

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

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

- - -

PROCEEDINGS

before Ms. Greta See and Mr. Jonathan Tauber,
Attorney Examiners, and Commissioner Andre Porter, at
the Public Utilities Commission of Ohio, 180 East
Broad Street, Room 11-A, Columbus, Ohio, called at
8:30 a.m. on Wednesday, May 30, 2012.

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VOLUME IX

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1 Wednesday Morning Session,
2 May 30, 2012.

3 - - -

4 EXAMINER SEE: Let's go on the record.
5 Let's take brief appearances of the parties. Start
6 with the company, go around the table.

7 MR. SATTERWHITE: Thank you, your Honor.
8 On behalf of Ohio Power, Matthew Satterwhite, Steven
9 Nourse, Dan Conway, Christen Moore, and Yazen Alami.

10 MR. ALLWEIN: Thank you, your Honor. On
11 behalf of the Natural Resources Defense Council,
12 Christopher Allwein.

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

17 MR. HAYDEN: Good morning, your Honor.
18 On behalf of FES, Mark Hayden, Jim Lang, and Laura
19 McBride.

20 MR. OLIKER: Good morning. On behalf of
21 IEU-Ohio, Frank Darr, Matt Pritchard, Sam Randazzo,
22 and Joe Oliker.

23 MR. SINENENG: On behalf of Duke Energy
24 Retail Sales and Duke Energy Retail Asset Management,
25 Amy Spiller, Jeanne Kingery, and Philip Sineneng.

1 MR. STINSON: On behalf of the Ohio
2 Schools, Dane Stinson.

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

6 MR. D'AURORA: For the University of
7 Toledo, Jack D. Aurora.

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

12 MR. YURICK: Mark Yurick for the Kroger
13 Company.

14 MS. HAND: Good morning. On behalf of
15 Ormet Primary Aluminum Corporation, Emma Hand and Tom
16 Millar.

17 MR. BEELEER: Steve Beeler and Vern
18 Margard, Assistant Attorneys General, on behalf of
19 the staff.

20 EXAMINER SEE: Okay. Mr. Montgomery.

21 MR. MONTGOMERY: Your Honor, on behalf of
22 Paulding Wind Farm II LLC, Chris Montgomery, Matthew
23 Warnock, and Terrence O'Donnell.

24 Is that it for appearances? Yes, okay.

25 EXAMINER SEE: You're the last one to

1 enter an appearance.

2 MR. MONTGOMERY: Thanks.

3 Per our e-mail from last evening, we have
4 received responses, we believe, from all but four of
5 the parties indicating that they have agreed to waive
6 cross-examination of Paulding Wind Witness Steve
7 Irvin.

8 If there are no parties here today who
9 indicate that they want to ask cross-examination
10 questions of Mr. Irvin, we will request that the
11 Bench admit the direct testimony of Mr. Irvin into
12 the record.

13 EXAMINER SEE: It was the Bench's
14 understanding you had a stipulation?

15 MR. MONTGOMERY: That is correct.

16 EXAMINER SEE: Is the content of it in --

17 MR. MONTGOMERY: We believe IEU is going
18 to handle the admission of that into the record.

19 EXAMINER SEE: Okay. And we will be
20 marking Mr. Irvin's testimony as?

21 MR. MONTGOMERY: The testimony will be
22 marked as Paulding Wind Farm II LLC Exhibit No. 101.

23 EXAMINER SEE: Paulding Exhibit 101 --

24 MR. MONTGOMERY: Yes, there you go. That
25 works.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 EXAMINER SEE: I take it that there are
3 no objections to the admission of Mr. Irvin's direct
4 testimony, Paulding Exhibit 101?

5 (No response.)

6 EXAMINER SEE: Paulding Exhibit 101 is
7 admitted into the record.

8 (EXHIBIT ADMITTED INTO EVIDENCE.)

9 MR. MONTGOMERY: Thank you, your Honors.

10 EXAMINER SEE: Do you want to take up the
11 stipulation at this point?

12 MR. OLIKER: Your Honor, at this time, I
13 would like to mark for identification IEU-Ohio
14 Exhibit 122 and that is the stipulation of facts by
15 the Paulding Wind Farm II LLC.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 MR. OLIKER: May I approach, your Honor?

18 EXAMINER SEE: Yes.

19 MR. OLIKER: I apologize. I'm running
20 out of copies.

21 EXAMINER SEE: And all the parties who
22 have requested to see this have seen it prior to?

23 MR. OLIKER: Yes, your Honor.

24 Is there anybody who has not seen this
25 document yet who would like to see it?

1 Your Honor, would you like us to read it
2 into the record or is it safe to just submit the
3 document?

4 EXAMINER SEE: It's fine. We'll take the
5 stipulation. I take it there are no objections to
6 the admission of Exhibit IEU Exhibit 122?

7 IEU Exhibit 122 is admitted into the
8 record.

9 (EXHIBIT ADMITTED INTO EVIDENCE.)

10 EXAMINER SEE: Okay. Next witness.

11 Mr. Lang.

12 MR. LANG: Thank, your Honor. FES calls
13 Dr. Jonathan Lesser.

14 (Witness sworn.)

15 EXAMINER SEE: Have a seat.

16 - - -

17 JONATHAN A. LESSER

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

20 DIRECT EXAMINATION

21 By Mr. Lang:

22 Q. Dr. Lesser, can you introduce yourself,
23 please.

24 A. My name is Jonathan Lesser, and I am
25 President of Continental Economics, Incorporated. My

1 address is 6 Real Place, Sandia Park, New Mexico.

2 MR. LANG: Your Honors, we have premarked
3 both his confidential testimony and his public
4 testimony as -- the confidential as FES Exhibit 102,
5 FES 102, and the public version as FES 102-A. And we
6 have provided those to the court reporter.

7 (EXHIBITS MARKED FOR IDENTIFICATION.)

8 Q. Dr. Lesser, do you have in front of you
9 FES Exhibit 102?

10 A. I do.

11 Q. Could you tell us what that is, please?

12 A. That is a copy of the confidential
13 version of my direct testimony.

14 Q. And do you also have FES Exhibit 102-A?

15 A. I do.

16 Q. And that is?

17 A. That is a copy of the public version of
18 my direct testimony.

19 Q. Now, is it also true that you made
20 corrections to page 45 of your testimony?

21 A. Yes, it is.

22 MR. LANG: And, your Honors, the
23 corrections, page 45, was also prefiled and docketed.
24 We have premarked that and provided it to the court
25 reporter; have marked that FES Exhibit 102-B.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 EXAMINER SEE: How extensive are the
3 corrections?

4 MR. LANG: One page.

5 EXAMINER SEE: Okay.

6 EXAMINER TAUBER: Thanks.

7 MR. CONWAY: Mr. Lang, do you have an
8 extra copy of that?

9 MR. LANG: Yes.

10 Q. (By Mr. Lang) Dr. Lesser, do you have in
11 front of you FES Exhibit 102-B?

12 A. I do.

13 Q. Can you identify that, please.

14 A. FES 102-B is page 45 of my testimony with
15 the corrections listed.

16 Q. If I were to ask you the same questions
17 that are in FES Exhibits 102 and 102-A, your
18 confidential and public versions, as corrected by
19 Exhibit 102-B, the corrected page, would your answers
20 be the same?

21 A. They would.

22 Q. I should ask do you have -- did you have
23 any other corrections other than page 45 to your
24 testimony?

25 A. I do not.

1 MR. LANG: All right. Your Honors,
2 Dr. Lesser is available.

3 EXAMINER SEE: Ms. Hand?

4 MS. HAND: No questions, your Honor.
5 Thank you.

6 EXAMINER SEE: Mr. Yurick?

7 MR. YURICK: Nothing. Thank you.

8 EXAMINER SEE: Ms. Thompson?

9 MS. THOMPSON: No questions, your Honor.
10 Thank you.

11 EXAMINER SEE: Mr. D'Aurora?

12 MR. D'AURORA: No questions. Thank you.

13 EXAMINER SEE: Ms. Kyler?

14 MS. KYLER: No questions, your Honor.

15 EXAMINER SEE: Mr. Stinson?

16 MR. STINSON: No questions, your Honor.

17 EXAMINER SEE: Mr. Sineneng?

18 MR. SINENENG: No questions, your Honor.

19 EXAMINER SEE: Mr. Olikier?

20 MR. OLIKER: No questions, your Honor.

21 EXAMINER SEE: Mr. Etter?

22 MR. ETTER: No questions, your Honor.

23 EXAMINER SEE: Mr. Allwein?

24 MR. ALLWEIN: No questions, your Honor.

25 EXAMINER SEE: Mr. Conway?

1 MR. CONWAY: Thank you, your Honor.

2 THE WITNESS: Boy, that didn't sound
3 right.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Conway:

7 Q. I do have a few questions, but the first
8 thing I wanted to do is to thank you and your counsel
9 for either reminding me or causing me to take notice
10 that you have a corrected page 45 of your testimony.
11 That's very helpful. Thank you.

12 Again, good morning, Dr. Lesser. And I
13 do actually have a few questions to start with
14 regarding the fuel adjustment clause portion of your
15 testimony which starts at page 44. It goes on
16 through I think page 46.

17 Now, the company's proposal is to merge
18 the fuel adjustment clause rates for the two
19 companies, Ohio Power and Columbus Southern Power --
20 let me strike that and start over.

21 The company's proposal is to merge fuel
22 adjustment clause rates for the Ohio Power zone and
23 the Columbus Southern Power zone in 2013, right?

24 A. That's correct.

25 Q. And that's the time -- 2013 is the time

1 when, under the company's proposal, the phase-in
2 recovery rider would begin also, right?

3 A. That's my understanding, yes.

4 Q. And when the FAC rates are merged, the
5 result is the CSP rate becomes a lower rate than what
6 it would be absent the merger of the rates, right?

7 A. Can you -- when the combined rates?

8 Q. Yes. Now, when we merge the rates into
9 one merged rate, the result -- one of the results is
10 that the rate that will apply in the CSP zone is a
11 lower rate than what would be the case absent the
12 merger of the -- of the rates, right?

13 A. You're talking about the merged fuel
14 adjustment clause?

15 Q. Yes.

16 A. That's correct.

17 MR. DARR: Your Honor, could we ask the
18 microphone to be a little closer to Dr. Lesser,
19 please?

20 THE WITNESS: Oh.

21 MR. CONWAY: Was that comment directed at
22 me or Dr. Lesser?

23 MR. DARR: Dr. Lesser. I'm having
24 trouble hearing Mr. -- Dr. Lesser.

25 A. Because of the fan, I have a little

1 trouble hearing you.

2 Q. Is that right? Sorry. I'll do the best
3 I can.

4 Okay. So the bottom line there is that
5 the -- as a result of the merger of the FAC rates,
6 the Columbus Southern Power is the rate -- the rate
7 applicable to that zone is lower than it would
8 otherwise be absent the merger of the rates, right?

9 A. That's right.

10 MR. LANG: Mr. Conway, could we pause one
11 second? I think I might -- would you mind because I
12 think Dr. Lesser is -- because his mic is on, the
13 speaker on his mic is off.

14 EXAMINER SEE: Correct.

15 MR. LANG: If I could maybe use that mic
16 so he could use the speaker.

17 Okay. Thanks.

18 Q. (By Mr. Conway) Okay. And the other
19 result from the merger of the FAC rates is that the
20 rate applicable to the Ohio Power Company zone
21 becomes higher than it would be without the merger of
22 the FAC rates, right?

23 A. That's correct, yes.

24 Q. And when the phase-in recovery rider is
25 established on a merged basis, the opposite impacts

1 occur, right?

2 A. Well, my understanding is the phase-in
3 recovery rider is going to be the same for both
4 companies at approximately \$3 per megawatt-hour so
5 I'm not sure what you mean. The impact on both CSP
6 and OPC will be exactly same.

7 Q. The merged PIRR rate is the same for both
8 sides, right?

9 A. That's my understanding.

10 Q. If there weren't a merged PIRR, but it
11 was, in fact, a separate PIRR for each zone, what
12 would be the relative size of the PIRR for each
13 company?

14 A. I don't recall specific values of that.

15 Q. Do you recall whether the regulatory
16 asset balance is higher for Ohio Power Company than
17 it is for Columbus Southern Power Company prior to --
18 prior to the merger?

19 A. I would need to look at I think it was
20 Mr. Roush's testimony with that data.

21 Q. Okay. At the end of the day, I believe
22 you -- you indicated that the PIRR rate when it goes
23 into effect on a merged basis will -- will be the
24 same essentially for the entire service area. It
25 will not be differentiated by -- by zone, right?

1 A. That's my understanding of the AEP
2 proposal.

3 Q. And you don't have an opinion or you
4 don't have an understanding of whether the merger of
5 the PIRR rate -- strike that question.

6 You don't have an understanding of
7 whether, on a stand-alone basis, the PIRR rates that
8 would be applicable by zone would be conversely to
9 the -- to the FAC rates on an independent basis,
10 whether they would -- whether there would be a
11 smaller increase -- a smaller rate for Columbus
12 Southern and a relatively higher PIRR rate for Ohio
13 Power Company.

14 A. I don't -- I don't recall exact numbers
15 of the unmerged PIRR -- PIRR values, no.

16 Q. Okay. But your recommendation is to go
17 ahead and merge the FAC rates immediately; is that
18 right, in 2012?

19 A. Yes. I agree with AEP's testimony that
20 merging both -- merging all of the separate charges
21 its proposing simplifies the rate structure, and it
22 also is economically efficient because all customers
23 on the merged company will be charged the same
24 prices.

25 Q. Okay. And so that would -- that merger

1 of the FAC rates immediately would result in a rate
2 increase for Ohio Power Company and a rate decrease
3 for Columbus Southern Power Company compared to the
4 rates that would be charged absent the merger of the
5 rates.

6 A. Can you repeat that question, please?

7 Q. Yes. Let me see if I can break it up.

8 The merger of the FAC rates in 2012 that
9 you recommend, that would result in a FAC rate for
10 Ohio Power Company that is higher than would be the
11 case absent the merger of the rate, right?

12 A. That's my understanding.

13 Q. Okay. So there is more headroom created
14 for Ohio Power Company as a result of merging rates
15 in 2012 compared to not merging them in 2012.

16 A. I'm not sure what you mean by the term
17 "headroom." Could you define that, please?

18 Q. Price to compare would be higher for Ohio
19 Power Company with the merged FAC rate compared to
20 an -- for the Ohio Power zone compared to an unmerged
21 FAC rate.

22 A. I haven't done the calculation. I'm not
23 sure. That sounds reasonable.

24 Q. Isn't that inevitable if the rate was
25 higher than it would otherwise be, that the higher

1 rate provides more headroom or a higher price to
2 compare than would be the case without that result?

3 A. Are you referring to the equivalent
4 market price, or are you referring to essentially the
5 ESP price?

6 Q. I'm referring to the standard service
7 offer price including FAC.

8 A. If you impose a higher fuel adjustment
9 charge than the standard service offer price, the
10 overall price increases, yes.

11 Q. So that provides a larger price to
12 compare for a competitive supplier, right?

13 A. That is true, yes.

14 Q. Okay. And how much of an increase would
15 occur for Ohio Power Company in the event of a merged
16 FAC rate compared to what wouldn't -- strike that.

17 How much of an increase for the Ohio
18 Power Company zone, as a result of a merged FAC rate
19 in 2012, compared to what would be the case the rate
20 would be for that zone without the merger of the
21 rate?

22 A. My understanding is the calculation made
23 by AEP is \$2.39 per megawatt-hour.

24 Q. And is your rate that you calculated
25 \$2.60, or is it something different? And I'm

1 referring to line 8 of page 45 of your testimony.

2 A. Actually that should be \$2.39.

3 Q. Okay. So you are -- you are concurring
4 with the values that Mr. Roush developed then, right?
5 He's got \$2.39 on page 44 in that table there. Do
6 you see that?

7 A. Yes, I do.

8 Q. So you are agreeing with that?

9 A. Yes.

10 Q. On a percentage basis then, what is the
11 increase in the Ohio Power Company rate compared to
12 what it would be on a merged basis compared to what
13 it would be on an unmerged basis? Do you know that?

14 A. Which rate are you referring to? The
15 fuel adjustment rate or?

16 Q. Well, how much does the fuel adjustment
17 clause rate, on a merged basis, increase the Ohio
18 Power Company generation rate compared to what would
19 be the case if the fuel -- fuel adjustment clause
20 rate were not merged? Do you know?

21 A. I haven't done that calculation.

22 Q. Okay. All right. And then looking at
23 the Columbus Southern Power side of the situation,
24 the Columbus Southern Power zone side of the
25 situation, if we merged the rates, the FAC rates, in

1 2012, as you recommend, then the Columbus Southern
2 Power rate would be -- for fuel would be lower than
3 it would be on an unmerged basis, right?

4 A. That's correct.

5 Q. And by how much would it be lower?

6 A. I believe it would be lower by \$3.65 per
7 megawatt-hour.

8 Q. Okay. And that would reduce the price to
9 compare for Columbus Southern Power by that amount in
10 2012, right?

11 A. That's correct.

12 Q. Okay. And then could you turn to page 7
13 of your testimony, the -- a portion of the Turning
14 Point discussion that appears on page 70.

15 A. All right. I'm there.

16 Q. I may come back to this in a little bit,
17 but just at the outset I wanted to go over with you
18 the value on line 13, the \$1.64 per watt value. Do
19 you see that?

20 A. Yes, I do.

21 Q. And then I wanted to also ask you a
22 question or two about the \$185 on line 23 which I
23 believe is for the price for solar RECs. Do you see
24 that?

25 A. Yes, I do.

1 Q. Going back to line 13 on page 7, the
2 \$1.64 per watt value, that's a 2010 value, right?

3 A. That's correct.

4 Q. And what has happened to the price for
5 solar panels since 2010 when that value prevailed?

6 A. That report is from late 2010. I'm not
7 aware that the National Renewable Energy Laboratory
8 has published any other prices since then.

9 Q. Okay. So it's possible that the price
10 has changed since 2010 whenever prices that are
11 included in that report prevailed?

12 A. Yes. It's possible they could have
13 either increased or decreased.

14 Q. And you don't know which it is?

15 A. I do not, no.

16 Q. And if they were to have dis -- decreased
17 since then so that the price per watt for the solar
18 panels currently is lower than the \$1.64 value, that
19 would have an impact on your analysis, right?

20 A. Which analysis am I referring to,
21 Mr. Conway?

22 Q. One that relies upon the \$1.64 per watt
23 value. Well, let me back up.

24 Does that number, that \$1.64 per watt
25 value, does it have any relevance to your analyses?

1 A. Well, given that Mr. Nelson when he was
2 cross-examined in this case had absolutely no
3 knowledge of what the prices were, even though he
4 included supplemental testimony on the prices of
5 solar panels from Turning Point for the project, I
6 would say that he -- price is not all that relevant
7 because the numbers that Mr. Nelson apparently
8 provided, and I can't actually say what they are
9 because it's confidential, I believe, seemed to be
10 just pulled out of thin air, and he doesn't have any
11 idea whether those are realistic or not, so, again, I
12 think it's quite irrelevant.

13 Q. So your \$1.64 value is now irrelevant
14 also; is that what you're saying?

15 A. No, I'm not saying that. I'm saying, as
16 a comparison, using that as a comparison to
17 Mr. Nelson's, the data he provided in his
18 confidential Exhibit PJM50 as to the price that the
19 solar panels would be, which then goes into the
20 overall cost, and the determine -- which I determined
21 a -- a levelized cost in my testimony, which is
22 confidential, that those numbers are simply --
23 Mr. Nelson's are clearly irrelevant because he
24 disowned any knowledge of it.

25 Q. But your point is that you don't believe

1 that Mr. Nelson's -- his values and his -- his
2 analysis is -- is pertinent because of a view by you
3 that the inputs are not reliable; is that right?

4 A. That's Mr. -- Mr. Nelson's testimony
5 clearly indicates those inputs are not reliable
6 because he had no idea what the actual costs would
7 be.

8 Q. Let me -- let me go back. Let me ask you
9 to assume that -- that the analyses that he relied
10 upon and the values that underlaid that analysis are
11 accurate, and that -- with that assumption, does your
12 analysis change depending on whether or not the \$1.64
13 per watt value is lower?

14 A. Well, let me -- let me start by asking
15 for a copy of Mr. Nelson's supplemental testimony so
16 I have that exhibit with me so I can give you a
17 better answer.

18 Q. If you can't answer the question, then
19 I'll just move on to the next topic.

20 A. My conclusion is that Turning Point --
21 there's no basis for including that as part of a
22 nonbypassable GRR, whether or not -- whether the cost
23 is. My own view on Mr. Nelson's costs, which he now
24 disowns, is that they appeared to be far lower than
25 the average cost of solar panels based on the

1 published information in that NREL report I cite.

2 Q. And that's -- that's based on this \$1.64
3 value that you have in your testimony?

4 A. That's correct.

5 Q. Okay. So I take it then if the -- if the
6 prevailing price was currently below \$1.64, then your
7 analysis and resulting criticism would change
8 accordingly, right?

9 A. Not really, no. It would still be that,
10 you know, it makes no economic sense to include that
11 as a nonbypassable charge. The company has failed to
12 demonstrate there is a need for Turning Point because
13 it's tried to do that independently of the cost of
14 Turning Point, and it's impossible to separate those
15 two concepts.

16 Q. Now, let me turn to the \$185 figure that
17 you report on line 23 and hopefully that's not a
18 confidential value. That's a publicly-available
19 number, right?

20 A. That's a publicly-available piece of
21 data, yes.

22 Q. Okay. And can you tell me the
23 transactions that -- or the transaction or
24 transactions that produced the \$185 value for the
25 solar RECs? What was the quantity of the RECs

1 involved in that transaction or transactions?

2 A. I don't have a breakdown of -- there is
3 no public information that I'm aware of that breaks
4 that price down into either individual bids or
5 offers, and so we don't note quantity.

6 Q. Okay. So you don't know whether it's a
7 small number of solar RECs or a large number of solar
8 RECs?

9 A. That depends on your definition of small
10 and large.

11 Q. Small less than 50, large more than
12 1,000.

13 A. I would expect it's larger than a
14 thousand, but I have no independent knowledge of the
15 actual size. Typically, data such as this is not
16 published if there is so small a value that
17 publishing a market price would be meaningless.

18 Q. Okay. So you would be surprised if it
19 turned out the \$185 price was related to a
20 transaction of less than 50 solar RECs, right?

21 A. I would be surprised by that, but, again,
22 I have no knowledge of what the specific transactions
23 are.

24 Q. And you didn't do any -- maybe you just
25 told me you couldn't do it, but you didn't do any

1 research or analysis to figure out what the terms of
2 the transactions were, including quantity.

3 A. As far as I know, that data is not
4 public.

5 Q. Okay. Excuse me.

6 Dr. Lesser, turning to the retail
7 stability rider that I think you discuss starting at
8 page 75.

9 A. I'm there.

10 Q. Part of your discussion is composed of
11 explaining your response to or disagreement with some
12 of the testimony of Company Witness Allen. And at
13 page 78, you take -- you take issue with the manner
14 in which Mr. Allen computed the ROE or -- I can't
15 recall what period it is, but do you see that
16 discussion on 78?

17 A. Mr. Conway, I see on lines 1 through 4
18 where I talk about what AEP Ohio is proposing.

19 Q. Right.

20 A. To guarantee itself a 10.5 percent return
21 and how Mr. Allen calculated that in his Exhibit
22 WAA-6.

23 Then on page 79, I calculate AEP's actual
24 return on equity for the years -- historic years 2010
25 and 2011. So I'm not sure exactly what you're -- you

1 may -- I'm not sure what you're pointing me to.

2 Q. Well, let me start over. Let me try it
3 again. In Mr. Allen's work, one of your criticisms
4 is that he doesn't include revenues that AEP Ohio
5 earns from off-system sales in his calculations on
6 Exhibit WAA-6, right?

7 A. That's correct.

8 Q. Okay. And then, as you mentioned, you
9 went ahead and calculated an ROE value for AEP Ohio
10 that you have -- actually two ROE values upon AEP
11 that you present on table 8 on page 79, correct?

12 A. Correct.

13 Q. And this set of calculations of the ROEs
14 for the two years on page 79 and table 8 includes the
15 items you believe would be appropriate to include in
16 such a calculation, including off-system sales on
17 these, right?

18 A. That's correct.

19 Q. Okay. And this is -- is that a
20 ground-up, bottoms-up kind of calculation as opposed
21 to a top-down fix what Mr. Allen did calculation?

22 A. Well, this is just a standard accounting
23 approach calculating a rate of return based on AEP's
24 actual filed data in the FERC Form 1.

25 Q. Right.

1 A. So I'm not sure if that's ground-up or
2 top-down as you characterize it. It simply is what
3 it is.

4 Q. You didn't -- you didn't identify
5 off-system sales earnings and then incorporate them
6 into Mr. Allen's analysis to come up with a revised
7 figure. You just calculated the ROE for the company
8 for the two years.

9 A. Based on its actual reported date, that's
10 correct.

11 Q. From the FERC Form 1, right?

12 A. Correct.

13 Q. And on what basis did you conclude that
14 Mr. Allen did not include earnings from off-system
15 sales in his ROE calculation?

16 A. Well, as I say on page 78 of my testimony
17 starting on line 7, my conclusion is based on
18 Mr. Allen's statement in his testimony saying, "I am
19 defining non-fuel generation revenues as base
20 generation revenues, Environmental Investment
21 Carrying Cost Rider...Revenues, and CRES capacity
22 revenues." So he does not include wholesale
23 off-system capacity and energy sales profits.

24 Q. So that's the total basis for your
25 conclusion that he didn't include off-system sales

1 earnings in his calculation.

2 A. Based on his own statements, correct.

3 Q. Okay. I guess what I'm getting at, you
4 didn't -- you didn't drill down and look at his
5 calculation in detail to see what was included or not
6 included on a mechanical basis, numerical basis, did
7 you?

8 A. I don't have Mr. Allen's testimony
9 workpapers with me. Again, I relied on his own
10 statements in his testimony.

11 Q. If it turned out that your understanding
12 that Mr. Allen excluded off-system sales earnings
13 from his ROE calculation is incorrect, then your
14 conclusion that his ROE calculation is misapplied and
15 understated that would be incorrect also, right?

16 A. Well, if you are asking me whether my
17 conclusion based on what Mr. Allen's testimony said,
18 that his testimony is incorrect, would my conclusions
19 about that testimony be incorrect as well? I suppose
20 the answer is yes.

21 Q. Okay. So if you misunderstood what
22 Mr. Allen was saying in his testimony, then your
23 criticism would require some adjustment here,
24 correct?

25 A. I don't think I misunderstood his

1 testimony. It was very clear.

2 Q. I know, but if you -- I know you don't
3 think you did, but if you did, would your criticism
4 then require some adjustment?

5 A. Well, I think Mr. Allen's entire RSR
6 presentation is incorrect. If, in fact, he did
7 include off-system capacity sales profits even though
8 his testimony said he did not, then my conclusion
9 that he did not include it would be inaccurate.

10 However, his entire approach and the
11 basis for the RSR as, you know, AEP needs a revenue
12 guarantee is simply incompatible with competition in
13 any case.

14 Q. You did -- you did view Mr. Allen's
15 Exhibit WAA-6 in the course of preparing your
16 testimony, right?

17 A. I did.

18 Q. And so you are aware that one of the line
19 items that he showed in his financial data that
20 underlies his ROE calculation is CRES capacity
21 revenues for 2011 in the amount of \$54 million.

22 A. May I see a copy of that exhibit, please?

23 Q. Sure.

24 MR. CONWAY: I'm sorry. May I approach
25 the witness?

1 EXAMINER SEE: I think you already did,
2 Mr. Conway.

3 Q. It does indicate, does it not, that he
4 considered \$54 million of CRES capacity payments in
5 his analysis?

6 A. Well, for 2011 actual AEP Ohio data, yes.
7 And as I say -- I quote from his testimony on -- and
8 you can see on line 9 of page 78 where I say yes, he
9 does include CRES capacity revenues. That's
10 different than off-system sales revenues, however.

11 Q. And that doesn't give you any -- any
12 insight as to whether or not he might have included
13 also off-system sales revenues in his -- and earnings
14 in his calculations?

15 A. Mr. Conway, all I can go by is what
16 Mr. Allen's testimony said.

17 Q. And that's what you think it said, right?

18 A. Well, considering I'm quoting his
19 testimony directly, and if you get -- if you would
20 provide me with a copy of his testimony where I --
21 and I footnote, footnote 121, at the bottom of 78, I
22 show where I quote from his testimony. We can check
23 whether I have quoted from his testimony accurately.

24 Q. But you're inferring from the quoted
25 language that he did not include off-system sales

1 revenues or earnings in his calculations, right?

