yes, ma'am.

1 Q. And is it correct that the value of
2 off-system sales gross margin you referred to earlier
3 on page 18 of the presentation includes
4 \$44 million of CRES capacity revenues?

5 A. Yes, ma'am, it does.

6 Q. And that is the response that you gave
7 in -- this is interrogatory 3-046 FES Exhibit 109?

8 A. Yes.

9 Q. And those CRES capacity revenues are
10 associated with AEP Ohio only; is that right?

11 A. I believe that the CRES capacity revenues
12 only relate to AEP Ohio, there are no others.

13 Q. And that \$44 million of CRES capacity
14 revenues that's included in the presentation to the
15 investor community is based on an assumed level of
16 switching activity, correct?

17 A. Yes, ma'am.

18 Q. And isn't it true that that
19 \$44 million that was projected in this presentation
20 to the investor community was based on a 24 percent
21 assumed switch rate?

22 A. It was approximately 24 percent. It was
23 done slightly differently; effectively we had
24 21 percent and then we had an additional amount to
25 account for governmental aggregation which I believe

1 when you put the two together you get real close to
2 24 percent.

3 Q. So in preparing the estimates for 2012
4 AEP assumed that 24 percent of its load would shop in
5 AEP Ohio's territory; is that correct?

6 A. Yes, for purposes of the forecasts that
7 we're looking at here and the Japan Road Show.

8 Q. And that 24 percent switching was based
9 on an expectation of RPM-priced capacity?

10 A. Yes, ma'am.

11 Q. But in preparing the pro formas attached
12 to your testimony, you assumed that there would be
13 65 percent switching for residential customers,
14 80 percent switching for commercial customers, and
15 90 percent switching for the industrial class; is
16 that correct?

17 A. Yes, ma'am.

18 Q. And that 65, 80 percent, and 90 percent
19 switching estimates were assumed if capacity was
20 priced at the two tiers proposed in the modified ESP;
21 is that correct?

22 A. Yes, ma'am.

23 MS. McBRIDE: I have no further
24 questions.

25 EXAMINER SEE: Ms. Grady?

1 MS. GRADY: Thank you, your Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Ms. Grady:

5 Q. Good afternoon, Mr. Sever.

6 A. Good afternoon.

7 Q. In your testimony on page 3 you indicate
8 you're responsible for supervising and administering
9 the financial planning process for the AEP system; is
10 that correct?

11 A. That's one of my duties, yes.

12 Q. And as part of one of your duties you
13 provide management with projected operational data
14 underlying financial forecasts?

15 A. Yes, ma'am.

16 Q. Let's move to page 4 of your testimony.
17 At page 4 of your testimony you describe the forecast
18 methodology for the first two years of the forecast
19 period that is for 2012 and 2013, correct?

20 A. That's where it starts, on page 4.

21 Q. Yes. And for 2012 and 2013 you indicate
22 that the assumption you used is that the company
23 remains vertically integrated, and you state that on
24 line 17 of page 4. Do you see that?

25 A. Yes, I do.

1 Q. And by "vertically integrated" you mean
2 that the company has generation, transmission, and
3 distribution assets and that this is a look prior to
4 corporate separation, correct?

5 A. That's exactly what it is.

6 Q. Now, on page 5 you indicate as part of
7 the load and demand forecast that because AEP is
8 highly integrated, you have to have an internal load
9 forecast and an off-system sales forecast for all of
10 the AEP system companies. Do you see that reference?

11 A. Yes, I do.

12 Q. As part of that off-system sales forecast
13 do you have a separate off-system sales forecast that
14 is prepared for Ohio Power CSP only?

15 A. I'm going to have to ask you a question,
16 sorry.

17 Q. Sure.

18 A. Are you referring to the allocated share
19 of off-system sales? Are you referring to how much
20 of the Ohio generation was used to source those
21 sales?

22 Q. Let's try the first part.

23 A. In order to get or to calculate the Ohio
24 Power member load ratio share of off-system sales you
25 need to do a forecast of what those sales will be for

1 the entire East system.

2 Q. Correct. And that is, then -- that
3 portion is then MLR'd, as Mr. Nelson would have said,
4 back to Ohio Power?

5 A. Well, each company or member of the
6 interconnection agreement are allocated their member
7 load ratio or MLR share of both the revenue and the
8 cost associated with generating those sales.

9 Q. Now, when we speak -- just to make sure
10 we're talking the same language here, we when speak
11 about -- when you use the term "off-system sales" in
12 your testimony, are you referring to those sales --
13 what are you referring to?

14 A. Not to be obstinate, but I'm effectively
15 referring to both pieces.

16 Q. And by "both pieces" you mean?

17 A. Not only the piece or the level of those
18 sales that are generated from the Ohio Power
19 generation units, I'm also referring to Ohio Power's
20 allocated or MLR share of the total East generation
21 associated with those sales.

22 Q. So essentially when we're talking
23 about -- when you use the term "off-system sales,"
24 we're talking about sales to affiliates through the
25 pool as one portion and the sales that occur outside

1 of the pool that are above the internal load provided
2 by the company; is that correct?

3 A. No, I don't agree with that.

4 Q. Can you tell me -- can you then explain
5 why that is not correct?

6 A. I will try. When you make the statement
7 "sales to affiliates," that's not included in what
8 I'm calling off-system sales.

9 Q. Okay. If I said do you include -- are
10 you meaning to include in "off-system sales" the
11 sales to other members of the pool? Would that be
12 considered off-system sales as you define it?

13 A. No, it would not.

14 Q. Okay. So when we talk about off-system
15 sales here, we're talking about sales to persons or
16 entities that are not affiliated and not part of the
17 pool.

18 A. That would be correct.

19 Q. Now, when we also speak of off-system
20 sales, are we including capacity as well as energy?

21 A. Yes.

22 Q. Now, on page 5 of your testimony on lines
23 18 and 19 you indicate that in addition, the Ohio
24 Power Company projections are further refined to
25 include an estimate of load choosing an alternative

1 electric supplier. Do you see that reference?

2 A. Yes, ma'am, I do.

3 Q. Is that, then, linked into -- that
4 information, then, linked into the off-system sales
5 forecast?

6 A. Yes, because as you would have more
7 customers choosing an alternative supplier, it
8 effectively makes available generation on the system
9 to be potentially sold to third parties or
10 nonaffiliates assuming that it can be generated for a
11 cost less than what the current market price is.

12 Q. Now, Mr. Sever, you said assuming that
13 the -- let me strike that.

14 MS. GRADY: May I have that answer
15 reread, please.

16 (Record read.)

17 Q. So essentially what you're saying is that
18 the more customers shop, the more it frees up both
19 energy and capacity to be sold as off-system sale; is
20 that correct?

21 A. It clearly frees up energy. I don't
22 think there's a real change in capacity. Capacity's
23 effectively committed as part of -- as it's a
24 commitment to the FRR.

25 Q. So it frees up energy and that energy

1 then can turn around and be sold into the market,
2 correct?

3 A. Again, assuming that the cost of that
4 generation is below what the market price is in any
5 given -- in an hour, yes.

6 Q. Now, when we talked about off-system
7 sales and we kind of, we tried to narrow down how you
8 define it, is there anything else included in what
9 you have called off-system sales in addition to
10 energy and capacity?

11 A. Yes.

12 Q. And what would that be?

13 A. Margins realized from our trading
14 operations.

15 Q. And that's margins from energy trading?

16 A. It could be energy. It may or may not be
17 physical. It could be financial. It's all aspects
18 of the trading business.

19 Q. And just to clear things up a bit, or
20 perhaps muddy things a bit, does the -- we've talked
21 about the fact that when there's more shopping, there
22 will be energy available to sell to third parties
23 that are not affiliated. Does the shopping have any
24 impact on sales of energy into the AEP pool?

25 A. It could.

1 Q. And can you tell me how it could?

2 A. I'm trying to see if I can do this
3 easily. If you think of, again, each hour the system
4 is dispatched, a portion of that energy generated is
5 assigned to off-system sales, the remainder is used
6 to source the internal load of each company.

7 Some companies in that math will find
8 themselves short of energy, some will be long. The
9 long companies sell to the short companies to
10 effectively have each company sourcing its internal
11 load.

12 And to the extent you have a higher or
13 lower level of switching, it could affect the units
14 that generate, therefore -- the dispatch stack, which
15 then could have the flows between the companies be
16 slightly different.

17 Q. So it could have an indirect effect on
18 the pool and on the company's MLR coming out of the
19 pool.

20 A. It would have no effect on the MLR.

21 Q. Now, you indicated that when energy is
22 freed up from customers shopping, that it is then
23 able to be sold off-system assuming that the cost
24 that the energy is generated at is less than the
25 current market cost. Do you recall that?

1 A. Yes, ma'am.

2 Q. And for 2011 do you know how much energy
3 that was freed up by switching that occurred in
4 AEP Ohio's system?

5 A. I'm doing this from memory. I believe it
6 is around 4,900 GWH. That was the level of
7 switching.

8 Q. That was the level of switching. And of
9 that level of switching do you know how many
10 gigawatt-hours were able to be sold as off-system
11 sales?

