

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

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

- - -

PROCEEDINGS

before Ms. Greta See and Mr. Jonathan Tauber,
Attorney Examiners, and Commissioner Andre Porter, at
the Public Utilities Commission of Ohio, 180 East
Broad Street, Room 11-A, Columbus, Ohio, called at
10:00 a.m. on Tuesday, May 29, 2012.

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VOLUME VIII

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1 Tuesday Morning Session,
2 May 29, 2012.

3 - - -

4 EXAMINER TAUBER: Let's go on the record.
5 Let's begin this morning with brief appearances,
6 starting with the company.

7 MR. NOURSE: Thank you, your Honor. On
8 behalf of Ohio Power, Steven T. Nourse, Matthew J.
9 Satterwhite, Yazen Alami, Daniel Conway, Christen
10 Moore.

11 MR. SERIO: Good morning, your Honor. On
12 behalf of the residential customers of the AEP
13 Company, Bruce J. Weston by Maureen Grady, Joseph
14 Serio, and Terry Etter.

15 MR. HAYDEN: Good morning, your Honor.
16 On behalf of FES Mark Hayden and Jim Lang.

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

19 MR. SINENENG: Good morning. On behalf
20 of Duke Energy Retail Sales and Duke Energy
21 Commercial Asset Management, Amy Spiller, Jeanne
22 Kingery, and Philip Sineneng.

23 MS. KYLER: Good morning. On behalf of
24 the Ohio Energy Group, Michael Kurtz, Kurt Boehm, and
25 Jody Kyler.

1 MR. SIWO: Good morning. On behalf of
2 OMA Energy Group, Lisa McAlister and Thomas Siwo.

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

5 MS. THOMPSON: Good morning. On behalf
6 of Interstate Gas Supply, Incorporated, Mark Whitt,
7 Andrew Campbell, Melissa Thompson, Vincent Parisi,
8 and Matthew White.

9 MR. YURICK: Mark Yurick and Zach Kravitz
10 on behalf of the Kroger Company.

11 MS. HAND: Good morning. On behalf of
12 Ormet Primary Aluminum Corporation, Emma Hand and Tom
13 Millar.

14 MS. KALEPS-CLARK: Good morning. On
15 behalf of Exelon Generation Company, LLC,
16 Constellation NewEnergy and Constellation Energy
17 Commodities, David Stahl, Howard Petricoff, and Lija
18 Kaleps-Clark.

19 And on behalf of the Retail Energy Supply
20 Association and Direct Energy, Lija Kaleps-Clark and
21 Howard Petricoff.

22 MR. BEELER: Steve Beeler and Vern
23 Margard, Assistant Attorneys General, on behalf of
24 the staff.

25 EXAMINER TAUBER: Is there anybody we

1 missed?

2 Mr. Sugarman.

3 MR. SUGARMAN: Thank you, your Honor.
4 NFIB-Ohio would call Roger Geiger.

5 EXAMINER TAUBER: Mr. Geiger, please
6 raise your right hand.

7 (Witness sworn.)

8 EXAMINER TAUBER: Before we begin with
9 Mr. Geiger this morning there's an outstanding motion
10 to strike by Ohio Power Company, and at this time
11 we're going to deny the motion to strike. However,
12 as has been the case with this hearing, parties will
13 have the opportunity during cross-examination to
14 raise any issues they may have.

15 Mr. Sugarman.

16 MR. SUGARMAN: If I may approach, your
17 Honor.

18 EXAMINER TAUBER: Yes.

19 MR. SUGARMAN: I'd like to mark for
20 identification as NFIB-Ohio Exhibit 101 the prefiled
21 direct testimony of Mr. Geiger, present it to him as
22 well as to the Bench.

23 EXAMINER TAUBER: It shall be so marked.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

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ROGER R. GEIGER

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

DIRECT EXAMINATION

By Mr. Sugarman:

Q. Good morning, Mr. Geiger. Would you
introduce yourself to the Bench, please.

A. I'm Roger Geiger. I'm the Vice President
and Executive Director of the Ohio Chapter of the
National Federation of Independent Business.

Q. Mr. Geiger, do you have in front of you
what's been marked for identification as NFIB Exhibit
101?

A. I do.

Q. And have you seen this previously, sir?

A. I have.

Q. And is this your prefiled direct
testimony that you created or caused to be created
under your direction?

A. It is.

Q. Have you had a chance to review that
since it's been filed?

A. I have.

Q. And do you have any additions or
corrections to be made to NFIB-Ohio Exhibit 101?

1 A. I do not.

2 Q. Mr. Geiger, if I were to ask you the same
3 questions that appear in this exhibit, would your
4 answers be the same as they appear in the document?

5 A. They would be.

6 MR. SUGARMAN: Your Honor, I would move
7 for the admission of 101 subject to cross-examination
8 of Mr. Geiger.

9 EXAMINER TAUBER: Thank you.

10 Ms. Kaleps-Clark, any questions?

11 MS. KALEPS-CLARK: No questions, your
12 Honor, thank you.

13 EXAMINER TAUBER: Ms. Hand?

14 MS. HAND: No questions, your Honor,
15 thank you.

16 EXAMINER TAUBER: Ms. Thompson?

17 MS. THOMPSON: No questions, your Honor,
18 thank you.

19 EXAMINER TAUBER: Mr. Yurick?

20 MR. YURICK: No, thank you, your Honor.

21 EXAMINER TAUBER: Mr. Siwo?

22 MR. SIWO: No questions, your Honor.

23 EXAMINER TAUBER: Ms. Kyler?

24 MS. KYLER: No questions, your Honor.

25 EXAMINER TAUBER: Mr. Sineneng?

1 MR. SINENENG: No questions, your Honor.

2 EXAMINER TAUBER: Mr. Olikar?

3 MR. OLICKER: No questions, your Honor.

4 EXAMINER TAUBER: Mr. Lang?

5 MR. LANG: No questions, thank you.

6 EXAMINER TAUBER: Mr. Etter or Mr. Serio?

7 MR. SERIO: Thank you, your Honor, just a
8 few.

9 - - -

10 CROSS-EXAMINATION

11 By Mr. Serio:

12 Q. Good morning, Mr. Geiger. On page 3 of
13 your testimony you indicate that "NFIB-Ohio currently
14 has over 24,000 members statewide." Do you know
15 roughly how many of those members are in the AEP
16 combined service territories?

17 A. Your Honor, we do not have an exact
18 count. Obviously, you know, it's very difficult for
19 us to match up, based on the territories, the
20 geographical map that we looked at, so we have not
21 done a zip code by zip code, but suffice it to say
22 that thousands of those members are in the service
23 territory of AEP.

24 Q. Now, you're testifying this morning as an
25 expert witness or as a fact witness?

1 A. I am not an expert witness, your Honor.
2 I am simply an individual who's representing our
3 members who have drawn to our attention significant
4 rate increases and asked us to intervene on their
5 behalf, but I am not an expert witness as it relates
6 to many of the other experts that you will hear.

7 Q. In your testimony you indicate that you
8 had spoken to dozens of members. Can you give me any
9 kind of estimation as to how many individuals or
10 companies that you spoke with directly?

11 A. Your Honor, when you say "spoke to," are
12 you assuming -- I'm assuming you mean all forms of
13 communication or whether I sat down and had a verbal
14 conversation with them.

15 Q. Well, in your testimony at page 4 you say
16 "My staff and I have spoken," so however you intended
17 "spoken" in your testimony is the way I would like
18 you to answer the question.

19 A. We have heard from numerous members. Do
20 I have an exact count that I can give to you right
21 now? No. But I can tell you this, I have been the
22 state executive director for over 20 years and of all
23 of the issues that I have dealt with on behalf of our
24 organization, I have never received as many calls, as
25 many letters, as many e-mails, as many interactions

1 with our members on any given issue as I did with
2 this one a few months back.

3 Q. Generally speaking, the members that make
4 up NFIB-Ohio, they manufacture products that are sold
5 to customers, correct?

6 A. Your Honor, our members cut the
7 demographics of the small business community so
8 they're not all manufacturers, many of them are in
9 the service industry. So you think of a type of
10 business, we've got one of them as a member. But it
11 is true about a little over 50 percent of our members
12 are retail service, about 20 percent are
13 manufacturers, and then the rest transportation,
14 agriculture. You think of all of the SIC codes, we
15 have members in each one of them.

16 Q. Regardless of whether it's service,
17 manufacturing, or the other category, would you agree
18 with me that ultimately your end customer is
19 generally the residential customers that purchase
20 that product from the members of NFIB-Ohio?

21 A. Your Honor, they're the consuming public.
22 Yeah, I mean, they look like the consumers. Now, are
23 there business-to-business transactions? Of course.
24 But I would venture to say that everybody has a home
25 somewhere.

1 Q. Now, you indicate in your testimony that
2 a lot of your members have difficulty in passing
3 along the cost of these increases because of the
4 competitive market. To the extent that they do pass
5 those costs along, though, those ultimately reside
6 with the end customer who is, as you just indicated,
7 the residential customer, correct?

8 A. Your Honor, yes, every cost of business
9 ultimately gets paid by you and I the consumer.

10 Q. On page 8 of your testimony, on line 8,
11 you indicate that "Aggressively priced rates are the
12 best way to ensure lower prices for customers." What
13 do you mean by "aggressively priced rates"?

14 A. Your Honor, sir, we believe in a free
15 market system. We believe competition drives high
16 quality and low price. And we believe the more
17 aggressive you are in providing low cost, you create
18 a competitive environment in which whatever the
19 commodity is that's sold comes to you at a high
20 quality and at a good price.

21 Q. On the same page of your testimony, lines
22 13 and 14, you talk about if there are increases,
23 that they be spread equally among all users. Can you
24 explain your intent of how equal increases would be
25 spread?

1 A. Your Honor, sir, all we know right now,
2 in my humble opinion, is that the small commercial
3 class has historically and most notably in this case
4 taken the biggest hit and, you know, we haven't been
5 at the table and that's why you're seeing us at the
6 table.

7 It is our belief that the small
8 commercial class has been the least represented and,
9 therefore, has probably historically, not just in
10 this case, but historically taken the greatest hit in
11 rates, and, quite frankly, we've said enough's
12 enough.

13 Q. So, is it your position that if the
14 Commission were to decide that whatever increase came
15 out of this proceeding, if it was an average
16 5 percent increase, then your position would be that
17 residential, commercial, and industrial customers
18 should see an equal 5 percent increase across the
19 board?

20 A. Your Honor, sir, no, I'm not prepared to
21 get down into those kinds of numbers yet. But we do
22 think the distribution needs to be spread out more
23 evenly. We recognize that there are unique
24 circumstances, there are unique economic issues, we
25 clearly recognize there's a differentiation between

1 residential and commercial class. We recognize that
2 there's obviously large industrial users that have
3 different economic impacts. So I'm not prepared to
4 just say it ought to be a flat 5 percent.

5 But what I do believe is that the small
6 commercial user needs to -- there needs to be a real
7 recognition that they simply can't be paying the
8 highest rate consistently.

9 MR. SERIO: That's all I have, your
10 Honor.

11 Thank you very much, Mr. Geiger.

12 THE WITNESS: Thank you.

13 EXAMINER TAUBER: Thank you.

14 Mr. Nourse?

15 Mr. Alami.

16 MR. ALAMI: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 By Mr. Alami:

20 Q. Good morning, Mr. Geiger. How are you?

21 A. Good morning.

22 Q. I'm looking at page 3 of your testimony
23 first at lines 11 through 16, and I believe
24 Mr. Cicero [verbatim] touched a little bit on this,
25 but you state there that as a result of the opinion

1 and order in December 2011 of this Commission you
2 received a large volume of calls and e-mails from
3 NFIB members expressing concern over increases in
4 their electricity costs; is that correct?

5 A. Right.

6 Q. And just to clarify, when you say the
7 Commission's December 2011 opinion and order, are you
8 referring to the December 14th, 2011, order by this
9 Commission which approved the stipulation that was
10 reached by a group of the parties to this case?

11 A. Your Honor, sir, yes, I believe so.

12 Q. And it's your understanding that the
13 increases in electricity costs experienced by those
14 NFIB members that reached out to you resulted from
15 the rates approved as part of the stipulation?

16 A. Your Honor, yes. I mean, clearly, at the
17 end of the day what they were paying the prior month
18 to what those bills reflected, there was dramatic
19 increases. What actually drove them, I don't know.
20 I'm not the expert. But at the end of the day the
21 bottom line was our members, small businesses, small
22 commercial class, experienced an unprecedented
23 increase in their rates and it was enough, it
24 wasn't -- it was beyond anecdotal.

25 Q. And when you say "the prior month," I'm

1 just trying to get a time period here, when you say
2 "the prior month" to the subsequent month, are
3 referring to generally --

4 A. Prior to the December decision.

5 Q. And you're aware, aren't you, that the
6 stipulation was subsequently rejected by the
7 Commission such that the rates approved as part of
8 the stipulation are no longer in effect?

9 A. Your Honor, yes, and that's why we're
10 here today.

11 Q. And you're aware that the company's new
12 modified plan proposes new rates?

13 A. Your Honor, I believe so.

14 Q. Looking on page 3 also on lines 14 and
15 22, and again you touched on this with Mr. Cicero,
16 the increases in electricity costs you state were
17 substantial and significant and in one case was as
18 high as nearly 200 percent; is that correct?

19 A. Correct.

20 Q. Do you know roughly the average percent
21 increase experienced by those NFIB-Ohio members that
22 reached out to you?

23 A. I do not. I don't think we took an
24 average across the board, but clearly, as you can see
25 by my examples and -- the point was if it had been --

1 had it been a modest increase, we would not have had
2 the human cry. Everybody recognizes that there are
3 modest increases in everybody's pricing. It's when
4 it becomes dramatic that we hear it, and so I believe
5 all of this fell into the category of dramatic.

6 Q. Looking on page 5 now of your testimony
7 and continuing on through 6, page 6, this is the part
8 of your testimony where you provide examples of the
9 increases in electricity bills experienced by three
10 different NFIB members; is that correct?

11 A. Right.

12 Q. And the first such member is Advanced
13 Fiber Technology; is that correct?

14 A. Right.

15 Q. And the exhibits that are a part of your
16 testimony that relate to Advanced Fiber Technology
17 are RRG-002 through RRG-004; is that correct?

18 A. I don't have them in front of me, but I'm
19 assuming they're correct.

20 Q. You don't have a copy of your testimony?

21 A. Oh, I'm sorry, in the back as attached.
22 Yes, I'm sorry. I'm sorry, okay.

23 Q. So you do have a copy.

24 A. I do.

25 Q. Of your exhibits that were --

1 A. I'm sorry, I do.

2 Q. Looking at RRG-004, then, the bill date
3 listed there on the copy of this bill, would you read
4 that bill date there?

5 A. I'm not sure where the bill date is.

6 Q. Is it January 23rd, 2012? Did I read
7 that correctly?

8 A. You're on 004?

9 Q. Yes.

10 A. The due date is February 14th.

11 Q. The bill date.

12 A. I apologize, I'm not an expert at reading
13 the bills here. I don't see the bill date.

14 Q. It should be right under the due date.

15 A. Oh, January 23rd, yes.

16 Q. January 23rd, 2012; is that correct?

17 A. Yeah, correct.

18 Q. Looking next to RRG-008, this is the bill
19 date of January 18th, 2012, for GKM Auto Parts, Inc.;
20 is that correct?

21 A. Right.

22 Q. Looking at RRG-010, this is the copy of
23 the bill for GKM Auto Parts, Inc. also with a bill
24 date of January 11th, 2012; is that correct?

25 A. Correct.

1 Q. RRG-012, there's another copy of an
2 electric bill for GKM Auto Parts and the bill date
3 listed there is also January 31, 2012; is that
4 correct?

5 A. Correct.

6 Q. Looking at RRG-014, another copy here of
7 GKM Auto Parts' electric bill and the bill date
8 listed on this one is January 18th, 2012; is that
9 correct?

10 A. 004?

11 Q. RRG-014.

12 A. Correct.

13 Q. And lastly, looking at RRG-016, a copy of
14 the bill of M&M Hi Tech Fab, and the bill date listed
15 there is January 23, 2012; is that correct?

16 A. Correct.

17 Q. So is it correct, then, Mr. Geiger, that
18 all of the bill comparisons that you included as part
19 of your testimony compared NFIB members' bills, prior
20 bills, to their January 2012 bill; is that correct?

21 A. Correct.

22 Q. And in discussing earlier you indicated
23 that it's your understanding that the January 2012
24 bills would have reflected the rates approved as part
25 of the stipulation in this case; is that correct?

1 A. The December stipulation.

2 Q. Yes.

3 A. Correct.

4 Q. And it's your understanding that those
5 rates are no longer in effect; is that correct?

6 A. It's my understanding we went back to the
7 previous rates, but we're here today to talk about
8 what goes forward.

9 Q. Looking back on page 5 of your testimony
10 in line 16, you state here that, and this relates to
11 member Advanced Fiber Technology, and you state on
12 line 16 that looking at the total bill over that
13 period, and that period as we've just looked at was
14 December 2011 to January 2012, "This NIFB member
15 experienced an increase of 20 percent." Did I read
16 that correctly?

17 A. Correct.

18 Q. Do you know, Mr. Geiger, what a customer
19 such as Advanced Fiber Technology would experience as
20 part of their monthly bill under the company's
21 modified ESP plan?

22 A. Your Honor, we haven't done any modeling,
23 that's not our -- that's not our expertise so I
24 haven't done the modeling of what might happen or
25 what could happen. Our purpose is to show that we

1 can't have this dramatic repeat.

2 Q. Are you aware that the company has stated
3 that a company such as Advanced Fiber Technology
4 would experience an increase in their monthly bill of
5 4 percent --

6 MR. SUGARMAN: Objection.

7 Q. -- under the plan?

8 MR. SUGARMAN: Sorry, I didn't know you
9 hadn't finished. Still objection.

10 EXAMINER TAUBER: On what grounds?

11 MR. SUGARMAN: Foundation. Lack of
12 foundation, excuse me.

13 MR. ALAMI: Your Honor, I believe I
14 prefaced the question with whether or not Mr. Geiger
15 was aware.

16 EXAMINER TAUBER: The objection is
17 overruled.

18 A. Your Honor, sir, the way I'll answer that
19 question is I am not aware of what all you have
20 filed, no. What I do know and what my purpose here
21 is pretty simple, my purpose here is simply to say we
22 can't have a repeat. What all gets calculated into
23 the rate I don't have the expertise knowledge to
24 know. I know that there is an awful lot that goes --
25 so you may say the rate is X, but by the time you add

1 everything else in, distribution charges, riders, all
2 of those kinds of things, at the end of the day it's
3 the bottom line of my members' bill that matters.

4 Q. Understood. Forgive me if I didn't make
5 this clear. I was looking at the total bill figure.

6 MR. ALAMI: If I can just have one
7 minute.

8 EXAMINER TAUBER: You may.

9 Q. Mr. Geiger, if I were to tell you that
10 there's evidence in this record that the company has
11 submitted that indicates under the current plan as
12 proposed by the company small business customers in
13 AEP Ohio's service territory would experience an
14 increase of rates between 2 and 5 percent, do you
15 have any reason to doubt that?