2 A. That's correct.

3 Q. Okay. Now, in your table 8, you
4 calculate a total rate base value on line 2 for 2011,
5 I want to concentrate on 2011, of \$6,965,022,836,
6 right?

7 A. Yes, that's straight out of the 2011 FERC
8 Form 1.

9 Q. And you divide that -- you divide into
10 that rate base value the net utility operating income
11 on line 1 to get the 9.6 percent on line 3; is that
12 right?

13 A. That's correct.

14 Q. And then on -- on line 6, you present the
15 equity percentage of total capitalization of 52.1
16 percent. Do you see that?

17 A. Yes, I do.

18 Q. And that 52.1 percent you would multiply
19 times the total rate base value to figure out what
20 the equity base is?

21 A. Say that again.

22 Q. So would you -- let me ask that a
23 different way.

24 You refer to total capitalization on line
25 6, right? You also refer to it on line 5. Do you

1 see that?

2 A. Correct.

3 Q. Okay. Is the total rate base value, is
4 that also the total capitalization value?

5 A. No.

6 Q. Okay. If we increase the total rate
7 value, that 6.965 billion, if we increase that by a
8 billion dollars or so, and everything else was
9 held -- held the same, what happens to the ROE result
10 on line 9? That 13.4 percent value? What would
11 happen to it?

12 A. It's going to go down.

13 Q. Okay. And, again, the 6.965 billion
14 number on line 2 for 2011, that's a number that you
15 obtained from the FERC Form 1, right?

16 A. That's -- yes, as indicated in note 2 of
17 the table.

18 Q. And I thought you were going to tell me
19 you actually calculated that number also, but
20 apparently not. You got it from the FERC Form 1, but
21 is it also described in one of your workpapers how
22 you came up with that number?

23 A. I don't have a copy of my workpapers with
24 me, so if you can provide that to me. I apologize
25 for not having it with me.

1 Q. That's okay.

2 MR. CONWAY: Your Honor, may I approach
3 the witness?

4 EXAMINER SEE: Yes.

5 MR. CONWAY: Also I would like to have
6 marked as AEP Exhibit 126 a workpaper which I'll
7 represent is Dr. Lesser's workpaper and then ask him
8 to confirm that.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Dr. Lesser, you have before you what has
11 been marked as AEP Ohio Exhibit 126?

12 A. Yes, I do.

13 Q. And is this one of your workpapers?

14 A. I'm actually not sure it is, but I will
15 accept, subject to check, that it is.

16 Q. Okay. Thank you. I appreciate it.

17 At the top of the workpaper for 2011
18 there are several values that are added and
19 subtracted from one another to arrive at the
20 6.965 billion result for total rate base, right?

21 A. That's correct.

22 Q. And one of those values that's subtracted
23 from the electric plant in service number at the top
24 is a collection of rate base deductions. Do you see
25 that?

1 A. Yes, I do.

2 Q. And then there is also a collection of
3 items that are added to the electric plant in service
4 value which is total rate base additions. Do you see
5 that?

6 A. I do.

7 Q. And do you see the various items that are
8 in the portion of the exhibit, below the total rate
9 base segment at the top, that's entitled "Rate Base
10 Deductions"?

11 A. I do.

12 Q. And are these the rate base deductions
13 that you used to offset against electric plant in
14 service?

15 A. They are.

16 Q. And is one of them on line 6, the
17 accumulated deferred income taxes related to 283,
18 which I assume is an account, but maybe you can
19 explain to me what the 283 one is.

20 A. 283 is a FERC account number.

21 Q. Okay. What account does it relate to or
22 what is that account?

23 A. Well, it's -- FERC accounts for deferred
24 income taxes from three different accounts, accounts
25 190, 282, and 283.

1 Q. Okay.

2 A. I would have to look at the actual FERC
3 Form 1 to recall -- to refresh my memory as to the
4 specific breakdown of what's included in each
5 account. But that approach to calculating rate base
6 deductions is essentially a standard FERC approach.

7 Q. Maybe you've already explained this, but
8 the amount in line 6 of your -- of the rate base
9 deductions segment of the workpaper which is entitled
10 "Electric - ADIT (283)," that amount, that
11 595,271,709 for 2011, do you see that?

12 A. Yes, I do.

13 Q. Okay. Do you know what's included within
14 that \$595 million value?

15 A. Do you mean do I know the specific
16 breakdown of all the components of that?

17 Q. Well, yes, either that or generally what
18 goes into it.

19 A. Well, to get the specific components, I
20 would need to look at the actual copy of the FERC
21 Form 1. I'm happy to do that if you would like. Off
22 the top of my head, I can't recall what specific
23 components are -- they are or how much they are
24 aggregated from AEP's general ledger accounts.
25 Obviously, I don't have that data.

1 Q. But they are all deferred income taxes
2 for various asset classes?

3 A. Again, Mr. Conway, I really need to look
4 at the FERC Form 1 descriptions for that specific
5 account or the FERC uniform system of accounts.

6 Q. Let me ask a specific question: Do you
7 know whether it might include, as one of its
8 components, accumulated deferred income taxes for
9 deferred fuel regulatory assets of AEP Ohio?

10 A. I do not know the answer to that
11 question.

12 Q. Dr. Lesser, I would like to provide to
13 you an excerpt of the 2011 FERC Form 1 for AEP Ohio,
14 and I also have a complete copy in case what I've
15 excerpted is not sufficient for our purposes, okay?

16 A. Okay.

17 MR. CONWAY: Your Honor, may I approach
18 the witness?

19 EXAMINER SEE: Yes.

20 MR. CONWAY: I would like to have marked
21 as AEP Exhibit 127 an excerpt from the 2011 FERC Form
22 1 for AEP Ohio also known as Ohio Power Company.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 Q. And could you turn to page -- pages 276,
25 277.

1 A. I'm there.

2 Q. Now, at pages 276 and 277, you'll have to
3 forgive me, I'm not quite a pro at the FERC Form 1,
4 but it seems like it's got two pages that are really
5 part of one page here, but 276 and 277, on line 5.

6 And actually on 277, it indicates, does
7 it not, that there is \$187,472,416 that relates to
8 deferred fuel expense?

9 A. That's correct.

10 Q. And, again, that's the acute --
11 accumulated deferred income taxes related to -- in
12 that amount, related to the deferred fuel assets,
13 regulatory assets, right?

14 A. Yes. That reflects the end of year 2011
15 balance.

16 Q. And the balance of the ADIT related to
17 the deferred regulatory assets, right?

18 A. That's correct.

19 Q. And can you tell me whether the
20 \$187,472,416 that is the ADIT for the deferred fuel
21 regulatory assets is part of the 595 million on line
22 6 of the rate base deductions segment of the
23 workpaper?

24 A. It is.

25 Q. And that is just one of the components of

1 the 595 million, correct?

2 A. That's correct. There are five separate
3 components -- actually, I'm sorry, six.

4 Q. Six. And where do you see those?

5 A. Well, they are on -- if you go to page
6 276, Mr. Conway.

7 Q. Yes.

8 A. Lines 3 through 8, it talks about the
9 specific accounts and it totals those for total
10 electric ADIT account 283. And those six -- if you
11 go to page 277, the line numbers on the right-hand
12 side, 3 through 9, those correspond to the same line
13 numbers.

14 Q. So, for example, there is ADIT related to
15 distribution unrecognized equity carrying charges,
16 that's line 4, right?

17 A. Correct.

18 Q. What is that? That's a?

19 A. That's a negative number.

20 Q. That's a negative number.

21 And then the deferred fuel expense which
22 we just talked about on line 5, right?

23 A. Correct.

24 Q. And back on line 3, there is regulatory
25 asset carrying charges related to distribution,

1 right?

2 A. Correct.

3 Q. And that's the \$84,118,147 value on line
4 3.

5 A. That's correct.

6 Q. And then there are several other
7 categories on lines 6 through 8 that, when combined
8 with the items on 3 through -- lines 3 through 5,
9 produces the \$595 million value on line 9, right?

10 A. That's correct.

11 Q. And -- and then that total amount from
12 line 9 of page 277 of the FERC Form 1 for 2011,
13 that's the same 595 million that shows up in line 6
14 of the workpaper, right?

15 A. That's correct.

16 Q. I want to go back to the deferred fuel
17 regulatory assets that produce the \$187 million of
18 accumulated deferred income taxes, okay?

19 A. All right.

20 Q. Now, related to that \$187 million of
21 ADIT, of course, there's the underlying deferred fuel
22 regulatory asset, right?

23 A. Mr. Conway, you're asking me what is --
24 what are the subcategories under line 5, deferred
25 fuel expense?

1 Q. No. I'm asking you in addition to the
2 \$187 million of ADIT that relates to deferred fuel
3 regulatory assets, of course, there is the deferred
4 regulatory assets themselves, right?

5 A. Oh, yes, that's correct.

6 Q. Okay. And do you know what the related
7 deferred fuel regulatory assets are that are
8 companion to the ADIT, the \$187 million of ADIT?

9 A. Not without looking at the FERC Form 1.

10 Q. Okay. Well, could you turn to page 232
11 of the excerpt. Do you see line 35 where it says
12 "Unrecovered Fuel Costs"?

13 A. Yes, I do.

14 Q. Okay. And is that related to or part of
15 the deferred fuel regulatory asset?

16 A. That is incorporated into the fuel
17 adjustment charge. Is that your question?

18 Q. No.

19 I just want -- out of -- out of the
20 entire balance of regulatory assets, and focusing on
21 the deferred fuel regulatory asset component, is it
22 your understanding, looking at this FERC Form 1
23 excerpt, that line 35, "Unrecovered Fuel Costs" of
24 \$466,176,891 as of the end of 2011, represents, in
25 part or in whole, the remaining deferred fuel

1 regulatory asset for AEP Ohio at the end of 2011?

2 Just to be clear, I'm not suggesting the
3 whole thing, but I am asking if it is at least part
4 of it.

5 A. I would assume it's part of it, yes.

6 Q. Okay. And would also -- on line 39, the
7 \$86,897,761 of carrying charges, would that also be
8 part of the deferred fuel regulatory asset at the end
9 of the 2011 for AEP Ohio?

10 A. It would be.

11 Q. Okay. And how about, just to be fair
12 about it, on the next page at the top, the deferred
13 equity carrying charges component, the minus
14 \$46,466,748, would that also be included in the
15 calculation of the net deferred fuel regulatory asset
16 at the end of 2011 for Ohio Power Company?

17 A. I can't give you a definitive answer in
18 terms of -- I simply don't know.

19 Q. Okay. But in any event, the \$466 million
20 number and the 86, almost 87 million dollar number
21 that we previously discussed, you agree that those
22 are at least part of the year-end deferred regulatory
23 asset for fuel for AEP Ohio, right?

24 A. I believe that's correct, yes.

25 Q. Okay. And would you agree, subject to

1 check, that if we added those three items up
2 together, including the negative one, the last one,
3 that the total amount would be \$506 million?

4 A. That looks about correct.

5 Q. Okay. And that \$506 million, assuming
6 that I got the math right, that corresponds to that
7 \$187 million piece of ADIT, right? Which is part of
8 the 595 million in your calculations, right?

9 A. I believe that's correct.

10 Q. Okay. By there's more to the ADIT, the
11 595 million, than 187 million related to deferred
12 fuel, right?

13 A. That's -- that's correct. There is ADIT
14 from account 190, 282, and then other elements of
15 283.

16 Q. I'm just talking about 283 elements, the
17 ones that correspond to the 595 million that's on
18 line 6 of the workpaper.

19 A. Yes, there are other items.

20 Q. Okay. And if we look at the bottom of
21 page 232, 232.1, 232.2, .3, down at the bottom
22 right-hand corner, there is a total of
23 \$1,357,975,634, right?

24 A. I see that, yes.

25 Q. And is that the total of the company's

1 section 283 -- I'm sorry. Let me strike that.

2 Is that \$1.36 billion, is that the total
3 of the regulatory assets of AEP Ohio included within
4 account 182.3 as of the end of the year 2011?

5 A. That's what's reported, yes.

6 Q. Okay. And you did not include in your
7 total rate base number the \$6.965 million number that
8 totaled AEP Ohio's regulatory assets, the
9 1.36 billion as of the end of 2011, right?

10 A. Are you asking whether I included that
11 rate base?

12 Q. Yes, total rate base.

13 A. No, I did not.

14 Q. Okay. And if you had, then -- if you had
15 included that value in your total rate base number,
16 then, I think we went over this before, the result
17 would be if you flowed through that impact on your --
18 your line 13 -- excuse me, your line 9, after
19 tax-return on equity, it would reduce that value,
20 correct?

21 A. That's correct.

22 Q. And then also on -- in this area,
23 Dr. Lesser, back on page 78 at line 3, which I think
24 you already pointed out before to me, you take
25 exception to what you understand to be the company's

1 position which is to use the RSR, the retail
2 stability rider, to produce a guaranteed 10-1/2
3 percent return on equity. Do you see that?

4 A. Yes.

5 Q. Okay. Are you -- did you -- did you
6 review or are you familiar with Company Witness
7 Sever's testimony in this case?

8 A. I've not seen that, no.

9 Q. Okay. You don't know -- you are not
10 familiar with -- you didn't review before you
11 prepared your testimony, obviously then, Mr. Sever's
12 pro forma projections of ROEs for 2012 and '13 for
13 AEP Ohio based on the proposed plan?

14 A. I don't recall that, no.

15 MR. CONWAY: Okay. Your Honor, may I
16 approach the witness?

17 EXAMINER SEE: Yes.

18 Q. Dr. Lesser, I have a copy of Mr. Sever's
19 testimony.

20 MR. CONWAY: Does anyone -- it's the
21 testimony that was presented in this proceeding.
22 Does anybody else need a copy of Mr. Sever's
23 testimony?

24 MR. LANG: I may, Dan.

25 MR. CONWAY: I believe it's AEP Ohio 108

1 in this proceeding, your Honor.

2 EXAMINER SEE: Yes, it is.

3 Q. (By Mr. Conway) Could you turn to his
4 Exhibit OJS-2, page 1. It's towards the end of the
5 document.

6 A. I'm there.

7 Q. And that exhibit is entitled "Projected
8 Financial Statements Prepared Consistent with
9 Filing." Do you see that?

10 A. I see that.

11 Q. And on page 1 is an income statement
12 which provides values for, among other years, 2012
13 and 2013. Do you see that?

14 A. Yes, I see that.

15 Q. And do you see that Mr. Sever projects
16 for 2012, consistent with the filing, AEP Ohio will
17 earn 9-1/2 percent on equity? Do you see that?

18 A. That's what it says on the income
19 statement, yes.

20 Q. And then for 2013, he projects that AEP
21 Ohio will earn 7-1/2 percent on equity?

22 A. That's correct.

23 Q. So would you agree that Mr. Sever, in any
24 event, and the company, who sponsored his testimony,
25 does not expect to earn a guaranteed 10-1/2 percent

1 ROE for 2012 or 2013?

2 A. I would accept that what -- what
3 Mr. Sever has prepared here is his estimate of the
4 return on common equity. However, since I have not
5 seen his testimony, reviewed it, I have not seen his
6 workpapers or reviewed those, I can't verify accuracy
7 or -- and I don't know the basis for his assumptions.

8 Q. Would you be able to infer, just from
9 what you see there on paper in black and white, the
10 conclusion that Mr. Sever does not expect a
11 guaranteed 10-1/2 percent ROE for 2012 or 2013?

12 MR. LANG: Objection, your Honor. I
13 think that was asked and answered. Dr. Lesser has
14 explained he is not familiar with this testimony or
15 these assumptions.

16 MR. CONWAY: And I didn't ask him about
17 his familiarity, your Honor. I just asked him based
18 on simply what's on the pages whether he could make
19 that inference. If he can't, that's fine.

20 MR. LANG: Which Dr. Lesser just answered
21 that question.

22 MR. CONWAY: I don't think he did but --

23 EXAMINER SEE: Thank you, both. Mr. --
24 the objection is overruled. I'll allow Dr. Lesser to
25 answer the question to the best of his ability.

1 A. Could you ask that question again,
2 please?

3 Q. Just from what's on Exhibit OJS-2, page
4 1, Dr. Lesser, can you infer that Mr. Sever does not
5 believe that he -- that the company is going to earn
6 10-1/2 percent -- that it has a guaranteed earning of
7 10-1/2 percent on equity for 2012 or 2013?

8 A. Based on what's in Exhibit OJS-2, I would
9 accept that that's what Mr. Sever has calculated,
10 but, again, I cannot verify his calculations. I do
11 not know if they are accurate. I simply have not
12 seen any of this before. I have not seen his
13 workpapers, so I simply don't know whether this
14 income statement that he's prepared is accurate or
15 not.

16 Q. Okay. Now, you advocate pricing capacity
17 at the prevailing RPM prices, correct?

18 A. I do.

19 Q. And, in particular, you advocate that AEP
20 Ohio be required to price capacity on that basis,
21 right?

22 A. Just like every other generator in PJM,
23 yes.

24 Q. Now, you don't report in your testimony
25 in this case what the financial impact on AEP Ohio

1 would be from pricing capacity at the RPM levels, do
2 you?

3 A. I haven't calculated that, no.

4 Q. Okay. Now, at page 4 of your testimony,
5 line 20, you state, I believe, that AEP Ohio's SSO
6 customers and non-SSO customers -- your word,
7 "non-SSO" -- will pay approximately \$1.58 billion
8 more during ESP under AEP's Ohio proposed prices than
9 what they would pay if RPM prices were used, correct?

10 A. That's correct.

11 Q. And then if you turn to page 13, at lines
12 1 through 3, at that point you say that SSO and
13 non-SSO customers -- again, your words, "non-SSO," --
14 will pay almost 1.6 billion more than what they would
15 if RPM prices were used, right?

16 A. That's correct.

17 Q. And so the reference to the 1.6 billion
18 on page 13, is that the same as the 1.58 billion you
19 mention on page 4?

20 A. That is. If you go to Exhibit JAL-2 and
21 look at the excess -- right-most table, "Excess
22 Capacity Cost Over PJM Market Prices," I've broken it
23 down there for the different tier 1 and tier 2
24 customers under AEP's proposal.

25 And so total CRES providers and non-SSO

1 customers, therefore, under AEP's plan would pay an
2 additional 776 million above market and SSO load
3 served by AEP Ohio and then obviously after corporate
4 separation by AEP Generation would pay an additional
5 766 million.

6 And then I also have a final based on the
7 proposed off-standard service auction which AEP
8 Mr. Nelson testified that it would be at 255, plus
9 there's discovery responses at 255, though on the
10 stand, Mr. Nelson then denied that and said he really
11 wasn't sure what it would be priced at, that comes
12 out to \$1,577,840,173 as the total excess costs over
13 market.

14 Q. And then that last point you made about
15 the price charged for capacity related to the
16 auction, is that the January through May, 2015,
17 period that you are addressing there, that auction?

18 A. That's the proposed 100 percent SSO
19 auction.

20 Q. Okay. And then I notice on the JAL-2,
21 that exhibit, you referred to CRES tier 1 and CRES
22 tier 2 and total CRES on the first three kind of
23 subtables on the right side.

24 A. I do.

25 Q. Okay. And so when you -- the word

1 "non-SSO" that you -- that phrase that you use in
2 your testimony, you are referring to load served by
3 CRES providers; is that right?

4 A. Non-SSO load refers to load served by
5 CRES providers. But as you recall from, I believe,
6 the capacity market case where we discussed the
7 middleman role of CRES providers, where there was a
8 dispute over whether charging non-CRES providers was
9 a wholesale transaction versus retail and your
10 witness, Mr. Munczinski.

11 Q. Munczinski.

12 A. Munczinski, my apologies, referred to
13 CRES providers as a middleman and that's also in
14 AEP's brief in that case that it was just the
15 middleman. So it's really going to the retail, the
16 non-SSO retail customers.

17 Q. I just wanted to make sure I was clear
18 that the reference in the testimony to non-SSO load
19 was consistent with your presentation in your Exhibit
20 JAL-2 under the subtables that refer to the CRES
21 tiers in SSO load served by -- excuse me, the CRES
22 tier 1, CRES tier 2, and the total CRES?

23 A. Yes. And I probably should have added
24 middleman for non-SSO.

25 Q. Okay. Well, let's focus on the -- if you

1 don't mind, the 766 million that you believe the
2 non-SSO -- SSO load will be paying in excess of the
3 RPM prices. And you provide detail on that, as I
4 think you alluded to here in your Exhibit JAL-2. And
5 I would like to ask you some questions under the
6 "Total CRES" heading, that third subtable on the
7 right side of your Exhibit JAL-2, okay?

8 A. Yes.

9 Q. And you show how the 766 million is
10 derived in that subtable, right?

11 A. I do.

12 Q. And for planning year 2012-1013, you
13 estimate that the excess over RPM that the company's
14 proposed two-tiered price would collect is 353
15 million roughly; is that right?

16 A. That's correct.

17 Q. And about seven months of that would be
18 collected in 2012 and then five months in 2013,
19 right?

20 A. That's how the planning year works, yes.

21 Q. I'm just trying to figure out how much of
22 these dollars apply to 2012 and how much applies to
23 2013. So would it be -- would it be roughly
24 approximately the case that if I multiplied the 353
25 million times 7/12, I would get roughly the amount

1 collected in 2012?

2 And then, conversely, if I multiplied 353
3 million by 5/12, I would get roughly what was
4 collected in 2013?

5 A. Well, not really because underlying
6 that -- that's, of course, based on the data provided
7 by AEP in terms of CRES loads. That assumes that
8 load -- actual CRES non-SSO sales are constant. So
9 if you -- for example, if you were expecting that
10 shopping would increase over that entire planning
11 year, then even though the five-month period of 2013
12 was -- you would say, well, it's 5/12 of the total,
13 in fact, it would be more than 5/12 because you
14 actually have more non-SSO load.

15 But if you assume -- you just assume here
16 a constant level of shopping, what's the financial
17 impact in each year, then your assumption is
18 reasonable.

19 Q. Okay. Well, why don't we go forward with
20 the reasonable assumption -- well, let's go forward
21 with the assumption that the shopping levels are
22 relatively stable and -- and, as a result, the amount
23 that is collected in one period or the other period
24 could be estimated in the fashion that I described.
25 Can you do that?

1 A. Fine.

2 Q. Okay. And then so what would that be for
3 2012 and 2013? Would you like me to offer you a
4 suggestion and ask you to accept it?

5 A. I am sure you will.

6 Q. Would you agree with me, subject to
7 check, that the 7/12 of 353 million is about
8 206 million?

9 A. I would agree with that, subject to
10 check.

11 Q. And the 5/12 of the 353 million is
12 147 million?

13 A. Subject to check, I would agree to that.

14 Q. And then continuing on in planning year
15 2013-2014, you've estimated that the excess over RPM
16 that the company's two-tiered pricing would collect
17 is 34 -- almost \$344 million. Do you see that?

18 A. I do.

19 Q. And if we did the same estimate,
20 allocating 2013 and 2014, the excess collections in
21 your approach, the 7/12 of the 344 million in 2013
22 would produce \$200 million; is that right? Or would
23 you accept that, subject to check?

24 A. Subject to check, I accept that.

25 Q. And for 2014, in the first five months,

1 the portion of the 344 million that would be
2 collected, the excess of the company's proposed
3 prices over RPM would be roughly 143 million, subject
4 to check?

5 A. Say that again.

6 Q. Would 5/12 of \$344 million in 2014 equate
7 to \$144 million?

8 A. Yes, yes.

9 Q. And then in planning year 2014-2015, the
10 excess over RPM produced by the two-tiered price is
11 \$79 million?

12 A. Correct.

13 Q. And that's the result of -- or that's
14 displayed on that third subtable of Exhibit JAL-2 and
15 that's -- we don't need to do any calculation; that's
16 what you calculated, right?

17 A. Correct.

18 Q. And is that all related to the June 1
19 through December 31, 2014, period?

20 A. Yes, it is.

21 Q. Okay. So for 20 -- for 2012, the -- just
22 backing up a little bit. For 2012, the excess of
23 capacity prices, under the company's proposal,
24 versus -- versus the RPM prices would be
25 \$147 million, right? That's the 5/12 times the 353

1 million.

2 A. I'm sorry. For planning year?

3 Q. This is for calendar year 2012. I'm
4 trying to just sum up here.

5 On calendar year periods, the excess of
6 the company's proposed pricing versus the RPM pricing
7 for capacity, what that excess would amount to, and I
8 believe that you agreed, subject to check, that for
9 2012 -- I'm sorry. Excuse me.

10 For 2012, it would be 7/12 times the 353
11 million, right?

12 A. Correct.

13 Q. So that's 206 million for 2012 related to
14 the excess capacity pricing, right?

15 A. Correct.

16 Q. And then for 2013, you would have the
17 \$147 million produced by the excess of the company's
18 proposal over RPM for the first five months of 2013;
19 that would be 147 million, right?

20 MR. LANG: This is all subject to check
21 again?

22 MR. CONWAY: Yes, yes.

23 Q. It's the 5/12 times the 353 million.

24 A. Correct.

25 Q. And then the other seven months of 2013

1 is 7/12 times 344 million, that's another
2 200 million?

3 A. Correct.

4 Q. All right. So the total for 2013 would
5 then be about 347 million?

6 A. Correct.

7 Q. Okay. And then for 2014, we would add up
8 the 5/12 of the 344 million or the 143 million result
9 and add to that the \$79 million that appears in your
10 table, right?

11 A. No, that's not correct.

12 Q. Okay.

13 A. For planning year 2014-'15, that's for
14 the entire planning year, so you would have to apply
15 your same 7/12, 5/12 breakdown for that.

16 Q. Okay. So let me go back. I'm sorry to
17 have belabored the point. For 2014, the first five
18 months of pricing is described in the planning year
19 '13-'14 column of your total CRES calculation, your
20 third subtable on JAL-2, right?

21 A. That's correct.

22 Q. Okay. So that's about 344 million. And
23 the first five months are at -- are prorated at 344
24 million over the first five months. We would get how
25 much?

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

3 MR. CONWAY: I'm just trying to clarify
4 it, your Honor. If it's been asked and answered,
5 just tell me what the answer is and I'll move on.

6 Q. Is it \$143 million?

7 EXAMINER SEE: Just a moment. The
8 objection is sustained. It has been asked and
9 answered.

10 MR. CONWAY: Okay.

11 Q. (By Mr. Conway) Going back to 2013,
12 Dr. Lesser.

13 A. Planning year or calendar year?

14 Q. Calendar year. According to the
15 discussion we had, I believe you agreed that the --
16 subject to check, that the excess of revenues
17 collected under the company's proposal for capacity
18 over RPM would be \$347 million, right?

19 A. That's correct.

20 Q. Have you examined what the earnings
21 impact on AEP Ohio for 2013 would be if something in
22 the order of \$347 million was subtracted from its net
23 income for that year?

24 A. I have not examined that because it's
25 irrelevant. The correct price to charge is the

1 market price because that is the efficient capacity
2 price. Moreover, as I describe after corporate
3 separation, I cannot imagine that FERC will allow,
4 under its Edgar policy and under Order 697, that it
5 would allow AEP, in fact, to ever charge an
6 above-market price in an affiliate transaction. So,
7 again, it's simply irrelevant.

8 Q. So it would be irrelevant if pricing at
9 RPM would produce a result where Columbus Southern
10 Power -- excuse me, Ohio Power Company's return on
11 equity was reduced to 2-1/2 percent?

12 A. Is that a hypothetical? Are you asking
13 me whether it's confiscatory?

14 Q. I am asking you whether it's irrelevant
15 to the -- to the -- in your view to the issues in
16 this case if that's the result of charging --
17 requiring AEP Ohio to charge for capacity at the RPM
18 rate during 2013.

19 A. Yes, it's entirely irrelevant and let me
20 tell you why: Because, as you are familiar with,
21 under the U.S. Supreme Court's Hope Natural Gas
22 Standard, there's a balancing act. Hope Natural Gas
23 does not allow for -- you know, does not guarantee a
24 regulated company a profit. That's certainly not how
25 a competitive market works.

1 And if you look at a case from a year
2 after that, Market Street Railway, you had a
3 situation where, because of competition, because of
4 changing markets for a trolley company in San
5 Francisco, the U.S. Supreme Court said no matter what
6 we raise your rate to, people are just going to start
7 using taxis and automobiles. Regulation does not
8 protect against competition.

9 And so what AEP alleges is that, well, we
10 are going to have this -- we are going to see our ROE
11 go way down for our generating assets. Whether or
12 not that's true or not, I don't know. That's AEP's
13 supposition.

14 But in a market economy that simply
15 doesn't matter. That's not how a competitive market
16 works. That's not how the PJM capacity market works
17 at all. It's not a guarantee of recovery. It's
18 designed to provide a level of reliability and
19 procure the most efficient assets to -- to secure
20 that level of reliability is possible.

