BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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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 Wednesday, May 23, 2012.

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Wednesday Morning Session,
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EXAMINER SEE: Let's go on the record. Let's take brief appearances of the parties starting with the company moving around the table.

MR. SATTERWHITE: Thank you, your Honor. On behalf of Ohio Power Company, Matthew Satterwhite, Steve Nourse, Yazen Alami, Dan Conway, Christen Moore.

MR. POULOS: Thank you, your Honor. On behalf of EnerNOC, Greg Poulos.

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 and David Kutik.

MR. DARR: On behalf of IEU-Ohio, Sam Randazzo, Matt Pritchard, Joe Oliker, and Frank Darr.

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

MR. K. BOEHM: Good morning, your Honor.

On behalf of the Ohio Energy Group, Kurt Boehm.

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

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

MS. THOMPSON: On behalf of Interstate Gas Supply, Inc., Melissa Thompson, Mark Whitt, Andrew Campbell, Vince Parisi, and Matt White.

MR. HAQUE: Good morning, your Honors. On behalf of the Association of Independent Colleges and Universities of Ohio, City of Grove City, City of Hillsboro, City of Upper Arlington, Asim Haque and Greg Dunn.

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

MR. PETRICOFF: Good morning, your Honor. On behalf of Constellation and Exelon Generation, David Stahl, Howard Petricoff. On behalf of RESA, Howard Petricoff and Lija Kaleps-Clark.

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

MR. MARGARD: Werner Margard and Steven Beeler, Assistant Attorneys General on behalf of the

Commission staff.

EXAMINER SEE: Is there any other counsel for a party present?

(No response.)

EXAMINER SEE: Mr. Poulos.

MR. POULOS: Thanks, your Honor. Thank you, I appreciate your patience and --

EXAMINER SEE: Mr. Poulos, large room, need you to speak up.

MR. POULOS: Thank you, your Honor. I appreciate your patience yesterday. I was not able to be here. It's my understanding that AEP Ohio offered EnerNOC Exhibit 101 which consisted of interrogatories 1-002, 1-004, 1-005, and 1-006 that the company, AEP Ohio, and EnerNOC stipulated to the admissibility of, and it was my understanding there was an objection to interrogatory 1-002.

As I've been told, my understanding is that the objection is that it's an opinion and that it's not admissible because of that. I am offering, as a statement that the two of us agreed on, I am offering the interrogatory as an admission by a party opponent, and it's a statement and it doesn't matter if it's opinion or not. It is a fact by the company that they have looked and their witness has looked and seen that there is no restrictions from companies like EnerNOC, but it is a statement nonetheless and so it should be accepted under that provision.

As for the fact that it's a party opponent, the reason for the statement is actually Case No. 10-343, which is still open, In the Matter of the Application of Columbus Southern Power Company to Amend Its Emergency Curtailment Service Riders. In that case there was restrictions requested by AEP Ohio on curtailment service providers; that's still an open case.

EXAMINER SEE: Did you wish to reply, Mr. Darr? It was IEU who posed an objection to the admission of EnerNOC 101.

MR. DARR: Thank you, your Honor. I don't know that we need to add anything to what we stated yesterday.

EXAMINER SEE: If there are no further objections, EnerNOC Exhibit 101 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Satterwhite, your next witness.

MR. SATTERWHITE: Thank you, your Honor, the company would call the person that's already at the stand, Mr. William Allen.

EXAMINER SEE: Mr. Allen, raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat, cut your mic on.

MR. SATTERWHITE: Thank you, your Honor.

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WILLIAM A. ALLEN

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

DIRECT EXAMINATION

By Mr. Satterwhite:

Q. Mr. Allen, can you please state your name, title, business address for the record?

A. Yes. My name is William A. Allen, A-l-l-e-n. My business address is 1 Riverside Plaza, Columbus, Ohio, 43215. And my title is Director of Regulatory Case Management for American Electric Power Service Corporation.

Q. Mr. Allen, did you cause testimony to be filed in this case under your name on March 30th, 2012?

A. Yes, I did.

MR. SATTERWHITE: Your Honor, at this

time I'd like to mark Mr. Allen's testimony as AEP Exhibit 116.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SATTERWHITE: May I approach?

EXAMINER SEE: Yes.

Q. Mr. Allen, can you please identify the document I just placed in front of you marked AEP Exhibit 116?

A. Yes. This is the direct testimony that I filed on March 30th in this case. It consists of 23 pages of testimony.

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

A. Yes, it was. Let me clarify; it consists of 17 pages of testimony as well as my exhibits.

Q. And do you have any changes or corrections to this testimony you'd like to make today?

A. Yes, I do. I have a couple of minor corrections. On page 6, line 10, the word "though" should be "through" such that the sentence reads "The Company is proposing a two tiered capacity pricing mechanism that is intended to encourage increasing levels of customer shopping during the transition period before the Company's SSO load is served through an auction."

The next correction is on page 12. I incorrectly spelled Mr. Kirkpatrick's name, so "Kilpatrick" should be replaced with "Kirkpatrick," K-i-r-k-p-a-t-r-i-c-k.

And then on page 17, line 12, there's a clarifying addition to that sentence, between the words "rate" and "for" the words "of $355.72 per megawatt-day" should be inserted such that the sentence now reads "No, since CRES providers would be paying AEP Ohio a cost based rate of $355.72 per megawatt-day for use of AEP Ohio's capacity no Retail Stability Rider would be necessary."

Q. Does that complete the changes and corrections?

A. Yes, it does.

Q. And with those corrections do you adopt this testimony as your testimony today for this proceeding?

A. Yes, I do.

MR. SATTERWHITE: With that, your Honor, I'll move admission of AEP Exhibit 116 and tender the witness for cross-examination.

EXAMINER SEE: Before we move to

cross-examination of Mr. Allen, I note that IEU has filed a motion to strike portions of his testimony. That motion is denied.

Mr. Kutik?

MR. KUTIK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kutik:

Q. Good morning --

A. Good morning, Mr. Kutik.

Q. -- Mr. Allen. One of the purposes of your testimony is to present a calculated, quote, benefit, end quote, provided by providing or offering a, quote, discounted, end quote, capacity price, correct?

A. I wouldn't include the quotes, but for providing discounted capacity, yes.

Q. And the number was approximately $989 million.

A. Yes.

Q. And that was derived by comparing two scenarios, one, that all shopping customers would pay $355 per megawatt-day for capacity and, two, all shopping customers would pay either $146 or $255 per megawatt-day per the tiers that the company has proposed, correct?

A. Not exactly. What my testimony discusses is that the wholesale transaction between AEP and the CRES would be at those pricing levels. Not with the customer, with the CRES.

Q. All right. So that the capacity that's being calculated is for all CRES providers would pay either 355, and the other would be all CRES providers paying either 146 or 255 per the tiers that you've proposed.

A. Yes, that's correct.

Q. Now, this calculation assumes, does it not, that AEP Ohio is entitled to charge 355 for capacity, correct?

A. Yes, because that's AEP's cost of capacity.

Q. And if the Commission were to find that AEP's costs were not 355, but something less, then the way we would calculate the benefit would show a lesser or smaller benefit, correct?

A. Not necessarily. And I think we discussed this in my deposition. The company has several avenues to determine the price of capacity. The first step, and we sat through that process last week and several weeks before that, is before the

Ohio Commission in their setting of a state compensation mechanism, AEP also has 206 rights before FERC such that if the company determined that the rate determined by the PUCO was unjust and unreasonable, we could take advantage of our 206 rights at FERC to determine an appropriate cost-based rate.

Q. So if the Commission determined that the company's costs were not 355 but something less, and the FERC also determined that the company's costs were not 355 but something less, and all potential appeals had been exhausted, would it be fair to say that the way one would calculate the benefit per your formula would result in a smaller benefit number?

A. Not necessarily. The company would continue to have rights in federal court such that if the rates determined, either through the PUCO or through the FERC, were deemed to be confiscatory in nature such that the company was not recovering its costs, the company could also approach the case in that manner.

So, you know, my belief is that the company's true cost of capacity is $355.72 per megawatt-day and, as such, providing the discounted rates that we've proposed in our case is a benefit to

CRES providers and customers. An additional benefit is the removal of the uncertainty associated with those two avenues that the company has before it.

Q. So for the benefit calculation to be -- result in a lower number, the Commission would have to find that your costs are not 355, the FERC would have to determine that your costs are not 355, all appeals would have to be exhausted and all of your federal court remedies would have to be rendered ineffective or closed; is that correct?

A. That was a long question, if you could reread it, please.

(Record read.)

A. I think that's a fair characterization.

Q. Thank you. Now, the calculation assumes certain shopping levels, correct?

A. Yes, it does.

Q. And would it be fair to say that if the shopping assumptions used in your calculation assumed less shopping, the benefit from the discounted capacity would be less?

A. It depends. It's a fairly complicated calculation and it depends upon the shopping levels in each one of the classes, each class has a different value of discount that's calculated in those -- in the determination of the $989 million.

The other factor that needs considered as you look at it is the RSR changes. So to the extent that shopping levels are lower than what the company has proposed, there would be a direct relationship between a reduction in the RSR, which is a cost of the ESP plan, and the capacity discount calculation.

So independent of the shopping levels the benefits would stay the same.

Q. Well, I'm talking to you about the 989. The $989 million figure, you understand I'm talking about that, don't you?

A. I do.

Q. And that number would be lower if the shopping assumptions were less, correct?

A. That's correct, and all I was clarifying is that you have to factor in that the RSR would move in an equal and opposite direction.

Q. Now, if -- now, the shopping assumptions that you used are not borne of any experience that you've had working as a CRES provider, correct?

A. AEP Ohio is an EDU, we're not a CRES provider. We have code of conduct rules. I don't work for AEP Retail.

Q. So the answer is yes, correct?

A. The answer is I do not work for a CRES provider and I have not worked for a CRES provider.

Q. And you don't regularly even have regular dealings with AEP Retail, correct?

A. I do not have regular dealings with AEP Retail. On occasion I've had dealings with AEP Retail.

Q. But my question was regular dealings. You don't have regular dealings with AEP Retail, correct?

A. That's correct. My dealings with AEP Retail generally are consistent with the dealings I have with other nonaffiliated CRES providers.

Q. And one source of your shopping assumptions were the PUCO's shopping statistics, correct?

A. Yes, that's correct.

MR. KUTIK: Your Honor, may I approach?

EXAMINER SEE: Yes.

MR. KUTIK: Your Honor, in the 10-2929 case we offered an exhibit that was marked FES Exhibit 113, which I also propose to be marked as Exhibit 113 in this case, and that is the "Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales For the Month Ending December 31, 2011" from the PUCO's website.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Thomas, I've handed you -- Mr. Allen, excuse me, I apologize. I handed you what's been marked for identification as FES Exhibit 113. Do you recognize that?

A. I do.

Q. And these are the switching statistics that are published by the PUCO?

A. They appear to be the switching statistics for the period 2008 through 2011.

Q. And, again, these are published by the PUCO.

A. Yes.

Q. And these are among the statistics that you looked at.

A. Yes, they are.

MR. KUTIK: Your Honor, may I approach?

EXAMINER SEE: Yes.

MR. KUTIK: We also marked, your Honor, in the 10-2929 case a document that was marked in that case as Exhibit FES 114 that we'd also like to have marked as FES Exhibit 114 in this case which is a one-page document entitled "PUCO Summary of Electric Choice in Terms of Sales, December 2011."

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, I've handed you what's been marked for identification as FES Exhibit 114. Do you recognize that as a summary of some of the information that appears on the PUCO statistics that we had marked as Exhibit 113?

A. It appears to be consistent, and consistent with the analysis that I've looked at previously.

Q. Now, you assume, do you not, in your calculations to come up with the $989 million figure that there will be residential shopping by 65 percent of the residential load? Correct?

A. That's correct.

Q. And for commercial load you assume 80 percent of the load would shop.

A. That's correct.

Q. And you assumed for industrial customers that, with the exception of one customer, 90 percent of that load would shop.

A. That's correct.

Q. For residential shopping you assume a level that's higher than the average of the EDUs in Ohio; is that correct?

A. That's correct. It would be

inappropriate to look at an average for all of Ohio in determining the expected shopping level of two of the companies that you've included in your average. Typically you would look at the values for other utilities which is what I've done.

Q. Well, if we look at Exhibit 114, there's a calculation for non-AEP Ohio total and an average. Do you see that?

A. I see that.

Q. And if we look at that number for residential shopping, we see 48.78 percent, correct?

A. That's correct. Those are the values as of December 2011. The values I presented in my testimony are the values as of December 2012.

Q. And, again, the number that you assume for residential shopping is higher than the non-AEP Ohio average, correct?

A. It's higher than the average but it's consistent with the levels seen in other EDUs in Ohio. In fact, it's substantially lower than the levels seen in CEI. It's over 10 percent less than that level. And it's consistent with the levels seen in the Ohio Edison and Toledo Edison service territories.

Q. Well, you anticipated my next question.

You are assuming, are you not, that there would be residential shopping in AEP Ohio approximately at the levels that we see in the FirstEnergy utilities?

A. Yes, I would. And there's been significant publicity around customer shopping in the AEP Ohio service territory of late, and I think that type of advertising and the fact that customers are very aware of the opportunity is one of the causes, in addition to what I looked at previously, that supports my conclusion that additional shopping will occur throughout the remainder of this year.

Q. Now, you're aware, are you not, that in Ohio, 90 percent of the residential shopping represents government aggregation customers? Correct?

A. Yes, I am.

Q. And you assume, do you not, in terms of your shopping, that about anywhere from 48 percent to 23 percent of residential shopping will be government aggregation for AEP Ohio?

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

Q. Sure. You assume, do you not, that the residential shopping -- the amount of residential shopping in AEP Ohio that would be represented by government aggregation would be 48 percent to

23 percent?

A. No, I don't think that's my testimony. There are a couple of things I've looked at. What I've looked at is the communities that have already passed governmental aggregation in AEP Ohio's service territory and estimated the load that would switch in those communities.

I've made no attempt to evaluate the level of aggregation that could occur through communities that may not have passed governmental aggregation initiatives to date and may pass those initiatives in 2012, '13, or '14.

Q. Well, you assume, do you not, in your Exhibit WAA-2 that there would be government aggregation residential load of 2,201 megawatt-hours?

A. That would be the year-end 2012 value based upon just those communities that had passed aggregation initiatives through November 2011. And that represents approximately 15 percent of the residential load of AEP Ohio.

Q. All right. Now, for residential load, you have assumed for 2012 that the load will be 4,605 megawatt-hours, correct?

A. Can you repeat that question again?

Q. Sure.

MR. KUTIK: Could it be reread, your Honor?

EXAMINER SEE: Yes.

(Record read.)

A. Are you referring to my workpapers?

Q. Yes, I am.

MR. KUTIK: Your Honor, may I approach?

EXAMINER SEE: Yes.

MR. KUTIK: Your Honor, I'd like to have marked as FES Exhibit 115 workpapers of Mr. Allen which bear the numbers at the top right WAA-4 - 7.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, I've handed you Exhibit FES Exhibit 114 --

EXAMINER SEE: 115, Mr. Kutik.

Q. -- 115, are those your workpapers or part of your workpapers?

A. Yes, they are.

Q. And those show the months for 2012 and 2013?

A. Yes, they do.

Q. And if we look at the section that says OAD residential for every month, we could total those up and come up with the residential load you assumed that would shop, correct?

A. Yes, and I'm doing that calculation for you as we sit here.

Looks like your math is correct.

Q. All right. So for residential load for 2012, you assumed 4,605 megawatt-hours, correct?

A. That's correct. And I would note that that's not consistent with the methodology in the 2,201 that you had previously referenced. The 2,201 is the annualized value at December 31st, 2012, versus an accumulation of the shopping levels throughout 2012. So it's a bit of a -- it is an apples-and-oranges comparison.

Q. Well, that's your view.

A. No, it's not my view, it's a correct answer.

Q. It is your view.

MR. SATTERWHITE: Objection, your Honor. I think we're arguing back and forth with the witness.

MR. KUTIK: The witness is arguing with me.

EXAMINER SEE: Hold up. Let's not go there today.

MR. SATTERWHITE: Thank you.

EXAMINER SEE: When there's a question

before you, answer to the best of your ability.

Let's leave the comments out of the questions.

MR. KUTIK: Thank you, your Honor.

EXAMINER SEE: Move forward.

Q. (By Mr. Kutik) 2,200 is basically about 48 percent of 4,600, correct?

A. I think you said 48 percent?

Q. Yes.

A. Mathematically that would be correct but it's not an appropriate comparison as I described previously to you.

Q. I understand.

And would it be also correct that for 2013 you assumed a residential load of 9,504 megawatt-hours?

A. Residential shopping load?

Q. Yes.

A. I'm not going to do the math as we sit here on the stand, but basically by looking at my planning year '13-'14 shopping levels, which would be a 12-month period, looks to be a reasonable calculation.

Q. I just asked you for the calendar year 2013. Would you accept, subject to check, that your

workpapers indicate 9,504 megawatt-hours?
A. I think, as we've discussed, I don't do "subject to check," so if you'd like me to verify it precisely, I'll do the calculation.
Q. If you need to do the calculation, sir, please do that. You know what, it's in the record already, so we'll just move on.
For industrial shopping you assume a higher amount of shopping versus the non-AEP Ohio average, correct?
A. No.
Q. You assume a level of 90 percent, correct?
A. No. What I assume is a shopping level of 90 percent excluding one large industrial customer. If you were to factor in that large industrial customer that does not shop, the level of industrial shopping load would be below the 85 percent for the non-AEP Ohio utility. So, as I've discussed, my numbers are consistent with the levels of shopping that we're seeing in other EDUs of Ohio.
Q. For residential shopping you're aware that in the FirstEnergy utilities there are two entities known as "NOPEC" and "NOAC," correct?
A. Yes, I am.

Q. And you're aware that they act on behalf of government aggregation communities to contract with CRES providers, correct?

A. No, I think the way you described it is maybe a little incorrect. Based upon my review, NOAC and NOPEC deal with just one CRES provider. Aggregation in the FES service territory is limited to FES serving aggregation. There's only one community that I'm aware of that is aggregated outside FES and I don't think that's NOPEC or NOAC.

Q. NOPEC and NOAC acted on behalf of the government aggregation communities, correct?

A. They did. I was just clarifying when you said with regard to CRES providers, clarifying that my understanding is it's with a single CRES provider because there's really not active competition for that aggregation load in the FirstEnergy territories today.

Q. Well, is it your view that FirstEnergy Solutions has been the only CRES provider that has contracted with NOPEC or NOAC?

A. Currently that's the case.

Q. Well, that's not my question. The question was "ever."

A. My recollection is that those are, from doing a little bit of research, that those are nine-year contracts that have been in place since probably 2009, so in the last few years.

Q. So is it your view that NOPEC and NOAC have only contracted with FES ever?

A. I can't say "ever." I've only looked at the last several years.

Q. All right. So you don't know whether there have been other contracts that NOAC and NOPEC signed up on behalf of government aggregation customers with CRES providers other than FES; fair to say?

A. That's correct. I've reviewed recent history.

Q. Now, there is no organization like NOPEC or NOAC active in AEP Ohio today as far as you know, correct?

A. That's correct.

Q. Thank you.

Now, you've done no projections of shopping based on different levels of capacity pricing, correct?

A. That's correct.

Q. And you've done no study, elasticity study with respect to capacity prices and shopping, correct?

A. That's correct. Elasticity studies aren't necessary when looking at levels of shopping. Shopping is really a binary decision, so price elasticity isn't appropriate. Customers either choose to shop or not to shop. They're making a single decision.

We're not dealing with an economic situation where customers are determining how much of a product to purchase, that would be appropriate when looking at the overall price of electricity and customer consumption. Price elasticity fits there.

When you're looking at shopping, it's binary, a customer makes a choice either to shop or not to shop, they don't determine a quantity. So price elasticity would be inappropriate in this situation.

Q. Well, in terms of determining how much -- how many people would shop at particular prices, you have not done that, correct?

A. What I have determined is it's not appropriate, what I've looked at.

Q. You have not done that, correct?

A. I've done an analysis that looks at whether or not the CRES providers could offer a price less than the company's SSO offer, and I've determined that CRES providers can.

As such, at the prices the company has proposed, I believe customers can make that choice. So that's the study I've done because it's a binary decision so I wouldn't do price elasticity.

Q. Let me see, you've now testified two different ways so let's see if we can try a third time.

MR. SATTERWHITE: Objection, your Honor. We're making statements instead of asking questions.

Q. You've done no projections of shopping based on different levels of capacity pricing, correct?

A. I have looked at my expectation of shopping levels at RPM pricing. I've looked at shopping levels at $146 per megawatt-day for capacity and 255, those are studies that I've done. In all three of those situations CRES providers can offer product to customers below the company's SSO price. So in each one of those situations the result would be the same.

So there's no additional study of how many customers would switch. Once I make the determination that the price is below that, my shopping statistics remain constant.

MR. KUTIK: May I approach, your Honor?

EXAMINER SEE: Yes.

Q. Mr. Allen, do you have your deposition?

A. Yes.

Q. I'd like you to turn to page 42 of your deposition.

EXAMINER SEE: I'm sorry, what page was that, Mr. Kutik?

MR. RANDAZZO: Forty-two.

May we go off the record for a minute, your Honor?

EXAMINER SEE: Yes.

(Off the record.)

EXAMINER SEE: Let's go back on.

Q. Mr. Allen, page 42 of your deposition starting at line 17, did you testify as follows: "Question: Okay. Did you make any different projections of shopping based upon certain levels of capacity prices?

"Answer: No, I did not."

That was your testimony, sir, correct?

A. That's correct, and it's consistent with what I stated here today, and if you look to page 43 of my deposition, you'll see that I continue on to describe that at the levels of 146 and 255 that the SSO price is above what I think a CRES provider could make an offer so those levels of shopping would be the same.

Q. Well, we'll get to your alleged analysis in a minute, but with respect to --

MR. SATTERWHITE: Objection. Again, your Honor, I think we're going down a path of making all these statements and I object and counsel just moves on --

MR. KUTIK: I would like to --

MR. SATTERWHITE: I believe the --

EXAMINER SEE: Off the record.

(Discussion off the record.)

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

Q. (By Mr. Kutik) Now, we'll get to your statement about headroom in a minute.

A. Okay.

Q. Now, with respect to your belief that there could be shopping at 255, that capacity price, one thing you point to is that there are -- 6.8 percent of shopping load is at that price today, correct?

A. That's one of the pieces of information I looked at, and that would have been as of March 1st, 2012, not today.

Q. Okay. And you've done no breakdown of when those customers were shopping, that 6.8 percent, correct?

A. They're currently shopping.

Q. But when they first shopped.

A. Those customers would have been customers that shopped in the summer of 2011 for the commercial class of customers, they would have shopped I think sometime after June of 2011.

For the industrial class it would be customers that would have begun shopping, the date's not going to be exact on it, but it would have been late in September 2011.

Q. Okay. Well, isn't it true that with respect to that 6.8 percent, that group in terms of how many of those customers or what percentage of those customers were shopping as of 2011 versus 2012, you don't have a breakdown of that?

A. No, I didn't make that breakdown. Those are customers that shopped -- for the industrial class, as I indicated, it would have been after the stipulation was signed, for the commercial customers it would have been customers that shopped starting in the summer of 2011 through today.

Q. Let me have you refer to your deposition.

A. Do you have a page reference?

Q. Yes. I want you to get it out. Page 178. Tell me when you're there.

A. I'm there.

Q. And did you testify on that page starting at line 5, "Question: You discussed with Mr. Petricoff the number of customers who are currently shopping at 255. Do you remember that?

"Answer: Generally, yes.

"Question: Okay. And do you have a breakdown with respect to the number -- that customer group in terms of how many of those customers or what percentage of those customers were shopping as of 2011 versus 2012?

"Answer: No, I don't have that breakdown.

"Okay. Do you have any notion whatsoever as to what that breakdown is?

"Answer: I don't."

Is that your testimony in your deposition?

A. That I don't have a breakdown between 2011 and 2012, but I think I was providing you helpful information as to when those customers would have shopped.

Q. Some of those customers of the 6.8 percent had tier 1 pricing but got shifted to tier 2 as a result of Commission's orders, correct?

A. That would have been the commercial customers that shopped between, about June of 2011 through September 7th, 2011, and it would have represented a couple of percent of the commercial class, but all the industrial would have remained the same.

Q. And that would have been, the folks who changed back from tier 1 to tier 2, would have been about 700 gigawatt-hours.

A. I don't have those numbers in front of me but it sounds reasonable.

Q. Let me have you refer to your deposition, page 124. You might just want to, I'm not going to read it to you, sir, but you might want to look at page 124 and then over on the top of 125, see if that refreshes your recollection, it should be through 126, excuse me, and particularly line 5 on page 126.

A. Right. I did the same calculation here on the stand, it's -- that 700 seems reasonable.

Q. Thank you.

Now, all the customers in this group who shopped before February 23rd, the date the Commission rejected the stipulation, would have had some expectation of tier 1 pricing at some point in the future, correct?

THE WITNESS: Can you reread that question, please?

(Record read.)

A. No, I can't agree to that.

Q. All right. Let me have you refer to your deposition, sir.

A. I have it.

Q. Please turn to page 121. Starting at line 6, do you testify as follows: "Question: Okay. So the only portion of the 6.8 percent load that would have not been under the impression that they would have been entitled to RPM pricing sometime in the future would just be those between February 23 and March when you made this statistic?

"Answer: The timing of the amount -- the date when that customer would have received RPM-based capacity though may not have been until 2014 or 2015 if they understood the stipulation properly.

"Question: Or 2013.

"Answer: That's correct, yes."

Is that your testimony?

A. Yes. And the important word to note there is "may not have received." There is a potential that customers wouldn't have received it and it's clear from Exhibit WAA-1, if you look at the commercial switched load, it's 41.44 percent. It's 2.26 percent pending. That value, when you add those two up, would be 43.7 percent. Under the stipulation the ESP only provided 41 percent tier 1 priced capacity for the commercial class. As such, some of those customers would not have received tier 1 priced capacity under the stipulation.

Q. Did I read your deposition testimony correctly, sir?

A. You did. And it included the word "may."

Q. Thank you.

MR. KUTIK: Your Honor, may I approach?

EXAMINER SEE: Yes.

MR. KUTIK: At this time, your Honor, we would like to have marked as FES Exhibit 116 a document that has at the top "AEP Ohio - Competitive Retail Electric Service Providers," page 1 of 2, from the Customer Choice web page of AEP Ohio.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, you're familiar with something called the --

EXAMINER TAUBER: Mr. Kutik, can the Bench get a copy?

MR. KUTIK: I'm sorry.

Q. Mr. Allen, you're aware of something called the detailed implementation plan, correct?

A. Yes, I am.

Q. And you've served kind of as an adviser to that group or you may have actually had some managerial responsibility relating to the implementation of the detailed implementation plan for AEP Ohio, correct?

A. Let me clarify. I was the author of the detailed implementation plan that was included in the stipulation. I'm the author of the detailed implementation plan that exists in the current ESP proposal.

The individuals that are responsible for implementing the detailed implementation plan work for other individuals within the company and I provide kind of advisory support to those individuals on interpreting the detailed implementation plan.

Q. So you act as an adviser to the folks that are implementing the detailed implementation plan.

A. And to clarify, the detailed implementation plan went away with the old stipulation, but that would be the role I would provide.

Q. Do you recognize Exhibit 116, FES Exhibit 116, as coming from the Customer Choice website from AEP Ohio?

A. I haven't been out to the customer website since this was put out there, but it looks like information that we would present.

Q. And there's specifically on this a RPM-priced allotment status notification as of May 23, 2012, correct?

A. That's what it states.

Q. That's today, right?

A. Yes.

Q. And that just happened to be a coincidence that that would be published the day that you took the stand, correct?

A. It is a coincidence, yes.

Q. Okay. Do you believe in coincidences sometimes, sir?

A. Whether I do or don't has no bearing on this case, but this information was intended to be presented this week.

Q. Sometimes coincidences happen, right?
MR. SATTERWHITE: Objection, your Honor. I don't see the relevance of this line of questioning on theories of life and coincidences.
EXAMINER SEE: Move on, Mr. Kutik.
Q. Mr. Allen, this announces the allotments as of May 23, 2012, correct?
A. Yes, it does.
Q. And it shows on page 2 the 2012 RPM set-asides, correct?
A. It shows the 2012 set-asides consistent with the Commission's recent orders, yes.
Q. And would it be fair to say that the Commission's recent orders said that there should be a cap of the set-asides at 21 percent for each customer class? Correct?
A. That's correct.
MR. KUTIK: May I approach, your Honor?
EXAMINER SEE: Yes.
MR. KUTIK: Your Honor, we'd like to have marked as Exhibit 117 an e-mail that's actually an e-mail from Mr. Lewis D'Alessandris to Mr. Banks, but we're not seeking to admit that portion, we're seeking to admit the portion that's attached to it which is an e-mail from OhioChoiceOperation@AEP.com.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, I don't want to ask you any questions about the top of this e-mail, but I want to ask you questions about the e-mail from OhioChoiceOperation@AEP.com. Do you see that?

A. I see that.

Q. And this lists the various set-asides, correct?

MR. SATTERWHITE: Objection, your Honor. There's no foundation yet that the witness can identify this document.

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

MR. KUTIK: All right, your Honor.

Q. Have you ever seen this before?

A. I've not seen this e-mail.

Q. All right. Do you know what AEP Ohio Choice Operations are?

A. Yes, I do.

Q. And that's the outfit that's in charge of implementing the detailed implementation plan?

A. Not exactly. The detailed implementation plan is a document. There's a IT program that does the calculations around the detailed implementation plan determining which customers are awarded allotments and that's done out of a group other than the AEP Ohio Choice Operations. I think it's in the supplier support organization that is responsible for that.

Q. Well, the Ohio Choice Operations, that has something to do with the implementation of the detailed implementation plan, doesn't it?

A. They usually deal with customer issues related to the detailed implementation plan.

Q. All right. So they have something to do with the implementation of the detailed implementation plan, right?

A. They play a role.

Q. Right. And, from time to time, they issue notices with respect to the status of allotments, correct?

A. That's correct.

Q. And they issued a notice as of November 11, 2011, correct?

A. That's what it appears on this document, yes.

Q. And would it be correct that this sets out a number of different types of allotments versus the initial RPM set-aside, correct? That's the third column over on the second page.

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

Q. Sure. The third column over from the left on the second page is entitled "Initial RPM Set-Asides," correct?

A. That's correct.

Q. And the second column to the left says "Pro-rata Allocation of RPM Set-Asides," correct?

A. That's correct.

Q. And the pro rata allocation of RPM set-asides, that would be the 21 percent of the load, correct?

A. That's correct. And as I look at the other document that you laid in front of me from our website that was just posted, as you indicated, coincidentally today that I've not had a chance to review, I see that I have an action item when I get back to the office. It appears that the values in the 2012 RPM set-aside column that they've included on the website is incorrect.

Q. Thank you, sir.

A. And it's not consistent with the way we're billing CRES providers. This would be the first time that it's been done using our automated system and I'll have to have them correct those because the right values there should be the pro rata allocation of the RPM set-aside. So I do appreciate you bringing that to my attention so we can resolve it before the bills go out.

Q. So we can agree that what AEP Ohio Choice announced as of May 23 in terms of the RPM set-asides, those are incorrect, right?

A. They appear to be as we sit here today, yes.

Q. And not in compliance with the Commission's orders, correct?

A. Well, I think it's just wrong -- the Commission order dictates how we bill CRES providers and I think the Commission has my agreement that we'll make sure that we bill CRES providers properly and that is something that I do review at the end of the month to make sure we're doing this correctly, so.

Q. I'm not sure you answered my question, sir. It's correct to say that this announcement is not in compliance with the Commission's orders, correct?

A. No.

MR. SATTERWHITE: Objection, your Honor.

A. I disagree.

MR. SATTERWHITE: I think the witness has already stated something was incorrect and it needs to be effected.

MR. KUTIK: Well, does that mean it's not in compliance? I think I'm entitled to get an answer to my question.

EXAMINER SEE: The objection is overruled.

Answer the question, Mr. Allen.

A. The Commission order didn't talk about any public notification. What the company was attempting to do here was go beyond what the Commission order stated.

The Commission order talked about pricing to CRES providers and I know what we charged CRES providers last month was consistent with the Commission order. We did the set-asides properly last month, and we haven't yet done the bills for this month, so we're still in compliance with the order. This extra information that we've provided for the benefit of CRES providers appears to be incorrect and we need to correct it.

Q. It appears to be incorrect, but if what's on here is true it would not be in compliance with the Commission's order, correct?

MR. SATTERWHITE: Objection, your Honor.

I think the witness answered what his understanding of compliance with the order is as far as public notice versus --

MR. KUTIK: Now he's coaching, your Honor.

MR. SATTERWHITE: I'm just restating exactly what he said, your Honor, so I think this is asked and answered.

EXAMINER SEE: Move on, Mr. Kutik.

Q. Mr. Allen, you believe that there would be a potential level of shopping or the potential level of shopping would be the same if prices were at $255 or $146 or at RPM, correct?

A. Yes, I believe there would be substantial shopping at any of those levels.

Q. Right. And that opinion is based on a comparison of SSO base G rates with the competitive benchmark prices presented in Ms. Thomas's testimony, correct?

A. No. It's based upon the comparison of the market comparable G rates of the company and the competitive benchmark prices that Ms. Thomas includes in her testimony after you exclude the retail admin. fee and the transaction risk adder.

Q. So you took Ms. Thomas's competitive

benchmark price and you excluded two elements, correct?

A. That's correct.

Q. And as you said, one was the retail administration cost, correct?

A. Yes, that's one.

Q. And you would expect that the retail administration cost would be charges on the CRES provider's books, would you not?

A. Some of those costs may be fixed in nature and some may be variable in nature.

Q. But you expect those to be on the company's books; would you not?

A. Yes, they would be items that would be on the books of the company below cost of goods sold.

Q. Thank you.

Now, you played a role in developing the two-tiered capacity pricing proposal, correct?

A. I did.

Q. And the tier 1 price of $146 is not the RPM price for the unconstrained region of PJM for the period of the proposed ESP, correct?

A. That's correct. It's part of our proposal.

Q. The RPM price for the 2012-2013 planning year and the 2013-2014 is less than $146, correct?

A. It is, but I think, as we've discussed previously, AEP is an FRR entity and the load of AEP Ohio as well as the generation of AEP Ohio was not part of that RPM auction.

Q. My question simply was the RPM prices are less, correct?

A. For which planning years?

Q. 2012-'13 and '13-'14.

A. It's corrected for those years and the 146 is below the RPM price for the final year of the ESP proposal.

Q. Now, the price, the 146 price, will not be the market price after May of this year, correct?

A. Well, AEP Ohio is not part of the unconstrained region of the RPM auction, so the market price doesn't apply. The market price is for another market. It would be the same as if we were looking at a Texas market and saying that's the market that we should apply here.

So it's a different market, you know, analogous to what we see for FirstEnergy in the ATSI region, they have a separate price for capacity in the 2015-'16 planning year. I think for their generation, the price is going to be north of

$400 after all the adders are put in.

So what you can see is in different regions of PJM you can have different prices. They're not all set at the RPM price for the unconstrained region for market participants that are not part of that auction.

MR. KUTIK: Your Honor, I asked nothing about ATSI, I asked about whether it was a market price, so I move to strike all comments from the last paragraph of his answer.