16 MR. SUGARMAN: Object, your Honor. I
17 think that lacks foundation, and it's a self-serving
18 snippet of a portion of the testimony in this case.

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

20 EXAMINER TAUBER: Thank you.

21 Q. Assuming that the record -- the evidence
22 is in the record that the small business customer in
23 AEP Ohio's service territory under the plan proposed
24 by the company, the modified ESP, would see an
25 increase of 2 to 5 percent in their bills, would you

1 consider that a modest increase?

2 MR. SUGARMAN: Same objection.

3 EXAMINER TAUBER: Could you rephrase your
4 question, Mr. Alami?

5 Q. Sure. Earlier, Mr. Geiger, you expressed
6 that customers and NFIB members understand that
7 modest increases in costs will occur; is that
8 correct?

9 A. They could. I will also point out that
10 many small business owners simply aren't increasing
11 any prices right now under the current environment,
12 but yes.

13 Q. And you characterize in your testimony
14 increases of 20 percent, 36 percent as, I'm
15 forgetting your language here today, but in your
16 testimony it's significant and substantial; is that
17 correct?

18 A. Any cost of business that's 20 or
19 30 percent, I suspect that would be true for AEP as
20 well, would be significant.

21 Q. And would you expect a 3 percent increase
22 to be significant?

23 A. In today's environment, yes. As I said,
24 many small business owners have taken price cuts,
25 have done all kinds of cutting and simply aren't

1 raising prices.

2 Q. Would a 2 percent increase be
3 substantial, in your opinion?

4 A. Your Honor, Mr. Chairman, I'm not here to
5 debate what -- that's going to be decided by this
6 Commission, not by me.

7 Q. I understand that.

8 A. So at the end of the day I don't know
9 what that 2 percent really reflects, I don't know
10 whether that's a real 2 percent or not so it's hard
11 for me to react to that because I don't know what all
12 gets added. Is it a true, true, true 2 percent? Can
13 I do the math and look at last month's bill and look
14 at this month's bill and say it's only 2 percent?
15 I'll leave that for this Commission to decide what
16 that amount should be, if anything.

17 Q. So is it your testimony that somewhere
18 around 2 to 3 percent you believe, in your opinion,
19 would be a modest increase?

20 A. Your Honor, is it modest? Yes. Is it
21 sustainable? Is it what ought to be happening in the
22 marketplace? That's a different question.

23 Q. Do you know, Mr. Geiger, if your members
24 see cost increases of 2 to 3 percent in any of their
25 other input products or commodities they purchase?

1 A. Your Honor, they see it all the time.
2 Guess what, they don't get to just pass it on. They
3 don't have a government entity that gets to guarantee
4 them anything. So yes, they see it but they don't
5 just get to pass it on.

6 MR. ALAMI: That's all the questions I
7 have. Thank you, Mr. Geiger.

8 THE WITNESS: Thank you.

9 EXAMINER TAUBER: Mr. Beeler?

10 MR. BEELER: No questions, your Honor.

11 EXAMINER TAUBER: Mr. Sugarman, redirect?

12 MR. SUGARMAN: No redirect, your Honor.

13 EXAMINER TAUBER: Thank you. You may be
14 excused.

15 THE WITNESS: Thank you.

16 MR. SUGARMAN: At this time we would
17 offer NFIB-Ohio Exhibit 101 for admission into the
18 record.

19 EXAMINER TAUBER: Any objections to NFIB
20 Exhibit 101?

21 (No response.)

22 EXAMINER TAUBER: Hearing none it shall
23 be admitted.

24 (EXHIBIT ADMITTED INTO EVIDENCE.)

25 MR. ALAMI: Your Honor, the company would

1 like to reiterate its motion to strike.

2 EXAMINER TAUBER: Having already noted
3 that, I will admit the NIFB Exhibit 101 into the
4 record.

5 Mr. Beeler.

6 MR. BEELER: At this time I'll call
7 Hisham Choueiki.

8 EXAMINER TAUBER: Dr. Choueiki, please
9 raise your right hand.

10 (Witness sworn.)

11 EXAMINER TAUBER: Thank you.

12 - - -

13 HISHAM M. CHOUEIKI, PH.D., P.E.
14 being first duly sworn, as prescribed by law, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 By Mr. Beeler:

18 Q. Please state your name for the record.

19 A. Hisham Choueiki.

20 Q. By whom are you employed and what is your
21 title?

22 A. Senior Energy Specialist employed at the
23 Public Utilities Commission of Ohio.

24 MR. BEELER: May I approach, your Honor?

25 EXAMINER TAUBER: You may.

1 MR. BEELER: For the record I'd like to
2 have marked as Staff Exhibit 101 the prefiled
3 testimony of Hisham Choueiki filed on May 9th, 2012.

4 EXAMINER TAUBER: It shall be so marked.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 Q. Do you have in front of you what has been
7 marked as Staff Exhibit 101?

8 A. Yes.

9 Q. Can you identify Staff Exhibit 101?

10 A. That's my prefiled testimony.

11 Q. Was the prefiled testimony prepared by
12 you?

13 A. Yes.

14 Q. Are there any corrections to your
15 testimony?

16 A. I have several, they're all cosmetic, you
17 know, but I think we ought to go through them. The
18 first one is on the cover page, our division is
19 Planning and Market Analysis, not Market Analysis and
20 Planning, it's changed several times but that's the
21 current name.

22 Then on page 5, most of them are
23 footnotes so basically it's just changing it to a
24 superscript. Page 5, line 17, "Yes, there are," and
25 that's a footnote, 4, the number 4.

1 On page 5 -- I'm sorry, page 6, line 2,
2 we have two of them, the "2014/2015 delivery year"
3 and then there's the number 5, that should be a
4 footnote. And then at the end of the line 6 should
5 be a footnote too. And then on line 3 of the same
6 page after "day" it should be footnote 7.

7 Similarly on lines 13 and 14 on page 6,
8 footnotes should be 8 and 9 respectively.

9 On page 7, line 17, footnote -- it should
10 be footnote 10 after "construct" instead of the
11 number 10.

12 On page 8, line 11, after "cap to seller"
13 it should be footnote 11.

14 On page 8, line 16, instead of "RAA" it
15 should be "reliability assurance agreement" because I
16 haven't mentioned it yet in my testimony, I am just
17 saying "RAA" here. So instead of "RAA" just type
18 "reliability assurance agreement."

19 On page 9, lines 8, 13, and 18, similarly
20 we have footnotes 12, 13, and 14 respectively.

21 On page 10, lines 13 and 17, again,
22 should be footnote 15 and 16 instead of the numbers
23 15 and 16.

24 And then on page 11, line 16, should be
25 footnote 17 at the end of the sentence.

1 That concludes my edits.

2 Q. With those corrections if you were asked
3 the same questions today contained in your prefiled
4 testimony would your answers be the same?

5 A. Yes.

6 Q. Are the answers in your prefiled
7 testimony true and accurate to the best of your
8 knowledge?

9 A. Yes.

10 MR. BEELER: With that, your Honor, I
11 move for admission of Staff Exhibit 101 as corrected
12 subject to cross-examination and tender the witness
13 for cross.

14 EXAMINER TAUBER: Thank you.

15 Ms. Kaleps-Clark?

16 MS. KALEPS-CLARK: No questions, your
17 Honor, thank you.

18 EXAMINER TAUBER: Ms. Hand?

19 MS. HAND: No questions, your Honor,
20 thank you.

21 EXAMINER TAUBER: Mr. Yurick?

22 MR. YURICK: No, thank you, your Honor.

23 EXAMINER SEE: Ms. Thompson?

24 MS. THOMPSON: No questions, your Honor,
25 thank you.

1 EXAMINER TAUBER: Mr. Siwo?

2 MR. SIWO: No questions, your Honor.

3 EXAMINER TAUBER: Ms. Kyler?

4 MS. KYLER: No questions, your Honor.

5 EXAMINER TAUBER: Mr. Sineneng?

6 MR. SINENENG: No questions, your Honor.

7 EXAMINER TAUBER: Mr. Olikar?

8 Mr. Darr.

9 MR. DARR: Just briefly, your Honor.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Darr:

13 Q. Mr. Choueiki, or Dr. Choueiki, on page 3
14 of your testimony you indicate that you're a staff --
15 a member of the Staff Steering Committee of the
16 Organization of PJM States. Could you describe for
17 us what the Organization of PJM States is, please?

18 A. This is basically the organization that
19 represents the state -- the 13 states and the
20 District of Columbia, and we -- that's how we -- it's
21 a formal organization that has 14 board members.
22 Each one of the states and the District of Columbia
23 elect a commissioner, a commissioner to be a board
24 member, and then each one of the commissioners
25 nominate two staff members to be on the Staff

1 Steering Committee. So we're the folks who discuss
2 technical matters and we make recommendations to our
3 respective commissioners in board discussions and
4 whenever the board members are interested in a vote.

5 Q. Turning to page 8 of your testimony
6 starting at line 14, you refer to the FRR entity and
7 what it is authorized to charge competitors or its
8 competitors under the RAA. Do you see that?

9 A. Yes.

10 Q. With regard to this statement, in the
11 question what did you understand to be the FRR entity
12 for purposes of this case?

13 A. AEP Ohio.

14 Q. Are you aware that the signatory on the
15 RAA is, in fact, the Service Corporation?

16 A. Yes.

17 Q. And you're aware through your work I
18 believe that the AEP system provides a capacity
19 commitment to PJM for its entire footprint?

20 A. Correct.

21 Q. And you're aware that the commitments on
22 resources are designed to cover the -- do not -- let
23 me start over again.

24 The resources to cover that commitment
25 need not be generation plants by AEP Ohio, correct?

1 A. Yes.

2 Q. And, in fact, resources can be such
3 things as demand response offered by retail customers
4 within the service territory served by the AEP
5 system, correct?

6 A. To the extent AEP has already like
7 aggregated the retail customers and they would like
8 to offer it, yes.

9 Q. Are there other demand resources within
10 the footprint that could be used to satisfy the
11 capacity commitments within the AEP service
12 territory?

13 A. Well, to the extent -- to the extent they
14 have aggregated and -- I take that back. AEP,
15 because they have -- I don't believe anyone has opted
16 out, so basically AEP satisfies all its demand for
17 FRR, under the FRR requirements. Now, AEP could
18 decide to themselves put in some DR --

19 Q. And do you know --

20 A. -- to satisfy the FRR requirement,
21 correct.

22 Q. And do you know whether or not that's
23 occurred?

24 A. I'm not sure. I look at the FRR and the
25 only thing I see, like because the FRR entity has to

1 post all its generation assets that it commits to
2 FRR, and the only thing I see are generation
3 resources.

4 Now, that doesn't mean AEP is not
5 satisfying its requirement by also showing PJM some
6 DR, but I don't see them on the PJM website.

7 Q. Now, with regard to the use of those
8 resources, is it fair to say that PJM directs the
9 dispatch of those resources on a day-by-day basis?

10 A. Yes.

11 Q. And is it fair to say that AEP has,
12 through its FRR election, delegated to the PJM system
13 that process for dispatching resources to the PJM
14 footprint?

15 A. No, the FRR is for capacity. AEP is all
16 its power plants, any power plant that's an active
17 power plant, even if it's not an FRR unit, if PJM
18 needs it, it will dispatch it.

19 Q. So essentially PJM is in control of the
20 dispatch for the PJM footprint, correct?

21 A. Yes.

22 Q. Now, with regard to this question on page
23 8, line 14, when you're referring to the FRR entity,
24 I believe you indicated previously that you were
25 referring to or thought this question referred to

1 AEP Ohio; is that correct?

2 A. I agreed with you earlier that actually
3 the FRR entity that signed the agreement is the
4 larger AEP, not AEP Ohio, but when I'm thinking about
5 AEP Ohio's commitment, I look at AEP Ohio's
6 generation that's committed in the FRR on the PJM
7 website.

8 Q. And specifically with regard to this
9 question you're referring to competitors of the FRR
10 entity, is your understanding of this question that
11 AEP Ohio has competitors in its role as the FRR
12 entity?

13 A. AEP Ohio has retail competitors for
14 energy -- in the retail market, in the Ohio retail
15 market.

16 Q. And when you're referring to AEP Ohio,
17 you're referring to the electric distribution
18 utility, correct?

19 A. Well, it's vertically integrated right
20 now so it's everyone.

21 Q. I want to make sure I understand your
22 answer. You're referring to the electric
23 distribution utility, correct?

24 A. Correct. That owns generation.

25 Q. And that distribution utility has an

1 obligation currently under Ohio law to be the
2 standard service offer provider, correct?

3 A. Correct.

4 Q. And to the extent that there are
5 competitive activities, is it your understanding that
6 the EDU, AEP Ohio, is allowed to engage in
7 competitive activities?

8 A. No. An affiliate of AEP Ohio can engage.

9 Q. And specifically here we're talking
10 about, for example, AEP Retail, correct?

11 A. Correct.

12 Q. With regard to the EDU, in this case
13 AEP Ohio, the EDU's obligation is to provide the SSO
14 that we just talked about, and it is also responsible
15 for providing the distribution component of service
16 to the retail customer; is that also correct?

17 A. Yes.

18 Q. I know that Ms. McCarter has been
19 identified as the witness responsible with regard to
20 corporate separation. Do you have any familiarity
21 with the separation requirements between the EDU and
22 any competitive activities that may take place within
23 the AEP structure?

24 A. No.

25 Q. Finally, you mentioned a moment ago that

1 you were aware of the commitments of facilities that
2 AEP, as a system, has made with regard to its FRR
3 commitments. Are you familiar with the FRR
4 commitments that have been made with regard to the
5 Amos and Mitchell plants that have been identified
6 for transfer?

7 A. Yes, I'm familiar that they committed
8 them for the '15-'16 delivery year.

9 Q. And how were those assets committed?

10 A. In the FRR, I mean, I saw them on the FRR
11 list when AEP in April I think, that's one month
12 before the BRA, they're supposed to let PJM know, and
13 they didn't put them into the RPM, they committed
14 them into the FRR.

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

17 EXAMINER TAUBER: Thank you.

18 Mr. Lang?

19 MR. LANG: I do have questions.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Lang:

23 Q. Good morning, Dr. Choueiki.

24 A. Good morning.

25 Q. In your testimony where you refer to the

1 FRR construct, this is actually on page 7, line 18,
2 you refer to it as an alternative to RPM, do you
3 agree that the FRR construct is one of the options
4 that's available under the reliability pricing model?

5 A. Yes.

6 Q. So the FRR construct or alternative is
7 not separate from the reliability pricing model.

8 A. It's under Schedule 8 that discusses RPM,
9 I guess, and the FRR.

10 Q. Would you agree that the purpose of the
11 reliability pricing model, whether it's the FRR
12 option or the RPM auction alternative, it is to price
13 capacity at the level necessary to ensure
14 reliability?

15 A. Yes. I mean, it's an administrative
16 process, but so far so good.

17 Q. Would you agree that the compensation
18 provided under the reliability pricing model, either
19 through the FRR construct or the auction alternative,
20 is what is required as determined by the reliability
21 pricing model to ensure reliability?

22 THE WITNESS: Could I have that question
23 repeated, again? I'm sorry.

24 (Record read.)

25 A. The FRR, there is no -- the compensation

1 for FRR could be the RPM clearing price and the rest
2 of RTO. It could be, but officially the first level
3 is the state compensation mechanism. And to the
4 extent there is no state compensation mechanism, then
5 the default is the RPM in the unconstrained region of
6 PJM, is the RPM clearing price in the unconstrained
7 region.

8 Or, if the FRR entity decides to apply at
9 FERC under Section 205, they can go and apply to a
10 cost-based formula that has to be deemed just and
11 reasonable by FERC. So the compensation under RPM is
12 basically the clearing price, you go under variable
13 resource requirement curve and look where they land
14 on the axis, on the vertical axis for price, for
15 clearing price. But under the FRR it's a bit
16 different.

17 Q. Well, I guess what I'm asking you is a
18 little bit higher level, whether a load-serving
19 entity is pursuing the FRR construct or they're
20 participating in the auction, in either case the
21 price that they're receiving, the purpose of that
22 price is to ensure reliability.

23 A. Yes.

24 Q. And that's kind of why it's the
25 reliability pricing model, correct?

1 A. Correct. I mean, at the end of the day
2 we went to set a reliability target and you have to
3 satisfy it.

4 Q. Now, are you aware that the Federal
5 Energy Regulatory Commission has found that the
6 capacity pricing resulting from the RPM auction
7 alternative is just and reasonable?

8 A. Yes. I mean, under the tariff, they've
9 approved the tariff, so.

10 Q. And as a result, would you agree that the
11 RPM auction capacity pricing is compensatory for
12 purposes of the reliability pricing model?

13 A. Okay, that's a bit of a complex question
14 here.

15 MR. BEELER: I'm going to object here,
16 your Honor, I think it may be calling for a legal
17 conclusion here.

18 MR. LANG: I certainly wasn't trying to
19 call for a legal conclusion, but if it's something he
20 can answer, you know, not including a legal
21 conclusion, that would be great.

22 EXAMINER TAUBER: With that
23 clarification, if you could answer the question.

24 THE WITNESS: Can you repeat the question
25 again? I know it was a very short question, but it

1 was very, in my mind it was very complex.

2 (Record read.)

3 A. Not necessarily. Sometimes it is
4 compensatory, sometimes it is not. It depends who
5 you are as a supplier and what type of generation
6 fleet you have. This is the clearing price, so not
7 everyone is going to be able to be made whole from an
8 RPM price.

9 Q. Would you agree -- sorry.

10 Would you agree that the RPM auction
11 capacity pricing achieves the purpose of the RPM, the
12 model that we've discussed, of ensuring reliability?

13 MR. NOURSE: Your Honor, I would object.
14 Asking about the purpose; I'm not sure there's a
15 foundation for that or what basis one would glean the
16 purpose of the RAA in this context in any event.

17 EXAMINER TAUBER: Mr. Lang?

18 MR. LANG: Yeah, and, your Honor, his
19 testimony does go to the FRR construct and also talks
20 about whether it's compensatory, and I think that's
21 part of whether it is compensatory is whether it
22 achieves the purpose of the reliability pricing
23 model.

24 EXAMINER TAUBER: The objection's
25 overruled.

1 A. So achieving reliability objective, it is
2 because PJM has reported the reserve margin every
3 year is higher than the 15.2 percent that they
4 require with the exception of this year, and the rest
5 of RTO, I think they procured 20 percent, 20 point
6 something percent for -- and in the ATSI zone it was
7 exactly 15.4 percent so it was exactly at the target.

8 So to the extent that it achieves -- so
9 far since RPM was introduced they have always
10 achieved the reliability target.

11 MR. LANG: Thank you very much,
12 Dr. Choueiki.

13 Thank you, your Honor.

14 EXAMINER TAUBER: Thank you.

15 Mr. Maskovyak?

16 MR. MASKOVYAK: No questions, your Honor.

17 EXAMINER TAUBER: Mr. Etter?

18 MR. ETTER: No questions, your Honor.

19 EXAMINER TAUBER: Mr. Nourse?

20 MR. NOURSE: Thank you, your Honor.

21 - - -

22 CROSS-EXAMINATION

23 By Mr. Nourse:

24 Q. Good morning, Dr. Choueiki.

25 A. Good morning.

1 Q. Let me go back to something Mr. Lang was
2 talking to you about just now relative to the
3 purpose -- your understanding of the purpose of the
4 RAA and the RPM structure. Is reliability the sole
5 purpose and goal of every provision in the RAA?