21 So AEP's complaints that we have to have
22 a certain ROE guaranteed to us, otherwise it's
23 confiscatory, is simply irrelevant and nonsensical.

24 Q. Dr. Lesser, you also estimate that there
25 will be, beyond the 766 million of revenues produced

1 by charging prices for capacity in excess of RPM
2 during ESP, that there will be another \$800 million
3 or so of collections by AEP from the -- from the SSO
4 customers during ESP that relates to charging them
5 implicitly, I guess, the capacity price that's
6 charged versus RPM; is that right?

7 A. That's correct. If you add up the SSO
8 load subtotal of 766 million, you add the SSO auction
9 total of 35 million, that's approximately
10 800 million. Again, that stands in marked contrast
11 to AEP's position of \$989 million in benefits under
12 the proposed ESP to -- because they are not going to
13 charge the embedded capacity costs of \$355.72 per
14 megawatt-day that AEP asserts it is entitled to.

15 Q. And with regard to that \$800 million or
16 so, you believe that those represent overcollections
17 by AEP Ohio?

18 A. My testimony is very simple. The correct
19 price for AEP to charge all customers, SSO customers
20 and non-SSO customers, is the PJM RPM market price.
21 That is the efficient transfer price. It is what all
22 other generators in PJM, that's the basis for their
23 compensation RPM.

24 I see no economically-valid reason or a
25 legally-valid reason under basic regulation why AEP,

1 out of everyone else in PJM, all the hundreds of
2 other generators, should have this special guarantee
3 of above market rates.

4 Q. You're not actually providing legal
5 opinions to us here, are you?

6 A. I'm providing my understanding of basic
7 regulatory --

8 Q. Okay.

9 A. -- economics as applied to regulatory
10 law.

11 Q. And so you did not evaluate the financial
12 impact on AEP Ohio of reducing its revenues by
13 another \$800 million over the ESP. "Another" meaning
14 in addition to 775 million-odd dollars that you
15 believe would be overcollected from shopping
16 customers?

17 A. No. Because as I said before, the
18 financial impact on AEP is, one, irrelevant, and,
19 two, it assumes that AEP is essentially -- would be
20 flopping around like a dead fish unable to do
21 anything when it's confronted with the realities of a
22 competitive market.

23 And, again, competitor -- competitors and
24 competition mean you -- you improve your efficiency,
25 improve profitability. You take all sorts of actions

1 to increase your earnings rather than just sitting
2 there and saying, well, I guess I'm just going to
3 suffer and die.

4 Q. If we required all customers to pay the
5 RPM price including the SSO customers and that
6 created substantial losses for AEP Ohio during ESP,
7 that would not be relevant to the decision by the
8 Commission about the appropriate ESP, right?

9 A. Well, Mr. Conway, as I've testified in
10 this case, as I've testified in the capacity case, as
11 I've testified last year in the previous modified
12 ESP, AEP, in my view, has no right to collect what it
13 claims is its embedded costs because I talked about
14 how AEP recovered all of its stranded costs, that AEP
15 went through the transition period which is now long
16 over, which AEP's corporate separation plan says is
17 long over, and AEP is no longer able to collect
18 stranded costs.

19 And so, your -- your hypothesis and the
20 basis for your question is that AEP, in fact, has
21 a -- should start from a position of we get to
22 collect \$355.72 per megawatt-day for our capacity
23 because that's what we calculate as our embedded
24 costs.

25 Now, that number itself has been

1 challenged in the capacity case. But irrespective of
2 whether that number is correct because of the various
3 assumptions that one of the staff's witnesses in that
4 case went through, and I don't want to relive that,
5 that my -- my position is AEP is not able to collect
6 those. That period is long over.

7 And that based on when I came up with
8 paying an embedded cost, my number, \$190 per
9 megawatt-day on a cost basis, but that is simply as
10 an alternative. If AEP insists that it should
11 collect an embedded cost, that would be the
12 appropriate value, not 355.

13 Hence, your entire position that we're
14 going to lose money, lose hundreds of millions of
15 dollars of revenues and that's confiscatory makes no
16 sense.

17 MR. CONWAY: Could I have the question
18 read back, your Honor?

19 EXAMINER SEE: Sure.

20 (Record read.)

21 Q. So is the answer to my question that's
22 right and then your explanation?

23 A. Yes, it is not relevant.

24 Q. Okay.

25 A. Sorry.

1 Q. All right. Let's turn to page --

2 THE WITNESS: Your Honor, could we take a
3 5-minute break?

4 EXAMINER SEE: Yes, we can.

5 MR. CONWAY: That's fine.

6 EXAMINER SEE: Ten minutes.

7 (Recess taken.)

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

10 Mr. Conway?

11 MR. CONWAY: Thank you, your Honor.

12 Q. (By Mr. Conway) Dr. Lesser, could you
13 turn to page 18 of your testimony and your embedded
14 cost rate discussion.

15 A. I'm there.

16 Q. Now, the results of your analysis are
17 provided in table 4 on page 24, your embedded cost
18 analysis, right?

19 A. That's correct.

20 Q. And I think I'll concentrate actually on
21 the table, table 4, as well as the energy credit
22 table, table 3, okay?

23 A. All right.

24 Q. And so looking at table 4 on page 24
25 clearly reflects your calculation of an appropriate

1 embedded cost rate for AEP Ohio, you start with the
2 annual fixed production costs that AEP Ohio Witness
3 Pearce prepared, right?

4 A. Yes, in the capacity case.

5 Q. And that's in line 1?

6 A. Correct.

7 Q. That's the \$1.138 billion on a total
8 basis?

9 A. That's correct.

10 Q. And you may have told me this in the
11 capacity case, but could you tell me again today,
12 what does that convert to in megawatt dollars per
13 megawatt-day, that line 1 value?

14 A. I don't recall if I told you that or not,
15 Mr. Conway, and, off the top of my head, I'm not sure
16 what the number would be.

17 Q. Okay. What we do is we divide that
18 number by the 5 CP values, the 9,060.8, is that
19 right, and divide it again by 365, the days of the
20 year?

21 A. That's the correct calculation.

22 Q. If I did that and I developed a number of
23 343.98, you would accept that, subject to your
24 checking it, right?

25 A. Subject to check, yes.

1 Q. Okay. Does that -- does that number
2 sound similar to what I believe you quoted to me in
3 the capacity case when we had this discussion?

4 A. I recall you asking me about it in the
5 capacity case, so I'm going to assume. I believe I
6 said I hadn't done the calculation.

7 Q. Oh, really?

8 A. And you provided the calculation, subject
9 to check, in that case.

10 Q. Can you tell me why the value that --
11 that I got that you accepted, subject to check,
12 343.89, is different than the \$355.72 value that
13 Dr. Pearce calculated?

14 A. Dr. Pearce includes the loss factor of
15 approximately 3 percent.

16 Q. And would you agree that that factor
17 should be applied to the embedded cost calculation?

18 A. Yes, I believe that's a reasonable
19 addition.

20 Q. Okay. So where would you apply it? At
21 the end of the set of calculations to the \$93.64 or
22 would you apply it somewhere else like at the line 1
23 level?

24 A. Typically, what you would do is apply the
25 loss factor at the end.

1 Q. Okay. Now, the first adjustment that
2 appears in table 4 is at -- that I see at line 6,
3 which is the adjustment for the Darby/Waterford
4 Capacity Equalization Payment Share, right?

5 A. That's correct.

6 Q. And could you explain what you did to
7 make that adjustment?

8 A. I can. And the first thing I should
9 point out is the -- my calculation is conservative,
10 and in -- in fact, because the capacity equalization
11 payments that were reported by Mr. Pearce not only
12 include capacity payments made to pool members but
13 also off-system sales, which, at the time I made this
14 calculation, I didn't know that, so the correct
15 number I believe is around 410 million.

16 Q. Okay. So the values on line 2, you would
17 adjust downward somewhat; is that right?

18 A. That's correct.

19 Q. And as far as you recall, the total
20 number for line 2 would be somewhere around
21 \$410 million?

22 A. That's the number I recall for the actual
23 pool capacity equalization payments.

24 Q. Do you recall what the breakdown is for
25 CSP and Ohio Power?

1 A. I do not.

2 Q. Okay.

3 A. Would you like me to continue with how I
4 did the calculation which was your original question?

5 Q. Yes, please.

6 A. What I did is I took -- because Darby and
7 Waterford were acquired by AEP after the 2001
8 transition date, I subtracted out the fraction of
9 capacity that those two plants represent out of AEP's
10 total reported capacity, and what I used for the
11 capacity for Darby and Waterford were reported in
12 AEP's 2011 LTFR filing, summer capacity in 2010.

13 So I used that and then I used the AEP --
14 on its website, and I believe it's an exhibit of
15 mine, that from the AEP fact sheet, for its total
16 installed generating capacity as of January 1 of this
17 year, and so that comes -- that share is 10.19
18 percent.

19 Q. The share being the Darby/Waterford --

20 A. That's correct.

21 Q. -- in the numerator and the total in the
22 denominator?

23 A. That's correct. So on the assumption
24 that because capacity is essentially applied or
25 provided collectively by all of AEP's generation, I

1 subtracted out 10.19 percent of the capacity
2 equalization payments from the total, and that is as
3 shown on line \$649 million, so that essentially would
4 be the portion of the capacity equalization payments
5 that are associated with post-2001 investments.

6 Q. So what you did is you -- you concluded
7 that the capacity equalization payments that are an
8 offset -- otherwise an offset to capacity costs
9 should be reduced from the level that Dr. Pearce
10 included because you had excluded Darby and Waterford
11 from the capacity that was available; is that right?

12 A. That's correct. That's a change that --
13 I did not do that in the capacity testimony and, in
14 fact, though, if you corrected the number to just
15 reflect the \$410 million, that's specifically
16 associated with the capacity equalization payments
17 due other -- or from pool members, then the 10.1
18 percent value would be more on the order of \$41
19 million rather than \$49 million I'm subtracting, so
20 it's a conservative estimate.

21 Q. Okay. You're not changing it, but you
22 think it's conservative.

23 A. That's what I have here, yes.

24 Q. Okay, okay. And the 49.96 million that
25 you have on line 6, I assume you did not convert that

1 to dollars per megawatt day, did you?

2 A. I did not.

3 Q. Okay. Would you accept, subject to
4 check, that it's \$15.11?

5 A. I would accept that, subject to check.

6 Q. Then the next adjustment you make in your
7 table 4 calculations is the adjustment on line 7
8 which is the energy-only contribution to embedded
9 costs adjustment, right?

10 A. That's correct. And that's calculated in
11 table 3 on page 21.

12 Q. And that's your energy credit adjustment,
13 correct?

14 A. That's correct.

15 Q. And \$178 million, would you agree that
16 equates to \$53.84 on a dollar-per-megawatt-day basis?
17 Would you agree with that, subject to check?

18 A. I would accept that, subject to check.

19 Q. And that's a -- that's an adjustment that
20 reduces the net capacity cost figure at the end of
21 the day, correct?

22 A. That's correct.

23 Q. The 15.11 adjustment for Waterford, that
24 increases the capacity cost rate at the end of the
25 day, right?

1 A. Yes. It increases the value I show, and
2 if that value's not in there, then the value in line
3 24, revised daily capacity costs, would be back to
4 the \$78 figure.

5 Q. And then after those two adjustments, you
6 make three more adjustments on lines 10, 14, and 20,
7 right?

8 A. Correct.

9 Q. And on line 10, there is a depreciation
10 rate adjustment of 173-1/2 million, right?

11 A. Correct.

12 Q. And that's a reduction to the annual
13 fixed costs and thus to the capacity cost rate,
14 right?

15 A. Correct.

16 Q. And then on line 14, there is a return on
17 rate base adjustment and that's a reduction to the
18 annual fixed production costs in the amount of about
19 \$380 million, right?

20 A. Correct.

21 Q. And then on line 20, you make an income
22 tax adjustment, which I assume results from the prior
23 adjustments, and that's 146.2 million?

24 A. Correct.

25 Q. And that's also a reduction to the annual

1 fixed production costs, right?

2 A. That's correct.

3 Q. And so those -- these -- those three
4 latter adjustments at lines 10, 14, and 20, they
5 aggregate to \$3,700,000, right?

6 A. That looks approximately correct.

7 Q. And do you know what the dollars per
8 megawatt-day amounts those three adjustments would
9 aggregate to?

10 A. I haven't done that calculation.

11 Q. Okay. Would you agree, subject to check,
12 that it's \$211.60 per megawatt-day?

13 A. I would agree with that, subject to
14 check.

15 Q. Now, aside from the energy credit, is
16 it -- is it accurate that the three other downward
17 adjustments, the ones on lines 10, 14, 20, result
18 from your view that investment and generation plant
19 in service after 2000 should be removed from the
20 embedded cost calculation?

21 A. That's correct.

22 Q. And -- well, in your testimony, the main
23 body of your testimony in this case, you didn't
24 include a calculation which showed how you removed
25 the generation plant in service from AEP Ohio's total

1 to -- that then -- which removal then underlies your
2 three adjustments on lines 10, 14, and 20? I noticed
3 that -- and the question is is that -- is that what
4 you attached as Exhibit JAL-3 to your testimony, the
5 explanation that you have?

6 A. That's correct.

7 Q. And JAL-3 is an excerpt from your
8 capacity case testimony?

9 A. Yes, it is.

10 Q. And the calculation for how you removed
11 generation plant in service is reflected in table 3
12 which is on what's been numbered page 37 of your
13 Exhibit JAL-3?

14 A. That's correct.

15 Q. And if you could turn to that Exhibit
16 JAL-3, on page 37 of that exhibit. The end result,
17 after you take out the investment and then continue
18 to depreciate the previous investment, the pre-2001
19 investment, the end result is on a total company
20 basis that the remaining GPIS that flows into your
21 embedded cost calculation of \$700,270,498, right?

22 A. Correct.

23 Q. And that's -- and you show how that's
24 allocated between Columbus Southern Power and Ohio
25 Power Company on line 7 of that exhibit, right?

1 A. Correct. Actually, I should -- let me
2 just add, Mr. Conway, that I didn't calculate the
3 total first and then allocate those -- the numbers
4 are from the individual FERC Form 1s for CSP and OPC,
5 and then I totaled those.

6 Q. Sure. And the -- as of the end of 2010
7 when this call upon which this calculation was based,
8 at that time the companies were still separate? They
9 filed separate FERC Form 1s for 2010, right?

10 A. That's correct.

11 Q. Okay. And just to tie that off, the
12 remaining GPIS, as a result of your calculations for
13 CSP, as of the end of 2010, after eliminating the
14 post-2000 investment and continuing to depreciate the
15 pre-2001 investment for CSP, is \$418,770,101,
16 correct?

17 A. Correct.

18 Q. And then for Ohio Power Company it's
19 \$281,500,397, correct?

20 A. That's correct.

21 Q. Now, if I wanted to determine the value
22 of the pre-2001 investment without offsetting it with
23 an accumulated depreciation, could I -- could I
24 figure that out from your exhibit -- excuse me, your
25 table 3 what that would be?

1 A. Well, if -- I'm not sure I understand
2 your question, but if you remember asking what's the
3 gross plant in service as of December 31, 2000, that
4 number is line 1, so that would be 4.3 billion.

5 Q. Okay.

6 A. If you then took accumulative
7 depreciation as of -- that was recorded on CSP and
8 OPC's books at that time as reported in the FERC Form
9 1, that total is an additional 2.167 million that's
10 shown on line 2.

11 Q. That's the accumulated depreciation as of
12 December 31, 2000, right?

13 A. That's correct. And so that would leave
14 net generation plant in service as of that date, as
15 I've calculated on line 3, of approximately 2.1
16 billion.

17 Q. Okay. Then you just continued to
18 depreciate that amount throughout the end of 2010 to
19 come up with the final amount, right?

20 A. Yes. Based on AEP Witness Landon's
21 depreciation rates from the ETP proceeding.

22 Q. Getting back to my original question
23 which I think you did a better job of rephrasing than
24 I -- than I posed -- than when I posed it to you, the
25 gross plant in service for each of the companies and

1 on a total basis reflected on line 1 of table 3 as of
2 the end of 2000, right?

3 A. That's correct.

4 Q. Okay. Now, if we were to determine the
5 amount of net undepreciated GPIS, generation plant in
6 service, that CSP and OPCo actually had at the end of
7 2010, we could get that information from the FERC
8 Form 1, right?

9 A. That's correct. I believe that's what
10 Dr. Pearce did.

11 Q. And by doing that we could determine how
12 much of the net generation plant in service your
13 approach has excluded, right?

14 A. Well, probably what you would do is
15 calculate -- and I believe this is what Dr. Pearce
16 did, is calculate the gross plant in service as of
17 December 31, 2010, subtract off the total accumulated
18 depreciation as of that time, and that would leave
19 you with net -- net generation plant in service as of
20 December 31, 2010. And you could then compare that
21 number with what I show on line 3.

22 Q. If we would just need to look at
23 Dr. Pearce's testimony and his exhibits to come up
24 with that figure, you would compare that then to the
25 values you have in table 3, line 1?

1 A. I believe Dr. Pearce's exhibits have --
2 have the net generation plant in service as part of
3 his calculation of rate base and return on rate base,
4 but one can always look at the FERC Form 1 too.

5 Q. Okay. So if we looked at Dr. Pearce's
6 testimony in the capacity case, we could get the
7 values that we were just discussing, right?

8 A. I believe that's correct, yes.

9 MR. CONWAY: May I approach the witness,
10 your Honor?

11 EXAMINER SEE: Yes.

12 MR. CONWAY: Your Honors, I'm handing to
13 Dr. Lesser and distributing an excerpt from
14 Dr. Pearce's testimony from the capacity pricing
15 case, Case No. 10-2929, and I would like to have it
16 marked as AEP Ohio Exhibit 218. I'm sorry, I would
17 like to have it marked as AEP Exhibit 128.

18 EXAMINER SEE: The exhibit is so marked.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 Q. You have a copy of what's been marked as
21 AEP Exhibit 128, Dr. Lesser?

22 A. I do.

23 Q. And if I could direct you to Exhibit
24 KDP-3, page 5, I think that deals with Columbus
25 Southern Power and then Exhibit KDP-4 also page 5.

1 Could you identify for me what the values are that we
2 have just been discussing?

3 A. Well, what Dr. Pearce used was the -- if
4 you look at Exhibit KDP-3, page 5, line 2 and line --
5 lines 2 through 4.

6 Q. Yes.

7 A. And column 2 demand.

8 Q. Yes.

9 A. He shows gross plant in service for CSP
10 of approximately 2.8 billion which is taken from the
11 FERC Form 1, less accumulated depreciation of
12 1.108 billion, which leaves net plant in service of
13 1.7 billion.

14 Q. Okay.

15 A. And you can do the same for -- he does
16 the same thing in Exhibit KDP-4 on page 5, and
17 that -- you can see that that is -- leaves net plant
18 in service on line 4 of approximately 4.3 billion.

19 Q. And you start off on line 2 with about
20 6.9 billion?

21 A. That's correct.

22 Q. From which you subtract accumulated
23 depreciation of about 2.6 billion?

24 A. That's correct.

25 Q. To get to the 4.3 billion net plant in

1 service for Ohio Power Company?

2 A. Correct.

3 Q. Okay. So for Columbus Southern Power,
4 your approach to reducing that company's net
5 generation plant in service reduces it to
6 419 million. If you hadn't reduced it, it would
7 be -- it would be at a level of about 1.706 billion,
8 right?

9 A. That's correct.

10 Q. So that's about a reduction of about -- a
11 little more than approximately 75 percent?

12 A. I'll accept that, subject to check, yes.

13 Q. Well, 419 -- 420 times 4 would be about
14 1,680, right?

15 A. Correct.

16 Q. Which is less than 1,706, right?

17 A. I'm sorry, you're saying 418 million is
18 less than 1.7 billion?

19 Q. No. I'm just trying to do the math out
20 loud with you.

21 A. It's roughly 5 percent lower.

22 Q. Okay. And for Ohio Power Company,
23 your -- your reduction of that company's net
24 generation plant in service takes it from roughly 4.3
25 billion to 281 million as of the end of 2010, right?

1 A. That's correct.

2 Q. And on a percentage basis for Ohio Power
3 Company, the \$280 million that's left is roughly
4 90 percent less than what the 4.3 billion is at the
5 starting point?

6 A. That's correct.

7 Q. And if you could, can you compare for me
8 on an undepreciated balance basis what the change is
9 from -- well, strike that.

10 Now, Dr. Lesser, the amounts of the
11 post-2000 investments that your approach removes from
12 the embedded cost calculation for the two companies,
13 those investment amounts were made primarily for
14 environmental compliance purposes, right?

15 A. I know that some of those investments
16 were for environmental compliance. I can't say
17 whether it's most. I don't know the proportion.

18 Q. Well, to the extent they were for
19 environmental compliance purposes, if those
20 investments had not been made, the generation units
21 wouldn't have been in compliance with the
22 environmental rules, right?

23 A. That would be my understanding.

24 Q. And if they weren't in compliance with
25 the environmental rules, then those units wouldn't

1 have been able to operate during the period since
2 2000, right?

3 A. Well, there are emergency exceptions in
4 EPA, but, in general, if you don't comply with EPA
5 regulations, I believe they take a dim view of
6 continuing to operate.

7 Q. Okay. So putting aside emergency
8 operations or whatever caveat there was that you
9 described, would you agree that if the units hadn't
10 been operating during the period since 2000 because
11 they were out of compliance with environmental rules,
12 then they wouldn't have been available to provide
13 power for SSO customers since that day -- date?

14 A. Based on your hypothetical, if the units
15 were shut down, then presumably they would not be
16 generating any power and, therefore, would not be
17 providing power to any customers.

18 Q. Okay. I want to go back to the capacity
19 equalization payments item that you had previously
20 discussed in connection with the Darby/Waterford
21 adjustment that you made. And the first question
22 is --

23 A. That's page -- we are back at table 4,
24 page 24?

25 Q. I'm sorry, yes. That's correct.

1 A. I'm there.

2 Q. Could you -- if you haven't already done
3 it, or even if you have, could you recap it, what are
4 the capacity equalization payments?

5 A. The total payments reported by Dr. Pearce
6 including payments to other -- from other pool
7 members and revenues from off-system sales were, I
8 show, 490 million in line 3 of table 4.

9 Q. Okay. What -- what do the capacity
10 equalization payments represent? Why are they made
11 and why does AEP of Ohio get them and how do they get
12 them?

13 A. My understanding, under the pool
14 agreement, is that AEP Ohio's load ratio share is
15 approximately 40 percent. So AEP Ohio, based on its
16 overall share of load and its generation, you take
17 total capacity revenues, and AEP Ohio would then be
18 allocated approximately 40 percent of those.

19 Q. I'm talking about capacity equalization
20 payments, not the sharing of off-system sales
21 margins, okay?

22 A. Okay.

23 Q. Okay. And is it your understanding that
24 capacity equalization payments are flowing to
25 Columbus Southern Power and Ohio Power Company in

1 2010 based on an MLR share calculation?

2 A. That was my understanding, but I'm
3 certainly not an expert on the pool. That might be a
4 better question for Mr. Frame.

5 Q. And why -- payments -- capacity
6 equalization payments, they came from other
7 affiliates of Columbus Southern Power and Ohio Power
8 Company in 2010, other East pool affiliates; is that
9 right?

10 A. My understanding is approximately
11 410 million of the 490 million is from other pool
12 members.

13 Q. And I'm really focusing on the 410
14 million, just the capacity equalization payments, but
15 your understanding is those payments are from the
16 affiliates Kentucky Power, Appalachian Power, I&M; is
17 that right?

18 A. That's my understanding, but, again, I'm
19 not holding myself out as an expert on the pool
20 agreement.

21 EXAMINER SEE: Dr. Lesser, I'm going to
22 have you speak into the microphone. Pull it closer.

23 THE WITNESS: I'm sorry.

24 Q. And is it your understanding that the
25 recent payments come to Ohio Power Company and

1 Columbus Southern Power in 2010 is because at one
2 point or another during the year those companies are
3 long with regard to capacity compared to the other
4 affiliates?

5 A. Yes. My understanding is that AEP Ohio
6 is long on capacity, whereas, several of the other
7 affiliates are short on capacity. Therefore, AEP
8 Ohio receives payments.

9 Q. And that's where the equalization
10 adjective comes from in the capacity equalization
11 payments reference, right?

12 A. I believe that's correct.

13 Q. Going back to table 4, Dr. Lesser, and
14 the lines 2 through 6 clearly reflect your
15 calculations regarding adjustment for capacity
16 equalization payments related to Darby and Waterford.
17 Do you see that?

18 A. Yes.

19 Q. Okay. That analysis that you did that
20 underlies your calculations on lines 2 to -- 2 to 6
21 of table 4, were they based on your understanding of
22 the AEP pool and that specifically capacity
23 equalization payments are MLRed? That they are
24 subject to the MLR factor?

25 A. That was my understanding. However, what

1 I did in line -- in line 3 of this table is I took
2 numbers directly reported by Dr. Pearce in his
3 Exhibit KDP-3, page 4, and Exhibit KDP-4, page 4,
4 line -- line 6, sales for resale, so, for example, in
5 KDP-3, page 4, it shows, under sales for resale,
6 30,785,441 which is the number I used, and his note A
7 says, "Capacity related revenues associated with
8 sales as reported in Account 447," which is
9 off-system capacity sales, and he notes that
10 "(includes pool capacity payments)."

11 So my calculation is based on taking
12 AEP's total -- AEP Ohio's total capacity, taking --
13 accounting for the share represented by Darby and
14 Waterford and removing that share, essentially saying
15 that credit, that AEP would get to keep that credit
16 for Darby and Waterford because it's a post-2001
17 investment.

18 Q. Is it your understanding then, the
19 capacity equalization payments that OPCo and CSP
20 received in 2010 are the result of simply being long
21 on capacity, or is it also your understanding that
22 it's based on how much they have invested in their
23 capacity?

24 A. Mr. Conway, I believe I've said I'm not
25 an expert on the pool agreement and how the capacity

1 payments are driven. I simply took what Dr. Pearce's
2 numbers were and I accounted for basically the share
3 represented by Darby and Waterford of that -- of
4 those payments.

5 Q. Well, if the -- if the capacity
6 equalization payment is based, in part, on how much
7 the company receiving payment has invested in
8 generation plant in service, then would you agree you
9 need to keep -- you need to take that into account in
10 determining what kind of an impact on capacity
11 equalization payments would result from removing
12 investment?

13 A. No, I don't agree with that for the
14 following reason: What you're suggesting is that I
15 have removed -- physically removed investment. I'm
16 not -- my calculations do not change anything under
17 the pool agreement. It does not change anything
18 under what AEP reports in its FERC Form 1 data or
19 AEP's other accounting data. It simply accounts for
20 the fact that AEP is no longer able to recover
21 stranded generation and rate of return transition
22 costs.

23 So what you've reflected is that I -- all
24 I've done is saying all that capacity -- those
25 capacity payments AEP receives and reports under

1 account 447, which includes intercompany pool
2 capacity payments, based on what Dr. -- Dr. Pearce
3 says, those revenues that he credits in his
4 calculation of the capacity, I simply removed the --
5 I essentially give AEP back, in my calculation,
6 approximately \$50 million of that saying, well,
7 that -- that is associated with the share of total
8 capacity represented by Darby and Waterford.

9 So the fact -- and this may actually get
10 to what Mr. Nelson was testifying about -- that
11 somehow 80 percent of the capacity would vanish and
12 you have to do a share of the -- of the capacity
13 equalization payments. That's simply not true
14 because nothing is changed on the books.

15 It's simply saying for purposes of my
16 calculation or calculating a net embedded capacity
17 cost associated with pre-2001 investment, that I
18 would make the following adjustments and I would
19 adjust the capacity equalization payments.

20 Q. Okay. So your -- your position is that
21 we should remove investment for purposes of
22 calculating embedded costs rate based on your
23 stranded cost position, but, on the other hand, we
24 should -- we should respect or we should take into
25 consideration all of the investment costs for

1 purposes of the capacity equalization payments that
2 are -- that are reflected in the embedded cost rate?

3 A. No. My position is that the capacity
4 cost, that the price charged for capacity, should be
5 set to the RPM, period.

6 Q. I understand that, but we're talking
7 about your embedded cost rate now.

8 A. Let me finish my answer, please.

9 Q. Sorry.

10 A. So, again, I would suggest that the price
11 be RPM. That's the efficient price. What I'm saying
12 is that if AEP wants to charge what it considers an
13 embedded capacity cost price, then the only embedded
14 capacity costs that are appropriate to include are
15 pretransaction -- pretransition costs, predating
16 January 1, 2001.