12 A. There was an estimate performed that
13 effectively had about 3,900 GWH being sold.

14 Q. And that information would have been
15 provided, would it not have, in FES Exhibit, I
16 believe it is 108, the response to OCC interrogatory
17 3-046 in subsection C?

18 EXAMINER SEE: For the record, that's FES
19 Exhibit 109.

20 MS. GRADY: I'm sorry, 109.

21 Q. Is that the figure that you're quoting,
22 Mr. Sever?

23 A. Yes. Thank you.

24 Q. So that would indicate that, at least for
25 2011, that of the energy freed up by customers

1 switching, approximately 80 percent of that was
2 available or was able to be sold, off-system sales
3 that is was generated at a cost less than the current
4 market?

5 A. Just about 80 percent.

6 Q. Now, on page 6 of your testimony you're,
7 again, talking about the off-system sales forecast,
8 and it starts on lines 13 and ends on lines 19. Do
9 you see that?

10 A. I do.

11 Q. And there you make a number of statements
12 about the off-system sales. And you state there that
13 "Revenues related to known off-system sales
14 arrangements are priced in accordance with the terms
15 of the specific agreements related to such sales."
16 Do you see that?

17 A. I do.

18 Q. Can you identify for me what "known
19 off-system sales arrangements" would be?

20 A. There are times that we enter into
21 transactions that may be of a longer term in nature
22 or there could be a contract that would be part of
23 off-system sales.

24 Q. And you indicate later on that "Most of
25 the off-system sales transactions are made under

1 arrangements that are not known...." Do you see
2 that?

3 A. I do.

4 Q. Can you tell me approximately, give me a
5 rough percentage of how many of the revenues related
6 to -- are related to known off-system sales
7 arrangements?

8 A. This relationship has changed a lot over
9 time. I don't really know the exact number but it
10 probably is north of 90 percent.

11 Q. 90 percent are not known; is that
12 correct? With 10 percent known.

13 A. Yeah, the amount of known is very -- is
14 relatively small currently.

15 Q. Now, you indicate that -- and we're still
16 talking about the 2012 and 2013 forecast projections,
17 are we not, at this point?

18 A. Yes.

19 Q. Okay. Are the off-system sales
20 projections for 2012 and 2013 presented anywhere in
21 the company's application or in your testimony
22 anywhere?

23 A. They're not specifically identified that
24 I'm aware of.

25 Q. What your testimony would show, just as a

1 flow-through of a revenue number, and that revenue
2 number would have some segment related to revenues
3 from off-system sales; is that correct?

4 A. If I could turn your attention to OJS-2,
5 page 1.

6 Q. Yes.

7 A. The revenue associated with off-system
8 sales would be included in line 3, and the cost
9 associated with off-system sales would be included in
10 line 7.

11 Q. Do you know -- so it's not -- I would not
12 be able to pull to your testimony, is what you're
13 saying, to see what the company-specific off-system
14 sales projections are for AEP Ohio for 2012 and 2013.

15 A. I did not show it anywhere in my
16 exhibits.

17 Q. Do you know if it's presented anywhere in
18 the application or in anyone else's testimony that's
19 presented in this proceeding?

20 A. Not that I'm aware of.

21 Q. Do you know, Mr. Sever, offhand what the
22 megawatt value or how many megawatts or gigawatts are
23 associated with the off-system sales projections for
24 AEP Ohio for 2012 and 2013?

25 A. Again, not to cause you issues, are you

1 asking for the level of gigawatt-hours that were
2 generated from the Ohio fleet or their member load
3 ratio share of the total East system gigawatt-hours?

4 Q. I think I want the gigawatt-hours
5 associated with -- let me strike that.

6 What I would like to know is what your
7 projection is for purposes of building up this -- how
8 many gigawatt-hours you have projected that Ohio
9 Power/CSP will sell off-system sales and the related
10 revenues that are reduced by that.

11 A. I think that means you want the member
12 load ratio share --

13 Q. Okay.

14 A. -- just to help you out.

15 It's about 12,700 gigawatt-hours for '12.
16 For 2012, I'm sorry.

17 Q. Okay. And for 2013 do you have a number?

18 A. 12,212.

19 Q. Now, do you also have the corresponding
20 margin or profit associated with the sale of those --
21 of that energy for 2012 and 2013?

22 A. Again, I have to ask you a question. I
23 can give it to you in total but we also can decide if
24 we want to isolate the pieces related to CRES
25 capacity or not.

1 Q. Let's keep the CRES capacity out of there
2 for now.

3 A. So I'll start with the total.

4 Q. Yes.

5 A. The total of off-system sales gross
6 margin, so it's revenues minus the cost of the sales,
7 for 2012 is 411 million.

8 Q. Okay.

9 A. And for 2013 it's 589 million.

10 Q. Now, you had said before you can start
11 with the number. Can you give me the other
12 information that you have on that?

13 A. I'll give you what I have.

14 Q. That would be great.

15 A. The CRES capacity payments --

16 Q. Yes.

17 A. -- in 2012 are 254 -- my eyes are
18 blurring up on me. 264 million.

19 Q. Yes.

20 A. And that's in '12. And in 2013 it's
21 439 million.

22 Q. Do you also have, Mr. Sever, an
23 indication -- I know that we had looked at part of
24 the Japan Road Show and you had said that you were --
25 you had helped develop portions of that Japan Road

1 Show, and counsel for FES took you to page 18 of that
2 schedule and you had indicated on that schedule that
3 you were responsible for pulling together that
4 information, and when we look at that schedule, we
5 see a dollar per megawatt-hour gross margin -- let me
6 strike that.

7 When we look at page 18, and you were
8 directed to line 5, the off-system sales net of
9 sharing, we see a number of \$13.3 per megawatt-hour?
10 Do you see that?

11 A. I do.

12 Q. And did you establish that, what "net of
13 sharing" means on that line?

14 A. I was not asked what "net of sharing"
15 means.

16 Q. And could you tell us what "net of
17 sharing" means?

18 A. Yes. Again, off-system sales margins
19 find their way across almost all of the AEP system
20 operating companies and that number is treated
21 differently as part of the regulatory process in each
22 of those jurisdictions.

23 In some jurisdictions off-system sales
24 margins may be a credit to the cost of service in a
25 base case, in some jurisdictions it is passed through

1 to customers through a tracking or fuel-like
2 mechanism, and in some jurisdictions some of that
3 margin is allowed to flow through to the bottom line
4 for the benefit of the shareholder.

5 So what "net of sharing" means on this
6 schedule is in those jurisdictions where off-system
7 sales pass automatically through a tracking
8 mechanism, we net that effect out as not flowing
9 through to the bottom line.

10 Q. And in Ohio the off-system sales margins
11 flow through to the shareholders; is that correct?

12 A. That is correct.

13 Q. So I guess my next question is you talked
14 about the total gross profits for 2012 and 2013 that
15 are included in your forecast, and I guess I wanted
16 to know on a megawatt-hour basis if you knew the
17 gross margin on that energy for each of those years.

18 A. Consistent with how it's shown on page
19 18?

20 Q. Yes.

21 A. I do not have that with me.

22 Q. Do you have it inconsistently with what
23 is shown on page 18? Do you have some figure?

24 A. Well, I read the numbers that are in my
25 OJS Exhibit 2, that's only the Ohio Power share of

1 those numbers, but what I don't have with me are
2 numbers consistent with page 18 because those reflect
3 the total system, not just the East, but also the
4 West and Texas as well.

5 Q. Okay.

6 A. So it's a totally different basis.

7 Q. Sure.

8 Now, Mr. Sever, am I correct in assuming
9 that the load that chooses alternate suppliers, CRES
10 suppliers, that the megawatt-hours associated with
11 those load would show up as a direct increase to the
12 volumes or megawatt-hours shown in the off-system
13 sales forecast?

14 A. Could you repeat that, please?

15 MS. GRADY: Can the court reporter reread
16 that? Thank you.

17 (Record read.)

18 A. Again, I think what you'd find is you
19 have an increase in the level of energy choosing an
20 alternative supplier, that there would likely be some
21 increase in the level of off-system sales.

22 When you use the term "direct," that
23 makes it sound like it's GWH for GWH and I don't
24 necessarily think that's the case.

25 Q. Can you tell me -- we talked about

1 earlier the fact that in 2011 there was approximately
2 4,000 gigawatts of -- 4,900 gigawatts that actually
3 were included in off-system sales and were able to be
4 sold. Can you tell me what percentage of shopping
5 load that is shown for 2012 and 2013 is assumed to
6 translate to off-system sales?

7 A. I don't have that number.

8 Q. Would you have a estimate or a
9 guesstimate of what that number would be that's
10 included in your 2012 and 2013 projections?

11 A. I really would rather not guess. Sorry.

12 Q. Mr. Sever, if you know, would you expect
13 that approximately 80 percent, just like -- would you
14 expect the 2011 experience to be an experience that's
15 close to what would be shown -- assumed in your 2012
16 and 2013 forecast as the percent of load that equates
17 to off-system sales?