6 A. I think they're all tied to reliability,
7 that's why it's entitled reliability assurance
8 agreement. They're guaranteeing the reliability
9 under this agreement.

10 Q. And what's the purpose of the FRR, to
11 your understanding?

12 A. The FRR is if a utility or a load opts
13 out and they believe they can procure their own
14 generation rather than buy in and participate in the
15 auction, then they are entitled to do so.

16 Q. Yes. And is there a provision in the
17 FRR, to your knowledge, that talks about the
18 potential for a cost-based capacity charge?

19 A. Yes. So to the extent there is no state
20 compensation mechanism, then the next step would be
21 either the clearing price, like AEP Ohio or AEP --
22 well, AEP Ohio in this case -- has been charging its
23 CRES providers, the RPM price, but they have an
24 alternative too and that is cost based, that is
25 deemed just and reasonable by FERC.

1 Q. Okay. And we'll get back to your
2 scenario of how we get to the cost-based rate a
3 little bit later, but sticking to this point about
4 the purpose, you would agree in that context another
5 purpose of the FRR portion of the RAA is to
6 potentially look at a cost-based rate, correct?

7 A. I'm sorry, could you repeat your question
8 again at the beginning? The beginning of that
9 question?

10 Q. Yeah, I can rephrase it.

11 A. Okay.

12 Q. So would you agree that another purpose
13 of the FRR in that context of the cost-based rate
14 scenario is that an FRR entity be paid a cost-based
15 rate?

16 A. Okay. Now, the purpose of participating
17 is to satisfy the reliability requirement again. So
18 now the question is how does an FRR company -- entity
19 get compensated.

20 So either under the state compensation
21 mechanism, they can be compensated under a state
22 compensation mechanism and that would be it. To the
23 extent there isn't one, then it's either the RPM in
24 the unconstrained region or a cost-based
25 compensation. Although the purpose is not a

1 cost-based compensation, the purpose is satisfying
2 the PJM reliability requirement.

3 Q. But let's get back -- let's set aside how
4 you get to a cost-based rate. I'll get back with you
5 on that. So I don't want to go through the options
6 again. What I'm asking you is the fact that the FRR
7 does allow, under some circumstance, a cost-based
8 rate, doesn't that suggest that compensation based on
9 cost is also a purpose of the FRR in that context?

10 MR. LANG: Your Honor, I would object
11 because he just answered that question.

12 MR. DARR: Join in the objection.

13 MR. BEELER: I join in the objection as
14 well.

15 EXAMINER TAUBER: Mr. Nourse.

16 MR. NOURSE: Your Honor, first of all,
17 Mr. Lang asked him about the purpose of the RAA and
18 the purpose of the FRR, and he then jumped to the
19 compensatory, therefore, it has to be presumed to be
20 compensatory. That's what I'm exploring. That's
21 exactly what I'm trying to explore with this
22 question.

23 EXAMINER TAUBER: Mr. Nourse, if you
24 could move along, please.

25 MR. NOURSE: Well, your Honor, his

1 testimony talks about compensatory, I think I'm
2 entitled to explore that. Just because Mr. Lang
3 asked a question that used the same term, I should be
4 able to explore his testimony.

5 EXAMINER TAUBER: From what I'm
6 understanding, Dr. Choueiki answered the question.
7 If you want to rephrase your question or if you have
8 another question, you're entitled to ask that.

9 Q. Yes. So, Dr. Choueiki, given that there
10 is an opportunity for a cost-based rate under some
11 scenario using the FRR, doesn't compensation under a
12 cost-based rate also constitute another purpose of
13 the FRR?

14 MR. DARR: Objection.

15 MR. LANG: Objection, your Honor. It is
16 the same question.

17 MR. DARR: It is the same question, your
18 Honor, same objection.

19 EXAMINER TAUBER: Mr. Nourse, can you
20 please move along?

21 Q. Dr. Choueiki, do you believe that the RPM
22 rates for 2012 through 2015 are compensatory to the
23 company?

24 A. I haven't made that finding myself.
25 That's a finding for the Commission to make.

1 Q. And what's your definition of
2 "compensatory"?

3 A. Making you cover your cost.

4 Q. Okay. And are you familiar with staff's
5 testimony in the capacity docket which is actually
6 dealing with the proper capacity charge for AEP Ohio?

7 A. Yes.

8 Q. And what is that testimony?

9 A. That testimony says that you take your
10 fully embedded costs and then Staff Witness Smith
11 went and made some edits, made some recommendations
12 to the Commission to edit that number, developed his
13 own fully embedded costs, and then after that,
14 Witness Medine looked at the net energy and ancillary
15 services revenues and subtracted these numbers from
16 the fully embedded costs that Mr. Smith testified to,
17 came up with a dollars per megawatt-day that would
18 cover you, make all your -- cover all your costs with
19 an allowed rate of return on equity of 10 percent or
20 something like that. I can't remember what the
21 number is that Mr. Smith recommended.

22 Q. Okay. And the result of staff's
23 testimony in the capacity case was that the
24 cost-based rate would be \$146 per megawatt-day; is
25 that correct?

1 A. Correct.

2 Q. And so does a -- let me rephrase.

3 So do the RPM rates in effect 2012
4 through 2015 recover the company's costs if the
5 company's costs are \$146 per megawatt-day?

6 A. To the extent the Commission decides that
7 we want to go with rather than a transparent capacity
8 price a cost-based price and have that deemed to be
9 the state compensation mechanism, then that's --
10 \$146 is more than \$16 and more than \$27 and more than
11 \$125.99.

12 Q. Okay. So if staff's understanding of a
13 cost-based rate is accepted, then the RPM rates would
14 not be compensatory for the period in question,
15 correct?

16 A. The Commission will make that finding,
17 not staff.

18 Q. But you are staff. I'm asking you if
19 staff's cost-based rate is accepted, then you would
20 agree that the RPM rates are not compensatory, would
21 you not?

22 MR. BEELER: Objection. He answered the
23 question, I believe.

24 MR. NOURSE: Your Honor, this is a
25 critical point and I'm simply attempting to make it

1 clear for the record.

2 EXAMINER TAUBER: I'll allow it.

3 A. Okay. So the staff recommendation is
4 charge the prevailing RPM rate to all CRES providers
5 like AEP has done in the past. To the extent the
6 Commission says -- makes a finding that although this
7 is the market clearing price, we agree that \$16, or
8 we make a finding that \$16 is not enough to make AEP
9 get 10 percent return on equity and we want to make
10 sure they stay in business, and to the extent they
11 agree or they're convinced that there will be a
12 financial distress to the company, to AEP Ohio, then
13 our recommendation in that case would be to not give
14 them the fully embedded cost, give them whatever our
15 staff witness has testified to in 2929, which was
16 \$146.

17 Q. Okay. So does staff believe that the RPM
18 rates are compensatory?

19 A. I don't have enough information myself to
20 make that judgment.

21 Q. Are you aware of any witness in the
22 capacity case whose position states that the RPM
23 prices for 2012 through 2015 cover AEP Ohio's costs
24 for providing capacity during that period?

25 A. I know AEP witnesses said that it wanted

1 compensatory.

2 Q. You didn't understand my question --

3 A. Oh, I'm sorry.

4 Q. -- if that's your answer. I'm asking you
5 if there are any witnesses -- first of all, you've
6 been sitting in on the capacity case hearings, right?

7 A. Most of the time.

8 Q. And are you aware of any testimony in
9 that case, the 10-2929 case, that says the RPM rates
10 for 2012 through 2015 cover AEP Ohio's costs for
11 providing capacity during that period?

12 A. I'm trying to think now. I think the
13 folks who FirstEnergy Solutions would have
14 introduced, I think Lesser maybe, and I can't
15 remember what he came up with, he came up with maybe
16 \$78 a megawatt-day or something like this. I mean,
17 he used some methodology and came up with \$78.

18 Q. That's above \$16, is it not?

19 A. That's above \$16 too.

20 Q. Okay. So the answer would be no?

21 A. The answer would be I am not aware of
22 other witnesses and there could be, but I'm not aware
23 of them.

24 Q. Okay. Now, let's get back to your
25 scenario about how we get to the cost-based option to

1 begin with under the RAA.

2 A. Okay.

3 Q. You stated I believe a couple times
4 earlier that the only way you get there is if there's
5 no state compensation mechanism; is that --

6 A. Yes.

7 Q. Did I accurately state your position?

8 A. Yes.

9 Q. Okay. Now, and are you aware the company
10 has taken a position that the Section 205 option for
11 establishing a cost-based rate is something that's
12 always available as a backstop under the FRR?

13 A. Yes. I mean, you made a filing, a 205
14 filing, at FERC for a cost-based rate.

15 Q. Okay. And are you aware of the 206
16 filing as well?

17 A. Yes.

18 Q. Okay.

19 A. Which is a complaint on the tariff, on
20 the PJM tariff.

21 Q. Okay. So is it fair to say that the
22 issue of whether you get to the cost-based rate
23 option is a matter that's pending and in dispute?

24 A. It's at FERC, yes, I know that.

25 Q. Okay. So you --

1 A. One of them is on rehearing and -- I
2 think the 205 one is on rehearing and the other one,
3 I think they haven't acted yet.

4 Q. So you recognize that, in other words,
5 your reading of the RAA in this regard is not the
6 only reading and it's not definitive or authoritative
7 as to the outcome of that issue, correct?

8 A. Well, I mean, the current RAA is very
9 clear in my mind, and I'm an engineer and I could
10 read the legal language and it's very clear that you
11 go with a state compensation mechanism and it
12 prevails, that's what FERC says.

13 Q. Okay.

14 A. Now, to the extent FERC changes the
15 tariff, agrees with AEP in the 206 and changes its
16 tariff, then it's a different story of course
17 altogether.

18 Q. That's the -- I'm sorry, go ahead.

19 A. But the current state of affairs is as I
20 summarized them.

21 Q. And you believe that's already been
22 definitively established through a final order of the
23 FERC?

24 A. I believe this is the current FERC
25 tariff. Now, to the extent FERC agrees with AEP and

1 changes that tariff, then the next -- after the
2 changes will become the final tariff.

3 Q. Well, I'm not asking you to explain your
4 position. I think your position is clear. What I'm
5 asking you is whether it's an open matter or whether
6 it's been finally determined. Can you say which?

7 A. It's an open matter.

8 Q. Okay. Now, are you aware of any other
9 states that are pursuing a cost-based state
10 compensation mechanism relative to an FRR entity?

11 A. I'm trying to think who in AEP's
12 territory has retail choice besides Ohio. You can
13 enlighten me, I'm not sure.

14 MR. NOURSE: Your Honor, I'd like to mark
15 an exhibit. AEP Ohio Exhibit 123.

16 EXAMINER TAUBER: You said 123?

17 MR. NOURSE: Yes, I believe so.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Dr. Choueiki, the document I handed you
20 is an order from the Michigan Public Service
21 Commission. Do you see that?

22 A. Yes. Yes.

23 Q. Does this refresh your recollection?

24 A. I mean, I know that AEP filed a
25 cost-based rate in Michigan, but they filed it at

1 FERC, again, with a number larger than 355.

2 Q. Okay. Could I -- I'm sorry, were you
3 finished?

4 A. Yes.

5 Q. Could I direct your attention to page 4.

6 A. Okay.

7 Q. And can you look at paragraph 3 of the
8 order.

9 MR. BEELER: I'm going to object here,
10 your Honor. Just I guess a foundation question, he
11 hasn't established that Dr. Choueiki has seen this
12 document before.

13 MR. NOURSE: I asked him if it had
14 refreshed his recollection.

15 Q. So, Dr. Choueiki, are you familiar with
16 the Michigan proceeding?

17 A. No. The only thing I know is that AEP
18 filed -- AEP Michigan filed at FERC or something
19 similar to AEP Ohio filing at FERC. No, I don't know
20 about this order.

21 Q. Okay. Let me ask you first to look at
22 the back page of the order. Does this appear to be
23 an executed, signed order dated May 24th, 2012,
24 issued by the Michigan commission?

25 A. Yep.

1 Q. Okay. Now, directing your attention to
2 page 4, paragraph 3 of the order --

3 A. Okay. Okay, so basically they're
4 instructing you to file a state compensation
5 mechanism.

6 MR. BEELER: Again, your Honor,
7 Dr. Choueiki has already said that he's not familiar
8 with the case or the proceeding, you know, at this
9 point he's just reading what's on the page without
10 having any knowledge of this case in Michigan.

11 MR. NOURSE: Your Honor, again, I'm
12 exploring his understanding of the RAA and his
13 testimony about how it works and, obviously, this is
14 a common practice before the Commission to show
15 witnesses orders and documents they may not have seen
16 before.

17 EXAMINER TAUBER: I'll allow it for now,
18 but let's keep it focused.

19 Q. So, yes, very briefly, Dr. Choueiki, is
20 your understanding from reading paragraph 3 on page 4
21 that the Michigan commission directed Indiana
22 Michigan Power Company to file a cost-of-service
23 based proposal in this docket adhering to Michigan
24 ratemaking principles?

25 A. Yes.

1 Q. Thank you.

2 Now, in your testimony you basically, as
3 I understand it, address two situations in connection
4 with the capacity pricing component of the MRO test,
5 correct? You're addressing the RPM being the input
6 and, first of all, and then, second of all, you're
7 addressing the 146 per megawatt-day rate the staff
8 recommends or at least developed as the cost-based
9 rate in the capacity case, correct?

10 A. Yes. So first it's the RPM, to the
11 extent the Commission decides, again, that it's
12 noncompensatory, then our recommendation would be to
13 use what is in the 2929 case and what staff witnesses
14 developed as a fair dollars per megawatt-day charge.

15 Q. So are you suggesting, are you
16 contemplating that there would be a compliance run of
17 the MRO test, essentially, to whatever the outcome is
18 in the capacity docket?

19 A. Yes. So if the Commission decides to act
20 with -- on the cost capacity to end the SSO case and
21 then you would run the MRO test under the 146, if
22 they agree that they want to use 146, if they agree
23 that they want to use RPM, then you do the test under
24 RPM.

25 Q. Okay. And, similarly, if they agree they

1 want to use \$355 as proposed by the company, that
2 would also be appropriate to do a compliance run of
3 the MRO test on that basis?

4 A. That's a stretch. I'll be surprised but,
5 you know, to the extent they agree that 355, that AEP
6 should be compensated for its fully embedded cost of
7 \$355, then that would be, actually the market would
8 be -- there won't be a market for capacity, it will
9 be 355 for everyone, so then you would add that as a
10 constant in your MRO, like what Witness Thomas did.

11 Q. So, Dr. Choueiki, I'm asking you a simple
12 question, you stated that the intention of your
13 recommendation was to have a compliance run in
14 accordance with the outcome of the capacity docket.
15 Did I get that correct?

16 A. I mean, presumably you're going to do
17 that before you do the SSO docket, or at the same
18 time, simultaneously. So the Commission is not going
19 to do the SSO and then later on do the capacity
20 docket. I don't see this happening. Knowing the
21 Commission's agenda I believe the cost would come
22 first or during and used as an input to do the MRO
23 test.

24 Q. And that's the presumption you're making
25 in your recommendation, correct?

1 A. Yes.

2 Q. And that's why you refer to the 146 as a
3 potential outcome in the capacity docket, correct?

4 A. Correct. Because then Witness Johnson
5 goes ahead and develops an MRO based on 146, too. So
6 we do it based on RPM and we do it based on 146.

7 Q. Okay. But those are two of the outcomes.
8 But you agree there are additional outcomes that
9 could occur from the capacity charge docket, correct?

10 A. Yes. Yes. I mean, to the extent the
11 Commission decides not RPM and not 146, a third
12 outcome, yeah, then the third outcome would be the
13 one you do the MRO test with.

14 Q. Okay. And just to be clear, then,
15 another outcome happens to be the company's proposal
16 in this case for a capacity charge, the two-tier
17 proposal. You're familiar with that, right?

18 A. Yes.

19 Q. That could be an outcome of the cases
20 either jointly or separately for the resulting
21 capacity charge, correct?

22 A. Yeah, I mean, if the Commission decides
23 that whatever the interim compensation mechanism
24 becomes permanent or becomes the mechanism for three
25 years, then that would be the one to be used as an

1 input in the MRO.

2 Q. Okay. Thank you.

3 Let me ask you about your Exhibit HMC-1.
4 Are you there?

5 A. Yes.

6 Q. Now, the BRA prices that you list in the
7 box in the upper left-hand corner, are those rates
8 that are listed there actually what's paid by the
9 load?

10 A. Those are the final zonal, to the extent
11 it is final like the '12-'13 are final, now the other
12 two there are still incremental auctions that might
13 change them a bit, but those are the final zonal
14 capacity prices.

15 Now, of course the entity that bills is
16 going to -- the one who's responsible for resource,
17 for the resources, procuring the resources, in this
18 case AEP Ohio would bill that number times the
19 quantity. The quantity, in my mind, where you apply
20 your losses and you apply your scaling factor and you
21 apply your pooling requirement, so the price, I
22 always want to separate the price from the billing.

23 What AEP did is they took that number,
24 the 16.73, and multiplied it by the scaling factor,
25 the pooling requirement, and losses. I like to keep

1 it separate because those numbers are understood
2 everywhere. Those are the clearing prices, and then
3 you multiply them by the quantity. The quantity, you
4 enlarge the quantity by the scaling factors,

5 So at the end of the day the result is
6 the same, you're just multiplying the scaling
7 factors, pooling requirement, and losses by the
8 megawatt-hours consumed.

9 Q. Okay. That may have been a long way of
10 agreeing with me, but are these rates in the box the
11 rates that the load pays for capacity?

12 A. Those are the rates reported by PJM for a
13 clearing price, okay? In my mind I don't touch these
14 rates. Those are the rates that are the clearing
15 prices.

16 Q. These -- I'm sorry.

17 A. What the bill is is a rate times a
18 quantity. Do you agree?

19 Q. I'm asking you the questions. I want to
20 get back to that question so go ahead and finish your
21 answer.

22 A. So the bill is the rate times the
23 quantity. In my mind the quantity is where you apply
24 all these scaling factors because as an entity you're
25 required to not only procure for people but peak load

1 plus reserve. That's a quantity. So you apply these
2 scaling factors, pooling requirement, losses to the
3 quantity, not to the clearing price.

4 Q. Okay. Let me ask it a different way.
5 Are these the rates that generators collect under the
6 BRA?

7 A. Generators use this rate and they
8 multiply it by a quantity, and that's what they
9 collect.

10 Q. Yeah. And I'm not talking about billing
11 right now. I'm asking you this is the rate that's
12 paid to generators under the BRA, correct?