17 That has no impact as far as I'm
18 concerned and based on my calculations on how AEP --
19 the pool member companies decide to operate the pool,
20 whether they modify the agreement or not, it's simply
21 irrelevant.

22 Q. Well, let's assume we have the pool
23 agreement and it remains in place. The only
24 difference is we've eliminated all of the investment
25 that you removed to conduct your embedded cost rate

1 calculation, so the only adjustment we make for
2 purposes of figuring out the capacity equalization
3 payments is to remove the same amount of investments
4 to see what the capacity equalization payment flows
5 would be in that circumstance. What do you think
6 that the impact would be on the capacity equalization
7 payments?

8 A. Mr. Conway, you're assuming that I've
9 modified the pool agreement.

10 Q. No, I am not asking you to modify the
11 pool agreement. The pool agreement stays the same.
12 All that changes is the costs that are on Columbus
13 Southern Power's and Ohio Power Company's books for
14 their investment costs and generation plant in
15 service consistent with what you've done with regard
16 to the embedded cost rate calculation.

17 A. Mr. Conway, let me -- I stated this
18 previously, but let me make it very clear: I am not
19 saying and not -- nor am I suggesting that AEP
20 change, adjust the amount of capacity on its books.

21 As you know, I'm not changing what AEP
22 would report in its FERC Form 1 in any -- you know,
23 by one penny. All those values are the same.

24 All I'm saying is that for purposes of
25 calculating what AEP calls "an embedded capacity cost

1 charge" for -- to charge its customers, that that
2 should be based on pre-2001 costs.

3 Now, I've adjusted for post-2001
4 investments made by AEP Generation, made by AEP, that
5 purchased in the market. That should not -- that
6 essentially credited that amount back to AEP, but I
7 am not at all changing AEP's books. I'm not
8 suggesting that AEP change its accounting or change
9 what it reports on its generation plant, and I'm
10 certainly not suggesting that AEP has made any
11 changes or would make any changes to the pool
12 agreement.

13 Q. So you don't believe there is any
14 inconsistency in your approach by, on the one hand,
15 providing some adjustment to the capacity
16 equalization payments to reflect the removal of the
17 Darby/Waterford costs but not making a similar
18 adjustment, on the other hand, to reflect the other
19 investment costs that you've -- you've removed from
20 the calculation above and beyond Darby and Waterford?

21 A. I think I've answered your question, but
22 I'll try again. I removed Darby and Waterford as
23 shown in table 4 -- well, I removed Darby and
24 Waterford because they were acquired by AEP after the
25 2001 transition. So those are -- as far as I'm

1 concerned, those are just generation facilities at
2 market so AEP's revenues, costs, everything, that's
3 at market.

4 So what I've done is based my
5 calculations as consistently as I can on pre-2001
6 investment, so I used pre-2001 generation plant in
7 service which is everything that AEP reported in its
8 2001 FERC Form 1. I did not include Darby and
9 Waterford's costs or any other capital investment
10 cost made after that date.

11 Now, because the only actual new
12 generating facilities procured by AEP after 2001 and,
13 thus, new capacity, was Darby and Waterford, it's
14 appropriate for me to adjust the capacity
15 equalization payments and rather than subtracting
16 from -- from that amount the entire \$409 million
17 or -- would be \$410 million that Dr. Pearce
18 calculated, that's a subtraction from his number, his
19 gross numbers, I essentially added back the --
20 saying, well, Darby and Waterford represent
21 approximately 10 percent of that generating capacity,
22 therefore, approximately 10 percent of that
23 generating capacity can be credited to AEP's having
24 Darby and Waterford. So I added that back in.

25 Q. So the distinction that makes a

1 difference for you between how you treated the
2 capacity equalization payments related to Darby and
3 Waterford investments and how you treated them with
4 regard to all other investments made after 2000 is
5 that the Darby/Waterford investments were related to
6 an actual new power plant purchases, whereas, the
7 other investments were made in existing generation
8 assets previously owned? So that's the distinction
9 that makes a difference for you, right?

10 A. If I understand your question, what I've
11 done is subtract out both the energy margins
12 wholesale off-system sale margins associated to Darby
13 and Waterford and the capacity off-system sales
14 reported that would be attributed to Darby and
15 Waterford based on their shares. And so what I have
16 done is, therefore, reflected that addition to
17 capacity based on the fact that in 2001, that
18 capacity did not exist.

19 Q. So the answer to my question is yes,
20 that's the distinction that makes a difference?

21 MR. LANG: Could I have that question
22 read back again? The one before that one so we can
23 have the full question again, please?

24 EXAMINER SEE: Okay.

25 (Record read.)

1 Q. So the answer is yes, that's the
2 distinction that makes a difference with the
3 explanation that you followed up with?

4 A. The answer is yes, because the addition
5 of Darby and Waterford changed the actual installed
6 capacity amounts only by CSP and OPC combined and,
7 thus, changed the total available revenues from
8 capacity sales and energy sales.

9 Q. Are you aware whether gross plant in
10 service investment is a key element of the
11 calculation that underlies the capacity equalization
12 payment?

13 A. If you're -- well, yes, obviously it's
14 part of the calculation. If you go back to
15 Dr. Pearce's exhibit, if we go back to page 5 of
16 Exhibit KDP-3, for example, you start with -- he
17 starts with gross plant in service and then subtracts
18 out accumulated depreciation.

19 Q. Right. My question is, are you aware
20 whether the gross plant in service amount is a key
21 element of the calculation of the capacity
22 equalization payments?

23 A. I'm sorry, I misheard your question. I
24 do not -- I do not know the answer to that.

25 Q. Okay.

1 A. But, again, I would say I'm not
2 suggesting any changes to what AEP's reporting as its
3 gross plant in service at all.

4 Q. If we were to make further adjustments to
5 the capacity equalization payments that reflected the
6 reductions in the plant in service values that your
7 calculations perform, what would be the impact on the
8 adjustment for capacity equalization payments on line
9 6 and then at the bottom line on line 24?

10 A. I'm going to ask you can I have that
11 question reread or --

12 MR. CONWAY: Could you read the question
13 back, please?

14 (Record read.)

15 A. I'm afraid I don't understand.

16 Q. Okay. Let me start over.

17 If we were to make further adjustments to
18 the capacity equalization payment shown on line 6,
19 okay, based on the reduction in generation
20 investments that your approach recommends, what would
21 be the impact on line 6, looking for would it
22 increase it or decrease it, and then what would be
23 the impact on line 24, would it increase or decrease
24 the ultimate rate?

25 A. I can tell you how line 6 affects line

1 24, but I just don't understand the first part of
2 your question.

3 Q. If we increase the amount of the
4 adjustment on line 6, would that also increase the
5 rate on line 24?

6 A. Yes, it would.

7 MR. CONWAY: Thank you, Dr. Lesser.

8 Your Honors, that's all I have.

9 EXAMINER SEE: Mr. Margard?

10 MR. MARGARD: No questions. Thank you.

11 EXAMINER SEE: Redirect, Mr. Lang?

12 MR. LANG: Could we have a few minutes,
13 your Honor?

14 EXAMINER SEE: Certainly.

15 MR. LANG: Try to make it short.

16 (Recess taken.)

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

19 Mr. Lang?

20 MR. LANG: Thank you, your Honor.

21 - - -

22 REDIRECT EXAMINATION

23 By Mr. Lang:

24 Q. Dr. Lesser, Mr. Conway was asking you a
25 series of questions in reference to the FERC Form 1

1 that he marked as AEP Exhibit 127. Some of those
2 questions related to page 232 which is other
3 regulatory assets account 182.3.

4 Can you -- I believe you indicated to him
5 that was not included in your -- in the total rate
6 base number that he had marked as AEP Exhibit 126.
7 Can you explain why you did not include the other
8 regulatory assets from account 182.3 in your total
9 rate base?

10 A. Yes. I was attempting to calculate the
11 return on rate base. Other regulatory assets under
12 standard FERC accounting is incorporated under equity
13 capitalization, so -- so other regulatory assets are
14 treated as part of the company's capital structure.
15 They are not actually included in the rate base per
16 se. And so what I did is I did not include them.

17 Q. Now, with regard to the calculation that
18 you performed, what is the derivation of that
19 calculation? Where does it come from?

20 A. In terms of calculating return on our
21 return on equity, that calculation is -- I think it's
22 just based on the standard approach FERC uses to
23 calculate a return on equity investments which is to
24 account for net plant in service, less allowance for
25 deferred income taxes, plus regulatory assets, plus

1 regulatory liabilities. It's just the standard
2 approach.

3 Q. And Mr. Conway also asked you a series of
4 questions at the end of the examination about
5 capacity equalization payments. Why did you not
6 adjust the capacity equalization payment number in
7 your table for post-2000 investments in the existing
8 plant?

9 A. Well, those investments are to be
10 recovered through the market and those investments
11 have not changed. So the capacity, the installed
12 capacity, did not change with the existing
13 investments pre-2001. The only difference was the
14 addition of Darby and Waterford post-2001.

15 Again, all of that investment is supposed
16 to be recorded through the market which is why I go
17 back to my original calculations in the capacity case
18 of developing an embedded capacity cost value that is
19 based on pre-2001 investment.

20 MR. LANG: Thank you, Dr. Lesser.

21 No further questions.

22 EXAMINER SEE: Recross?

23 MS. HAND: Briefly, your Honor.

24 EXAMINER SEE: Go ahead.

25 - - -

1 CROSS-EXAMINATION

2 By Ms. Hand:

3 Q. Dr. Lesser, are you aware that the --
4 going back to the PIRR, are you aware that the vast
5 majority of costs to be recovered through the PIRR
6 are fuel costs incurred by Ohio Power Company to
7 serve its load in the 2009 to 2011 time period?

8 MR. CONWAY: Objection. This is beyond
9 the scope of the redirect. This is something that
10 should have been asked, if it was going to be asked,
11 during original cross-examination.

12 MR. LANG: I would share the objection,
13 your Honor.

14 MS. HAND: Your Honor, may I respond?

15 EXAMINER SEE: Yes.

16 MS. HAND: He did not take a specific
17 position on the PIRR in his written direct testimony;
18 that he was supporting the merger of those rates did
19 not become apparent until well into the cross.

20 EXAMINER SEE: The objection is
21 sustained.

22 MS. HAND: Thank you, your Honor. That's
23 all.

24 EXAMINER SEE: Ms. Kyler?

25 MS. KYLER: No questions, your Honor.

1 EXAMINER SEE: Ms. Kingery?

2 MS. KINGERY: No questions, your Honor.

3 EXAMINER SEE: Mr. Olikar?

4 MR. OLICKER: No questions, your Honor.

5 EXAMINER SEE: Mr. Etter?

6 MR. ETTER: No questions, your Honor.

7 EXAMINER SEE: Mr. Allwein?

8 MR. ALLWEIN: No questions, your Honor.

9 EXAMINER SEE: Mr. Conway?

10 MR. CONWAY: No questions, your Honor.

11 EXAMINER SEE: Mr. Margard?

12 MR. MARGARD: No questions, your Honor.

13 Thank you.

14 EXAMINER SEE: Thank you, Dr. Lesser.

15 THE WITNESS: Thank you.

16 EXAMINER SEE: Mr. Lang?

17 MR. LANG: Thank you, your Honor. The
18 FES would move to admit FES No. 102, No. 102-A and
19 102-B.

20 EXAMINER SEE: Any objections to the
21 admission of FES Exhibits 102, 102-A and 102-B?

22 MR. CONWAY: No.

23 EXAMINER SEE: FES Exhibits 102, 102-A,
24 and 102-B are admitted into the record.

25 (EXHIBITS ADMITTED INTO EVIDENCE.)

1 EXAMINER SEE: Mr. Conway?

2 MR. CONWAY: Thank you, your Honor. The
3 company would move for the admission of AEP Ohio
4 Exhibits 126, 127, and 128.

5 EXAMINER SEE: Any objections to AEP
6 Exhibit --

7 MR. LANG: Your Honor, sorry, I have no
8 objection to 126 or 127. We do object to 128.
9 The -- I guess a portion of the testimony from Kelly
10 Pearce in the capacity case because this was not --
11 not testimony from the modified ESP case, AEP elected
12 not to introduce the testimony on capacity -- how the
13 \$355 charge was calculated in this case, and because
14 they elected not to introduce this testimony as part
15 of the modified ESP, I would object to bringing it in
16 as an exhibit with Dr. Lesser.

17 EXAMINER SEE: Any response?

18 MR. CONWAY: Yes, thank you, your Honor.
19 First of all, we are not requesting to admit
20 Dr. Pearce's testimony in the capacity case in its
21 entirety. It's just an excerpt from his testimony.
22 And I cross-examined the witness using the excerpted
23 piece.

24 We discussed the values, certain of the
25 values, in the excerpted piece, so I think it's -- a

1 foundation has been laid for the admission of the
2 excerpt.

3 And I would also note that the witness
4 himself refers to Dr. Pearce's testimony in exhibits
5 in numerous ways in his testimony. And I would also
6 note that he -- that he also -- he attached to his
7 testimony an excerpt from his testimony in the
8 capacity pricing case which also refers to
9 Dr. Pearce's testimony.

10 So I think it's an appropriate use of
11 Dr. Pearce's testimony, the excerpt, in order to
12 guide and illustrate the cross-examination, and so I
13 think it's appropriate to use and to be admitted.

14 EXAMINER SEE: AEP Exhibits 126, 127, and
15 128 are admitted into the record.

16 (EXHIBITS ADMITTED INTO EVIDENCE.)

17 EXAMINER SEE: Thank you, Dr. Lesser.
18 You are dismissed.

19 EXAMINER TAUBER: Mr. Allwein.

20 MR. ALLWEIN: Thank you, your Honor.

21 The Natural Resources Defense Council
22 would call Thomas Lyle to the stand.

23 And, your Honors, I want to request the
24 acknowledgment of the following -- of the exhibit
25 that I showed you previously and that I gave a copy

1 to the court reporter now correctly marked as Natural
2 Resources Defense Council Exhibit 101.

3 EXAMINER TAUBER: It shall be so marked.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 - - -

6 THOMAS LYLE

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

9 DIRECT EXAMINATION

10 By Mr. Allwein:

11 Q. Mr. Lyle, can you state your name and
12 occupation and position for the record, please?

13 A. Yes. My name is Tom Lyle. I'm a
14 Managing Consultant for Optimal Energy, Bristol,
15 Vermont.

16 Q. And do you have the exhibit marked as
17 Natural Resources Defense Council Exhibit 101 in
18 front of you?

19 A. I do.

20 Q. Please describe that exhibit.

21 A. It's my direct prefiled testimony
22 consisting of about 19 pages with an attachment which
23 is my resume.

24 Q. Okay. And was this testimony prepared by
25 you or under your direction?

1 A. Yes, it was.

2 Q. Do you have any corrections or updates
3 that you would like to make to your testimony this
4 morning?

5 A. I do.

6 Q. Could you walk us through those, please.

7 A. Certainly. On page 18, I would like to
8 delete a sentence, full sentence, and delete portions
9 of another sentence. The sentence I would like to
10 delete starts on line 21, and I'll just read the
11 sentence and then that I wish to strike, "On the
12 other hand, AEP's partner will seek to maximize
13 Profits."

14 The next sentence, I delete portions of
15 the sentence "of this -- "...of that apparent tension
16 between AEP and its partner...." So this sentence,
17 starting on line 22, should read, "As a consequence,
18 the Commission will need to closely analyze the costs
19 of the project when the Company files for cost
20 recovery...." and the rest of that sentence as
21 written.

22 Q. Do you have any other corrections you
23 would like to make at this time?

24 A. No, I do not.

25 Q. And if I were to ask you these same

1 questions that appear in your testimony as modified
2 today under oath, would your answers be the same,
3 noting those corrections that you just described?

4 A. Yes.

5 MR. ALLWEIN: Thank you.

6 Your Honor, I would move for the
7 admission of Natural Defense Council 101, subject to
8 cross-examination.

9 EXAMINER TAUBER: Thank you.

10 Ms. Hand?

11 MS. HAND: No questions, your Honor.

12 Thank you.

13 EXAMINER TAUBER: Ms. Kyler?

14 MS. KYLER: No questions.

15 EXAMINER TAUBER: Ms. Kingery?

16 MS. KINGERY: No questions, your Honor.

17 EXAMINER TAUBER: Mr. Olikar?

18 MR. OLIKER: A few questions, your Honor.

19 - - -

20 CROSS-EXAMINATION

21 By Mr. Olikar:

22 Q. Good afternoon.

23 A. Good afternoon.

24 Q. Starting with I guess the corrections you
25 just made, could you tell me why you deleted that

1 sentence from your testimony?

2 A. I deleted the sentence because based on a
3 better and closer read of the information and the
4 agreements and a better understanding of the
5 relationship between AEP and project development.

6 Q. Okay. Maybe we'll come back to that
7 later. I would like to go to page 5 of your
8 testimony on line 19. You state that "By separating
9 out REC and Non-REC costs, AEP would be providing
10 important and useful additional information about
11 RECs," correct?

12 A. Correct.

13 Q. And then on page 6, line 2 of your
14 testimony, you state, "Since AEP's proposal will
15 separately identify REC expenses and non-REC
16 expenses, the company's proposal will help to make
17 transparent the environmental attributes associated
18 with renewable energy," correct?

19 A. That's what I state here, yes.

20 Q. And if I understand the meaning of the
21 statements, are you trying to say that AEP's proposal
22 would include a line item charge on customer bills
23 for charges associated with the alternative energy
24 rider?

25 A. That's one way of interpreting that. I

1 believe if they were to provide line items I think
2 would be a price signal that customers could find
3 useful.

4 Q. I understand that's your belief, but can
5 you point me to any place in AEP's testimony or in
6 the application that indicates that AEP is going to
7 include a line item charge on customer bills?

8 A. I can't.

9 Q. Okay. And in your review of the
10 application and testimony, am I correct that you're
11 not providing any analysis on whether the proposed
12 ESP is better in the aggregate than MRO?

13 A. My testimony, as I state on page 3,
14 focuses on the fuel adjustment clause, the
15 alternative resource rider, the generation resource
16 rider, and then I also discuss Timber Road, and the
17 focus really of my testimony and my discussion is
18 really on Turning Point.

19 And with regards to Turning Point, this
20 was not a cost case, so there was -- I was not hired
21 to do an analysis, cost analysis, with respect to
22 Turning Point.

23 Q. Okay. So to be clear, you are more
24 focused on the alternative energy aspects, not the
25 ESP-MRO test?

1 A. Let me answer it this way to put a finer
2 point on it: My discussion really is at a policy
3 level. It's a discussion about the generation
4 resource rider as being a framework to move forward.
5 Moving forward meaning to develop renewable projects.

6 Q. Okay. And moving on to the generation
7 resource rider, would you agree the Turning Point
8 Solar Project would be included in the generation
9 resource rider, correct?

10 A. That, I believe, is the company's
11 question.

12 Q. Okay. And on page 7 of your testimony,
13 you state that AEP Ohio has RPS obligations. Can you
14 tell me what "RPS" stands for?

15 A. Which lines are you referring to?

16 Q. I believe it's on page 7, line 13.

17 A. Renewable portfolio standard.

18 Q. And when you say "renewable portfolio
19 standard," are you referring to the benchmark
20 requirements contained in Section 4928.64 of the
21 Revised Code?

22 A. I don't recall the actual statute number,
23 but I refer in the sentence -- this full sentence
24 refers to a 12-1/2 percent goal by 2025.

25 Q. Okay. When you state 12-1/2 percent

1 goal, you're talking about Ohio requirements to
2 procure solar renewable energy credits and other
3 alternative energy credits based on kilowatt hour
4 sales?

5 A. To acquire credits and/or bill to meet a
6 12 1/2 -- well, to meet a proportional -- AEP's
7 obligation is to meet a proportional share based on
8 their load.

9 Q. Correct. And you would agree that the
10 Turning Point solar facility is being proposed in
11 this application to meet those benchmark
12 requirements, the RPS requirements you talked about
13 in your testimony, correct?

14 A. I think it goes -- it's -- the intent is
15 to build out the Turning Point Project as part of
16 their work towards reaching that goal. And I think
17 specifically this is the -- the intent of the project
18 is to meet the solar carve-out of the RPS.

19 Q. And with regard to the benchmark
20 requirements, or the RPS standards as you've called
21 them, would you agree that it's not just electric
22 distribution utilities who have to meet these
23 standards, it's also competitive retail electric
24 service providers?

25 A. Yes, that's my understanding.

1 Q. And I'm pretty sure your testimony says
2 this, but would you agree that the Turning Point
3 Solar Project and the GRR would be approved under
4 Section 4928.143(B) (2) (c)?

5 A. When the company files for a cost
6 recovery, I believe that's the statute. They will be
7 seeking recovery, if I answered your question.

8 Q. That's the ESP statute, correct?

9 A. Again, I don't recall the actual statute
10 numbers, but I'll trust you.

11 Q. If you turn to page 8, I think that's the
12 statute you cite in your testimony.

13 A. Okay. Yep, okay.

14 Q. And would you agree there are specific
15 requirements under Section 4928.143 as a prerequisite
16 to obtaining a nonbypassable charge?

17 A. Yes.

18 Q. And you are aware that one of the
19 requirements under Section 4928.143(B) (2) (c) is that
20 the project source through a competitive bid process?

21 A. Yes, I'm aware.

22 Q. And then turning to page 11, line 2,
23 referring to the GRR approval process, you make the
24 following statement: "Demonstrating whether a
25 specific renewable project was competitive would

1 include a showing by AEP that its renewable energy
2 projects were competitive compared to
3 independently-owned renewable energy projects"; is
4 that correct?

5 A. Yes.

6 Q. Would you agree that section
7 4928.143(B)(2)(c) does not merely require that a
8 project be competitive, but also that it be sourced
9 through a competitive-bid process?

10 A. Yes, I would agree.

11 Q. You are aware that AEP Ohio has already
12 chosen a developer for the Turning Point Solar
13 Project, correct?

14 A. They are working with a developer, yes.

15 Q. And they've selected a developer,
16 correct?

17 A. Yes, that's my understanding.

18 Q. And you are aware that AEP Ohio did not
19 issue a request for proposals in selecting a
20 developer for the project, correct?

21 A. In this particular case, the Turning
22 Point?

23 Q. Yes.

24 A. I am not aware if they did or did not.

25 Q. And you're aware that AEP Ohio has chosen

1 the supplier for the solar panels, correct?

2 A. Yes.

3 Q. And you are aware that AEP Ohio did not
4 issue a request for proposals in choosing the
5 supplier of the solar panels, correct?

6 A. You are referring to ISOFOTON?

7 Q. That's correct.

8 A. The facility, the manufacturing facility
9 here?

10 Q. No. I'm referring to whether or not AEP
11 Ohio chose -- issued a request for proposals before
12 selecting ISOFOTON.

13 A. I am not aware if they did or they did
14 not issue an RFP.

15 Q. And you're aware that another
16 requirement -- or strike that.

17 You are aware that another condition to
18 obtaining a nonbypassable charge under section
19 4928.143(B)(2)(c) is that AEP Ohio must dedicate the
20 capacity and energy to Ohio customers?

21 A. Correct. I'm aware, excuse me.

22 Q. And you're also aware that under section
23 4928.143(B)(2)(c), no surcharge shall be authorized
24 unless the Commission first determines in the
25 proceeding that there is a need for the facility?

1 A. Which proceeding are we referring to?

2 Q. I'm referring to the statutory language,
3 if you're familiar with it.

4 A. I'm familiar with the language --

5 MR. ALLWEIN: Your Honor, I just want to
6 object. You are asking his opinion. He is not an
7 attorney.

8 MR. OLIKER: Of course, as his layman
9 opinion.

10 EXAMINER TAUBER: With that
11 clarification.

12 THE WITNESS: Can you repeat your
13 question? I'm sorry.

14 EXAMINER TAUBER: Mr. Lyle, can you put
15 the mic towards you?

16 THE WITNESS: Is that better?

17 EXAMINER TAUBER: Yes.

18 Q. (By Mr. Oliker) Would you agree under
19 Section 49 -- are you aware that under Section
20 4928.143(B) (2) (c), no surcharge shall be authorized
21 unless the Commission first determines in this
22 proceeding that there is a need for the facility?

23 A. I'm only pausing because you keep
24 referring to "this proceeding." I assume you are
25 meaning this proceeding we are in here. It is my

1 understanding that a determination for need is
2 actually now before the PUCO for decision, so to the
3 extent need has been established in that proceeding,
4 then that would, in essence, you know, support need
5 in this proceeding.

6 I don't know if I'm confusing the record
7 or not, but I'm just telling you I'm trying -- I'm
8 getting hung up on your use of the term "this
9 proceeding."

10 Q. Maybe we can get this from a different
11 way. Would you agree AEP Ohio has proposed to
12 establish the need for Turning Point in a separate
13 proceeding?

14 A. It's my understanding they've filed in a
15 proceeding for need in another proceeding.

16 Q. And you are not providing testimony in
17 this proceeding whether there is a need, correct?

18 A. No, I'm not.

19 Q. Could you turn to page 10 of your
20 testimony, please. You make the statement that
21 "...the company can only pass through the costs
22 associated with purchase power agreements. As a
23 result, there is little...opportunity to develop its
24 rate base and earn a return on investment for
25 stockholders."

1 A. Which line are you referring to? I'm
2 sorry.

3 Q. Starting on page 10, line 10.

4 A. And your question?

5 Q. I'll read it again. It says "...the
6 company can only pass through the costs associated
7 with purchase power agreements. As a result, there
8 is little...opportunity to build its rate base and
9 earn a return on investment for stockholders." To
10 your knowledge is the generation and function number
11 subject to cost-based regulation?

12 A. I believe it's deregulated, so, no, it's
13 not.

14 Q. And in your testimony you also claim that
15 a three-year ESP hinders AEP's ability to enter into
16 long-term purchased power contracts; is that correct?

17 A. That's what I stated, yes.

18 Q. Are you familiar with the Wyandot Solar
19 contract?

20 A. Yes. I have not -- I haven't done a full
21 analysis of the Wyandot project but.

22 Q. Do you know how long that contract is
23 for?

24 A. No, I do not.

25 Q. With respect to Turning Point Solar, is

1 there any reason why AEP Ohio could not enter into a
2 long-term purchase power contract with Turning Point
3 Solar?

4 A. Well, let me answer it this way: I think
5 the way I view this case is that AEP has available to
6 it a number of tools and options under the statute.
7 As I read the statute, you know, a plain reading of
8 the statute provides these three tools: They can --
9 they can purchase RECs in the short-term market, they
10 could enter into purchase power agreements, or they
11 could -- they could build.

12 Q. They could do a purchase power contract
13 with Turning Point Solar, correct?

14 A. They could and they have with Timber Road
15 and Wyandot.

16 MR. OLIKER: Could I have a minute, your
17 Honor?

18 Q. Going back to the question so I can
19 clarify the RPM-MRO test, there is no analysis of
20 that in your testimony, is there, that you calculated
21 the MRO value or the ESP value?

22 A. No, I have not.

23 MR. OLIKER: I believe that's all the
24 questions I have, your Honor.

25 Thank you, Mr. Lyle.

1 EXAMINER TAUBER: Ms. McBride?

2 MS. MCBRIDE: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 By Ms. McBride

6 Q. Good afternoon, Mr. Lyle.

7 A. Good afternoon.

8 Q. Starting on page 18 of your testimony,
9 you discussed this briefly with Mr. Oliker, you state
10 it's your understanding that 4928.143(B)(2)(c)
11 establishes two requirements that AEP Ohio must meet
12 to establish a nonbypassable rider; is that correct?

13 A. Correct.

14 Q. And is it true there are additional
15 requirements imposed by that statute?

16 A. I think the other one referred to by the
17 previous attorney was that the output is used to
18 serve Ohio customers.

19 Q. Okay. And other than those three
20 criteria, are you aware of any others?

21 A. Correct. No, I'm not aware of any
22 others.

23 Q. Just following up briefly on your
24 discussion with Mr. Oliker about the competitive bid
25 process, I just want to confirm, is it your

1 understanding that AEP Ohio has not provided any
2 evidence of the Turning Point Project with resources
3 through a competitive bid process?

4 A. I believe they provided information on
5 some of it. This might be confidential information
6 on the contractual -- contracts between Turning Point
7 and AEP.

8 Q. Okay. And have you seen any evidence
9 that the contract was solicited through a competitive
10 bid process?

11 A. Like I said before, I have not seen any
12 evidence that they have or they have not.

13 Q. The second criteria that you mention on
14 page 18 for the nonbypassable rider is that there
15 must be a need for the facility based on resource
16 planning projections; is that correct?

17 A. Correct. That's what I state.

18 Q. Okay. And is it true you generally agree
19 that the resource planning process should involve a
20 least cost analysis?