18 A. Again, I'm not sure you can -- I can go
19 to that leap of faith. There's numerous variables
20 that drive the level of off-system sales way beyond
21 just the level of customers choosing alternative
22 suppliers. And because that's the '12 and '13 data,
23 using 2011 as a proxy is probably a pretty risky
24 move.

25 Q. So you're saying you do not have that

1 information available. But is it available somewhere
2 where we could see what the assumption was made with
3 respect to the relationship between customers
4 shopping and off-system sales made in your forecast
5 for 2012 and 2013?

6 A. Let me just tell you what is available.
7 Again, I don't have it with me, but I could be able
8 to identify what the total level of off-system sales
9 is in 2012 and 2013. I just, without doing a
10 study -- I'd have to do an additional study then to
11 estimate how much of that number is being driven by
12 the level of switching versus not.

13 Q. Now, on page 7 of your testimony you
14 indicate that, starting in 2014, that you have a
15 wires-only business reflected in your financials,
16 correct?

17 A. That's correct.

18 Q. And that wires-only, starting in 2014,
19 would no longer reflect the off-system sales
20 revenues; is that correct?

21 A. There are no off-system sales revenues in
22 that 2014 and 2015.

23 Q. Would you expect that those off-system
24 sales revenues would show up on the financials of AEP
25 GenCo?

1 A. I guess the margins that AEP GenCo makes
2 could be called off-system sales, all their margins
3 will be off-system sales.

4 Q. Now let's turn for a moment to OJS-1,
5 your exhibit.

6 A. Okay.

7 Q. The third -- under the third bullet you
8 have identified an assumption that "Generation beyond
9 the system internal load requirements will be sold
10 into the wholesale energy market." Do you see that?

11 A. Yes, I do.

12 Q. And is that for the entire forecast
13 period or only for a portion of the forecast period?

14 A. Technically it's for the whole forecast
15 period, but since I only included AEP Ohio in my
16 exhibits, it doesn't really apply to 2014 and 2015.

17 MS. GRADY: If I may have a moment, your
18 Honor.

19 EXAMINER SEE: Yes.

20 MS. GRADY: Your Honor, I would ask that
21 Mr. Sever's counsel provide him with a copy of OCC
22 Exhibit 104, or lend a copy of the exhibit to
23 Mr. Sever, because I've got some questions on that
24 exhibit to go over with Mr. Sever.

25 MR. SATTERWHITE: Your Honor, can I use

1 the court reporter's version? Mine has writing on
2 it.

3 EXAMINER SEE: Sure.

4 MS. GRADY: Thank you.

5 Q. (By Ms. Grady) Mr. Sever, you should have
6 in front of you now what has been marked for
7 identification purposes as OCC Exhibit No. 104. I'd
8 like for you to take a moment to look at that, if you
9 would.

10 A. Would you like me to read it?

11 Q. Yes; if it's necessary to refresh your
12 memory.

13 A. Well, we'll let you ask questions and if
14 I need to stop and read, I'll do that.

15 Q. Does this memo look familiar to you?

16 A. Yes; I received a copy of it.

17 Q. Now, as the -- in your role as a
18 manager -- or, Managing Director of Financial
19 Forecasting, would you have provided any inputs to
20 the analysis that is reflected in this document?

21 A. Yes.

22 Q. Mr. Sever, would you have provided -- let
23 me stop there.

24 What input would you have provided to
25 this analysis?

1 A. My group provided the last year's, which
2 would have been 2011, long-term financial forecast
3 which was a forecast done for, I believe it went out
4 through 2020, I'm not a hundred percent sure of that
5 but I think it went through 2020 to the authors of
6 this memo.

7 Q. And would that forecast have been for
8 Ohio Power/CSP as a consolidated group?

9 A. No. It would have been all the East --
10 it was probably the entire system but I know for sure
11 it was all the East companies.

12 Q. And as part of that entire system would
13 you have a -- provided specific Ohio Power and
14 Columbus Southern Power information such as the cash
15 flow statements from that particular entity?

16 A. It would have included the cash flow
17 statements for the total AEP Ohio legal entity, so
18 that would have included both, not just generation,
19 but also distribution and transmission functions as
20 well.

21 Q. Okay. Let me direct your attention to
22 page 4 of 5 of that document, if you would.

23 A. I'm there.

24 Q. Now, specifically I would direct your
25 attention to subsection C, the conclusion of the

1 study or analysis. And I want to talk about the two
2 boxes that are shown there as part of a graphic
3 chart. Do you see what I'm talking about?

4 A. I see the box.

5 Q. Let's direct your attention to the box
6 entitled "Total Company Estimated Cash Flows." Do
7 you see that?

8 A. Okay, so that would be the box on the
9 left side.

10 Q. Correct. Can you tell me what that
11 represents, if you know?

12 A. There's all kinds of different
13 definitions for "cash flows." I wasn't involved or a
14 part of the study that was done so I'm not 100
15 percent sure, without digging back through my
16 forecasts, if any of these numbers relate to that or
17 not.

18 I know that for the column 20 years based
19 on 2020, that is not something I did, so -- but I'm
20 guessing that somewhere -- I'm not guessing, I'm
21 pretty sure the number that's included in the first
22 column would have come somehow out of my forecast.

23 Q. You're talking about the ten-year
24 forecast number?

25 A. Yes. Yes.

1 Q. And is that a forecast for total company
2 or total company East?

3 A. Well, again, I'm going to trust the
4 labels. The labels say "Total Company" and the box
5 on the right refers to East generation only.

6 Q. Oh, you were -- I'm sorry.

7 A. I guess, to be honest, I don't know.

8 Q. Do you know -- let's go to the East
9 generation box. Do you know -- well, let me stop
10 there. Let's stay in that left box, the Total
11 Company Estimated Cash Flows.

12 Do you know what the third column which
13 states "30 years less than average remaining life of
14 assets," do you know what that pertains to?

15 A. I believe it's the sum of the first two
16 columns.

17 Q. Can you use your calculator to check
18 that, if you would?

19 A. 70,179.5. Yes, it's the sum of the first
20 two columns.

21 Q. But on this graph it shows 70,179.5.

22 A. Yes. And that's the sum of 18,849.5 and
23 51,336.0.

24 Q. Mr. Sever, if you know, and if you don't
25 know you can so state, but can you tell me -- and,

1 again, we're looking that the left box, of the Total
2 Company Estimated Cash Flows, the 30-year column
3 figure, how much of those cash flows are associated
4 with AEP Ohio?

5 A. I do not know that number.

6 Q. Is that a number that you have records to
7 provide? Do you have the records available to
8 provide that number?

9 A. No.

10 Q. Who would have those records, if you
11 know?

12 A. I believe the authors of the memo
13 would -- their workpapers likely would have that
14 isolated.

15 Q. Weren't the numbers in part generated by
16 someone who was working for you or under your
17 supervision?

18 A. Again, the first column, my sense is the
19 first column would have been either my product or my
20 product was used as a starting point and they may
21 have layered some adjustments on top of it. I don't
22 know, I didn't do that work.

23 I had no input on the middle column at
24 all.

25 Q. You had input on the first column.

1 A. Yes.

2 Q. So on the first column would you be able
3 to provide the AEP Ohio specific portion of that?

4 A. Again, I have to, remember, my last
5 answer talked about that column either represents
6 numbers out of my forecast model or it started with
7 numbers from my forecast models and the authors of
8 this memo made adjustments to it. I don't know
9 whether that happened or not.

10 Q. You're talking right now with respect to
11 that very first column.

12 A. Yes.

13 Q. Now, when you say your forecast, is it a
14 forecast that you've relied upon or is it the same
15 forecast that was used, if you know, for purposes of
16 this proceeding and presented for purposes of this
17 proceeding?

18 A. It clearly was an earlier version of the
19 forecast. It would have been done in the second
20 quarter of 2011, which is almost a year in advance of
21 when the forecast was put together for this
22 proceeding.

23 Q. Would you have used the same forecasting
24 methodology, if you know?

25 A. The basic methodology would be the same,

1 but there would be some pretty dramatic differences
2 in the assumptions.

3 Q. Now, with respect to the right side of
4 that graph where it says "East Generation Only," when
5 you look at any one of those columns, is that
6 information -- let's start with the first column.
7 The estimated generation 49.8 percent of total
8 revenues less estimated CSAPR OSS impact, is that
9 information that would have been generated by you or
10 someone under your supervision or control?

11 A. It would not have been done by my group.

12 Q. And with respect to the next column,
13 "Generation PP&E Balance July 2011," would that have
14 been supplied by you or someone under your
15 supervision and control?

16 A. I can't tell from looking at this
17 schedule whether that's a forecasted value or an
18 actual value. If it was a forecasted value, then it
19 would have come from my group; if it's an actual
20 value, then the authors would have just taken that
21 value from the ledgers.

22 Q. Can you tell me why you would have been
23 CC'd on this memo?

24 A. Because they utilized my forecasted data
25 to help them in doing their analysis, so out of

1 courtesy they showed me the end product.

2 MS. GRADY: If I may have a moment, I
3 think I'm done, your Honor, but I'd like to quickly
4 look through my notes.

5 EXAMINER SEE: Sure.

6 (Off the record.)