MR. SATTERWHITE: Your Honor, he asked the witness if that 146 was the market price; it was pretty broad and pretty open. The witness said -- basically explained what was wrong with the question, how AEP doesn't actually fit in that market and he gave examples of how you can have different markets all over the place.

So the broad question led to the broad answer to make sure that the record was clear how AEP stands, and you just can't compare it to all different markets.

EXAMINER SEE: The motion to strike that last portion of Mr. Allen's response to the question is granted.

Q. Mr. Allen, please turn to your

deposition, please. Particularly page 54.

EXAMINER SEE: What page was that, Mr. Kutik?

MR. KUTIK: Fifty-four.

Q. And did you testify at page 54 at line 16, "Question: Is the 144 -- $146 price a market price?

"Answer: It's the current market price for the unconstrained region of PJM.

"Question: Okay. Will it be the market price after May of this year?

"Answer: No."

Is that your testimony in your deposition, sir?

A. I think I go on in my deposition to --

Q. Is that your testimony in your deposition, sir?

A. Can I finish my answer before you interrupt, sir?

Q. Please answer my question.

EXAMINER SEE: Allow the witness to finish his response.

Focus on the question, Mr. Allen.

A. That's the testimony in my deposition, but I have further clarification after that.

Q. All right. Now, the 146 price, that's not a cost-based price, correct? Mr. Allen?

A. If you'd give me a moment, please, sir.

The 146 would be a discount to cost.

Q. It's not a cost-based price, is it?

A. It's a price that would include a portion of AEP's costs.

Q. Let me refer to your deposition, sir. Page 55. Are you there, sir?

A. I'm there.

Q. And did you testify at line 12, "Okay. Would it be fair to say that the 146 price is not a cost-based price?

"Answer: I think based upon the general definition people have been using of a cost-based price, I would agree."

That was your testimony, sir, was it not?

A. Right. And I think that's in the context of the discussion we were having.

Q. Sir, was that your testimony in your deposition?

A. It is, and I clarified that it was based upon -- I think for the record we need to be clear, it was based upon the definition people have been using of a cost-based price.

Q. All right. Now, you wouldn't say that it could be considered -- this is the 146 price, that it could be considered a reasonable price that could be justified based upon anything other than being part of the ESP package being proposed by AEP, correct?

A. That's right, because it's a discount to the company's true cost.

Q. Now, the tier 2 price is proposed to be $255 per megawatt-day, correct?

A. That's correct.

Q. And would your answers with respect to the 255 be the same as they were for the 146?

A. It's a discount to the company's cost and, as we saw in the capacity case, no reasonable analysis in that case produced a capacity charge of less than 255.

Q. Well, my question is: Would your answers be the same with respect to 255 in terms of whether it is a market-based price or a cost-based price?

A. It would be a discount to cost, so you would start with a cost-based rate and you provide a discount to that, that's why we showed the discounted capacity as a benefit in the ESP.

Q. Would it be fair to say that the amount of the discount is arbitrary?

A. No; the amount of the discount was designed to do two things: One, we knew that significant shopping was occurring at the capacity price of 146, so we felt that was a rate that would continue to encourage additional shopping in the AEP Ohio service territory, and we also saw evidence that at 255, customer shopping would continue to occur, and as I've discussed it previously, I've done analysis that shows CRES providers can make offers to customers below that price.

So at that price, CRES providers make offers to customers and still have a profit margin, so they are capacity rates and discounts that will encourage shopping.

Q. Turn to your deposition, please, at page 57. Are you there, sir?

A. I'm there.

Q. At line 20 -- at the bottom of page 57, line 20, "Question: The 255, that's not a market price, correct?

"Answer: That's correct.

"Question: And that's also not a cost-based price?

"Answer: It's a discount from cost, yes.

"Question: So, again, it's not a

cost-based price?

"Answer: I don't know that I would agree. It -- there's cost basis but it's a discount from cost. It's not completely arbitrary.

"Question: Well, the amount of the discount is arbitrary, is it not?

"Answer: Yes."

That was your deposition testimony, was it not?

A. It is.

Q. Now, the amount of capacity that's being proposed to be made available under tier 1, would it be fair to say that the reasonableness of those levels could only be justified based upon being -- based upon being part of an entire package that AEP has proposed?

A. That's correct. It's a balance of the RSR values, the benefits provided to CRES providers and the benefits provided to customers.

Q. Now I want to talk to you a little bit about government aggregation and what's been proposed with respect to that. Would it be fair to say that nonmercantile customers in government aggregation programs, established by ordinances as of November 2011, would be eligible for tier 1 prices no matter when that customer applies in 2012 under your proposal?

A. Can you reread the question, please?

(Record read.)

A. With the clarification that it's when the customer switches, not applies. Yes.

Q. Thank you.

For nonmercantile customers in all other government aggregation programs, they would be treated the same as any other residential or commercial customer, correct?

A. That's correct. They'd be treated on an equal footing to all other customer, no preferences and no discouragement. Equal footing.

Q. And you're not aware of any municipality that is currently considering a government aggregation ordinance.

A. I don't know if there are any in the AEP service territory, but I am aware that there's five or six communities that have -- or that, I guess it may be in the past tense, that would have had governmental aggregation initiatives on the May ballot.

Q. This is the May ballot for 2012 --

A. Yes. And that would be for the entire state of Ohio so I don't know if they're in the AEP service territory, I didn't do that analysis.

Q. So sitting here today you don't know if there are any communities in AEP Ohio that are currently considering government aggregation ordinances, correct?

A. That's correct.

Q. All right. Now, would it be fair to say that you also don't know if a municipality, seeing the stipulation in September of 2011, could have put a government aggregation ordinance on the ballot by November of 2011 election day?

A. Well, the September stipulation had no provision for governmental aggregation, so I don't know why it would have had any impact on a community's choices.

Q. Well, I understand that might be something you'd question, sir, but you haven't answered my question which is assuming that a community, in September of 2011, wanted to bring to their voters a government aggregation ordinance, isn't it true that you don't know whether they could put that ordinance on the ballot by November on election day of 2011?

A. That's correct, I've done no study of how long it takes to put that kind of initiative on a ballot.

Q. Now, after 2012, under your proposal, government aggregation customers would be treated like any other customer, correct?

A. Correct. Equal footing.

Q. And the proposed ESP does not intend to include mercantile customers in potential government aggregation -- as potential government aggregation customers that could take advantage of tier 1 pricing in 2012, correct?

A. That's correct. And, you know, one piece of support for that I think, as we had Mr. Banks testifying in the capacity case, mercantile customers don't typically participate in governmental aggregation.

Q. Well, we'll get to that in a second. But the fact of the matter is that you don't, in your proposal, include mercantile customers as individuals that could participate in tier 1 pricing as a government aggregation customer, right?

A. That's correct, those types of customers typically shop on an individual basis.

Q. Now, before -- I'll back up.

The Commission's orders relating to the

stipulation address the issue of whether mercantile customers should be included in provisions relating to government aggregation, correct?

A. I recall that.

Q. And before the Commission rejected the stipulation, the Commission determined that mercantile customers should be included in those provisions, correct?

MR. SATTERWHITE: Objection, your Honor. That related to the stipulation and the facts in that case. This is the modified ESP. It stands on its own, separate from the stipulation, so that's not relevant.

EXAMINER SEE: Sustained.

Q. Now, once a mercantile customer in a government aggregation community opts in, that customer has all the rights that any other government aggregation customer would have to participate in a government aggregation program, correct?

A. I don't know that that's true. You'd have to review the specific contract that the CRES provider had with that community. In looking at a couple of aggregation filings, filings with the Commission, mercantile customers were excluded. So in all cases they wouldn't have those same rights, they might not be allowed to participate in the aggregation.

Q. All right. But as far as you know, unless there is a contractual provision to the contrary under the rules and statutes that apply, once a mercantile customer in a government aggregation community opts in, that customer would have all the rights that any other government aggregation customer would have to participate in the program, correct?

A. Well, I think that would be kind of a tautological question. You've asked if the customer can have all the rights of aggregation, would they have all the rights. It's a circular reference.

Q. No, I said if they could opt in, they'd have all the rights, correct?

A. And I indicated it depended upon what the contract with the CRES provider provided. One thing, when I looked at some of the aggregation deals, they have different provisions for commercial customers and residential customers, there could be different provisions for those mercantile customers.

Q. And my question is: Assuming that the contract with the CRES provider had no barrier to a mercantile customer participating, once a mercantile could opt in, that customer could have all the rights and responsibilities and privileges that any other government aggregation customer would have, correct?

A. If the contract provided that that customer would have all the same rights as every other customer in that aggregation, then it's true they would have all the same rights as any other customer.

Q. Thank you.

A. It's circular in nature.

Q. Thank you.

Now, isn't it true -- well, I'll back up.

So it's your testimony that the reason why you felt it was appropriate to exclude mercantile customers from government aggregation programs in terms of a benefit that those government aggregation customers would have under your proposal, is that mercantile customers really don't participate that much in government aggregation programs, correct?

A. That would be one reason.

Another reason is that if we were to allow mercantile customers to opt into an aggregation program and receive tier 1 priced capacity in 2012, it would increase the level of the RSR as paid by all other customers.

Additionally, because the right to tier 1 capacity goes with the customer such that a customer could leave the aggregation and switch to another supplier, it would provide a means for mercantile customers to game the system, and those customers are large customers, fairly sophisticated, and I would expect if there was a method for them to game the system in what would be in their best interests, nothing nefarious about it, I would expect those customers would take advantage of that, and it would be providing a benefit that the company didn't intend in our proposal.

Q. Part of the rationale for you excluding mercantile customers is they legally didn't participate in government aggregation programs, correct?

A. They typically don't participate in government aggregation programs, so providing a benefit to a customer that doesn't typically participate would cause a change in behavior for those customers such that mercantile customers would now start participating in aggregation just to receive the benefits.

So we would be causing a behavioral change through our provision and that wasn't the intent of this provision is to change customers' behavior, it was to provide an additional benefit that we had heard the Commission wanted.

Q. Isn't it true, sir, that one of the reasons that you didn't include mercantile customers in the government aggregation provisions is that they don't participate much in government aggregation programs?

MR. SATTERWHITE: Objection, your Honor. I think the question's been asked twice and it's been answered.

MR. KUTIK: I'm not sure I have an answer, your Honor, that's why I'm asking the question again.

EXAMINER SEE: The objection is sustained.

Q. Mr. Allen, the company filed an application for rehearing of the Commission's January 23rd, 2012 order. Do you remember that?

A. I don't recall the exact date, but I do recall that we requested rehearing.

Q. And one of the things that the company complained about was the inclusion of mercantile customers in government aggregation programs, correct?

MR. SATTERWHITE: Objection, your Honor. Same objection as earlier. Now we're getting into the analysis of the previous case.

MR. KUTIK: Well, this goes to the credibility of what he just talked about, your Honor, in terms of different positions the company's taken.

MR. SATTERWHITE: And I think that's --

MR. KUTIK: If he wants to argue they're different, he's entitled to argue that in brief, but I think I'm entitled to put it in the record.

MR. SATTERWHITE: I think the Bench ruled earlier that dealt with the stipulation version of the ESP and now we're in the modified ESP as previously sustained; that's the difference.

MR. KUTIK: And this talks about the impact, if you want to talk about the impact of including mercantile customers with respect to tier 1 type capacity. That's the same.

EXAMINER SEE: We'll take the objection under advisement. Let me hear the question.

MR. SATTERWHITE: Thank you.

(Record read.)

A. To my recollection that's one of the issues that the company raised on rehearing.

Q. And you prepared workpapers to

demonstrate the impact of including that, correct?
A. The financial impact of that, yes.
Q. And you indicated that the impact of including mercantile customers was in the neighborhood of 237 million to 434 million dollars, correct?
A. Can you repeat that value for me?
Q. Sure. 237 million to 434 million.
A. The $237 million was the projected financial impact under the prior stipulation of including mercantile customers, the maximum impact of including mercantile customers was 434 million, the difference would have been an assumption around the level of customers participating in those aggregation programs.
Q. Those numbers assumed that all mercantile customers would participate, correct?
A. The $434 million, and this has been a couple months ago, but to the best of my recollection that would have reflected all mercantile customers operating into the aggregation and receiving the tier 1 priced capacity; whereas, the 237 million would have been based upon an assumed level of participation.
Q. Now, did the company in its application

for rehearing, as far as you recall, ever advise the Commission that mercantile customers really don't participate in government aggregation programs anyway? It didn't do that, did it?

A. You'd have to give me a copy of the request for rehearing. But whether or not the company discussed what mercantile customers typically do with regard to governmental aggregation wouldn't have been relevant because the provision of allowing mercantile customers to access tier 1 priced capacity, solely by virtue of their participation in aggregation, changes the dynamics of how customers choose whether or not to participate in aggregation or not participate in aggregation.

Q. Do you recall whether the company, in discussing the potential impact of including mercantile customers in government aggregation, pointed out the fact that mercantile customers really don't participate in government aggregation programs anyway?

A. I don't know that we would have used your voice that you're using there, which is getting a little grating on me at this point, but --

MR. KUTIK: Well, your Honor ---

A. -- I need to see a copy of the

document --

EXAMINER SEE: Just a minute. Just a minute.

A. -- in order to determine what's there.

EXAMINER SEE: Mr. Allen.

THE WITNESS: Yes.

EXAMINER SEE: I asked a few minutes ago, earlier this morning, that you cut out the comments and the bull. I asked both parties to do that as well as counsel, did I not?

THE WITNESS: You did and I'm trying, your Honor.

EXAMINER SEE: Cut it out then. Okay. Answer the question.

MR. KUTIK: Your Honor, could the question be reread?

EXAMINER SEE: Yes, it can.

MR. KUTIK: Thank you.

(Record read.)

A. And I think what I indicated previously is, without seeing the document, I don't know. I've seen a lot of documents over the last 6 to 12 months.

Q. Fair enough, you don't know. Correct?

A. I don't know.

Q. All right. Now, the cap tracking system, I want to talk to you about that now.

A. Okay.

Q. And that's been proposed to be made available within 60 days of the Commission's order in this case.

A. That's my recollection, yes.

Q. And as we indicated earlier, you're serving as an adviser to the team that's putting together the detailed implementation plan including the tracking system, correct?

A. That's correct.

Q. And you've served in that role up until this time, in other words, you served in that role in terms of the stipulation and the orders that followed the stipulation hearing, correct?

A. Yes.

Q. The tracking system that you're proposing in this case would be very similar to the system that was proposed under the stipulation, correct?

A. It has some differences. Some simplifying; some that make it a little more complex.

We've simplified it in terms of only including one group of customers, so that's a simplifying matter.

The inclusion of the provision that

provides for governmental aggregation customers to shop at tier 1, irrespective of whether or not the cap has been reached for the individual class, is a fairly complicated matter technically, and so that's something that we're working on implementing.

So there's some issues that make it a little simpler, and some that make it a little more complicated.

Q. Well, you said one that's simpler is that there is basically one tier, right?

A. That's correct.

Q. And another thing that makes it simpler is --

A. I'm sorry, not one tier. One group.

Q. One group, thank you.

And another thing that makes it simpler is that there are specific megawatt-hour caps to the set-asides, correct, or to the tiers, correct?

A. They're predetermined in advance so that CRES providers and customers have a more clearly defined way of determining whether or not they will receive tier 1 priced capacity in the future.

Q. It is a clearer target.

A. That's correct. Instead of using the historical values each year to set a new target, we've used the projected load and just preset the targets.

Q. The stipulation was initially approved on December 14th, correct?

A. That's my recollection.

Q. And in the stipulation order it set out that the tracking system was to be put in place within 60 days of the order, correct?

A. That's my general recollection.

Q. Let me have you turn to page 104 to your deposition. Are you there, sir?

A. I'm there.

Q. And did you testify on that page starting at line 8, "Question: Okay. And that order provided that the company had 60 days to implement the detailed implementation plan?

"Answer: And the cap tracking system, yes.

"Question: Yes."

That's what you testified to, correct?

A. Yes, that's my testimony.

Q. Okay.

A. Or what I stated in the deposition.

Q. And, in fact, 60 days from December 14th would have been February 12th, correct?

A. That sounds correct, yes.

Q. And as of that day, AEP Ohio had an operational cap tracking system that complied with the Commission's orders, correct?

MR. SATTERWHITE: Your Honor, I'll object on relevance, again. We're dealing with compliance with the stipulation that's now rejected and a lot of other things happened. We're here to talk about the modified ESP, so I don't think it's relevant.

MR. KUTIK: Your Honor, we're talking about the reasonableness of their wanting 60 days when they already had a system in place which I think is the point of this question.

EXAMINER SEE: The objection is overruled.

THE WITNESS: Can you repeat the question?

Q. Yes. The question is: By February 12th, 2012, AEP Ohio had an operational cap tracking system that complied with the Commission's December 14th order, correct?

A. The Commission made several modifications to their order, at least one modification, in between those dates, so my recollection is that we had it operational around that timeframe.

Q. Okay. Now, your detailed implementation plan calls for an audit of the tracking system, correct?

A. The detailed implementation plan includes an audit of the -- and it's on page 6 of Exhibit WAA-3 -- it's an audit of the awarded allotments of tier 1 priced capacity and the enrollment queue.

Q. And that audit as you're proposing would be an audit that would be done by the internal auditing department of AEP, and that would then be provided to the Commission staff, correct?

A. It would be prepared by the company's Audit Services Department and then provided to the Commission staff, that's correct.

Q. Now, it would be fair to say that the company would have to object if the staff of the PUCO picked the auditor, correct?

A. The company's preference would be to have our Audit Services Department perform the audit and provide that information to the Commission staff because it's my belief that that would be a more efficient and less costly procedure.

Q. Well, if the Commission determined that it wanted to have the staff pick the auditor and have an independent auditor do it, the company wouldn't

object to that, right?
A. If the Commission issued an order requiring the staff to pick an independent auditor, the company would abide by the order of the Commission.
Q. Thank you.
Now, you're the person within AEP who developed the proposed RSR, correct?
A. I developed the structure and mechanics of the RSR, that's correct.
Q. And we could describe the RSR as basically adding certain revenues from certain sources and comparing it to a target revenue amount, correct?
A. As I show on Exhibit WAA-6, there are three revenues that are included, Retail Non-Fuel Generation Revenues, CRES Capacity Revenues, Option Capacity Revenues, and then there's a credit for shopped load, that's not a revenue item, it's a credit. Those are then compared to a target of $929 million annually.
Q. And so every year we would compare the revenue numbers to the target, correct?
A. Sometime, after the end of the first 12 months of the ESP, you would do that comparison.

Q. And so, for example, if the company's connected load went down, all other things being equal, you would expect the RSR to go up, correct?

A. Yes. The RSR is essentially a decoupling mechanism for generation, so to the extent connected load or weather changed from year to year, it would act as a decoupling mechanism such that the revenues would be targeted at that same 929 million.

Q. And the revenue that we would be looking at would not include any revenue from the GRR, correct?

A. That would be my expectation because the GRR would come with its own set of expenses, so those should be segregated.

Q. And it would not include any revenues from the DIR, correct?

A. Most definitely, those are distribution related.

Q. And if there was a pool modification rider, it wouldn't include -- it would not include any of those revenues, correct?

A. That's correct.

Q. Now, you mentioned earlier that there was a credit for shopping, correct?

A. There's a credit for shopped load.

There's a shopping credit described elsewhere in my testimony. So, just to be clear, there's a credit for shopped load included in the RSR.

Q. Thank you for that clarification.

And that is supposed to represent a credit for revenues that would be received or margins that would be received as a result of off-system sales, correct?

A. Not exactly. And I discuss it in my testimony so I think it's best to go with how I've defined it there. And the way I've described it in my testimony is that it's, and if you look to page 13, line 22, there's a "$3 per megawatt-hour credit for shopped load related to possible energy margins that could be realized by AEP Ohio for reductions in SSO load."

Q. So when SSO load would be reduced, there would be energy sold and this is to represent potentially those revenues, correct?

A. Well, this is an area where I think people get a little confused, so let me see if I can explain it.

When a customer leaves AEP and takes service from a CRES provider, the company's no longer required to provide energy to serve that customer.

It doesn't mean that the company can sell that megawatt-hour in the off-system sales market.

Some of the energy used to serve customers comes from purchased power. So to the extent that that load reduces purchased power requirements, there would be no additional off-system sale related to that change. So this reflects that there's a potential.

You know, in some cases it maybe, you know, relationship changes from year to year, you know, maybe 50 to 80 percent of the change in SSO load can be equated to an incremental megawatt-hour sold into the market.

Q. Again, this is to represent some potential revenue that may come from potential off-system sales, correct?

A. That's correct.

Q. And you mentioned earlier that this is based upon a $3 per megawatt-hour charge or credit.

A. It's not based upon it. It is a $3 per megawatt-hour credit that's included in the RSR calculation.

Q. And that's not an actual figure in terms of a margin, correct?

A. That's correct. It's just a credit for the calculation.

Q. And that's not based upon any modeling or projections, correct?

A. That's correct. It's a reasonable value based upon my experience.

Q. And there's nothing that you can point me to in terms of a set of data that could corroborate your judgment, correct?

A. No, I think we can. If we assume, and this is probably on the high side, for a margin in off-system sale, if you assume a margin of, say, $13 a megawatt-hour and you assume 50 percent of the freed-up energy is available to provide into the off-system sales market, so you multiply those 2 numbers, $13 times 50 percent, you get $7.50, I'm sorry, $6.50 per megawatt-hour.

And then if you were to apply the company's MLR for AEP Ohio, which is approximately 40 percent, the math comes out to about $2.60 a megawatt-hour of retained margin by AEP Ohio, so that's kind of the calculation I would do if I wanted to support that value.

Q. Mr. Allen, can you turn to your deposition, please?

A. Do you have a page reference, please?

Q. Yes. Page 86. Are you there?
A. Yes.
Q. Starting on page 86, you describe for me a calculation similar to the calculation you just described to me, correct?
A. Yes.
Q. All right. And you continue that through page 87 and into page 88, correct?
A. Yes.
Q. And starting on page 88, line 10, is your testimony as follows: "Question: Okay. Can you point me to anything that I can see that would corroborate your judgment on that?
"Answer: No. It's based upon my experience.
"Question: So you can't point me to any specific figures or any specific set of data?
"Answer: That's correct."
That was your testimony then, correct?
A. That was my testimony, yes.
Q. Now, the figure that you show in Exhibit WAA-6 for the credit for the shopping load is a reasonable figure to assume for potential revenues from potential off-system sales, correct?
A. Based on where markets are today, it's

probably a little on the high side, but it would be reasonable, that's why I included it in my analysis.

Q. Thank you.

Now, this RSR, it's possible that the RSR could last past May of 2015, correct?

A. I think Witness Roush may have described this, but there would be a final trueup that could occur post-May of 2015 which is pretty typical of riders; there's usually a final trueup.

Q. Depending on the size of the trueup, that trueup could last anywhere, or that charge could last anywhere from three months to a year, correct?

A. Yes, depending on the size, and discussions we would have with the staff about an appropriate period to collect that remainder, and whatever the Commission ordered.

Q. I want to talk to you now about the alternate option, the alternate to the RSR.

A. Okay.

EXAMINER SEE: Mr. Kutik, before you move to your next subject area, let's take a 10-minute recess.

MR. KUTIK: Thank you.

(Recess taken.)

EXAMINER SEE: Let's go back on the

record.

Q. (By Mr. Kutik) Mr. Allen, you also developed the alternate option, correct?

EXAMINER SEE: So the record is clear, Mr. Kutik, do you want to rephrase that question?

Q. In your testimony -- towards the end of your testimony, you discuss an alternate option to the RSR, correct?

A. It's not solely an alternative option to the RSR; it's an alternative option to the discounted capacity and RSR provisions.

Q. Thank you.

And under this option there would be no RSR, correct?

A. That's correct. Because the company would be recovering its full cost of capacity, there would be no need for an RSR.

Q. Under that option, all of the CRES providers would be charged $355 per megawatt-day for capacity.

A. Yes, that's correct.

Q. And you propose that there be a shopping credit, correct?

A. That's what the alternative option presents, yes.

Q. And the shopping credit will not reduce the CRES provider's costs, correct?

A. That's correct. The shopping credit is provided directly to the customer to provide an incentive for them to shop such that if an offer from a CRES provider were above the SSO rate, when the customer makes a decision about whether or not they would shop, that $10 credit would essentially turn a CRES offer that was above the company's SSO rate into an offer that provided a discount to the customer.

One of the elements of this provision is that it ensures that all of the benefits that the company's providing go to the customer. And as Mr. Powers described, the company's primary proposal provides benefits to CRES providers, the company, and customers.

Q. I think my question to you simply was: A shopping credit will not reduce the CRES provider's cost; isn't that true?

A. That's correct. The CRES providers would still pay the company's full cost of capacity.

Q. Thank you.

Now, under this alternate option, the company has the potential to gain more revenue if you assume the same levels of shopping and the same full subscriptions under tier 1 or the shopping credit.

A. That would be my suspicion. I haven't done the calculation, but I think that's correct.

MR. KUTIK: May I approach, your Honor?

EXAMINER SEE: Yes.

MR. KUTIK: Your Honor, we'd like to have marked as FES Exhibit, I think we're up to 117.

EXAMINER SEE: 118.

MR. KUTIK: 118. A chart that's entitled "Comparing Revenues: 2 Tiers versus 1 Tier for Capacity Prices."

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, I've handed you what's been marked as Exhibit FES 118.

A. I see that.

Q. In the column that says "2 Tiers," those numbers match the numbers that appear in your Exhibit WAA-4, correct?

A. I'm sorry, which line were you referring to?

Q. I was referring to the column that says "2 Tiers" in Exhibit 118. We see those numbers in Exhibit WAA-6. No, strike that. In WAA-4.

A. I think you're referring to WAA-6.

Q. Yes, thank you.

A. Yes, that column entitled "2 Tiers" would tie to the values presented on WAA-6.

Q. And that is at the bottom, not in the table at the top, but in the columns that are on the bottom of WAA-6, correct?

A. Correct. They come from the column titled "Total."

Q. Now, the number that appears in the column that says "Tier 1" -- well, I'll back up.

Would it be fair to say that the alternate option could be described as a tier 1, just one having 1 tier, correct?

A. It's a single price for capacity so you could call it 1 tier. There's really no need to call it that tier.

Q. And if we look at Exhibit FES 118, the number for CRES Capacity Revenues, we could see that in your Exhibit WAA-4, correct?

A. Which number are you referring to again?

Q. The 2,282.6. That would --

A. That would be the capacity levels at full costs. You've got an extra decimal but I assume that came from my workpapers.

Q. And the numbers for the shopping credit, that also comes from your workpapers, particularly workpaper WAA 25, correct?

A. That's correct.

Q. And these would be -- or, what's shown on Exhibit 118 is an addition of the Retail Non-Fuel Generation Revenues, CRES Capacity Revenues, Auction Capacity Revenues, and Credit for Shopping Load, all those are shown, correct?

A. Yes.

Q. Those are also your figures for the retail stability rider, correct?

A. The numbers from that calculation, yes.

Q. Yes. And, as we mentioned earlier, the shopping credit, correct?

A. That's correct.

Q. And would it be fair to say that you wouldn't have any reason to doubt the addition of those revenues that are shown in total revenue?

A. Correct.

Q. Now, the amount of the shopping credit, both on a dollars per megawatt-hour basis and on a total dollar basis, there's no specific analysis underlying those figures, correct?

A. Can you repeat that question again?

Q. Sure. In terms of how you came up with those numbers, there's no analysis that underlies that, no specific analysis, correct?

A. That's correct.

MR. KUTIK: I want to move to another topic and this is my last topic, your Honor.

Q. You make a comparison of revenues as a result of base generation rates versus revenues from a $355 per megawatt-day capacity charge, correct?

A. That's correct.

Q. And these two calculations were done using connected load, correct?

A. Yes, that's correct.

Q. And so it's just not shopping load, it's connected load, correct?

A. That's correct. What I was attempting to do is show that the base generation revenues, those rates, were equivalent to the rates that the company is proposing to charge at 355 to CRES providers.

Q. Isn't it fair to say that you can't say that AEP Ohio is contending that SSO customers are paying $355 per megawatt-day for capacity?

A. The total rates are equivalent to that, but the company has not done a cost-of-service study to establish rates for retail customers in excess of 20 years or nearly 20 years depending upon the company, but it is evidence that the rates compensate the company at essentially that level.

Q. All right. Well, my question to you is: You can't say that AEP Ohio is contending that SSO customers are paying $355 per megawatt-day for capacity, correct?

A. That's correct, for the reasons I just previously discussed.

Q. And in setting the base G rate, would it be fair to say that AEP Ohio wanted to make sure that it was going to recover costs other than just its capacity cost?

A. The company has not done a cost-of-service study, as I previously described, and in looking at the rates the company is charging today, you'll recall that previous requests from the company in our ESP filings requested additional revenues for base G. This is a combined proposal for, you know, base generation rates to retail customers, as well as capacity charges to CRES providers.

So, you know, if the company were to do a cost-of-service study, could we support base generation rates that were higher than what we're currently collecting? Possibly. We just don't know. We haven't done that analysis.

Q. I'm sorry, that really doesn't answer my question. My question was: In setting base G rates, AEP Ohio wanted to make sure that it covered costs other than just the capacity cost. For example, nonfuel O&M costs.

A. As I discussed, the company hasn't done that analysis. The revenues that the company recovers from both shopping -- or, from shopping customers would be used to cover both the cost of capacity plus the limited amount of variable O&M associated with the generation function of our business.

Whether those rates would produce a return of 11.15 percent or so when we did that analysis, I just don't know as we sit here today. But based upon that capacity calculation, I would suspect that our base generation rates we're charging wouldn't fully recover those O&M costs in addition to the capacity we're charging.

Q. Turn to your deposition, page 81, please.

A. Eighty-one?

Q. Yes.

A. I'm there.

Q. Did you testify, starting at line 16, as follows: "Question: Okay. Understood. So it would be fair to say that one of the things the company wanted to do in setting or proposing its ESP rate was to make sure that it recovered among other things its cost for capacity?

"Answer: Since capacity is part of the company's costs, yes.

"Question: Okay. And would the same -- would the same be true with respect to nonfuel O&M costs?

"Answer: The company would ensure its SSO rates were sufficient to recover its nonfuel O&M costs, yes.

"Question: So the company would want to make sure that it's recovering its cost in its base G charge for -- other than for costs other than capacity costs, correct?

"Answer: For costs other than capacity costs and capacity costs, yes."

That's your testimony, correct?

A. Yes, that's correct.

MR. KUTIK: I have no further questions. Thank you, your Honor.

EXAMINER SEE: Mr. Poulos?

MR. POULOS: No questions, your Honor. Thank you.

EXAMINER SEE: Ms. Grady?

MS. GRADY: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Allen.

A. Good morning.

Q. Now, you discussed a little bit this morning, with counsel for FES, the retail stability rider, and I've got a number of questions that I would like to pursue on that area, so if you could turn to page 13 of your testimony, I think that's where you begin that discussion.

A. That's correct.

Q. Now, you indicate on lines 4 and 5 that the RSR "is similar to a generation decoupling mechanism." Do you see that reference?

A. Yes, I do.

Q. Do you have an understanding -- can you tell me what a decoupling mechanism is as far as you understand?

A. Yes. A decoupling mechanism is a mechanism that decouples the company's revenues from usage, that's the typical definition of decoupling, but there's a whole variety of different decoupling mechanisms that exist, but that would be the one I'm referring to here.

Q. And when a company's revenues are decoupled from their sales -- is that what you said?

A. From energy usage or sales, that's correct.

Q. -- from energy usage or sales, it would provide a benefit to the company, wouldn't it?

A. It provides stability of revenues to the company. In some years it would have a positive impact for the company. In a year where sales were down, it would have a positive benefit. In years where sales were up, it would be a cost to the company. So it balances out over time.

Q. Would you agree with me that a decoupling mechanism in general tends to decrease the financial risk of the company?

A. No. Because we're only looking at one element of the company's financial health or finances of the company. We also have to look at changes in expenses, changes in, you know, environmental regulations that may occur for the generation business.

And based upon the way we've done this decoupling mechanism, where it's just a pure dollar amount, if the usage on the system goes up, the company is going to incur some additional costs that are not recovered through the FAC mechanism that the company would not recover under this decoupling mechanism.

So in some cases it reduces risk, sometimes it increases risk.

Q. And in this case for this company, given the RSR mechanism, would you agree that it's going to reduce the risk of the company with respect to recovering revenues?

A. From the perspective of traditional generation revenues, I don't think that I could agree with that.

From the perspective of recovering the company's cost of capacity, as we have different levels of shopping over the period and discounts provided to CRES providers, I think in that situation I could agree that it reduces the company's risk.

So in one regard it increases it, in one regard it decreases it.

Q. And the risk with respect to recovering capacity revenues is particularly great for the company when there is increased shopping levels as you assume in your ESP; is that correct?

A. Increasing shopping levels where the company is providing capacity at a significant discount to its cost, provides significant financial risk to the company. The RSR mechanism compensates the company for that additional risk.

Q. Now, you said that the RSR is similar to generation decoupling mechanism. Would you agree with me that one of the similarities is that the RSR is designed to protect the company from -- or, designed to protect a certain level of revenues, let's say capacity revenues, for the company regardless of the actual sales of generation to the internal load?

A. Generally, but it's more than just capacity revenues, it's both capacity and base generation revenues.

Q. And the level of revenues that the RSR is designed to protect is the target of 929 million; is that correct?

A. That's correct.

Q. Now, would you agree with me that the RSR collects any shortfall in nonfuel revenue target related to that 929 million?

A. Yes, that's correct. That's the design of the RSR.

Q. Now, the shortfall in the nonfuel revenues could result from any number of factors; is that correct?

A. It could. Those nonfuel generation revenues could go up or down.

Q. And the factors -- a factor that could cause a shortfall in the nonfuel revenues would be, for instance, what you mentioned, the -- what you termed the discounted CRES capacity payments?

A. Can you repeat that question, I want to make sure I'm getting it correctly.

Q. Let me rephrase that.

We've been talking about, or you've testified that a shortfall in nonfuel revenue could result from a number of factors, and I'm just going to explore with you what kind of factors there could be that could cause a shortfall in nonfuel revenues, and my question is: A shortfall in nonfuel revenues could be from the discounted, what you term discounted CRES capacity payments under the modified ESP; is that correct?

A. Yeah, and just to make sure we're clear, when you talk about nonfuel generation revenues, you're including the retail nonfuel generation revenues plus all the capacity revenues; and in that case, the RSR -- or, those nonfuel generation revenues are impacted by those discounts.

Q. And another factor that could cause a shortfall in the nonfuel revenues would be revenues that are lost due to the early auctions under the modified ESP plan; is that correct?

A. The difference between -- the discounted capacity provided in those early auctions, yes.

Q. As well as revenue opportunities that are lost due to the early auctions, the fact that those standard service offer revenues will not be collected by AEP Ohio?

A. That's correct. It would be the replacement of the nonfuel generation revenues to retail customers with the capacity revenues recovered through the auction.

Q. Now, there could also be a shortfall in nonfuel revenues if the market softens up and the market price of energy is less than the company's embedded cost to produce the energy; is that correct?

A. No. There's no explicit element in here that reflects actual market prices of electricity into the future. That was one of the elements that we included in the RSR was the credit for shopped load that was fixed at $3 a megawatt-hour throughout the period such that the volatility of the RSR would be maintained at a very small level.