21 A. Correct.

22 Q. And you believe that AEP Ohio should be
23 required to establish that the Turning Point Project
24 satisfies a least cost analysis, correct?

25 A. Yes, with one minor -- depending on your

1 view, one minor qualification. I think, as I read
2 the statute, the State of Ohio is really trying to
3 balance two somewhat competing objectives.

4 On the one hand, they would like to
5 promote competition in the electric markets; and, on
6 the other hand, they have -- the State has an RPS
7 goal so that I would just back off a little bit in
8 terms of saying always pursue least cost -- well, let
9 me step back a little bit.

10 So that least cost should be a goal, but
11 also keeping in mind the other objectives of the
12 State which is to develop renewable energy in the
13 state of Ohio.

14 Q. Okay. But do you believe that AEP Ohio
15 should establish that the Turning Point Project meets
16 a least cost analysis?

17 A. Yes.

18 Q. And you have not seen any evidence that
19 AEP has established that the Turning Point Project
20 does meet that least cost analysis; is that correct?

21 A. Well, also, like I said before, you know,
22 right now, it's not a cost case, so when they file
23 for cost recovery, that issue will be ripe for a
24 decision.

25 Q. Okay. So just to clarify, you don't

1 believe that there is evidence in this proceeding,
2 but that may appear at some later proceeding?

3 A. Right.

4 Q. Okay. And are you aware that AEP
5 objected to the presentation of least cost analysis
6 in a separate need proceeding you reference in your
7 testimony?

8 A. I'm not sure which proceeding you're
9 referring to, but no.

10 Q. The need proceeding in 10-501 that you
11 reference in your testimony?

12 A. I was not part of that docket.

13 Q. And you discussed briefly with Mr. Olikar
14 RPS standards that are a part of Ohio law, correct?

15 A. Yes.

16 Q. And based on your experience, you would
17 agree that one of the effects of instituting
18 benchmarks for renewable resources is that such
19 policies kickstart the renewable energy market; is
20 that fair?

21 A. I've said that, yes.

22 Q. Benchmark by renewable developers to
23 enter the market and build new projects for renewable
24 energy; is that right?

25 A. Right.

1 Q. And as a result of the new developments,
2 the price of renewable resources would eventually
3 decrease, correct?

4 A. I think that's the goal, yes.

5 Q. And I believe in your testimony you
6 stated that you believe that the GRR because -- as a
7 nonbypassable rider may work against the market; is
8 that correct?

9 A. I'm not sure what you are referring to as
10 "working against the market" but.

11 Q. Well, if you turn to page 10 of your
12 testimony, I believe you testified that "making the
13 GRR a nonbypassable rider...may dissuade competitors
14 from entering the Ohio market and building viable
15 renewable projects"; is that correct?

16 A. Yes. I think that is what I've stated
17 here on page 10. I think, though, it would be
18 important to also note that -- that I've also
19 recommended and I think others here have also --
20 other parties in this proceeding have also
21 recommended that, you know, a crediting system, pay
22 crediting system were to be put in place, I think
23 some of those concerns by CRES providers would be
24 addressed.

25 Q. Okay. Just to clarify, the competitors

1 that you're talking about in this testimony at page
2 10, are you talking about CRES providers, or are you
3 talking about other renewable energy developments?

4 A. Okay. I understand what you're talking.
5 So here I'm really referring to other developers
6 coming in -- coming into the market.

7 Q. Okay. But did you also test the fact
8 that the GRR is nonbypassable means that there would
9 be a risk that shopping customers would be charged
10 twice for RECs; is that correct?

11 A. Well, again, I refer to -- in this
12 written testimony I refer to it as -- I've
13 recommended that the GRR be approved but with the
14 condition that a -- I refer to it as a tracking
15 system in my testimony. Others, I believe, have
16 referred to it as a crediting system.

17 I actually like the term "crediting
18 system" a little bit better, but I think if such a
19 crediting system were to be put in place, a lot of
20 those -- those concerns would be addressed that I
21 mention here on page 10.

22 Q. Okay. And so your -- your recommendation
23 about the tracking system is designed to help
24 alleviate the risk that shopping customers would pay
25 twice for RECs under a GRR that's nonbypassable?

1 A. Right. If I understand your underlying
2 principle of a crediting system would be to protect
3 consumers to make sure they do not pay twice.
4 Obviously, details of such a system will need to be
5 worked out at some point.

6 Q. And when you say "consumers," are you
7 talking about shopping customers?

8 A. Shopping customers.

9 Q. And I believe you testified that the
10 record is not clear as to exactly how a tracking
11 system would happen; is that right?

12 A. Right. I've testified to that.

13 Q. And you did not provide any testimony
14 here as to how to implement or design such a tracking
15 system; is that right?

16 A. No, I have not. I do -- I would note
17 that I believe it was -- there was a Witness Parisi,
18 I believe is his last name, mentions -- discusses
19 very briefly a crediting system --

20 Q. Okay.

21 A. -- in a broad outline basis.

22 Q. Okay. But you have not provided any
23 testimony.

24 A. No, I have not.

25 Q. But you do believe that the tracking

1 system either the design for the implementation of it
2 should occur before the nonbypassable GRR is
3 approved?

4 A. No, I don't think it necessarily has to
5 be designed before the GRR is approved in concept. I
6 think when -- when the company files for cost
7 recovery, I think at that point in time there should
8 be at least a fairly solid proposal for -- for how a
9 system would be designed, developed, implemented.

10 Q. Okay. And so that solid understanding is
11 the issue that needs to be resolved before the GRR
12 should be approved?

13 A. Again, not necessarily. Let the GRR --
14 should be proven, I think with what -- in order to
15 move -- move the project forward, I think the GRR can
16 be approved conceptually as a framework as I keep
17 repeating.

18 Q. Okay. So your testimony on page 9, lines
19 14 to 15, in which you say, "There are two main
20 issues that need to be resolved before a GRR funding
21 mechanism should be approved," you're saying that
22 testimony is limited to the later cost proceeding?

23 A. Which lines are you referring to now?

24 Q. Lines 14 and 15.

25 A. Well, I still believe that the GRR from a

1 conceptual point of view can -- you know, can be
2 approved so that the project can move forward. But
3 that a tracking system or crediting system, you know,
4 needs to be developed.

5 Q. Isn't it true, Mr. Lyle, that Ohio law
6 requires utilities to recover costs associated with
7 their compliance with the renewable energy benchmarks
8 on a bypassable --

9 MR. ALLWEIN: Objection. That's asking
10 for a legal conclusion.

11 MS. MCBRIDE: I'm just asking as to his
12 understanding.

13 EXAMINER TAUBER: And with the
14 understanding you are not an attorney, you can answer
15 the question, please.

16 A. It's my understanding that distribution
17 utilities have -- have -- have at their, you know, at
18 their disposal various tools. I've said this before
19 and when -- one way is to enter into REPAs which
20 would follow, as I understand, the alternative
21 resource rider which is bypassable.

22 The other tool available is under
23 4928.143(B)(2)(c) which essentially allows for a
24 nonbypassable surcharge.

25 Q. Okay. So you're not aware --

1 EXAMINER TAUBER: Can I just interrupt
2 for one second? I think both the mics went out.

3 Q. Sorry. Were you done with your answer?

4 A. Why don't you ask your question again.

5 Q. I will just it a slightly different way.

6 Are you aware of an Ohio statute that requires
7 utilities to recover costs of the renewable energy
8 resources on a bypassable basis?

9 A. I think I did answer that question. They
10 have, you know, multiple ways, three ways as I
11 understand it, to, you know, help them help
12 companies, help distribution utilities to reach their
13 RPS goals. One is bypassable under the alternative
14 -- alternative energy resource rider, and the other
15 is under the nonbypassable, in this case, the GRR.

16 Q. Okay. So -- that is what AEP Ohio has
17 proposed in its modified ESP, correct, the GRR and
18 the AER?

19 A. Yes.

20 Q. So my question is about the preexisting
21 statute. Are you aware of any statute in Ohio that
22 would require renewable resources regardless of how
23 they required the costs to be recovered on a
24 bypassable basis?

25 MR. SATTERWHITE: Objection. He has

1 answered this three times what his understanding is.

2 MS. MCBRIDE: I don't think he has, your
3 Honor. He has responded as best up until now as to
4 what AEP Ohio has proposed, and I'm just asking if he
5 knows of a statute, either yes or no.

6 EXAMINER TAUBER: The objection is
7 overruled.

8 A. Can you ask the question one more time?

9 Q. Are you aware of any Ohio statute that
10 requires utilities to recover costs of their
11 renewable energy resources on a bypassable basis?

12 A. I think I have answered this multiple
13 ways, but it seems -- the answer to your question is
14 it seems that it would be inconsistent to me, my
15 reading of the statute, be inconsistent.

16 On the one hand, RECs are only re -- you
17 know, able to be recovered through a bypassable
18 surcharge or rider. But, on the other hand, you have
19 4928.143(B)(2)(c) which allows distribution utilities
20 so long as they meet the criteria to impose a
21 nonbypassable charge. The two just seem inconsistent
22 to me, so I don't know how to answer your question.

23 Q. So the answer must be you are not aware
24 of any statute that would require utilities to
25 recover their renewable resources on a bypassable

1 basis.

2 A. My answer would be they seem to be -- if
3 there is one, they seem to be very inconsistent.

4 Q. And is it your understanding 143(B)(2)(c)
5 makes any specific reference to renewable energy
6 resources?

7 A. I would have to read the statute but.

8 Q. I believe you spoke briefly with
9 Mr. Oliker and already with me briefly there are
10 several options for utilities such as AEP Ohio to
11 achieve their renewable benchmarks, correct? You
12 discussed the purchase of RECs as one alternative.

13 A. Correct.

14 Q. And another is using long-term agreements
15 like the Timber Road agreement?

16 A. Correct.

17 Q. And you believe that those long-term
18 agreements, like the Timber Road agreement, are an
19 excellent tool for capturing low-energy resources; is
20 that correct?

21 A. One tool.

22 Q. You also testified that new renewable
23 generation resources are unlikely to be built in Ohio
24 unless there are assurances of cost recovery; is that
25 right?

1 A. I think that's true in any state.

2 Q. And AEP Ohio's proposed Timber Road
3 agreement is an example of how to provide those
4 assurances.

5 A. It's one example.

6 Q. So you would agree that bypassable cost
7 recovery is not an impediment to the development of
8 new generation resources, correct?

9 A. It's not an impediment, but I think also
10 I would qualify that answer to say that, you know, if
11 you were a distribution utility and I have this
12 requirement to build renewable to reach the 12-1/2
13 percent goal in 2025, I would -- and I have in front
14 of me available tools that I could use, I would use
15 every -- every tool I could to help my company
16 achieve its goals. And whether it's through the AER
17 or the generation resource rider, I would -- I would
18 use those tools.

19 I would also say that by, you know,
20 relying solely on -- on REPAs, whether they are
21 bypassable or not, would essentially subject in this
22 case AEP to be at the mercy of developers to bring
23 forward projects.

24 Q. And I believe you previously told me you
25 are not familiar with the renewable market in Ohio;

1 is that correct?

2 A. I have a general understanding, but, no,
3 I don't have an in-depth understanding of the
4 renewable market here.

5 Q. And my question, I understand your
6 explanation about the different options, but the
7 question that is simply bypassable costs recovery is
8 not an impediment to the development of new
9 resources, correct?

10 MR. ALLWEIN: I think that question's
11 asked and answered, so I'm going to object. You
12 already asked him if bypassable riders were an
13 impediment to new generation.

14 MS. MCBRIDE: I don't believe I got an
15 answer to that question. We can read back the
16 answer.

17 MR. ALLWEIN: I think his first words
18 were "it is not an impediment."

19 EXAMINER TAUBER: The objection is
20 sustained.

21 MS. MCBRIDE: No further questions.
22 Thank you, Mr. Lyle.

23 EXAMINER TAUBER: Thank you.

24 Mr. Etter?

25 MR. ETTER: Yes, a few questions, your

1 Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Etter:

5 Q. Good afternoon, Mr. Lyle.

6 A. Good afternoon.

7 Q. On page 9 of your testimony at the
8 bottom, line 20, you state that -- or, beginning on
9 line 20, you state that because the PUCO approves the
10 ESP for a period of only three years, it is my
11 understanding that AEP faces a number of challenges
12 in financing for renewable energy products -- or
13 projects; is that right?

14 Do you know whether AEP has asked for
15 a -- well, first of all, how long of an ESP do you
16 think would be needed for AEP to overcome this
17 challenge?

18 A. Well, let me first state -- and, you
19 know, this is an area of my testimony that probably
20 isn't the most clear but, you know, I do understand
21 that if a rider is approved, that it's -- the rider
22 stays in effect, you know, essentially for the
23 duration of the project life. That's my
24 understanding. So it extends beyond the three-year
25 planning horizon.

1 The point I was really trying to make
2 here, which obviously I think I've not -- not been as
3 clear as I should be, is that it just, in my view,
4 you know, as I work in different states, it just
5 seems that AEP and other distribution utilities are
6 on this continuous, you know, planning cycle, and
7 it's hard because it's such a, you know, such a
8 fast-paced or such a continuous cycle that it's hard
9 to plan, implement, and plan and implement projects,
10 so that was really my only point here so.

11 Q. So you are really not blaming it on the
12 fact that it's only a three-year ESP that, you know,
13 that AEP could have -- could, in fact, if they wanted
14 to, have asked for a longer ESP, is that right, in
15 order to overcome this obstacle that you see?

16 A. I suppose they could have requested a
17 longer duration, longer planning period.

18 Q. Okay. And on page 10 of your testimony,
19 on lines 4 through 15, you discuss what you later
20 call a "regulatory dilemma" regarding renewable
21 energy in AEP's ESP, and, you know, if I understand
22 it right, what you're saying here is that AEP must
23 choose between earning a return on investments for
24 stockholders and encouraging competitors to enter the
25 Ohio market; is that a fair characterization?

1 A. I'm sorry, where are you reading
2 "regulatory dilemma" here?

3 Q. Actually in the next -- starting on line
4 17, you discuss a regulatory dilemma, but I believe
5 it's set up at lines 4 through 15.

6 A. Yes. I think really what I'm trying to
7 get at here, the main point is that, you know, the
8 company and other distribution utilities are really,
9 you know, tasked to reach -- reach the RPS goals and
10 that, you know, there are a number of ways that they
11 can do that, you know, entering a REPA. Basically my
12 understanding is really just a passthrough. There is
13 no opportunity to earn a rate of return. But on the
14 other hand, they need that option in order to, you
15 know, be on track to reach -- to reach the goal.

16 Q. But -- I'm sorry, did you answer your
17 question?

18 A. Well, I am not sure I did.

19 Q. I think you sort of state there the
20 company is down to making a choice between earning a
21 return for its shareholders and encouraging
22 competitors to enter the Ohio market. Is that a
23 choice they are facing as you see it?

24 A. Yes. I guess you are kind of hanging me
25 up in terms of, you know, it's AEP's choice to

1 encourage competitors. I think the framework that
2 the state of Ohio has designed here is intended to,
3 know you, is intended to encourage developers to come
4 into the market and build renewables.

5 Q. Okay. Then on line 17 through 21, you
6 mention a solution -- actually two solutions,
7 extending the time period of the ESP and modifying
8 the proposed language of the GRR, so that it's
9 strictly limited to renewable projects that the PUCO
10 has deemed to be needed, prudent, and competitively
11 bid; is that correct?

12 A. Correct.

13 Q. So are you advocating that the GRR should
14 be removed from an ESP if -- from any ESP if the
15 projects have not been approved by the PUCO at the
16 time the ESP application is filed?

17 A. I'm not sure I understand your question
18 really. Can you ask it -- reframe? It seems --

19 Q. Well, on line 20, you state that the GRR
20 "is strictly limited to renewable projects that have
21 been deemed by the PUCO to be needed, prudent and
22 competitively bid." Would that -- would the PUCO
23 have to make that determination before an ESP
24 application is filed in order for the GRR to be
25 included in the ESP?

1 A. I think it's my understanding that, you
2 know, for the costs of -- that are filed under the
3 proposed GRR, need to be determined by the PUCO
4 deemed needed, prudent, and competitive --
5 competitively bid. "Competitively bid" I read to
6 mean that the end result reflects what a competitive
7 market would -- would deliver.

8 Q. And would a company have to do that --
9 have to have that determination made already before
10 it files a GRR for the Commission to consider?

11 A. Again, you know, I guess maybe I'm
12 putting too fine a point on it but --

13 Q. Maybe I am trying to.

14 A. Yes, yes, with respect to the cost, but,
15 again, I think in order to move this forward, this
16 project forward, the GRR, as a conceptual framework,
17 I think, can profit. I think with what the company
18 is asking for and what I agree with is that the GRR,
19 you know, as a concept should be deemed acceptable.

20 And then when it comes to the costs, the
21 cost recovery, then, you know, another layer of
22 analysis needs to be applied with respect to, you
23 know, prudence and competitiveness.

24 Q. But under the ESP statute, and I'm just
25 asking as a layman -- for a layman's opinion, the

1 Commission is required to make a determination as to
2 whether the ESP in the aggregate is more favorable
3 than an MRO, a market rate offer; is that right as
4 far as you know?

5 A. Yes. My testimony is really kind of
6 limited here to the GRR, so I don't want to testify
7 outside of the bounds of my expertise. And you keep
8 mentioning ESP and the MRO and my understanding that
9 those have; you know, contemplate considerations that
10 are well beyond the GRR.

11 Q. So in a -- in its consideration of the
12 ESP application, should the Commission also consider
13 the costs that will be coming down later possibly
14 for -- throughout GRR in determining the effect on
15 the rates that customers may pay?

16 MR. SATTERWHITE: Your Honor, I believe
17 the witness just stated that was beyond his
18 understanding. Counsel is trying to apply the other
19 things, the MRO and the ESP test, not just how the
20 GRR is structured.

21 MR. ETTER: If I may, your Honor, I am
22 not asking him to make a determination here regarding
23 ESP versus the MRO. I'm just asking if the costs
24 that will be included in the GRR is something that
25 the Commission should consider as it looks at the

1 ESP.

2 MR. SATTERWHITE: If I may respond, your
3 Honor?

4 EXAMINER TAUBER: Yes.

5 MR. SATTERWHITE: He is asking exactly
6 that. He is not saying ESP versus MRO, trying to
7 ask -- use lay terms to ask the legal question of the
8 witness that he has said he can't answer.

9 MR. ETTER: Later in his testimony
10 Mr. Lyle refers to the GRR as being a placeholder
11 rider, and so that's -- that's part of the aspect of
12 this whole rider, the GRR, is, you know, is whether
13 or not there are any costs in there to begin with and
14 how that affects the ESP.

15 EXAMINER TAUBER: I will allow it, but
16 let's keep it focused, Mr. Etter.

17 A. So the question is whether the costs
18 should be considered at some point in time?

19 Q. Well, as the Commission looks at this
20 ESP, should the Commission also consider what costs
21 may be included in the GRR later on that may affect
22 the rates that customers pay?

23 A. I think you've hit it. Later on, I think
24 certainly the PUCO should take a look at what the
25 costs are from -- are included in the GRR, but,

1 again, from a conceptual point of view, I think the
2 GRR is a good mechanism and I think, you know, the
3 Commission -- I think that decision is ripe -- or
4 that issue is ripe for a decision in a conceptual
5 manner.

6 MR. ETTER: Okay. Thank you, Mr. Lyle.

7 That's all the questions I have.

8 EXAMINER TAUBER: Before we go on, I just
9 have a quick clarifying question on page 10.

10 THE WITNESS: Sure.

11 EXAMINER TAUBER: I just want to make
12 sure I'm understanding correctly. Your testimony
13 isn't concluding that the market is incapable of
14 developing any renewable projects, is it?

15 THE WITNESS: Are you referring to a
16 specific area or are you just kind of generally --

17 EXAMINER TAUBER: Just generally, just
18 generally to make sure.

19 THE WITNESS: And the question -- just so
20 I understand the question, so the market is in
21 incapable of developing renewable --

22 EXAMINER TAUBER: I think in your
23 testimony at page 10, lines 4 through 15, you
24 provided the company has to rely on the market to
25 develop projects. I just want to make sure I

1 understand that correctly, you think the market can
2 or cannot develop renewable projects?

3 THE WITNESS: Well, certainly I think,
4 you know, the market, you know, in general, you know
5 developers are capable of providing -- of developing
6 projects. I think in this case, you know, the
7 Turning Point Project with AEP as a partner is a
8 reflection of what the market can do. And I think,
9 you know, to build utilities' scale projects like
10 Turning Point I think, you know -- you know, AEP or
11 FirstEnergy, I think are, you know, candidates and
12 are market players who should and can develop
13 renewable energy market facilities.

14 EXAMINER TAUBER: Thank you.

15 Mr. Satterwhite?

16 MR. SATTERWHITE: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 By Mr. Satterwhite:

20 Q. Good afternoon, Mr. Lyle. I'm Matt
21 Satterwhite for Ohio Power. How are you doing today?

22 A. Good. How are you?

23 Q. Good.

24 I would like to ask you some other
25 questions following up on questions the other counsel

1 asked you today. Do you remember the conversation
2 you had with Ms. McBride about least cost?

3 A. Yes.

4 Q. I believe you stated that you think there
5 needs to be a balance that, in general, you are in
6 agreement with least cost but a balanced least cost;
7 is that correct?

8 MS. MCBRIDE: Your Honor, I object.
9 Friendly cross.

10 MR. SATTERWHITE: Your Honor, if I may?

11 EXAMINER TAUBER: Yes.

12 MR. SATTERWHITE: It's not friendly cross
13 at all. I believe counsel tried to create a new
14 standard which is, I believe, raised to try to
15 challenge what AEP Ohio has proposed. And I believe
16 I'm allowed to try to clarify this with this witness
17 what that is and whether he is opposed to AEP Ohio or
18 not on this point. It's unclear on the record.

19 MR. OLIKER: I'll join in the objection,
20 and he can save it for redirect.

21 EXAMINER TAUBER: Ms. McBride, do you
22 have anything to add?

23 MS. MCBRIDE: Well, I object to the
24 mischaracterization of my questions and Mr. Lyle's
25 responses as to developing any other standard. My

1 testimony was directed to at least cost analysis, and
2 he is trying to solicit friendly testimony regarding
3 that application to AEP's proposal.

4 MR. SATTERWHITE: If I may, your Honor.
5 I don't agree with the least cost, and I'm trying to
6 challenge that right now.

7 EXAMINER TAUBER: The objection is
8 overruled.

9 MR. SATTERWHITE: Could you please have
10 the question reread?

11 (Record read.)

12 A. That is my testimony, that's correct.
13 There should be a balance.

14 Q. So is there a difference between what
15 traditionally is referred to as the least cost
16 standard and a reasonable least cost?

17 A. Again, I think the idea is -- the state
18 is trying to balance at least two main objectives,
19 you know, to promote competition in the electric
20 market but also to build up to meet the RPS poles and
21 build out the renewable -- to build out renewable
22 energy.

23 So I look at it from -- in my line of
24 business what I -- what I refer to as "least cost" is
25 really, you know, gets to, you know, reasonable least

1 cost. The reasonable least cost issue that you are
2 referring to, at least I think you are referring to,
3 is that when we do, you know, renewable energy
4 studies, when we do -- not that I did one here in
5 this case, but when we do renewable energy studies
6 and energy efficiency studies, we look at the costs
7 of -- to implement renewable projects.

8 We look at the costs of implementing
9 energy efficiency, and we compare that to the cost of
10 the supply side. But when we look at the supply
11 costs, what we do is -- is in many states do this is
12 essentially add to that externalities. I am sure you
13 have heard that cost of carbon, cost of pollution.

14 And so that kind of goes to the issue
15 what's reasonable in that we're trying to make
16 transparent what those costs are. Not only just the
17 cost of fuel, cost of generation, but also the other
18 costs as reflected as externality factors, the other
19 costs being carbon, pollution to get a reasonable
20 sense as to what the tradeoffs are between the supply
21 side, traditional supply side, and renewable energy
22 and/or efficiency.

23 Q. Okay.

24 A. Does that answer your question?

25 Q. Yes, thank you. You also had a

1 conversation, on the infamous page 10, about
2 dissuading investment in the Ohio renewable market.

3 Do you remember --

4 A. Yes.

5 Q. -- most of it being about that, I think?

6 A. Yes.

7 Q. Is it your understanding that one of the
8 goals of the in-state solar requirements in Senate
9 Bill 221 is to incent investments in the solar
10 industry in Ohio?

11 A. My understanding, yes.

12 Q. And isn't part of -- you state here that
13 competitors could be dissuaded from developing that,
14 on lines 14 and 15. But isn't part of the developing
15 solar industry in Ohio the development of
16 manufacturers of solar panels in Ohio?

17 A. I believe that is a goal, yes.

18 Q. And a project that used solar panels
19 manufactured in Ohio, would that be --

20 MR. OLIKER: Objection, your Honor.

21 Q. -- meeting the goals?

22 MR. OLIKER: Friendly cross.

23 MR. SATTERWHITE: If I may, your Honor,
24 it states clearly on his testimony, lines 14 to 15,
25 that this is going to dissuade additional viable

1 projects here in Ohio. And I believe, as counsel
2 himself for IEU pointed out, there is some investment
3 in this industry in Ohio. And I think it's
4 appropriate to challenge the statement the witness
5 makes with the points that have already been raised.

6 EXAMINER TAUBER: I will allow it.

7 Q. Do you want the question reread?

8 A. Yes, please.

9 MR. SATTERWHITE: Your Honor, could you
10 have the question read?

11 EXAMINER TAUBER: Sure.

12 (Record read.)

13 A. It's my understanding that it would meet
14 the goals.

15 Q. And counsel for Consumers' Counsel,
16 Mr. Etter, asked you a question about extending the
17 ESP period beyond three years and whether AEP Ohio
18 Power could have requested a longer period. Do you
19 remember those questions?

20 A. I remember.

21 Q. Is it your understanding that AEP's
22 argued that it cannot enter into the Turning Point
23 Project because of the term of the ESP?

24 A. I don't believe that's one of the
25 conditions. I don't think -- I don't --

1 Q. Maybe it's confusing. I can clarify.

2 A. Yes, please.

3 Q. You raise a concern that there is a
4 potential barrier because the ESP is a three-year
5 period, correct?

6 A. That's what I've stated, but, yes, right.

7 Q. And so my question is, is there anywhere
8 in the case that you know that AEP has stated that
9 they cannot enter into this Turning Point Project if
10 they move forward after the GRR is established
11 because of the three-year ESP term?

12 A. Let me try to answer it this way, I don't
13 believe that the term -- the three-year term really
14 has any effect on AEP's position to move forward with
15 Turning Point.

16 Q. Okay. Now, on the 2010, you are really
17 describing sort of two modifications you would make
18 to the GRR, one being the three-year provision that
19 we sort of talked about and you sort of explained the
20 context for that today, and, two, the lack of
21 tracking or credit that you talked about, correct?

22 A. Correct.

23 Q. And on the bottom of 10 to the top of 11,
24 when you give sort of your solution for how to solve
25 these problems, you propose, like Mr. Etter was

1 talking about, that the GRR should be changed to
2 require finding of need, prudence, competitively bid,
3 and be limited to renewable resources, correct?

4 A. Correct.

5 Q. Is it your understanding, and I believe
6 you have cited elsewhere in your testimony somewhere
7 that the prudence, the need, and the competitively
8 bid are already part of the Statute 4928.

9 A. They are part of the statute, yes.

10 Q. So really, the only thing you're adding
11 in here is the limitation that the project be
12 renewable, correct?

13 A. Correct.

14 Q. Okay. And so it was your intention to
15 limit the statute that the General Assembly put out
16 to just renewable projects? Go with you heart.

17 A. Well, let me put it this way: My client
18 is NRDC. I work in the industry's efficiency and
19 renewable industry. We both are very interested in
20 developing renewable projects and energy efficiency
21 ahead of or before supply side, but if I can read in
22 your question, that I believe the statute does not
23 have such a limitation.

24 Q. So it's -- I'm sorry, I didn't mean to
25 interrupt. From a point of view, you would prefer

1 everything to be renewable, correct?

2 A. And with energy efficiency, yes.

3 Q. Okay. Fair enough.

4 And I believe you had some discussion
5 with counsel for FirstEnergy Solutions, Ms. McBride,
6 about REC tracking or crediting. And you are not
7 asserting that the plan that Ohio Power has put out
8 is intended to retain all of the REC benefit just for
9 AEP Ohio what we call SSO customers, are you?

10 A. I'm not -- I'm not sure I really
11 understand your question.

12 Q. I could restate it. It's easier.

13 What you're really asking for and what
14 you're proposing is more just some definition about
15 how the benefits relating to this will be shared by
16 all customers that pay the charge, correct?