7 MS. GRADY: That's all the questions I
8 have. Thank you, Mr. Sever.

9 THE WITNESS: You're welcome.

10 EXAMINER SEE: Mr. Darr.

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

12 - - -

13 CROSS-EXAMINATION

14 By Mr. Darr:

15 Q. You still have OCC Exhibit 104 in front
16 of you?

17 A. Yes, sir, I do.

18 Q. If we turn to page 2 of this memorandum,
19 am I correct that this analysis was done specifically
20 with regard to the East pool? I'm looking at the
21 first paragraph under the heading B, "Held and Used
22 Requirement."

23 A. I see the words, but I really don't know
24 what exactly they all did, so I would be hesitant to
25 respond. Mr. Mitchell probably would have been able

1 to give a better answer.

2 Q. There was also an attachment to this
3 memorandum. Do you recall what the attachment was?

4 A. I do not.

5 Q. Would you -- let me rephrase it.
6 What would you expect to be attached to
7 this memorandum?

8 A. I really don't know.

9 Q. Now, in response to a request for
10 information filed by Industrial Energy Users, you
11 assisted, I believe, Mr. Mitchell in preparing a
12 document or a response that indicated the capacity
13 prices that were used to prepare OCC Exhibit 104. Do
14 you recall that?

15 A. I do.

16 Q. And by any chance do you have in front of
17 you the exhibit marked IEU Exhibit 117?

18 A. Only if it's in this pile to the right.

19 Q. Well, let's find out.

20 A. I don't want to mess anything up, though.
21 There's 118, 114, 116, 114, it's probably right here
22 and I'm just not seeing it. Or the person who was up
23 here in front of me took it. I don't see it, sir.

24 MR. SATTERWHITE: It should be a data
25 request.

1 MR. DARR: I think we just found out what
2 happened to it. Mr. Mitchell tried to leave the
3 building.

4 A. Okay.

5 Q. Do you have IEU Exhibit 117 in front of
6 you now?

7 A. Yes, sir, I do.

8 Q. And do you see the prices for capacity
9 that are included in this memorandum?

10 A. I do.

11 Q. Did you assist in providing the
12 information that's included here?

13 A. I had no -- I offered no assistance on
14 the first paragraph. My name is listed there
15 primarily to cover the words in the second paragraph.

16 Q. Are you aware one way or the other
17 whether or not any of the individual units, operating
18 units, of AEP East had a negative cash flow as
19 calculated by the impairment analysis contained in
20 OCC Exhibit 104?

21 A. I'm pretty sure I never saw anything that
22 would allow me to answer that question, so I can say
23 I'm not aware.

24 MR. DARR: Thank you. That's all I have.

25 EXAMINER SEE: Ms. Spiller?

1 MS. SPILLER: Briefly, your Honor. Thank
2 you.

3 - - -

4 CROSS-EXAMINATION

5 By Ms. Spiller:

6 Q. Good afternoon, Mr. Sever.

7 A. Good afternoon.

8 Q. Sir, in the operation of AEP Ohio's
9 business are there financial forecasts regularly
10 prepared by or on behalf of AEP Ohio?

11 A. Yes, there are.

12 Q. And how often, sir, are those financial
13 forecasts updated?

14 A. I'll start with the shorter-term
15 forecast. Effectively once a year we prepare what is
16 a one-year look. We affectionately refer to it as
17 the "control budget." We do two updates to that
18 after four months of actual are known, and then after
19 eight months of actual are known to measure our
20 progress towards achieving the original budget, and
21 that's its primary purpose.

22 We generally spend the first half of the
23 year, somewhere from the February/March timeframe
24 through June preparing a long-term forecast, that is
25 a ten-year forecast. So those are the main forecasts

1 that we do as part of our normal planning and
2 budgeting process.

3 Q. Thank you, sir.

4 And with respect to the first forecast
5 that you identified, the control budget, would that
6 budget include forecasts with respect to customer
7 shopping in AEP Ohio's service territory?

8 A. Yes, it would.

9 Q. And then, sir, if I understood your
10 answer, that control budget would be reviewed and, as
11 necessary, updated twice per year, correct?

12 A. Yes.

13 Q. And would those updates, sir, include
14 revisions or updates to the forecasted switching
15 statistics for AEP Ohio?

16 A. It would clearly be considered. Whether
17 the situation was -- either based on real activity or
18 what we think is going to happen is different, then
19 it would be updated, or the conclusion could be that
20 the original control budget level was fine and it
21 could be left along, it just depends.

22 Q. Sure. And in your experience, sir, as
23 the Managing Director of Financial Forecasting, is it
24 your opinion that the levels of customer shopping
25 remain flat or the same over the course of a year?

1 A. Clearly, I mean, effectively since the
2 middle of '10 has been growing gradually over the
3 period since then.

4 Q. Thank you.

5 Now, the switching statistics that may be
6 reflected in AEP Ohio's control budget were not
7 utilized by you for purposes of preparing your pro
8 forma financial statements in this case, correct?

9 A. They were not.

10 Q. In fact, sir, what you did was relied
11 upon the work of Mr. Allen that was performed for
12 purposes of this proceeding, correct?

13 A. That's correct. And I guess I should add
14 that in that first update we do, that is currently in
15 the process of being finished, it also will use the
16 same values that are supported by Witness Allen.

17 Q. Sir, if I could ask you, please, to turn
18 to Exhibit OJS-1.

19 A. Okay.

20 Q. Page 2 of this exhibit, sir. The table
21 that you have there is a summary of the riders
22 applicable to standard service offer or nonshopping
23 customers, correct?

24 A. That is correct.

25 Q. And with regard to the period between

1 January '15 and May '15 you assumed that AEP Ohio
2 would be charging its standard service offer
3 customers for capacity at nonmarket-based rates,
4 correct?

5 A. What was that period again?

6 Q. Sure. January '15 to May '15.

7 A. It's pretty clearly stated we're going to
8 use 255.

9 Q. And that is not a market-based rate, is
10 it, sir?

11 A. By "market-based" do you mean the RPM
12 rate?

13 Q. Yes, sir.

14 A. No, that is not.

15 Q. Thank you. And for purposes of preparing
16 your pro forma financial projections in this case,
17 you did not consider the lower standard service offer
18 rates that would occur if AEP Ohio were to price
19 capacity consistent with RPM based-prices, did you?

20 A. We did not.

21 Q. Sir, if we can flip back to page 1 of
22 Exhibit OJS-1, please.

23 A. Okay.

24 Q. Approximately two-thirds down the page
25 you have a bullet point regarding the retail

1 stability rider, correct?

2 A. Yes.

3 Q. And in your assumptions you have assumed
4 annual increases in pretax earnings under the retail
5 stability rider, correct?

6 A. I do.

7 Q. And those increases in pretax earnings
8 reflect adjustments that are intended to result in
9 annual nonfuel generation revenues of \$929 million
10 per year for AEP Ohio, correct?

11 A. I believe that's the number, yes.

12 MS. SPILLER: Thank you, sir. I don't
13 have anything further.

14 EXAMINER SEE: Ms. Kyler?

15 MS. KYLER: No questions, your Honor.

16 EXAMINER SEE: Mr. Siwo?

17 MR. SIWO: Siwo.

18 EXAMINER SEE: Siwo.

19 MR. SIWO: No questions, your Honor.

20 EXAMINER SEE: Mr. Sugarman?

21 MR. SUGARMAN: Yes, thank you, your
22 Honor.

23 - - -

24

25

CROSS-EXAMINATION

By Mr. Sugarman:

Q. Good afternoon, Mr. Sever.

A. Good afternoon.

Q. Following up on some questions that Ms. Spiller just asked you, I take it the forecasting you used for purposes of your testimony and your exhibits is different than what your group typically does in terms of either the short- or long-term forecast; is that a fair statement?

A. This one would be one that I would characterize as a special request from the regulatory group. Clearly, we utilized the 2012 control budget as a starting point for this effort.

Q. And as a starting point, though, then you made numerous adjustments to reflect the assumptions provided to you based upon Mr. Allen's testimony; is that correct?

A. Probably Mr. Allen's and others'. It effectively reflects the request that's embedded into the ESP filing.

Q. And when you do internal forecasting of both a short- and long-term nature, do you typically present multiple scenarios of your forecasts?

A. Generally we use a single-point forecast,

1 but tend to do some sensitivity analysis just to help
2 wrap a feel around potential ups and down
3 identification of issues that could cause you to go
4 either way. We don't necessarily do complete
5 forecast runs for each of those.

6 Q. And did you do any sensitivity analyses
7 with respect to either of the exhibits that accompany
8 your testimony?

9 A. I did not.

10 Q. Was there a particular reason you did not
11 do that type of sensitivity analysis in this
12 particular instance?

13 A. The task was pretty simple in that it was
14 to forecast the request in the ESP. It wasn't to
15 evaluate the request in the ESP. So I had no real
16 need to do another piece.

17 Q. Did you perform a long-term forecast
18 based upon the ESP that's been filed in this case of
19 a duration longer than what you presented in your
20 testimony?

21 A. That effort is currently underway. It
22 was scheduled to be completed somewhere in the
23 late-June/early-July timeframe.