13 A. This is the rate -- look at the title,
14 Mr. Nourse, it says RTO clearing price in dollars per
15 megawatt-day. The RTO clearing price is \$16.73.
16 It's not \$20 and whatever AEP is saying. It's
17 \$16.73. If you go to the PJM website, you see the
18 clearing price as \$16.73.

19 Now, you -- I agree with you that you
20 need to take into account scaling, pooling, and
21 losses. You apply these three factors to the
22 quantity consumed and you come up with the right
23 arithmetic, you come up with the same arithmetic that
24 AEP came up with.

25 Q. Well, let's get back to my simple

1 questions here and we can probably move this along
2 quicker. I understand what the title and the column
3 heading says. What I'm asking you is what this
4 number means in real life. Are these the numbers,
5 these are the rates in your box that are applied to
6 generators? They actually receive this rate; is that
7 correct?

8 A. Yes. They receive this rate times the
9 quantity.

10 Q. And -- were you finished?

11 A. Yes.

12 Q. Okay. Now, when a CRES provider pays for
13 capacity, using RPM, using the BRA clearing prices,
14 do they pay these rates?

15 A. I've never seen a bill between a CRES
16 provider and AEP so I couldn't tell you, but in my
17 mind it will be the quantity times \$16.73. Now,
18 maybe AEP takes the 16.73 and multiplies it by the
19 scalers and then multiplies it by the consumption.
20 That's another way of doing it. In my mind, I don't
21 do it this way.

22 Q. Okay. Well --

23 A. I mean, we come up with the same number.
24 You come up with the same dollar amount that you bill
25 a CRES provider.

1 Q. Let's clarify that, Dr. Choueiki.

2 MR. NOURSE: I'd like to mark as an
3 exhibit AEP Exhibit 124.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 Q. Dr. Choueiki, you may have seen this
6 before.

7 A. Yes.

8 Q. It seems to be what you were referring to
9 in some of your answers just now.

10 A. Yes.

11 Q. It's a schedule from Dr. Pearce's
12 schedule in the capacity case.

13 A. Yes.

14 Q. KDP-7.

15 A. Yeah, I've seen this one.

16 Q. Okay. If we can go through this briefly,
17 so you see about in the middle of the page where
18 there's the column 9, I guess, BRA clearing price?

19 A. Yes, RPM BRA clearing price.

20 Q. And those match up, do they not, for the
21 numbers in your box on HMC-1?

22 A. Well, mine are a bit different because
23 mine include the final, final zonal clearing price
24 for the '12-'13. This one probably does not, the
25 16.46.

1 Q. Well, wait a second. I asked you about
2 column 9.

3 A. Which one is column 9? Column H you
4 mean? Are they numbers? I'm sorry, I don't see
5 numbers.

6 Q. G. I'm sorry, I glanced at that wrong.

7 A. Okay.

8 Q. Column G.

9 A. Column G which says \$16.46, right?

10 Q. Correct.

11 A. Mine says 16.73 because mine is a bit
12 more updated than yours.

13 Q. Okay. Well, in your testimony you do not
14 explain that these, the interim auction versus the
15 final incremental auction, rather --

16 A. Yes.

17 Q. -- you're saying those rates get
18 finalized in that process, correct?

19 A. Yes. Correct.

20 Q. And some of your rates are not final as
21 well, correct?

22 A. Yeah. I mean, they're almost the same.
23 They're just a bit different.

24 Q. Okay. And --

25 A. So what I would do is compare H, H is

1 closest to my boxes.

2 Q. Right.

3 A. Okay. Because the 16.52, I think it
4 doesn't include the last incremental auction. In the
5 last incremental auction I think it became \$16.73.

6 Q. I was getting there, but that's fine. So
7 as you explain in your testimony, the initial BRA
8 clearing price gets refined, if you will --

9 A. Yes.

10 Q. -- or typically modified in a nonmaterial
11 fashion through incremental auction, correct?

12 A. Yes.

13 Q. Okay. And that's reflected here in
14 Column H of Exhibit 124 for at least for the 2012-'13
15 planning year, correct?

16 A. Yeah. But what I'm saying is actually
17 AEP's numbers should be revised one more time like
18 because the 16.52 is now 16.73, and that's now all
19 the incremental auctions for the '12-'13 are
20 finalized. So the final number is \$16.73. The
21 final -- the not-final number, because the 27.73 you
22 haven't gotten all the incremental auctions yet, but
23 there is one incremental auction that has occurred
24 and that's why my number says 27.86. AEP's number
25 says 27.73. So the numbers are a bit larger after

1 one incremental auction for the '13-'14 year.

2 Q. Okay. And so now we understand that,
3 what I wanted to move to on this exhibit was the
4 scaling factors.

5 A. Okay.

6 Q. And so you would agree that the scaling
7 factor and then the forecast pool requirement and
8 losses are all applied to come up with an effective
9 RPM rate that actually gets used for billing CRES
10 providers; is that your understanding?

11 A. Maybe that's what AEP does, yes. I mean,
12 in my mind -- I mean, I understand the three scaling
13 factors and I understand that they need to be -- it's
14 basically just organization, that's the only
15 difference between my position and AEP's position.

16 In organization the final zonal capacity
17 price is what you see, what you should see in your
18 column H. Now, you see those three numbers that
19 follow in I, J, and K?

20 Q. That's what I just mentioned, yes.

21 A. Okay. Those three numbers should be
22 multiplied by the quantity, the end use consumption,
23 and then multiply them by the final zonal capacity
24 price and you get the same number. You get the same
25 dollar.

1 Q. Yeah. And, again, I'm not talking about
2 the actual dollar amount on the bill, I'm talking
3 about the rate that gets paid by the load as opposed
4 to generators which is the rate in your exhibit. I'm
5 asking you if the rate that gets paid by the load is
6 actually the rate that -- after you apply the scaling
7 factor, the forecast pool requirement, and the
8 losses. Is that correct?

9 A. No. I mean, I don't want to --
10 Mr. Nourse, we both agree the dollar is -- the bill
11 is the same. As an engineer, I'm never going to put
12 scaling factors on the price, okay? The scaling
13 factors go on the quantity. You lose when you
14 provide the quantity so you multiply the scaling
15 factors, all three of them, by the quantity and then
16 you multiply by the final zonal capacity price and
17 you get the same number. So that's where my position
18 is.

19 Q. Well, you're saying that somebody does
20 that last step. Does Mr. Johnson do that last step?

21 A. No. No.

22 Q. So you're saying that even though that's
23 what they pay, even though that's what CRES providers
24 pay, that it should not be reflected in the MRO test?

25 A. No, because that's on the quantity. It's

1 the final zonal clearing price, if you go on the PJM
2 website, you don't see \$20, you don't see \$20 at all,
3 you see the scaling parameter, the pooling
4 requirement, and the losses for each one of the
5 utilities. And each one of the utilities you
6 multiply by the quantity, and the market price is the
7 market price, what you see on the PJM website.

8 Q. Okay.

9 A. Because that's dependent on the utility,
10 on the service area. AEP's numbers are completely
11 different than someone else's numbers, so you can't
12 say the RPM clearing price is \$20 because it's not.

13 Q. I didn't say that, Dr. Choueiki. I asked
14 you what the load pays, what the rate is that the
15 load pays. And you're disagreeing that it's not the
16 scaled-up price; is that correct?

17 A. Correct.

18 Q. Okay. And so let's talk about this
19 conceptually. Set the numbers aside. When you say
20 the quantity, it's reflected in the quantity, you're
21 mainly referring to losses in that reference?

22 A. Losses, the pooling requirement, and the
23 scaling.

24 Q. Okay. So it's true that the, from a
25 capacity standpoint, that the FRR entity, in this

1 case AEP Ohio, provides sufficient capacity not only
2 to meet the projected load but also with the reserve
3 margin; is that correct?

4 A. Yes.

5 Q. And then who pays for that?

6 A. The load pays for everything, okay. So
7 the load pays and AEP is entitled to get compensated
8 for the procured reserve. So that's why I said you
9 apply -- so you don't bill your customers based on
10 peak load, you bill your customers based on peak load
11 plus reserve; that's a quantity. That's not a price.

12 Okay, then you multiply the final zonal
13 capacity price by this revised quantity, so you --
14 not only that, then you revise it by including losses
15 and you revise it by including the scaling factor
16 because the scaling factor is basically the growth
17 from the historical year that you're determining,
18 that PJM is reporting, for example, for the '15-'16
19 it will be 2011 peak load, coincident peak load with
20 PJM, but times the gross all the way three years from
21 now, which would be in AEP's case, what is it,
22 5 percent? Well, this doesn't have the '15-'16 but,
23 for example, for the '14-'15 it's 9 percent. So
24 there is a growth of 9 percent over the three-year
25 period.

1 Q. Okay. Let's not get bogged down in
2 terminology then. Can we call that the rate that's
3 in your exhibit the auction rate? And can we call
4 the rate that's billed to CRES providers the billed
5 rate?

6 A. In your scenario, yeah, I mean if that's
7 how AEP does it, that's how AEP does it.

8 Q. Well, is it your understanding that AEP
9 bills CRES providers?

10 A. The FRR entity bills CRES providers.

11 Q. And is that some AEP affiliate you
12 believe bills CRES providers?

13 A. Well, AEP Ohio is the one who pays the
14 load, they're paying supposedly for the retail on the
15 retail side, they're paying for capacity and for
16 everything. The CRES providers pay; I don't know who
17 they make the payment to. Do they make it to
18 AEP Ohio or to AEP Generation, AEP, some affiliate of
19 AEP, I'm not sure.

20 Q. Is it your understanding that PJM does
21 the billing?

22 A. PJM does the billing, yes.

23 Q. So they actually pay --

24 A. PJM does the billing, you're right, via
25 PJM.

1 Q. Okay. So, again, with that explanation
2 can we call it the billed rate is the one CRES
3 providers receive from PJM?

4 A. If that's how PJM does it, then that's
5 how PJM does it. In my mind I don't see it this way
6 but if that's how PJM, if PJM bills \$16 times these
7 scaling -- these three scaling factors and then
8 multiplies it by the end usage, then that's one way
9 to bill it.

10 Q. But you don't know.

11 A. I don't know how PJM bills. I know how I
12 think of the clearing price.

13 Q. Okay.

14 A. That's what it boils down to.

15 Q. Okay. Well, in the context of the MRO
16 that's the purpose of your testimony in this case is
17 to provide a capacity price input for Mr. Johnson to
18 use in his benchmark calculation, correct?

19 A. Yes.

20 Q. Okay. And is it your understanding that
21 Mr. Johnson accounts for that difference between the
22 auction price and the billed price?

23 A. No. He uses my numbers.

24 Q. Okay. So you stated earlier that AEP is
25 entitled and does collect the scaled-up rate from the

1 load, correct?

2 A. Yes.

3 Q. In the MRO test aren't we interested in
4 comparing apples to apples and oranges to oranges?

5 A. Yes.

6 Q. On both sides of the test --

7 A. Yes.

8 Q. -- should be an equivalent rate. And is
9 the -- okay.

10 All right. But do you accept, when we
11 look at Exhibit 124 that I handed you, the example
12 for 2012 and 2013 that results in the scaled-up RPM
13 rate or what I'm calling the billed rate of \$20.01
14 here and setting aside the fact that there are a
15 couple pennies difference between your final zonal
16 price? I'm asking you about the method.

17 A. I mean, the numbers are all accurate.
18 The scaling factor, the FPR and the losses are all
19 accurate, that's what the PJM also reports for AEP.
20 How they do that arithmetic I'm not sure. I know
21 that the market -- the clearing price in the market
22 is what I use so that's the transparent price to me,
23 so that's the number that Witness Johnson uses in
24 developing his MRO.

25 Q. And in the context of the MRO test

1 wouldn't it be accurate to reflect the actual billed
2 rate?

3 A. It's -- what you should reflect is what
4 the market price is for energy and for capacity. So
5 whatever you look in the forward market and you read
6 what the energy price is, that's what you use. And
7 what you use for capacity, the price is transparent
8 in the capacity market too.

9 Q. So neither you nor Mr. Johnson adjust for
10 quantity anywhere in the MRO test calculations you
11 do?

12 A. No. No, we're looking at rate. We're
13 not looking at a quantity, that's my main point, the
14 quantity AEP adjusts for or PJM adjusts for in
15 billing.

16 Q. And doesn't Mr. Johnson apply quantities
17 in his calculations?

18 A. No. Mr. Johnson just develops the MRO
19 and tells you what the MRO rate is under RPM, under
20 \$146.

21 Q. But given the fact that you've -- I think
22 you've agreed that the loss adjustment gets made
23 prior to the billing, what CRES providers actually
24 pay on their bill, isn't it more accurate to show
25 that rate in comparison to the MRO test?

1 MR. BEELER: Objection. Asked and
2 answered.

3 EXAMINER TAUBER: I'm not sure it was, so
4 I'll allow it.

5 A. It's more accurate to represent exactly
6 the transparent prices in the market, so I see the
7 forward -- the swap price and Mr. Johnson looks at
8 the forward market and reports the result. And then
9 I look at the capacity forward market and report the
10 result and we add up the numbers and come up with an
11 MRO.

12 Now, again, I agree with you that AEP
13 needs to be compensated for these three factors:
14 Losses, scaling, and pool requirement. But for those
15 you adjust for them on the quantity side.

16 Q. And tell me exactly where that occurs and
17 by whom when you say it's adjusted on the quantity
18 side. How is that captured --

19 A. When PJM does billing, AEP is being
20 compensated for losses, for pool requirement, and for
21 scaling.

22 Q. Yes, it is. So why isn't it fair to
23 include that and reflect that reality in the MRO
24 test?

25 A. Because in my mind those are -- again,

1 those are quantities. Those are not rates that you
2 can play around with. Those are the market prices
3 and that's what they are. You look at them and you
4 see what they are and you report them.

5 Q. Okay. I want to ask you a couple
6 questions about the planning years '12-'13, '13-'14,
7 and '14-'15 and if your answers are different for any
8 of the three planning years, let me know. Otherwise,
9 I'm just going to ask you some general questions
10 about all those planning years.

11 A. Okay.

12 Q. Now, do you understand that for those
13 planning years that AEP Ohio did not participate in
14 the RPM capacity market?

15 A. That's correct. AEP may have, like if
16 they had excess generation they may have sold in the
17 RPM market, but --

18 Q. All right.

19 A. That's not AEP Ohio.

20 Q. Did they participate in any of those
21 planning years in the BRA, the base residual auction?

22 A. They did not, to my knowledge they did
23 not procure capacity in the RPM for AEP Ohio's load.

24 Q. Nor did they designate units, generation
25 resources into the BRA for those planning years,

1 correct?

2 A. I did a cursory review of what AEP
3 committed in the FRR, what commitment they made for
4 FRR in 2012-'13, '13-'14, and '14-'15, and I saw all
5 of AEP's units.

6 Q. So you agree none of those units were in
7 the BRA for those planning years, correct?

8 A. Correct. Now, I can't tell if like some
9 of the megawatts were, I don't know. Like I see them
10 all as committed to FRR. Now, I don't know if that
11 means a hundred percent of that unit is in the FRR
12 and none of it is -- they're pointed to by AEP to PJM
13 like those are the units we intend to satisfy our FRR
14 requirement. I don't know if it means a hundred
15 percent of that unit is or a large portion of it is.

16 Q. You can't use it both places, right?

17 A. Correct. You cannot use it in both
18 places.

19 Q. Now, for any of those planning years did
20 AEP Ohio bid its load into the BRA?

21 A. No.

22 Q. Okay. For any of those planning years
23 did AEP Ohio bid its generation -- I think I already
24 asked you that.

25 A. Yes.

1 Q. Okay. Do you agree that the clearing
2 prices would have been different if AEP Ohio's load
3 had been bid into the BRA during those planning
4 years?

5 A. I agree that if -- well, to the extent
6 all of AEP's load -- all of AEP Ohio's load and all
7 of AEP Ohio's generation was bid in, then the numbers
8 would be different. If all of AEP Ohio's load was
9 bid in and none of Ohio's generation was bid in, of
10 course, the price would have been higher probably.
11 So it would impact the clearing price regardless
12 because it's a large load and a large generation so
13 they would impact the clearing prices.

14 Q. Okay. Let me ask you to turn to page 5.
15 You have a footnote No. 2 where you talk about two
16 exceptions there, correct?

17 A. Yes.

18 Q. And you have I think a virtually
19 identical footnote 15 on page 10.

20 A. Yes.

21 Q. Okay. Now, if the -- we talked earlier
22 about some scenarios where the PUCO, the Commission,
23 would decide the capacity case either in conjunction
24 with the ESP case or prior to the ESP case, correct?
25 Do you recall that?

1 A. Yes.

2 Q. And it was your presumption and your
3 recommendation that the capacity case would be
4 decided prior to the ESP, correct?

5 A. Yes. Or at the same time --

6 Q. Okay.

7 A. -- they issue their order coming out.

8 Q. Now, let's assume for a moment that the
9 Commission, the PUCO, does not address the capacity
10 case and it comes time for a decision in the ESP
11 case, all right? Now, under that scenario is it
12 possible, based on what you understand about the
13 pending FERC case, that the FERC could come in and
14 decide the capacity charge issue?

15 A. Yeah, I mean if FERC in the 206 agrees
16 with you and changes its tariff, then the question
17 becomes, okay, so now FERC has to do -- has to make a
18 finding on what is a reasonable cost. Once that
19 reasonable cost is determined, then that would be the
20 number you would use in the MRO test --

21 Q. Okay.

22 A. -- in my mind.

23 Q. All right. So let's leave the 206 aside.
24 We talked about that a fair amount earlier. Let's
25 focus a little bit in this context on the 205 action.

1 Now, is it your understanding that the Section 205
2 action could still result in a finding by the FERC
3 that AEP's original 2010 filing at FERC should go
4 forward and be decided at the FERC?

5 A. I mean, FERC knows what its tariff says.
6 So to the extent FERC disagrees with my understanding
7 of its tariff and to the extent there is a state
8 compensation here and FERC says, well, we disagree,
9 that's not what we meant, we meant something else,
10 that's the rehearing in 205.

11 Q. I'm sorry, the rehearing, is that what
12 you mentioned?

13 A. Yes.

14 Q. Okay. So it is your understanding that
15 the rehearing at FERC is still pending and that the
16 FERC may decide in that case to proceed with AEP's
17 original 2010 application or formula rate.

18 A. I'm not sure. I know that it's in
19 rehearing. Now, the details, I'm not sure where it
20 is exactly and what was the rehearing granted under,
21 for what reason.

22 Q. Okay.

23 A. Because --

24 Q. I'm sorry, go ahead.

25 A. At one point in time FERC agreed with the

1 state of Ohio that, yes, there is a state
2 compensation mechanism, so go to the state of Ohio.
3 Now then, there were rate hearing applications and
4 FERC granted rehearing. Now, I don't know what they
5 granted rehearing on.

6 Q. Okay. So -- fair enough. But in general
7 you would also agree that the FERC could come in and
8 decide the capacity charge issue and particularly in
9 the example where the PUCO does not do so, correct?

10 A. Yeah, I mean if the PUCO decides not to
11 have a state compensation mechanism, then under the
12 tariff -- and AEP decides to have a cost-based
13 charge, then under the FERC tariff you go to FERC and
14 FERC approves a just and reasonable rate.