17 A. Correct. I think I testified to that.
18 The underlying principle of a crediting system would
19 be to protect consumers from paying twice if they
20 shopped.

21 Q. I know there was just some questions
22 asked but -- and I believe you didn't agree with
23 them, but there were some questions and the words
24 "double counting" were used. I wanted to make sure
25 you weren't considering the proposal by Ohio Power to

1 be what we call "double counting," where customers
2 that have shopped away from AEP Ohio would pay the
3 nonbypassable charge and not benefit from it.

4 A. Right. Correct.

5 Q. And your recommendation really is just
6 let's set up a system to make sure --

7 A. Correct.

8 Q. -- everything is accounted for properly.

9 A. Correct.

10 Q. And isn't that the kind of issue that
11 would be more appropriate in the proceeding that
12 considers the costs and sets everything up?

13 A. The short answer would be yes. But I
14 would urge the company and the other stakeholders
15 here to start working now to, you know, develop that
16 system to have it in place sooner rather than later.

17 Q. But the point of your testimony is if the
18 Commission were to allow recovery from customers for
19 anything related to something in the GRR, that that
20 process should be defined before customers were -- or
21 the company was collecting costs.

22 A. Correct.

23 Q. Go to page 14 of your testimony, please,
24 and starting on line 8, you talk about alternative
25 PPA structures. Do you see that?

1 A. Yes.

2 Q. And you give two alternatives there: The
3 prepay and site investment. Do you see that?

4 A. Yes.

5 Q. I'm just trying to understand, is -- are
6 you providing this just for context for the
7 Commission of future PPAs?

8 A. Yes. It's just background information.

9 Q. And I was interested in the first option
10 which is the prepay option.

11 A. Yes.

12 Q. How is that collected from customers with
13 the theory of prepay?

14 A. I would have to go back to the source
15 here to tell you the truth. You know --

16 Q. Maybe I can restate it. Maybe it will
17 help. I don't want to cut you off if you're
18 answering.

19 A. Yes, I'm just trying to remember exactly
20 this particular, you know, example. You know, this
21 is Boulder County and I think some of the funds came
22 -- that Boulder County used were either ERA funding
23 or some sort of a grant to buy down the costs, so
24 that's one way of using, you know, such grants.

25 From a utility prospective, another way,

1 you know, possibly would be to rate base the
2 investment as you would any other facility,
3 generation facility.

4 Q. But the theory is -- I'm sorry, were you
5 done?

6 A. No, no, I'm done.

7 Q. But the theory is to basically pay a
8 bunch in advance.

9 A. Right.

10 Q. Sort of the anti-deferral plan, put it
11 all up front rather than defer it for later?

12 A. Yes, correct. Yep.

13 MR. SATTERWHITE: One second, your Honor.
14 I'm just seeing what's still necessary.

15 Q. On page 15 of your testimony to 16, you
16 talk about some general comments about the Timber
17 Road PPA, and you point out, I won't say concerns,
18 but two issues that if you had more time to look
19 into, you might, is the timing and the minimum size
20 requirements; is that a fair assessment of your
21 testimony?

22 A. Correct.

23 Q. And you state that the two concerns on
24 page 15 were likely a byproduct of the need to comply
25 with regulations, correct?

1 A. Right. I think -- this is an example of
2 the three year -- in my mind anyway, in my reading of
3 the situation here in Ohio, is that this, you know,
4 is kind of an example of the three-year ESP term.

5 It seems to me that -- yes, go ahead.

6 Q. Would you -- and what I'm really talking
7 about is you seem to state on the bottom of 15, lines
8 20 to 21, "Both of these limitations were probably a
9 byproduct of the company's need to comply with
10 current regulatory requirements." Do you see that?

11 A. Yes.

12 Q. Do you think that the timing and the size
13 requirements also had anything to do with the
14 reasonable least cost efforts of the company?

15 A. I am not exactly sure how the timing and
16 the process of analyzing under -- under the least
17 cost principles have to do with it, but go ahead.

18 Q. Well, you state on page 16 that the 30
19 months' leave time from the RFP eliminated some bio
20 and some hydro, correct?

21 A. Correct.

22 Q. And also that there seems to be a
23 preference for projects that are already in the PJM
24 queue?

25 A. That's what I've stated here, yes. I

1 think that was just kind of a byproduct of the -- in
2 my view, kind of a compressed solicitation period.

3 Q. And you mentioned that -- I believe this
4 is what you stated -- with the three-year ESP period
5 and the crunch on companies, don't you think it's
6 prudent for the company to try to invest or seek RFPs
7 for products they can get access to in the nearer
8 term?

9 A. I think the three-year term does have
10 that effect on companies.

11 Q. And not just the ESP term, what I'm
12 talking about is the need to meet requirements,
13 renewable portfolio standards?

14 A. RPS, yes.

15 Q. And would you agree that wind is
16 generally the least expensive of the renewable
17 projects in this region?

18 A. Yes; and that's generally true in a lot
19 of areas.

20 Q. So an RFP that's designed to construct
21 construction-ready wind products is good for
22 customers, correct?

23 A. Yes.

24 Q. One last short area, I believe, you were
25 asked questions from Mr. Olikar about the termination

1 of need, and you kept sparring back and forth in this
2 proceeding. Do you remember that discussion?

3 A. Yes. Yes, I do.

4 Q. And he asked you from your point of view
5 as a layperson what your understanding was what's
6 going on in this proceeding versus other proceedings,
7 correct? Are you aware of anything in the statutes,
8 in your lay opinion, that would bar the PUCO from
9 recognizing a need finding from another case in this
10 proceeding?

11 MR. OLIKER: Objection, your Honor.
12 Friendly cross again.

13 EXAMINER TAUBER: The objection is
14 overruled.

15 A. I'm not aware.

16 MR. SATTERWHITE: Thank you. That's all
17 I have.

18 EXAMINER TAUBER: Mr. Beeler or
19 Mr. Margard?

20 MR. BEELER: No questions.

21 EXAMINER SEE: Mr. Allwein?

22 MR. ALLWEIN: I am aware that the
23 Commission meeting is going to start at 1:30, and we
24 have to abandon the room, but can I get about two
25 minutes with the witness?

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. Allwein?

7 MR. ALLWEIN: Yes, your Honor. Thank
8 you. Actually, we don't have any redirect today.
9 Thank you.

10 EXAMINER TAUBER: Thank you.

11 One second. The Bench has a question for
12 you.

13 - - -

14 EXAMINATION

15 By Examiner See:

16 Q. On page 5 of your testimony, Mr. Lyle.

17 A. I almost escaped.

18 Q. I take it the basis of your -- on page 5
19 of your testimony, you talk about the FAC charge
20 appearing on a customer's billing providing
21 transparency.

22 A. Right. I believe I asked -- or answered
23 some questions related to that, but go ahead.

24 Q. Your assumption is that FAC and AER will
25 appear on a customer's bill, correct?

1 A. I think I was operating under that
2 assumption that it could.

3 Q. If, in fact, it does not, do you find
4 that there are other ways to provide that information
5 to customers that would provide that transparency?

6 A. Bill inserts would probably, you know,
7 work, I think, to inform customers, you know, what
8 renewable energy costs compared to, you know, dirty
9 coal plants.

10 Q. So your -- the point of your comment
11 there is just to see to customers being able to
12 access or get the information.

13 A. I think the more transparency, I think,
14 is probably better.

15 EXAMINER SEE: Thank you. Now, you're
16 dismissed.

17 THE WITNESS: Thank you.

18 EXAMINER SEE: You're dismissed.

19 THE WITNESS: Okay.

20 EXAMINER SEE: We're still in session,
21 gentlemen.

22 MR. ALLWEIN: Your Honor, I had -- your
23 Honor, I had a motion to admit Mr. Lyle's testimony.

24 EXAMINER TAUBER: Are there any
25 objections to NRDC Exhibit 101?

1 Hearing none, NRDC Exhibit 101 is
2 admitted into the record.

3 (EXHIBIT ADMITTED INTO EVIDENCE.)

4 EXAMINER TAUBER: We'll take a break for
5 lunch and reconvene at 2:15. Let's go off the
6 record.

7 (Thereupon, at 1:21 p.m., a lunch recess
8 was taken.)

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1 Wednesday Afternoon Session,
2 May 30, 2012.

3 - - -

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

6 Ms. Kingery?

7 MS. KINGERY: Thank you, your Honor.

8 Duke Energy Commercial Asset Management
9 calls Salil Pradhan to the stand.

10 (Witness sworn.)

11 EXAMINER SEE: Thank you. Have a seat.

12 MS. KINGERY: May I approach?

13 EXAMINER SEE: Yes.

14 MS. KINGERY: We would ask that the
15 testimony of Salil Pradhan be marked as DECAM Exhibit
16 101.

17 EXAMINER SEE: The exhibit is so marked.

18 MS. KINGERY: Thank you.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 - - -

21 SALIL PRADHAN

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

24 DIRECT EXAMINATION

25 By Ms. Kingery:

1 Q. Mr. Pradhan, would you please state your
2 name and business affiliation for the record.

3 A. Salil Pradhan.

4 Q. And you are employed by?

5 A. Duke Energy.

6 Q. Duke Energy. Which affiliate within Duke
7 Energy?

8 A. Commercial Enterprises, Inc.

9 Q. And what is your title at Duke Energy
10 Commercial Enterprises?

11 A. Vice President, Portfolio Risk
12 Management.

13 Q. Thank you. And do you have before you
14 what has been marked as DECAM Exhibit 101?

15 A. Correct.

16 Q. And would you identify that for me?

17 A. What do you mean by "identify"?

18 Q. What is the document?

19 A. It's my testimony.

20 Q. Thank you. And was your testimony,
21 Exhibit 101, prepared by you or under your direction?

22 A. Under my direction.

23 Q. And do you have any revisions or
24 modifications to make to your testimony today?

25 A. Yes.

1 Q. Would you identify those changes?

2 A. I have one correction. It's on page 10,
3 line 4. It says "revenue stability rider." It needs
4 to be "retail stability rider."

5 Q. So you will be deleting the word
6 "revenue" and substituting "retail"; is that correct?

7 A. Correct.

8 Q. Thank you.

9 And if I were to ask you all of these
10 questions today, would your answers be the same?

11 A. Yes.

12 MS. KINGERY: Thank you.

13 Mr. Pradhan is available for
14 cross-examination.

15 EXAMINER SEE: Ms. Hand?

16 MS. HAND: No questions, your Honor.
17 Thank you.

18 EXAMINER SEE: Ms. Kyler?

19 MS. KYLER: No questions, your Honor.

20 EXAMINER SEE: Ms. Watts?

21 MS. WATTS: No questions, your Honor.

22 EXAMINER SEE: Mr. Olikar?

23 MR. OLIKER: No questions, your Honor.

24 EXAMINER SEE: Ms. McBride?

25 MS. MCBRIDE: No questions, your Honor.

1 EXAMINER SEE: Ms. Grady?

2 MS. GRADY: No questions, your Honor.

3 EXAMINER SEE: Mr. Nourse?

4 MR. NOURSE: Thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 By Mr. Nourse:

8 Q. Good afternoon, Mr. Pradhan.

9 A. Good afternoon.

10 Q. Now, in your testimony, the first part of
11 your recommendation, starting on page 3, carrying
12 over to page 4, you're recommending that effective
13 immediately that the SSO load should be served in
14 AEP's Ohio territory through a competitive auction;
15 is that correct?

16 A. Yes.

17 Q. So that 100 percent of the energy and
18 capacity would be served -- would be supported
19 through procurement of a competitive bidding process;
20 is that accurate?

21 A. You would say 100 percent of the SSO
22 could be auctioned.

23 Q. So the nonshopping load.

24 A. All of the load should be auctioned.

25 Q. All of the load that AEP Ohio serves,

1 which is the nonshopping load, correct?

2 A. Help me with the "nonshopping" part of it
3 because, for me, all is made up of shopping and
4 nonshopping.

5 Q. Okay. And if a customer shops who serves
6 that customer, who supports that customer with energy
7 capacity?

8 A. It depends on the utility program that
9 you are in, but the CRES providers would serve the
10 shopped load.

11 Q. Okay. Just a background question, I
12 wasn't trying to confuse you. So your -- your
13 recommendation is to modify the ESP proposal that AEP
14 Ohio put forth by -- through this recommendation we
15 talked about with the auction.

16 Now, is it your understanding that AEP
17 Ohio would have to consent to modifications that are
18 made to the filed ESP?

19 MS. KINGERY: Objection, your Honor. To
20 the extent Mr. Nourse is calling for a legal
21 conclusion, Mr. Pradhan is not a lawyer.

22 EXAMINER SEE: With that understanding,
23 Mr. Pradhan, you can answer the question.

24 A. Can you please rephrase your question? I
25 don't understand what you mean by the word "consent."

1 Q. Sure. Do you -- is it your understanding
2 if the Commission makes modifications like the one we
3 just talked about, that you are recommending that AEP
4 Ohio withdraw from the ESP?

5 A. I'm not sure.

6 Q. Okay. So you didn't consider that when
7 you made your recommendation?

8 A. Can you elaborate on that? What do you
9 mean we didn't consider that?

10 Q. You didn't consider why making a change
11 to the ESP could result in the company withdrawing
12 when you made your recommendation; is that correct or
13 incorrect?

14 A. I'm not sure if AEP can withdraw it, but
15 if they are going to withdraw it, then they are going
16 to withdraw it. I'm just making a recommendation to
17 the Commission.

18 Q. And since you're not sure, you didn't
19 consider it when you made your recommendation; is
20 that fair?

21 A. I'm still struggling to draw the line
22 but.

23 Q. Mr. Pradhan, do you know how long it
24 takes under a market rate option to reach a fully
25 competitive SSO offering?

1 A. It depends.

2 Q. What's your understanding of the
3 statutory or regulatory structure around the
4 transition period between day one of an MRO, market
5 rate offer, and when the point in which it's a fully
6 marked-based price for the customer?

7 A. This is just my understanding. It can
8 happen as quickly as two years, or it can take up to
9 ten years.

10 Q. Two years, is your understanding, the
11 minimum time period. Now, let's just assume that's
12 correct for now. So if you compare that two-year
13 period to your recommendation of immediate
14 implementation of a full auction-based procurement,
15 is it fair to say that your recommendation for this
16 ESP is that it be more of a market-based plan than an
17 MRO?

18 A. There are multiple questions in the
19 questions you ask. Do you want to break them into
20 smaller things that I can take one of them at a time?

21 Q. I'm just setting it side by side. Based
22 on your understanding of a two-year MRO, it takes --
23 in other words, you're saying it takes a minimum of
24 two years to get to a fully market-based SSO offering
25 under an MRO. That's what you're saying, correct?

1 A. Yes.

2 Q. And if I compare that to your proposal in
3 this ESP, is it fair to say that you're recommending
4 that a fully market-based SSO be achieved on day one
5 as opposed to at least two years or up to ten years;
6 is that correct?

7 A. No. I don't think they are
8 apples-to-apples comparisons. MRO is different. ESP
9 is different.

10 Q. Explain that.

11 A. They are two different provisions.

12 Q. Is the end state of an MRO to have a
13 fully competitive market-based rate for customers?

14 A. Correct.

15 Q. And is the end state of your
16 recommendation to have a fully competitive
17 market-based rate for customers?

18 A. So this is where I'm trying to say it's
19 not apples to apples. Under an ESP umbrella you are
20 not taking all the provisions to fully market for all
21 the items that are included in the ESP. That's where
22 I'm saying it's not an apples-to-apples comparison.

23 Q. I am asking about your recommendation,
24 sir. Is your recommendation -- I thought we just
25 established that it was, on day one, to go to a

1 100-percent competitive procurement based on an
2 auction?

3 A. That's only for the load for the items
4 that are included in the auction. And my
5 recommendation is that AEP can go to an auction a lot
6 sooner without all kinds of constraints and
7 conditions that they have set forth in their
8 application. They can go as soon as possible.

9 Q. Okay. And your recommendation is that
10 they go even quicker than is possible even under your
11 two-year understanding of an MRO, correct?

12 A. My recommendation is that they can go
13 quicker than two years. The MRO part of it is where
14 I'm not going to agree or disagree with you because
15 I'm not saying it's not an apples-to-apples
16 comparison.

17 Q. Is an MRO a -- a standard service
18 offer -- form of standard service offer pricing? Is
19 that your understanding?

20 A. My recommendation is based on an ESP, so
21 I'm not sure why we are going down the MRO track.

22 Q. Because you keep saying it's a
23 different -- apples to apples -- not an
24 apples-to-apples comparison, so I'm asking you your
25 understanding of an MRO. Can you answer that

1 question?

2 A. My apples to non-apples is with the ESP
3 versus the MRO. The recommendation I'm making is
4 only related to one part of the entire package.

5 Q. Okay. I'll move on. Can you turn to
6 page 4?

7 A. Yes.

8 Q. In line 7, starting at line 7, you talk
9 about policies in the State of Ohio for effective
10 competition. Do you see that?

11 A. Uh-huh.

12 Q. Now, is that -- is it your understanding
13 that that's the only policy that is to guide the
14 decision of the Commission in this case?

15 A. Can you please repeat your question? Are
16 you saying is that the only policy they should
17 consider in deciding this case?

18 Q. Yes.

19 A. They should consider other policies.

20 Q. Now, is that policy, your understanding
21 of it, an absolute requirement or restriction as it
22 affects your recommendation?

23 A. It's a primary consideration.

24 Q. Does that policy require an auction-based
25 SSO?

1 MS. KINGERY: Objection. Again, I would
2 note Mr. Nourse is going into legal considerations,
3 so to the extent that he's asking him about statutes
4 of the State of Ohio, I would ask that you keep in
5 mind that Mr. Pradhan is not an attorney, and he
6 cannot be asked to give legal advice.

7 MR. NOURSE: Well, obviously I am not
8 asking for a legal opinion. He's got the policy in
9 his testimony, and I'm asking him simply how it
10 supports his recommendation.

11 EXAMINER SEE: And with the
12 understanding, as I stated before, that he is not an
13 attorney, the witness can answer the question.

14 THE WITNESS: So can you please repeat
15 your question?

16 MR. NOURSE: Can you read it back?

17 (Record read.)

18 A. I don't know.

19 Q. Okay. And you stated a minute ago, I
20 believe, there are other policies that the Commission
21 should consider as well; is that correct?

22 A. What I meant was this is one of the
23 policies they should consider. I don't know what
24 other policies they should consider.

25 EXAMINER SEE: Mr. Pradhan, slide the mic

1 closer to you. Thank you.

2 Q. Okay. And then if it follows, I believe,
3 if you would please confirm for me, you did not
4 consider any other policies in formulating your
5 recommendation here; is that correct?

6 A. Correct.

7 Q. Now, are you aware of other electric
8 distribution utilities in Ohio generally relative to
9 their SSO plans?

10 A. Yes.

11 Q. And let's talk about Duke since that's
12 part of your company, an affiliate of your company.
13 Duke Energy Ohio, when did they start offering a
14 competitive auction-based SSO?

15 A. Starting this year, 2012.

16 Q. Okay. Were they required to do that
17 prior to agreeing to do it this year?

18 A. Can you elaborate on the word "require"?
19 What does that mean?

20 MS. WATTS: If I may, and if I could
21 remind, I'm here actually on behalf of Duke Energy
22 Ohio today, and I'm objecting to questions posed to
23 Mr. Pradhan that relate to Duke Energy Ohio because
24 he is not here on behalf of Duke Energy Ohio.

25 MS. KINGERY: And I would join in that

1 objection.

2 MR. NOURSE: Yes, I understand, your
3 Honor, and I am not asking him to represent Duke
4 Energy. I asked him about his general awareness, and
5 I want to probe his recommendation as it ties in with
6 this policy.

7 EXAMINER SEE: I'll allow it.

8 MS. WATTS: Thank you, your Honor.

9 Q. (By Mr. Nourse) So do you remember my
10 question?

11 A. Yes, I remember your question. My -- can
12 you please clarify the meaning of the word "require"?

13 Q. Well, as it relates to your
14 recommendation for an immediate auction-based SSO and
15 as it relates to your reliance on the policy that you
16 cite in your testimony, would Duke Energy Ohio have
17 been required to do a competitive auction prior to
18 this year under your recommendation?

19 A. Again, I don't know what "require" means,
20 but Duke Energy Ohio did conduct an auction for
21 100 percent of its load as part of its ESP.

22 Q. So years prior to 2012, they did not
23 conduct a competitive auction for SSO procurement; is
24 that correct?

25 A. They started their competitive auctions

1 in 2012.

2 Q. Can you give me a direct answer to my
3 question, sir?

4 A. Can you please repeat your question
5 again?

6 Q. So years prior to 2012, did Duke Energy
7 Ohio offer SSO service based on a competitive
8 auction?

9 A. No.

10 Q. Turn to page 5 of your testimony and line
11 3, you refer to a "protracted delay." Do you see
12 that?

13 A. Correct.

14 Q. Okay. And so where do you draw the line
15 between zero day one and the three-year -- actually,
16 two-and-a-half proposal that AEP Ohio has made in its
17 filing?

18 A. Since you used the example of DE Ohio
19 their order was issued in November and conducted
20 their auctions in December, so I would say a month.

21 Q. Okay. Well, maybe you didn't understand
22 my question. Now, I thought you were saying here in
23 your testimony, top of page 5, that you are referring
24 to the protracted delay associated with the company's
25 filing; is that correct?

1 A. The delay is in implementing full
2 auction, auction for the full SSO load.

3 Q. And that's why I referred to that as a
4 two-and-a-half year delay. Is it your understanding
5 that AEP Ohio's filing proposed 100 percent energy
6 procurement based on an auction starting on January,
7 2015?

8 A. It does that and it does that
9 conditionally.

10 Q. And what do you mean by that?

11 A. I think it does that -- the conditions it
12 will do it only if it gets corporate separation and
13 pool termination which I believe you can conduct an
14 auction without having those two things.

15 Q. Okay. But I thought you said earlier you
16 were just dealing with the auction issue and not with
17 the whole ESP filing --

18 A. Uh-huh.

19 Q. -- when I asked about that earlier.

20 A. I'm still saying the same thing. They
21 should be able to conduct the auction right away.
22 They don't need to have these conditions put in
23 place.

24 Q. Okay. So you -- your position is that
25 it's day one, period. There's no line -- when you

1 talk about a protracted delay between day one and
2 two-and-a-half years; is that correct?

3 A. I'm saying a month after the filing or
4 after the order comes out, they should be able to
5 conduct the auctions.

6 Q. Okay.

7 A. And they should be able to conduct that
8 for 100 percent of the SSO load.

9 Q. Okay. And in line 4, page 5, still you
10 refer to "today's low market rates." Do you see
11 that?

12 A. Correct.

13 Q. Okay. Now, by that I -- by that
14 statement I'm presuming you're saying market rates
15 today are lower than the SSO rates of AEP Ohio today;
16 is that what you're saying?

17 A. Correct.

18 Q. And for which customer classes does that
19 apply to?

20 A. I'm talking for the entire SSO load. If
21 you look at the energy prices, that applies to the
22 entire load.

23 Q. So all customers have lower market prices
24 than tariff standard service offer prices for AEP
25 Ohio?

1 A. I do not know it for all -- I'm assuming
2 when you imply "all," "all" means each and every
3 class. And I'm talking about SSO load, and I'm
4 looking at the energy prices in comparison to the AEP
5 pricing that you have.

6 Q. Okay. So you're looking some aggregated
7 average basis; is that what you're saying?

8 A. Yes. I'm looking at the level at which
9 the auction will be conducted.

10 Q. Okay. When you say "today's low market
11 rates," would you agree that, on certain occasions,
12 market rates may be above SSO tariff price and other
13 occasions they may be below; is that a fair
14 statement?

15 A. Can you elaborate on your question?

16 Q. I'm asking you as a matter of fact.
17 You're stating here that today is -- today, as we sit
18 here today, the market rates are lower than SSO
19 tariff rates, so is that always true? Let's start
20 there.

21 A. It's true today.

22 Q. Has it been true in the past?

23 A. What do you mean by that?

24 Q. I'm not sure what you don't understand.
25 You made --

1 A. "Past" is all the time from now until the
2 beginning of mankind, so I don't know what "past"
3 specifically means. So I'm saying today, yes.

4 Q. Why don't you give your answer based on
5 your knowledge in the past. Can you tell me if it's
6 been true to your knowledge in the past?

7 A. I can try to -- I'll go to the example of
8 Duke Energy Ohio and FE. Duke Energy Ohio when they
9 conducted their auction, their rate was lower than
10 what their SSO plan was. The auction clearing price
11 was lower than ESP rates that they had. Same was
12 true for FE.

13 Q. And what dates of those auctions are you
14 referring to? What were the dates?

15 A. So one auction was conducted last week
16 for Duke Energy Ohio. There were auctions conducted
17 in the first quarter for FirstEnergy and there were
18 auctions conducted in December for Duke Energy Ohio.

19 Q. Okay. Let's look further into the past
20 then. How about the 2005-2006 time period?

21 A. What about the 2005-2006 time period?

22 Q. The same question.

23 A. I don't know what auctions were conducted
24 in 2005 and 2006 in Ohio.

25 Q. Were market prices higher than standard

1 service offer rates in 2005 or 2006?

2 A. Again, as I said, I don't know about the
3 auctions conducted in 2005 and 2006 in Ohio. I could
4 not answer that question right now based on the
5 things I know.

6 Q. Is an SSO auction your only source of
7 determining what market price is?

8 A. It's a source you would rely on because
9 multiple participants participate in that and come
10 out with the market price.

11 Q. So you're not willing to agree that in
12 the last five to seven years, market prices have been
13 higher than SSO tariff prices for AEP Ohio?

14 A. I'm not saying that.

15 Q. That's what I'm asking you. Can you
16 please answer that question?

17 A. I'm saying I don't know of any auctions
18 that were conducted in 2005 and 2006.

19 Q. I'm not restricting anything in my
20 question to auctions.

21 A. I don't know the answer to your question.

22 Q. Are you -- you're not familiar with
23 competitive service offerings that are made by CRES
24 providers to win shopping customers?

25 A. I don't know of any specific ones in the

1 AEP territory, especially back to the time period
2 you're talking about, 2005-2006.

3 Q. How far back does your knowledge go?

4 A. About what?

5 Q. About the answer to that question.

6 A. Can you please repeat your question and
7 be more specific?

8 Q. Okay. Mr. Pradhan, let me ask you this,
9 since you're talking about today's low market rates
10 on page 5, line 4, would you expect that the market
11 rates will remain below tariff rates into the future?
12 And, if so, for what period of time?

13 A. I don't know what will happen in the
14 future. All I'm saying is I gave you examples of the
15 auctions that happened. Those auctions cleared at
16 prices lower than current SSO plans that they had
17 when they did not have auctions.

18 Q. And my whole line of questions here
19 started with the question whether it's true that
20 market rates, at times, are above SSO tariff rates
21 and they are, at times, below SSO tariff rates. And
22 you couldn't agree with that earlier. Does that
23 remain your testimony? You can't agree with that
24 statement at all?

25 MS. KINGERY: Your Honor, I'm trying to

1 be patient here. But what the historical difference
2 between market and SSO rates may have been in
3 2005-2006 or any other historical time period has
4 little or anything to do with the rates going
5 forward, and it's not part of Mr. Pradhan's
6 testimony.

7 MS. GRADY: I will object on the grounds
8 of relevance as well. I think that what she is
9 saying is relevance, but I think we have been patient
10 here.

11 MR. NOURSE: Your Honor, if anyone has
12 been patient, I think it's me. I think we have a
13 very reluctant witness, and I'm trying to probe his
14 testimony and back it up with any statements and are
15 very directed to his testimony statements in trying
16 to understand the basis, either the past, present, or
17 the future, and I can't get an answer.

18 MS. KINGERY: Mr. Pradhan's testimony
19 talks about today's market rates, nothing about 2005,
20 2006, or other history.

21 MR. NOURSE: I think I probably got the
22 best answer I'm going to get, your Honor. I'm going
23 to move on.

24 EXAMINER SEE: Thank you, Mr. Nourse.

25 Q. (By Mr. Nourse) Okay. Mr. Pradhan, in

1 your testimony, starting on page 5, going forward the
2 next couple of pages, you're discussing the details
3 of an auction format that would occur. Do you see
4 that testimony?

5 A. I'm looking at page 5. Is there a
6 specific line you're referring to?

7 Q. At the question that starts on line 9,
8 the answer that starts on line 12.

9 A. Uh-huh.

10 Q. Okay. And your proposition here is that
11 AEP Ohio, their proposal lacks detail, and I would
12 like to get into the detail now. Is that accurate?

13 A. Yes.

14 Q. And do you understand -- what's AEP's
15 proposal regarding developing auction format and
16 details? Do you understand what the proposal is?