24 Q. Other than in the filing in the ESP
25 application and in your testimony that you've

1 prefiled and presented here today have you publicly
2 released any of the information that is contained
3 within your forecast models in your exhibits?

4 A. I'm not aware of anywhere where this
5 information has been released publicly other than the
6 stuff you all have.

7 Q. I'm sorry, I missed the last part.

8 A. I'm sorry. Other than the things that
9 you all have from the filing.

10 Q. So, for instance, you were asked
11 questions on FES Exhibit 108 which is the Japan Road
12 Show.

13 A. That's correct.

14 Q. Have there been -- would I be correct
15 that there are ongoing investor relations roadshows
16 or meetings that take place throughout the year by
17 American Electric Power?

18 A. That is correct.

19 Q. And have you been asked, sir, to update
20 the information you provided with respect to investor
21 relation roadshows subsequent to the rejection of the
22 stipulation in the earlier ESP case?

23 A. We have not done that yet. We've
24 effectively not affirmed our guidance and I believe
25 that what you're suggesting or asking about will

1 happen some point in time after we have an order in
2 this proceeding.

3 Q. And by -- when you say "we" and "have an
4 affirmed guidance," you're talking about the parent
5 American Electric Power?

6 A. The parent American Electric Power, I'm
7 sorry.

8 Q. With respect to their publicly traded
9 securities, correct?

10 A. That's correct.

11 Q. Just so I understand, you were only asked
12 about page 18 in Exhibit 108. Did your group -- did
13 you or your group prepare other portions of this
14 particular exhibit, sir?

15 A. I was involved in some of the pages; some
16 of the pages I was not involved.

17 Q. Which is it easier to tell?

18 A. Do you want to just flip through it, I
19 can --

20 Q. Sure.

21 A. I had nothing to do with page 2. Page 3
22 are my superiors. Page 4 I was not involved in. I
23 did assist in page 5 calculating the CAGRs to the
24 right.

25 I am responsible for the load chart on

1 page 6 on the right. I had nothing to do with the
2 development of the states. I had nothing to do with
3 page 7. I had nothing to do with page 8. I had
4 nothing to do with page 9. I did participate in page
5 10.

6 I also participated in page 11. I did
7 not do anything with page 12. I did not do anything
8 with page 13. I did do 14. I did not do 15. I
9 participated in the right side of page 16, the side
10 that talks about the EPS growth rate of 4 to
11 6 percent. I'll take credit for 17. Clearly 18 is
12 something that my group does. I do 19. I do 20. I
13 do 21.

14 Q. Thank you.

15 With respect to the compounded annual
16 growth rates that you've computed for AEP, do you do
17 a similar analysis with respect to Ohio Power
18 Company?

19 A. No, because I generally don't look at
20 Ohio Power's earnings as in earnings per share. I
21 only look at it in terms of earnings the dollars.
22 And, again, the dividends per share is more of a
23 concept that kind of lives at the parent to the
24 shareholders, not from the subs to the parent.

25 Q. Okay.

1 A. So I did not do that calculation for
2 those.

3 Q. No CAGR for the dividend growth for Ohio
4 Power Company.

5 A. No.

6 Q. But it is true, is it not, that Ohio
7 Power Company does issue dividends upstream to its
8 parents?

9 A. Most definitely.

10 Q. Has that dividend grown on an annual
11 basis similar to the rates shown for the dividend
12 growth CAGR for the public company?

13 A. Again, I don't have the date in front of
14 me, but I would suspect that it goes up and down
15 depending on the cash flows of all the subsidiaries'
16 at that time. I think Ms. Hawkins, the other day,
17 talked about that, if you were here for her.

18 Q. She did.

19 A. Okay.

20 Q. And if you turn back to the information
21 that appears on page 20 of this exhibit --

22 A. Is this the page entitled "Normalized
23 Retail Load Trends"?

24 Q. Yes, sir.

25 A. Okay.

1 Q. And did I understand you correctly in
2 addition to the appendix you took credit for this
3 particular page?

4 A. Yes, I did.

5 Q. Okay. And where did this data come from?

6 A. This data comes from our -- it's a
7 combination of the data that starts, this comes from
8 the general ledger where we keep track of our actual
9 sales levels. A group that reports to me, a
10 subsection of my group called Economic Forecasting
11 actually normalizes the data, pulling out the effects
12 of weather, and then effectively what you're seeing
13 is the mathematical calculation of a quarter versus
14 the same quarter prior year with both quarters being
15 weather normalized with the attempt to try to isolate
16 the true growth that's going on quarter over quarter.

17 Q. And did you compare the information on
18 these -- page 20 of FES Exhibit 108 with the exhibits
19 that you submitted along with your testimony in this
20 particular case?

21 A. I'm going to have to ask you to repeat
22 that for me.

23 Q. Sure. Let me try it this way: Do you
24 believe that the information reported on page 20, the
25 normalized retail load trends, in FES Exhibit 108

1 which reports a modest load growth of 1.4 percent for
2 2012 is consistent with the information reflected on
3 OJS Exhibit 2?

4 A. Well, let me tell you where the
5 consistencies are. Number one, we have to make sure
6 we're talking about connected load so it's the load
7 connected at the wires, it doesn't take into account
8 the effect of customers choosing alternative
9 suppliers.

10 And the numbers you see here on page 20
11 of the Japan Road Show are done on a total-system
12 basis, and my exhibits would have been an AEP Ohio
13 only basis. But the forecasted numbers at that
14 connected load level for Ohio Power is inherent in
15 what you're seeing on page 20.

16 Q. So you do believe they would be
17 consistent?

18 A. Yes.

19 Q. On a comparative basis.

20 A. For the 2012 numbers.

21 Q. Right.

22 A. The 2011 numbers are actuals normalized
23 and I don't show any 2011, so I guess we'll say
24 they're consistent too.

25 Q. And the forecasted 2013 and 2014, what

1 kind of growth rate do you utilize with respect to
2 those periods of time?

3 A. Well, again, I don't have the system load
4 growth with me. It's pretty meager. It's probably a
5 little less than this number. But I don't know the
6 exact number.

7 Q. And you believe that's true along all
8 classes of customers; industrial, residential, and
9 commercial.

10 A. Yes.

11 Q. Okay. So that I understand, OJS-1 and
12 OJS-2, when were those exhibits prepared by you or
13 your team?

14 A. It was primarily an effort that happened
15 in the month of March. Initiated subsequent to the
16 February 23rd order.

17 Q. Looking at page 5 of your testimony, sir,
18 when you talk about load and demand forecast, did
19 you, in your forecast that you used for purposes of
20 your testimony and in the exhibits, incorporate any
21 adjustments for weather, for storms, for demand
22 factors such as that?

23 A. Our general practice in forecasting is we
24 forecast normalized load. So there's no either boost
25 or hurt related to weather in the forecasted values.

1 Q. And does that apply to the testimony you
2 filed in this case and the exhibits that accompany
3 your testimony?

4 A. Yes.

5 Q. Okay. Beginning on page 8 and then
6 carrying on to page 9 of your testimony, sir, you
7 really conclude in response to the question "Do you
8 believe that the projected values that you have
9 provided are reasonable?" and your answer at line 3
10 is "Yes, I do."

11 Now, how did you determine that the
12 projected values that you utilized in preparing your
13 exhibits were, in fact, reasonable?

14 A. We have a process in my group that's
15 affectionately called "doing reconciliations," so
16 when we prepare forecasts, we generally do a
17 comparison of the major components of that forecast
18 to both prior period actuals and/or prior forecasts,
19 and to the extent there are differences, then we do
20 further analysis to conclude whether those
21 differences are in line with what we were expecting
22 to see or not.

23 Q. I understand, and you do sensitivity
24 analyses as well with respect to the forecasts that
25 you typically do within your group; is that correct?

1 A. We may.

2 Q. Okay. Now, were any of the -- there was
3 no sensitivity analyses done here for your testimony,
4 correct?

5 A. There was none.

6 Q. And so was there, in fact,
7 reconciliations, prior period comparisons, and the
8 other item you mentioned done specifically with
9 respect to this discrete task of preparing your
10 testimony and the accompanying exhibits?

11 A. We specifically compared 2012 to our
12 control budget to understand how it changed from that
13 level and effectively those changes were primarily
14 the things that were new in the ESP request, so
15 that's how I validated to make sure I captured
16 everything that was being asked for as part of the
17 ESP filing.

18 Beyond that our analysis were just
19 year-over-year comparisons, so I did compare 2013 to
20 '12 to understand what was going on with 2013. When
21 I jumped to the wires only, '14 kind of stands on its
22 own. And then I did a comparison of '15 to '14. It
23 made no sense for me to compare '14, which is wires
24 only, to '13 which included all the functions because
25 it would have just been a whole bunch of difference.

1 So there was no real analysis or reconciliation done
2 between those two years.

3 Q. Okay. I guess, at least to me, more
4 importantly would perhaps be a comparison of the base
5 case year that you're presenting here, the underlying
6 assumptions that you show in 2012 and 2013 and
7 testing those assumptions and those analyses against
8 2009, 2010, 2011 to see whether or not your base case
9 that you project to the future has some
10 reasonableness around it or some basis in historical
11 fact to validate the numbers that are being presented
12 here.