15 Q. Okay. Now, in presenting your
16 recommendation and hearing your testimony today
17 you're really not trying to account for the
18 possibility of these different outcomes at FERC or
19 the PUCO in advance, correct?

20 A. Yeah, that's why I have the footnote.

21 Q. That's what I'm exploring. So you're
22 saying that -- again, is the only point of your
23 footnote in your testimony in this regard that the
24 Commission in applying the MRO test should be
25 consistent with the outcome of the 10-2929 decision?

1 Is that what you're saying?

2 A. Yes. So to the extent the Commission
3 decides RPM is not right and it should be something
4 else, then we need to follow that capacity charge in
5 the MRO, include that in the MRO.

6 Q. And then on your second exception about
7 FERC, you're saying if FERC decides these matters,
8 given the fact that they could decide these matters
9 and the case was out there about the dispute, that
10 that should also be reflected in an MRO test
11 analysis.

12 A. Yes.

13 Q. Okay.

14 A. Whatever ultimately ends up being the
15 capacity charge, that should be reflected in the MRO
16 test.

17 Q. Okay. But, again, sitting here today you
18 didn't try to account for the contingencies or the
19 possibilities of what those cases, separate cases,
20 either at FERC or the PUCO, would be reflected in
21 your MRO price component recommendation.

22 A. Well, we have a couple of scenarios. One
23 of them is staff's position which is the prevailing
24 RPM rate. Now, to the extent the Commission
25 disagrees with us, then we have another alternative

1 which is whatever Witness Medine came up with, the
2 \$146.

3 The Commission, if they agree with us on
4 the 146, then that would be alternative. To the
5 extent they disagree with both numbers, with RPM and
6 with 146 and come up with a third number, that would
7 be it. To the extent they don't come up with one,
8 then -- and FERC comes up with one, then that would
9 be it. But that's way at the end.

10 Q. Okay. I think I understand. So now
11 would you agree there's a benefit to resolving the
12 capacity charge dispute in this case and avoiding
13 further litigation before either the Commission or
14 the FERC?

15 A. Yes. I think it would be -- we're all
16 better off having a number that everyone ends up --
17 AEP ends up charging and everyone knows about it for
18 the next three years.

19 Q. And would that same sentiment apply to
20 the proposal of the two-tiered capacity charge and
21 AEP's agreement in the context of the ESP package
22 to -- not to pursue a full cost-based rate in the
23 future, that that also has benefit?

24 A. We disagree with these numbers, but, you
25 know, to the extent the Commission agrees with you,

1 then -- and, you know, certainty is good for
2 everyone, so regardless of what it is, certainty is
3 good. So once everyone, the entire, everyone knows
4 what the price is, then people will make long-term
5 commitments.

6 Q. Okay. And currently there's a lot of
7 uncertainty about what the price will be for
8 capacity, correct?

9 A. That's correct.

10 Q. Now, shouldn't those benefits that we
11 just talked about be reflected somewhere in the MRO
12 test? Do you agree with that?

13 A. The benefit of what?

14 Q. Of settling, resolving the uncertainty
15 and the dispute about capacity charges.

16 A. Yeah. I mean it's my hope that the
17 Commission would settle this once and for all, but to
18 the extent that they decide to defer to FERC or go
19 with it themselves, you know, then I mean certainty
20 is important.

21 Now, whether we agree with these numbers
22 or not, no, we've made it very clear we disagree with
23 AEP's proposed numbers, so, but the Commission will
24 decide ultimately, the Ohio Commission.

25 Q. Okay. Now, on page 7 of your testimony,

1 the top half of the page, you're talking about the
2 '15-'16 planning year BRA results, correct?

3 A. Yes.

4 Q. Okay. And have you had a chance to
5 review those auction results?

6 A. Oh, yes. Yes, we have.

7 Q. Okay. And were there any problems with
8 that auction?

9 A. We don't know if there are problems or
10 not; we just don't like the results.

11 Q. Well --

12 A. And that's staff I'm saying. Staff
13 doesn't like the results, you know, so.

14 Q. I'll clarify your statement,
15 Dr. Choueiki, as the results you don't like relating
16 to the ATSI zone?

17 A. Yes.

18 Q. Okay. Now, do those results of the
19 auction for the '15-'16 planning year tend to confirm
20 your view that the BRA clearing prices should be used
21 in the context of the MRO test?

22 A. Do I -- the results should be what? I'm
23 sorry? Go ahead.

24 Q. Should be used as you do on your Schedule
25 1 as an input to the MRO test.

1 A. Well, the MRO test doesn't go all the way
2 to -- it ends on May 31st, 2015. So these results
3 are past the ESP II '25.

4 Q. I understand but you were talking about
5 in your testimony question and answer 12, correct?

6 A. Well, in terms of like in the future when
7 we want to do a future ESP, the results, of course,
8 of the '15-'16 would be used in the MRO test.

9 Q. I want to clarify something you said
10 earlier about the -- you seemed to be emphasizing
11 this should be the unconstrained price that applies.
12 Did I catch that correctly?

13 A. Yes.

14 Q. So what would that mean in the case of
15 the FirstEnergy MRO test?

16 A. Well --

17 MR. DARR: Objection. Relevance.

18 MR. NOURSE: I already indicated I'm
19 clarifying his statement about how this
20 recommendation works and how the unconstrained price
21 applies and using it as an illustration.

22 MR. DARR: I'm still not understanding
23 the relevance of how a test in the FirstEnergy MRO
24 would be -- would affect this result.

25 MR. LANG: Your Honor, he seems to be

1 asking about something to do with FirstEnergy in the
2 2015-2016 year dealing with the ATSI numbers, you
3 know, I'll join the objection on relevance.
4 Certainly if Dr. Choueiki wants to talk about
5 AEP's -- you know, a theory there's another ESP for
6 AEP in the 2015-2016 year, he can talk about the
7 applicability of that, but I certainly don't see
8 relevance to what is going to happen in some
9 theoretical FirstEnergy case in, what would it be,
10 three, four years from now.

11 MR. NOURSE: I don't know if it's that
12 theoretical, your Honor, but I'm actually probing
13 what I just set up there, that he talks about it in
14 his testimony on page 7 and he made a statement
15 earlier about how his recommendation works relative
16 to the unconstrained price. So I'm clarifying that
17 as an illustration, probing what his recommendation
18 is in this case.

19 EXAMINER TAUBER: Mr. Nourse, I'm not
20 sure I see the connection between that hypothetical
21 and what we're discussing here today, so I'm going to
22 ask you to move on, please.

23 MR. NOURSE: Okay.

24 Q. (By Mr. Nourse) Turn to page 8.

25 A. I'm there.

1 Q. You have a discussion there, I guess it's
2 answer 14, about captive buyers and captive sellers.
3 Do you see that?

4 A. Yes.

5 Q. Okay. And you agree that AEP Ohio power
6 plants are committed to FRR and cannot sell capacity
7 to other buyers for the 2012 through 2015 period.

8 A. Yes. That's why I said so you have both,
9 you know, and you have a situation where you have the
10 CRES providers who did not opt out are stuck and AEP
11 committed the units, so they're stuck too.

12 Q. And they're committed not only to the
13 nonshopping load but to the --

14 A. Oh, yes.

15 Q. -- shopping load as well, correct?

16 A. The entire load.

17 Q. All the connected load.

18 A. Retail and shopping load. I mean
19 shoppers and nonshoppers.

20 Q. Okay. And relative to the captive seller
21 and captive buyer language that you use there at the
22 bottom of the answer, I want to clarify that a little
23 bit. So for AEP Ohio's part the shopping load
24 varies. Is it fair to say that the shopping load
25 varies during the period 2012 through 2015?

1 A. Yeah, I mean the load could go up, could
2 go down, could go anywhere. That's true, the load
3 will change from month to month, the shopping load.

4 Q. And that would be driven by various
5 factors including changing market prices and changing
6 demand and other factors; is that correct?

7 A. Yeah, energy prices, capacity prices,
8 demand. Lots of things impact it.

9 Q. Okay. So you'd agree during that period
10 that AEP Ohio's not free to sell its generating
11 capacity to other buyers or market participants at
12 any price, correct?

13 A. Anything that is committed to FRR cannot
14 be -- the megawatts that were committed to FRR, they
15 have to be committed, period.

16 Now, to the extent one unit suddenly just
17 doesn't -- isn't working anymore ever, it's AEP's
18 responsibility to make sure that the megawatts are
19 there. So you're going to have to procure it from
20 somewhere else.

21 Q. Good point.

22 Okay. Then on page -- continuing on page
23 8 there, you refer a couple times here, I think it's
24 line 3 and lines 7 and 8, to CRES providers that to
25 the extent they had not opted out of the FRR. Do you

1 see that?

2 A. Yes.

3 Q. Okay. And you may have mentioned this
4 earlier, but is it your understanding that any CRES
5 providers in Ohio have opted out of RPM and into
6 their own self-supply option?

7 A. Oh, opted out of FRR to do RPM or? I'm
8 sorry, say that again. I mean, okay.

9 Q. Well, let's clarify the term. You do say
10 in line 3 "opted out of FRR." Let's clarify what you
11 mean by that. I took that to mean that they
12 established their own self-supply plan, they
13 established their own FRR plan. Is that what you
14 meant?

15 A. Or went to RPM. Like they would have had
16 to opt out and tell PJM we have a 500-megawatt load
17 and we intend to buy in the auction, in the RPM
18 auction.

19 Q. So you think that's possible under the
20 FRR option for a CRES provider to opt out of
21 AEP Ohio's FRR plan and rely on the RPM market as
22 opposed to creating their own self-supply plan?

23 A. It would have had to happen at that time.

24 Q. Well, I'm asking you if it's possible,
25 what you describe is possible.

1 A. So right now if I am a load in AEP this
2 year, like this, when AEP opted out, okay, they could
3 have said "We will self-supply ourselves," and they
4 could have done it by buying in the RPM.

5 Q. So --

6 A. But they can't do it for the period of
7 the ESP. The point is that during the period of the
8 ESP they're locked in and AEP Ohio is locked in to
9 provide the resources.

10 Q. So in that example when a CRES provider
11 self-supplies, in terms of the RAA and the FRR
12 options, doesn't self-supply mean that you're
13 establishing your own FRR plan as a CRES provider?

14 A. That, if it's a self-supply, it's an FRR,
15 you're right.

16 Q. Okay. And if it's a self-supply, can an
17 FRR entity simply say they're going to rely on the
18 RPM market for capacity? Is that your understanding?

19 A. If it's a load, if it's a load, then they
20 can procure in the -- like AEP Ohio, the load, after
21 that FRR, right, in the 2015 and they said we are
22 going to procure our capacity in the RPM market.

23 Q. Well, that's not the same thing,
24 Dr. Choueiki. I think we're talking about a CRES
25 provider operating within an FRR entity's service

1 territory and your understanding of how that can work
2 under the RAA and specifically under the FRR.

3 A. Right.

4 Q. That's the context. Are you saying that
5 a CRES provider can do a self-supply option and
6 simply rely on RPM as opposed to designating specific
7 generating assets to support their FRR plan?

8 A. Okay, now I get it. I apologize, I've
9 been -- so to the extent you want to opt out, then
10 you have to supply yourself.

11 Q. You being a CRES provider in this
12 example, correct?

13 A. Yeah. Think of it as a load. I'm not
14 thinking of it as a CRES provider, if I am a load, I
15 have a thousand megawatt load, I can opt out but I'd
16 have to give PJM notice and then I have to stick in
17 for five years, whether it's FRR or RPM.

18 Q. But, Dr. Choueiki, I'm asking you a very
19 specific context which I thought is what you were
20 addressing on page 8. It's not just any market
21 participant here. We're talking about a CRES
22 provider that's operating within the service
23 territory of an FRR entity. Are you with me?

24 A. Yes.

25 Q. And is it true or not true that that CRES

1 provider can pursue a self-supply option and then
2 simply rely on the RPM market rather than designating
3 particular generating resources in support of their
4 FRR plan?

5 A. They can do either of them. They could
6 do either. Now this hasn't happened except what I'm
7 trying to think of where it happened. It happened in
8 Duke. In the Duke area, in the Duke Ohio -- in Duke
9 Ohio there's like 8 or 900 megawatts that opted out
10 of FRR. There's a load in Duke Ohio. Now, in AEP I
11 don't think anyone has done so.

12 Q. Okay. But in the Duke Ohio example
13 you're talking about, you say -- your answer started
14 they can do either and then you give this Duke
15 example. In that example are you saying that the
16 CRES provider relied on RPM?

17 A. I'm not sure what Duke ended up doing. I
18 know that 900 megawatts opted not to go with Duke's
19 FRR. Now, how they self-supplied, whether they
20 self-supplied and pointed to generation or
21 self-supplied by pointing to a contract, I'm not
22 quite sure what they did.

23 Q. But they did not rely on the RPM market?

24 A. I'm not sure. That's what I'm saying,
25 I'm not sure what they did. The only thing is you

1 can opt out but you have to opt out in advance, you
2 have to notify PJM in advance.

3 Q. I understand. That's not what I'm asking
4 you. But when you do opt out as a CRES provider
5 operating in an FRR entity service territory, you're
6 not sure, or are you sure, that that CRES provider
7 can simply rely on the RPM market?

8 A. I think they have a choice. They can
9 rely on the RPM, tell PJM procure our load in the
10 RPM, or they can self-supply. That's my
11 understanding.

12 Q. Okay.

13 A. But the point -- again, the point is it's
14 too late to do that for any load in the AEP service
15 territory during the ESP II time.

16 Q. Okay. Now, on page 9 you talk about the
17 state compensation mechanism. Now, do you agree that
18 the state compensation mechanism in Ohio has been an
19 interim rate since its inception?

20 A. Yes.

21 Q. Dr. Choueiki, when the company, when
22 AEP Ohio opted into the FRR election, were you
23 supportive of that decision?

24 A. Yes, I was, and as a matter of fact, I
25 went to FERC and was on a panel and, because at that

1 time RPM was an unknown and AEP was long on
2 generation and we did not know what was going to
3 happen in these auctions, so we wanted FRR to be an
4 option that Ohio utilities can take if they want to.

5 MR. NOURSE: Your Honor, I'd like to mark
6 AEP Exhibit 125.

7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 Q. Dr. Choueiki, do you recognize that
9 document?

10 A. Yeah, those were my prepared notes that I
11 filed at FERC when I was on that panel.

12 Q. Okay. And can you read into the record,
13 the first sentence of your remarks?

14 A. "The Ohio staff," that paragraph?

15 Q. The first sentence.

16 A. "The Ohio Staff would like to commend the
17 FERC for accepting the traditional resource
18 requirement approach (the fixed resource requirement
19 option) as a legitimate alternative to RPM."

20 Q. You mentioned a moment ago at that time
21 RPM wasn't necessarily proven and that there were
22 some concerns about it. And can you turn to page 2
23 and read the two sentences that follow the bullets
24 that are there into the record, please?

25 A. "In our opinion"?

1 Q. Yes.

2 A. "In our opinion, these assumptions, as
3 shared by PJM, weaken the proposed RPM construct
4 filed with the FERC." Do you want me to keep
5 reading?

6 Q. The second sentence too.

7 A. "For that reason, the Ohio Staff
8 understands why the FERC is unable to conclude at
9 this time that the proposed RPM construct is just and
10 reasonable." Now, that was prior to FERC approving
11 the RPM. We worked on this and negotiated for a long
12 time before it got ordered. So at that time there
13 were lots of things that needed to be reviewed and
14 they did, but still, the Ohio Commission was, the
15 Ohio staff at that time was interested in making sure
16 that we have an alternative in case, you know, RPM
17 goes -- the results are not beneficial to Ohio, we
18 wanted to have that alternative to go under a
19 traditional resource requirement.

20 Q. And, again, you support an electric
21 distribution utility's decision to opt into FRR at
22 the time it was made, correct?

23 A. Yes.

24 Q. Okay. Can you turn to Exhibit HMC-2.

25 A. Okay. I'm there.

1 Q. So this is where you're calculating the
2 average load factor that you use on Schedule 1,
3 correct?

4 A. Yes.

5 Q. Now, why did you use nine coincident
6 summer peaks?

7 A. Those are the numbers I used. I mean,
8 those are the numbers that are reported in the LTFR
9 and I always like to use information in the LTFR
10 because it's very reliable, so.

11 Q. Aren't the PJM prices applicable to loads
12 at the time of the PJM peaks?

13 A. Correct. So the numbers would be a bit
14 lower if it's coincident, yeah.

15 Q. Did you --

16 A. But I used them I mean just because that
17 was a rough calculation, this was not the actual, the
18 load factor anyway is going to be computed by
19 customer class, so these numbers are just average for
20 the entire company.

21 Q. Did you request information from the
22 company, like in a data request or in any other
23 fashion --

24 A. No.

25 Q. -- about the coincident summer peaks?

1 A. No. I looked up these numbers just from
2 the LTFR.

3 Q. Right. I see that.

4 Why did you use the average of the four
5 years? Did you attempt to match it up with the
6 actual ESP term?

7 A. Correct. I wanted to make sure that at
8 least all the ESP belonged within these four years,
9 so that's why. And the numbers, if you look at them,
10 they're almost identical, so.

11 Q. That's true for both energy and capacity?

12 A. No. Not capacity, but the load factor
13 ends up being almost very close all four years.

14 Q. But you recognize, do you not, that the,
15 for example, the winter of 2012 and the summer of
16 2015 are not a part of the ESP term?

17 A. Correct. I mean, a more accurate
18 computation would be to look at the monthly numbers,
19 but I don't have monthly number forecasts except for
20 24 months in advance, so I just did a rough
21 calculation which is just reading in information from
22 the LTFR. I just wanted to make sure that the entire
23 ESP belongs in these four years.

24 Q. And you agreed that the load factor would
25 be lower; is that what you said earlier?

1 A. Yeah, I mean, if -- I mean, again,
2 what's -- load factor would be higher because what's
3 the load factor? Load factor is net energy for load
4 divided by peak load times the number of days in a
5 year, right? So if peak load is smaller, the load
6 factor would be higher.

7 Q. But, again, you didn't really look at
8 that, and you don't know what the adjusted or
9 corrected number would be, correct?

10 A. No. It wouldn't be very different. It
11 wouldn't be a lot larger.

12 Q. Okay.

13 A. But it would be larger.

14 MR. NOURSE: Thank you, Dr. Choueiki.

15 That's all the questions I have, your
16 Honor.

17 THE WITNESS: You're welcome.

18 EXAMINER TAUBER: Thank you.

19 Mr. Beeler, redirect?

20 MR. BEELER: Could I have a moment, your
21 Honor?

22 EXAMINER TAUBER: Sure. Let's take five
23 minutes. Let's go off the record.

24 (Recess taken.)

25 EXAMINER TAUBER: Let's go back on the

1 record.

2 Mr. Beeler.

3 MR. BEELEER: No redirect, your Honor.

4 EXAMINER TAUBER: Thank you.

5 MR. BEELEER: At this time I would like to
6 renew my motion to admit Staff Exhibit 101.

7 EXAMINER TAUBER: Are there any
8 objections to Staff Exhibit 101?

9 MR. NOURSE: No.

10 EXAMINER TAUBER: Hearing none, Staff
11 Exhibit 101 shall be admitted into the record.

12 (EXHIBIT ADMITTED INTO EVIDENCE.)