17 A. Please explain that again one more time.

18 Q. What is AEP Ohio's proposal for
19 developing details of the auction?

20 A. I understood the part that they were
21 going to provide that in a separate filing.

22 Q. Okay. And at least under the company's
23 timeframe for an auction, there is sufficient time to
24 do that in a separate docket. Would you agree?

25 A. And then you say "company's timeframe."

1 Do you imply the two-and-a half years?

2 Q. Yes.

3 A. Yes.

4 Q. Okay.

5 A. I said they could do that in a month, so
6 I agree with that.

7 Q. Do you agree that in developing that, you
8 can format details that it would be productive to
9 have discussions among stakeholders to AEP Ohio prior
10 to arriving at a solution?

11 A. Yes.

12 Q. Okay. And that has not happened to date,
13 has it?

14 A. Yes.

15 Q. It has not happened to date, correct?

16 A. Yes. Had they included documents, rules
17 and master supply agreements consistent with FE or
18 DE-Ohio has done, this could be the starting of that
19 sharing information with the stakeholders.

20 Q. Okay. And speaking of FE and DEO, you're
21 not -- you're not agreeing with what's happened so
22 far with those companies' auctions, are you?

23 A. Can you please elaborate on what "agree"
24 means?

25 Q. You're not okay with the auction format

1 that's been used but DEO and FirstEnergy to date, are
2 you?

3 A. No. I'm okay. I'm, in fact, happy with
4 their auction formats. I suggested modifications to
5 make them even better.

6 Q. Okay. So even if AEP Ohio used precisely
7 what was done in the past, you still wouldn't be
8 satisfied according to your recommendations in your
9 testimony, correct?

10 A. I'll be happy if AEP Ohio auctions
11 100 percent of their SSO load as soon as possible.
12 I'll be really happy, more happier if they make
13 modifications to the format, start sharing data on a
14 consistent basis and take a leadership role in this.
15 They can actually be leaders on the stage and then
16 FE, DE-Ohio, and maybe DP&L can follow course.

17 Q. And did -- were you involved with the
18 process involving FirstEnergy and DEO on behalf of
19 DECAM?

20 A. I was not.

21 Q. So was one of your predecessors involved
22 or somebody else at DECAM was involved?

23 A. I don't think so.

24 Q. Okay. So are you saying that DECAM was
25 not involved or represented in the auction process?

1 A. Correct.

2 Q. Okay. Did DECAM agree to those -- the
3 auction process developed in those cases?

4 A. DECAM participated in those auctions.

5 Q. Okay. Let's talk about your recommended
6 modifications to what's been done in the past with
7 FirstEnergy and DEO. One recommendation is that you
8 would like to exclude renewable energy credits from
9 the auction product; is that right?

10 A. Which page are you on, sir?

11 Q. I'm looking at page 7. Do you recall
12 that testimony?

13 A. Page 7, line 5? That paragraph?

14 Q. Uh-huh.

15 A. I'm saying include RECs in the auction
16 process.

17 Q. Yes. And the practice in the past has
18 been to exclude RECs from the auction product,
19 correct?

20 A. RECs have not been included in the
21 auctions for either FE or DEO, correct.

22 Q. Okay. So let me talk -- let me talk to
23 you about your second modification from the prior
24 procedure that's been used and that is starting at
25 the bottom of page 6. You're recommending that

1 capacity be removed from the auction product; is that
2 correct?

3 A. Correct.

4 Q. So your auction that you would propose
5 here would be an energy-only auction; is that
6 correct?

7 A. No.

8 Q. Can you explain?

9 A. Energy RECs and other items that could be
10 termed bypassable. The only thing I'm saying here is
11 capacity -- price for capacity is determined by PJM
12 through their capacity auctions. It doesn't have to
13 be repriced in the load auctions. The utility can
14 procure capacity at the PJM minimum price and keep
15 out of the other auctions.

16 Q. Let's talk about how it works today or
17 the DEO and FirstEnergy auctions. Does a bidding
18 supplier that bids in those auctions, they are
19 bidding for a slice-of-system, correct?

20 A. They are bidding for tranches which
21 tabulates into slice-of-system and that's what you
22 referred to.

23 Q. Okay. And so that -- that includes the
24 subset of the total peak demand as relates to
25 capacity?

1 A. There is capacity obligation associated
2 with the lower load that is included with that load
3 obligation.

4 Q. Okay. So there's -- so there's some risk
5 that a supplier that's successfully bids in that
6 auction and wins a tranche, they've got risk
7 associated with the capacity level that they have to
8 support that tranche with during the period --
9 delivery period, correct?

10 A. Yes, but I'm going to -- I want to get
11 more into explaining the risk piece. The capacity
12 prices are already determined by PJM. By coupling it
13 with energy and because the load auction clears in
14 the dollars per megawatt-hour currency and the
15 megawatt-hours in an energy unit, the risk comes into
16 play.

17 Some participants could charge a risk
18 premium for making it into that currency and that's
19 the reason why I'm recommending that capacity -- the
20 price for which resulted in the capacity currency
21 should be charged to each load based on their load
22 obligation which is known to the utility and not try
23 to have it bid into the lower auction.

24 Q. Okay. Well, isn't that risk associated
25 with the actual capacity factors of customers that

1 happen to shop or don't shop during period -- the
2 delivery period?

3 A. Can you please elaborate on your
4 question?

5 Q. The risk that we're talking about of the
6 load following characteristic of a tranche that --
7 how much that contrasts to the peak demand and how
8 much capacity would need to be purchased to support
9 that, doesn't that depend on the load factors and the
10 load characteristics of all the customers that are in
11 the pool of nonshopping customers served during the
12 delivery period? Do you agree?

13 A. Are you asking -- again, I don't
14 understand your question. Are you asking does
15 shopping them back increase the risk associated with
16 the capacity pricing in the auction? Is that the
17 question you're asking?

18 Q. Yes. You stated, a couple of minutes
19 ago, that the utility knows the load data. And what
20 I'm asking you is at the time the auction is done for
21 a future delivery period, does anyone know what the
22 nonshopping load characteristics will be during the
23 delivery period?

24 A. They can change.

25 Q. Okay. And so that amounts to a risk that

1 a winning tranche, winning supplier, undertakes as
2 part of participating in the auction, does it not?

3 A. Correct. I'm saying that the utility can
4 mitigate that, almost eliminate that risk by keeping
5 capacity separate from the load auction. That's my
6 recommendation.

7 Q. So you would like to transfer that risk
8 from the winning supplier to the EDU; is that what
9 you're saying?

10 A. No. I'm just saying that by including it
11 in the load auction, which is expressed in the energy
12 currency, an additional risk is cleared. They
13 could -- they would eliminate that risk that they are
14 creating which happens by blending it with energy and
15 expressing capacity price and energy currency. PJM
16 determines the capacity pricing in the capacity
17 currency.

18 The utility knows the obligation of each
19 of its customers in the capacity currency, and they
20 could just pass on that price by keeping it into a
21 capacity mechanism without blending it with the
22 energy. That's the recommendation I'm making.

23 Q. Well, are you saying the price for
24 capacity is known in advance of the period?

25 A. Correct. PJM conducts its auctions for

1 capacity three years forward.

2 Q. And is that the only auction that affects
3 the price?

4 A. They conduct subsequent auctions,
5 incremental auctions, to determine the final zonal
6 price which is the capacity price.

7 Q. And is it always the case that at the
8 time of the auction that the final price would be
9 known?

10 A. Which auction are you referring to?

11 Q. SSO auctions like we're -- our entire
12 conversation is related to?

13 A. So you would not know the final zonal
14 clearing price for capacity at the time of the load
15 auction if, based on the auction or increment
16 auctions, all of them have not happened prior to the
17 SSO auction happening.

18 Q. And under your recollection we're talking
19 about a time period here between 2012 and 2015,
20 correct?

21 A. Correct.

22 Q. And during that period of time, AEP Ohio
23 is an FRR entity, correct?

24 A. To the best of my knowledge.

25 Q. And do you understand what an FRR entity

1 is?

2 A. At a high level.

3 Q. What's your understanding?

4 A. FRR entity?

5 Q. Yes.

6 A. It's a fixed resource requirement entity.

7 Q. All right. So we've got the acronym.

8 What else do you know about FRR?

9 A. That AEP is responsible, as part of being
10 an FRR entity, to procure capacity to meet its load
11 obligations.

12 Q. Okay. Is an FRR entity able to purchase
13 and sell into the RPM market for capacity?

14 A. Subject to supply restrictions, yes.

15 Q. Okay. Do you know what those
16 restrictions are?

17 A. At a very high level, yes.

18 Q. Are you finished?

19 Is it possible -- would it be possible
20 for AEP Ohio, during the period in which it's an FRR
21 entity prior to 2015, to purchase capacity supporting
22 full SSO load out of the RPM market?

23 MS. KINGERY: Objection, your Honor.

24 This is beyond the scope of Mr. Pradhan's testimony.

25 He's not here as an FRR expert or PJM expert.

1 MR. NOURSE: Not at all, your Honor. I
2 am asking him how his recommendation would work.

3 EXAMINER SEE: The objection is
4 overruled.

5 You may answer the question, Mr. Pradhan.

6 THE WITNESS: Can the question please be
7 repeated?

8 EXAMINER SEE: Yes.

9 (Record read.)

10 A. I don't know all the nuisances under
11 which -- whether they will be able to purchase or
12 not.

13 Q. Okay. So you don't know if it's possible
14 or permissible under the RAA to implement your
15 recommendation?

16 A. No, I'm not saying that.

17 Q. You do know?

18 A. I do know that my recommendation can be
19 implemented, yes.

20 Q. So you're saying that an FRR entity can
21 purchase the entire -- AEP Ohio specifically is
22 permitted under the RAA to purchase its entire SSO
23 load capacity from the RPM market?

24 A. I'm not saying that. Again, a -- I would
25 think about it this way: AEP decided to be an FRR

1 entity. They would have enough capacity to take care
2 of their obligations. Otherwise, they would have
3 chosen to be a VRR entity. A VRR entity participates
4 in those auctions. An FRR entity does not choose to
5 participate in those auctions to buy capacity for the
6 load obligation because they have the capacity.

7 My recommendations are saying in the
8 capacity price, it's already being determined by an
9 auction mechanism by PJM. AEP can choose that price
10 and so can FE and so can DEO. I'm making a generic
11 comment they do not need to pass their capacity into
12 their SSO load auctions. That's the recommendation
13 I'm making.

14 Q. So even though AEP Ohio has already
15 committed capacity to the SSO load, they should go
16 ahead and procure from the RPM market; is that what
17 you're saying?

18 A. No, I'm not saying that. I'm saying they
19 have committed capacity and just use the price
20 signal, whatever price the Commission allows them to
21 charge, charge that price, and pass on to the
22 customers without passing it through the load auction
23 mechanism.

24 Q. Okay. Let's move on to page 9,
25 Mr. Pradhan.

1 A. So you are in agreement with saying my
2 recommendation can be implemented, correct?

3 Q. Good one.

4 Page 9, line 22, you say the RSR is
5 anti-competitive. Do you see that?

6 A. Page 9. Potentially.

7 Q. I don't see the word "potentially" in
8 there. What do you mean?

9 A. They are going to get subsidy from this
10 rider. They can use the subsidy in different ways to
11 drive out competition from the markets. That's what
12 I mean by potentially.

13 Q. Okay. Now, first of all, when you say
14 they are going to get a subsidy, you're referring to
15 the AEP Genco receiving RSR revenues; is that what
16 you're talking about?

17 A. Correct.

18 MS. KINGERY: Objection. Just for
19 purposes of clarity, Mr. Pradhan has not been here
20 throughout this entire proceeding, and I would like
21 to make sure he is understanding what you mean by AEP
22 Genco.

23 EXAMINER SEE: He's already answered the
24 question, Ms. Kingery. He said "correct."

25 Q. Okay. So, Mr. Pradhan, is it your

1 understanding that the AEP Genco would be supporting
2 the SSO load through provision of capacity and energy
3 during the period in which they would receive RSR
4 revenue?

5 A. Can you help me with the AEP Genco? I
6 already answered the question, but I was looking
7 at -- what's that question? I was thinking about the
8 Genco from a generic perspective. In light of what
9 Jeanne said, if you can help me with the
10 understanding of Genco.

11 Q. It's an affiliate that would end up with
12 the generation assets, AEP affiliate.

13 A. So your question --

14 MS. KINGERY: Objection.

15 A. -- I would like some clarification as to
16 whether the question is intended to refer only to the
17 time period after the assets have been transferred to
18 the Genco.

19 Q. Well, Mr. Pradhan, I'm going back to your
20 statement about when you said that the RSR would
21 potentially operate to be anti-competitive. That was
22 your testimony, correct?

23 A. Uh-huh.

24 Q. Okay. So during the period of time in
25 which you believe it would be anti-competitive, do

1 you understand that the AEP Genco would be providing
2 capacity and energy to support SSO?

3 A. I don't know.

4 Q. And do you know whether the -- same
5 generation assets that are supporting SSO during the
6 period prior to corporate separation would also be
7 used to support SSO during the period after corporate
8 separation?

9 A. I don't know.

10 Q. Do you agree that on day one of the ESP
11 term and lasting clear through the end of May in
12 2015, that AEP Ohio is obligated to provide standard
13 service offer load at the proposed price regardless
14 of what else happens during that period?

15 A. Can you please repeat your question? I
16 missed the first part of the question.

17 MR. NOURSE: Why don't you read it back.

18 (Record read.)

19 A. So when you say "day one," what do you
20 mean by that?

21 Q. First day of the ESP term.

22 A. Which would be sometime this year?

23 Q. I hope so.

24 A. Yes.

25 Q. Okay. Now, on page 10 you talk about

1 improper cross-subsidies in line 2. Do you see that?

2 A. Correct. Yes.

3 Q. Now, do you remember counsel informing
4 you that the RSR was unlawful? Is that what you're
5 saying here?

6 A. No.

7 Q. So do you remember counsel informing you
8 that the RSR was lawful?

9 MS. KINGERY: Objection.

10 MR. NOURSE: I'm asking what he is
11 stating here.

12 MS. KINGERY: Your honor, he's asking
13 what his counsel told him.

14 MR. NOURSE: That he is relaying in his
15 testimony, your Honor.

16 EXAMINER SEE: The objection is
17 sustained.

18 Rephrase, Mr. Nourse.

19 Q. Okay. Well, you just stated that your
20 counsel did not tell you that the RSR was unlawful.
21 Did I get that correct? You disagreed with me when I
22 asked you if your counsel advised you the RSR was
23 unlawful. Do you recall that?

24 A. I said no to your question when you said
25 if my counsel informed me that the RSR was unlawful.

1 Q. Okay. And you are stating in your
2 testimony that the Ohio law prohibits improper
3 cross-subsidies and as part of an answer when you are
4 dealing with your proposal to reject the RSR,
5 correct?

6 A. What I'm stating in an answer is that
7 giving generation subsidies can potentially be
8 anti-competitive or it can be used to drive out
9 competition from mechanisms such as the SSO load
10 auctions. And, on that same theme, my counsel
11 informed me that that would make those
12 cross-subsidies unlawful by Ohio law.

13 Q. Okay. Are you aware of the electric
14 security stability rider that DEO has approved?

15 MS. KINGERY: Again, I would object.
16 This witness is not here on behalf of Duke Energy
17 Ohio.

18 MS. WATTS: Your Honor, I would enter an
19 objection on behalf of Duke Energy Ohio as well.

20 MR. NOURSE: Well, your Honor, I'm trying
21 to understand how he's applying this concept, and I
22 believe he's familiar with and understands other
23 similar proposals that have already been adopted by
24 the Commission. I want to ask him about that.

25 EXAMINER SEE: And I'll allow it. The

1 objection is overruled.

2 A. It's my understanding of the ESSC that it
3 is for the generation resources and then the amount
4 paid to the generation company cannot be used by any
5 other affiliate for potentially subsidizing their
6 participation in off-sale auctions, so DECAM, we are
7 a completely different company from DE-Ohio and have
8 no access to the amount that DE-Ohio receives from
9 the ESSC rider and that is my understanding of it.

10 Q. So using your words in lines 22 and 23 at
11 page 9, is it your understanding that the ESSC --
12 effect of the ESSC is to finance generation
13 operations?

14 MS. KINGERY: Objection. Once again,
15 Mr. Nourse is asking for a legal conclusion. He is
16 asking this witness to make legal comparisons between
17 two riders that may or may not be similarly --
18 similar in effect or similar under the operation of
19 the law.

20 MR. NOURSE: Your Honor, my question is
21 very much a factual question and tied in with his
22 statement again probing his -- his assertion the RSR
23 is essentially unlawful and as compared to the
24 ESSC -- ESSC that he's also aware of.

25 MS. WATTS: Your Honor, if I may enter an

1 objection on behalf of Duke Energy Ohio, Mr. Pradhan
2 is not offered here to testify with respect to
3 anything relevant to Duke Energy Ohio, and I don't
4 think comparison of anything in Duke Energy Ohio's
5 EFP case is necessarily informative to anything that
6 goes on in the AEP case.

7 EXAMINER SEE: As to Ms. Kingery's
8 objection that this is a legal comparison, I think
9 we've established that this witness is not an
10 attorney, and the question did go to his
11 understanding. The witness has also said that he has
12 a general knowledge of at least Duke Energy's auction
13 process and, unless he indicates otherwise, I'm going
14 to allow the witness to answer the question. The
15 objection is overruled.

16 Do you need to have the question read
17 back, Mr. Pradhan?

18 THE WITNESS: That would be very nice.
19 Thank you.

20 (Record read.)

21 EXAMINER SEE: Mr. Nourse, I think that's
22 an incorrect reference in the question. You may want
23 to --

24 MR. NOURSE: I'm sorry. I didn't hear
25 you, your Honor. Do you want me to rephrase?

1 EXAMINER SEE: There is an incorrect
2 reference in the question, so I think you are going
3 to need to rephrase it.

4 Q. (By Mr. Nourse) Okay. Mr. Pradhan, is it
5 your understanding, and I'm looking at the language
6 you used in your testimony at the bottom of page 9
7 starting at line 22, that the effect of the ESSC is
8 to finance generation operations, including
9 prospective operation of a nonregulated affiliate,
10 through retail rates? Do you agree?

11 A. That -- that is what is in my testimony.

12 Q. I changed the "rider" in your testimony
13 to "ESSC."

14 A. So you're asking me a question the effect
15 of the ESSC rider to finance generation operations?

16 Q. Yes, sir.

17 A. From there all the way --

18 Q. Yes, sir, to the end of the sentence.

19 A. No.

20 Q. Why not?

21 A. I just already answered that question.

22 Q. Why do you disagree with the statement?
23 You said "no."

24 A. I answered it in the previous saying they
25 cannot use the amount that is given as part of the

1 ESSC to support any other affiliate.

2 Q. Okay. We'll leave it at that.

3 Now, would you agree that providing a
4 service below cost is a cross-subsidy?

5 A. Can you please elaborate on that?

6 Q. Do you understand my question?

7 A. I want to understand it better. When you
8 say "below cost," what does that mean?

9 Q. That means the rate being collected does
10 not cover the cost of providing service. In that
11 situation, is that fair to reference the situation as
12 you call it a cross-subsidy?

13 A. Again, you are taking me into difficult
14 terms, "cross-subsidies" and "below cost." I would
15 appreciate your definitions of the two before I would
16 give you my judgment on the comment.

17 Q. Okay. You use the term "cross-subsidies"
18 in your testimony, correct?

19 A. Correct.

20 Q. What do you mean by "cross-subsidy"?

21 A. That using the subsidies that were given
22 to the generation company for participating either in
23 the wholesale auctions or in the retail environment
24 to subsidize those operations.

25 Q. What do you mean by "subsidize"?

1 A. To get the benefits of using any of the
2 amount that was given to the Genco.

3 Q. And the specific concern you have in that
4 context is that the rate that would be offered in a
5 competitive market would be below cost?

6 A. And that's where I'm struggling because
7 everybody's definition of "cost" is different and
8 different types of costs can be included. I'm just
9 saying you are going to get a subsidy that is given
10 to one company, the Genco, and they can use some
11 amount of that, some or all amount -- all of the
12 amount that is given as a subsidy to the Genco to
13 offset the numbers that are being used in -- under
14 the operation.

15 Q. Okay. Do you believe CRES providers
16 should receive a subsidy in order to obtain capacity
17 resources below cost?

18 A. Can you please repeat your question?
19 CRES providers should --

20 Q. Should CRES providers receive a subsidy
21 in order to obtain below cost capacity resources from
22 AEP Ohio?

23 A. I don't understand the question.

24 Q. Okay. Mr. Pradhan, look at page 10, line
25 17 through 19, and you're making a statement here

1 that AEP Ohio and its affiliate can demand co-owners
2 reimburse them for investments. Do you see that?

3 A. Yes.

4 Q. Okay. And is that cost-pass through
5 provision a function of contracts that were entered
6 into by DECAM or its affiliates?

7 A. No. These are related to generation
8 assets in which AEP and Duke Energy Ohio and/or DECAM
9 are co-owners.

10 Q. All right. Don't they have contracts to
11 determine how investments are shared?

12 A. But I don't see the connection between
13 this and the CRES providers that you were talking
14 about.

15 Q. Well, I'm clarifying your statement in
16 your testimony, sir.

17 A. That statement is related to -- sorry.

18 Q. And your statement seems to be related to
19 AEP Ohio passing through investments to co-owners and
20 had a co-owner reference. Was that a reference to a
21 Duke affiliate?

22 A. The co-owner reference there are
23 jointly-owned generation assets and --

24 Q. Understood.

25 A. -- if one of the co-owners gets a subsidy

1 in the Genco business, all right, which is what AEP
2 is asking under this rider, they can afford to make
3 uneconomic decisions to enlist assets and force the
4 co-owners to follow suit.

5 Q. Okay.

6 A. That's what I'm referring to.

7 Q. Yes. Okay. Is it true today that AEP
8 Ohio can make an investment that Duke disagrees with
9 and pass it through to co-owners including Duke?

10 A. Can you please repeat your question?

11 Q. Is that true today that AEP Ohio can make
12 an investment that Duke disagrees with and that AEP
13 Ohio can pass it through to Duke under existing
14 contracts?

15 A. Again, there are conditions in the
16 operating agreements and ownership agreements and,
17 subject to those conditions, such an investment can
18 happen. But whether Duke agrees with it or not, I
19 think that is not the point I'm making here.

20 The point is if they get a subsidy, they
21 can make uneconomic investments creating even bigger
22 reasons for Duke or other owners that did not get
23 said subsidies to disagree with them.

24 MR. NOURSE: Okay. That's all I have,
25 your Honor. Thank you.

1 EXAMINER SEE: Mr. Margard?

2 MR. MARGARD: No questions. Thank you,
3 your Honor.

4 EXAMINER SEE: Redirect, Ms. Kingery?

5 MS. KINGERY: Can I have about two
6 minutes?

7 EXAMINER SEE: Yes.

8 MS. KINGERY: We'll be fast.

9 (Recess taken.)

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

12 Redirect, Ms. Kingery.

13 MS. KINGERY: Yes, just two questions.

14 - - -

15 REDIRECT EXAMINATION

16 By Ms. Kingery:

17 Q. Mr. Pradhan, do you recall, under
18 questions by Mr. Nourse, you had a discussion early
19 on about whether the auction that you recommend would
20 be for all of the load or only shopped load?

21 A. Yes.

22 Q. And I believe you stated to Mr. Nourse
23 that it was your recommendation that the auction
24 covered all of the load; is that correct?

25 A. Correct.

1 Q. Would you explain that?

2 A. So the auction happens on the entire
3 system load and then, after the auction is done, then
4 people can choose to shop away from the utility or
5 the auction clearing price and that creates the two
6 buckets of shop versus non-shop. And then the SSO
7 load pricing applies to people who are in the
8 unshopped load category.

9 Q. Thank you. And could you also recall
10 with -- under questioning with Mr. Nourse, you had a
11 discussion about mitigation of risk and whether
12 capacity should be in or out of the auction?

13 A. Yes.

14 Q. And you talked with Mr. Nourse about the
15 fact that the EDU could mitigate risk if capacity
16 were not in the auction; is that correct?

17 A. Correct.

18 Q. Would you explain how the situation would
19 be different with respect to mitigation of risk if
20 capacity remained in the auction?

21 A. So that happens in the situation with FE
22 as well as with DE-Ohio and in the suppliers who
23 participate in the auction can choose to mitigate
24 that risk by charging small risk premium.

25 Q. So if the capacity is in the auction,

1 then that risk premium theoretically would get passed
2 on to the ultimate customers; is that correct?

3 A. Correct. And that's the reason why my
4 recommendation is to keep capacity out of the load
5 auction until you can mitigate that risk, and it
6 tends to be a win-win situation for both the
7 customers as well as for the auction participants.

8 MS. KINGERY: Thank you very much.

9 No further questions.

10 EXAMINER SEE: Recross, Ms. Hand?

11 MS. HAND: No questions, your Honor.

12 EXAMINER SEE: Ms. Kyler?

13 MS. KYLER: No questions.

14 EXAMINER SEE: Ms. Watts?

15 MS. WATTS: No questions, your Honor.

16 EXAMINER SEE: Mr. Olikier?

17 MR. OLIKER: No questions, your Honor.

18 EXAMINER SEE: What did you say,
19 Mr. Olikier?

20 MR. OLIKER: No questions, your Honor.

21 EXAMINER SEE: Ms. McBride?

22 MS. MCBRIDE: No questions, your Honor.

23 EXAMINER SEE: Mr. -- Ms. Grady?

24 MS. GRADY: No questions, your Honor.

25 EXAMINER SEE: Mr. Nourse?

1 MR. NOURSE: Thank you, your Honor.

2 - - -

3 RECROSS-EXAMINATION

4 By Mr. Nourse:

5 Q. Mr. Pradhan, regarding the first item
6 your counsel covered with you on redirect, are you
7 saying that the auction would occur for 100 percent
8 of the load and then, following the auction,
9 customers would have to opt out of the auction in
10 order to shop with another CRES provider?

11 A. It's interesting the way you ask the
12 question saying following the auction they opt out to
13 shop away from the SSO load. They could have shopped
14 away from the SSO load even before.

15 I was trying to make a differentiation.
16 The total load or full load is made up of the
17 unshopped category and the shopped category.

18 Q. So you are saying that customers who have
19 already chosen to shop and selected a CRES provider,
20 would still be served under an SSO auction in your
21 proposal, correct?

22 A. No. What I'm saying is that customers
23 who have already shopped away with CRES providers can
24 return back to the unshopped or the SSO load bucket
25 and then the auction participants will have to serve

1 them and return back to the unshopped category.

2 Q. Do they get a free pass out of their
3 contract with the CRES providers in order to come
4 back to the SSO auction result?

5 A. I don't know that that's a function of
6 the contract they signed with their CRES provider.

7 Q. So you really haven't thought through the
8 details associated with that at all, have you?

9 A. I did not say that. I said it depends on
10 the specific contract that a customer has with their
11 CRES provider.

12 Q. And there's nothing in your testimony
13 that explains any of this, is there?

14 MS. KINGERY: Objection. Mr. Nourse is
15 simply argumentative with the witness at this point.

16 MR. NOURSE: Well, your Honor, there is a
17 bit of, you know, a bombshell on redirect and a
18 totally new concept. It's not explained in
19 testimony. There's lots of questions that one would
20 have about that kind of recommendation and so I just
21 asked him to tell me if I missed somewhere in his
22 testimony.

23 EXAMINER SEE: Given -- I'm going to
24 allow it.

25 You can answer the question, Mr. Pradhan.

1 THE WITNESS: Can you please repeat the
2 question or have it read?

3 EXAMINER SEE: We'll read it back for
4 you.

5 MR. NOURSE: I can rephrase, your Honor.

6 Q. (By Mr. Nourse) Can you point to me where
7 in your testimony you talk about this process of
8 taking shopping customers into an SSO auction? Where
9 is that in your testimony?

10 A. That's not stated in the testimony. You
11 asked the question and that's the clarification of
12 it.

13 Q. Thank you.

14 Now, regarding your second area your
15 counsel covered during redirect, you stated that --
16 this is consistent with what I asked you earlier,
17 there is a risk premium in the price, in the auction
18 clearing price, when capacity is included in the
19 product, correct?

20 A. Participants -- it's logical participants
21 in the auction should include a risk premium for the
22 load auction for including capacity in the mix,
23 correct?

24 Q. And instead of passing that through to
25 the ultimate customer like you said in your redirect

1 examination, your proposal would be to have that risk
2 reside with the EDU, correct?

3 A. No. What I said was exclude capacity
4 from the mix of the SSO load auction and then there
5 would not be that risk premium. There would be no
6 need for that risk premium. I said the utility can
7 mitigate that risk by excluding capacity from the
8 auction mix.