Q. When you said there's no explicit element, is there an implicit element related to the RSR shortfall in nonfuel revenues if the market softens up and the price of energy is less than the company's embedded cost to produce the energy?

A. The RSR is not impacted by changes in the market price of electricity.

Q. Would you agree with me that there could be a shortfall in nonfuel revenues if revenues are lost, if the customer load for 2012, 2013 -- let me strike that.

Would you agree with me, Mr. Allen, that there could be a shortfall in nonfuel revenues if the customer load during the term of the ESP is less than the load experienced in 2011?

A. Yes. And the converse would be true as well.

Q. And would you agree with me also, Mr. Allen, that there could be a shortfall in nonfuel revenues picked up by the RSR if revenues are lost from weather being milder than normal? And sales being down as a result of the revenue.

A. Yes, and the converse is true as well in that case.

Q. And would you agree with me that as far as 2011 goes, the base for sales and load, that 2011 was a rather strong weather year?

A. I've stepped out of the financial forecasting area for a little bit of time, and I just don't recall whether 2011 was a strong year. I know '10 was, but I don't recall '11.

Q. So would I be correct in assuming that you don't know with respect to the load assumption for 2011, whether that was a average load or whether it was significant or significantly different from the load experienced in the prior years?

A. And I think, maybe if I can clarify how the process was done to develop the RSR, I can explain how the actual weather that was experienced in 2011 really gets factored out of the calculation.

So if you go to the calculation of the $929 million --

Q. Yes.

A. -- I start with the 2011 ROE on an ongoing basis of 12.06 percent.

Q. Yes.

A. And $537 million annually.

Q. Do you have a schedule you're looking at, Mr. Allen?

A. I'm sorry. Exhibit WAA-6.

Q. Thank you.

A. Embedded within the $537 million of earnings in 2011 would be the weather that the company experienced in 2011.

Q. Yes.

A. So to the extent that 2011 had positive earnings from weather, when I take the next step of taking a target ROE of 10.5 percent, which is the $467 million, reduce the revenues by $107 million to get to the 929, I've taken out the positive effect of weather if a positive effect occurred in that year. So I've effectively excluded any impact of weather in that year.

Q. When you say you've "taken out the positive effect," you're saying you have taken out that positive effect completely and you understand the positive effect of the weather in that calculation; is that correct?

A. No. What I'm stating is if there was a positive effect of weather in the actuals, the step of going to a target ROE of 10.5 percent would remove that positive impact.

So what I haven't done in this

calculation is said in 2011 I earned 12.06 percent and had total generation revenues of 1,036,000,000, which you see in the line above. I haven't set the target for 2012, '13, or '14 based upon that higher level, so I've already reduced any positive benefit of weather that may have existed in that calculation.

Q. But you really wouldn't know the exact positive effect of the weather shown on the 12.06 return on equity, would you, for 2011?

A. That's correct. What I'm stating is that if there were an impact, it's removed in the next step of the calculation.

Q. You are assuming that it's removed, because if you don't know the value of the impact on the 12.06, you're not -- can you not be sure that when you reduce down to 10.5, that you've completely taken that factor out of consideration; isn't that correct?

A. I've never seen a year where the weather effect on the Ohio companies was $107 million, so I'm certain that I would have removed all of the weather effect in that calculation.

Q. Even though you don't know what the weather impact was on that calculation, you can't -- as you sit here today, you do not know what the impact of weather was on the 12.06 percent earned in 2011.

A. That's correct, I don't know the value, but I do know that it would have been completely removed.

Q. Would you agree with me that the RSR could essentially function as a weather-normalization tool for the company?

A. It would have the effect of normalizing revenues independent of the weather.

Q. And so you really wouldn't need a weather-normalization tool while you had the RSR in place; is that correct?

A. For generation revenues that would be correct.

Q. Now, under the modified ESP, what happens if the company exceeds its nonfuel revenue target of 929 million? Does the ESP plan contemplate returning revenues in excess of the $929 million?

A. If on an aggregate basis, over the three-year period, the calculation determined that the retail stability rider was negative --

Q. Yes.

A. -- then, in fact, the company would return those values to the customers. That's a symmetrical mechanism.

Q. And how would that -- how would the company make a determination that the RSR value is negative?

A. We would follow the same math that I describe on Exhibit WAA-6. And to the extent that retail nonfuel revenues, CRES capacity revenues, the auction capacity revenues, and the credit for shopped load produced a result greater than the target revenues of 929 annually and, in some, 2.787 million over the three-year period --

Q. Yes.

A. -- to the extent that that subtotal exceeded the target revenues, then moneys would be returned to customers.

So, you know, scenarios, if there was no shopping in the company's service territory, and as I described previously the company's retail base revenues are equivalent to a capacity rate of 355, which is in excess of the capacity charges the company's proposing to charge CRES providers, then the retail revenues the company would receive would be greater than the target of 929, and dollars would be returned to customers in that situation.

Q. And is the return to customers of dollars above the $929 million revenue figure in the RSR something that will occur on an annual basis?

A. I think Witness Roush described the process yesterday. At the end of the first year, we would compare the revenues received under the RSR to the level that we were -- the level of these other costs or, I'm sorry, these other revenues. And to the extent that the expectation was that over the three-year period the RSR would overcollect the necessary revenues, we would reduce the RSR charge.

So we would look at history and look at a projection of the future such that the goal was to fully reflect any RSR charges or refund any RSR credits to customers over the period of the ESP.

Q. And do you know, Mr. Allen, if the company has proposed to -- if there is a positive or a refund of the RSR revenues, whether the company has proposed to return that money to customers with some carrying charge attached to it?

A. My recollection of company Witness Mitchell's testimony, who covered the carrying charges, is that there was no carrying charge on the RSR, but you'll have to look at his testimony.

Q. Now, on line 7 of your testimony, I'm sorry, on page 13 of your testimony, line 7, you refer to the company's proposal "to provide highly discounted capacity pricing to CRES providers...." Do you see that?

A. Yes.

Q. By "highly discounted capacity pricing" you're referring to the fact that you calculated the FRR commitment to provide capacity at 355 megawatt-hours a day compared to the lower-priced set-asides under your two-tier approach?

A. The company presented a cost of capacity of $355.72 per megawatt-day as an FRR entity under our rights under that FRR construct, and in this case the company is proposing to provide capacity at a highly discounted rate of $255 a megawatt-day for the second tier of capacity and $146 a megawatt-day for the first tier of capacity.

Q. So the answer to my question is yes.

A. Yes, you had a couple mix-ups in the 355 per megawatt-day so I wanted to clarify.

Q. Now, the resultant loss of generation revenues that you refer to on line 12, page 13, that refers to the company's estimate of generation revenues that will be associated with load that switches to a CRES; is that right?

THE WITNESS: Can you reread the

question, please?

MS. GRADY: Can the court reporter reread that, please?

(Record read.)

A. I think it's a little more complicated than that. It's the loss of SSO revenue that the company incurs as a result of a shopping customer or a customer switching to a CRES offset by the lower revenues that the company would recover from that CRES for the CRES's use of the company's capacity.

Q. Now, under your proposed ESP, you conclude there will be significant switching, correct?

A. That's correct.

Q. And, for example, you've concluded that 65 percent of residential customers, by the end of the ESP, will switch, as compared to the current 10 percent level of residential switching, correct?

A. As of April 30th, 2012, it was 12.74 percent.

Q. Is that 12.74 percent the actual residential customers switched or does that reflect percentages related to pending and noticed switching?

A. That would only include the actual level of switched customers.

Q. Thank you.

If there is less switching than assumed, if there is less residential switching than assumed in your ESP, will the RSR collect less revenues?

A. Yes.

Q. Now, we've talked a little bit about the retail stability rider. Would you agree with me that it will -- let me strike that.

Would you agree with me that the retail -- let me strike that.

Now, in establishing the RSR, you have a target level of nonfuel generation revenues that we've been discussing, do you not, and that target level of nonfuel generation revenues is based on 2011 -- revenue levels similar to 2011? And if I could point you to your testimony, I believe it's on page 13, lines 17 through 18.

A. Yes, that's correct.

Q. Now, you are familiar, are you not, with the total retail sales for AEP Ohio that were reported in 2011?

A. No.

Q. Would you accept, subject to check, that in 2011 the number that was reported in the AEP annual 10-K filed on February 28, 2012, at page 183, in terms of net megawatt hours was 48 million 420 megawatt-hours was reported as the total retail sales for AEP Ohio?

A. Without looking at it, I would say it's reasonable. It's consistent with the information I show on Exhibit WAA-4 for projected load, so that seems reasonable to me.

Q. Can you tell me how the actual AEP Retail sales in 2011 is related to your revenue target of nonfuel generation revenues for purposes of the RSR?

A. The sales in 2011 would have produced the generation revenues that I started with in Exhibit WAA-6 in the lines titled "Retail Nonfuel Generation Revenues" and "CRES Capacity Revenues," that's in the section entitled 2011 AEP Ohio financial data.

Q. Yes. So that the -- so what you're saying is the retail sales would be reflected in that figure.

A. Yeah, it's the retail sales that create those values, yes.

Q. Now, do you know whether this, the retail sales that created the value shown on WAA-6, the retail nonfuel generation revenues of 967 million, do you know whether that includes revenues associated with off-system sales?

A. No. The retail revenues would not include off-system sales revenues.

Q. And when I say "Off-system sales," what do you understand that term to mean, Mr. Allen?

A. Off-system sales would be sales to nonaffiliates of AEP Ohio; typically those are energy sales.

One distinction I'd make is that CRES capacity revenues show up in the line titled "Off-System Sales" in the company's financial reports that we put out. I typically wouldn't consider those off-system sales in the way that I typically discuss those.

Q. Okay. Now, you understand that off-system sales would not be the same thing as the sales or revenues that are produced out of the AEP pool; is that correct?

A. If you're referring to the primary energy sales that go through the pool, those would not be off-system sales.

Q. Okay. That is what I'm referring to.

If you included the actual revenues associated with the 2011 off-system sales in the retail nonfuel generation revenues shown on the first line of WAA-6, what mathematically would be the result of your calculation?

A. So if you were to do that calculation, what you would do is you would add an additional line in the 2011 AEP Ohio financial data that reflected the off-system sales margins retained by AEP Ohio in 2011. So that would have the result of increasing the total revenue value of 1,036,000,000 to a higher level.

Q. Yes.

A. Then you would make the same deduction to that higher level, the same $107 million deduction that you see in the third section of the box in Exhibit WAA-6.

Q. Yes.

A. Such that the revenue target would be higher than $929 million.

The next step you would make is in the lower section of WAA-6, where we have the Estimate of the Retail Stability Rider Revenues, you would have to add another line in the first section that included the actual off-system sales margins retained by AEP Ohio, and you would have to exclude the line titled "Credit for Shopped Load" because those values would already be included in the off-system sales margins included in the previous step.

And then you would compare that new subtotal to the value obtained in the upper table that would now be greater than $929 million and come up with a new retail stability rider.

Q. So you are testifying, Mr. Allen, that if you include the -- as part of the financial data, you include the off-system sales revenues, that that would increase the need for -- or, would drive the retail stability rider to higher levels and would require more customer funding if you considered the revenues associated with off-system sales.

A. No, that's not what I was stating, because you'd have a new offset that could be greater or less than the level in 2011. So the basic concept is if the level of off-system sales margins in planning year, for instance, 2012-'13, was greater than the off-system sales margins actually achieved by AEP Ohio in 2011, if they were higher, it would reduce the RSR.

If the actual off-system sales margins obtained in 2012 and '13 were lower than the actual amount recovered in 2011, you would need to increase the RSR.

And just one other quick caveat on the "Credit for Shopped Load" included in the top box, you'd have to exclude that as well because you'd be double counting that in the off-system sales margins.

Another item you would have to include if you were to go down that more complicated approach is that after the pool is terminated, you would need to factor in the loss of capacity revenues that AEP Ohio would have when it no longer received those from other pool members.

So it's a very complicated calculation to do. It can be done, but it adds a significant amount of complexity to the analysis.

Q. You're confusing me, Mr. Allen. I thought we established that off-system sales, and we're only speaking of off-system sales now, are separate from pool revenues.

A. Off-system sales are separate from pool revenues when we talk about primary revenues. Or, I'm sorry, primary energy sales. But the allocation of off-system sales margins are related to the capacity revenues that AEP Ohio recovers under the pool. And within this three-year period those revenues will disappear if the pool is terminated.

Q. Thank you.

Do you know what the level for 2011, the level of off-system sales was for AEP Ohio?

A. I do not. I think we answered in discovery but I don't recall as I sit here today.

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

EXAMINER SEE: Yes.

Q. Never mind on that one.

A. I didn't think you'd like the answer.

Q. We're going to move along.

Now, going back to WAA-6 and the line entitled "Retail Non-Fuel Generation Revenues," you did not include, did you, Mr. Allen, revenues from sales to the affiliates or sales resulting from the AEP pool?

A. That's correct. These are just retail sales.

Q. And if you included the actual revenues associated with the 2011 sales to affiliates, what mathematically would be the result?

A. So you're referring to capacity sales to affiliates in that regard, the --

Q. Capacity and energy sales to affiliates. Because aren't there capacity and energy sales to affiliates?

A. There are. The energy sales to affiliates are primarily made up of nonfuel revenues, but the pool does have a O&M component in it that would be generally related, though, to the -- there's a piece that goes through the capacity equalization payment and there's a piece that goes through the primary energy sale.

So would you go through the same process we described previously, you'd have to include those capacity revenues in the top box of Exhibit WAA-6 --

Q. Yes.

A. -- and you'd also have to include the actual capacity revenues in the bottom box of that calculation, and I think what you'd see is that those values are declining over time and that they disappear in 2014-'15.

Q. And they disappear in 2014-'15 because the generation then will be -- there will be corporate separation and the generation assets will be transferred; is that correct?

A. The assumption is that the pool is terminated so those capacity revenues are eliminated. But my recollection of 2011, it included some higher MLR peaks for APCo than what we're seeing today.

So if you were to include the capacity revenues in '12-'13 in both the beginning calculation of the retail stability rider as well as the bottom box on Exhibit WAA-6, my expectation would be that you would actually increase the RSR.

Q. So your testimony is that if you included the profits associated with pool -- sales to affiliates under the pool, that would increase the need for an RSR?

A. If you did it in a symmetrical approach where you included the actual values from 2011 in your target revenues. I mean, those aren't purely profits, they're recovery of costs with a return component in there.

Q. Correct.

A. Then my expectation based on the change in the peaks of the operating companies is that in '12-'13 you would increase the RSR.

Q. Now, when we look at the 2011 ROE shown in the second box of 12.06, profits from off-system sales are not reflected in that ROE, correct?

A. No, that's not correct. They are actually included in that value.

Q. And how are they included in that value if they're not in shown in the total revenues?

A. The total revenues were used just to determine the target revenue. That middle box actually takes the ongoing earnings of AEP Ohio and divides it by the equity of AEP Ohio. Those ongoing earnings include both off-system sales as well as all other revenues and expenses of the company. So it's different in what you may have seen in a SEET calculation.

Q. Yes.

A. This is the actual ongoing earnings including off-system sales margins.

Q. And those ongoing earnings would also include margins associated with the AEP pool; is that correct?

A. Margins that are created through receipt of pool capacity payments, yes.

Q. Okay. Now, you talked a little bit this morning with Mr. Kutik about the $3 a megawatt-hour credit for shopping load related to possible energy margins. Do you recall those questions?

A. Yes, I do.

Q. And on WAA-6, you show the credit for the shopping load totaling 314 million over the period of the RSR; is that correct?

A. Yes, that's the total credit for shopped load.

Q. And is it your testimony that the RSR will be reconciled so that the credit is applied to actual shopped load versus the estimate -- versus what now are estimates of shopped load?

A. Yes. All the values in Exhibit WAA-6, the bottom section, will be updated for actual revenues. The only value that will stay constant is the total revenue target of $929 million annually.

Q. And, Mr. Allen, are you applying the $3 a megawatt-hour in WAA-6 to a hundred percent of the shopped load that you can identify?

A. Yes.

Q. Would you agree, Mr. Allen, that the impact of customers switching on AEP Ohio, in terms of revenue and profit, is and will be offset, in part, by increased off-system sales and increased capacity revenues?

A. The lost revenues from the loss -- the loss of retail revenues from those customers will be partially offset by the CRES capacity revenues that I show in Exhibit WAA-6 and then we provide a credit for those margins that could potentially be recovered. There would be no additional capacity sales beyond those being provided to CRES providers.

Q. And the credit we're talking about is the $3 per megawatt-hour credit?

A. That's correct.

Q. Now, as part of the reduced SSO -- let me strike that.

When there's shopping, there will be reduced SSO load for the company; is that correct?

A. Yes, that's correct.

Q. And as part of the reduced SSO load associated with shopping, there will be increased CRES capacity revenues being generated, correct?

A. Yes, that's correct.

Q. And those increased capacity revenues are included in the RSR rider calculation; is that correct?

A. Yes, that's correct.

Q. How did you determine the value of the increased capacity revenues associated with the shopping load?

A. I applied the discounted capacity rates that the company's providing to CRES providers for the use of our capacity, I apply that to the load served by those CRES providers.

Q. And were the CRES capacities assumed at the two-tier prices or were they assumed at one level?

A. They were assumed under the two tiers consistent with the levels shown in Exhibit WAA-4.

So on page 2 of 4, you can see the load served at $146 a megawatt-day.

Q. Yes.

A. And you can see the amount of load served at $255 a megawatt-day.

Q. Yes.

A. And so those two rates would have been applied to those two different sets of loads.

Q. Now, Mr. Allen, under your modified ESP plan, is there a cap on the rate stability rider?

A. There's no cap on the retail stability rider.

Q. Would you agree with me, Mr. Allen, that customers who switch to an alternative supplier will no longer pay the transmission cost recovery rider rate to AEP Ohio?

A. Yes, that's my understanding. Mr. Roush is the one to ask about that, but that's my understanding.

Q. Yes.

And would you agree that these customers' transmission costs are allocated by PJM to the CRES providers and, thus, would result in lower costs being allocated to AEP?

A. My expectation would be that the TCRR rate for AEP Ohio's nonshopping customers should be the same independent of the shopping load. It's kind of like a fuel clause; the less -- you have less costs but you have less kilowatt-hours to apply it to so they should be offset. There may be small changes that occur, but generally they should be essentially the same independent of shopping.

Q. So your testimony is that the customers' transmission costs -- or, your testimony, then, would be that the company will see no lower allocation of transmission costs as a result of shopping?

A. No, that wasn't my testimony.

My testimony was that the rate, the total dollars divided by kilowatt-hours, should be essentially the same independent of the level of shopping. So as shopping levels increase and the SSO load of AEP declines, the charges from PJM should decline as well.

Q. So AEP will get a lower allocation of transmission costs as more customers shop, correct?

A. That would be my expectation.

Q. Now, in 2011 are you aware of the lower-cost allocation of transmission costs to AEP Ohio? You're aware that -- the magnitude of that lower cost allocation?

A. I have not reviewed that.

Q. When you say you have not reviewed it, are you aware that in 2011 there was a lower cost allocation of transmission costs to AEP Ohio as a result of shopping?

A. I'm not aware. That's not something I've -- that I've looked at or something I would normally look at in my position.

Q. Would it surprise you if there was a 2011 lower cost allocation of transmission costs to AEP Ohio of $10.2 million?

A. It could be due to a number of things. It could be that the rate PJM charges has gone down. I just don't know and I wouldn't want to testify to that.

MS. GRADY: May I have a moment, your Honor?

EXAMINER SEE: Yes.

Q. Can you tell me -- let me strike that.

Mr. Allen, would you conclude that the company's RSR calculation does not reflect a lower allocation of transmission costs to AEP Ohio from the assumed levels of shopping?

A. The RSR is focused on generation revenues, so I wouldn't include any consideration of the transmission cost.

Q. Now, when we're speaking of the AEP system as a whole, would you agree with me that revenues lost through shopping customers would be offset by new revenues from AEP Retail or AEP GenCo?

A. With regard to AEP Retail, that's really not a factor in this case and it's -- shopping and its impact on AEP Ohio is independent of whether or not AEP Retail is serving any of those customers. The expectation is that somebody would be serving those customers anyway, and the margins wouldn't be equivalent, but it's really irrelevant.

The additional revenues from the GenCo would be factored into the credit for shopped load in the RSR calculation.

Q. And can you tell me how that is done?

A. The RSR is intended to provide, I'm sorry -- the credit for shopped load in the RSR provides a credit for potential margins that the company could achieve when energy is freed up because customers shop.

Q. Yes.

A. So that would reflect the margins that the GenCo may receive or that another entity, I'm sorry, or that AEP Ohio would receive prior to separating out the GenCo.

Q. And as part of the RSR, the RSR revenues flow to the GenCo, correct?

A. They do.

Q. So it is relevant to this proceeding what revenues are being lost through shopping that would be -- that may be offset by new revenues from AEP Retail, correct?

A. No. AEP Retail and the GenCo are different entities. And so with regard to AEP Retail, that's irrelevant, but I think with regard to the GenCo, because those payments are going to the GenCo, that would be relevant.

Q. Yes. I'm sorry, I misspoke.

It would be relevant to determine -- it would be relevant because AEP GenCo is the recipient of the RSR revenues beginning -- once corporate separation is achieved.

A. That's correct. And that's why that credit for shopped load continues after the assumed date of the GenCo being created, yes.

Q. And so you are assuming that the $3 per megawatt-hour credit that you are proposing is a reasonable margin for the AEP GenCo to operate under?

A. As part of the overall package, it's a reasonable assumption for the GenCo to receive those additional, or to have the additional revenues that they receive through the RSR be offset for those credits for shopped load.

And you have to recognize that, you know, when we create the GenCo and split up the pool, that the capacity revenues being received from the affiliated companies will also diminish.

Q. Would you expect that the new GenCo will generate positive cash flows from the generating units transferred?

A. At what capacity pricing levels?

Q. At the capacity pricing levels assumed in the ESP.

A. I would suspect, based upon those capacity pricing levels and the RSR, that the cash flows would be positive for the GenCo. I haven't done that analysis.

There could be years where the GenCo could have negative cash flows because I would consider construction expenditures part of that cash flow analysis, so there could be significant construction that could cause the cash flows to go negative.

Typically, I wouldn't think about it in

terms of cash flow, I'd think about it as earnings, and I would suspect at these levels that the earnings of the GenCo would be positive.

Q. Now, on page 16 at lines 11 through 12, you indicate that -- and here we're talking about your alternative proposal -- you indicate that shopping credits would be associated with this proposal, and I think you responded to some questions from Mr. Kutik about this.

A. Yes.

Q. And you indicate there in your testimony that a typical residential customer would receive shopping credits of over a hundred per year?

A. That's correct.

Q. Is that hundred-dollar-a-year figure assuming that the customer is using around a thousand kilowatt-hours per month?

A. Correct. If a customer used a thousand kilowatt-hours per month, the shopping credits would actually be $120 per year.

Q. Now, if 20 percent load for each customer class is reached in the planning year 2012 through 2013, that will use up approximately $96 million of the $350 million cap; is that right?

A. That sounds familiar from some discovery we've answered.

Q. And when we say the "$350 million cap," do you understand what I'm referring to?

A. Yes, I do.

Q. And can you explain what that is?

A. The $350 million cap is the maximum level of shopping credits that the company has proposed to provide over the period June 2012 through December 2014 under the alternative proposal.

Q. And under the alternative proposal -- let me strike that.

Is the alternative proposal assuming that the company receives approval for its 355 per megawatt-hour capacity?

A. Per megawatt-day? Yes, it is dependent on the company receiving its full cost of capacity from CRES providers, yes.

Q. And what happens if the company does not receive the company's estimated -- let me strike that.

What happens to the alternate proposal if the company's capacity price that it proposed in 10-2929 is not approved?

A. The level of the shopping credits would need to be revisited.

Q. And would you assume, when they are revisited, that the level of the shopping credits would be reduced from the $350 million presented in the company's modified ESP?

A. It would depend upon what level of capacity price was approved by the Commission. If they approved a rate of $355 a megawatt date, essentially the same as we had asked for, I wouldn't suspect that that level would change, it would be dependent on the magnitude of the change.

Q. And so my question really is: Assume that the Commission does not adopt the 355 per megawatt-day capacity proposed by the company, would that -- would the Commission, adopting anything less than the 355 a megawatt-hour day capacity price, change the alternative proposal that the company has presented in its modified ESP?

A. As I stated, the shopping credit is dependent upon receiving that rate. If the rate's different, the company would have to revisit it, and I don't know what that decision would be.

Q. And, again, if they revisit it where the Commission -- or, where the Commission approved a capacity rate which is less than 355, would it be your expectation that there would be a reduced cap or reduced credit, shopping credit, to customers under such a proposal?

A. It's a possibility, but it's not a certainty. I haven't had that discussion with management.

Q. Now, when we talked before about the year 2012-2013, the fact that if shopping occurs at the 20 percent level would use up 96 million of the cap; do you recall that?

A. I do.

Q. Of that 96 million that would be used up, would you agree that 29 million will be used up by residential shopping assuming that residential shopping reached the 20 percent figure? And if I could direct your attention to, if you've got the discovery responses, that would be response to OCC interrogatory 3-64.

A. I don't have that with me but that sounds about right.

Q. Mr. Allen, in the second 12 months, 2013 through 2014 planning year, if the shopping percentages were maxed out for each customer class at the 30 percent proposed in the ESP, approximately $241 million of the $350 million cap would be used up, correct?

A. That would be a two-year value.

Q. Yes.

A. Yes.

Q. And of that 241 million used up, what -- do you know what dollar would be used up by residential shopping customers assuming 30 percent residential shopping was achieved at that point?

A. Not without looking at my workpapers. I would suspect it's going to be in the $75 million range.

Q. And in the third 12-month period under the ESP, if the shopping percentages were reached for each customer class at the 40 percent shopping, would -- the $350 million cap would be reached, would it not, and, in fact, credits would be discontinued; is that correct?

A. That's correct. And the shopping credits expire at the end of 2014 when the company goes to auction under the alternative option.

Q. Now, Mr. Allen, let's change our focus for a moment to your testimony on the distribution investment rider.

A. Okay.

Q. You testify on the distribution investment rider at pages 9 through 12 of your

testimony, if you could pull to that section, please.
A. I'm there.
Q. Mr. Allen, would you agree with me that the distribution investment rider will allow the company to collect costs associated with its distribution investment on a more current basis between rate cases?
A. That's one of the intents of the DIR, yes.
Q. And by having the DIR, you can avoid regulatory lag; is that correct?
A. It does two things. We can avoid regulatory lag and it also reduces the costs borne by all parties, as you're well aware of litigating base distribution cases which are very costly and time-consuming for all parties.
Q. Now, Mr. Allen, on page 6 of your testimony, lines 21 through 23, and on page 7, lines 1 through 2, you discuss AEP Ohio's support for government aggregation programs. Do you see that?
A. Yes, I do.
Q. And you testify that you have increased your set-aside level for 2012; is that correct? For government aggregation.
A. We haven't expanded the set-aside. We've

provided that governmental aggregation can occur above the set-aside.

Q. Yes. That is much more precise than my question, thank you.

Now, you have not made that provision for any subsequent year in the ESP term, have you?

A. That's correct. For the subsequent years of the ESP term, we've provided that governmental aggregation and individual customers would be on the same footing.

Q. Have there been any other measures that AEP has taken to support -- let me strike that.

Have there been any measures that AEP has taken to support governmental aggregation?

A. There are a couple. The discounted capacity that the company's providing is a benefit to governmental aggregation.

Another effort the company has undertaken to support governmental aggregation is that we've updated our processing systems for customer switching to allow much larger quantities of switches in individual days to occur which is something that is typical of governmental aggregation programs. They typically would send in large numbers of switches in single batches, so we have done that to help support governmental aggregation.

But I think all of the provisions of the ESP, all of the benefits that we discuss, provide benefits equally to customers in governmental aggregation and customers that aren't in governmental aggregation.

MS. GRADY: If I may have a moment, your Honor, to check through my notes, I believe I may be done, but I wanted to take a minute to check.

EXAMINER SEE: Okay.

MS. GRADY: That's all the questions I have, your Honor.

Thank you, Mr. Allen.

THE WITNESS: Thank you.

EXAMINER SEE: Just so that the parties are aware, we are going to take a break at approximately 1:15 for lunch so that we can accommodate the Commission meeting.

I'm sorry, could you hear me on this side?

Okay.

Mr. Maskovyak?

MR. MASKOVYAK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Maskovyak:

Q. Good afternoon --

A. Good afternoon.

Q. -- Mr. Allen. I just have a few questions.

You were in the room yesterday when Ms. Thomas was on the stand, correct?

A. I was.

Q. And you may recall she has attached to her testimony as LJT-1 a chart of the MRO and the witnesses that are identified who are supporting certain aspects of it?

A. Yes. Yes.

Q. And one of the components is the RSR.

A. That's correct.

Q. And in that column it lists you, and I think only you, as the witness responsible for supporting the RSR.

A. Yes, I prepared the quantification of the RSR.

Q. Okay. Sorry about having to do this, but what I'm trying to do is avoid drawing a response later from Mr. Dias that I should have asked you, which I would then, of course, not be able to do at that point in time.

But in his supplemental direct testimony filed on April 27th, he states that at-risk populations benefit or are protected by the RSR.

In fact, let me specifically quote from page 3. "Also, the RSR mechanism in conjunction with the proposed ESP II package provides customers with price-to-compare data that is transparent, stable and predictable, and provides for pricing that is moderate in nature for certain at-risk populations."

So the question goes to the last part of the statement which is about the "at-risk populations." Does the RSR have any provision that specifically benefits or protects at-risk populations?

A. To the extent that the RSR as an element of the ESP package allows the company to provide for the provision of discounted capacity to CRES providers, and to the extent that at-risk customers take advantage of those lower prices that CRES providers may pass on to them if they do pass on the discounted capacity to those customers, in that manner the RSR does provide a benefit to those at-risk customers.

Q. So let me see if I understand. First, it would only protect those who shop or assist them.

A. No, that's one element.

One of the other elements -- I'm glad you took me there -- is that we also have proposed that the base generation rates are constant over the three-year period. There's no environmental rider in this proposal. So customers who choose not to shop, can expect their base generation rates to remain constant over the three-year period. So that would be another benefit to those at-risk populations.

Q. But that is not a benefit that is provided to at-risk populations that is in any way different from any other customer, is it?

A. No. They see the same benefits as other customers, so the fact that a benefit is provided to a customer that's not at risk, doesn't mean that when the same benefit is provided to an at-risk customer, that there's no benefit. He's still seeing a benefit. All customers are seeing these benefits, both at-risk and not at-risk.

Q. Would you agree that at-risk customers would probably include those that are on fixed incomes?

A. It would depend on the level of their fixed income. There's some people that are on fixed income that I wouldn't say that are at risk.

Q. How about those that are on social security?

A. Depending on their other sources of income, I don't know, I'm not a --

Q. If that is their only source of income.

A. You might guess I'm a long ways from social security, so I couldn't guess what that income level is, I just don't know.

Q. How about for those that are on food stamps?

A. I don't know. That's probably a better question for Mr. Dias.

Q. So you wouldn't know whether taking more money out of the pocket of those with fixed incomes would disproportionately disadvantage them vis-a-vis those who are employed or have the ability to increase their income.

A. My understanding is that a large percentage or a lot of the individuals that would be in some of those at-risk groups are covered by the PIPP program, so they're paying a percentage of their income, so these changes in the, you know, RSR wouldn't impact those customers.

The fact that we're not changing our base generation rates for those customers is a benefit;

they're not seeing an increase in those rates.

Q. I'm not sure how much you understand about the PIPP program, but I think you already stated that it would not specifically benefit PIPP customers because, as we know, the amount that they pay is based on their income regardless of the actual rate.

A. That's correct. And I think I've testified about, you know, discounts to PIPP customers not providing any real benefit to those customers. But what we've -- when I say "discounts," discounts to PIPP load doesn't provide benefit to those direct customers.

But what I was addressing in your comment when you asked about would they be impacted by the increase in the RSR, and I don't think they would be.

Q. The RSR would affect their rate, but since their bill is not determined by their rate, but by their income, it would have no effect.

A. That's correct.

MR. MASKOVYAK: I have no further questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. MASKOVYAK: Thank you.

MR. DARR: Thank you.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Let me follow up on one question Mr. Maskovyak just asked.

Fair to say that any increase in the rates that AEP Ohio charges its customers that are not recovered through the percentage of income program, would have to be recovered through the surcharges, correct?

A. You're going to have to be more specific about that. I'm not following the question. I apologize.

Q. Well, isn't it correct that the company's made whole on a somewhat regular basis for its total revenues based on a PIPP surcharge?

A. With the exception of the uncollectible expense associated with those customers, there's a USF rider that compensates the company for the cost of the PIPP load.

Q. Let's call it the "USF rider," then, and to the extent that at-risk customers, or PIPP customers, are protected by the percentage of income program, any delta or any increase would have to be picked up through the USF rider, correct?

A. Just to make sure we're clear, if the company were to increase its base generation rates and PIPP revenues stayed constant, the amount of money that would be recovered through the USF rider would increase, that's correct.

Q. It's not just limited to an increase in your base generation rates, isn't it total rate?

A. It is, it's total rates.

Q. Thank you.

A bit of a housekeeping matter. With regard to the RPM prices that would otherwise be in effect in the unconstrained area, would you agree that without scaling factors, the rates would be $110 -- or, the rate would be $110 per megawatt-day for the planning year 2011-2012?

A. No; I think the capacity rate would be 116.16. The $110 is the initial BRA clearing price. The final zonal capacity price is the 116.16 that would include the supplemental auctions.

Q. Do you know approximately when the final price was determined when the last auction was held?

A. I don't.

Q. What do you have as the current zonal price currently, 16.46 for the planning year 2013 -- 2012-2013?

A. I don't have the final rate. I just have the first and second incremental auctions, it was a document I picked up this morning, but it's in the $16 a megawatt-day range.

Q. And how about for the 2013-2014 year, is it in the 27 to 28-dollar range?

A. That's correct.

Q. And for the planning year 2014 to 2015, about the $126 range?

A. That's correct. And just for the record, that's not on an apples-to-apples basis with the rates that the company's proposing in this case. What the company's proposing would include all the other factors, the scaling factors and the like.

Q. And, again, my question was specific to an unscaled rate. Correct?

A. That's correct.

Q. And the answers you gave me were as to an unscaled rate, correct?

A. They were, that's correct.

Q. Do you have FES Exhibit 117 in front of you?

A. I didn't number it when I got it. Is that the e-mail?

Q. The e-mail. And the first page has,

across the top of it, "Forward: AEP Ohio RPM-Priced Allotment Status Update." Do you have that in front of you now?

A. Yes.

Q. Now, the information that's provided here is as of November 11th, 2011, correct?

A. Yes.

Q. And this would have been under the terms -- these numbers would have been calculated under the terms of the stipulation ESP; is that correct as well?

A. They would have been in accordance with the stipulation as filed with the Commission on September 7th, 2011.

Q. So the answer to my question, again, is yes?

A. Yes; I just wanted to clarify the difference between the stipulation as proposed by the company and as filed with the Commission to the stipulation as modified by the Commission in December.

Q. Now, as we presently sit here, is it fair to say that the commercial allotment under the current proposal will be 21 percent?

A. The allotment for the commercial class in -- for the remainder of 2012 would be 21 percent plus an additional provision for incremental commercial load served under governmental aggregation.