13 MR. SATTERWHITE: Objection, your Honor.
14 I don't think that was a questions. I think that was
15 just a statement.

16 Q. Do you understand or would you like me to
17 repeat either my statement and the question?

18 A. It might be helpful.

19 Q. Okay.

20 EXAMINER SEE: Okay. Rephrase.

21 Q. Did you, in fact, in trying to determine
22 the reasonableness of the exhibits that you're
23 presenting here with the Commission, we can start
24 with the foundation, they're based upon the
25 assumptions that are in your first exhibit, correct,

1 OJS-1?

2 A. That's correct.

3 Q. And did you test the assumptions and then
4 the resulting financial results which are reflected
5 on OJS-2 to any prior year actual operational history
6 of Ohio Power Company?

7 A. As I previously stated, I compared it to
8 my control budget for 2012. In the process of
9 completing the control budget for 2012 I did compare
10 that to 2011 actual, so in an indirect way, if you
11 line them all up, I have effectively -- get all the
12 way back to 2011 actual. I did not go back further
13 than that, sir.

14 Q. You didn't do it in a direct way?

15 A. I did not do in a direct way, no.

16 Q. And the indirect way which you just
17 described, what is the variance, if any, in the net
18 income reflected between your control budget and now
19 the net income that's reflected on OJS-2?

20 A. Let me see if I've got that.

21 I do not have the control budget number
22 with me. I know that the return on equity was in the
23 10-1/2, 11 percent range, but I don't have that
24 specific number. Sorry.

25 Q. Do you know if the revenue -- I'm looking

1 now, excuse me, I'm sorry, at OJS-2, your exhibit,
2 and if you would turn to page 1.

3 Can you state whether the total revenue
4 reflected in 2012 and 20 -- well, 2012 in this
5 exhibit is greater or less than what was in your
6 control budget?

7 A. Less.

8 Q. And the sales of electricity, was that
9 the primary driver of the difference?

10 A. Well, there were multiple changes and the
11 biggest difference from the control budget to what is
12 included in the filing is clearly the level of
13 customers choosing alternative suppliers, and that
14 effect would have multiple effects down the income
15 statement in this filing.

16 Q. And that's the switching that I believe
17 Ms. McBride had spoke with you about earlier.

18 A. I believe so.

19 Q. Okay. And then if you turn with me, if
20 you would, please, to page 3 of OJS-2.

21 A. Yes, sir.

22 Q. And this reflects, does it not, on line
23 20, the dividends paid by Ohio Power Company to the
24 parent AEP?

25 A. That's what -- that \$300 million

1 number --

2 Q. Yes.

3 A. -- in 2012?

4 Q. Yes.

5 A. That's what that is.

6 Q. So there's annual dividend payments of
7 \$3 million each from Ohio Power to AEP in both the
8 years 2012 and 2013, correct?

9 A. That's clearly what I have in my
10 forecast.

11 Q. And then you forecast, after separation,
12 a change in the dividend to \$175 million annually for
13 the wires-only company.

14 A. Yes.

15 Q. You project, do you not, for each year
16 2012 through 2015 an increase in the ending cash and
17 cash equivalents as a result of cash flow and
18 operations for Ohio Power? Do you not?

19 A. The numbers clearly go up over the years,
20 though, again, I'm mixing two years of a bundled
21 company and two years of a wires-only company. But,
22 effectively, mathematically each year the number gets
23 a little bigger.

24 EXAMINER SEE: Mr. Sugarman, if you can
25 hold it right there for a second, we need to take a

1 little break.

2 MR. SUGARMAN: Certainly.

3 (Recess taken.)

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

6 Mr. Sugarman.

7 MR. SUGARMAN: Thank you, your Honor.

8 Q. Mr. Sever, in the response that you make
9 in your prefiled testimony on page 9, lines 1, 2, and
10 3, sir, your use of the word "reasonable" is as to
11 each of the projected values that's contained within
12 OJS Exhibit 2; is that correct? Those are the
13 projected values that you're referring to in your
14 answer to that question?

15 A. Yes, sir.

16 Q. And so you are not saying, are you, that
17 the pro forma financial statements contained in OJS
18 Exhibit 2 are reasonable for adoption as the modified
19 ESP in this proceeding, are you?

20 A. I'm not making any judgment at all. It's
21 strictly that the results are reasonable. I also
22 could have used the word "consistent" with the
23 assumptions used to develop the numbers.

24 Q. Well, the results are reasonable in your
25 view, because of the testimony we just went through

1 that you believe that the projected values that
2 undergird those particular numbers are reasonable,
3 correct?

4 A. That's correct.

5 Q. And the assumptions that Mr. Allen
6 provided you from which many of those projected
7 values are then predicated forward, you did not do
8 any test of reasonableness on some of -- on all of
9 the assumptions given to you by Mr. Allen, did you?

10 A. I didn't do a complete check but there
11 were certain variables that I, you know, in my role I
12 get to at times look at what people -- assumptions
13 they give me and conclude whether I think that's the
14 right level or not, and --

15 Q. And that -- I'm sorry.

16 A. I was just going to say, in this case
17 some of the ones I looked at, some I didn't.

18 Q. And that goes back to the testimony, in
19 terms of direct and indirect in terms of you looked
20 at this; is that right?

21 A. That's right.

22 Q. And the record will reflect that level of
23 analysis?

24 A. That's correct.

25 MR. SUGARMAN: Thanks, Mr. Sever. No

1 further questions.

2 EXAMINER SEE: Ms. Thompson?

3 MS. THOMPSON: No questions, your Honor.

4 Thank you.

5 EXAMINER SEE: Mr. Yurick?

6 MR. YURICK: No questions, your Honor.

7 EXAMINER SEE: Mr. Barnowski?

8 MR. BARNOWSKI: No questions, your Honor.

9 EXAMINER SEE: Ms. Kaleps-Clark?

10 MS. KALEPS-CLARK: No questions, your

11 Honor. Thank you.

12 EXAMINER SEE: Mr. O'Brien?

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

14 Thank you.

15 EXAMINER SEE: Mr. Margard?

16 MR. MARGARD: No questions, your Honor.

17 Thank you.

18 EXAMINER SEE: Is there any other counsel

19 in the room?

20 Mr. Satterwhite, any redirect?

21 MR. SATTERWHITE: Yeah, just briefly,

22 your Honor.

23 - - -

24

25

REDIRECT EXAMINATION

By Mr. Satterwhite:

Q. Mr. Sever, can you pull out FES Exhibit 108, which is the Japan Road Show you talked about today.

A. I have it.

Q. And are you aware of when the stipulation was unapproved by the Commission earlier in this case?

A. I believe it was February 23rd, 2012.

Q. And was this presentation prepared prior to that?

A. This presentation would have been prepared in early-February, approximately two to three weeks in front of that order.

Q. Also in response to some questions from Ms. Grady from the Ohio Consumers' Counsel you talked about some of the off-system sales margins. Do you remember that conversation?

A. I do.

Q. And I believe you referred to the CRES and the physical margins. Are there any other margins?

A. Yes. As we talked before when we were talking about 2011, I also made reference to trading

1 margins, so there's also an assumption or forecast
2 for trading margins in the data that I provided to
3 the OCC. The trading number in 2012 is 31.5 million
4 and it's 30.9 million in 2013.

5 MR. SATTERWHITE: That's all I have.
6 Thank you, your Honor.

7 EXAMINER SEE: Recross, Ms. McBride?

8 MS. McBRIDE: No questions, your Honor.

9 EXAMINER SEE: Ms. Grady?

10 MS. GRADY: Yes, your Honor, very
11 quickly.

12 - - -

13 RECROSS-EXAMINATION

14 By Ms. Grady:

15 Q. You mentioned, Mr. Sever, the trading
16 margins for 2012 and 2013, the 2012 number is 31.5
17 and the 2013 was 30.9; is that correct?

18 A. Yes; that's in millions of dollars.

19 Q. And were those -- those were included in
20 the millions of dollars that you provided to me in
21 response to the total dollars or profits associated
22 with what we called off-system sales for those years?

23 A. Yes. The profits that were included in
24 my pro formas.

25 Q. Do you recall what those -- what numbers

1 those were for 2011?

2 A. The numbers I gave for 2011 were on a
3 total-system basis, I believe. I thought. I may
4 not -- I guess I don't remember. I believe when I
5 was talking about 2011, I was talking about page 18
6 of the Japan Road Show, there was a \$343 million
7 number.

8 Q. Yes.

9 A. That was the total-system view of the
10 number. When I was asked for the numbers for 2012
11 included in my pro formas, I gave you only the Ohio
12 share.