13 MR. NOURSE: Your Honor, I'd like to move
14 for admission of AEP Ohio Exhibits 123, 124, and 125.

15 EXAMINER TAUBER: Are there any
16 objections to AEP Exhibits 123 through 125?

17 MR. BEELEER: No objection.

18 EXAMINER TAUBER: Hearing none, AEP
19 Exhibits 123, 124, and 125 shall be admitted into the
20 record.

21 (EXHIBITS ADMITTED INTO EVIDENCE.)

22 EXAMINER TAUBER: At this time we'll take
23 a lunch break until 1:15. Let's go off the record.

24 (At 12:29 p.m., a lunch recess was taken
25 until 1:15 p.m.)

1 Tuesday Afternoon Session,
2 May 29, 2012.

3 - - -

4 EXAMINER TAUBER: Let's go on the record.
5 Mr. Beeler.

6 MR. BEELER: Thank you, your Honor. The
7 staff calls Daniel R. Johnson.

8 EXAMINER TAUBER: Mr. Johnson, please
9 raise your right hand.

10 (Witness sworn.)

11 EXAMINER TAUBER: Thank you.

12 - - -

13 DANIEL R. JOHNSON
14 being first duly sworn, as prescribed by law, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 By Mr. Beeler:

18 Q. Please state your name for the record.

19 A. Daniel R. Johnson.

20 Q. By whom are you employed, and what is
21 your title?

22 A. I'm employed by the Public Utilities
23 Commission of Ohio, and my title is Chief of the
24 Planning and Market Analysis Division.

25 MR. BEELER: May I approach, your Honor?

1 EXAMINER TAUBER: You may.

2 MR. BEELER: I would like to have marked
3 as Staff Exhibit 102 the prefiled testimony of Daniel
4 R. Johnson filed in this proceeding May 9th, 2012.

5 EXAMINER TAUBER: It shall be so marked.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 Q. Mr. Johnson, do you have in front of you
8 what has been marked as Staff Exhibit 102?

9 A. I do.

10 Q. Can you identify Staff Exhibit 102?

11 A. Exhibit 102 is the prefiled testimony
12 that I wrote and filed in this case.

13 Q. So it was prepared by you?

14 A. Yes, indeed.

15 Q. Do you have any corrections to your
16 testimony?

17 A. Two administerial corrections, please.
18 On the title page the Market Analysis and Planning
19 Division shall be the Division of Planning and Market
20 Analysis.

21 Likewise, on page 1, question 1, I am
22 Chief, not of the Policy and Market Analysis
23 Division, but rather the Planning and Market Analysis
24 Division. Those are the only two corrections I know
25 of at this time.

1 Q. With those corrections if you were asked
2 the same questions today contained in your prefiled
3 testimony, would your answers be the same?

4 A. Yes.

5 Q. Are the answers in your prefiled
6 testimony true and accurate to the best of your
7 knowledge?

8 A. Yes.

9 MR. BEELER: With that, your Honors, I
10 move for the admission of Staff Exhibit 102 as
11 corrected subject to cross-examination and tender the
12 witness for cross.

13 EXAMINER TAUBER: Thank you.

14 Ms. Kaleps-Clark.

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

17 EXAMINER TAUBER: Ms. Hand?

18 MS. HAND: No questions, your Honor,
19 thank you.

20 EXAMINER TAUBER: Ms. Thompson?

21 MS. THOMPSON: No questions, your Honor,
22 thank you.

23 EXAMINER TAUBER: Mr. Siwo?

24 MR. SIWO: No questions, your Honor.

25 EXAMINER TAUBER: Ms. Kyler?

1 MS. KYLER: No questions, your Honor.

2 EXAMINER TAUBER: Mr. Sineneng?

3 MR. SINENENG: No questions, your Honor.

4 EXAMINER TAUBER: Mr. Darr?

5 MR. DARR: No questions.

6 EXAMINER TAUBER: Mr. Hayden?

7 MR. HAYDEN: No questions.

8 EXAMINER TAUBER: Mr. Maskovyak?

9 MR. MASKOVYAK: No questions, your Honor.

10 EXAMINER TAUBER: Mr. Etter?

11 MR. ETTER: No questions, your Honor.

12 EXAMINER TAUBER: Mr. Conway?

13 MR. CONWAY: Thank you, your Honor, I do
14 have a few questions.

15 - - -

16 CROSS-EXAMINATION

17 By Mr. Conway:

18 Q. Good afternoon, Mr. Johnson.

19 A. Good afternoon.

20 Q. Can you hear me?

21 A. Barely.

22 Q. Barely? Okay. Mr. Johnson, your
23 testimony presents the staff's view of the
24 competitive benchmark prices that should be used in
25 the ESP-MRO comparison; is that right?

1 A. That's correct.

2 Q. And I believe that you have maybe three
3 scenarios, several scenarios, for the competitive
4 benchmark price which vary depending upon the
5 capacity price value that you use?

6 A. Yes, sir.

7 Q. Okay. One is the RPM price; is that
8 right?

9 A. That's right.

10 Q. And another is the price based on the
11 capacity pricing recommendation by Ms. Medine and
12 Ms. McCarter in the 10-2929 case?

13 A. Yes.

14 Q. And then also the, there's a scenario
15 that looks at the results based on the \$255 per
16 megawatt-day capacity price which is the second tier
17 of the company's proposal in this case for capacity
18 pricing?

19 A. Yes.

20 Q. And then with regard to the competitive
21 benchmark price that you have calculated for those
22 various scenarios, my understanding is, and correct
23 me if I'm wrong, but you use the same ten components
24 to develop the competitive benchmark price that
25 AEP Ohio Witness Thomas uses; is that right?

1 A. Yes, I do.

2 Q. And within those ten components you use
3 the same value for the basis adjustment, the second
4 component, as Ms. Thomas uses, right?

5 A. Yes. I believe that's correct.

6 Q. Okay.

7 A. Subject to check.

8 Q. You said "yes," right?

9 A. Yes, I did.

10 Q. Okay. And then with regard to the fifth
11 component, the ancillary services component, you also
12 use the same value for the competitive benchmark
13 price that Ms. Thomas uses?

14 A. Yes.

15 Q. And then for the sixth component, the
16 alternative energy requirement component, you use the
17 same value as Ms. Thomas uses.

18 A. Yes.

19 Q. And then for the seventh component, which
20 is the ARR credit, you use the same value that
21 Ms. Thomas uses?

22 A. Yes.

23 Q. And ARR, what does that stand for?

24 A. Auction revenue rights.

25 Q. And then with regard to the tenth

1 component, the retail administration component, you
2 also use in that case the same value that Ms. Thomas
3 uses, right?

4 A. Yes, I do.

5 Q. You have a slightly different value that
6 you use for the simple swap component; is that right?

7 A. Yes.

8 Q. And then there's a capacity component for
9 which you also have a -- well, not also, you have a
10 different price or a different value for that
11 component, right?

12 A. Right.

13 Q. Could you just explain to me which of the
14 remaining items that we haven't addressed have some
15 relationship either to the simple swap or the
16 capacity price that depend on it, one or the other?

17 A. Each of the three remaining components,
18 let me just refresh my recollection here, that would
19 be the load following/shaping adjustment, the losses
20 adjustment, and the transaction risk adder, each of
21 those three has -- bears a relationship to the simple
22 swap price, and I believe the transaction risk adder
23 bears some relationship as well to the capacity
24 price.

25 Q. Okay. So with regard to the load

1 following or shaping adjustment and the losses
2 adjustment components, the third and the eighth
3 components, they are dependent to some degree on the
4 value that you select for the simple swap?

5 A. Yes.

6 Q. And getting back to the simple swap, your
7 values for the simple swap in the scenarios, they're
8 similar to but not quite identical to the values that
9 Ms. Thomas uses?

10 A. I believe that's the case.

11 Q. You use for the source of your
12 information regarding the simple swap component the
13 Intercontinental Exchange, which is an electronic
14 trading platform?

15 A. Yes.

16 Q. And Ms. Thomas, on the other hand, uses
17 published prices from the Platts publication; is that
18 right?

19 A. That's right.

20 Q. And Platts is an industry standard
21 publisher of electricity market information, right?

22 A. That's in my testimony.

23 Q. That makes it an easy question to say
24 "yes" to, doesn't it?

25 A. Yes. The answer's yes.

1 Q. Okay. And it's your belief that the
2 simple swap values published by the two different
3 sources, the ICE on one hand and the Platts on the
4 other hand, that they're essentially identical,
5 right?

6 A. Yes.

7 Q. And the difference in the values for the
8 simple swap that appear in your competitive benchmark
9 price calculations that you use and the difference
10 between those and what Ms. Thomas uses result
11 primarily from the dates which you used to pull the
12 values compared to the dates that Ms. Thomas used?

13 A. Yes.

14 Q. And although you used a different
15 approach to selecting the date for the simple swap
16 value that you used, you do believe, do you not, that
17 the approach Ms. Thomas used for selecting the date
18 for the simple swap is reasonable?

19 A. Absolutely.

20 Q. And, in fact, I believe, again, that,
21 based on your testimony, or my recollection of your
22 testimony, her approach for choosing the forward
23 quote dates for the simple swap is as good as it
24 gets.

25 A. That's right.

1 Q. And the simple swap is a forward price,
2 right?

3 A. Yes, it is.

4 Q. And it's a price at which actual
5 transactions are occurring, right?

6 A. Yes.

7 Q. And it's the appropriate basis for
8 establishing a value for the energy component of the
9 competitive benchmark price; is it not?

10 A. Yes, indeed.

11 Q. And is it also the market price for
12 energy that bidders in a wholesale auction would use?

13 A. They would certainly consider that price
14 as the closest that they could hedge their future
15 commitments if they won the auction.

16 Q. So they would use that as a basis for
17 hedging their future commitments?

18 A. Certainly.

19 Q. Okay. Which is an indicator of its
20 appropriateness to use as part of the competitive
21 benchmark price, correct?

22 A. Yes, sir.

23 Q. And then getting back to the other
24 components, would it be fair to say that the load
25 following or shaping adjustment and the losses

1 adjustment, the third and the eighth components, that
2 while your iteration of those components is different
3 than the iteration that Ms. Thomas developed, the
4 difference is, in each case, is the result of the
5 difference in the dates from which you pulled the
6 underlying simple swap values?

7 A. That would be the primary source of
8 difference.

9 Q. And with regard to the transaction risk
10 adder component, the ninth component, I believe you
11 said it depended on both the value you select for the
12 simple swap and it also depends on the value you
13 select for the capacity component; did I get that
14 right?

15 A. You got that right.

16 Q. And to the extent that the transaction
17 risk adder component depends upon the simple swap
18 value, would you agree that the variation that
19 results between your risk adder, transaction risk
20 adder, and the one that Ms. Thomas used, that to the
21 extent that adder depends upon the simple swap that
22 you use, it similarly is not affected significantly
23 by the difference between yours and her approach?

24 A. Let me see if I can restate your
25 question --

1 Q. Please do.

2 A. -- in the form of an answer. The primary
3 difference between Ms. Thomas's risk adder and the
4 risk adder I calculated was due to the difference in
5 the simple swap price.

6 Q. Okay.

7 MR. CONWAY: Could I have that read back,
8 please?

9 (Record read.)

10 Q. And so I take it from that that the
11 difference between your capacity price and
12 Ms. Thomas's capacity price did not have a
13 significant impact on the result of --

14 A. No --

15 Q. -- the risk adder.

16 A. There is some small influence given by
17 the capacity price, but, A, I believe that the
18 calculation of the risk adder by Ms. Thomas is based
19 on a number of considerations and I believe uses some
20 modeling efforts. I don't think the influence of
21 capacity is large relative to the influence of the
22 simple swap price.

23 Q. Let me pose the following question and
24 see if this captures what you just addressed. To the
25 extent that your simple swap value is different than

1 the simple swap value that Ms. Thomas uses, that is
2 the primary explanation for the difference in each of
3 these three components, the load following/shaping
4 adjustment, the losses component, and the transaction
5 risk adder component.

6 A. I would agree with that.

7 Q. With regard to the capacity component,
8 the fourth component, did you get that value for that
9 component from Staff Witness Choueiki?

10 A. Yes, sir.

11 Q. And did he give you the capacity
12 component values in dollars per megawatt-day, or did
13 he give them to you in the dollars per megawatt-hour?

14 A. For the direct comparisons with
15 Ms. Thomas's testimony he gave them to me in dollars
16 per megawatt-hour.

17 Q. So he made the translation from dollars
18 per megawatt-day to dollars per megawatt-hour?

19 A. Yes.

20 Q. And do you know how he did that?

21 A. Yes.

22 Q. Could you describe that for me? Well,
23 let me ask it a different, let me ask it a simpler
24 way. Did he do it the same way Ms. Thomas did it?

25 A. I don't know the answer to that.

1 Q. Okay. I'm sorry. Go ahead.

2 A. He took the auction clearing price in
3 dollars per megawatt-day and divided it by the
4 quantity 24 times the load factor.

5 Q. That's it?

6 A. That's it.

7 Q. Do you know what the load factor was that
8 he used?

9 A. I don't -- well, I can refer to his
10 testimony if you care.

11 Q. That would be great. Thank you.

12 A. 64.54 percent.

13 Q. And where did you find that in his
14 testimony?

15 A. Exhibit HMC-2.

16 Q. Thank you.

17 Mr. Johnson, backing up just a little bit
18 to, maybe it's actually going forward, to the ESP-MRO
19 test, I understand your contribution is with regard
20 to the competitive benchmark price, right?

21 A. Right.

22 Q. Is it your understanding that when that
23 comparison is made, that on the ESP side the
24 comparison is based on a metered kilowatt-hour, price
25 per metered kilowatt-hour?

1 A. I don't really know the answer to that.

2 Q. Okay. And who would?

3 A. I would presume Staff Witness Fortney
4 would be the person who would know that.

5 Q. And with regard to the MRO side of the
6 comparison, do you know whether the unit that's being
7 compared to the unit on the ESP side is a metered
8 kilowatt-hour?

9 A. I don't really know the answer to that
10 either.

11 Q. Okay. How about if we just go to the
12 competitive benchmark price aspect of the MRO side of
13 the comparison, do you know what the, for example,
14 the simple swap -- the energy component is being
15 measured based on? Is that a metered
16 kilowatt-hour -- or megawatt-hour, I mean?

17 A. It's a unit price for a megawatt-hour.

18 Q. And do you know whether it's a metered
19 megawatt-hour or not?

20 A. I can't imagine that anyone would meter a
21 single megawatt-hour and attach a price to that
22 megawatt-hour.

23 Q. So the answer is no, the simple swap
24 value is not being presented on a price per
25 megawatt-hour metered?

1 A. The simple swap is an average price over
2 many hours per megawatt-hour. It's not a measured --
3 it would be a coincidence if a particular
4 megawatt-hour were priced at that price.

5 Q. So in your competitive benchmark price,
6 when you present the simple swap component, are you
7 not presenting it as a price per metered
8 megawatt-hour, then?

9 A. Well, the term "per metered
10 megawatt-hour" is somewhat confusing to me. I'm not
11 sure what you mean by that.

12 Q. Well, what I mean is, is it the value,
13 the price at the load's meter on a per megawatt-hour
14 basis?

15 A. No. There would be other things that
16 would need to be added. If you're simply talking
17 about that slice of the ten components, then yes,
18 that would be the price on average through the period
19 of the ESP at the meter, but there would be nine
20 other components that would be added to it.

21 Q. Okay. And would each of the other nine
22 components be priced on average through the period of
23 the ESP at the meter? That is, on the same basis
24 that you just described for the simple swap.

25 A. The prices are per megawatt-hour price,

1 that's a unit price, it's a price -- and that price
2 is at the point of settlement where AEP would settle
3 transactions.

4 Q. So is that at the meter, then?

5 A. I think you probably could say that.

6 Q. I mean, if it weren't at the meter, then
7 we might have a situation where we're adding
8 components that are priced on a different basis one
9 from the other in that regard, right?

10 A. In that regard, I think it's fair to say
11 that they're priced at the meter.

12 Q. Okay, and that would apply, then, of
13 course, to the -- strike that.

14 Now, would you agree with me that when
15 coming up with the amount billed to the load, you
16 multiply the metered amount times the rate? Right?

17 A. There could be other adjustments that
18 would apply to the amount, the quantity, at the meter
19 as well.

20 Q. So you're thinking or you're envisioning
21 that the load would pay an amount not based on the
22 meter quantity but on some other quantity times the
23 rate.

24 A. Yes.

25 Q. What's the basis for that understanding?

1 A. Well, I believe this discussion goes to
2 some of the questions that were asked of Dr. Choueiki
3 about the scaling factor, the losses, and there's one
4 other one which escapes me at the moment, and
5 Dr. Choueiki indicated to you that those numbers
6 naturally apply to quantity, not the price; that,
7 intuitively, they apply to quantity, and that that's
8 the way he performed his analysis.

9 My analysis is a transfer function of his
10 and so there may need to be some adjustment for the
11 quantity of megawatt-hours in order to arrive at an
12 appropriate revenue number.

13 Q. And the reason for the need for an
14 adjustment, if that's the way you go about making the
15 calculation, is that you wouldn't want to lose the
16 cost represented by those adjustment factors, right?

17 A. Right.

18 Q. And where would those costs be recovered,
19 then, through the quantity adjustment?

20 A. Oh, I have no clue.

21 Q. Well, it either has to be through an
22 adjustment to the price per unit or it has to be
23 through an adjustments to the number of units, right?

24 A. Well, the way ratemaking works in Ohio
25 I'm not sure that these costs have any bearing to

1 what will be collected.

2 Q. Would they have any bearing as to what
3 the ratemaking is and what the recovery mechanism is
4 at the wholesale level, putting Ohio to the side for
5 a moment? Talking about the capacity price and the
6 collection of revenues as a result of capacity sold
7 to load.

8 A. Yes, they would.

9 Q. Mr. Choueiki said that --

10 A. Dr. Choueiki.

11 Q. I'm sorry, Dr. Choueiki said that the
12 amounts that correspond to the loss adjustment, the
13 forecast pool requirement, and the scaling adjustment
14 are costs that need to be recovered, right, by the
15 capacity supplier?

16 A. I believe his testimony was to that
17 effect.

18 Q. And they need to be recovered from the
19 load, the customer, right?

20 A. Okay.

21 Q. Okay. And so they have to be recovered
22 either through an adjustment to the price or an
23 adjustment to the quantity being billed to the
24 customer, right?

25 A. Yes.

1 Q. And if it's not being recovered through
2 an adjustment to the price being charged to the
3 customer, then it has to be through the quantity
4 being billed to the customer, right?