Q. As long as they're nonmercantile, correct?

A. That's correct.

Q. How about industrial load? 21 percent for that as well?

A. It would be 21 percent with the same caveat that it's the nonmercantile industrial load served under government aggregation.

Q. Is there a lot of nonmercantile industrial load out there?

A. No. There can be some, but my expectation is it would be very small.

Q. So we can use 21 percent probably as the target number, correct?

A. Correct. Generally when I do an analysis, I assume a hundred percent of industrial customers are mercantile but there's a small, a very small percentage that are nonmercantile.

Q. And, again, the same 21 percent number would be used for residential, correct?

A. That's correct, with the same caveat on the governmental aggregation.

Q. Now, as we sit here today, and based on the nominations and actual contracts that are in place, would there be any additional commercial load eligible for the 21 percent allotment if the Commission approved your most recent modified proposal and made it effective as of June 1, 2012?

A. Commercial shopping load has exceeded 21 percent already. Based upon the data I've seen, I would expect a small number of additional commercial customers would receive an allotment under the proposal just due to changing the level of the tiers slightly for the forecast versus historical load. But it would be very small.

Q. And, again, the same question with regard to the industrial load, as we sit here today, if the Commission approved the modified ESP and made it effective June 1, is there any unallocated portion remaining?

A. There would be some additional unallocated available.

Q. And would a customer be able to secure that on June 1?

A. If the Commission issued the order by June 1st, which I don't think is likely at this point in time.

Q. Isn't it true that you have a blocking rule contained in the -- at one time you had a blocking rule that basically said if the next unit or next customer in line was larger than the unallocated portion; do you recall that?

A. I wouldn't refer to it as a "blocking rule." It's -- customers stay in line until they can receive a full allotment of discounted capacity. There's no -- customers don't get to jump ahead in line just because a large customer is next in line.

Q. Do you know whether or not there's a large customer in line currently?

A. I don't.

Q. With regard to a commercial customer or an industrial customer, assuming for a moment that the customer allocation has been exhausted under the 21 percent rule, the next customer in line would be charged at the higher tier, correct?

A. Right. They would receive the discounted $255 a megawatt-day price.

Q. And the difference between the first customer or the customers under the 21 percent cap and the customers outside the 21 percent cap would be where they appeared in the line, correct?

A. Yes.

Q. With regard to your statements in support of the RSR, one of the things that you indicate is that it provides stability and certainty to customers and the company. I want to explore that notion for a little bit.

Are you suggesting that AEP Ohio customers would not be receiving service, that is the physical service, from AEP if -- let me back up a second. Let me start and see if I can make sense of this.

You're aware as a result of your participation in the capacity case that the company takes its energy service on a day-to-day basis through the PJM day-ahead process, correct?

A. The company bids in its generation and purchases generation energy through PJM on a day-ahead basis and I think on an hourly basis.

Q. And PJM dispatches those resources based on least-cost principles, correct?

A. That's my general understanding. I think Phil Nelson probably covered that in a little more detail.

Q. And the dispatch occurs without regard to retail service areas, correct?

A. Transmission constraints and the like would be considered, but it's not an area that I'm an expert on.

Q. Are you aware if AEP owned no generation currently, PJM would still dispatch generation on a real-time basis to satisfy the load of the EDU?

A. My understanding would be the EDU would bid its load into that and would procure energy from PJM.

Q. Are you proposing any audit process for the RSR? Any specific audit process.

A. No. It's a fairly straightforward process, the expectation would be that the Commission staff would review the company's proposals to change the RSR rate over time, so there would be Commission staff review, but we haven't described what that audit process would be.

Q. And would you agree with me -- well, as part of your calculation you used the FERC Form 1 total company numbers for 2011, correct?

A. I used the ongoing earnings for 2011 which are based largely upon the expenses included in FERC Form 1. There are adjustments for non-ongoing items.

Q. I'm sorry, I didn't catch the end of

that.

A. There are adjustments to the FERC Form 1 data for non-ongoing items.

Q. So it's fair to say with regard to the information you used, that it represents the equity for all lines of business for Ohio Power?

A. Yes, that's correct.

Q. And it would be fair to say that you have not made any adjustments to that equity balance for the effects of any decisions that the Commission may have made with regard to the recovery of such things as POLR charges or a determination by the Supreme Court of Ohio that the company was engaged in retroactive ratemaking, correct?

A. I don't recall that retroactive ratemaking would have had any impact on 2011 earnings. The equity balances are used for the actual year-end 2011 equity balances.

Generally for ratemaking purposes you wouldn't adjust, on a cumulative basis, changes in earnings related to Commission disallowances because, as a corporate entity, decisions about dividend policy and equity infusions are based upon equity balances.

So to the extent that the Commission may have ordered a disallowance of a certain cost, the company's dividends would change to maintain the same capital structure or a similar capital structure to what would have existed had the Commission not recommended such a disallowance.

Q. It's fair to say that your total company numbers, including your retained earnings, as you calculate your equity balances, do not reflect any adjustments for those Commission decisions or Supreme Court decisions that I just mentioned, correct?

A. That's correct. And I don't think it's appropriate or necessary.

Q. Now, earlier today you also indicated that the RPM rate is not appropriate in this setting for this company because AEP is, or AEP Ohio is part of an FRR entity. Do you recall that testimony?

A. I do.

MR. DARR: If I may, I'd like to have an exhibit marked as IEU, I believe it's 117 or 118.

EXAMINER TAUBER: 118.

MR. DARR: 118.

EXAMINER TAUBER: Yeah.

MR. DARR: Thank you, your Honor.

MR. SATTERWHITE: Can I get one before you start asking questions since it's all the way over there?

Thanks.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Darr) Do you have what's been marked as IEU 118?

A. Yes, I do.

Q. Do you recognize this as a pleading filed by Columbus Southern and Ohio Power companies at the PUCO?

A. Yes, it appears to be.

Q. And could you read into the record the title of this pleading?

A. "Columbus Southern Power Company's and Ohio Power Company's Application to Set the 2008 Generation Market Price for Ormet's Hannibal Facilities." It looks like that was corrected by "7" to "8" and signed by Marv Resnik, so I think it does indicate 2008.

Q. Okay. And specifically the title of the document that's being filed?

A. "Columbus Southern Power Company's and Ohio Power Company's Ormet-Related 2008 Generation Market Price Submission."

Q. Now, are you familiar with the -- let me take you down to the document. Under the Ormet agreement, the company was required to file, at one time, a market price for purposes of determining the delta revenue, correct?

A. That's my recollection, yes.

Q. And in determining that market price from year to year, the company was required to make annual filings in 2008 and -- 2007 and 2008, correct?

A. Yes, that's my recollection. And I think the rate flowed into 2009 as well.

Q. And as part of calculating that rate, the company used a market-based approach?

A. Yes, the company applied a market rate in determining the delta revenues.

Q. And for determining the energy portion, they used the AEP-Dayton hub, correct?

A. On Attachment 1, it describes that we used the AEP-Dayton hub with a 29-cent per megawatt-hour adder for the differential between the AD hub and the AEP zone.

Q. And then there was a load factor cost adjustment as well?

A. Yes.

Q. And, finally, for purposes of calculating the capacity cost of this market pricing methodology used for the Ormet contract, am I correct that for the purposes of the 2008 filing the company used 2000-2008 planning year prices as a result of the RPM reliability pricing model?

A. The company would have used the RPM price for capacity in that period because, as I think we discussed either in this case or in the capacity case, the company had a right or a limitation, actually, in the FRR construct that an incremental 1,300 megawatts of capacity at a maximum that was not necessary to meet its FRR load obligations could be sold into the PJM RPM auction for Ormet.

When they would come back on our system, they would be increasing our FRR obligation, thus reducing the available capacity that the company would have available to have sold into that RPM auction.

And so for that incremental piece, it would make sense to me that an RPM price would be appropriate there. So there's a bit of a distinction.

Q. Let me ask my question again. For purposes of calculating the 2008 market rate price you used the RPM pricing model auction clearing price for planning year 2000-2008, correct?

A. Yes, for the reason I previously

described.

Q. And that amount was $40.69 per megawatt-day for that planning year, correct?

A. Yes, that's correct.

MR. SATTERWHITE: Just for clarification, Mr. Darr, I believe you said planning year 2000 to 2008. You meant 2007-2008.

MR. DARR: 2007 to 2008. Thank you.

Q. And if we turn to Appendix E, in this pleading made by AEP Ohio companies, Columbus Southern Power and Ohio Power, you see the calculation of the capacity charge that was included in the market price, correct?

A. I see that. I'm confused why, for the last seven months of the year, the planning year 2007 and '8 price was used throughout even though the rate went up to 111.92 in the second half of the year, but that is what's indicated on this sheet.

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

EXAMINER SEE: Ms. Spiller? Ms. Kingery?

MS. SPILLER: Ms. Kingery, your Honor.

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CROSS-EXAMINATION

By Ms. Kingery:

Q. How are you doing, Mr. Allen?

A. Wonderful.

Q. Good. I'll try to be brief.

A. Okay.

Q. You testified this morning in response to a question from Mr. Kutik that the proposed tier 1 capacity price of $146 per megawatt-day is less than the RPM-based price for the 2014-2015 planning year, correct?

A. Yes, that's my recollection.

Q. And in questions from Mr. Darr a few minutes ago, you confirmed that the 2014-2015 planning year auction price based on the base residual auction was $125.99 per megawatt-day, correct?

A. That's correct.

Q. But the final zonal capacity price for that planning year will not be available until June 1 of 2014; is that not correct?

A. I don't know the date that it will be final, but the expectation from data we've seen is that it will be north of $150 a megawatt-day.

Q. But we don't have a final price yet because the final incremental auctions have not occurred; is that correct?

A. I'm not sure how many more incremental auctions have to happen for that period.

Q. Do you have any reason to believe that at this moment, as we sit here today, we have a final zonal capacity price for the 2014-2015 planning year?

A. I just don't know the timing of when those occur. There's usually two or three auctions and it's not part of my normal thing to follow when those auctions occur.

Q. So assuming that the final auctions, incremental auctions have not occurred, we would not know as we sit here today whether the proposed tier 1 price is indeed less than the RPM-based price for that planning year, correct?

A. We may not know what the final auction will produce, but, based on the information that exists today, that price would be greater than the 146 we're proposing, and the number could go up, it could go down.

Q. But we don't know today, correct?

A. There's a lot of unknowns in the world. This is, you know, one of those things that we're basing it upon the best information we have available today.

Q. But we do not currently know, correct?

A. It may change.

Q. Thank you.

Also in questioning this morning with Mr. Kutik, you indicated that it would be incorrect to do a price-elasticity study in projecting shopping levels. Do you recall that conversation?

A. Generally, yes.

Q. And in arriving at your projections in this case, you did not model rolling historic switching, correct?

A. You're going to have to be more clear about what you're describing.

Q. So, in other words, you only looked at individual months' data as opposed to looking at the data on a rolling basis. You looked single month by single month, correct?

A. My analysis was a monthly analysis and my assumptions were informed based upon the rapidity of switching that I've seen in other EDUs.

Q. And in arriving at your projections in this case, you did not do any Probit or probability modeling to determine how price impacts the binary decision to switch or not to switch, correct?

A. I didn't think that it was necessary for my analysis.

Q. Thank you.

Now, the auction that AEP Ohio proposes for delivery between January 1 and May 31 of 2015, will not include capacity, correct?

A. That's correct. It's an energy-only auction, but the price that will be provided to SSO customers will include a capacity price of 255 a megawatt-day, so that discount would go to the SSO customers in that period.

Q. And you're getting a little ahead of me. So it is an energy-only auction, correct, in that time period?

A. Yes, that's correct.

Q. And it's AEP's nonregulated affiliate, AEP Generation Resources, would be the supplier of the capacity during that time period, correct?

A. The GenCo -- AEP Ohio is an FRR entity and it will remain so through the middle of 2015, and, as such, the GenCo is obligated to meet the capacity needs and, as such, would be providing that capacity.

Q. Since the GenCo will be owning the assets by that time.

A. It's the GenCo as part of the AEP East system. The FRR obligation is on an East basis and the GenCo is part of that.

Q. And at that time the GenCo will own the assets.

A. The GenCo will own many of the assets. I think we've discussed that a couple of those assets will be transferred to Amos and Mitchell.

Q. Yes.

A. Or, Amos and Mitchell will be transferred to APCo and Kentucky Power.

Q. Other than Amos and Mitchell, the GenCo will own the generating assets.

A. Yes, that's correct.

Q. And that capacity that will be supplied by the GenCo will be at something other than RPM-based rates, correct?

A. That's right. And as we've discussed, AEP is not part of the RPM auction.

Q. I understand.

A. AEP doesn't bid its load into the RPM auction nor its generation, so it wouldn't make any sense to use the RPM price.

Q. So you're not basing the price that it would receive on RPM, correct?

A. No; because it's not the market that we operate in. We don't operate in ATSI, we don't operate in the unconstrained region for this three-year period, so it would make no sense.

Q. And, similarly, you are not planning to base the capacity rate that the GenCo will charge on what other nonaffiliated entities might charge for that same service, correct?

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

MS. KINGERY: Could you read it back?

(Record read.)

A. I don't quite understand the question because we're an FRR entity. There's not another entity that could provide that same service. AEP GenCo is the one that has those assets that are part of the FRR plan.

Q. And is there anything under the FRR plan that absolutely mandates that AEP Ohio must use its own generating assets to fulfill its FRR obligations?

A. I know we used the Lawrenceburg asset that's owned by AEG to meet those obligations.

Q. So in theory there's nothing legally prohibiting AEP Ohio from obtaining capacity services from a nonaffiliated provider, correct?

A. Well, I think we had a discussion of this previously on the record that AEP already has the capacity so it would be duplicative to purchase additional capacity to meet the need that AEP already has.

Q. I didn't ask whether it would be duplicative. I only asked whether it was legally prohibited.

A. I'm not a lawyer, so I can't answer that question.

Q. Based on your understanding as a layman, is there anything in the FRR requirements or PJM requirements that would prohibit AEP Ohio from obtaining capacity services from a nonaffiliated provider?

A. I don't know. It's a pretty big document, I've not reviewed it.

Q. Thank you.

A. In its entirety. I've reviewed parts.

Q. Now, you also, this morning, discussed with Mr. Kutik your calculation of the economic benefits of the plan, correct?

A. Among other things, yes.

Q. Yes. And, in that conversation, I believe that you indicated that there were several avenues of litigation that the company could take in the event that the PUCO would order AEP Ohio to charge for capacity at, for example, RPM rates, correct?

A. That's correct.

Q. Presumably, while, if that came to pass, while those other avenues of litigation were being pursued, AEP Ohio would be following the PUCO's order and charging for capacity at RPM, if that had been the order, correct?

A. No, I don't know that that would be the case. Not being a lawyer, I know that the company has avenues to pursue or the company could request a stay of the court if significant financial harm were to occur, or if the ruling of the Commission were confiscatory and, you know, based on some analysis that I've done at RPM prices, the generation function of AEP Ohio would lose money; that is clearly confiscatory. So I couldn't imagine that the company would be required to provide capacity at confiscatory rates to suppliers.

Q. But isn't it true that there are certainly outcomes that you could imagine where the PUCO would come up with a ruling and AEP Ohio would decide to pursue some of these other avenues and yet would be in a position where it had to temporarily, while it continued with that litigation, charge the rates ordered by the Commission? Correct?

MR. SATTERWHITE: Objection, your Honor. I think in the last answer the witness stated his belief of what would stop that -- the company from having to move forward.

MS. KINGERY: He said that it could be stopped and I'm asking wouldn't there be circumstances where it wouldn't be stopped.

Q. Might there be a circumstance in which AEP Ohio would have to charge for a period of time a rate that it found unacceptable?

EXAMINER SEE: The objection is overruled. You can answer the question to the best of your ability, Mr. Allen.

A. There's always scenarios that one could envision, but I have trouble believing that the company would provide capacity for use by other suppliers at confiscatory rates. I just can't imagine that situation occurring.

Q. But, of course, there are a lot of rates that could be ordered that would be less than what AEP Ohio is asking for and yet not be confiscatory.

A. That's possible.

Q. Okay. And in that circumstance that we've just outlined, identified, is it not true that the benefit of the ESP that you've calculated would be lowered?

A. I think what I've described is that the company's true cost of capacity is $355 a megawatt-day. Any rate below that is a benefit to customers and to CRES providers.

Q. So the order of the Commission, with regard to the capacity rate to be charged, may have an impact on the level of benefit that you've calculated.

A. Not necessarily. The Commission could order a capacity rate less than 355 for reasons other than that being the company's true cost of capacity, and in that case that's a benefit that is flowing to customers and CRES providers at the expense of AEP.

Q. All I asked is whether an order of this Commission that impacts the capacity rate to be charged could have an impact on the level of benefit that you have calculated.

A. And I think I've discussed this quite a bit today, because of those other avenues that the company still has before it, I don't believe that would be appropriate.

Q. But we just have put those into a different package. We've just tried to identify a circumstance in which the company might be pursuing some of those other avenues and yet be charging what the Commission has ordered. And in that eventuality, would it not be the case that the Commission's order might have an impact on the benefit you've calculated?

A. No; because the benefit still exists independent of whether the company is pursuing those other avenues. The company's providing a product below its cost and below what it's entitled to recover from providers. So that's a benefit.

Q. On page 8 of your testimony, if you could turn there.

A. I'm there.

Q. You are quantifying the financial benefit of the ESP, and you identified two critical inputs, the rate charged to CRES providers and the shopping assumptions, correct?

A. And just to be clear, I just described one of the financial benefits of the ESP. Ms. Thomas covers additional benefits.

Q. Thank you.

A. And two elements that impact the benefit would be the value of the discount provided to CRES providers on a dollar per megawatt-day basis as well as the quantity of that benefit, of that discounted capacity that's procured by those providers. And I would tie that to shopping levels; that would be that quantity.

Q. And you are aware, are you not, of the Commission order that requires AEP Ohio to resume RPM-based capacity pricing as of June 1, 2012? Correct?

A. My understanding is that the Commission issued an order that provided for a interim mechanism during the pendency of the capacity case that was expected to be resolved by the end of June based upon the initial schedule, and that there was a provision that the rate would drop to RPM on June 1st if that wasn't resolved.

The case has been delayed due to some issues that staff had with their testimony, and the company has sought to extend that interim provision, and one of the parties to this case at least has supported that extension and we're waiting for a Commission ruling on that extension.

Q. Are you suggesting that the Commission's order actually said that it would be -- it would resume RPM-based pricing on June 1 if the case was resolved by that date?

A. No. The Commission order was written at a point in time when the expectation was that the case should be resolved by then. Issues have changed since then due to some of the delays. The company has sought to extend that interim proposal while that case is completed.

Q. I understand that there is a pending motion to extend the date, but the order, as it currently stands, until or unless it's changed by the Commission, had a date certain in it, did it not?

A. It did, and I think your important caveat there is unless extended or modified by the Commission, which we've seen in these cases the Commission has been fairly active in modifying its orders.

Q. But we have no way of predicting, of course, what the outcome of that determination will be here, correct?

A. No, we don't. We'll have to wait for a ruling from the Commission.

Q. Yes. And in making your analysis of the financial benefit, you did not take into account, did you, the Commission-ordered return to RPM pricing?

A. I don't think you would factor that into the calculation because this proposal is to set a capacity price that's a discount to cost. We have to wait for a full ruling on either -- the capacity case. I don't think it's appropriate just to look at that June 1st number that may or may not occur in this calculation, it's not really relevant in my mind.

Q. So you didn't take it into account because you didn't determine it to be relevant.

A. No, I don't think it's relevant at all.

Q. Moving on, sir, to the retail stability rider. This rider, as we discussed earlier today, is intended to recover lost generation revenues, correct?

A. In general terms, but it's a little more nuanced than that.

Q. In general terms.

A. Yes, in general terms.

Q. And AEP Ohio intends to recover those lost generation revenues from all customers including shopping customers, correct?

A. Yes, it would be from all customers, shopping and nonshopping.

Q. And it intends to recover those revenues even after it no longer owns generating assets, correct?

A. The RSR deals with a couple of things: Generation revenues we seek from retail customers and capacity revenues recovered from CRES providers. When AEP Ohio ceases to own generating assets, the AEP GenCo will continue to provide those resources to AEP Ohio to fulfill the FRR obligation to meet the capacity needs of its customers as well as to meet the needs of its -- for capacity both for shopping and nonshopping customers, and the energy needs of its nonshopping customers.

There will be a contract that Mr. Nelson describes whereby AEP Ohio would collect the RSR revenues and pay those revenues to the GenCo as part of the contract that the GenCo has signed with AEP Ohio to provide those services.

Q. So, in other words, after the generating assets have been transferred to the GenCo, it's the GenCo's lost revenues that would be collected through this rider.

A. No, I don't think I can agree with that. The GenCo will have a contract with AEP Ohio. It's kind of analogous to if, in this scenario of the auction that's happening in 2015, the energy will be provided by market participants.

AEP Ohio will collect those revenues and pay those to the -- or, I'm sorry, they'll incur costs from the market and collect those costs from their customers.

In this case the EDU is incurring costs from the GenCo and collecting those costs from its customers.

Q. Prior to the asset transfer, we've agreed that the RSR collects lost revenues, generating revenues, correct?

A. What we described is in a general sense, and I mentioned it's more nuanced than that. It's a mathematical construct to ensure that the company is fairly compensated for the generation service that's being provided to customers and CRES providers, whether that service is provided directly from AEP Ohio or in a two-step process from the GenCo to AEP Ohio and then to the customer and CRES providers.

Q. So to continue your analogy to an auction, an auction participant who wins a slice of the load will bear the risk of owning and operating its generating assets that are used to supply that load, correct?

A. Yes, and it will have a guaranteed rate for revenue as part of winning the auction. So it would bid in at, say, $30 a megawatt-hour into an auction, it would be guaranteed to receive $30 a megawatt-hour through the auction for whatever quantity of energy it provided. It would have the risk of operation on the other side just as the GenCo has in this case, or AEP Ohio has.

This is a mechanism that only looks at revenues; it does not look at costs. So those same risks that you talk about for an auction participant exists for the GenCo.

Q. But the auction participant bears the risk of how much load it ends up supplying.

A. So does the GenCo on the energy side.

Q. Under the RSR, if load goes down, the RSR goes up, correct? You just talked about that this morning in various questions.

A. We're focused in this case on capacity. When we were talking about the auction, we were talking about energy. Very different things.

The GenCo still has the same risk on the energy side that we talked about on the auction side. For capacity there's only one provider that can provide the capacity, that's AEP Ohio and the AEP system because we're an FRR entity. That can't change because some people want it to change. That's just the way it is.

Q. We just talked about the fact that FRR rules do not prohibit AEP Ohio from getting capacity resources from another provider, correct?

A. I don't think we agreed to that.

Q. Well --

A. We talked about it. We didn't agree to it.

Q. Okay. Through the RSR, AEP Ohio is requesting guaranteed generation revenues approaching a billion dollars per year over each of the next three years, correct?

A. No, I wouldn't agree to that. The RSR, the credit for shopped load is not revenue. There's a $929 million target. Not all those are revenues. For simplicity we call it target revenue. But not all those are revenues.

There's approximately a hundred million dollars per year of credit for shopped load, and to put it in context, the $929 million of annual revenue is related to the investment that AEP Ohio and its shareholders have made over a number of years totaling approximately $9 billion of assets.

Q. So we can dispute whether the total revenue number of $929 million per year is all actually revenues, but through the operation of the

RSR would you not agree that the company is asking for a guarantee of total revenues of something approaching that number, perhaps it's closer to 800 million according to what you're just saying now?

A. That would be correct.

Q. And is it your understanding that the Ohio Supreme Court has indicated that an ESP may only include statutorily-permitted components? As a nonattorney, I'm asking.

A. Generally, yes.

Q. And based on your understanding as a nonattorney, is it correct that the ESP provisions do not allow for a guaranteed minimum level of revenues on generation activity?

A. My recollection of the statute is that it allows for minimums that provide stability for customers, there's a number of provisions in there, I'm sure we'll see on briefs what the statutory provision is, but there are avenues that this definitely fits within.

Q. So you believe that the retail stability rider may provide stability for customers.

A. It does several things for customers.

Q. Do you --

A. One of the things it does is provide

stability. That's one benefit.

Q. And when you use "stability" in that context, are you suggesting that that means that customers would not be exposed to substantial swings in rates, for example?

A. That would be -- that's one aspect of stability.

Q. And as you discussed a little while ago with Ms. Grady, the level of the RSR is affected by events such as weather, correct?

A. Yes.

Q. And would it also be affected by perhaps an economic downturn?

A. That would be one potential.

Q. And is the --

A. Or an economic recovery.

Q. And is the weather within the control of customers?

A. Not the last time that I checked.

Q. Good. How about economic downturns?

A. The economic characteristics of individual customers are within their control.

Q. But not when we talk about the economy of the United States.

A. The economy is not within their control but they are one element of the economy.

Q. So the arrangement of the retail stability rider would result in customers bearing the risk of increased rider rates for -- as a result of matters that are outside of their control, correct?

A. It could. And I've done a bit of sensitivity analysis on this because we have had some questions on it. Annual shopped load is one of the impacts, and a 5 percent change in total shopped load, say 2,400 megawatt-hours of shopped load would have the impact of only moving the RSR by about 9 cents a megawatt-hour.

So for an average residential customer it's 9 cents a month that that would change, so I wouldn't expect the RSR to change in any material ways over time.

MR. PETRICOFF: While we're waiting, could I have that last answer read back? It's hard to hear.

(Record read.)

Q. And, sir, in doing that sensitivity analysis that you just described, were you assuming that shopping was at 65 percent or thereabouts as you assumed in this case?

A. It's a change from my base case. It's really independent of what your starting point is. A 5 percent change has the same impact whether it's up or down or if you change it from different levels.

Q. Your current residential switched load is at approximately 13 percent, correct?

A. I think the discussion was it was 12.74 percent as of the end of last month.

Q. Approximately 13, yes.

A. Yes.

Q. So have you done any analysis of what the impact would be of the change in the rider if you're changing the shopping from 13 to 65? You just talked about a 5 percent change, but in reality we're talking about a change from the current 13 to 65 percent.

A. Not exactly. The way we designed the RSR is the initial rate will be the rate proposed by Mr. Roush. It's got some differences by class, but on an average basis it's $2 a megawatt-hour. That's based upon my shopping assumptions.

If the level -- and we plan to put that in place as soon as we get a Commission order.

If shopping levels are lower than what we've projected, the RSR will be reduced in the future. So the level of the RSR does not start assuming 13 percent. The RSR is based upon our levelized -- or, is levelized based upon our assumptions of shopping over the three-year period.

MS. KINGERY: Thank you. I have no further questions.

EXAMINER SEE: Thank you.

EXAMINER TAUBER: Mr. Allen, I have a quick question for you. When you're referring to lost revenue, I know you mentioned that a couple times this morning and in your testimony, just to make sure we're clear, are you referring to anything that's less than $929 million as lost revenue? Isn't the constant that you have -- like in Exhibit WAA-6.

THE WITNESS: Lost revenues are the difference between the company's SSO rates and the revenues that we receive by providing discounted capacity to CRES providers. We see a loss of revenue when that happens because we have, as I've discussed, our revenues equate to about $355 a megawatt-day for base generation revenues, I lose those when a customer shops, I replace those with a lower level of revenue from a CRES provider at that point in time, so those are losses in revenues.

EXAMINER TAUBER: So then it's not fair to characterize it as anything less than

$929 million for the purposes you have in your exhibit.

THE WITNESS: That's correct, that's a different calculation, it uses a lot of the same inputs. But we're not just saying every dollar of lost revenues, it's the lost revenues that occur once I get below 929 that I'm seeking to recover in this case.

EXAMINER TAUBER: Okay.

THE WITNESS: I've already lost revenues before I get to 929 million.

EXAMINER TAUBER: Okay.

EXAMINER SEE: Let's go off the record for a second.

(Discussion off the record.)

EXAMINER SEE: Let's take a lunch break until 2 o'clock assuming that the Commission meeting is over at that time. If it is not, we will reconvene immediately after the conclusion of the Commission meeting.

(At 1:18 p.m. a lunch recess was taken until 2:00 p.m.)

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Wednesday Afternoon Session,
May 23, 2012.

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

Mr. Boehm, any questions for Mr. Allen?

MR. BOEHM: No, your Honor.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: Yes, your Honor.

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CROSS-EXAMINATION

By Ms. McAlister:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. I apologize in advance. I'm going to jump around a little bit to try not to be redundant.

A. Okay.

Q. I'm going to start you at page 4 of your testimony. At the bottom of the page there, you say that the decrease in energy prices should translate into additional shopping opportunities. You're aware that there are other obstacles that may prevent shopping even with decreased energy prices, right?

A. I don't know that I'd define them as obstacles. You'll have to define what you're talking about. But there are other elements that customers consider when it comes to making a decision to shop.

Q. For example, you would agree with me that the uncertainty around the capacity price may make it difficult for some customers to shop; wouldn't you?

A. Yes, and I think that's one of the reasons we proposed a capacity price in this case so we could create some certainty for customers, yes.

Q. You've got a two-tiered capacity structure in this case, right?

A. It is a two-tiered structure, yes.

Q. And there are factors that a customer is not capable of knowing now that they would need to know in order to determine whether they were in tier 1 or tier 2 capacity; is that correct?

A. That's correct, only because an order hasn't been rendered in this case. Once an order is rendered and the cap tracking system is operational, customers would be able to find out that information to make that determination.

Q. Okay.

EXAMINER SEE: Ms. McAlister, can you get the mic close to you?

MS. McALISTER: Sure. I can try.

Q. Let's go ahead and jump back to your WAA

Exhibit 3, which is the Detailed Implementation Plan, I believe, and let me know when you're there.

A. I'm there.

Q. Okay. There in paragraph d), enrollment queue, it says in the last sentence there that "AEP Ohio will maintain records so that it can accurately identify a customer's position within the queue." Isn't it true that a customer may not be able to do the same for itself?

A. Well, and the reason it's stated that way is that the company has access to all of the customer's switching data and you need all of that data to make the determination.

One of the things that the company's developed and CRES providers currently have access to is a web portal that they can go into and they can see the customer's position in the queue.

So at this point the information has been made available to CRES providers so they can see the customer's actual position in the queue, how many customers are ahead of them, and how many megawatt-hours are ahead of them. So those are kind of the two key pieces that you'd need to know.

And if the Commission issues this order approving our stipulation, one of the enhancements the company has planned is, as part of the customer portal, they would also be able to see that same type of information. So that information would be available for them to see where they are and make those shopping decisions.

Q. Just so the record is clear, I think you said "stipulation" and this is not a stipulated case.

A. Oh, you're correct.

Q. So are you saying that customers would have the ability to know not only the amount of load that's in front of them in the queue, but also the specific load associated with the customers that are in front of them?

A. It would be total load for the customers ahead of them on an aggregate basis so they can make a determination of whether they would get in in the 31 percent or the 41 percent.

Q. Okay. And I think you talked a little bit with Mr. Darr about the example where there's a single large customer that might be in front of the customer who's looking to find out where they are in the queue.

And if that happens, the customers really don't have the ability to know the amount of the load associated with the large customer and they won't be able to shop until that customer goes through. So even with an aggregated amount of load ahead of them, they still wouldn't be able to predict when they're going to reach tier 1 capacity price; is that correct?

A. No, I think they could actually make that determination, because it's, you know, if there were a thousand megawatt-hours ahead of them in the queue, and the step from 21 to 31 percent was -- in the case of the industrial class is 2 million megawatt-hours, approximately that's the difference, so they would be certain that they would receive tier 2 priced capacity independent of that large customer that may be at the front of the line.

Q. Okay. We'll stay with your WAA Exhibit 3 since we're there. In paragraph e), it says that customers have the -- customers or CRES providers can notify AEP Ohio that they want to accept an allotment through the web-based system. Is that the only form of notification a customer or CRES provider can provide?

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

Q. Sure.

A. I was trying to find where you were referring to.

Q. Oh, yeah, it's on page 4 of 6.

A. I've got it.

Q. I was asking about when a customer or a CRES provider wants to accept an allotment, are there any methods other than using AEP Ohio's web portal that they can do that.

A. Generally the company's preference is that the customer or CRES provider utilize the web portal. There are, you know, thousands and thousands of acceptances that are required, we have about 1.5 million customers, so there are thousands of them, and the web-based system is the preferred approach.

The CRES providers have been able to utilize that mechanism to accept allotments while we had the stipulation in place previously, but we did run into situations where some customers were unable to get into the web-based system to accept their allotments for one reason or the other; and, in those cases, the customers called our Customer Choice representatives and those individuals either helped them through the process of doing it online or accepted the allotment on their behalf.

So when there are those kinds of odd situations, the company does help the customers out to deal with that.

Q. Okay. I'd like to take you back to page 4 of your testimony and revisit, a little bit, some of what I called obstacles, but you wouldn't agree with me, to shopping. Would you agree with me that a 90-day notice provision delays shopping for some customers that are subject to it for at least 90 days?

A. Yes, and it's my recollection that the 90-day notice provision is being removed in this proposal.

Q. Would you agree that a customer who is subject to a 12-month stay will also have a delay in shopping?

A. Only to the extent that the customer has switched and come back to the company, and that's just part of the tariff provision. And I think Mr. Roush described the gaming that could occur and the fact that it could actually increase costs to other customers of the system and costs to the company.

Q. And you're aware that there are commercials, I believe both TV and radio right now, that are about AEP Ohio capacity and shopping issues?

A. There are.

Q. Do you think that those commercials may have created some confusion for customers that made think them twice about shopping?

A. I don't know if it caused them confusion as they think about it, but I think that it would make them think about their electric service choices that they have, customers that may never even have thought about choice.

Because, you know, we all remember back, it's been 2000, the early-2000s that customer choice was rolled out in Ohio and there was an advertising campaign that went along with that that was funded partially by the utilities and partially through customer funds.

And I don't think that, today, customers are really that aware of those opportunities, but those ads for, even though that's not necessarily the purpose, I think that brought that to their attention.

Q. So you just said it wasn't the purpose to bring their shopping options --

A. The ads are not in -- some of the ads are not intended to encourage customers to shop or not to shop, they're dealing with, you know, the fair pricing for capacity.

There are other ads that are out there that are dealing with shopping, different suppliers have ads actually encouraging customers to come to their websites and shop. So there is information out there encouraging shopping behaviors.

Q. Okay. I just have a few clarifications that are follow-ups from other testimony that you've already given today. I want to turn your attention to pages 6 and 7 of your testimony.

A. Okay.

Q. And just for clarification, I think you said that the megawatt-hours that are listed for each customer class are fixed and will not change even if the connected load levels change. Do I have that right?

A. Yes, that's correct.

Q. And that's also true of the allocations between the customer classes?

A. That's correct. So if you look on page 7, table 1, those values listed in that table are fixed over the period and that's one of the things that as we were talking about, when customers are looking at their position in the queue, this provides that certainty so that the customer has a lot more certainty as to where they stand in the queue and whether they're going to get an allotment in subsequent years.

Q. And turning your attention to page 11 of your testimony, there starting on line 21, you identify the DIR caps. I understand those values are caps, but do you know whether the company anticipates hitting those caps each year?

A. I haven't looked at 2013 and '14. For 2012, if you forget about the fact that the DIR is going to be implemented later in the year than over the total 12-month period, my expectation would be that the DIR would come in close to the $86 million level.