13 Q. So you did not give me the Ohio portion
14 for the 2011.

15 A. No, I did not.

16 MS. GRADY: Thank you, Mr. Sever.

17 THE WITNESS: You're welcome.

18 EXAMINER SEE: Mr. Darr?

19 MR. DARR: No questions.

20 EXAMINER SEE: Ms. Spiller?

21 MS. SPILLER: No questions, your Honor.

22 EXAMINER SEE: Ms. Kyler?

23 MS. KYLER: No questions, your Honor.

24 EXAMINER SEE: Mr. Siwo?

25 MR. SIWO: No questions, your Honor.

1 EXAMINER SEE: Mr. Sugarman?

2 MR. SUGARMAN: No questions.

3 EXAMINER SEE: Ms. Thompson.

4 MS. THOMPSON: No questions, your Honor.

5 EXAMINER SEE: Mr. Yurick?

6 MR. YURICK: No, thank you, your Honor.

7 EXAMINER SEE: Mr. Barnowski?

8 MR. BARNOWSKI: I have a couple, your
9 Honor. I'll be quick.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Barnowski:

13 Q. Mr. Sever, the Japan Road Show was an
14 actual presentation given, right?

15 A. Yes, sir.

16 Q. And it was given on
17 February 21st through February 24th?

18 A. Those were the dates that they were in
19 Japan meeting with the investor community over there.

20 Q. After the stipulation was overturned on
21 February 23rd, was there a change made to the
22 presentation on the 24th or was the exact same
23 information then presented on the 24th?

24 A. Now I'm really confused because now we've
25 crossed the international date line. I think they're

1 a day ahead, so this 24th probably would have been
2 the 23rd here, if I've got my directions right. So
3 there was no changes made to this presentation for
4 purposes of the Japan Road Show.

5 Q. You don't know of any changes made based
6 on the stipulation being overturned.

7 A. No, I do not.

8 Q. Now, I take it when you prepared your
9 testimony and you prepared your assumption -- your
10 projection, you were careful of what you did.

11 MR. SATTERWHITE: Objection, your Honor.
12 I believe the redirect was focused in this area on
13 the date of the rejection of the stipulation and this
14 presentation, I think we're going beyond right now.

15 MR. BARNOWSKI: Your Honor, it doesn't,
16 because I think one of the points that counsel was
17 trying to make is that the reason there's a
18 difference between this, what's in here, and what's
19 in his testimony --

20 EXAMINER SEE: And when you say "here,"
21 you're referring to FES 108?

22 MR. BARNOWSKI: I apologize, yes, FES
23 108.

24 Is that FES 108 was prepared ahead of
25 time, before there was a change in the law based on

1 the overturning of the stipulation.

2 What I'd like to show is how long it took
3 this man to prepare his testimony, because I think
4 what we'll find out is that when he prepared his
5 projections, they were actually -- he relied on
6 information given to him significantly ahead of
7 March 30th. This is not a two-month gap based on
8 changes in the law.

9 MR. SATTERWHITE: And, your Honor, I
10 think that crosses over. Again, the question was
11 about when this was prepared. I think he previously
12 testified he prepared his testimony in March after
13 this anyway, so the tie isn't even there. But, two,
14 the question simply was when did this occur in time
15 versus when the presentation was.

16 MR. BARNOWSKI: Your Honor, I think what
17 we'll find out is he prepared his projections
18 literally within days of this information in FES 108
19 being presented orally, despite the fact they're very
20 different.

21 EXAMINER SEE: The objection is
22 sustained.

23 MR. BARNOWSKI: No further questions.

24 EXAMINER SEE: Ms. Kaleps-Clark?

25 MS. KALEPS-CLARK: No question, your

1 Honor. Thank you.

2 EXAMINER SEE: Mr. O'Brien?

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

4 EXAMINER SEE: Mr. Margard?

5 MR. MARGARD: No questions, your Honor.

6 EXAMINER SEE: Thank you, Mr. Sever.

7 I believe Mr. Satterwhite already moved
8 for the admission of AEP 108.

9 MR. SATTERWHITE: Yes, your Honor.

10 EXAMINER SEE: Are there any objections
11 to the admission of AEP Exhibit 108?

12 (No response.)

13 EXAMINER SEE: Hearing none, AEP 108 is
14 admitted into the record.

15 (EXHIBIT ADMITTED INTO EVIDENCE.)

16 EXAMINER SEE: Ms. McBride.

17 MS. McBRIDE: Your Honor, we would move
18 for the admission of FES Exhibits 108 and 109.

19 EXAMINER SEE: Are there any objections
20 to the admission of FES 108 and 109?

21 MR. SATTERWHITE: No objection.

22 EXAMINER SEE: Both FES 108 and 109 are
23 admitted into the record.

24 (EXHIBITS ADMITTED INTO EVIDENCE.)

25 EXAMINER SEE: Thank you, Mr. Sever.

1 THE WITNESS: You're welcome.

2 EXAMINER TAUBER: Ms. Grady.

3 MS. GRADY: Your Honor, I would like to
4 renew my request that the PUCO order the company to
5 produce the AEP Ohio portion of the total company
6 estimated cash flows which would be a portion of the
7 OCC Exhibit 104 10-year forecast and the 20-year
8 forecast figure.

9 EXAMINER SEE: And the Commission took
10 this request under advisement prior to the lunch
11 break, and that request is denied.

12 MR. SATTERWHITE: At this time, your
13 Honor, the company, if it would please the Bench,
14 would call Jay Godfrey to the stand.

15 EXAMINER TAUBER: Mr. Godfrey, would you
16 please raise your right hand.

17 (Witness sworn.)

18 EXAMINER TAUBER: Thank you.

19 MR. SATTERWHITE: Thank you, your Honor.

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25

1 JAY F. GODFREY

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

4 DIRECT EXAMINATION

5 By Mr. Satterwhite:

6 Q. Mr. Godfrey, can you please state your
7 name, title, business address for the record?

8 A. It's Jay Godfrey, I'm Managing Director
9 of Renewable Energy for American Electric Power
10 Service Corporation. My business address is 155 West
11 Nationwide Boulevard, Columbus, Ohio, 43215.

12 Q. Mr. Godfrey, did you cause testimony to
13 be filed prepared by you or under your direction in
14 this case on March 30th, 2012?

15 A. I did.

16 MR. SATTERWHITE: Your Honor, may I
17 approach the witness?

18 EXAMINER TAUBER: You may.

19 MR. SATTERWHITE: First I'd like to mark
20 the direct testimony previously discussed as AEP
21 Exhibit 109.

22 EXAMINER TAUBER: It shall be so marked.

23 MR. SATTERWHITE: And at the same time
24 mark the confidential attachments to that testimony
25 as 109A.

1 EXAMINER TAUBER: So marked.

2 (EXHIBITS MARKED FOR IDENTIFICATION.)

3 Q. (By Mr. Satterwhite) Mr. Godfrey, can you
4 identify AEP Exhibit 109 and 109A, please?

5 A. 109 is my direct testimony together with
6 some exhibits, which -- JFG-1, which is an RFP for
7 renewable energy dated June the 1st, 2009. JFG-2A
8 is a summary term sheet of the Paulding Wind Farm
9 power purchase agreement.

10 Exhibit 3A is the renewable energy
11 purchase agreement between Ohio Power Company and
12 Paulding Wind Farm. And Exhibit JFG-4 is a similar
13 power purchase agreement with Paulding Wind Farm and
14 Columbus Southern Power Company.

15 There are also confidential copies of
16 those same exhibits that are marked confidential
17 109A.

18 Q. Mr. Godfrey, was this testimony prepared
19 by you or under your direction?

20 A. Yes, it was.

21 Q. Do you have any corrections, sitting here
22 today, to this testimony?

23 A. I do not.

24 Q. And do you adopt this testimony in 109
25 and the confidential exhibits in 109A as your

1 testimony today?

2 A. I do.

3 MR. SATTERWHITE: Your Honor, at this
4 time the company would move for admission of 109 and
5 109A pending cross-examination and tender the
6 witness.

7 EXAMINER TAUBER: Thank you.

8 Ms. McBride?

9 MS. McBRIDE: No questions, your Honor.

10 EXAMINER TAUBER: Let's start this time
11 on this side.

12 Mr. O'Brien?

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

14 EXAMINER TAUBER: Ms. Kaleps-Clark?

15 MS. KALEPS-CLARK: No questions. Thank
16 you.

17 EXAMINER TAUBER: Ms. Hand?

18 MS. HAND: No questions, your Honor.

19 EXAMINER TAUBER: Mr. Yurick?

20 MR. YURICK: No questions. Thank you,
21 your Honor.

22 EXAMINER TAUBER: Ms. Thompson.

23 MS. THOMPSON: No questions, your Honor.

24 Thank you.

25 EXAMINER TAUBER: Mr. Sugarman?

1 MR. SUGARMAN: No questions, your Honor.

2 EXAMINER TAUBER: Mr. Siwo?

3 MR. SIWO: No questions, your Honor.

4 EXAMINER TAUBER: Ms. Kyler?

5 MS. KYLER: No questions, your Honor.

6 MR. SINENENG: No questions, your Honor.

7 EXAMINER TAUBER: Mr. Olikar?

8 MR. OLIKAR: Hopefully just a few, your

9 Honor.

10 EXAMINER TAUBER: Okay.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Olikar:

14 Q. Good afternoon, Mr. Godfrey.

15 A. Greetings.

16 Q. Looking at your testimony, would you
17 agree that the main purpose, the sole purpose of your
18 testimony is to support the Timber Road REPA?