5 A. Assuming that all of those costs would be
6 recovered and just those costs.

7 Q. And do you know how bills are rendered to
8 customers in the AEP Ohio service area --

9 MR. BEELER: Objection.

10 Q. -- when load purchases capacity from
11 AEP Ohio?

12 MR. BEELER: I'm going to object, beyond
13 the scope of his testimony.

14 EXAMINER TAUBER: Mr. Conway.

15 MR. CONWAY: Your Honor, I would like to
16 find out from someone on the staff how it is that
17 these costs related to the losses, the forecast pool
18 requirement, and the scaling factor get recovered,
19 and I am happy to move on if Mr. Johnson doesn't know
20 how it happens, but to the extent that he does, I'd
21 like to pursue it with him.

22 MR. BEELER: May I, your Honor?

23 EXAMINER TAUBER: Yes.

24 MR. BEELER: I believe he's already
25 testified that he doesn't know.

1 EXAMINER TAUBER: The objection is
2 sustained.

3 Q. (By Mr. Conway) And Mr. Fortney would
4 know; is that right?

5 A. I don't know.

6 Q. So you don't know of the three staff
7 witnesses that testified with regard to the ESP-MRO
8 test, you don't know whether any of them,
9 Mr. Choueiki, Mr. --

10 A. It would be Dr. Choueiki.

11 Q. I'm sorry, Dr. Choueiki, Mr. Fortney, and
12 of course you would be able to provide an answer to
13 the question.

14 A. I do not know -- I do not know whether
15 any of them would. I believe Dr. Choueiki has
16 already answered your question plainly.

17 Q. Can you point out to me where in the MRO
18 side of the comparison these adjustments are
19 recognized?

20 A. No.

21 Q. Mr. Johnson, what does your competitive
22 benchmark price, what does it represent?

23 A. A forward retail price all in/all done
24 for power and energy.

25 Q. So it is an estimate of what a customer

1 would pay for service, is that right, under a
2 competitive bid process?

3 A. Yes.

4 Q. But you can't tell me where in that
5 competitive bid price the costs of the loss
6 adjustment, the forecast pool requirement, and the
7 scaling adjustment would occur?

8 MR. BEELEER: Objection. Asked and
9 answered.

10 MR. CONWAY: What's the answer?

11 MR. BEELEER: He's already testified that
12 he does not know.

13 MR. CONWAY: He doesn't know, okay,
14 that's fine. If that's his answer, I'll move on.

15 EXAMINER TAUBER: Let's move on.

16 Q. (By Mr. Conway) Mr. Johnson, could you
17 turn to your Attachment 6.

18 A. Yes, I have it.

19 Q. Okay. Now, this is the competitive
20 benchmark price presentation that assumes \$255 per
21 megawatt-day as the capacity price?

22 A. Yes.

23 Q. And do you know whether that capacity
24 price is intended to reflect what the load pays for
25 capacity or what the supplier receives for capacity

1 provided to load?

2 A. Is that the same question in a different
3 form?

4 Q. Well, I'm not sure if it is, but could
5 you tell me what the answer is, if you know?

6 A. That is a forward price that estimates
7 the all in/all done retail price that retail
8 customers would pay.

9 Q. And when you say "all in/all done," what
10 does that mean?

11 A. On a per-unit basis, per megawatt-hour,
12 or per kilowatt-hour, or per gigawatt-hour, that's
13 the price. Not the same one for each of those three
14 units, of course.

15 Q. The part of the answer that I was
16 following up on is the all in/all done, and maybe
17 you -- I'm not sure whether your answer would say the
18 same regard --

19 A. Well, I think I answered that question
20 before. I think the question goes to whether there
21 are certain components that need to trueup the
22 quantity, and I believe I testified, as did
23 Dr. Choueiki, that the scaling factor and the other
24 two factors apply to quantity and not to price.

25 Q. Okay. Well, I don't mean to belabor it

1 but on the one hand the capacity input on the
2 Attachment 6, the 255 bucks per megawatt-day, that is
3 the amount -- that reflects the amount paid by the
4 load per unit, right?

5 A. Yes.

6 Q. Okay. And then I believe you said that,
7 anticipating my next question, that any adjustments
8 necessary to recoup those three adjustments, the
9 losses, the FPR, and the scaling, they would be taken
10 care of by an adjustment to the quantity, right?

11 MR. BEELER: Objection. I believe we're
12 going down the same road here.

13 MR. CONWAY: Your Honor, I'm just trying
14 to follow up and understand what he had just
15 explained to me previously. I think I'm entitled to
16 try to make the record clear about it.

17 EXAMINER TAUBER: To the extent it's a
18 follow-up to the previous question, I'll allow it for
19 clarification.

20 A. So what was the question again?

21 MR. CONWAY: Could you read the question
22 back, please?

23 (Record read.)

24 A. There may be some difference in this
25 \$255 price because it's taken from AEP's second-tier

1 price which is in effect, and they may have already
2 included those scaling factors in that price. I'm
3 not sure. I don't know.

4 Q. Okay. And to the extent that there is a
5 need to make an adjustment for the quantity, then
6 that would happen not through your price that you
7 come up with here, but it would happen as a result of
8 something that Mr. Fortney is doing; is that right?

9 A. I think you'll have to ask Mr. Fortney
10 that.

11 Q. So you're not sure whether Mr. Fortney
12 makes an adjustment to reflect the quantity that
13 needs to be added to the metered amount of
14 consumption?

15 A. I am not sure of that.

16 Q. When you interact with Mr. Fortney, what
17 you do is provide a total price for him to use in his
18 calculations of the MRO-ESP test, right?

19 A. Yes.

20 Q. And is it your testimony -- are you
21 saying that while you provide a total price, some
22 aspects of the total price would need to be adjusted
23 by Mr. Fortney in order to satisfy the quantity
24 issue?

25 A. Some adjustments to the quantity would be

1 needed to adjust the price issue.

2 Q. Now let me turn your attention to
3 Attachment 5, and this is your calculation of the
4 competitive benchmark price using the capacity price
5 developed by Mr. Harter and Ms. Medine on behalf of
6 the staff, right?

7 A. Yes.

8 Q. And that capacity price that you use in
9 this presentation is the \$146.41 per megawatt-day
10 price.

11 A. Yes.

12 Q. And if I were to ask you the same
13 questions regarding the \$146.41 that I just asked you
14 about the \$255 per megawatt-day, would your answers
15 be the same?

16 A. They would be similar. I'm not sure
17 whether Mr. Smith, Mr. Harter, or Ms. Medine
18 calculated as part of their capacity price these
19 so-called adjustments, the scaling factor, the pool
20 requirement, and losses.

21 Q. Is -- I'm sorry, are you done?

22 A. I'm not sure whether they did that or
23 not.

24 Q. If you would assume for me that they did
25 not for the moment, in that circumstance would your

1 answers be the same regarding the 146.41 as they were
2 with regard to the 255? The answers to --

3 A. Well, I'm not sure. I'm sorry, go ahead
4 and finish.

5 Q. No, I'm done. Go ahead.

6 A. Well, I stated that I wasn't sure whether
7 the 255 included those scaling factors, and if you're
8 assuming that -- if you're asking me to assume that
9 the 146.41 did not include those scaling factors --

10 Q. Correct.

11 A. -- then the answer is still I don't know
12 because I don't know whether the 255 included them.

13 Q. Well, okay. With regard to the 146.41
14 per megawatt-day capacity price that Mr. Smith,
15 Mr. Harter, and Ms. Medine developed, that includes
16 capacity costs on the one hand offset by energy
17 credit on the other hand, right?

18 A. Right.

19 Q. And do you know what the basis is for the
20 energy credit that was developed by Ms. Medine and
21 Mr. Harter?

22 A. In general I know. Those folks
23 calculated all of the energy sales that would occur
24 from the units whose capacity is in question and with
25 assumptions estimated the contribution to fixed costs

1 that those energy sales would bring. They netted
2 that contribution against their revised estimate of
3 capacity costs and the net is the 146.41, that's in
4 general I believe how they did it.

5 Q. And so in the course of preparing the
6 energy credit for that calculation Mr. Harter and
7 Ms. Medine developed the forecasted energy prices for
8 the ESP period; is that right?

9 A. Yes.

10 Q. And, let's see, they did not use the
11 simple swap energy prices to develop their forecast
12 of energy prices during the period, did they?

13 A. I don't believe they did.

14 Q. How does the price you used for the
15 simple swap energy component for the competitive
16 benchmark compare to the forecasted energy prices
17 that Mr. Harter and Ms. Medine developed for the
18 energy credit?

19 A. You mean are they larger or smaller than?

20 Q. Yes.

21 A. Actually, I don't know the answer to that
22 question. You'd have to refresh me on what their
23 prices are.

24 Q. Well, assume for me for the moment that
25 the forecasted energy prices that they developed were

1 higher than the simple swap prices that you used in
2 developing your capacity -- I'm sorry, in developing
3 your benchmark price, okay?

4 A. Okay. All right, so the assumption is
5 that Mr. Harter and Ms. Medine's energy prices were
6 higher on average throughout the period than those
7 that I've given as a result of the simple swap
8 forward prices.

9 Q. Yes. That's the assumption.

10 A. Okay.

11 Q. What impact on the energy credit would
12 there be if instead of using the prices that
13 Ms. Medine and Mr. Harter used they used your lower
14 simple swap prices? Would the energy credit be
15 smaller or larger?

16 A. I don't believe you can tell from that
17 amount of information.

18 Q. Everything else held the same. Just that
19 change.

20 A. Just that change. That being an
21 unrealistic assumption I'll answer the question. The
22 contribution would be smaller.

23 Q. And so the energy credit would be
24 smaller?

25 A. Yeah, that's what I mean.

1 Q. And then the resulting value for the
2 capacity cost net of energy credit would be higher,
3 right?

4 A. Given that unrealistic assumption, yes.

5 Q. Okay. Now, assume, conversely, that you
6 had used the higher forecasted energy prices that
7 Mr. Harter and Ms. Medine developed in your
8 competitive benchmark price as the energy component,
9 okay?

10 A. Okay. We're assuming now that I'm using
11 their prices?

12 Q. Yes.

13 A. Energy prices.

14 Q. Yes.

15 A. Okay.

16 Q. In place of the simple swaps that you did
17 use.

18 A. Okay.

19 Q. What would be the impact in that scenario
20 upon your competitive benchmark price, everything
21 else held the same?

22 A. Well, the unreality of holding everything
23 else the same, first of all, is that there are
24 different cost structures in these two approaches.
25 If Mr. Harter and Ms. Medine made certain kinds of

1 assumptions about environmental costs, about a whole
2 range of things, fuel factors, I mean fuel prices,
3 and so holding everything else the same, of course,
4 is not a realistic assumption.

5 But let me repeat the assumption. The
6 only thing that changes is that I use their higher
7 prices; is that what you --

8 Q. That's correct. And to the extent they
9 flow through to those other three components that
10 depend on the energy price, then to that extent the
11 example would call for that flow-through effect to
12 occur. But other than that, everything else held the
13 same.

14 A. Well, first of all, I'm not testifying to
15 a quasi cost-based capacity price that is derived
16 through netting energy contribution to it. I am
17 simply taking the capacity price and using it as a
18 single element among ten to bring up a retail price.
19 So let me see -- maybe I better get the question
20 again.

21 Q. Let me start over. I'm not asking you to
22 make any change to the capacity component of your
23 competitive benchmark price, Mr. Johnson.

24 A. Okay.

25 Q. What I was asking you to do was to

1 substitute for the simple swaps that you used the
2 energy component, the forecast energy prices that
3 Mr. Harter and Ms. Medine developed, and to the
4 extent that those -- the energy component of your
5 benchmark affects other components of the benchmark,
6 to flow through that effect to those other
7 benchmarks. I wasn't asking you to vary the capacity
8 component.

9 A. Okay.

10 Q. So in that scenario, if you used the
11 Harter-Medine forecasted energy prices for the period
12 as a substitute for the simple swap component, what
13 would be the impact upon your competitive benchmark
14 price result?

15 A. Given those unrealistic assumptions the
16 competitive benchmark price would be higher.

17 Q. And aren't both prices, both forecast
18 prices -- excuse me, both prices, on the one hand the
19 simple swap prices and on the other hand the
20 forecasted energy prices that Medine-Harter
21 developed, supposed to represent, each of them, the
22 market price of energy over the period?

23 A. Yes.

24 Q. Let me switch topics with you for a
25 moment. I want to clarify your view about the basis

1 adjustment.

2 A. Okay.

3 Q. My understanding is that you ended up,
4 after looking at it, concluding that the basis
5 adjustment that Ms. Thomas used was or is
6 appropriate; is that correct?

7 A. Yes.

8 Q. And you came to that conclusion after
9 independently verifying the historical difference in
10 the locational marginal prices between the AEP-Dayton
11 hub and the AEP zone; is that right?

12 A. Yes.

13 Q. And you believe, do you not, that using
14 the historical differences in the LMPs between the
15 hub and the zone is a reasonable method of predicting
16 prices between the zone and the hub during the ESP
17 period?

18 A. The approach violates statistical
19 principles in that the basis differential has no
20 predictive value. I accept that there is a
21 difference and that there is a mean difference
22 between pricing historically at the one set of points
23 versus the other, and as a, in some senses a
24 compromise from statistical principles and in
25 recognition of what I think is an industry practice,

1 I accept the differential to be valid.

2 I also accept it to be valid because in
3 my testing of the construct itself the predictions
4 that I made, that is the backcasts of both
5 FirstEnergy's SSO auctions and Duke's SSO auctions,
6 indicate that this pricing construct's pretty robust
7 and the pricing construct includes those basis
8 differentials. So, yes, I think the basis
9 differentials are -- I'm not arguing with the basis
10 differentials. I'm pointing out that statistically
11 they don't mean anything.

12 Q. Do you think it's reasonable to use the
13 values that you and Ms. Thomas used --

14 A. I'm not sure. They certainly predict the
15 results of auctions, and to that degree I think we
16 have to accept some reality, yeah.

17 Q. That indicates some degree of
18 reasonableness.

19 A. Yeah.

20 Q. Okay. Then you just mentioned your
21 testing that you undertook which either was or
22 included the backcasting to assure yourself that the
23 construct was appropriate for predicting accurately
24 the results in this case; is that right?

25 A. Yes.

1 Q. And I take it that because you took the
2 time to do that backcasting, that testing, that you
3 do believe that it's an important step to take to
4 confirm the robustness or the utility of the model
5 that you're using, that you're evaluating, right?

6 A. I considered it a good way to approach
7 validating this construct, yes.

8 Q. And based on the testing you did, you
9 concluded that there was no systemic bias in the
10 approach that Ms. Thomas and you used, right?

11 A. There was none that I could detect from
12 the simple test that I made.

13 Q. But if you had determined through the
14 testing that you did that there was a systemic bias,
15 you would conclude that there should be some fix
16 undertaken for the model, right?

17 A. I'm not sure what my conclusion would be.
18 I do have to say I was a bit surprised at how well
19 the construct predicted both auction results but was
20 delighted to have no need to consider the matter any
21 further.

22 Q. One of the conclusions you would draw if
23 you concluded there was systemic bias is that there
24 would need to be some adjustment, some correction to
25 offset the bias?

1 MR. BEELER: Objection. He just said he
2 didn't know.

3 MR. CONWAY: I don't think he said that
4 but, your Honor, I'm getting close to the end of my
5 examination and I think I'm entitled to try to close
6 it out clearly.

7 EXAMINER TAUBER: The witness indicated
8 he's not sure what his conclusion would be, so if you
9 could move on.

10 MR. CONWAY: Well, your Honor, may I ask
11 him if he -- the question was: If you had concluded
12 that there was systemic bias, would you then agree
13 that some sort of fix or adjustment should be made to
14 the model.

15 THE WITNESS: Am I allowed to answer?

16 EXAMINER TAUBER: Yeah, you can answer
17 that question.

18 A. Yes.

19 MR. CONWAY: Okay. That's all I have,
20 your Honor.

21 Thank you, Mr. Johnson.

22 EXAMINER TAUBER: Thank you.

23 Mr. Beeler, redirect?

24 MR. BEELER: Can I have a moment, your
25 Honor?

1 EXAMINER TAUBER: Sure. Let's go off the
2 record.

3 (Discussion off the record.)

4 EXAMINER TAUBER: Let's go back on the
5 record.

6 Mr. Beeler.

7 MR. BEELER: No redirect, your Honor.

8 EXAMINER TAUBER: You may be excused.
9 Thank you, Mr. Johnson.

10 THE WITNESS: Thank you.

11 MR. BEELER: At this point, your Honor, I
12 would like to renew my motion to admit Staff Exhibit
13 102, the prefiled testimony of Daniel R. Johnson.

14 EXAMINER TAUBER: Are there any
15 objections to Staff Exhibit 102?

16 MR. CONWAY: No.

17 EXAMINER TAUBER: Hearing none, Staff
18 Exhibit 102 shall be admitted into the record.

19 (EXHIBIT ADMITTED INTO EVIDENCE.)

20 EXAMINER SEE: Mr. Margard, are you ready
21 to call your next witness?

22 MR. MARGARD: I am, your Honor. Staff
23 would call Mr. Christopher Cunningham to the stand,
24 please.

25 EXAMINER SEE: Mr. Cunningham, if you

1 would raise your right hand.

2 (Witness sworn.)

3 EXAMINER SEE: Thank you.

4 - - -

5 CHRISTOPHER K. CUNNINGHAM

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

8 DIRECT EXAMINATION

9 By Mr. Margard:

10 Q. State your name, please.

11 A. Christopher K. Cunningham.

12 Q. By whom are you employed?

13 A. Public Utilities Commission of Ohio.

14 Q. And in what capacity, please?

15 A. I serve in the Energy and Environment
16 Department in the Facilities Siting and Environmental
17 Analysis Division.

18 MR. MARGARD: Your Honor, I would request
19 that the prefiled testimony of Christopher Cunningham
20 on May 9th, 2012, be marked for purposes of
21 identification as Staff Exhibit No. 103.

22 EXAMINER SEE: The exhibit is so marked.

23 MR. MARGARD: Thank you, your Honor.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

25 Q. Mr. Cunningham, do you have Exhibit 103

1 before you?

2 A. I do.

3 Q. And is that testimony that you prepared
4 in this case?

5 A. It is.

6 Q. Do you have any corrections or changes to
7 make to this document?

8 A. I do not.

9 Q. If I were to ask you the questions
10 contained in here, would your answers be the same
11 today?

12 A. They would.

13 Q. And would those responses be true and
14 accurate to the best of your knowledge?

15 A. Yes, they would.

16 MR. MARGARD: Your Honor, I would
17 respectfully move for the admission of Staff Exhibit
18 103 subject to cross-examination, and I tender the
19 witness for that purpose.