And the reason for that is when the credit was provided in the distribution case, it was calculated such that the credit for pre-date certain revenues was the difference between what we expected to recover in the DIR post-date certain, so mathematically that was the calculation that was done to get the pre-date certain credit.

So it should produce 86 million in the first year, give or take, or I guess it would only be lower, to the extent that some capital spending doesn't come in as we had projected at that point in time.

Q. Okay. But you said you don't know about '13 or '14?

A. No.

Q. Okay. Turning your attention to page 15 and the RSR. You've talked a lot about this today and I'm going to try not to be redundant, as I said, but there you note the benefits are focusing on revenue instead of earnings, and you said one benefit is greater stability and certainty for customers. You already mentioned the RSR levels will fluctuate depending on a number of factors even with the focus on revenue, right?

A. Yes.

Q. Okay.

A. But it will fluctuate less than if it included expenses.

Q. Do you know to what degree?

A. When you look at the expenses of the generation business, they can be very volatile from year to year, and one of the reasons for that is that maintenance outages that occur at plants are not annual events that occur. Oftentimes there are major maintenance outages that occur every five years at a plant, so those could be very lumpy in time and that can really move the dollars around.

So the predictability or, not predictability, but the -- I guess just the level of expenses on the generation business, they vary significantly from year to year.

Q. Okay. Now, the fourth benefit you have listed there says that "AEP Ohio can make spending decisions for their generation assets with a focus on the transitional nature of the assets." Can you help me understand what that means specifically with regard to how it relates to a focus on revenue instead of earnings?

A. Right. So what that refers to is that as AEP Ohio is moving the generation units from the -- from AEP Ohio into an unregulated environment, the company may make a decision that it makes sense to do a significant maintenance overall on one of the units to improve its reliability in the long term. Those benefits would be provided to the company in the long run.

If we were to include those expenses in a -- as part of the RSR here, there would be questions from other parties about when the benefits associated with that expenditure were realized by the company and there would be a lot of questions about was that the right expenditure to make just for one year or was it an expenditure made to support the operation of the plant over a long period of time. So it would be very complicated and we would get into a lot of issues around who's responsible for paying for that.

And so it made a lot more sense to me to take the expense of the generation units out of here since those units are only going to be providing service to the AEP Ohio customers for the next three years.

Q. I missed one on the detailed implementation plan. If there's a new customer like a brand-new manufacturer or any other customer, for that matter, who locates in AEP Ohio's service territory, where would they fall in the queue?

A. Based upon the time they submitted their application, they would be next in line in the queue. So they would be, essentially, last in the current queue but ahead of any customers that hadn't yet put their name in the queue.

Oddly, a brand-new customer that hasn't been operating in the service territory typically would have a zero capacity for the first year of operation based on how PJM works, so they wouldn't be paying a rate that first year.

MS. McALISTER: That's all I have. Thank you, Mr. Allen.

EXAMINER SEE: Mr. Sugarman?

MR. SUGARMAN: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Sugarman:

Q. Mr. Allen, with respect to the calculations that appear on Exhibit WAA-6 on the Retail Stability Rider, sir, you considered, did you not, the gross revenues of Ohio Power Company on a merged basis for year-ending 2011? Is that correct?

A. Those gross revenues would have been a factor in the ongoing earnings for 2011.

Q. That's how you calculated the 2011 ROE, using the gross revenues of the company?

A. As well as all the expenses of the company as well.

Q. Understood. But at least above the line there, the gross revenues for the company on a merged basis for year-ending 2011.

A. Yes, that's correct.

Q. And you utilized, did you not, the book equity of Ohio Power as of 12/31/2011 in making your ROE calculation that's reflected in your Exhibit

WAA-6? Correct?

A. Correct. And that's on the merged entity, yes.

Q. And in the estimates that you provide on a projected basis, you have not made any adjustments to the equity of the merged company at the end of either 2012 or 2013, have you?

A. The changes in the book equity are included in the forecast presented by Company Witness Sever. What I've done here is just identify, based on the equity at the end of 2011, what level of generation revenues would be necessary to give the company a reasonable opportunity to earn that return.

Q. You kept constant the target ROE of 10.5 percent for the modified ESP without regard to what Mr. Sever forecasted the ending book equity would be for the merged companies in the future; isn't that correct?

A. That's correct. And that would typically be a conservative assumption because equity generally grows over time.

Q. And if equity didn't grow over time, well, let me ask it this way: The fixed target ROE does not have any relationship to what may, in fact, be the book equity of the merged company at the end of 2012, 2013, or '14, either up or down, it's just a plugged, fixed number.

A. It was based on the equity at the end of 2011, that determination of the revenue target.

Q. Do you recall what Mr. Sever forecasted the target ROE of the merged companies to be in the future?

A. My recollection for 2013, 7-1/2 percent.

Q. And for 2014?

A. 2014, Mr. Sever provided a forecast of only the wires business which these revenues wouldn't be associated with because they're passed through to the GenCo; but on the EDU, Mr. Sever forecasted earnings of 10-1/2 percent for both 2014 and 2015.

Q. Could you say that number again? I'm sorry.

A. 10.5 percent.

Q. Was there a reason -- did you do a calculation at 7.5 percent return on equity for purposes of the RSR as part of your analysis in this case?

A. Well, if you were to do that, it becomes a spiraling calculation because I would put a 7-1/2 percent in this step, it would reduce my revenues and then it would reduce Mr. Sever's ROE that he calculated that included those revenues, and then I'd have to go back and change it again until I got to a zero percent return. That would be the -- kind of the culmination of that exercise. So it's not an exercise that is necessary or appropriate.

Q. I simply asked whether or not you had prepared -- performed that analysis or calculation.

A. Right and I was just trying to explain to you why it didn't make sense.

Q. So is there a yes or no somewhere in there that I should take away from your answer?

A. I didn't do the calculation because it wouldn't be appropriate.

Q. Thank you.

Now, in responding as I heard your testimony in part to Mr. Kutik, the revenue, the total revenues that you project on WAA-6, am I accurate in understanding that the $929 million total revenue number does not include any potential revenue from the GRR?

A. That's correct.

Q. And the total revenue number of 929 million on Exhibit WAA-6 does not include any potential revenue from the DIR.

A. That's right. The distribution

investment rider is a distribution rider so it would not be included.

Q. Because this is generation revenue?

A. That's correct.

Q. Okay. And did you perform any calculation of the return on equity for the companies going forward in either -- at the end of 2012, 2013, and 2014 looking at the total revenue of the company including generation, distribution, the GRR, to determine what that ROE would be if the modified ESP submitted by the company were approved?

A. That's the analysis included in Mr. Sever's testimony that shows the company's return for 2013 would be 7-1/2 percent. That was the intent of his analysis.

Q. And did he only do that for -- okay. But for purposes of calculating your work, you did not take that into consideration?

A. My work was to determine one of the revenue elements, which is the RSR. Mr. Sever included that revenue element -- and I also did the DIR. Mr. Shiver includes those revenue elements in his overall analysis of the companies.

Q. But your starting point for the target ROE is the gross revenues of the company on a merged basis which would include distribution, generation, and transmission, and then you used that -- you've reduced it from 12.06 to 10.50, but continued to use the 10.50 number, but didn't then incorporate either transmission or distribution revenues in any of your work for the RSR. Is that a fair statement?

A. My analysis of the RSR did not factor in any changes to distribution or transmission revenues. What it was intended to do is to say in 2011, if the company's generation revenues were reduced, how much of a reduction could the company absorb and still earn a return of 10-1/2 percent. And so I calculated that to be $107 million which took the generation revenues that I show in the top section of my box on WAA-6 from 1 billion 36 million down to $929 million.

So I was trying to isolate the generation function in saying what reduction in revenues could I absorb on the generation function and still have earned a 10-1/2 return on an ongoing basis in 2011.

And then the revenues that the RSR produces as a result of that calculation are incorporated into Mr. Sever's calculations.

Q. Is it your testimony before this Commission if you backed out the revenue from the RSR, that the ROE that the company would experience is unreasonable?

A. If you excluded the RSR revenues in 2013, the company's earnings would be 6.4 percent.

Q. Is that your answer? Had you completed your answer?

A. Yes.

Q. Okay. Did you -- is your testimony to this Commission that if you backed out the revenues based upon the proposed RSR, that the rate of the -- that the ROE to be experienced by the company would be unreasonable?

A. I think what the company has presented is a plan that we think is acceptable and reasonable. A level that is below that at 6.4 percent I don't think would be reasonable in light of the concessions that the company's already made.

Q. So your testimony is that if you backed out the earnings and the revenue -- excuse me, the revenue from the proposed RSR, that the company's ROE would be unreasonable.

A. Yes.

Q. And that's because it would, based upon your prior statement, be at 6.4 percent; is that correct?

A. That's correct. What the company has

presented is what we believe to be reasonable; something less than that would be unreasonable.

Q. Something less than what was presented at 6.4 percent or 10.5 percent, just so I'm clear?

A. The company has presented earnings for 2012 and '13 of 9.5 percent and 7.5 percent. When I look at the total year 2013 value, if I were to exclude the RSR and my earnings were to drop to 6.4 percent, I would consider that unreasonable.

Q. And is there any number between 6.4 percent and 10.5 percent that the company would consider to be reasonable?

A. I think that's one that's in the eye of the beholder.

Q. I'm asking you, the company being the beholder.

A. What the company has presented is that the projected earnings for 2013, which are only 7-1/2 percent in light of the entirety of the package that the company has presented, though it may not be a number that the company would like to earn in 2013, it's a reasonable result as part of a total package.

Q. Is the 6.4 percent -- you used the word earlier in response to some questions, "confiscatory." Is 6.4 percent confiscatory in the context in which you earlier testified here today?

A. 6.4 percent for the total bundled business likely would produce a confiscatory rate for the generation function, yes, I would say that.

Q. Is that only for the generation function or for the combined generation, transmission, distribution function?

A. For the distribution and transmission functions, my expectation, based upon the DIR and the TCRR and the OATT mechanism that we have for those two wires functions would produce an ROE in the 10 to 11 percent range.

The generation function would be producing an ROE much less than that, so I wouldn't say that the wires businesses would have confiscatory rates, but the generation function most definitely could.

Q. At the levels that you testified, 6.4 percent or below.

A. Yes, because I would expect that the ROE of that function would be in the low single digits at that point.

Q. Now, is it your expectation that with the assured level of total revenues that are reflected on Exhibit WAA-6, that the company's expenditures with respect to its generation function, transmission function, or distribution function would increase over the next three years, remain the same, or go down?

THE WITNESS: I'm sorry, can you reread that, please?

(Record read.)

A. I think the package, as presented by the companies, would allow the companies to spend at an appropriate level in each of those functions over the next three years; whether it would go up or down, I haven't done that analysis. But if you look at the analysis presented by Company Witness Sever, the O&M expenses were projected to increase over the years.

Q. I wanted to ask you some questions about the proposed DIR that appears in your testimony at pages 9, 10, and 11. Am I correct in understanding that the total amount of the cap proposed for the DIR totals 361 million -- $361.7 million over the modified ESP as proposed?

A. Can you give me that value again?

Q. 361.7 million. I'm taking that from the numbers that appear at the bottom of page 11 of your testimony, sir.

A. No, it would be a little bit less than that. For 2012, because the DIR was only in place for a couple months early in 2012 and will be in place only for a portion of the remainder of this year, that first-year value will be less.

What you need to recognize, though, is that there was $62 million of a credit provided in the distribution rate case related to the DIR. So over that, you know, about three-year period that we're actually going to have the DIR in place, there's $180 million of distribution credit, maybe 186 million, that you would need to exclude from that because that was already addressed in the distribution rate case.

Q. Well, then, what is the cap that the company is proposing as part of this modified ESP?

A. The company's proposing a cap of 86 million in 2012 and -- let's look at an annual number like 2013, it might be a little easier to talk about. The cap for that year would be 104 million. But if you look at line 13 of my testimony on page 11, you'll see that there's a revenue credit of $62.344 million that was included in the distribution case where we didn't increase rates there.

So in 2013 the amount of DIR revenues related to incremental investment post-date certain in the distribution case would be about $41 million. And you can do the same math for 2014 and 2015 as well.

Q. I'm just trying to follow your testimony at the bottom of page 11, and apparently that's either -- either I'm misunderstanding it, it's inaccurate, or it needs to be corrected.

A. The testimony is correct. What I'm trying to do --

Q. Well, let's stop. If we can take it one step at a time. Those numbers add up to 361.7 as the cap according to your testimony. Am I missing something there in the addition?

A. I was trying to do this in my head. I'll try to do it with my calculator real quick.

Q. I've learned not to ask you "subject to check."

A. I thought you had said "361.7." The actual value would be 365.7.

Q. Okay. Better yet. All right. Now, is that or is that not the cap that is proposed as part of -- for the DIR for purposes of the modified ESP before the Commission?

A. Those values are not incremental levels, those are annual caps. So those would be total revenues that could be recovered over the, in this case you'd be looking at a 41-month period, but you need to make sure that you reduce that amount by the DIR that's not collected during the five or six or seven months of 2012 that the DIR won't be in place. But those are total revenues. The caps aren't incremental every year. The caps are absolute caps for that individual year. So the DIR increases, the maximum increase between 2012 and 2013 is only $18 million.

Q. But is the company proposing that it is going to spend, as a result of the DIR, either on a incremental or aggregate basis, the sum of $365.7 million over the 41-month period that you've just identified?

A. It's been a little while since I've looked at the distribution capital spending of AEP Ohio, but I think Witness Kirkpatrick mentioned a number of approximately $150 million annually that we spend on capital in the distribution function.

Q. Right. So Mr. Kirkpatrick talked about there's an annual CAPEX budget for the company of $150 million. He mentioned that there is an annual O&M budget on top of that amount. And then there is revenues that will be collected from this distribution investment rider over and above both the CAPEX budget and the annual O&M budget; is that correct?

A. It's not on top of. It's -- the DIR is intended to provide compensation to the company for making that capital investment. They're not items you add together. One is compensation for the other.

So we get DIR revenues to compensate us for capital investment.

Q. But you're asking for DIR revenues here, not only for investments that were made in the past, as I understand it, but for future investments, correct?

A. Yes, that's the intent of the DIR.

Q. And is the aggregate amount over the next 41 months that the company is going to spend for distribution infrastructure the 365.7 million dollars or is there some other number?

A. It would be some other number. That's not a -- I think you're confused. They don't go together. The capital spending creates the distribution investment rider revenues.

Q. Well, from a customer's point of view, you heard Mr. Kirkpatrick talk about the 14 percent increase on the distribution charge that a customer will experience month over month when this DIR is in place, correct?

A. I suspect it was Mr. Roush that testified to that.

Q. Excuse me. Mr. Roush.

A. But there's a couple things to recognize.

Q. You did hear that testimony, correct?

A. I did, and that's related to distribution investments that the company will have made through the end of 2012 as compared to the investments that existed on the company's books in 1991 and 1994. So it's a 14 percent increase in distribution revenues related to, on average, you know, about a 20-year period of investment.

So if you look at that on an annualized basis, it's less than one per year.

Q. Okay. Customers are going to experience a 14 percent increase month over month with the addition of this rider from the current distribution charge as testified by Mr. Roush, and, in exchange for that, what is the customer going to see the company spend on its distribution investments over the next 41-month period?

Can I ask it this way and see if it shortens it.

MR. SUGARMAN: Let me withdraw the question, your Honor.

Q. According to Mr. Kirkpatrick, he testified that there's $283 million annually in the budget on CAPEX for distribution and O&M, also for distribution. As a result of the DIR if it's approved, what will be the incremental spend for that function over the next 41 months on an annual basis if you can?

A. The DIR allows the company to make those investments. So the $150 million in capital investment that Witness Kirkpatrick described is spending that can occur as a result of the recovery that the company is going to incur through the DIR mechanism.

So if you just look at the capital investments he talked about and you assume that that $150 million is recovered or is spent each year, over a 41-month period it would be north of $500 million in capital spending that would occur. So you take the 150 times, you know, 3-1/2 and you're going to get over 500 million.

Q. But in the context of the DIR, in your testimony you mentioned a typical base rate case before the Commission in order to get spending such as you just described approved on a go-forward basis is a typical way, correct?

A. It's the way that has been done in the past. I wouldn't call it typical. We do riders like this all across our service territories.

Q. Let's focus on --

A. Or our system.

Q. I'm sorry, had you finished your answer?

A. Yes.

Q. I wanted to just focus on the base case, the base rate proceeding because that's what you reference in your testimony as one of the benefits that comes from the approval of this rider by the Commission. And in one of those rate proceedings can you identify what the company would need to establish during the course of that proceeding in order for its proposed spending level to be approved by the Commission?

A. Typically the company would have to show that those -- that the investments in rate base were prudent and that the O&M expenses for that given year were prudent.

And in the last case, as an example, the staff did not identify any distribution investments as being imprudent, and the $62.344 million credit as part of the DIR is related to those investments, so that base level the staff has already determined that they didn't see any imprudency in those investments.

To help answer your question, you've been asking, and maybe I thought about it a better way, to address the capital spending that may make it a little cleaner.

A $20 million increase in the DIR, so the level -- if you look from 2013 to 2014, we're proposing to increase the DIR by $20 million. In order for the company to achieve the maximum revenue increase of $20 million, the net increase in distribution plant over that period would need to be approximately $100 million. So it's roughly a 5-to-1 relationship.

Q. And in order to establish prudence in the case that you just mentioned, "prudence" to me is a conclusion. What did you show or attempt to show in order to establish that the rate was prudent or the expenditure as proposed was prudent?

A. The company would employ its rate base that existed as of a date certain. The staff would then audit those and actually would go back all the way to the last rate case and look at a sampling of those expenditures to do a couple things: One, to make sure that, you know, poles that we have on our books are actually in the ground, where they actually do field audits to verify that they're in existence, they look at the purchase of our prudency decisions and like, so it's a fairly exhaustive audit that takes a pretty significant amount of time to look at all of those assets, and that's one of the reasons that we've proposed this DIR mechanism is that it provides a significant reduction in the cost associated with getting recovery of new investments in the distribution system.

Q. So do you believe that the determination as to prudence with respect to the proposed DIR is taking place in this proceeding or do you expect that it will take place at a later date in the future upon review by the staff in the future?

A. And I think Mr. Kirkpatrick described it a bit when he was on the stand --

Q. I'm only asking for your understanding, sir.

A. I'm going to go into that. My expectation would be that the staff on an annual basis would be reviewing those expenditures.

Q. In your testimony and also in your workpapers that you submitted in support of the various riders in your testimony, I did not find that there was any analysis or workpapers that you had prepared with respect to the -- your testimony supporting the DIR. Am I correct that there were no such analyses within your workpapers submitted in connection with this proceeding?

A. You're going to have to clarify. Workpapers with regard to what aspect of the DIR?

Q. Any aspect of the DIR in your workpapers WP WAA-1 through --

A. If you look at --

Q. 60. Over, yeah, 60.

A. If you look at Exhibit WAA-5 page 2 of 2, you can see a calculation with significant detail of how you would calculate the carrying charge rate for the DIR. What that provides is a summary and calculation of the costs that the company typically incurs as we invest in new distribution infrastructure. And so you can see that there are components of debt, equity, taxes, depreciation that are built into that overall carrying charge rate.

So that page provides an example of the types of incremental costs that the company incurs when we invest a dollar of capital. So for every dollar of capital that we invest, we incur carrying charges of basically 20.59 cents. So that's the workpaper that explains the types of costs that the company incurs when we make an investment and that supports the need for a recovery mechanism like the DIR.

Q. And the workpapers for William Allen filed in this case on April 2nd of this year, you would agree that there's nothing contained in those workpapers that relate to the DIR; would you not?

A. No, because it was already included in my exhibits and it would just be repetitive.

Q. Thank you.

I heard you twice respond to Ms. Kingery that, in several of her questions with respect to the $355-megawatt per day rate capacity charge, I heard you say that any rate below $355 is a benefit to customers and to CRES providers.

And, based on that, is it accurate for me -- well, would you agree that as that rate continues to fall below the $355 dollars, there is still a greater benefit for customers of American Electric Power?

A. To the extent that the company provides capacity to CRES providers below our true cost of capacity, that's an additional benefit. So let me give you an example.

Q. My specific focus in the question was to customers.

MR. SATTERWHITE: Objection, your Honor. The witness wasn't done with his answer.

MR. SUGARMAN: He's not answering the question.

MR. SATTERWHITE: Yes, he is, your Honor.

EXAMINER SEE: Just a minute. Mr. Sugarman, if you ask a question, allow the witness to complete his answer, you may not like it, but pose your question.

MR. SUGARMAN: I apologize, your Honor.

Mr. Allen, I apologize.

EXAMINER SEE: Mr. Allen, could you please listen to the question, focus your answer and move on.

Thank you both.

THE WITNESS: Can you reread the question, please?

(Record read.)

A. So to the extent that capacity is provided at a discount below the company's cost of 355, every dollar reduction in that rate that's provided to CRES providers provides additional benefits to customers.

MR. SUGARMAN: Thanks, Mr. Allen.

I have no further questions, your Honor.

EXAMINER SEE: Thank you.

Ms. Thompson?

MS. THOMPSON: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Thompson:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. During your examination with Mr. Kutik, you testified that the aggregation residential customer load made up 48 percent of the residential shopping load for 2012; do you remember that calculation?

A. I think I disagreed with the calculation, but he did make that statement.

Q. Okay. I would like to do some calculations regarding the aggregation customer load for 2013. For simplicity, it's probably easier if you could turn to WAA-2.

A. Okay. I'm there.

Q. For simplicity let's assume that the residential aggregation load for planning year 2013 is the same as expected in 2012.

A. Okay.

Q. And this residential aggregation load is 2,201 gigawatt-hours.

A. No, that's the expected aggregation load as of December 31st, 2012, annualized. The amount throughout 2012 would be less than that, and you can kind of see that on Exhibit WAA-2, the total aggregation load is 3,193, and then if you see the next line down, expected aggregation load during 2012 is 1,906, it's because of the timing of that load switching throughout the year. So if you're looking at 2013, you would take that 2,201 that's an annualized value and compare it to 2,013.

Q. So you're using the 2,201.

A. Yes.

Q. Okay. So if you divide the 2,201 into the tier 1 price capacity available under the two-tier model, and that amount is on page 7 of your testimony, again on page 6 -- I'll wait till you get there. And that amount is 4,533 gigawatt-hours?

A. Yes.

Q. So if you divide the 2,201 into the 4,533, this would result with residential aggregation taking about half of the tier 1 capacity in 2013.

A. Yes, I think that's a fair calculation.

Q. And because at that point it would be 31 percent capacity under the two-tier model, that would leave roughly 15 percent tier 1 capacity for non-aggregation customers, correct?

A. I'm sorry, you're going to have to repeat that question, I'm trying to follow your math.

Q. Okay. If the residential aggregation load would leave about half of the tier 1 capacity available, that would leave about 15 percent tier 1 capacity for non-aggregation customers.

A. Yes. Yes, I see where you're going there. That makes sense.

Q. Excellent.

If you turn back to WAA-2, sorry to keep flipping around.

A. Yeah, I'm there.

Q. If we did a similar calculation using the total potential aggregation load for residential customers of 2,903 gigawatt-hours --

A. Yes, I see that.

Q. -- okay, if we divided that number into the tier 1 capacity for 2013 of 4,533, that would leave about one-third of the capacity for non-aggregation customers.

A. That's correct. So about 10 percent.
Q. Exactly. Okay. Thank you.
I want to move on to the current capacity pricing. Mr. Darr asked you some questions about whether the caps for industrial and commercial customers had been fulfilled currently.
A. Yes.
Q. As of today is the tier 1 capacity for residential customers, has that been met?
A. No.
Q. And would there be any reason for AEP, until the order comes out in this case, to deny any customer to have tier 1 capacity if the cap has not been met?
A. For residential customers?
Q. Yes.
A. No. My understanding is that all residential customers are currently receiving tier 1 priced capacity.
Q. Okay. I have one last set of questions and they're all math-based.
A. Okay.
Q. Warn you now.
A. I'm a math guy, so that's okay.
Q. Okay. You had testified earlier

regarding the RPM prices.

A. Yes.

Q. What is the, just for clarity for the record, what's the RPM auction price as of June 1st, 2012?

A. It's going to be approximately $20 a megawatt-day.

Q. And what's the proposed AEP first tier price as of June 1st, 2012?

A. $146 a megawatt-day.

Q. And, roughly, how much greater is the first tier price than the RPM price as of June 1st, 2012?

A. It would be $126 a megawatt-day.

Q. So that would be about seven times greater?

A. If you wanted to do that comparison, it's not an appropriate comparison, but if you wanted to do the math, that would be the result.

Q. Okay. Similarly, what is the second tier proposed price?

A. Actually, just to clarify, your last one would be six times greater.

Q. It would be six times greater. That's why I'm an attorney.

What also is the -- what is the second tier price as of June 1st, 2012?

A. $255 a megawatt-day.

Q. And how much greater is that than the RPM price as of June 1st, 2012?

A. 225 a megawatt-day.

MS. THOMPSON: That's all my questions. Thank you very much.

EXAMINER SEE: Mr. Haque?

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CROSS-EXAMINATION

By Mr. Haque:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. I just have a few follow-up questions with regard to your testimony as to governmental aggregation. The first question I have is in regard to page 6, lines 22 and 23 of your testimony. The word "approved" is used as a qualifier for the November 8th, 2011, election. I just want to distinguish between the concept of an approved aggregator versus an active aggregator.

So my question is, first, does a municipality need to be actively aggregating in order to meet that deadline, or can it have been approved as an aggregator prior to November 8th, 2011? I just want to double-check.

A. All that was intended here is that voters in those communities that approved a governmental aggregation initiative on the November 8th, 2011, ballot or earlier, if that community is still in the process of putting together aggregation, the contract and those things and doing that throughout 2012, they would still be included in this provision so long as voters had passed that initiative on November 8th, 2011, or prior.

Q. Okay. Also included, then, would be municipalities who, for instance, previously were actively aggregating, had passed legislation, and had an election way prior to the November 8th, 2011, date, but have essentially been dormant as an aggregator as of November 8th, 2011, but then decided to, as a community, to potentially enter into a contract to aggregate in 2012.

A. Right. And I think there's some communities that had passed legislation back in the 2000, 2001, 2002 timeframe, those communities, even if they had had an aggregation approved by the Commission to do that and had since let that permission lapse, they would still be included because they had passed legislation prior to November 8th, 2011.

Q. Okay. Thank you.

Now, for 2012 it's clear to me that the customers that -- taking service under a governmental aggregation program, that they will be included in the additional allotments as stated in your testimony, correct?

A. As long as they take action in 2012, yes.

Q. Correct.

A. Or prior.

Q. Now, can you explain to me, in 2013, then, what happens to those customers who were taking under that additional allotment?

A. So a customer that was part of a governmental aggregation program would receive tier 1 priced capacity in 2012 as a result of participating in that governmental aggregation program. Once a customer is awarded tier 1 priced capacity. So long as they remain a shopping customer, they maintain their tier 1 priced capacity.

So those customers would continue to receive tier 1 pricing in 2013 even if they switched to another CRES provider at that point in time and left the aggregation so long as they remained a shopping customer and didn't come back to SSO service, they would keep that tier 1 priced capacity.

Q. So that's in 2013 and then, assumedly, if they maintained taking service from a CRES provider in 2014 as well.

A. That's correct.

Q. Okay. So if a municipality is approved to aggregate prior to November 8th, 2011, has gone dormant, is not aggregating, and does not aggregate by December 31st, 2012, but then decides to aggregate as a community in 2013 and 2014, would they receive tier 2 pricing?

A. Not necessarily. Their customers would be treated on an equal footing to any other customer, so if they were next in line, they would get that tier 1 capacity.

There may be customers that have already switched in those communities, a residential customer that may have switched already, or a commercial customer, that determines in 2013 that the -- that aggregation program is a better deal for them, they can join the aggregation and they would get the tier 1 priced capacity; you carry it with you once you have it.

Q. Right.

A. And just to clarify, the customer carries that -- the right with them, but it's the CRES provider that serves them that actually pays that capacity rate.

Q. Understood.

And then for all other communities that approve a governmental aggregation program, pass legislation and have an election post-November 8th, 2011, they will receive tier 2 capacity pricing and be placed in the queue and they're in line.

A. Well, I think what I said described, they could get tier 1, they could get tier 2. They get no preferential treatment. They're treated like any other customer.

Q. So the likelihood is -- you don't have to answer that. Strike that.

Technically, this is just a technical question about how the customers will actually obtain tier 1 pricing if they are part of an aggregating community that has passed legislation prior to November 8th, 2011, do customers individually have to apply to AEP or do the communities/CRES providers actually, will they actually be required to provide notification to AEP?

A. For residential customers, the submission is made by a CRES provider on their behalf through either a switch request or through an affidavit submitted on behalf of the customer by the CRES.

So one of the scenarios that could occur is if a governmental aggregation community was planning to take service from a CRES in November of 2012, or say November of 2013, that might be an easier one, and they had a contract with a CRES currently, customers had accepted that contract, then the CRES provider could submit affidavits on their behalf and that affidavit would get a spot in the queue for that customer today even if the customer wasn't going to take service from that CRES through the aggregation until a later date.

Q. Okay. So what about for, for instance, a municipality's small businesses, how would they obtain --

A. For a small business that didn't have a 90-day notice requirement, the CRES works similar to a residential customer; submit an affidavit on their behalf.

For a small commercial customer that may have a 90-day notice requirement, he has two options: He can either submit a 90-day notice that would get him a spot in the queue, or the CRES can submit an affidavit on his behalf. He has two options.

MR. HAQUE: Okay. I don't have any more questions, your Honor.

EXAMINER SEE: Thank you.

Mr. Yurick?

MR. YURICK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Yurick:

Q. Mr. Allen, how you doing up there? You've been up there a while. You okay?

A. I'm doing fine.

Q. Need to stretch or anything?

A. No; doing good.

Q. I want to direct your attention to page 13 of your testimony. Let me know when you're there.

A. We've done this one a few times, so I'm there.

Q. All right. You say there, I think, that "In exchange for the integrated package of terms and conditions of the modified ESP, including providing capacity to CRES providers at a price well below the Company's cost associated with this capacity and the resultant loss of generation revenues, the Company is proposing a Retail Stability Rider that will replace a portion of this lost revenue"; is that correct?

A. That's what I state in my testimony.

Q. So a significant part of the lost revenue that you've identified and are trying to recover through the retail stability rider is lost generation revenues due to providing CRES providers with discounted cost of capacity, right?

A. It's a comparison of the SSO revenues that are lost when a customer switches as compared to the revenues recovered from the CRES provider with that discounted capacity, subject to the fact that the first so many millions of dollars lost the company is absorbing. It's only once we get below 929 million that the company is seeking an RSR.

Q. I understand. But it's a difference in the cost of capacity between what you're charging CRES providers and what capacity cost you.

A. That's the mathematical construct of the RSR. But the RSR also deals with the fact that the company didn't include an increase in rates for environmental costs. Didn't incorporate an increase in base generation rates. So it's part of the entire package. You have to look at all the pieces together.

So if we had proposed a higher generation rate for nonshopping customers, the RSR would be smaller because I'd have additional revenues in that calculation. So it's related to the lower price that the companies are offering to nonshopping customers as well, that's another one of the elements that creates a need for the RSR.

Q. Well, so is it your testimony that this is all, these are all just interchangeable? If you have a loss of revenue on capacity, you can just raise the cost on something else sort of indiscriminately just as long as you make up the number?

A. The RSR is intended to provide the company to earn a reasonable return based on its 2011 expenses and revenues that occurred that year. The RSR is, it's a revenue decoupling mechanism but it's also intended to provide financial stability for the company during this transition period, so it's doing a lot of things. There's a mathematical concept in here that calculates it, but the RSR does a lot more than that.

Q. Okay. But are you familiar with the concept of a cost causer?

A. Very much so.

Q. And that means that if somebody causes a cost, right, that the cost that they cause should be recovered from that cost causer, not just anybody, right?

A. That's a -- that's a theoretical discussion that happens in a lot of rate cases.

Q. Yeah.

A. There's not a single rate case that I'm aware of, other than if you had just a single customer in that rate case, where the cost causer actually pays his own cost.

One of the things that is fundamental in ratemaking is that we look at average costs across a group of customers. So some customers are always going to pay a little more than their cost, some are going to pay a little less than their cost. That's the whole concept of classes and doing average ratemaking.

We don't do -- we don't do a cost analysis on each individual customer; that would be virtually impossible to do and it would take up a whole lot of resources without providing any significant benefits.

Q. Well, it would to the customers that are paying too much, I think, but anyway, my point is if the cost that the company is incurring is because they're providing discounted capacity, shouldn't they be recovering that through a capacity charge? Wouldn't they ordinarily do that?

A. Well, I think, you know, we've got a couple cases going on here. One case we have is the capacity case where we've asked the CRES providers to compensate us for our cost of capacity. Those are the cost causers in that case and we've asked them to pay our cost.

What we've proposed here is a compromised position where a lot of parties are getting benefits and we're trying to provide a transitional plan that gets us to a market-based rate which, in that case, you may see customers that cause the cost paying their exact cost in the market, they may or may not like it at that point in time, but that's where we're moving. And so this is transitional in nature.

Q. So is your testimony that it just doesn't matter if you incur a cost because of discounted capacity, you can just make it up someplace else and it just -- it really just doesn't make a difference?

A. No. This plan provides benefits to various constituents and what the company has proposed in the RSR is that all of those constituents compensate the company for that package of benefits that's included in this plan.

Q. So you're focusing on the integrated package part of your testimony; is that right?

A. Yes. All customers of AEP Ohio are receiving benefits through this package.

Q. We'll come back to that.

I want to ask you a couple of questions about WAA-5. That's your calculation of the rider DSR; is that right?

A. DIR, yes.

Q. I'm sorry, DIR.

All these letters of the alphabet.

Now, are you familiar with the concept of accumulated deferred income taxes?

A. Yes.

Q. And accumulated deferred income taxes, my understanding of it, which is limited, is that in certain cases when the company makes investments in plant, there's a difference between the amount of depreciation that goes on your books and the amount of depreciation that you are allowed to claim as an effect on your income taxes; is that right?

A. Yes, that's correct.

Q. Now, I didn't see on WAA-5 where you made any calculation of the effect of accumulated deferred income taxes on your rider DIR.

A. That's correct.

Q. But if you were to make investments and they were to be eligible for accumulated deferred income tax treatment, you'd have to make that up, right? I mean, you'd have to account for that.

A. Well, I think it's important to understand how accumulated deferred income taxes work and what they really mean. It's an obligation to pay taxes in the future. You avoid paying taxes today, but you still have to pay the tax man at some point. So we're going to pay the federal government in the future.

We've made investments in the past and they created the ADIT balances that exist today. We have to pay for those in the future. We have an obligation, that's why there's an ADIT, is I have an obligation to pay the federal government in the future.

So ADIT related to legacy assets goes down over time. ADIT for a new asset starts high, declines over time as I make payments to the federal government to relieve that tax obligation.

So it's not fair to assume, and it's not appropriate to assume that ADIT grows over time and would provide a benefit to the DIR mechanism where it would produce a lower DIR revenue. It could produce a higher DIR revenue because I have to factor in the reduction in the ADIT balance associated with legacy assets.

Q. You're not suggesting that there's no benefit to ADIT treatment.

A. There's a benefit to ADIT treatment associated with new investments.

Q. Yes.

A. What I'm pointing out is that ADIT can go down over time. The federal government is not allowing us to never pay those dollars, it's just deferring them. That's why it's accumulated deferred income taxes.