19 A. Yes, it is.

20 Q. So any other references in your testimony
21 that aren't dealing with wind contracts, that's just
22 sort of background and not a specific recommendation?

23 A. That is correct.

24 Q. Turning to a statement in your testimony
25 on page 9, I think it's on line 10, it says

1 "...AEP Ohio will find itself short of solar RECs by
2 the end of 2012 due to the increasing solar
3 benchmarks it must meet for compliance."

4 Can you tell me, first, how are the solar
5 benchmarks calculated?

6 A. That's in the law, Senate Bill 221.

7 Q. Would that be 4928.64(B)?

8 A. I do not know the exact code.

9 Q. Would you agree that they're calculated
10 based upon an average three-year sales by the
11 electric distribution utility?

12 A. That is my understanding.

13 Q. And this statement that you have here,
14 can you tell me the assumptions behind it on line 10,
15 page 9, it says that "...AEP Ohio will be short at
16 the end of 2012..."?

17 A. Well, it's a factual statement. It's
18 calculated based on the load from 2009, from 2010,
19 and 2011, so it's all historical. So it's just a
20 factual statement. The company briefed that in the
21 renewable filing also this year.

22 Q. And were you a part of that case?

23 A. No.

24 Q. So can you tell me what the assumptions
25 were for switching for each of those years?

1 A. It's a historical calculation so there
2 are no assumptions. It's factual.

3 Q. Do you know the numbers, is what I'm
4 asking you?

5 A. No, I do not.

6 Q. So can you support this as your testimony
7 with statistical data?

8 MR. SATTERWHITE: Objection, your Honor.
9 I think the witness already testified that,
10 Mr. Olikier brought up I think it was the statutory
11 formula and Mr. Godfrey stated this is the number
12 from that historical look at that factual formula.

13 MR. OLIKER: Your Honor, I'm just asking
14 if he can support this number with his testimony or
15 if he knows the numbers that are behind it. He can
16 say that it's a statistical answer, but if he can't
17 point to anything to support that --

18 EXAMINER TAUBER: The objection is
19 overruled.

20 A. Well, I think the company in its report
21 that was filed in April of this year calculated that.

22 Q. (By Mr. Olikier) And --

23 A. And I looked at the report.

24 Q. Can you tell me what the assumptions were
25 in the report?

1 A. I cannot.

2 Q. Have you looked at Mr. Allen's testimony
3 in this proceeding?

4 A. No, I have not. This is my first day
5 here.

6 Q. Would you agree that AEP's solar
7 compliance requirement is calculated, as you said
8 before, based upon a three-year average of
9 kilowatt-hour sales?

10 MR. SATTERWHITE: Your Honor, at this
11 point I'm going to object. I think, you know, we
12 heard some questions on this part of the testimony,
13 but as Mr. Oliker pointed out in the very beginning,
14 the purpose of this testimony is related to the wind
15 REPA associated here.

16 The witness has given his background of
17 where he drew the assumptions for this statement and
18 we seem to be focused on solar at this point when
19 that's not the purpose of his testimony. It's beyond
20 the scope.

21 MR. OLIKER: Your Honor, if it's beyond
22 the scope, let's strike it, all the references to
23 solar in the testimony.

24 EXAMINER TAUBER: The objection is
25 overruled.

1 MR. OLIKER: Could you please read the
2 question back, Maria?

3 (Record read.)

4 A. And I believe I answered that already,
5 and the answer is yes.

6 Q. So you would agree that the solar
7 requirements are sensitive to shopping.

8 A. I think the solar requirements are
9 sensitive to many factors.

10 Q. Is shopping one of them?

11 A. I would assume so, yes.

12 Q. So this statement that you have in your
13 testimony about when AEP will be short of its -- of
14 SRECs, you haven't done any analysis based upon the
15 shopping that Mr. Allen has included in his
16 testimony; is that correct?

17 A. I have not read Mr. Allen's testimony,
18 but I can only guess that you are confusing
19 forward-looking statements with the current statement
20 for 2012. It's based on historical load from 2009,
21 2010, and 2011. You calculate it by a known factor,
22 which is in the bills, and you know how many RECs
23 that you have currently. And if you have a
24 requirement that's more than what you have, then that
25 means that you're short. And we were -- we're going

1 to be slightly short in 2012. That's one whole
2 statement in the testimony.

3 Q. And the basis of that statement is on the
4 Wyandot Solar contract; is that correct?

5 A. The basis of the statement is based on
6 the load that we've had in 2009, 2010, and 2011
7 calculated by the benchmark requirement in Senate
8 Bill 221 and compared that with the amount of RECs
9 that we have carried forward and what we expect
10 during the year.

11 Q. And would you agree that because of the
12 Wyandot Solar contract you've been able to bank RECs
13 in the past?

14 MR. SATTERWHITE: Objection, your Honor.
15 Now we're -- again, I'm going to renew my objection
16 to beyond the scope. The witness gave a general
17 background of the renewables, he's discussed what's
18 the basis of the statement, now we're moving on to
19 banking of solar RECs. Again, well beyond the
20 testimony.

21 MR. OLIKER: Again, your Honor, if I can
22 explore what he means by this statement, I'm fine if
23 I can get some answers. But if I can't explore what
24 he's saying and what's the basis of it, I think it
25 should be stricken.

1 EXAMINER TAUBER: I'll allow it as it
2 relates to the renewable energy credits, so the
3 objection is overruled.

4 THE WITNESS: Could you read the question
5 back?

6 (Record read.)

7 A. That's correct, yes.

8 Q. (By Mr. Oliker) So that's not reflected
9 in your statement whether or not you can -- you've
10 banked enough RECs to satisfy the 2012 solar
11 requirements, correct?

12 A. I do believe that the statement speaks
13 for itself.

14 Q. I don't believe that's responsive to the
15 question.

16 A. Can you rephrase it?

17 Q. If you consider the RECs that you have
18 banked, will AEP Ohio be able to satisfy its 2012
19 in-state solar obligation?

20 A. The answer is no. Let me -- we won't be
21 able to satisfy our total REC obligation. We're
22 going to --

23 Q. I said --

24 A. Right, now I understand. You said
25 "in-state," and we'll be able to meet that. We will

1 be short some out-of-state RECs.

2 MR. OLIKER: No further questions, your
3 Honor.

4 EXAMINER TAUBER: Thank you.

5 Ms. Grady?

6 Go ahead.

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Serio:

10 Q. Good afternoon, Mr. Godfrey.

11 A. Good afternoon.

12 Q. Is it my understanding that the company
13 proposed the generation resource rider, the GRR in
14 this case, as a placeholder for future generation
15 facilities?

16 A. I think that was the testimony from
17 others in the case.

18 Q. And is the future -- is it your
19 understanding that the future generation facilities
20 known to the company at this point is limited to the
21 Timber Road facility?

22 MR. DARR: Could I have that question
23 read back, please?

24 (Record read.)

25 MR. SATTERWHITE: I'll object, your

1 Honor. Maybe it's just a point of clarification. Is
2 the assumption that the wind REPA that he's
3 sponsoring is going to the GRR? Because if that's
4 the case, then I'll object as an improper premise to
5 the question.

6 EXAMINER TAUBER: Could you clarify your
7 question, please, Mr. Serio?

8 Q. Is it your intent that any of the costs
9 associated with the Timber Road facility would
10 eventually end up in the GRR?

11 A. It's my understanding that it will not be
12 in the GRR, and rather others have testified that it
13 will be in the AER.

14 Q. And is it your testimony that the cost of
15 the Timber Road facility are up for review by the
16 Commission in this proceeding?

17 A. Yes. My testimony is asking for both
18 prudence and the ability for cost recovery of the
19 costs associated with the Timber Road REPA.

20 MR. SERIO: That's all I have, your
21 Honor. Thank you.

22 EXAMINER TAUBER: Thank you.

23 Is there anybody we missed?

24 Mr. Satterwhite, redirect?

25 MR. SATTERWHITE: No redirect, your

1 Honor.

2 At this point I'd re-move for -- I'm
3 sorry, if there are questions from the Bench.

4 EXAMINER TAUBER: Commissioner Porter?

5 COMMISSIONER PORTER: No.

6 EXAMINER TAUBER: Go ahead.

7 MR. SATTERWHITE: I'd re-move for the
8 admission of AEP Exhibits 109 and 109A.

9 EXAMINER TAUBER: Are there any
10 objections to AEP Exhibits 109 and 109A?

11 (No response.)

12 EXAMINER TAUBER: Hearing none, AEP
13 Exhibits 109 and 109A will be admitted.

14 (EXHIBITS ADMITTED INTO EVIDENCE.)

15 EXAMINER TAUBER: Let's go off the
16 record.

17 (Discussion off the record.)

18 EXAMINER TAUBER: Let's go back on the
19 record.

20 We'll reconvene till tomorrow morning at
21 8:30 a.m. Thank you.

22 (Hearing adjourned at 3:21 p.m.)

23 - - -
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25

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, May 21, 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-4015)

- - -

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Case No(s). 11-0346-EL-SSO, 11-0348-EL-SSO, 11-0349-EL-AAM, 11-0350-EL-AAM

Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 05/21/12 - Volume III electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.