20 EXAMINER SEE: Ms. Kaleps-Clark?

21 MS. KALEPS-CLARK: No questions, your
22 Honor, thank you.

23 EXAMINER SEE: Ms. Hand?

24 MS. HAND: No questions, your Honor,
25 thank you.

1 EXAMINER SEE: Mr. Yurick?

2 MR. YURICK: No questions.

3 EXAMINER SEE: Mr. Siwo?

4 MR. SIWO: No questions, your Honor.

5 EXAMINER SEE: Ms. Kyler?

6 MS. KYLER: No questions, your Honor.

7 EXAMINER SEE: Mr. Sineneng?

8 MR. SINENENG: No questions, your Honor.

9 EXAMINER SEE: Mr. Darr?

10 MR. DARR: No questions, your Honor.

11 EXAMINER SEE: Mr. Hayden?

12 MR. HAYDEN: No questions.

13 EXAMINER SEE: Mr. Maskovyak?

14 MR. MASKOVYAK: No questions, your Honor.

15 EXAMINER SEE: Mr. Serio?

16 MR. SERIO: No questions, your Honor.

17 EXAMINER SEE: Mr. Satterwhite?

18 MR. SATTERWHITE: Just one quick area I
19 think, your Honor.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Satterwhite:

23 Q. Good afternoon, Mr. Cunningham. I'm
24 Matthew Satterwhite from Ohio Power.

25 A. How are you doing?

1 Q. Good. How are you doing?

2 A. Good.

3 Q. Now, your testimony supports the approval
4 of the contract as prudent for recovery, correct?

5 A. That's correct.

6 Q. But on page 2 of your testimony on line
7 18, if you'll open that up for me, you state "I
8 believe that this contract is reasonable at this
9 time." Do you see that statement?

10 A. I do.

11 Q. Was the "at this time" in reference to
12 the need for the contract to still go through the FAC
13 and AER process or was that based in prudence?

14 A. That was based under the conditions that
15 the company entered into the contract at the time
16 they entered into the contract, that it was
17 reasonable to enter into. Does that make sense or --

18 Q. I'm not sure but go ahead. Go ahead and
19 finish and I'll follow up if I need to.

20 A. Can you ask the question again?

21 Q. Sure. Let me ask it a different way.
22 You say you believe the contract is reasonable at
23 this time. You're not suggesting with your testimony
24 that the company would have to come back at a future
25 time and prove the underlying prudence of entering

1 into the contract, are you?

2 A. No, I'm not.

3 Q. You're just suggesting that you still
4 want the contract to go through the FAC process to
5 make sure it's followed appropriately, correct?

6 A. The FAC and the AER, correct.

7 MR. SATTERWHITE: That's all I have,
8 thank you, your Honor.

9 EXAMINER SEE: Any redirect, Mr. Margard?

10 MR. MARGARD: None, your Honor.

11 EXAMINER SEE: Thank you, Mr. Cunningham.
12 Mr. Margard.

13 MR. MARGARD: Thank you, your Honor. I
14 renew my motion for admission of Staff Exhibit No.
15 103.

16 EXAMINER SEE: Are there any objections
17 to the admission of Staff Exhibit 103?

18 MR. SATTERWHITE: No objection.

19 EXAMINER SEE: Staff Exhibit 103 is
20 admitted into the record.

21 MR. MARGARD: Thank you, your Honor.

22 (EXHIBIT ADMITTED INTO EVIDENCE.)

23 EXAMINER SEE: Your next witness,
24 Mr. Margard.

25 MR. MARGARD: Thank you. Staff would

1 call Mr. Raymond Strom to the stand, please.

2 EXAMINER SEE: Mr. Strom, if you'd raise
3 your right hand.

4 (Witness sworn.)

5 EXAMINER SEE: Thank you.

6 - - -

7 RAYMOND W. STROM

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

10 DIRECT EXAMINATION

11 By Mr. Margard:

12 Q. Please state your name.

13 A. My name is Raymond W. Strom.

14 Q. By whom are you employed?

15 A. The Public Utility Commission of Ohio.

16 Q. And in what capacity, please?

17 A. In the Energy and Environment Department,
18 I'm chief of the efficiency and renewables division.

19 MR. MARGARD: Your Honor, I request that
20 the prefiled testimony of Raymond W. Strom filed in
21 this case on May 9th, 2012, be marked for purposes of
22 identification as Staff Exhibit 104.

23 EXAMINER SEE: The exhibit is so marked.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

25 Q. Mr. Strom, do you have Exhibit 104 before

1 you?

2 A. I do.

3 Q. And is this testimony that you prepared
4 for filing in this case?

5 A. Yes, it is.

6 Q. Do you have any changes, corrections, or
7 modifications of any kind to make to this document?

8 A. No, I do not.

9 Q. Mr. Strom, if I were to ask you the
10 questions contained in Staff Exhibit 104 today, would
11 your responses be the same?

12 A. Yes, they would.

13 Q. And in your opinion would those responses
14 be true and accurate to the best of your knowledge?

15 A. Yes.

16 MR. MARGARD: Your Honor, I respectfully
17 move the admission of Staff Exhibit 104 subject to
18 cross-examination, and I tender this witness for that
19 purpose.

20 EXAMINER SEE: Ms. Kyler, any questions?

21 MS. KALEPS-CLARK: Kaleps-Clark.

22 EXAMINER SEE: I'm sorry.

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

25 EXAMINER SEE: Miss Hand?

1 MS. HAND: No questions, your Honor,
2 thank you.

3 EXAMINER SEE: Mr. Yurick?

4 MR. YURICK: No questions.

5 EXAMINER SEE: Mr. Siwo?

6 MR. SIWO: No questions, your Honor.

7 EXAMINER SEE: Ms. Kyler?

8 MS. KYLER: No questions, your Honor.

9 EXAMINER SEE: Mr. Sineneng?

10 MR. SINENENG: I have nothing, your
11 Honor.

12 EXAMINER SEE: Mr. Darr?

13 MR. DARR: No, thank you.

14 EXAMINER SEE: Mr. Hayden?

15 MR. HAYDEN: No questions.

16 EXAMINER SEE: Mr. Maskovyak?

17 MR. MASKOVYAK: No questions, your Honor.

18 EXAMINER SEE: Mr. Serio?

19 MR. SERIO: No questions, your Honor.

20 EXAMINER SEE: Mr. Satterwhite?

21 MR. SATTERWHITE: Yes, your Honor.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Satterwhite:

25 Q. Good afternoon, Mr. Strom. How are you

1 doing today?

2 A. Good. How are you?

3 Q. Good. I'm Matthew Satterwhite, counsel
4 for Ohio Power. I think we've met before so I think
5 you know that already.

6 A. I believe we have.

7 Q. Just to be clear, you do not oppose the
8 establishment of the AER in recovery of the costs,
9 correct?

10 A. No, I do not oppose the establishment or
11 the recovery of costs.

12 Q. Your focus is really on the effect of
13 once that's approved and a process to ensure the
14 treatment of that, correct?

15 A. I'm not totally sure I understand what
16 you mean by "the effect."

17 Q. Once it's established, your testimony
18 deals with, assuming it's established, what kind of
19 audit process should be set up to track the AER,
20 correct?

21 A. That's correct.

22 Q. And you recommend mirroring the process
23 currently used at the FAC; is that fair?

24 A. I have trouble with the word "mirroring,"
25 but it's the same type of portion.

1 Q. Well, that's what I want to get into.
2 I'm glad you have trouble with it because that's what
3 I want to explore.

4 A. Okay.

5 Q. So you want to at least initially follow
6 the same timeline as the FAC so they'll be considered
7 together, correct?

8 A. I think that makes the most sense, to
9 consider them together initially. It gives an
10 opportunity to look at both of these related concepts
11 in the same context and allows the Commission to make
12 decisions about these related concepts at the same
13 time in the same format.

14 Q. And what's your understanding of the
15 scope of the FAC audit?

16 A. The scope includes the costs that the
17 company incurs in fuel and a variety of fuel-related
18 areas.

19 Q. And what's the auditor's role in that
20 process?

21 A. There's both financial and management
22 auditors, they look at the accounting, the
23 recordkeeping, as an assurance that the right types
24 of costs are going into the right places and there's
25 a review of the management decision-making processes

1 as they take place.

2 Q. And as far as whether the right numbers
3 go in the right place and it's done appropriately,
4 that's based on something that's decided before the
5 audit begins, correct?

6 A. I think that there are decisions about
7 that before the audit begins, but I think there's
8 also plenty of times in which new things arise and
9 uncertainty exists and evaluation of those uncertain
10 areas is something that could happen in the context
11 of an audit process.

12 Q. But it's not your testimony --

13 EXAMINER SEE: Mr. Satterwhite, hold on
14 just a second.

15 Mr. Strom, I need you to slide the mic
16 closer or put it in front of you when you're speaking
17 to Mr. Satterwhite.

18 THE WITNESS: I'm sorry, I just keep
19 looking at Mr. Satterwhite. Okay.

20 Q. But it's not your testimony that as part
21 of the audit process the auditor sort of makes up the
22 standards that then the company is held to, that
23 they're being audited against, is it?

24 A. Oh, no. No. It's -- as the company has
25 laid out in its plan, there's a certain methodology

1 it intends to use to look at how to break apart, say,
2 the components of, say, bundled energy and the RECs,
3 and there's a proposal that the company plans to
4 follow. The auditor will look at how that's followed
5 and look at how that works in practice, and there may
6 be issues that arise in that process, but I don't
7 expect that the auditor would be making things up as
8 they go along.

9 Q. I appreciate that.

10 A. Okay.

11 Q. And you mentioned the methodology that
12 Company Witness Nelson points out, and I believe you
13 referred to that on page 3, line 12 of your
14 testimony. Are you in agreement that that's the
15 methodology that should be used and then audited
16 later by the auditor?

17 A. I think that's a reasonable methodology
18 to use to do the initial allocations during the
19 initial period. At first when this, the AER, is put
20 in place, there will still be an FAC, and so in large
21 part it simply is a question of which side of this
22 equation should these be on, the costs, which side
23 should the costs be on for recovery purposes.

24 Eventually the FAC will go away and
25 that's where I think it's -- this issue has maybe a

1 more -- a higher degree of importance, because the
2 FAC is gone and then when you're deciding well, how
3 do costs get allocated, it has potential to have a
4 direct impact either on the company or on the
5 ratepayers who are getting allocated a portion of
6 that cost. So that's why I'm recommending that they
7 be audited by the same auditor while they are still
8 related; and these kinds of issues could be worked
9 out.

10 I think basically looking at the way the
11 company's proposing to do it initially and seeing how
12 that works in the context of this merged AER FAC
13 audit would give the Commission information they can
14 use to make a determination is that appropriate.

15 Q. Okay. So you don't disagree that the
16 methodology the company puts out would be the
17 methodology to be audited the first year, you're just
18 saying in future years that could change, but at
19 least the known for the first year would be the
20 methodology proposed by the company; is that fair?

21 A. I think that would be very reasonable.

22 Q. And if you look on page 2 of your
23 testimony, line 18, you talk about how the company's
24 proposal does not address the issue of auditing the
25 costs. Is that in reference to the future years, or

1 is that something different than what you refer to on
2 page 3 starting on line 12?

3 A. I lost the thread of the question while I
4 was looking for the page references.

5 Q. No problem. I'm just trying to make sure
6 you're not saying something different starting on
7 page 2, line 18 where you talked about the lack of an
8 auditing cost process. And then on page 3, when, as
9 we just discussed right now, you've accepted the
10 company's proposal for year 1, and I was trying to
11 mirror those in my question to say is what you
12 describe on page 2 just the concept of having the AER
13 through the FAC and then in future years potentially
14 having that process change?

15 A. Maybe I can answer your question by sort
16 of restating what I think --

17 Q. Perfect.

18 A. -- is going on. Initially -- well, the
19 reason I stated first that the company's proposal did
20 not address the issue, I couldn't find anything in
21 the testimony or in the application that talked about
22 auditing the AER, so I recommend that the AER should
23 be audited, and initially it would be audited in
24 conjunction with the FAC audits that would be
25 ongoing. My understanding is the FAC audit process

1 would continue.

2 And that would be, you know, the initial
3 look at how is -- how are the unbundling of these
4 bundled costs being dealt with would be along the
5 lines of the company's proposal.

6 And then over the course of the years
7 eventually the FAC piece of that audit would go away
8 because there would be no need to, you know, ability
9 to audit the fuel costs because fuel costs wouldn't
10 be an issue, but the renewable certificate costs or
11 the allocation of the portion of that cost of a REPA
12 or something of that nature would still exist so
13 there would still be a need to audit that aspect.

14 And by then, this would be several years
15 down the road, and by then there would have been a
16 history developed about how these allocations should
17 take place and what types of things should be issues
18 to be considered in the audit process.

19 Does that help answer your question?

20 Q. Very helpful. Absolutely, yes. Thank
21 you.

22 And earlier when you said you wouldn't
23 necessarily say the two processes would mirror each
24 other, is it fair to state because the FAC has, as
25 you mentioned, a financial side, a management side,

1 has a number of different areas to it, whereas this
2 audit's focused on the methodology proposed by the
3 company that could be changed later so it's much
4 narrower? Is that fair?

5 A. No, I don't think this -- I would say
6 this audit would focus on that methodology. There
7 would certainly be some decision-making processes
8 that would be evaluated in the context of this audit
9 because we don't just have unbundling of REPAs, we
10 also have the outright purchase of RECs and things of
11 that nature that would have to be evaluated in the
12 context of the audit.

13 The reason I said I have problem with
14 mirroring, to me mirroring often means it looks like
15 it but it's opposite, but I think it would be a very
16 similar kind of evaluation process, but I think it
17 would be one that would involve a much smaller dollar
18 amount so that's why I recommended that it could take
19 place less than an annual basis.

20 Q. And changes to the scope of the audit,
21 would that come from a recommendation that would then
22 have to be accepted by the Commission for a future
23 audit year?

24 A. Well, the scope of the audit, I don't
25 know that that's totally been determined here other

1 than the fact that it would be similar to an FAC
2 audit.

3 I think the grouped audit process, you
4 would have a period of time where the Commission
5 could develop that scope.

6 Q. But as you said earlier, would you agree
7 that the scope of the audit should be defined in
8 advance, not during the audit, correct?

9 A. It would be very difficult for a
10 company -- well, yes, that's correct, it would be
11 very difficult for a company to make decisions
12 without having any idea how these decisions would be
13 evaluated.

14 MR. SATTERWHITE: Great. Thank you,
15 that's all I have.

16 EXAMINER SEE: Mr. Margard, any redirect?

17 MR. MARGARD: No redirect, thank you,
18 your Honor.

19 - - -

20 EXAMINATION

21 By Commissioner Porter:

22 Q. Thank you, Mr. Strom, for testifying. A
23 couple of quick questions on the AER rider, your
24 understanding of that AER rider is it would be
25 nonbypassable, or would it be bypassable for shopping

1 customers?

2 A. Bypassable.

3 Q. It would be bypassable? Are you familiar
4 with the -- you haven't included this in your
5 testimony but are you familiar with this GRR rider,
6 the generation resource rider, proposed by the
7 company?

8 A. I'm aware of it but I have not developed
9 any testimony in that area.

10 Q. Okay. I want to understand the different
11 components of projects or matters that would be
12 within the AER rider, the alternative energy rider,
13 so I believe in your testimony you have the Timber
14 Road REPA would be included, the costs for the Timber
15 Road REPA would be included within the AER rider?

16 A. I would expect them to be, yes, the
17 renewable portion of those costs.

18 Q. What's that mean, the renewable portion?

19 A. Essentially the REC value associated with
20 that REPA. My understanding of the REPA is that it
21 entails the purchase of energy, capacity, and
22 renewable attributes and the AER would be the arena
23 in which the renewable attributes, cost of the
24 renewable attributes would be recovered.

25 Q. What's the rationale, as you understand

1 it, for the company's proposal for having the Timber
2 Road REPA be included in this nonbypassable rider
3 rather than -- I'm sorry, in the bypassable AER rider
4 rather than in a nonbypassable rider? Why should it
5 be bypassable versus nonbypassable?

6 A. If customers shop, then whoever they are
7 shopping with would have to cover the renewable
8 requirements, so it doesn't make sense for a shopping
9 customer to have to pay for both those with whom
10 they're shopping, the cost of complying with
11 renewable requirements with them and with the EDU.

12 Q. So this is what I was struggling with is,
13 if you could help me understand, if there is an
14 additional renewable project, there's the Timber Road
15 REPA, there's also the Turning Point Solar Project,
16 what's the difference in those two projects from your
17 understanding?

18 A. As I said, well, Turning Point would be
19 something that would be included under the GRR as I
20 understand it, I haven't really developed testimony
21 on the GRR, so I don't -- I haven't really evaluated
22 the Turning Point other than just to be aware that it
23 exists or that it potentially may exist.

24 Q. Okay. But from staff's perspective if
25 it's a renewable project, if it's a project that's to

1 meet the renewable portfolio standards or
2 requirements under SB 221, since a shopping customer
3 when it shops, the CRES provider also has to meet
4 those requirements, then those types of projects
5 should be bypassable from staff's perspective? I'm
6 sorry, let me be more clear, I think that was a huge
7 run-on question.

8 So I'm just trying to understand the
9 difference between renewable projects included in one
10 rider from staff's perspective and renewable projects
11 included in another rider from staff's perspective.
12 One rider is bypassable, one rider is not bypassable.
13 And I just want to understand why one project, is it
14 that one project is actually a renewable energy
15 purchase agreement type of a project where there's
16 only the RECs being purchased versus another project
17 that would actually be owned and constructed by the
18 company. For example, is Turning Point Solar a
19 different type of project from your understanding?

20 A. My understanding is it's a different kind
21 of project. I don't know about the owned and
22 operated by, I don't know those details about the
23 proposal on Turning Point, but I do know that there's
24 some requirement to show a need for the facility and
25 that was an item that wasn't covered in the, like the

1 Turning Point REPA, I didn't go through that need
2 process. But, like I said, I have not reviewed the
3 Turning Point solar proposal in the context of the
4 AER because I knew it was a -- it was being handled
5 in a separate context.

6 Q. Okay. And at this point you're not sure
7 why it's being handled in a separate context from --

8 A. Well, I have some understanding of it,
9 but it wasn't the point of my testimony so I haven't
10 tried to develop a firm understanding of exactly
11 what's happening there.

12 Q. Tell me what you think as to why one is
13 included in one rider versus the other.

14 A. I think it may very well just be a legal
15 issue, and not being a lawyer I'm not sure exactly
16 how that works.

17 COMMISSIONER PORTER: Okay. All right.
18 That's all I have. Thank you.

19 EXAMINER SEE: Thank you very much,
20 Mr. Strom.

21 MR. MARGARD: Your Honor, I respectfully
22 renew my motion for admission of Staff Exhibit 104.

23 EXAMINER SEE: Are there any objections
24 to the admission of Staff Exhibit 104?

25 MR. SATTERWHITE: No objection.

1 EXAMINER SEE: Staff Exhibit 104 is
2 admitted into the record.

3 (EXHIBIT ADMITTED INTO EVIDENCE.)

4 EXAMINER SEE: Let's go off the record
5 for a minute.

6 (Discussion off the record.)

7 EXAMINER SEE: Let's go back on the
8 record. We'll reconvene the hearing tomorrow at
9 8:30 a.m.

10 Nothing further. See you tomorrow.

11 (Thereupon, the hearing was adjourned at
12 3:01 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 Tuesday, May 29, 2012,
and carefully compared with my original stenographic
notes.

Maria DiPaolo Jones, Registered
Diplomate Reporter and CRR and
Notary Public in and for the
State of Ohio.

My commission expires June 19, 2016.

(MDJ-4020)

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Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 05/29/12 - Volume VIII electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.