Q. Right.

A. I have to pay those so at some point in time that ADIT associated with the legacy asset goes to zero. I have to pay that off. So we've not included it here because there are going to be some increases, some decreases.

Q. But there's certainly a benefit to your bottom line of ADIT treatment, at least in the short term.

A. There is for new investment, but there are past payments that I have to pay for so --

Q. Well, you'll always rather pay taxes in the future than pay taxes now, right?

A. That's correct, but I'm paying taxes today related to investments that I may have made 20 or 30 years ago.

Q. So you don't think it's fair to credit anything against distribution net plant for ADIT.

A. I don't think it's necessary in this case, and there's a couple items that offset it that you have to recognize. We've not included in this calculation any incremental O&M associated with those new investments, we've not included a component for A&G, so I think this is a reasonable compensation mechanism for the new distribution investment that we're making.

And, remember, this is incremental increases so it's, I'm factoring in depreciation related to legacy assets so I'm already factoring in legacy assets, so the ADIT kind of treatment, it's -- we're already recognizing the ADIT is going to move up and down over time by the fact we're factoring in depreciation on those legacy assets, those are part of this calculation.

Q. But you're just kind of ballparking it, aren't you, even to that extent you're really just saying eh, that will all even out.

A. One of the things when we did the DIR is these are all items that can easily be taken from the FERC Form 1. This was intended to be a very simple and straightforward analysis that the staff and the company could easily evaluate at the end of each year.

ADIT, on the company's FERC Form 1 books, is not broken out by these distribution accounts that we're considering here; so to include ADIT, I don't think it would benefit the calculation, but it would also add unnecessary complication to the calculation.

Q. Again, so you're ballparking it, right?

A. Yeah, I think this is a reasonable approach.

Q. So let me ask you, you're kind of focusing, it seems to me, again, on the integrated package of terms and conditions. On page 11 you refer to 62.344 million in the distribution rate case settlement that the company agreed to forego in return for other provisions, right? You refer to that.

A. The company didn't agree to forego those revenues. Those revenues at the time of the settlement were included in the DIR. So the company never agreed to forego those revenues, they were being recovered through another mechanism.

So to ensure that there was no double recovery of those same investments, the company provided a credit related to that revenue stream in the distribution rate case settlement.

Q. In the distribution rate case settlement, that was also an integrated package of terms and conditions, right? There were a bunch of terms and conditions in there, it was sort of an integrated package, right?

A. That's typically what a settlement is, yes.

Q. So to just -- okay.

You say "The DIR benefits customers of AEP," this is on page 12, "by providing a streamlined approach to recovery of costs associated with distribution investments which will encourage investment that can improve reliability...," right?

A. Yes.

Q. Aren't there service standards related to reliability that legally require a public electric utility to provide reliable service?

A. There are requirements that exist, I

think Company Witness Kirkpatrick described some of those. What I'm focusing on here is the streamlined approach to recovery.

So if we look at -- you were talking about that distribution case that we just dealt with -- rate case expense associated with a large distribution case can easily top 500,000 to a million dollars for a rate case. Those costs are recovered from customers. Avoiding a rate case provides real savings to customers.

Q. But doesn't the fact that the Commission has to approve those expenditures on distribution and the fact that the staff goes through an audit, doesn't that protect customers also in return for that cost?

A. It does protect customers, and as I indicated, that in the last rate case the Commission staff reviewed all the distribution investments of the company and determined them to be prudent. So I think we have a pretty good track record of making prudent investments in our distribution system.

Q. So we should just trust you going forward?

A. The staff will be doing an audit of these expenses. The staff will also do a complete prudence review at the next distribution rate case. The company has an obligation to make sure our expenditures are prudent.

Just because I get recovery of those carrying costs on those assets over a three-year period before my next rate case, doesn't mean the company's going to go out and make imprudent investments that we're going to have to write off the next rate case.

Q. Sure. Now, one of the elements that the Commission would look at in a rate case would be your revenue requirements, right?

A. Yes, they would.

Q. So, interestingly, in your DIR rider, I don't see -- I guess that's part of the whole streamlined approach, that DIR doesn't really adjust depending on where the company's revenue requirements are, right?

A. The DIR is producing a revenue requirement associated with this incremental investment. So we look at the investments, and so that's on Exhibit WAA-5, page 1 of 2, we look at the investments that we're making and then we apply the carrying charge rate, the 20.59 percent, which includes a large set of the costs that the company has associated with those investments, as well as the return component to come up with the revenue requirement which would be that initial rider revenue line on line 24. That is the revenue requirement associated with those assets.

Q. Sure. But, I mean, let's sort of -- I mean, if the company makes big money on some other aspect of the business, DIR doesn't adjust to account for that, right? It just doesn't.

A. Well, remember, in Ohio we have the SEET mechanism that can protect from that. The DIR is intended to be a temporary mechanism that exists between rate cases.

We just had a rate case that was settled at the end of 2011, it's a very current rate case, the Commission has reviewed all of our costs. All we're asking for is carrying costs on the incremental investments that we made since that point in time. It's fairly straightforward.

Q. And, again, it's kind of, like you say, it's streamlined. Are you just kind of ballparking that too?

MR. SATTERWHITE: Your Honor, we keep going back to "ballparking." I think the witness is giving his responses, he's very specific, and

Mr. Yurick just wants to call everything a ballpark.

MR. YURICK: I apologize, your Honor, if I'm unfairly characterizing the testimony. I think the witness hasn't had a real huge problem correcting people who have been asking questions and mischaracterizing his testimony, so I was trying to get a handle on understanding, through some of the jargon, what he was saying.

MR. SATTERWHITE: Your Honor --

EXAMINER SEE: Let's try to keep the comments to a minimum. The Bench is really losing a whole lot of patience. Focus on the question without a lot of comment, on both ends.

Move on, Mr. Yurick.

Q. (By Mr. Yurick) So my question is that DIR doesn't adjust, you mentioned SEET, but DIR doesn't adjust depending on how much money the company is making. There's no revenue requirement showing that you make to get a certain level of DIR.

A. Right. The DIR is just associated with those new investments, and you referred to, you know, ballparking, but it is a fairly precise calculation. If you look at Exhibit WAA-5, page 2 of 2, we go through a fairly detailed method how we came up with the costs that are associated with those investments.

So as opposed to ballparking, I would consider it fairly precise.

MR. YURICK: If I can have just one moment, not to try the Court's patience any further, but if I could look at my notes just a second.

EXAMINER SEE: Sure, Mr. Yurick.

Q. You say on page 10 capital additions recovered through other riders authorized by the Commission to recover distribution capital additions would be identified and excluded from the rider. Do you see that?

A. Yes, I see that.

Q. So there are other riders, other rider mechanisms that the company's currently using to recover distribution investment, correct?

A. That's correct. Like the enhanced service reliability rider, that has some capital in there. So the intent of this language is to just clarify the company isn't seeking the double recovery of any of those investments.

MR. YURICK: I have no further questions, at this time. Thank you very much, your Honors. I appreciate it.

EXAMINER SEE: Thank you, Mr. Yurick.

Mr. Barnowski?

MR. BARNOWSKI: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Barnowski:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Could you take a look at your Exhibit WAA-6 for a second.

A. I'm there.

Q. I just have one question on it. At the bottom you have written that the RSR will result in the inclusion on the bills of a $2 per megawatt-hour charge on the average, correct?

A. That's an average across all customers.

Q. Understood.

So for a company like Ormet which uses 4.5 million megawatt-hours per year, putting everything else in this plan aside, everything else, the RSR alone will cause a rate increase of $9 million; isn't that right?

A. I think the RSR for Ormet is less than $2 a megawatt-hour. I think Witness Roush shows the RSR by class. If you assume $2, it would be $9 million, but I'm pretty sure Ormet's rate would be less than that.

Q. You're pretty sure or you know that?

A. I'll take a look.

Q. You don't have to take a look, I'm just asking you "yes" or "no," do you know that or are you guessing?

MR. SATTERWHITE: If -- I'm sorry, go ahead.

Objection, your Honor. The witness, he asked a question, the witness said he would look it up and I'd like to let him finish his answer before we ask another question.

MR. BARNOWSKI: Your Honor, I did not ask the witness to open up a book and go looking for a number, I asked if he knew for certain what the number was. If the answer is no, I'm ready to move on, it's 4:00 o'clock.

EXAMINER SEE: Oh, and you're concerned that it's 4:00 o'clock.

MR. BARNOWSKI: I know you're concerned too.

EXAMINER SEE: Let's go off the record for a minute.

(Discussion off the record.)

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

Q. (By Mr. Barnowski) Mr. Allen, if you want to look, that's fine. I am expressly not asking you to dig through your files and try to figure out what a different witness has testified is the exact megawatt-hour charge for the RSR for Ormet. I'm just asking if you know it off the top of your head.

MR. SATTERWHITE: Your Honor, he raised it and made an assertion it's a certain amount and now the witness wants to look it up, so we'd just appreciate the opportunity to follow what you said already and let him look it up.

MR. BARNOWSKI: He's welcome to do it, I'm not objecting, I'm just telling him --

EXAMINER SEE: All right. Thank you. We'll give it a couple more minutes.

A. Ormet's rate would be less than $2 a megawatt-hour.

Q. What would it be?

A. From workpaper WP DMR page 81 the rate would be $1.6948 per megawatt-hour.

Q. Times 4.5 million megawatts per year, megawatt-hours per year, means that the RSR, putting everything else aside in this plan, will result in a rate increase for Ormet of 7.64. Do you agree with that?

A. Sounds reasonable. Ormet's got a pretty big bill, so it would be a small percentage for them.

Q. Times three years, it's a rate increase over three years of $23 million. Do you agree with that?

A. It's a one-year increase of about $7 million that would be maintained over three years. Typically, when we talk about rate increases, we don't accumulate them over years.

Q. And it's your testimony that the RSR is a good thing for Ormet despite the fact if Ormet is contractually barred from shopping and cannot access any of the reduced charges offered by CRES providers, "yes" or "no"?

A. Yes.

Q. Now, the RSR is tied to, we've had already some testimony on this earlier, but it's tied to revenues, not income, correct?

A. That's correct. That's how the calculation's done.

Q. And you have a lot of -- the company has a lot of other revenue streams other than generation revenue, correct?

A. Not for the generation function.

Q. For the company.

A. We have distribution revenues, transmission revenues.

Q. You have sales to AEP affiliates, true?

A. Sales to affiliates would be generation revenues.

Q. Are you including the sales to AEP affiliates within this line item in the RSR?

A. No; because those are typically passed through as fuel.

Q. So you're not, it's a different revenue stream, correct?

A. They're incorporated through the initial revenue calculation that's determined for 2011 because they're in the earnings for 2011, so they were considered in the calculation.

Q. Are you including them in future years when you add up the -- to figure out whether the $929 million number has been hit or not?

A. No, because they weren't included in the target, so I wouldn't include them in calculating whether I achieved the target or not.

Q. That's not an insignificant revenue stream. It was around a billion dollars last year, correct?

A. I don't know. I know what the capacity revenues are generally, but I don't know what the other revenues are.

Q. It was about a billion dollars before that too, wasn't it?

A. I don't know.

Q. You also had around $27 million revenue stream reflecting, quote, other affiliated revenues last year, correct?

A. I don't know. I don't have that number in front of me.

Q. Do you know whether you had a $18 million revenue stream reflecting other revenues nonaffiliated reported on your 10-K?

A. I don't know. I don't have my 10-K in front of me.

Q. Put those aside. Those were part of the revenue stream included in the RSR, correct?

MR. SATTERWHITE: Objection, your Honor. The witness stated he didn't know any of those, so he can't really answer the question about whether if it applied or not.

MR. BARNOWSKI: I'm asking him if he included them in his RSR calculations. He would know if he included them.

EXAMINER SEE: The objection is

overruled. The witness can answer the question.

A. I didn't include those values in the determination of the target revenues because they were already in the original ROE, so to include them on one calculation or the other would be inappropriate.

Q. So the answer is no.

A. Right, because it would be inappropriate, that's correct.

Q. Would you agree that all else being equal, if your generating revenue has dropped by a hundred million dollars next year, but you also reduced your generating expenses by a hundred million dollars, the generating net income would be flat? Correct?

A. Yes, I would agree.

Q. But your customers would have to pay you a hundred million dollars in RSR revenues, wouldn't they?

A. I don't see a connection between your last question and this one.

Q. Don't worry about my connections. It's just a "yes" or "no" question. Would your customers have to pay you a hundred million dollars in RSR revenues under that circumstance?

MR. SATTERWHITE: Your Honor, I'll make the new civility objection here and ask him not to yell at the witness; just ask him the question without his commentary.

EXAMINER SEE: Which is the same thing I have asked of other counsel in the room. Cut the comments, ask your questions, the witness can answer the questions and we're going to move on.

MR. BARNOWSKI: Fair enough. I apologize, your Honor.

Q. Can you answer my question?

A. I don't think I can. I can't follow the question.

Q. The question is: If your generating revenue's dropped by a hundred million dollars next year, but your generating expenses also dropped by a hundred million dollars resulting in what you just characterized as a flat generating income for the year, you would still collect $100 million from your customers through the RSR, correct?

A. No.

Q. And why is that?

A. There's no relationship between a reduction of a hundred million dollars in generation revenue to the RSR.

Q. If your generating revenues drop by a hundred million dollars, you're going to make it up through the RSR, that's what the point of the RSR is, correct?

A. So under your hypothetical -- I think I see where you're going now. I was -- the RSR is intended to collect 94 million in the first year, but if, because of providing discounted capacity to CRES providers and customers switching, if revenues declined by a hundred million dollars, the RSR would, over the life of the RSR, would collect that hundred million dollars.

Q. Okay. I think I see why we're having a disconnect. Let me restate it this way: If your generating revenues drop by $94.7 million next year and your generating expenses also dropped by $94.7 million, resulting in a flat generating income, you would still collect $94.7 million through the RSR from your customers, correct?

A. That's correct, and that's where the premise that we would be able to reduce our expense is.

Q. And there is no mechanism created in this plan for refunding those moneys to your customers in those circumstances, correct?

A. That's correct. Comparably, there's no provision in this mechanism that if my expenses go up, that I would recover those from my customers, so it's a symmetrical mechanism.

MR. BARNOWSKI: Your Honor, with all due respect to the witness, the last half of that answer was not at all responsive to my question, and I ask that it be stricken and he be asked to answer the questions as posed.

MR. SATTERWHITE: Your Honor, the witness is showing both sides of the question the counsel is asking. Just because he wants to take an extreme, unlikely example and say the sky would be falling if this happens, doesn't mean you can ignore the other side that the company has risks and if you take it the other way, there's going to be harm to the company that can't be captured. So it's just the other side of the exact same point and it makes the record more complete.

EXAMINER SEE: Motion to strike the witness's response is denied. Move on.

Q. Mr. Allen, if your generating revenues dropped by $94.7 million next year, but you earned $94.7 million in additional increased revenue from a completely different revenue stream, your overall net income would remain flat, you would still collect $94.7 million from your customers through the RSR, correct?

A. That's correct. And if the revenues went down, you'd have a converse.

Q. By the way, generating revenues earned in 2011 by AEP Ohio were the highest generating revenues ever earned by the company in its history, correct?

A. I have not reviewed that data. And can you repeat the question to make sure I understood what you said?

Q. Yeah. The generating revenues earned in 2011, the ones that are going to be guaranteed for the next three years, those are the highest generating revenues that the company has ever earned; isn't that correct?

A. Generating revenues are not equivalent to earnings, first of all. And the 2011 earnings of AEP Ohio are less than they were the prior year, so I don't follow that that's an accurate response.

Q. The RSR seeks to guarantee generating revenues, it doesn't seek to guarantee your overall company income, correct?

A. The RSR with the credit for off-system sales or with the credit for shopped load provides a target revenue of $929 million. It does not ensure that the company recovers the generation revenues that the company received in 2011.

And as you'll note in Exhibit WAA-6, I take the revenues and reduce them by $107 million. So I am not in any way guaranteeing for the company that we will recover the same generation revenues that we recovered in 2011; that's incorrect.

Q. The starting point for the whole analysis there is your 2011 generating revenues which you have reduced to reflect a 10.5 percent ROE, correct? That's just a "yes" or "no."

A. Yes, I used 2011 as my starting point.

Q. Okay. And the 2011 starting point revenues for generation were the highest generating revenues earned by the company in its history, correct?

A. I don't know. And it doesn't impact the calculation. If the earnings had been double what I presented, the reduction would be even larger and I would still have 929 million as my target. So the earnings in '11 do not impact the revenues that the company is seeking in this calculation.

Q. Except that they form the starting point for the whole thing, correct?

A. But by adjusting to the 10-1/2 percent --

Q. It's just a "yes" or "no."

MR. SATTERWHITE: Objection, your Honor. Again, we're not letting the witness finish the answer.

MR. BARNOWSKI: Your Honor, I'm trying to ask only "yes" or "no" questions and I'm getting speeches that are not responsive. I'm trying to be patient but the witness is not answering questions.

MR. SATTERWHITE: With all due respect, your Honor, I haven't seen the patience because the witness isn't allowed to finish his answer.

EXAMINER SEE: Mr. Allen, focus, respond to the question, and if you need to add something to put it in context, you may do so.

The objection is -- that's it. Move on. Move on, Mr. Barnowski.

Q. The purpose of the RSR is to replace a portion of revenue losses resulting from customers switching due to the pro competitive measures contained in the application, fair?

A. The RSR is intended to maintain financial stability and to ensure that the discounted capacity provided to CRES providers doesn't cause severe financial harm to the company.

Q. The modified ESP application was not filed until March 30th, 2012, correct?

A. Yes.

Q. And you agree, by that point in time, 26.96 percent of the company's customers had already switched to a CRES provider?

Would it help you, Mr. Allen, if I mark your response to interrogatories that lays out the switching rate?

A. Sure, I was looking at what I had in my exhibit, but if you want to provide that, that's fine. I mean, to speed things along, my Exhibit WAA-1 shows that switching as of March 1st, which was a little bit before we filed, was 26.08 percent.

MR. BARNOWSKI: I'm going to go ahead and mark it, I'll keep asking questions because we'll eventually come to it.

Q. Is it accurate that roughly 10 percent had, additionally, had also given notice of the desire to switch or their switch was pending?

A. Yes, that would be correct.

Q. Around 37 percent had either already switched or were pending?

A. As of March 1st, yes.

EXAMINER SEE: Mr. Barnowski, are you

marking this exhibit?

MR. BARNOWSKI: Yes.

EXAMINER SEE: As?

MR. BARNOWSKI: I'm sorry, as Ormet Exhibit 102.

MS. HAND: Permission to approach, your Honor?

EXAMINER SEE: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

A. I have the exhibit.

Q. Now, you personally believe, we talked about this a little bit in your deposition, that many of your customers may have been motivated to switch by similar pro competitive measures that were contained in the stipulation that was agreed to but then subsequently overturned on rehearing, correct?

A. I don't want to characterize them as "pro competitive." It's due to the provisions included in the stipulation, yes.

Q. That stipulation was not approved until mid-December of 2011, correct?

A. That's correct.

Q. And if you look at what I've just marked as Ormet Exhibit 102, why don't you read into the record what percent of your customers have switched already by December 1st of 2011.

A. 17.39 percent.

Q. And isn't it true that the parties in that proceeding didn't even agree to the stipulation until around September 7th, 2011?

A. That's correct.

Q. What percent of your customers had already switched as of September 1st?

A. It would be just 11.63 percent.

Q. And that doesn't count pending switches or notice switches, correct, it's just completed switches?

A. Yes, that's correct.

Q. So the number for completed switches plus noticed and pendings would be somewhere higher than 11.63 percent.

A. As of September 1st, the numbers would not be significantly different. The notice provisions, the notices really started coming in after that when we provided the affidavit system and the stipulation, so that would be pretty close to all of them in September.

Q. So fair enough, it would be somewhere higher than 11, but pretty close to 11.63.

A. Yes, that's correct.

Q. And you can't identify any evidence or any documents or anything at all to suggest that these 11.63 percent of the customers switched because of any measures contained in the first or this ESP proceeding, correct?

A. No, I would -- based on what I saw, those customers switched mainly in the commercial class because the rate design that the company had, the legacy rate designs had significantly higher rates for commercial customers than the other classes, so those customers were switching independent of the stipulation.

Q. Okay. But for purposes of the RSR, the revenues lost for these customers who switched for reasons independent of the stipulation are treated the exact same way as for customers who switched because of the stipulation or the modified ESP II provision -- application, or the pro competitive measures contained in either one of them, correct? They're all treated as lost generating revenues, correct?

A. No. These customers were, when we look back to the summer of 2011, they were facing a filing by the company before the FERC and a Commission proceeding here in Ohio to set a cost-based rate.

Those customers could have been paying 355, so whenever these customers have shopped, this stipulation should reflect the cost of -- I'm sorry, I said the "stipulation." The RSR should reflect the benefits of that reduced uncertainty in this discounted capacity that they're receiving as well.

Q. So they're treated the same.

A. Yes, they are.

Q. Okay. Look at your Exhibit WAA-6, please.

A. I'm there.

Q. At the bottom of the chart on the top of the page, there's a chart at the top of the page, the last entry in that chart says "Revenue Target," correct?

A. Yes, it does.

Q. And that's the $929 million target.

A. Yes, that's correct.

Q. That's the amount of generating revenues, CRES revenues, and credit for shopped load that Ohio Power will receive if it receives the same amount that it earned in 2011 reduced to reflect an ROE of 10-1/2 percent, correct?

A. That sounds generally correct, yeah.

Q. And then in the chart below, you figure out how much in RSR revenues will be needed in each year to hit that target, correct?

A. Yes, that's correct.

Q. Do you have a calculator up there?

A. I do.

Q. Let's recalculate the revenue target to reflect -- to remove the 17 percent of the customers who left the company before the stipulation was approved in mid-December of 2011. What is 929 million times .17?

A. It's not an appropriate calculation.

Q. I didn't ask you that. I asked you what 929 million times .17 equals.

MR. SATTERWHITE: Your Honor, I'll object on relevance. I think the witness already established with a previous answer why it is an irrelevant calculation, it doesn't pertain to this case.

MR. BARNOWSKI: Well, what the witness established is he personally believes it's not relevant, but -- I'll make a relevance proffer if you'd like.

EXAMINER SEE: The witness can do the math and you can make of it what you will, Mr. Barnowski.

MR. BARNOWSKI: Thank you.
A. 929 times .17 is 158.
Q. So if we reduce 929 million by 158 million, our new revenue target is around 772 million; is that right?
A. That's just what the math produces. That is not a revenue target.
Q. Okay. That's what the math produces, 772 million?
A. Looks like 771.
Q. And how much in RSR revenues would be needed in each year to achieve that target?
A. As I indicated, it's not a target.
Q. How much in RSR revenues would be needed to achieve that number?
A. I've not done that calculation.
Q. Go ahead.
THE WITNESS: Do I have to sit here and do math all day for him? I can.
A. If I do that math --
Q. You don't even need to do the math, Mr. Allen. If you look at your own chart, you've got the totals in each year, right? And for each year it's over 772 million so the answer is zero, right?
A. I wouldn't agree that's the RSR revenues.

Q. Would you agree that if you look at your chart, you have, in each year, some dollar with three types of revenues, you have a total, and then under it you figure out how much RSR revenue is needed to achieve your target revenue of $929 million, correct?

A. I do.

Q. And if the number in the subtotal column is 772 million, can you and I agree that there would be no RSR revenues needed?

A. It would be an inappropriate calculation.

Q. Can you answer my question?

A. But mathematically it wouldn't produce a positive value.

Q. Can you answer my question? The answer would be zero?

A. I said mathematically it would be zero. I don't agree with the calculation.

Q. What if you reduced the target by 11.63 percent to remove the generating revenues, I'm sorry, to remove the customers who left before the stipulation was even entered in September of 2011?

MR. SATTERWHITE: I'll object again, your Honor, on relevance, and I believe Ormet also has calculators and these numbers are in the record and they can do this math if they want to on brief, but I don't think we need to go over all the possible percentages that could be applied to this formula. It's a formula and they can do this on their own.

MR. BARNOWSKI: This is my last one, your Honor.

MR. SATTERWHITE: Doesn't mean we need to live through another one.

MR. BARNOWSKI: Your Honor, I can make a proffer if you'd like.

EXAMINER SEE: The objection is sustained.

Q. (By Mr. Barnowski) Mr. Allen, in setting the revenue target for each year, you get a credit for shopped load of $3 per megawatt-hour, correct?

A. That's correct.

Q. And you gave this credit because, and I'm just quoting one of your interrogatory responses, when customers choose alternative suppliers, this frees up energy to sell in the wholesale market. Correct?

A. That's correct.

Q. And when Mr. Kutik was asking you questions earlier, he gave a little formula, talked about .4 and you explained how you got there. Do you remember that?

A. Yes, I do.
Q. But when the parties asked you in discovery to explain how you decided upon that $3 figure, you told them that the amounts were not known and could not be determined; isn't that correct?
A. That's correct. What I did here on the stand and what I did for Mr. Kutik in the deposition were just thought exercises of how you could support that $3. It was determined to be reasonable as part of the package. I didn't do a calculation when I developed it.
Q. And, in fact, you refused to provide the exact same calculation you just gave on the stand.
MR. SATTERWHITE: Objection, your Honor. I think it was two different questions. I think the witness just established what he came up with in that thought exercise.
EXAMINER SEE: Objection overruled.
Answer the question, Mr. Allen.
THE WITNESS: I'm sorry.
EXAMINER SEE: Answer the question. The objection has been overruled.
THE WITNESS: I'm just asking, I lost what the question was at this point.

EXAMINER SEE: Can you reread it, please?
(Record read.)
A. I refused because we had not yet performed that calculation. So I didn't really refuse, it just didn't exist at that time.
Q. When did you perform it, just a date?
A. I did the calculation while I was sitting in the deposition with Mr. Kutik.
Q. When was that? Two weeks ago?
A. It may have been. And the calculation I did for Mr. Kutik was kind of an opposite calculation to say the $3 per megawatt-hour credit would equate to a margin of $16. So we kind of did the backward calculation. I didn't develop the $3 based upon an expected margin.
Q. Can you and I agree that that calculation doesn't appear anywhere in the testimony you've provided, you've submitted, your direct testimony in this case?
A. That's correct. I presented support for it as we sat here on the stand and supported in my deposition with Mr. Kutik.
Q. And as you explained, you hadn't even arrived on that calculation, yet when you put into testimony submitted to the Commission that $3 was

appropriate, right?

MR. SATTERWHITE: Objection, your Honor. That's cumulative. We're going over the same point.

EXAMINER SEE: Sustained.

Q. You were here when Mr. Sever testified yesterday?

A. I was here when he testified, yes.

Q. He makes financial projections for a living?

A. As did I when I worked for Mr. Sever, yes.

Q. You believe he's pretty good at it?

A. He's been doing it a long time, he is pretty good.

Q. And isn't it true that he projected the margins earned by Ohio Power for off-system sales in the projections that were submitted to this Commission?

A. He would have done a calculation of the total margins for off-system sales. They wouldn't be apples to apples with the credit that I've provided here, there's an additional set of assumption analysis that you need to do to determine those distinctions, and if we want to talk about them later, we can.

Q. He submitted projections of the margins earned by AEP Ohio for off-system sales, correct? Just a "yes" or "no."

A. Yes, in an aggregate basis, not the margins associated with an incremental amount of generation that could have been freed up due to an additional shopped customer.

Q. Okay. And those assumptions were in the order of 8.10 and $9.50 for the two years?

A. I don't recall. I'd have to see the discovery response.

Q. Do you have up there the response to FES interrogatory 505? I would ask you to be careful because the attachment to it is confidential.

EXAMINER SEE: What exhibit number would that be, Mr. Barnowski?

MR. BARNOWSKI: Ormet 101.

A. I do, actually. No, sorry, I have RESA 101.

Q. Do you need another copy? We can bring you a copy.

A. Yes, I don't have a copy.

MR. BARNOWSKI: I'm not going to mark it, your Honor, just to avoid the confidentiality issue, I'm just going to give him the nonconfidential part.

EXAMINER SEE: Okay. It's already been marked, you're giving him just the nonconfidential portion?

MR. BARNOWSKI: Yes, just so he can look at it, it's identical to what was marked as Ormet Exhibit 101, but it does not have the confidential page attached.

EXAMINER SEE: Okay. You may approach.

MS. HAND: Thank you, your Honor.

A. I have it.

Q. Okay. And the question -- the interrogatory is referring to the projected financial statements included with Mr. Sever's testimony, and B is what is the average dollar per megawatt-hour off-system sales margin assumed for each year presented. If you go down to the answer in B, it's $8.10 for 2012, and $9.50 for 2013, correct?

A. Yes, and what those values would indicate is that the $3 credit I've provided is overstated. Using those values I would produce a much lower credit for shopped load.

Q. Did you hear my question?

A. I did, those are the values there and I provided the context of why they're different than the credit for shopped load that we've been discussing.

Q. By the way, in your testimony you don't talk anything about incremental or you don't use any of those words, you just talk about a credit for off-system sales, correct?

A. It's not a credit for off-system sales. It's a credit for shopped load. They're different --

Q. I'm sorry.

A. They're different animals.

Q. I apologize. Credit for shopped load, correct?

A. Yes. And I describe in my testimony that it's associated with the potential sales that could occur.

Q. Now, in calculating the revenue target for RSR purposes, you adjusted it down, we talked about this a little bit earlier, to reflect a 10.5 percent ROE, correct?

A. Yes.

Q. And you're the person who decided upon the -- or recommended the 10.5 ROE, correct?

A. I think I recommended it and others agreed with it.

Q. You did not hire any outside experts to analyze the appropriate ROE?

A. No. It was based upon my experience and others agreed with it.

Q. You didn't use any formulas or any models to determine the appropriate ROE?

A. No, I looked at ROEs that had been approved recently in various jurisdictions as well as the ROE that AEP Ohio had been awarded recently.

Q. We'll get to that in a second. I want to go through what you didn't consider and then we'll go back and go through what you did consider, is that okay?

A. Sure.

Q. You didn't perform any sort of analysis of the capital structure of the company, correct?

A. That's correct.

Q. You didn't compare that capital structure to the capital structure of the other companies whose ROEs you were relying on and comparing to, correct?

A. I would have considered the fact that AEP Ohio's capital structure has more equity than the other operating companies of AEP Ohio and, as such, the ROE could be different than those.

Q. Could you take -- do you have your deposition up there?

A. Sure.

Q. Take a look at page 163, lines 1 through 5.

A. I'm sorry, what page was that again?

Q. 163. I'm going to read a question that I asked and an answer that you gave. My question is simply going to be did I read it correctly.

"Did you do any sort of analysis of the capital structure of the company or how it compared to the capital structures of the other companies whose ROEs you took into account?

"I did not."

Did I read that correctly?

A. That's correct, I didn't do that study.

Q. You didn't take into account the company's long-term debt or how it compared to the other companies you were considering, correct?

A. That's correct.

Q. You didn't take into account the company's retained earnings or how those retained earnings compare to the other companies you were considering, correct?

A. That's correct.

Q. You didn't take into account the company's ratio of common equity to retained earnings or how those compared to the other companies,

correct?
A. That is correct.
Q. And you agree, by the way, that all of these factors I just listed are relevant factors to models that are generally used to determine the appropriate ROE like the discounted cash flow model, the capital asset pricing model, and others, right?
A. That's correct.
Q. What you did take into account was your general experience in various jurisdictions across the midwest and your knowledge of the ROEs recently awarded to other AEP companies, affiliates of Ohio Power, correct?
A. Correct. As well as the analysis of Dr. Avera that he performed related to AEP Ohio's cap structure and the like where he determined that the ROE for AEP Ohio should be appropriately, I'm going to have to remember, it's either 11.15 percent or 11.10 percent.
Q. You're referring to testimony he gave in another case; is that right?
A. It would be testimony that he filed in the distribution case and testimony that he would have filed supporting the capacity rate for AEP Ohio's generating units at FERC.

Q. And his opinion in both of those matters was not accepted, correct?

A. The FERC proceeding is still underway. The Ohio distribution case was settled.

Q. And what he recommended was 10.15 or 10.2, correct?

A. My recollection is it was 11.15 percent.

Q. Take a look at page 162 of your deposition, please. Lines 7 through to 22. Tell me if I read this correctly: "Question: Okay. Thank you. In recommending the 10.5 percent ROE for the RSR, I want to make sure I heard this correctly earlier, you took into account your experience dealing with ROEs generally and you listed, I think it was two other companies whose ROEs you were aware of. Was there anything else you took into account?

"The ROEs that the company typically proposes in rate cases as well as the ROE that the company sponsored a witness for and the FERC case associated with compensation for capacity in which the witness proposed to my recollection it was either 10.15 percent or 10.2 percent for Ohio Power's generation business.

"Was that witness you or someone else?

"It was Dr. Avera."

Did I read that correctly?

A. You've read it correctly, but the transcription is either in error or I misspoke because that is not what he testified to.

Q. You did read this deposition and sign corrections for it; did you not?

A. It's a 189-page deposition. I attempted to read it and make sure that I got it correct. But my testimony here today is that that is not a correct value.

Q. So the answer is yes, you read it and made corrections?

A. I did read it and made corrections.

Q. And you did not change this in any way?

A. I'd have to look at my corrections to see if I did. I'm not sure if this --

Q. Go ahead.

A. I don't have a corrected version, what I have is the version that I reviewed, but if I missed it, I missed it, it doesn't mean that the value there is correct.

Q. In any event, you have not submitted any of that evidence to this Commission, have you?

A. It may actually be in this record as a result of the combining of the cases at one point in time. It may be in the testimony of Witness Pearce that was in an earlier phase of this proceeding.

MR. BARNOWSKI: I'm going to mark as Exhibit, I believe it's Ormet 104.

EXAMINER SEE: 103.

MR. BARNOWSKI: I'm sorry. 103. A response to Ormet interrogatory 1-035.

May we approach?

EXAMINER SEE: Yes, you may approach.

MR. BARNOWSKI: Thank you.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have this in front of you, Mr. Allen?

A. I do.

Q. This is an interrogatory response provided by the company in which we asked, Ormet asks, "Please describe the most recent ROE requested and the ROE approved for all companies affiliated with Ohio Power and/or owned by or subsidiaries of Ohio Power's parent company." Correct?

A. That's correct. And I would point out that the 11.15 percent that I just discussed is there for Ohio Power, so whether the transcription had an error or not, you were aware of the value for Ohio.

Q. Sir, what is the ROE approved in that column?

A. As part of the stipulation it was 10.2 percent for the distribution assets of AEP Ohio.

Q. Now, these are, count them up, I believe there are twelve affiliated AEP companies listed here?

A. Yes.

Q. And nine of them have ROEs under 10.5 percent, correct? Let me amend that just so it's clear. Eight of them have ROEs under 10.5, a ninth has an ROE under 10.5 but it has a rider of a .5 percent renewable portfolio standard incentive and you've listed it on here as an ROE at 10.9, correct?

A. That is the authorized ROE for APCo is 10.9 percent. That is the authorized return. So there are eight below that, each one of them has their own unique business characteristics.

Q. And just to be clear, as you testified in your deposition, in settling upon the 10.5 percent number that you use, that was based on your general experience and your knowledge of recent ROEs awarded to Ohio Power affiliates, correct?

A. That's correct. In my deposition, if you recall, I discussed that my focus is generally on the AEP East operating companies. And if you look at the

AEP East operating companies, Indiana, 10.5 percent, Kentucky, 10.5 percent, Virginia, 10.9 percent, West Virginia, 10 percent.

Q. Let's talk about this.

A. This is consistent with my testimony.

Q. Let's go through these one by one. West Virginia APCo, 10.0, agreed? That's a full 50 points lower than the one you're recommending here, correct?

A. Whether it's a full 50 basis points, it's 50 basis points below 10-1/2.

Q. Right.

A. That's correct.

Q. You didn't even consider that one.

A. No; I did consider it. I just went through Virginia --

Q. Are you sure --

A. The other --

MR. SATTERWHITE: Objection. The witness is trying to answer again and getting cut off.

MR. BARNOWSKI: I'm sorry, if I did cut him off, I apologize. I thought he was done answering.

EXAMINER SEE: Finish with your answer, Mr. Allen. Were you finished?

A. No.

When I look at APCo, APCo's made up of two different jurisdictions, one in Virginia, one in West Virginia. The Virginia jurisdiction was 10.9 percent. The West Virginia jurisdiction is 10 percent. They're equally weighted essentially. That would be a average 10.45 percent, that would be consistent with the 10.5 percent, so I did consider those.

Q. Sir, page 167 of your deposition, line 5. While you're turning there, this deposition was taken on May 7th which is around two weeks ago, correct? Correct, sir?

A. Yes.

Q. "Question: Did you take into account the APCo ROE in West Virginia, the 10.0 percent?

"Answer: I didn't but that would be a -- another data point."

Did I read that correctly, "yes" or "no"?

A. I agree that's another data point that you can consider.

Q. No; did I read that correctly, "yes" or "no"?

A. You did read it correctly.

Q. And you see the SWEPCO ROE in Texas that is listed here, 10.33 percent?

A. I see that.

Q. You didn't take that into account either; "yes" or "no"?

A. I'm generally aware of the ROEs across our system, most of my focus is on the East.

Q. You didn't take that into account; "yes" or "no"?

A. I don't know if I did or didn't. It's getting pretty late in the day.

Q. What about AEP-Texas Central, 9.96, do you agree that you did not consider that in arriving at your opinion here? Correct?

A. Generally I wouldn't take that one into account because that's a wires-only business.

Q. Next one, AEP-Texas North, 9.96, you, again, did not consider that one, correct?

A. Correct. For the same reasons as the previous.

Q. SWEPCO in Arkansas, 10.25 percent, you did not take that into account.

A. Generally those aren't ones that I work on, so I wouldn't have been necessarily aware of them. I may have been.

Q. Public Service Company of Oklahoma,

that's a vertically-integrated utility with an ROE of 10.15 percent. You did not consider that one either, correct?

A. I don't know whether I considered it or not. These are -- these are facts that generally as a -- doing regulatory work with a company, I hear what these are. These are, you know, values that I may recollect with specificity -- or, not with specificity, but based upon my experience in these jurisdictions, a 10-1/2 percent return is reasonable.

Q. To be clear, no one at the company ever considered another number other than 10.5 percent, correct? That was the only one that was even considered.

A. Because 10.5 percent is a reasonable target for AEP Ohio; that's our belief.

Q. Is that "yes" or "no"?

A. Yes, that's what we started with and that's what we ended with and that's what we believe is appropriate.

Q. And if the Commission were to reduce that ROE to 9, that would reduce the revenue target by a hundred million dollars, wouldn't it? I know that's a complicated question, if you don't know, that's fine.

A. What was the ROE that you requested?

Q. It was reduced to 9. It would reduce the target by a hundred million dollars.

A. Roughly that's correct, and it would produce an ROE for the operating company that would be unacceptable.

Q. Okay. And you testified a couple minutes ago that one of the reasons you didn't consider these other companies was because they were wires only. Correct?

A. Generally wires-only businesses would have a lower return than a general rating business.

Q. Because they're riskier. I'm sorry, because they're less risky?

A. Their expenses are less volatile so that has the -- and they don't have the same environmental risks, so generally they can be less risky than an integrated company or a generation-only entity.

Q. Less volatilities in their expenses and income, so there's less of a risk they won't earn, correct?

A. That's some of the elements.

Q. Now, the RSR rider has absolutely no risk at all because it's a guaranteed recovery of the $929 million target.

A. That's not correct at all.

Q. Let me finish. That's just being billed through to the customers and if someone dies or moves or goes out of business or stops paying, you just recover it from a different customer, and if you underrecover, as you testified earlier today, you just recover it next year. So there's no risk at all; isn't that right?

A. No, that's not correct at all. Just like I described, the expenses are where the risks are. The expenses are still very risky.

Q. And, by the way, Mr. Sever, in his projected financials for the wires-only company, showed a 10.5 percent ROE in 2014 and 2015, didn't he?

A. Yes, he did.

MR. BARNOWSKI: No further questions. Thank you.

MR. SATTERWHITE: Can we go off the record, your Honor?

EXAMINER SEE: We can go off the record and take a five-minute recess.

MR. SATTERWHITE: Thank you.

(Recess taken.)

EXAMINER SEE: Let's go back on the

record.

Mr. Petricoff?

MR. PETRICOFF: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Allen.

A. Good evening.

Q. Good evening, yes.

Do you have with you -- you were in the room yesterday when RESA Exhibit 101 was introduced. Do you have a copy of RESA Exhibit 101?

A. Yes, I do.

Q. And are you the same W.A. Allen who answered the interrogatory responses 3 and 4?

A. Yes, I am.

Q. And are those the responses that you prepared?

A. They were prepared under my supervision.

Q. Let's look at interrogatory No. 3, first. If I asked you the question today to provide a detailed explanation of the process which Ohio Power uses to switch customers from standard service offer to competitive retail electric service, would your answer be the same?

A. Yes, it would be.

Q. And in your answer you refer to an 814E, is that the kind of protocol that's used in EDI for transmitting certain types of data?

A. That would be an EDI code. I'm not familiar with what that code does, but that would be the code that's used, yes.

Q. But, in general, what makes the electronic system work is there is a protocol of codes and that's the way the data is dispatched between the competitive electric retail supplier and the utility.

A. That's how things are transferred when the world works perfectly, which isn't the way it always works, yes.

Q. But that's the design of the system that we have.

A. Yes.

Q. And I say "we," that would be both the participating competitive electric retail suppliers and Ohio Power.

A. Yes, that's the preferred approach is EDI transactions.

Q. And then turning now to RESA interrogatory No. 4, is it still true that we switched to the automated system in 2000 for switching customers?

A. That's when the automated system was put in place, but it's been refined and updated over time.

Q. Thank you.

Now I'm going to switch subjects with you for a moment and I want to talk about capacity costs. First, let's do a little bit of background as to how capacity costs are calculated and billed so we have it in the record.

Isn't it true that Ohio Power calculates a separate capacity cost for each of its customers, or each of its customer accounts?

A. The rate is determined for all customers and then the actual charge for the customer is based upon applying that rate to that customer's PLC.

Q. Right. And "PLC" stands for?

A. Peak load contribution.

Q. And so for each and every customer, or each and every customer account, Ohio Power looks to see what contribution those customers made to the peak load as determined by PJM for five days a year?

A. It would be the customer's peak load contribution on those five peak periods for each customer and then the company would apply the rate to that and then aggregate those charges by CRES providers serving that load on a daily basis.

Q. Well, it's aggregated for billing, but would you agree with me that it is calculated on a per-customer basis?

A. It is calculated on a per-customer basis.

Q. And --

A. Let me clarify. It could be calculated on a per-customer basis. We actually add up the PLCs by all the customers by CRES first and then apply the rate to that sum, but it could easily be done on an individual customer basis.

Q. And as a practical matter, it has to be done on a individual customer basis because customers can move from CRES to CRES.

A. Right; that's why we accumulate the PLCs and it's on each customer each day, yes.

Q. Just so that we've sort of sealed this down, so, for example, if a customer was with FirstEnergy Solutions and had moved to Duke, the charge for the capacity would be separately calculated for that customer and then, when the switch was made, it would be billed to the new CRES.

A. The PLCs would move from being counted from one CRES to being counted in the other CRES and then when we accumulated those PLCs and applied the rate, that's when it would happen. The charge -- the charge is the second step after we sum the PLCs for each CRES on a daily basis.

Q. Well, let's examine the charge because we've got to make sure we've got this accurate. It's true under your proposal, and it's true today, that we have two tiers, two different types of charges for capacity.

A. That's correct.

Q. And the tier 1 is $146 a megawatt-day and the tier 2 is $255 a megawatt-day.

A. That's correct.

Q. Now, if a customer moves from one CRES to another, they would take their tier designation with them, wouldn't they?

A. Yes, most definitely.

Q. So it's not enough to just sum the PLC; we have to track the tier responsibility or the tier pricing responsibility by customer as well.

A. Right. So that slight nuance is that when we accumulate those PLCs for each CRES, we accumulate them in two sets, one for tier 1 customers and one for tier 2 customers, that's the distinction.

Q. Okay. But we're in agreement this is really done on a customer-by-customer basis. The calculations.

A. The PLCs are done on a customer basis and then, just for convenience, we do the final math at an aggregate basis, but it easily could be done customer by customer.

Q. I think we're on the same page.

Now, earlier Ms. McAlister asked you a question about a new customer who moved into your service territory. And you said that there wouldn't be a capacity charge for them. Is that because in the first year there would be no contribution number, no PLC number, to make a billing for?

A. That's correct. That customer would have no PLC because they didn't contribute to the peak. That's for a new residence, you know, if a new home was built or if a new factory was built.

Q. And what happens the second year? Would they be billed like everyone else?

A. Yes, they would now have a PLC associated with their contribution to that prior period peak.

Q. And they would get, in today's -- well, under your proposal they would get the tier 2 price, then, as well, unless their number came up in the queue line.

A. That's correct.

Q. Now let's see if we can take a look and calculate how likely it will be that a new commercial or industrial customer is going to come up in the queue line.

If you would, I'd like you to take a look at your testimony on page 6, it starts on line 14. And that's where you have the percentages that make up the size of the tiers.

A. I see that.

Q. And you'll agree with me that for this current year 2012, we have 21 percent will qualify for tier 1, then we move to 31 percent in 2013, and then we move to 41 percent in 2015 [verbatim], and then for the first half of 2015 we remain at 41 percent.

A. That's correct.

Q. Now let's take a look at your exhibit. I think it's WAA-1. Now, these are your switching statistics as of March 1st, 2012.

A. That's correct.

Q. And let's look first at the row that's entitled "commercial." On March 1st they were at 41.44 percent.

A. That's correct.

Q. All right. So that means unless one of those commercial customers ceases taking CRES service, there isn't going to be any new tier 1 commercial customer between now and June of 2015.

A. No. Some of the customers that are currently tier 2 would move into tier 1 over that period, so some of the customers that are receiving the 255 in 2012 would start to receive the tier 1 capacity in 2013, and additional customers would receive tier 1 in 2014.

A customer that had not yet put their name in the queue or switched, if they hadn't done that at this point for the commercial class, if no customers left CRES service, none of those additional customers would be eligible for tier 1.

Q. Well, that's right. When I said "new customer," that's what I was referring to. I was still thinking of Ms. McAlister and her example of a new customer moving in. If there's a new customer moving into your service territory and they are commercial, there's really not much of an opportunity that they are going to get tier 1 pricing.

A. Right. They would get the tier 2 discounted capacity.

Q. Right. And just out of interest, because it's half past May and these were done in March, have the pending all become switched customers now?

A. Without looking at them on an individual basis, I can't swear that they are all, but generally it takes 30 to 45 days at the maximum for a customer to switch, unless there's some odd circumstance that happens. So generally those pending customers would have moved to switched status at this point.

And there was some information we had in another discovery response we were previously discussing with Ormet and it was included in my capacity case that shows, as of April 30th, the level for -- in total was 30.19 percent which is greater than the sum of the switched and pending in my Exhibit WAA-1. So generally I think what you said is correct based on that data.

Q. Considering that we're after five, let me see if I can knock out a few questions.

If I just took what was marked as Ormet Exhibit 102, I could update this from March 1st to at least the end of April.

A. Yes.

Q. Now let's look at the industrial for just a moment. You have a column in your chart, WAA-1, that's entitled "Noticed." That's the 90-day notice that we talked about earlier?

A. That's the 90-day notice as well as the affidavits.

Q. Okay. So it would be -- it's both the affidavits as well as the 90-day notice folks that have presented.

A. That's correct.

Q. And, at this point, you agree with me that any new industry that moves to town is probably not going to be eligible for RPM-type pricing until June of 2015.

A. Under the assumption that all the noticed customers move into the switched or pending category, that would be correct.

Q. I'd like to move you back to page 3 of your testimony, and I want you to focus in on line 4. And we're talking about the -- you're talking about the purpose or you're testifying as to the purpose of your testimony and you say that, at No. 2 on line 4, "Describe how AEP Ohio proposes to encourage customer shopping through the provision of discounted capacity to Competitive Retail Electric Service (CRES) Providers." Do you see that line?

A. Yes, I do.

Q. From that sentence may I infer that AEP Ohio has a policy or a goal of encouraging shopping?

A. No. I don't think that's a corporate goal. AEP likes our customers. We'd love our customers to stay with us.

What this describes is that it appears that Ohio would like to move to a more competitive marketplace, and that more competitive marketplace that we're moving to that includes an auction-based SSO in the future goes hand in hand with increased shopping.

So during this transition, the company is encouraging additional shopping so that customers are seeing more market-based pricing offers while we go through that transition.

Q. So if I redid my question or rephrased my question and just limited it to this transition period of the ESP II, would your answer then be that AEP Ohio does have a policy of encouraging shopping?

A. I wouldn't agree that it's a policy, but this proposal is encouraging it.

Q. As part of this proposal, is it a goal to encourage shopping?

A. I don't know if it's a goal or not, but it's one of the items that the company is trying to do as part of this proposal.

Q. One last chance at trying to label this. How about is it part of the design of this compromised proposal that the company is encouraging shopping during the ESP II, I think you called it II.5, period?

A. Yes, it would be part of the design, I would agree.

Q. Okay. Now I want to move to talk about the RSR, and there's been a lot of questions here and I only have a couple and we'll try to make it very, very brief.

The first one is I want to review with you the computation of the $3 credit that was part of the deposition that you had on May the 7th, and I believe you can -- the $3 credit is referred to on page 13, line 22 of your testimony.

First, let me make sure that I understood the formula that was presented in the deposition. Is your -- and I'm talking about you personally as the witness -- is your verification of the $3 credit based upon the fact that you believe a fair margin on the sale of energy was $13, that given the level of competition to make energy sales in today's market, 50 percent chance of making the sale is probably realistic, and that since the margin is split under the pool arrangement so that Ohio Power only gets 40 percent of it, you've taken the number starting with 13, divided by half, multiplied it by .4, and come out with a figure that's, I think, 2.60, so you rounded it to 3 bucks?  Is that a fair summary of the verification for the $3 credit?

A.   No.  I went through an exercise to describe how you could support a $3 charge.

The $3 charge is based upon my -- or, the $3 credit was based upon my experience in knowing what kind of impacts we would typically see.  What I did was to do a -- a supporting calculation, how could you provide some support, but I think in today's market a $13 a megawatt-hour margin off-system sales is on the high side as we saw when we looked at the values that were presented in the discovery response that I spoke about with Ormet, where Mr. Sever presented margins in the 8 or 9 dollars, that megawatt-hour range.

So if you were to take those 8 or 9-dollar margins, used the same math that we previously discussed of assuming that you could sell 50 percent of the sales, you take that $8, reduce it to 4, you'd apply a 40 percent factor, you'd get a dollar 60 after you did the MLRing. So as we can see if we look at those margins, the $3 I proposed is a very conservative value in this calculation.

Q. I know that you probably spent a great deal of time thinking about this testimony and, in particular, when you put in that number on line 22 on page 13, it was not done whimsical -- in a whimsical fashion. So exactly what was the process that went through your mind when you put the $3 per megawatt credit on here if it wasn't the formula that we just went through?

A. These are the kind of analyses that I do on a -- did in the past and do today on a fairly regular basis of looking at earnings drivers for the operating companies of AEP. If you read the description of my background, I was the Director of Operating Forecasts for AEP Service Corporation for a number of years.

And so, this is a value that, based upon seeing a lot of forecasts, a lot of sensitivity studies that the company would have done, it's a value that I just inherently know. It's not one that I have to do a study of. It's based upon my intuition. And we've done some calculations as we've sat here today to support that those kind of conclusions or my general intuition is a pretty reasonable way of approaching this.

Q. So more art than science went into developing this number.

A. When we're looking at off-system sales projections and the opportunity to make sales into the future, when we change between whether it's a residential customer that leaves or a commercial customer, looking at all their load factors, a lot of art has to be, and experience has to be factored into those kind of calculations.

Unless we were to go down the path of doing a sensitivity analysis for each and every megawatt-hour of shopped load. And that just doesn't make a lot of sense. So you have to use art, experience, and intuition.

Q. Looking at the formula that you presented in your deposition, that, of course, makes sense in years 2013 and 2012, but what happens in 2014 when the AEP pool is terminated? At that point the margins wouldn't have to be shared, so can we renew that multiplying by .4 at that stage on January 1st, 2014?

A. No. It wouldn't be appropriate to do

that, and I've thought through that process. One of the things that happens in 2014 is that the -- with the pool termination, the capacity revenues that AEP Ohio receives from the other operating companies are eliminated.

So that significant revenue stream that goes along with the MLRing of the off-system sales margins, so AEP Ohio receives these capacity revenues from its sister companies in exchange for providing those companies an MLR share of the margins.

Those revenues disappear. So those revenues are in the 400 million-dollar-a-year range. If you were to exclude the MLRing provision, you'd need to include a provision to make AEP Ohio whole for the loss of those capacity revenues and we've chosen, as a more simplifying analysis, to not try to do that secondary step. The method I have proposed here should be a proxy for addressing that issue.

Q. But if your art is correct and $3 is probably the margin you're going to -- I'm sorry. If your art was correct and you got the price by selling in the energy that you had projected, isn't it true at that point, though, it doesn't have to be -- it doesn't have to be shared and that after the pool is terminated, the GenCo would be free to sell its combined power, its energy as well as capacity, in the open market?

A. It would be free to do that, but the significant revenues that were received through the pool, those disappear. So this is an appropriate mechanism through this transitional period.

Q. Well, that's a nice segue about disappearing revenues is to talk about the rest of the RSR. Aren't those revenues, though, baked into your Exhibit -- actually, let me rephrase that because I'm not happy with the word "baked."

Let's go to your Exhibit WAA-6. The revenues that we're talking -- we were talking about before -- well, actually the revenues that are depicted here in this example in 2011, that would include all of the revenues that AEP Ohio is enjoying because of capacity sales off system; isn't that correct?

A. Are you referring to energy sales off system?

Q. Well, I'm looking at nonfuel generation revenues. Doesn't that also include AEP Ohio's share of the off-system sales?

A. The retail nonfuel generation revenues, the first line in that table?

Q. Yes.

A. No, they don't. Those are just retail sales. Base generation revenues charged to SSO customers of AEP Ohio.

Q. Okay. So if this is my mistake, I want to get it corrected. So in the RSR there is no accounting, then, for the revenues attributable to off-system energy sales.

A. The consideration of the margins associated with the off-system sales margins are included in the 2011 ongoing earnings, so essentially what I have done here would be to hold those revenues related to off-system sales that are created from sales unrelated to shopping constant over the three-year period. So they're kind of embedded -- they are embedded in those 2011 ongoing earnings that create the revenue target.

Q. And I want to keep this at a high plane, when I say "high," I don't want to get into the details of it so we don't have to chase where it's embedded, but I want to make sure I understand that if, in fact, the company got its $929 million on a weighted average over the three years, you would be in the same revenue position as you were in 2011 when you were making off-system sales and receiving --

"you" being Ohio Power -- and receiving your share of those margins back from the pool.

A. No. That wouldn't be correct because we have that revenue reduction of $107 million, and I think -- I apologize, when I put together the RSR, my intent was to create a mechanism that was very simple and straightforward. It appears that maybe it isn't as simple and as straightforward to other parties as it was to me when we developed it.

But I think the proof of what the RSR mechanism does is provided in the testimony and exhibits of Company Witness Sever that shows when you factor in all of the expenses associated with the generation, transmission, and distribution business of AEP Ohio, along with all of the revenue streams that AEP Ohio anticipates to receive in 2013 due to off-system sales, due to the riders that are included in this ESP proposal, it produces a return on equity of 7.5 percent that is the earnings that result from all of these provisions that we talk about including the RSR.

So we're not trying to hide the ball on any of this stuff. What we've presented in his testimony is the full accounting of all the costs we expect to incur in 2013 as well as all the revenues that we expect to receive as part of this ESP proposal.

Q. I want to go back just to close out this idea about the earnings and where we can find the -- whether or not the earnings that were made in 2011 in off-system sales are included. The 107 million that you've indicated is in the line that says "revenue reduction to earn 10.5," so basically we still have, in your calculation on WAA-6, we still have the off-system sales revenues in there.

It's true that you're not going to earn what you earned in 2011 because you've agreed to reduce your rate of return to 10.5 as opposed to I think it was 12.2, and that's where we have the 107 million.

A. We're not ensuring that we're going to earn 10-1/2 percent in future years. What we've done is reduced the revenues in this analysis to restate 2011 such that we would have only earned 10-1/2 percent.

We've then taken all of these elements and folded them into Mr. Sever's testimony to show what the resultant earnings are for the company. They're not going to be 10-1/2 percent; they're going to be something less than that.

Q. This will be the last question on this one, but just to close this out, so that basically we do have a component in here for the revenues from the off-system sales and it's going to be reduced because you've agreed, as part of this proposal, to reduce your rate of return. But they haven't vanished, they are in the calculation and the calculation that's represented on WAA-6.

A. Those off-system sales would have been part of the revenues that originally produced a 12.06 percent and, yet, had you reduced it by 107, would have produced 10.5 percent.

Q. If, in fact, the Commission agreed to meet the revenue target that the company has requested in its proposal here, is it essential that any particular revenue component, for example the base rates or the RSR or the capacity rates charged to a CRES, have to be a specified amount if the total comes to a weighted average of 929 million per year?

A. So let me make sure I understand what you're saying. Your question is if the Commission rejiggered the balance of benefits to different participants, if the RSR mechanism were maintained in place with the $929 million target, would that produce the same earnings to the company as what we proposed, and the answer to that is yes, it would produce those same earnings under Witness Sever's analysis.

Q. Actually, that wasn't my question, but I like that question, and I think that should be in the record, so let's stay with that one.

Now I'll get you the question that I was asking. Look at the bottom where it says "Estimate of Rate Stability Rider Revenues." If, in fact, the Commission changed the CRES capacity charge and so it wasn't, in '12-'13, $391 million, it was a hundred million dollars less than that and, of course, the other hundred million dollars would then get picked up in the retail stability rider, but it still came out to an average of 929 million per year, would that be satisfactory to the company? Is it more important to get the dollars than to get each of the components as you have portrayed in WAA-6?

A. I think what the company tried to do is to present a balanced plan that provided benefits to all parties, shopping customers, nonshopping customers, CRES providers, and the company.

Making the changes you suggested would maintain the balance for the company, but it would be moving around the benefits and the balance that the company had proposed for shoppers, nonshoppers, and CRES providers, so it's moving around those benefits.

What we attempted to do is a balanced plan that may change the balance. It would change the balance; whether it would be in a way that the Commission determined satisfactory or not, that's to be determined. But from a company perspective, it would produce the same earnings.

Q. Is it more important to the company, in terms of deciding whether to accept the order that comes out of this case, that we meet the target revenue or that we meet the -- that the individual components be as provided in WAA-6?

A. I think you've asked a question that's above my pay grade. Mr. Powers was here on the first day. I can describe how it would change the balance, but I'm not in a position to say what the company could or could not accept. Or I wouldn't have a job tomorrow, probably.

Q. Well, we'll leave on a humorous note, then. Is it fair to say that your testimony is whatever Mr. Powers says is correct on the subject of policy?

A. Not always.

MR. PETRICOFF: Thank you very much. I

have no further questions.

EXAMINER SEE: Mr. Stahl?

MR. STAHL: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Stahl:

Q. Good afternoon, Mr. Allen. My name is David Stahl, I represent Exelon and Constellation in this proceeding, and I've got about 15 or 20 minutes and I'm just going to go back and summarize everything we've talked about in the last nine hours if that's okay with you. Just kidding.

Feeble attempt at humor at this late hour.

Let me just go back to the last question that Mr. Petricoff asked, however. On the Retail Stability Rider line of your Exhibit WAA-6, I know you're not here to talk about policy and what the company might or might not find acceptable, but has the company determined already, to the best of your knowledge, that at some point the revenues from the retail stability rider to make up for decreases in some of these other buckets might become so high as to be unacceptable to the company?

And to give you an example of what I

mean, for example, I think the maximum revenues from the retail stability rider in any planning year are 127.2 million. Has the company said that we can go to 200 million under the retail stability rider but, beyond that, we think there would be too many problems with equity, fairness, interclass allocation, what have you? Are you aware of any such determination having been made?

A. The company hasn't made such a determination but, you know, we do have concern about how large the RSR would become. We haven't set a threshold about what's acceptable and what's not acceptable.

But as that RSR gets larger, I would, you know, my belief is that the risk to the company does increase because we can all hope this case gets resolved by the Commission and there's no appeals, but based upon what we've seen in the past, I would expect that these cases are going to go before the Ohio Supreme Court and the like, and there's additional risk as we have these riders that are larger and larger for the company.

Q. Well, what is that risk? I'm just talking about the retail stability rider. What is the risk to the company if the retail stability rider gets above $200 million in any year for example?

A. There's always a risk of a future disallowance by the Commission of these costs because someone's changed their mind, or a court's changed their mind, that provides additional risk to the company. And, you know, what the level is, I don't know, but what we've determined is that this level, it's a risk we're willing to take.

Q. It sounds like you're describing more of a litigation risk than a risk that some customer segment or group or class may be treated unfairly as a result of the retail stability rider becoming too high; is that a fair statement?

A. What I was describing, I wouldn't consider it a definition of a litigation risk, I consider it a regulatory risk. You know, we've seen -- we created large fuel reg assets as a result of a prior Commission order, parties have continued to go after those trying to change what the company believed to be the agreement in the past, so there's significant regulatory risks associated with these types of elements. So as they get larger, the risk goes up.

But, you know, when we developed this, we created balance. And I would agree with you that as the retail stability rider increases, certain customers may feel that the balance is no longer appropriate and the charge for the RSR isn't commensurate with the benefits that they're receiving through the ESP that the company has proposed.

Q. I think I know one sitting not too far from me.

While we're on your WAA-6, Mr. Allen, as I read this, what you have is a revenue reduction of $107 million which is derived from an earnings reduction of $70 million; is that correct?

A. Yes.

Q. Can you tell me how you got from the earnings reduction of $70 million to a revenue reduction of 107? Is that simply tax effects?

A. That's exactly it.

Q. Okay. And also the question of where the revenues from off-system sales are embedded, I think in response to one of Mr. Petricoff's questions you said they were embedded in the ongoing earnings of $537 million. Is it fair to say from that, then, that they are also included or embedded in the $467 million earnings which represent the earnings necessary to reach a 10.5 percent ROE?

A. Yes, that's correct. And they're also embedded in Mr. Sever's forecast for the future.

Q. And, as I recall, the stipulation from September of last year also produced about a 10.8 or 9 percent ROE to AEP with off-system sales revenues considered; is that consistent with your recollection?

A. I apologize, I was the one that testified to that, but I don't recall it as we sit here today.

Q. Okay. Do you recall, whatever the numbers were, that they were apples-to-apples, oranges-to-oranges comparison such as -- or at least comparable to what's set forth on WAA-6? Do you follow my question?

A. Yes. I just -- I'm trying to recall because we -- I know Witness Nelson, when he did the forecast in the past, excluded off-system sales margins and I just don't recall from that iteration if I included the margins or not, it's been a while ago.

Q. I think you presented two numbers, I think the ten-point-whatever-it-was included off-system sales and then there was 7.6 or 7 percent number exclusive of off-system sales revenues, is that --

A. That sounds like a range, one including, one excluding, I just don't know what the exact values were.

Q. Do you think that would have been the same range here under the ESP if off-system sales revenues were excluded from your analysis?

A. I don't know what the 2011 off-system sales margins were.

Q. And this exhibit, I think, assumes, does it not, the customer's switching assumptions that you set forth on page 5 of your testimony, 65 percent residential, 80 percent commercial, 90 percent industrial by the end of 2012?

A. Yes, that's correct.

Q. And we've seen the Ormet Exhibit 102 today, an updated analysis of switching since you filed your testimony. Do any of the numbers on this page lead you to question or second-guess or perhaps want to revise downward the switching assumptions set forth on page 5 of your testimony here?

A. No, I don't think so. One of the things that's happened, as we've gone between the stipulation and the stipulation being rejected and an interim proposal being put in, the capacity rates to customers have changed numerous times, and my expectation would be that would delay customer switching due to uncertainty as we're waiting to resolve these cases.

And, actually, I've been surprised to see that during the time we've seen the shopping levels grow pretty substantially, you know, it's a 4-1/2 percent for the residential class that's grown, 5 percent for the commercial class, another 3 percent for the industrial class during this interim period.

So my expectation is that if customer switching is still continuing to grow, even given the uncertainty that customers see today, that when that uncertainty is removed, those switching levels should increase very rapidly, and the additional, you know, evidence is all of the advertisements and public awareness of these opportunities that exist today that weren't out there three months ago, six months ago.

Q. What you have just said about the effects of the lingering uncertainty, about the capacity charge and the litigation, is that based on any kind of systematic study or survey that AEP has conducted, or is it based instead on your educated judgment?

A. It's based on judgment and common sense.

Q. Is it fair to say that the switching numbers that -- the most recent switching numbers we all have available in this room today, are those set forth on Ormet Exhibit 102? Which is through the end of April 2012.

A. Some people may have available to them the document that FirstEnergy passed out today that would have been as of May 23rd; you can infer some information from that. I haven't had a chance to analyze the data, but there's data on customers in the queue and the like.

Q. Okay. That's not data that you have verified at this point, however, correct?

A. That's correct.

Q. One last question on WAA-6, Mr. Allen. You see in planning year '14-'15 there's an entry of $89.6 million for auction capacity revenues. What is the source of those revenues?

A. In 2015, starting in January 2015, the company has proposed an energy-only auction with a capacity rate embedded in the charge to retail customers that's equal to the 255 a megawatt-day.

And if you look to Exhibit WAA-4, page 2 of 2, you can see in the fourth section down there's a section titled "SSO Load Served by Auction at $255 a megawatt-day." So that's the capacity revenue associated with the nonshopping load that's subject to that auction in 2015.

Q. Capacity revenue from the nonshopping load. Is that what you said?

A. Yes.

Q. It's not the capacity revenue, the shopping load from the people who participate in the energy auction, it's from the nonshopping load?

A. Right. SSO customers are nonshopping customers. The auction in 2015 is related to the SSO load which is nonshopping load.

Q. All right. I think that's all I have on WAA-6. I don't want to get off the subject of the RSR entirely. That is intended to be a nonbypassable rider under your ESP, is it not, Mr. Allen?

A. Yes, it is.

Q. And do you understand that one of the aspects of the ESP that Exelon and Constellation oppose is the nonbypassability of that rider? Are you aware of that?

A. I'm not. But I would offer that if the rider was bypassable, the rider wouldn't work effectively.

Q. Well, I guess I wanted to ask you that. Have you analyzed the extent to which AEP might suffer some sort of additional financial harm if that rider were made bypassable?

A. Well, first of all, if it was bypassable, it would increase the price to compare and it may increase customer shopping for some customers but it may not have an impact on the shopping levels --

Q. Excuse me, Mr. Allen, I want you to finish your answer till your heart's content, but my question was have you conducted -- has the company or has company management had conducted for it some kind of analysis or study to determine the extent to which AEP Ohio would or might be harmed if that rider were to be made bypassable?

I think you were giving me some general philosophical concerns and that's fine, I'm happy to hear those, but my real question is: Is there a study? Is there analysis? Is there a report done which actually quantifies what is likely to happen?

A. So I think I was getting ready to do the quantification for you. The nonshopped load that the company is assuming is approximately 30 percent of the customer load, okay?

Q. Right.

A. If you were to assume that the RSR revenue was not collected from 70 percent of the customers and the rate were maintained at the $2 a megawatt-hour level, the harm to the company would be 70 percent of $284 million which would be $200 million which would be substantial harm to AEP Ohio.

If, alternatively, your suggestion is that the retail stability rider only apply to nonshopping load and the company were made whole such that we can continue to increase charges for those nonshopping customers, the $2 per megawatt-hour rate would triple to $6 a megawatt-hour and the balance proposed by the company would not exist.

Q. What do you mean, "the balance proposed by the company would not exist"?

A. The company has proposed a balance, as I've described before --

Q. Oh, the balance, not that quantitative amount, but the overall weighing of harms and benefits and equities; is that what you're talking about?

A. Benefits to different constituents. The harm to AEP, if we did it under your others, would be a $200 million harm to the company, which is significant.

Q. Assuming that your switching statistics are correct, right?

A. Yes. We're all here talking about this encouragement of customer shopping so that would be my expectation.

Q. And the current RSR translates into, well, I think you quantified it on WAA-6 of $2 a megawatt-hour which is 2 mils per kilowatt-hour on average, correct?

A. That's correct.

Q. And what percent of average industrial customer -- well, let's say a residential customer, a typical residential customer with usage of a thousand kilowatt-hours a month, what percentage of that total bill would be represented by 2 mils a kilowatt-hour? I think in Roush's testimony it's about 12 cents a kilowatt-hour, isn't it?

A. I just need to come up with base level for a customer what an average bill is.

So a typical residential customer of CSP, as shown in workpaper DMR page 77, that customer's bill as proposed is $127.75 per month. The retail stability rider for that customer is $2.66. And so that would represent a 2.1 percent, it would be 2.1 percent of the customer's bill.

Q. All right. This analysis that you gave me in response to my question about analysis of the harms if a rider were to be made bypassable, is that reduced to writing somewhere within the AEP system?

A. No. I did the analysis as we sat here on the stand in response to your request.

Q. Okay. So you just did it here this afternoon?

A. Yes, because the company proposed a nonbypassable rider.

Q. Sure.

A. So in response to your question, I did the calculation.

Q. Okay. That's fine.

On the other hand, has AEP management, to the best of your knowledge, conducted any kind of analysis or study, either conducted or had one conducted on its behalf, that shows what the potential anticompetitive effects may be if this rider were to be nonbypassable?

A. My view is that a nonbypassable rider like this, that is just compensating the company for some of the discounted capacity that it's providing to competitors, would not be anticompetitive. So I don't think there's any anticompetitive nature to it.

Q. I appreciate that's your view, but my question was whether AEP has any kind of study that it commissioned which examined the extent to which the nonbypassability of this rider may have some kind of anticompetitive effects.

A. And as I indicated, since it's nonbypassable there's no anticompetitive nature, so we wouldn't have done that analysis. So the answer to the question is no, it doesn't exist.

Q. Thank you.

You also understand, I suppose, Mr. Allen, but maybe not, that Exelon is also proposing that your capacity auction, now scheduled for the period beginning June 1st, 2015, be moved forward by one year for the period beginning June 1st, 2014. Are you aware of that?

A. I skimmed through the testimony, I may have seen it, I was focused on what we're proposing here not what all the other parties are proposing.

Q. I understand. And I'm just trying to set the stage for the next couple of questions that I have. My next question will be similar to the ones I asked about the nonbypassability of the rider.

Since Mr. Fein filed his testimony on May 4th in which he made that proposal or made that suggestion, has AEP made any study or analysis to determine the existence of any adverse effects either on AEP Ohio, the wires company, or GenCo, AEP GenCo, that might result from moving that auction forward by one year?

A. Not to my knowledge.

Q. This, of course, would happen after corporate separation, even under the Exelon proposal the auction wouldn't take place until effective for a period six months after corporate separation is now scheduled to be effective. Would you agree with -- would you agree with me, Mr. Allen, that moving the auction forward by a year would not have any conceivable adverse impact on AEP Ohio wires company?

A. First of all, I don't know that the wires company will necessarily exist on January 1st, 2014, as a stand-alone entity, that's what the company is striving for, but I can't agree with your premise. I don't know that that will be true.

Q. Well, we don't know that your switching statistics are going to become true, but we're accepting that for purposes of your analysis, so I'd like you to accept for purposes of my question the same, I think, fact which is really inherent in your ESP and that is that there will be an AEP Ohio wires company in business on June 1st, 2014. Am I not correct in that?

A. That's the assumption that the company's included in their analysis.

Q. Now, with that assumption, it is true, is it not, that if a capacity auction were to be held for the period after June 1st, 2014, the AEP Ohio wires company would, first of all, just look at its revenues. Its revenues would not be adversely affected at all by anything resulting from that auction, correct?

A. Its revenues would change as a result of that auction.

Q. How would AEP Ohio's revenues, the wires company revenues change as a result of that capacity auction taking place --

A. AEP Ohio's revenues are comprised of the transmission and distribution revenues -- or, the distribution revenues collected from all customers and the transmission and generation revenues collected from nonshopping customers, so if there were an auction, it would change revenues of the wires business.

Q. Would it change the ROE, the return on equity, of the wires business in any way?

A. Generally I would expect that those revenues, as discussed by Witness Nelson, are passed through to the GenCo, so the earnings may move a little bit due to timing, but I wouldn't expect them to be significant.

But doing as you've suggested would harm the GenCo who is providing these capacity services as an FRR entity, and this is a package deal. Just because it doesn't impact the wires company as we unwind where we are today and provide this balance, harm to the GenCo is important to consider because they are the capacity provider.

Q. Has AEP conducted a pro forma analysis which shows what the GenCo's return on equity will be in either 2014, 2015, or 2016 after corporate separation?

A. That might be a better question for Witness Sever. I haven't done that analysis. I haven't seen it. I don't know if one's been done.

Q. Would you agree -- I really only have one or two questions left. Would you agree that even if the auction were moved forward by a year, that that would not necessarily be incompatible with the continued existence of a retail stability rider that might provide some form of relief to the GenCo if it were determined that that would be appropriate?

A. The RSR would accommodate those changes, but I can't agree that the balance that the -- for customers and CRES providers would still exist as what was presented in the balanced plan of the company.

Q. Well, that's true even if the one slightest change is made to your ESP; is it not?

A. Any change to the company's proposed ESP impacts the balance. What you've suggested is not a minor tweak of the plan, that's a major structural change in the plan and would have significant impacts on the balance that the company carefully considered.

When we built this plan, we carefully considered customer rate impacts, and you saw Commissioner Porter ask significant questions of Witness Roush as well as other parties in the room to see what those impacts were because that was a careful consideration as we put this plan together. And changing something structurally like that would change the RSR and could create a plan that had a balance that was unacceptable.

We saw previously with the company's last stipulation, the Commission looked at it after customer bills came in and said the balance that we thought existed isn't there and they rejected the stipulation. So we were very careful.

And I would encourage caution as people consider changes that they want to make to the company's proposal such that they don't put it out of balance.

Q. I think you conceded that although it may be a major structural change to the ESP, it would have little, if any, effect on the wires company. Your concern is on the GenCo, and let me just ask my final question. Is there a study somewhere within AEP which, in fact, shows the financial or other effects on the AEP GenCo if this auction were moved forward by one year?

A. Not that I'm aware of.

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

EXAMINER SEE: Mr. Stinson --

Oh, Ms. Smith, do you have questions for this witness?

MS. SMITH: No questions, your Honor.

EXAMINER SEE: Thank you, very much.

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CROSS-EXAMINATION

By Mr. Stinson:

Q. Just real quick, Mr. Allen. If you could turn to your Exhibit WAA-3, page 3 of 6.

A. Which page was that?

Q. 3 of 6.

A. I'm there.

Q. You have in the Roman numeral i) there, you have a list of customer classes. And second-to-the-last bullet you have school service, and in parentheses you indicate "Will not use this designation after 2011." What does that mean?

A. This section in Roman numeral i) is associated with customers that don't have 12 months of annual usage. That would be for a new customer, new building, that type of thing, that didn't have prior energy usage. And this appears to be a relic of the analysis that we did in the stipulation.

When we did the stipulation, my recollection is that the school service rates and the electric heat general rates went away. So that designation, the comment that says "Will not use this designation after 2011," that should be removed because those tariff classes still exist.

Q. And they will exist for the term of the ESP.

A. Yes, that's correct.

Q. For purposes of the 21, 31, 41 percent cap, would those school service customers be included in the commercial cap?

A. Yes.

MR. STINSON: Thanks. No further questions, thanks.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Margard:

Q. Good evening, Mr. Allen.

A. Good evening.

Q. On page 7 of your testimony you, beginning at line 6, you state the basis for the rate for tier 1.

A. Yes.

Q. And can you tell me why that basis was used? Why was that figure selected?

A. That figure was selected because the company is seeing significant shopping by customers paying that rate. That's the rate that shopping customers are currently paying if they're shopping in tier 1. So we proposed to continue that as the discounted rate for tier 1.

Q. No other basis?

A. No other specific basis, but in doing the analysis, it resulted in a reasonable RSR and a balanced plan.

Q. And I believe you essentially testified the same with respect to the 255 level.

A. Yes.

Q. Those are, essentially, arbitrary, though, both of those could be different levels as long as they produced an acceptable RSR level for you?

A. They could be different, but what we've seen is, at both of those levels, shopping can occur.

You know, I've done headroom analysis that shows that at that higher price of 255, customer shopping can continue to occur and that there's significant headroom for CRES providers, you know, for the commercial class. At 255 you're going see headroom of 22 percent, so even at 255 it's pretty signature. Industrial, 13 percent. Residential, about 14 -- or, about 4 percent.

MR. SUGARMAN: Your Honor, could the record reflect what the witness was referring to in his last response to the question?

THE WITNESS: I'm sorry?

EXAMINER SEE: Mr. Allen --

MR. KUTIK: What were you looking at?

EXAMINER SEE: -- were you referring to a specific exhibit?

A. No. I was looking at an analysis that I performed.

Q. Can you describe that analysis for us, then?

A. Sure. And I think I've had some discussion of this as we -- I think as I talked with Mr. Kutik this morning. I looked at the market comparable generation rate that's provided in the workpapers of Company Witness Roush, as well as it's probably in Ms. Thomas's testimony as well, but my source would have been Witness Roush's workpapers.

And then I looked at the CRES cost of goods sold that are shown in Witness Thomas's workpapers. So what that would be is the market price analysis, the competitive benchmark that Witness Thomas calculates, excluding the retail admin. fee and the transaction risk adder. And so doing the comparison of those values for the residential, commercial, and industrial class.

Q. Earlier this morning, in response to some questions from Mr. Kutik, you indicated you didn't do sensitivity analyses, but you did do analyses with respect to these two specific levels which you consider to be a binary choice. Is this the analysis that you were referring to this morning?

A. This would have been -- in response to one of the questions at least, this would have been an analysis I performed to show that shopping could occur at 255. And, you know, I did kind of a pretty quick analysis on the commercial class to show that if the RPM price was used instead, that the headroom would be 45 percent. So whether it's 22 percent or 45 percent, the customer switch would still occur.

Q. Thank you.

With respect to the set-asides which you also called "presets," if I recall correctly, those apply only to tier 1, correct?

A. They define what is tier 1, yes.

Q. "Define what is tier 1." That all other CRES supply capacity is priced at tier 2.

A. Any capacity that's not priced at tier 1 is priced at tier 2 which is the 255, yes.

Q. Okay. And how were those preset set-asides determined?

A. They were maintained consistent with the levels that were previously included in the prior ESP stipulation, but they were also believed to be reasonable increases over the years to transition to a point when customers, large numbers of customers were shopping as we moved to transition into a fully auction-based SSO in the next ESP.

Q. When you say "believed to be," what was that belief based upon?

A. Based upon the company's view of how much discounted capacity the company should provide as compared to how much more significantly discounted capacity the company should provide.

So the company's providing two levels of discounted capacity to CRES providers, and in order to maintain a balance for the RSR, you have to make a determination of how much of that is priced at the significantly-discounted price of 146 or the less significantly-discounted price of 255. It's a judgment.

Q. And it was a judgment that was made based on strictly those two levels of pricing, correct?

A. Those would have been the two that were included in this plan, yes.

Q. Those were the only two that you seriously considered?

A. I may have looked at, and I probably would have looked at one that may have looked at RPM for the first tier as opposed to maintaining the 146.

I just don't recall. I've done so many analysis over the last eight or ten months we've been here.

Q. Thank you.

With respect to the distribution investment rider, on page 9 at line 16, you indicate that "The DIR will allow recovery of carrying costs on incremental distribution plant."

A. Yes.

Q. Now, when you use "carrying costs" there, you're referring to carrying costs in the traditional sense that we use it here at the Commission, correct? It's not strictly a cost of capital. It includes a number of other things including, as you mentioned, taxes?

A. Yeah, I think there are a variety of carrying charges. I think the EICCR includes a carrying charge that would include some of these elements as well so there are various definitions of the carrying charge. It's not a cost of money carrying charge only, it includes additional elements.

Q. And the cost of the carrying component of your carrying charge is based on a weighted average cost of capital, correct?

A. That's one of the elements.

Q. Now, when you say "incremental distribution plant," that's not limited in any respect, is it? That would refer to any kind of distribution plant that's put in service?

A. Any distribution plant that's put in service within the FERC accounts that I've included. So it's the hard assets of the distribution system. There are other distribution investments that will be made for IT infrastructure and the like; those wouldn't be included in this calculation. It doesn't include general and intangible is what I was getting at.

Q. Okay. Thank you.

Mr. Kirkpatrick, in his testimony, refers to certain target replacement plant items.

A. Yes, I recall that.

Q. It's not limited to recovery related strictly to those kind of items, correct?

A. It would include all distribution investment and those would be included in that.

Q. You also indicate that the DIR does not include capital additions that are recovered through other riders.

A. That's correct.

Q. And specifically that would include the gridSMART rider?

A. Yes.

Q. If I asked you to turn to Exhibit WAA-5, you've specifically itemized, on line 14, gridSMART investment, correct?

A. Yes, that's correct.

Q. You've also itemized, on line 18, incremental vegetation management, correct?

A. Yes.

Q. Are there any other items that you would include as capital costs recovered through other riders?

A. To my knowledge, those are the only two riders that recover capital costs. If an additional rider were created that included recovery of carrying costs, you would simply add that as an additional item that you would subtract out such that there was assurance that the company wasn't recovering those costs twice.

Q. Just to be clear about this particular table, line 20 indicates that it is the result of subtracting certain items including a line 16 which does not appear; I assume that's merely an oversight?

A. Yes.

Q. I wanted to be sure about that. Thank you.

Now, you indicated that the DIR would be updated quarterly.

A. Yes.

Q. And that it is subject to over- and under recovery.

A. Yes, that's correct.

Q. And that's the same phrase you used to describe the RSR?

A. Yes. And Witness Mitchell goes into more detail on the over/underrecovery mechanisms but they would both include over/underrecovery.

Q. Well, you answered some questions this morning from Mr. Kutik regarding the over/underrecovery of the RSR and the prospect that that recovery could potentially continue after expiration of the rider, correct?

A. Yes, that's correct.

Q. And could that likewise occur with the DIR?

A. Yes, it could. I would expect that there would be a final trueup after May 31st, 2015, to either refund or recover any difference between what was intended to be recovered and what was actually recovered.

Q. Now, you haven't recommended any specific audit process for the DIR, have you?

A. No.

Q. Although I do recall, correct me if I'm wrong, that you testified earlier in the day that you believe that staff would be doing some kind of an audit of the DIR recovery; is that your understanding?

A. Yes, that's my understanding.

Q. On page 12 of your testimony at line 14 you indicate that AEP Ohio will not seek a change in base distribution rates with an effective date any earlier than June 1st, 2015.

A. Yes, that's correct.

Q. And you indicate that because the DIR provides a cost recovery mechanism.

A. That's correct.

Q. Is it your testimony, then, that if the Commission approves the DIR as approved by the -- proposed by the company, that the company will not seek a change in base rate distribution rates with an effective date any earlier than June 1st, 2015, despite any other changes that the Commission might make in the company's proposal?

A. Once again, I would say that's an item that might be above my pay grade. It would have to depend on what those other changes were.

Q. So this agreement is not your agreement but your understanding of the company's position.

A. It's an agreement based upon the overall package.

Q. Finally, Mr. Allen, let me ask you just briefly about the alternative option. You indicate that AEP Ohio has considered an alternative option. Is it proposing this option as an alternative?

A. The company was presenting this as a option for the Commission's consideration so that the Commission could understand what other option was available if the Commission were to determine in the capacity case that the company was entitled to its full cost of capacity from CRES providers.

And this proposal provides that if, during this transitional period, this three years, the company is allowed to recover the cost that it's, in my view, entitled to, that there's another alternative out there that can provide customers shopping opportunities during that transition period, and those shopping opportunities can occur through the provision of the shopping credits that the company has proposed.

MR. MARGARD: That's all I have, your Honor. Thank you.

EXAMINER SEE: Mr. Satterwhite, any redirect?

MR. SATTERWHITE: Could I just have one minute, and I really will just take one minute.

MR. SUGARMAN: Your Honor, may I?

EXAMINER SEE: Just a minute.

Yes, Mr. Sugarman?

MR. SUGARMAN: I just wanted to ask a clarifying question. I was not certain --

EXAMINER SEE: I'm sorry, you?

MR. SUGARMAN: I was not certain from the witness's response to Mr. Margard's question on headroom analysis whether he was referring to a document on the witness stand or whether he was doing an on-the-stand analysis based on Mr. Roush and Ms. Thomas's analysis.

And if he's referring to a document specifically, I would like it to be identified and I'd like it to be made available for counsel if he's using it in response to the question in his testimony.

MR. SATTERWHITE: Your Honor, if I may?

EXAMINER SEE: Yes.

MR. SATTERWHITE: I believe cross-examination's over. He referred to it with multiple counsel and no one asked for it to be produced during their cross-examination. I think it's improper outside of that now, unless I hit it on redirect, to go back into that.

EXAMINER SEE: And it was described as you requested during the course of Mr. Margard's cross-examination, that's the item you're referring to?

MR. SUGARMAN: It is.

MR. KUTIK: Your Honor, I would request that the document at least be produced to the parties.

MR. SATTERWHITE: There were multiple chances --

EXAMINER SEE: So noted.

MR. SATTERWHITE: I'm sorry.

EXAMINER SEE: We're going to take five.

MR. SATTERWHITE: Thank you.

(Recess taken.)

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

Mr. Satterwhite, redirect?

MR. SATTERWHITE: Thank you, your Honor.

Just one question, hopefully one question.

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REDIRECT EXAMINATION

By Mr. Satterwhite:

Q. Mr. Allen, do you remember, early this morning, Mr. Kutik was talking to you about the 60 days proposed in the plan to implement the tracking system?

A. Yes, I do.

Q. And there was some discussion about whether 60 days were needed or not. Do you remember that?

A. Yes, I do.

Q. Will you explain why you believe 60 days is appropriate in this case as proposed?

A. Yes. The 60 days was proposed because, there -- as we've seen in the past, there may be some changes proposed by the Commission that it would take time for our IT group to incorporate, but if the Commission were to approve the tiered pricing structure and the detailed implementation plan as the companies have proposed, it's my expectation based upon discussions with our IT group that that cap tracking system would be available within 30 days of a final Commission order.

MR. SATTERWHITE: Thank you. That's all I have.

EXAMINER SEE: Mr. Kutik?

MR. KUTIK: May I have one minute, your Honor?

EXAMINER SEE: Okay, one. I'll tell you what, while you take that one minute --

MR. KUTIK: I'd appreciate it, thank you.

EXAMINER SEE: Ms. Grady?

MS. GRADY: No cross, your Honor.

MR. MASKOVYAK: No cross, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions.

EXAMINER SEE: Mr. Stinson?

MR. STINSON: No.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER SEE: Mr. Boehm?

MR. K. BOEHM: No questions, your Honor.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: No, thank you, your Honor.

EXAMINER SEE: Mr. Sugarman?

MR. SUGARMAN: No questions, your Honor.

EXAMINER SEE: Ms. Thompson?

MS. THOMPSON: No questions, your Honor. Thank you.

EXAMINER SEE: Mr. Haque?

MR. HAQUE: No questions, your Honor.

EXAMINER SEE: Mr. Yurick?

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

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: No questions, your Honor.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: No questions, your Honor.

EXAMINER SEE: Ms. Smith?

MS. SMITH: No questions, your Honor.

MR. KUTIK: I have no questions, your Honor. Thank you.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No, thank you, your Honor.

EXAMINER SEE: A couple from -- we have a few questions from the Bench, Mr. Allen. I promise you not many.

THE WITNESS: Okay.

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EXAMINATION

By Examiner See:

Q. The alternative option that you proposed in your testimony --

A. Yes.

Q. -- it was the company's intent that that only applied if the Commission grants your request for capacity at a rate of $355 -- 356 per megawatt-day?

A. That alternative proposal was designed under that scenario, yes.

Q. And only that scenario.

A. I think, as I described earlier with some questions from Ms. Grady, if the Commission were to approve a capacity rate close to that $355, that that type of alternative option could be considered as well, but that the level of shopping credits would have to be reconsidered to ensure that the financial stability of the company was still maintained.

Q. In your discussion with Mr. Maskovyak, you were discussing the benefits to an at-risk population as you used that term in your testimony, correct? Do you recall that line of questioning?

A. I recall that line of questioning.

Q. How are you defining "at-risk populations"?

A. Generally I would refer to "at-risk populations" as low-income populations, but it's not a term I typically use. It was his term and I was trying to be responsive.

Q. And you don't use "at-risk" -- okay, never mind. Strike that.

I may have missed this. Mr. Allen, in your discussion of the shopping credit to be provided as part of the alternate proposal, did you say you had or had not done any analysis to determine the credit applicable at other capacity levels?

A. I had not done that analysis.

EXAMINER SEE: Thank you very much.

THE WITNESS: Thank you.

MR. SATTERWHITE: Your Honor, at this time I'd re-move the admission of AEP Exhibit 116.

EXAMINER SEE: Are there any objections to the admission of AEP Exhibit 116?

MR. KUTIK: Your Honor, we had made a request to see the document that Mr. Allen referred to. Has the Bench had an opportunity to rule on that request?

EXAMINER SEE: The Bench had not ruled on that but we did consider it. It was discussed during your cross, and your motion for a document is denied.

Are there any objections to AEP Exhibit, the admission of AEP Exhibit 116?

(No response.)

EXAMINER SEE: AEP Exhibit 116 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Kutik?

MR. KUTIK: Your Honor, at this time FES moves for the admission of FES Exhibits 113, 114, 115, 116, 117, and 118.

EXAMINER SEE: Are there any objections?

MR. SATTERWHITE: The company has no objections.

EXAMINER SEE: FES Exhibits 113, 114, 115, 116, 117, and 118 are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Darr?

MR. DARR: Thank you, your Honor. IEU moves admission of IEU Exhibit 118.

EXAMINER SEE: I'm sorry, Mr. Allen, as much as you're going to hate me for this, have a seat for a minute. One more question.

MR. SATTERWHITE: We don't hate. That's a bad word.

EXAMINER SEE: Good answer.

Are there any objections to IEU Exhibit 118?

MR. SATTERWHITE: No objection, your Honor.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: Thank you, your Honor. Ormet moves the admission of Exhibits Ormet 102 and 103.

EXAMINER SEE: Any objections?

MR. SATTERWHITE: No objection, your Honor.

EXAMINER SEE: Ormet Exhibits 102 and 103 are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

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FURTHER EXAMINATION

By Examiner See:

Q. Mr. Allen, we were discussing what I believe was marked FES Exhibit 116.

A. That's the web posting.

Q. This is the web posting dated today.

A. Yes.

Q. Customer choice.

A. Yes.

Q. Did I understand you correctly that you said that the values shown in this exhibit were incorrect?

A. Yes, they are. And during the lunch break I asked our --

Q. Specifically, which column?

A. It would be the level that shows --

Q. Do you need the exhibit?

A. Yeah.

Q. I'm willing to share. I can approach.

A. It would be -- it would be all of the columns.

Q. All of it is incorrect.

A. Yes. And I've requested that it be removed from the company's website today.

EXAMINER SEE: Okay. Thank you.

Mr. Petricoff, do you want to discuss RESA --

MR. PETRICOFF: Yes, I would like to move for RESA Exhibit 101 for admission.

EXAMINER SEE: Are there any objections?

MR. SATTERWHITE: No objection.

EXAMINER SEE: No objections to RESA Exhibit 101, it's admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. SATTERWHITE: Do you want to go off the record for a second?

EXAMINER TAUBER: Let's go off the record real quick.

(Discussion off the record.)

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

Ms. Smith.

MS. SMITH: Wal-Mart Stores East, LP and Sam's East, Inc. call Steve W. Chriss to the witness stand.

EXAMINER TAUBER: Mr. Chriss, please raise your right hand.

(Witness sworn.)

EXAMINER TAUBER: Thank you.

MS. SMITH: May I proceed?

EXAMINER TAUBER: Yes.

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STEVE W. CHRISS

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

DIRECT EXAMINATION

By Ms. Smith:

Q. Mr. Chriss, could you please state your name for the record and spell it for the court reporter?

A. My name is Steve W. Chriss, C-h-r-i-s-s.

Q. And, Mr. Chriss, by whom are you employed?

A. Wal-Mart Stores, Incorporated.

Q. And in what capacity?

A. I am Senior Manager, Energy Regulatory Analysis.

Q. And on whose behalf are you appearing here today?

A. I'm appearing on behalf of Wal-Mart Stores East, LP and Sam's East, Inc.

Q. Mr. Chriss, did you cause to be filed the direct testimony of Steve W. Chriss consisting of eleven pages plus one exhibit?

A. I did.

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

A. Yes.

Q. If I asked you the same questions today, would your answers be the same?

A. Yes.

MS. SMITH: The direct testimony of Steve W. Chriss has been marked as Wal-Mart Exhibit 101. The witness is available for cross-examination, after such time I will move for the admission of Wal-Mart Exhibit No. 101. Thank you.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER TAUBER: Thank you.

Mr. Satterwhite?

MR. SATTERWHITE: The company would prefer to go last, your Honor.

EXAMINER TAUBER: We'll start over here.

Mr. Petricoff?

MR. PETRICOFF: No questions, your Honor.

EXAMINER TAUBER: Ms. Hand?

MS. HAND: No questions, your Honor. Thank you.

EXAMINER TAUBER: Mr. Yurick?

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

EXAMINER TAUBER: Ms. Thompson?

MS. THOMPSON: No questions, your Honor. Thank you.

EXAMINER TAUBER: Mr. Boehm?

MR. K. BOEHM: No questions, your Honor.

EXAMINER TAUBER: Mr. Sineneng?

MR. SINENENG: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: No questions.

EXAMINER TAUBER: Mr. Darr?

MR. DARR: No questions.

EXAMINER TAUBER: Mr. Hayden?

MR. HAYDEN: No questions.

EXAMINER TAUBER: Mr. Maskovyak?

MR. MASKOVYAK: No questions, your Honor.

EXAMINER TAUBER: Ms. Grady?

MS. GRADY: No questions, your Honor.

EXAMINER TAUBER: Mr. Satterwhite?

MR. SATTERWHITE: Here we are again.

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CROSS-EXAMINATION

By Mr. Satterwhite:

Q. Good evening, Mr. Chriss. How are you today?

A. I'm good.

Q. We're equally disadvantaged so it will be all right.

I'm looking at your résumé that's attached to your testimony as Exhibit 1, and if my count's correct, it looks like you've testified before about 30 different state commissions; would you say that's about correct?

A. I think the current number is 31.

Q. Thirty-one; even more. You got busy yesterday, huh?

And the areas you tend to testify on look like they are a number of -- a wide range of areas, natural gas, electricity. Did you also cover traditional cost of service ratemaking?

A. Yes, Wal-Mart takes service from utilities in all 50 states and so we have to address regulated utility issues that span the breadth of how utilities are regulated and how they operate across the country.

Q. So what did you do to prepare to testify in the state of Ohio in this case to differentiate between other states?

A. Well, I read through AEP's filing, we've been in a few of the ESP dockets, we were in the first phase of this one, we were in the Duke one as well, the most recent Duke ESP. Looked through the ESP regs and just got background, figured out sort of how the business works here.

EXAMINER TAUBER: Mr. Chriss, could you move the mic closer to you?

THE WITNESS: Sure.

EXAMINER TAUBER: Thank you.

EXAMINER SEE: It may be easier if you turn the mic towards Mr. Satterwhite so we can hear on this side of the room and you can face him.

THE WITNESS: Okay.

Q. (By Mr. Satterwhite) So I believe you said you familiarize yourself with the rules and statutes before making your expert opinion so you can base it on knowing the local jurisdiction; is that what you said?

MS. SMITH: Objection, your Honor. I didn't hear my witness say that he prepares by reviewing rules and statutes.

Q. Well, will you tell me again, please, what you read to prepare for? I thought you said that, but I may be wrong.

A. Well I said the ESP regulation, I have the citation here, the 4928.43, that's going off memory.

Q. Okay. It's your understanding that's a statute?

A. I do. And so I'm not making an attorney's -- I'm not an attorney --

Q. Understood.

A. So I'm not providing a legal analysis.

Q. I just want to see the basis of what you prepared to testify before the Public Utilities Commission of Ohio.

A. Sure.

Q. Did you review any other regulations

beside 4928.143?

A. Not that I can recall right now.

Q. But ultimately you're comfortable, based on the knowledge that you gathered in your previous experience, making recommendations before the Commission.

A. Yes.

Q. In the scope of your testimony you deal with -- do you know what I talk about when I say the "GRR"?

A. Yes.

Q. And it's your opinion that it violates a regulatory practice because it only benefits the standard service offer customers and, therefore, should be denied or made bypassable is your position, correct?

MS. SMITH: Mr. Satterwhite, could you please direct Mr. Chriss to a reference in his testimony?

MR. SATTERWHITE: I'm asking the witness if that's what he stands for, the scope of his testimony.

A. I recommend on the top of page 7 that if the Commission approves the GRR, it should determine that the rider be bypassable by customers who take competitive supply service.

Q. And that is because you feel that the way it's structured now violates regulatory principles; is that correct?

A. Essentially, yes, because the costs under there would be incurred on behalf of AEP's SSO customers not on behalf of shopping customers, and so the cost then should go to the SSO customers.

Q. And I believe your testimony states that's misaligning the cost causation with the cost responsibility; is that correct?

MS. SMITH: Again, could you please provide a reference to Mr. Chriss' testimony to which you're referring?

MR. SATTERWHITE: Your Honor, I'm asking the witness questions and if, you know, if he needs to refer to his testimony, he can. I'm just asking questions in general about his opinions. I don't think he -- he's not asked for any of these references already, and I don't know why counsel keeps interrupting my cross-examination with him.

EXAMINER TAUBER: Ms. Smith, Mr. Chriss can ask Mr. Satterwhite if he needs any references or if he's unable to understand the question. Thank you.

MR. SATTERWHITE: Can you read the last question, please?

(Record read.)

A. Yes.

Q. And is that a regulatory regulation that you relied upon from 4928.143?

A. Not from 4928.143, no. I mean, that's a general principle that the cost causer be responsible for paying that cost.

Q. And that's the type of policy that you would testify to in the now 31 jurisdictions is just a general regulatory principle; is that correct?

A. Yes.

Q. And the concern you're seeking to avoid is a lack of benefits for the shopping customers and double payments of costs, I believe you stated, correct?

A. Correct. And if the benefits aren't going to the shopping customers, the power or anything tied to that power is not directed towards shopping customer, then they would receive no benefit from it and should not bear responsibility for the cost.

Q. Now, if the generation related to any facility built under a GRR were sold and credited against the costs of that facility, would you still have the concern that there would be double counting?

A. So to be clear, I'm paraphrasing you --

Q. Please.

A. -- so whatever revenues are derived from the selling of the generation from those assets, if that's credited against the GRR such that there's a negative adjustment or downward adjustment, I think that's a more fair approach if you have a give-back of benefits to all who pay into the rider.

Q. And if those that were shopping, not paying the SSO, did receive a benefit from it, would that also erase your concern about not sharing in the benefits that you described?

A. I think as long as the benefits are equivalent between shopping and nonshopping customers, then that would be fair.

Q. Are you aware of any regulation that restricts AEP Ohio's ability to seek a nonbypassable charge to establish new generation?

MS. SMITH: Objection. This witness is not a lawyer.

MR. SATTERWHITE: That's fine.

Q. To the extent you know in all the preparation you did for this case and the previous cases you've been involved with.

EXAMINER TAUBER: With that clarification, the objection is overruled.

MR. SATTERWHITE: Thank you.

A. To the extent that I'm not an attorney and not providing a legal opinion, my understanding is that the regulations do provide that the company may ask for one.

Q. Let's move on to the topic of the day, the RSR.

A. Sure.

Q. Hopefully you only showed up through part of the day so you didn't have to live through all of it. Now, you state that the RSR should be placed at a 10.2 ROE because that's the level from the recent distribution case for Ohio Power; is that correct?

A. I testify on the bottom of page 9 that if the RSR is approved, that the Commission use an ROE no higher than 10.2 percent.

Q. And did you link that because of the recent distribution case for Ohio Power?

A. Yes, sir.

Q. And you're aware that the 10.2 was a result of a settlement, correct?

A. I am.

Q. What type of risk can lead to an increase in an ROE?

A. Well, any number of business risks, including cost recovery risk, can move that number up or down.

Q. I'm sorry, were you done?

A. Yes.

Q. And the multiple jurisdictions you've testified in, have you participated in cases where there's been a settlement or a commission order for a company to, what they call a stay-out, where they can't come back in for rates for a period of time?

A. Yes.

Q. In your opinion does that create a risk for the company that they're not able to come back and try to reset rates due to actions that might come up in the interim?

A. Well, a lot of that depends on how rates are set. If a number of the rate components have trueup riders associated with them, the risk is less because they can account for those costs before the next base rate case. A lot of it just depends on how much of the company's revenues are tied to that stay-out.

Q. But in general, just from a regulatory principle point of view, is there risk associated with being unable to come back in front of the Commission to fix something if something goes wrong in that time period during the stay-out?

A. Yes.

Q. Now, you also testified in the recent Duke attempt for an MRO in Ohio; is that correct?

A. That is correct, that was a while ago, but yes.

Q. And what was your position on the ability -- strike that. Let me start over.

You did not oppose, in your testimony, Duke's plan to use an MRO and blend rates, SSO rates, as part of the MRO under the statute, correct?

MS. SMITH: Objection. These questions are going beyond the scope of Mr. Chriss's direct testimony.

MR. SATTERWHITE: Your Honor, he's an expert who's relied upon his history in testifying before the Commission, we're dealing with competitive issues in this case, and I'd like to explore some of that with this witness before the Commission.

EXAMINER TAUBER: The objection is overruled.

Q. Do you need the question reread?

A. No. My recollection is we did not oppose the MRO but I haven't read that testimony in quite some time, so whatever is specifically in there, I can't answer without saying it again.

Q. What's your recollection -- or, let me state it this way: Do you recall that the MRO, if someone moves forward under a market rate option, that there is a couple years of blending the standard service offer, traditional generation at the utility, over a period of years before they move to a full competitive offering?

MS. SMITH: Objection. Mr. Chriss already stated that he does not have a recollection.

MR. SATTERWHITE: Your Honor, he stated he didn't remember his exact testimony. I'm asking now about the market rate option in general.

EXAMINER TAUBER: With that clarification, again, the objection's overruled.

THE WITNESS: Could you ask that question again, sorry.

MR. SATTERWHITE: Sure.

Can you reread it, please?

(Record read.)

A. That's my general understanding, yes.

Q. And do you recall how long it takes

before a utility can move to a full competitive offering where they wouldn't require to have a blend?

A. I don't remember the specific number, I know it's a few years.

Q. And would you accept that that statute, the way that's written, would take longer to get to a competitive offering than the proposal made by the company in this case that gets to a competitive offering by June of 2015?

A. Well, we didn't take a position on AEP's transition, pardon me, we did not take a position to AEP's transition to a competitive offering in this docket, so I don't recall offhand the timeframe proposal.

Q. Right. And that's why I said the timeframe proposal in this case is by June of 2015, to get to that point. I was trying to compare that to your previous answer that it takes multiple years under an MRO and seeing if you could tell me that it would be your expectation that that June 2015 date is prior to what you could do under that statute.

A. From a 50,000-foot level, my recollection of the AEP proposal, sure.

MR. SATTERWHITE: Thank you. That's all I have, your Honor.

EXAMINER SEE: Thank you.

EXAMINER TAUBER: Thank you.

Mr. Margard or Mr. Beeler?

MR. MARGARD: No, thank you, your Honor.

EXAMINER TAUBER: Ms. Smith, would you like redirect?

MS. SMITH: No, your Honor.

EXAMINER TAUBER: The Bench just has one question for you, Mr. Chriss.

THE WITNESS: Sure.

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EXAMINATION

By Mr. Tauber:

Q. If you could turn to page, I believe it starts at page 8 and you talk about the return on equity.

A. Yes.

Q. And you provide that it's unjustified. What is the basis behind your conclusion?

A. Well, typically when you go into a case where somebody puts out an ROE recommendation, they say 10-5 or 11 or whatnot, you're going to see Sam Hadaway or Bob Hevert or some of those big-time ROE witnesses come in and give you a 60-page testimony on why that number is justified within a range of their calculations and their professional expert opinion on why that number's there, and so that analysis isn't here. They just said, you know, 10-5. And I was here earlier when Mr. Allen was questioned and there was no further explanation to that other than, you know, in his opinion that would be the appropriate ROE.

Q. So then it's your opinion that the company did not justify its return on equity.

A. Correct.

Q. As a part of this filing, yes.

EXAMINER TAUBER: Thank you, you may be excused.

THE WITNESS: Thank you.

MS. SMITH: Your Honors, at this time I'd like to move for the admission of Wal-Mart Exhibit 101.

EXAMINER TAUBER: Is there any objection to Wal-Mart Exhibit 101?

(No response.)

MR. SATTERWHITE: No objections.

EXAMINER TAUBER: Hearing none, Wal-Mart Exhibit 101 shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MS. SMITH: Thank you, your Honors.

EXAMINER TAUBER: Seeing nothing else, we're adjourned for this evening. We'll reconvene tomorrow at 8:30.

Let's go off the record.

(The hearing adjourned at 7:01 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, May 23, 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, 2011.

(MDJ-4017)

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