9 Q. So the risk disappears?

10 A. The risk appears because the utility is
11 including capacity in the mix after the SSO load
12 obligations.

13 MR. NOURSE: Thanks. That's all I have.

14 EXAMINER SEE: Mr. Margard?

15 MR. MARGARD: No questions, thank you.

16 - - -

17 EXAMINATION

18 By Examiner See:

19 Q. Mr. Pradhan, on page 4, where you discuss
20 the auction and the customers that could be the
21 ultimate recipients of the auction, I want to make
22 sure I understand you clearly. Your -- are you --
23 are you proposing that AEP conduct -- participate in
24 an auction for the standard service offer load in
25 recognizing that a customer who previously shopped

1 could come back at any time?

2 A. Can you please ask your question one more
3 time?

4 Q. Yes. Let me try it this way: You
5 recommend that AEP conduct an auction for 100 percent
6 of its standard service offer load, correct?

7 A. Yes. And that's true with all the
8 utilities. We conduct the auction for 100 percent of
9 the load.

10 Q. That would not include shopping
11 customers, correct?

12 A. When a utility conducts an auction --

13 Q. They're only having in an auction for
14 their nonshopping load customers served by AEP Ohio,
15 not those served by a CRES provider?

16 A. So when a utility conducts -- AEP will
17 conduct an auction, it will be for the unshopped
18 customers, but the people who have shopped and gone
19 to the CRES providers, they can come back into the
20 unshopped bucket if they choose to. Does that make
21 sense?

22 Q. Okay. Yes. You were not intending to
23 include in the competitive auction recommendation,
24 that you discuss on page 4, shopping and nonshopping
25 customers?

1 A. The auction is conducted for everyone,
2 the people who have shopped have chosen to stay away
3 from the bucket. The auction has been conducted, and
4 they can come back at any point when they want.

5 Q. And those -- when you include shopping
6 customers, you're only acknowledging that they have
7 the right to come back --

8 A. Correct.

9 Q. -- once their CRES contract is ended?

10 A. Or they can choose to terminate it.

11 Q. And pay the penalty if there is one.

12 A. Pay the penalty, correct.

13 EXAMINER SEE: All right. Thank you.

14 Thank you, Mr. Pradhan.

15 Ms. Kingery?

16 MS. KINGERY: Thank you, your Honor. I
17 would move for the admission of DECAM Exhibit 101.

18 EXAMINER SEE: Are there any objections
19 to the admission of DECAM Exhibit 101?

20 MR. NOURSE: No.

21 EXAMINER SEE: DECAM Exhibit 101 is
22 admitted into the record.

23 (EXHIBIT ADMITTED INTO EVIDENCE.)

24 EXAMINER SEE: Thank you, Mr. Pradhan.

25 You are dismissed.

1 THE WITNESS: Thank you.

2 EXAMINER TAUBER: Ms. Grady?

3 MS. GRADY: Thank you, your Honor. OCC
4 calls Mr. Duann to the stand.

5 - - -

6 DANIEL J. DUANN, PH.D.
7 being first duly sworn, as prescribed by law, was
8 examined and testified as follows:

9 DIRECT EXAMINATION

10 By Ms. Grady:

11 Q. Good afternoon, Mr. Duann.

12 A. Good afternoon.

13 Q. Do you have --

14 MS. GRADY: At this time, your Honor, I
15 would like marked for identification purposes as OCC
16 Exhibit No. 111 the direct testimony of Daniel J.
17 Duann.

18 EXAMINER TAUBER: It shall be so marked.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 MS. GRADY: Thank you, your Honor.

21 Q. Mr. Duann, do you have in front of you
22 what has been preliminarily marked as OCC Exhibit
23 111?

24 A. Yes.

25 Q. Can you identify that, please?

1 A. Direct testimony of Daniel J Duann.

2 Q. Mr. Duann, do you have any additions or
3 corrections or deletions to your testimony?

4 A. No.

5 Q. Was this testimony prepared by you or
6 under your direct supervision and control?

7 A. Yes.

8 Q. If I were to pose the same questions that
9 are posed in OCC Exhibit No. 111, would your answers
10 be the same?

11 A. Yes.

12 MS. GRADY: Your Honors, at this time I
13 move for the admission of OCC Exhibit No. 111,
14 subject to cross-examination.

15 EXAMINER TAUBER: Before we begin
16 cross-examination, there is an outgoing motion to
17 strike Mr. Duann's testimony. And we are going to
18 grant Ohio Power's motion to strike in part and deny
19 in part.

20 Before we get into that, I would just
21 like to explain overall, just so the record is clear,
22 in the Commission's opinion and order -- actually, in
23 the Commission entry from March 7, 2012, it was
24 established that all of the cases from the
25 stipulation proceeding would be separated out and

1 that includes the deferred fuel cases in Case Nos.
2 11-4920 and 11-4921. And this was also further
3 addressed in the April entry addressing Ohio Power
4 Company's application for rehearing.

5 So, therefore, we will permit issues
6 relating to the PIRR as proposed in this modified
7 application which deals with the delay of the
8 implementation of the PIRR.

9 Otherwise, any arguments will be
10 addressed accordingly in the docket for 11-4920 and
11 11-4921.

12 So, with that, we will strike question
13 18, beginning on page 22; question 19 on page 23 --

14 MS. GRADY: Your Honor, could you slow
15 down? I'm not quite there yet.

16 EXAMINER TAUBER: Okay. Question 18,
17 beginning on line 22 of page 22; question 19 which
18 carries over to page 24; question 20; and question
19 21.

20 MR. ALAMI: Your Honor, the company's
21 motion to strike also included questions 22, 23, and
22 24.

23 EXAMINER TAUBER: And we're denying that
24 part of the motion to strike.

25 MR. ALAMI: Okay.

1 EXAMINER TAUBER: We are only granting
2 the motion to strike for the questions we identified.
3 This is questions 18, 19, 20, 21, as well as page 5,
4 lines 19 through lines 21. It's lines 19 through 21
5 on page 5 go to issues that have already been
6 established in previous Commission proceedings.

7 All right. We'll begin cross-examination
8 now at this point in time.

9 Ms. Hand?

10 MS. HAND: No questions, your Honor.
11 Thank you.

12 EXAMINER TAUBER: Ms. Kyler?

13 MS. KYLER: No questions.

14 EXAMINER TAUBER: Ms. Kingery?

15 MS. KINGERY: No questions, your Honor.

16 EXAMINER TAUBER: Mr. Darr?

17 MR. DARR: No, thank you, your Honor.

18 EXAMINER TAUBER: Ms. McBride?

19 MS. MCBRIDE: No questions, your Honor.

20 EXAMINER TAUBER: Mr. Alami?

21 MR. ALAMI: Yes. Thank you, your Honor.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Alami:

25 Q. Good afternoon, Mr. Duann.

1 A. Good afternoon.

2 Q. As part of your representation on the
3 RSR, you state on page 5, lines 2 to 3, that "there
4 is no legal basis for such a charge and that the
5 company has not shown the RSR charge benefits its
6 customers"; is that correct?

7 A. Yes.

8 Q. You state that with respect to the
9 portion that there is no legal basis for the RSR that
10 that was upon advice of your counsel; is that
11 correct?

12 A. And also my experience as a regulatory
13 economist.

14 Q. But you admit that you are not an
15 attorney -- you are not an attorney and that you are
16 not offering legal advice as part of your testimony
17 in this case?

18 A. I'm not an attorney and not offering
19 legal advice in my testimony.

20 Q. Is it your testimony, Mr. Duann, that
21 anything in an ESP must be enabled by a specific line
22 of the state policy section, Chapter 4928?

23 MS. GRADY: Objection.

24 EXAMINER TAUBER: On what grounds?

25 MS. GRADY: It calls for a legal -- legal

1 opinion. He's not a lawyer. He said he's not a
2 lawyer.

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

4 Q. In your opinion as a layperson, is it
5 your testimony that every component of an ESP plan
6 must be enabled by a specific state policy?

7 A. I think the utility can propose whatever
8 provision in the ESP whatever they want. But when
9 the Commission is making the suggestion, they need to
10 follow statute and the regulatory principles.

11 Q. When you say that the Commission needs to
12 follow the statute and regulatory principles, is it
13 your intention or is it your testimony today that the
14 Commission is limited in considering an ESP in
15 considering only 4928.143 or may the Commission
16 consider all relevant statutory authority in making
17 its decisions?

18 MS. GRADY: Objection.

19 Q. Again, with the clarification, Mr. Duann,
20 in your opinion as a lay witness.

21 A. As I say, you know, the Commission can
22 make any decision. They have to follow the statute
23 and the sound legal regulatory principles, and also
24 the precedent established before. And after saying
25 that, I say the Commission, they certainly have to

1 look at the statute in making that decision.

2 Q. If I can turn your attention to page 12,
3 lines 1 through 4. You state there, beginning on
4 line 1, however, I could not find any provisions
5 identified in that subsection that would allow the
6 Company to create the rider RSR. I'm paraphrasing,
7 but is that an accurate representation of your
8 testimony there?

9 A. Yes. I could not find any provision.

10 Q. And when you say there on line 2,
11 "provisions identified in that subsection," you are
12 referring to the subsection that you indicate on line
13 1 of your testimony there on page 12 of 4928.143
14 (B) (2) (d)?

15 A. That's correct.

16 Q. And, again, your testimony is that the
17 Commission is not limited to looking at just that
18 particular subsection in making its decisions on an
19 ESP plan; is that correct?

20 A. Actually, I think we should come back to
21 page 11, and the question 10 and answer 10 is we --
22 is we ask AEP Ohio to provide us a legal basis how it
23 can propose a retail stability rider. And AEP Ohio
24 provided us a retail stability rider can be based on
25 Ohio Revised Code 4928.143(B) (2) (d) and -- and I look

1 at that specific provision and I do not think -- as a
2 layperson, I do not believe the retail stability
3 rider fit that particular provision -- particular
4 statute.

5 Q. I understand, but I believe my original
6 question was whether or not it's your testimony that
7 the Commission is limited to only considering that
8 particular subsection in making its decisions on the
9 proposed ESP plan.

10 A. I think that provision is provided by the
11 companies. The company uses that as a basis to
12 propose a retail stability rider. And I'm just
13 saying that, you know, I have a different opinion,
14 that I find that provision does not give the company
15 the right to propose a retail stability rider.

16 Q. Can we turn to attachment DJD-C for a
17 moment, please.

18 A. DJD-B? B?

19 Q. DJD-C.

20 A. C, okay. Yes.

21 Q. And is this the interrogatory that -- and
22 response that you are referring to?

23 A. Yes.

24 Q. And in the response is the company
25 limiting itself to that particular subsection or is

1 the company generally saying that the Commission may
2 rely upon any statute to justify its decisions?

3 A. Well, I think that's the company's
4 response, yes.

5 Q. But their response there, as you have
6 just read it, isn't intended to limit consideration
7 of the RSR rider to the particular subsection of
8 4928.143 that we're discussing currently; is that
9 correct?

10 A. Can you repeat the question?

11 MR. ALAMI: Can I have the question
12 reread, please?

13 EXAMINER TAUBER: Sure.

14 (Record read.)

15 A. I think in the discovery response, the
16 company say as an example, used that as an example.

17 Q. I'm just continuing on that sentence that
18 you're reading and not intending it to be an
19 exhaustive list; is that correct?

20 A. Right. That's in the response.

21 Q. Did you, Mr. Duann, look at all the state
22 policies when making your recommendation to the
23 Commission that it should reject the RSR?

24 A. Can you be specific? What do you mean by
25 all state policies? You know, I cannot answer that

1 question.

2 Q. In particular, I'm referring to the state
3 policies enumerated in Revised Code 4928.02.

4 A. I did look at the state electric service
5 policy, yes.

6 Q. Going back to your statement on page 5,
7 lines 2 to 3, it is your testimony that the company
8 has not shown a benefit for the RSR charge; is that
9 correct?

10 A. I think what I say here, the company has
11 not shown the RSR charge benefit its customer.

12 Q. You're right, that's correct. I
13 apologize.

14 But would you agree with that the
15 company's proposal to offer capacity at a price less
16 than its fully embedded costs could benefit some
17 customers?

18 A. No.

19 Q. And why is that?

20 A. I think on page 15 of my testimony
21 that -- that's the answer to question 12, and at line
22 1, I say I do not find it a so-called benefit to AEP
23 Ohio's customers. First, I do not consider the
24 offering of a capacity price to a CRES provider below
25 AEP Ohio's own embedded capacity cost as a discount

1 or a benefit to its customers.

2 Q. And when you say "AEP Ohio's customers,"
3 who are you referring to? I mean, are you referring
4 to shopping customers or nonshopping customers?

5 A. If we are talking about capacity price
6 to -- price to CRES -- CRES providers, that means the
7 shopping customer.

8 Q. Are you aware that, as part of the
9 company's ESP plan, it's proposing to auction off
10 100 percent of its SSO load in an energy auction for
11 delivery on January 1, 2015?

12 A. That's correct.

13 Q. And I believe in your testimony you
14 indicate that AEP Ohio's SSO customers are currently
15 paying \$355 per megawatt-day for capacity?

16 MS. GRADY: Can I have a reference to
17 that, Counsel?

18 MR. ALAMI: On page 17, at lines 14
19 through 16.

20 Q. Is it correct, Mr. Duann, that you state
21 the SSO customers are already paying the fully
22 embedded capacity costs of 355 per megawatt-day?

23 A. Right. I think that's, you know, that's
24 provided by AEP witness Mr. Allen in his testimony.

25 Q. But is that also your understanding?

1 A. I looked at that in his testimony. I
2 understand how he calculated that.

3 Q. And is it also your understanding,
4 Mr. Duann, some of the AEP SSO customers would
5 participate in the January 1, 2015, auction, thereby
6 receiving capacity at less than \$355 per
7 megawatt-day?

8 A. Can you repeat the question, please?

9 MR. ALAMI: Can I have the question
10 reread, please?

11 EXAMINER TAUBER: Yes.

12 (Record read.)

13 A. I have no basis to -- to say the SSO
14 customer will participate or will not.

15 Q. On page 3, in response to question 4 of
16 your testimony, you indicate you reviewed the
17 application of the modified ESP and its attachments,
18 the supporting testimonies, the workpapers related to
19 the supported testimonies, and related discovery
20 related to the modified ESP; is that correct?

21 A. Yes.

22 Q. Would that --

23 A. Yes.

24 Q. Thank you. Would that review also
25 include a review of Company Witness Allen's testimony

1 and the attachments attached thereto?

2 A. I did review his testimony -- testimony
3 and attachment, yes.

4 Q. And did you review specifically William
5 A. Allen Attachment 4?

6 A. I don't remember exactly what -- what
7 attachments.

8 MR. ALAMI: May I approach, your Honor?

9 EXAMINER TAUBER: You may.

10 Q. Mr. Duann, can you identify the document
11 I just placed in front of you, please?

12 A. The document is Exhibit WAA-4, page 2 of
13 2.

14 Q. And if you look at the fourth box there
15 on page 2 of 2 of WAA-4, the box titled "SSO load
16 Served by Auction at \$255 Per megawatt-day." Do you
17 see that?

18 A. Yes.

19 Q. And do you see an indication there that,
20 in fact, there would be AEP Ohio's SSO customers
21 participating in the auction and thereby receiving
22 capacity at \$255 per megawatt-day?

23 A. I think that's Mr. Allen's assumption,
24 and I did not make that assumption.

25 Q. But do you -- would you admit that is the

1 assumption that Mr. Allen has made that would, in
2 fact, be SSO customers participating in the January,
3 2015, auction?

4 A. I think I already answered the question.

5 Q. Did you -- is it your testimony that
6 there would be no AEP SSO customers participating in
7 the January, 2015, auction?

8 A. I already answered the question.

9 Q. I don't believe you did. I believe I'm
10 asking a new question and I'll rephrase.

11 Is it your understanding whether AEP
12 Ohio's SSO customers would participate in the
13 January, 2015, auction?

14 MS. GRADY: Objection.

15 EXAMINER TAUBER: On what grounds?

16 MS. GRADY: Asked and answered.

17 EXAMINER TAUBER: I don't believe
18 Mr. Duann has answered the question.

19 If you could answer the question,
20 Mr. Duann.

21 THE WITNESS: I believe I have answered
22 the question.

23 EXAMINER TAUBER: The Bench is
24 instructing you to answer the question. If you need
25 it repeated, we can reread it.

1 THE WITNESS: Can I have the question
2 read back?

3 EXAMINER TAUBER: Sure.

4 (Record read.)

5 A. Yes. As I stated earlier, right now at
6 this moment, I have no basis to know whether the
7 AEP's current SSO customer will participate in an
8 auction to be held in 2014 or '15.

9 Q. Excuse me. Does that also mean,
10 Mr. Duann, you have no basis to question Mr. Allen's
11 projection?

12 A. I don't know what you're referring about
13 the projection, what you are referring to.

14 Q. I'm referring back to WAA-4, page 2 of 2,
15 the projection there of SSO load.

16 A. Yes. As I already said, that's
17 Mr. Allen's assumption.

18 Q. Understood; and I'm asking if whether or
19 not you have any basis to have a conclusion as to
20 whether or not that assumption is correct or not.

21 A. I have no basis.

22 Q. Thank you.

23 And you also state that freezing base
24 generation rates, as the company has proposed as part
25 of its plan, you don't consider that a benefit; is

1 that correct?

2 A. That's correct.

3 Q. Are environmental costs to your -- in
4 your understanding, included as part of a base
5 generation rate?

6 A. In the proposed ESP, I believe AEP Ohio
7 includes the current level of environmental carrying
8 charge in the base generation rate.

9 Q. So that's a "yes"?

10 A. That's what I say.

11 Q. Would you agree that in proposing to
12 freeze base generation rates and effectively shift
13 the risk of environmental compliance costs in the
14 future to the company, customers realize a benefit?

15 A. No.

16 Q. If a policy goal of the state were to
17 promote competitive electricity markets to provide
18 customers with more choices in electric suppliers,
19 would you agree that the company's plan to reach
20 competitive market in two-and-a-half years furthers
21 that goal?

22 MS. GRADY: May I have that question
23 reread, please?

24 EXAMINER TAUBER: Sure.

25 (Record read.)

1 Q. I'm just asking you to assume -- you said
2 you reviewed the policy goals of Ohio in making your
3 recommendations in this case; is that correct?

4 A. Yes.

5 Q. And if a policy goal of the state were to
6 promote competition in the electric -- electricity
7 markets, would the company's plan further that goal
8 if it achieves the transition to competition
9 sooner -- sooner rather than later?

10 A. No.

11 Q. And why is that?

12 A. The company can propose ESP that will go
13 to market right now. So when you use the word
14 "sooner rather than later," I mean, compared to what?
15 You need to have a baseline in order to compare.

16 Q. Well, if we could compare it to an MRO,
17 are you familiar with the -- with an MRO auction
18 under 4928.142?

19 A. Yes.

20 Q. And what's your understanding of that?

21 A. MRO is alternative way of setting SSO
22 supply and price.

23 Q. And how long would it take the company
24 pursuing an MRO option to get to market?

25 A. I think it depends. For example, in

1 the -- because I think the Ohio MRO statute has --
2 has two parts. I think for the regular part of MRO
3 you just conduct it right away and 100 percent of
4 that bid price is what the SSO price is.

5 Then the legislature, they also put into
6 the statute for the first MRO that for certain
7 utilities that own generation capacity at a certain
8 date and under that transitional MRO, this specific
9 blending period required under that first MRO.

10 Q. And are you aware of how long that
11 blending period or transitional period, as you have
12 just characterized it, lasts?

13 A. Five years.

14 Q. Are you aware how long the company's
15 proposal to transition to competitive market is under
16 its current ESP plan?

17 A. Do you mean under the proposed ESP?

18 Q. Yes.

19 A. Under the proposed ESP, I believe it will
20 go to market on June 1, 2015.

21 Q. Is there a benefit to AEP Ohio's SSO
22 customers to have their load in the territory based
23 on a competitive bid?

24 A. Can I have the question read back,
25 please?

1 Q. I can rephrase because I don't believe it
2 was -- it made any sense.

3 Is there a benefit to customers to have
4 the SSO in the AEP Ohio's territory based on a
5 competitive bid?

6 A. I'm sorry. I still don't understand the
7 question.

8 Q. I'll move on.

9 On page 9 of your testimony, at lines 2
10 through 4, you state the RSR to be collected by the
11 Commission may turn out to be higher depending on the
12 amount of customer shopping; is that correct?

13 A. Yes.

14 Q. Is it also true that the level of RSR may
15 turn out to be lower if the opposite scenario than
16 what you stated there on lines 2 and 4 occurs?

17 A. Yes.

18 Q. And it's your understanding that
19 customers would only be charged the actual amount
20 required to meet the revenue target under the RSR; is
21 that correct?

22 A. To meet the 929 million per year nonfuel
23 generation requirement and to meet that, the RSR
24 there could change, yes.

25 Q. Could be higher or it could be lower in

1 any given year.

2 A. Could be higher and lower than what the
3 company estimates.

4 Q. On page 10 of your testimony, lines 6
5 through 10, here is where you talk about the
6 implications of the RSR; is that correct?

7 A. Yes.

8 Q. And here you're saying that under the
9 RSR, you believe that customers are guaranteeing that
10 AEP Ohio will recover a fixed level of nonfuel
11 generation revenue and that this guarantee will lead
12 to financial uncertainty for customers.

13 A. Yes.

14 Q. It's your understanding that, as proposed
15 by the company, nonfuel generation revenues would be
16 fixed as part of its modified ESP plan?

17 A. No. The ISR revenue would not be fixed.

18 Q. I understand that. I'm referring to the
19 total nonfuel generation revenue.

20 A. Each year would be -- would be targeted
21 929 million, but because, you know, when they set the
22 RSR rate, and depends on actual load used, there
23 could be variation but it will eventually trueup.

24 Q. In case 10-929 fixed over the period of
25 the ESP for each year?

1 A. Right. So if it was three years after
2 final trueup, they should be 929 million times three.

3 Q. But if the level of nonfuel generation
4 revenue is fixed, wouldn't that provide greater
5 certainty rather than uncertainty to customers?

6 A. No. It will provide a great uncertainty.

7 Q. Wouldn't the customers know, for the
8 period of ESP, the level of nonfuel generation
9 revenue required by the company?

10 A. They know that, but I think the RSR rate
11 could change yearly. The year one could be
12 44 million, year two could be 150 million, year three
13 could be 300 million, whatever. So that creates
14 great -- and that translates into very different RSR
15 rate and that creates great financial uncertainty for
16 the customer.

17 I think that's the worst part of RSR
18 because we are not talking about a fixed charge per
19 year. We are talking about fixed nongeneration --
20 nonfuel generation revenue and that's the worst part.
21 That's an extreme form of revenue guarantee.

22 Q. But you agree the nonfuel generation
23 revenue which the RSR ends up totaling up to, that's
24 fixed.

25 MR. DARR: Objection, asked and answered.

1 Q. Do you recognize that the modified ESP is
2 an entire package?

3 A. I don't understand the question. What
4 does --

5 Q. In your review and providing
6 recommendations on the RSR, did you review the RSR in
7 isolation, or did you review RSR in conjunction with
8 the entire modified ESP plan?

9 A. As indicated numerous times in every
10 occasion testimony and the filing by the company, as
11 well as in the discovery response provided by the
12 company, I believe the RSR was offered by the company
13 not because of RSR has any inherent economic benefit,
14 efficiency. It is offer so that just to keep, you
15 know, as a total package. Say the company over --
16 company say we need RSR so that we offer this -- this
17 so-called benefit that I've identified by the
18 company. So, in that sense, you can say it's offered
19 as a package.

20 Q. On page 13, lines 4 through 6, you state
21 that in practical terms, you are not aware of any
22 other Ohio EDUs collecting a charge that guarantees
23 nonfuel generation revenue over an extended period of
24 time; is that correct?

25 A. Yes.

1 Q. What do you mean by -- when you say "in
2 practical terms"?

3 A. The practical term is I just look at what
4 happened right in Ohio. That's what I mean "in
5 practical terms" because in the paragraph before that
6 I am talking about regulatory principle because I
7 think, you know, as -- as a practicing economist for
8 20 years, I look at all the regulation -- regulatory
9 history of the United States and I never see anything
10 like that to guarantee a revenue for public utility.

11 Here, I shift gears and I say in
12 practical terms, I look at what happened in Ohio. So
13 that's what I mean "in practical terms."

14 Q. Now, are you familiar with the current
15 tariffs and/or riders of Duke Energy Ohio?

16 A. In my daily work I look at the tariff of
17 all the major EDUs whenever I need to.

18 Q. Including Duke Energy of Ohio?

19 A. Including Duke Energy Ohio, yes.

20 Q. So you are aware then of the electric
21 service stability charge or ESSC rider currently
22 approved for Duke Energy Ohio?

23 A. I did not participate in that case. I
24 was not involved in the negotiation, but I'm aware of
25 this ESSC in the stipulation file and approved by the

1 Commission for Duke Energy of Ohio, yes.

2 Q. And what's your understanding of that
3 rider?

4 A. My understanding of that rider is -- that
5 the rider say nonbypassable charge is designed to
6 collect \$110 million per year for three years. And I
7 think based on my -- based on my understanding is
8 that for -- or planned by Duke Energy Ohio that is
9 for electric service stability and certainty. That's
10 my understanding.

11 Q. Is it your understanding that it's a
12 generation charge?

13 MS. GRADY: Objection.

14 EXAMINER TAUBER: On what grounds,
15 Ms. Grady?

16 MS. GRADY: Your Honor, as we all know,
17 the Duke rider was part of a stipulation package that
18 was accepted as a part of a deal. It was not to be
19 used as precedent by the terms of the stipulation
20 itself and, again, was part of a package.

21 So to pull it out and suggest that it
22 represents the same thing as the RSR in this case, I
23 believe, is -- is misleading, as well as relying upon
24 precedent created under stipulation which is not good
25 public policy.

1 MR. ALAMI: Your Honor, I'm simply
2 referring to this aspect of the settlement agreement
3 that the FERC that was approved by this Commission as
4 part of approving a settlement, the Commission, in
5 its three-part test, must look to whether the
6 settlement violates any important regulatory
7 principle or practice.

8 Mr. Duann has indicated he believes the
9 RSR proposed by the company violates the regulatory
10 principle or practice, and I'm just using ESSC as an
11 example of a rider approved by this Commission that
12 has been found not to violate a regulatory principle
13 or practice given the Commission approved the ESSC as
14 part of Duke --

15 EXAMINER TAUBER: To the extent we are
16 looking at the rider and not looking at the terms of
17 the stipulation using this precedent, the objection
18 is overruled. Continue.

19 THE WITNESS: Can I have the question
20 read back, please?

21 EXAMINER TAUBER: Yes.

22 (Record Read.)

23 A. I don't know.

24 MR. ALAMI: Your Honor, may I approach?

25 EXAMINER TAUBER: Yes.

1 MS. GRADY: Counsel, can I see what you
2 are going to approach with?

3 MR. ALAMI: It's just the stipulation
4 approving the order.

5 MR. DARR: I'm going to assume Ms. Grady
6 is going to object. I'm going to object to that as
7 well, to the use of the opinion and order in this
8 regard. This is exactly the problem that we've
9 identified in the past as to how these decisions are
10 being used and abused with regard to the viability,
11 the appropriateness, the reasonableness of provisions
12 contained in a stipulation. The stipulation is
13 approved on the basis that its terms, taken together,
14 were agreed to as a package.

15 Now the company in this case is
16 suggesting that we can slice and dice this
17 stipulation in such a way that the various provisions
18 can be deemed reasonable or not reasonable. This is
19 exactly what the Commission's precedent tells us
20 we're not supposed to do, in which the parties,
21 including AEP, agreed not to do when they signed the
22 stipulation. It's clearly a violation of the
23 stipulation and should not be commented by the
24 attorney examiners in this case.

25 MS. GRADY: Your Honor, I would join in

1 that objection. I think we've briefed this issue now
2 numerous times, and the Commission has, in the past,
3 recognized that the parties cannot use stipulations
4 as precedents against other parties and that is
5 exactly what's being done here.

6 MR. ALAMI: If I may respond, your Honor.
7 I believe Mr. Darr's objection is similar to
8 Ms. O'Grady's. I'm not using this portion of the
9 stipulation against any of the parties. I'm simply
10 going to ask the witness if this refreshes his
11 recollection as to whether the ESSC is a
12 generation-related charge.

13 Again, this -- I'm just testing the
14 witness's recommendation that the RSR is against
15 regulatory practices or principles. This is a
16 Commission order. And I believe, as I stated
17 earlier, I'm just using it for -- to see if it
18 refreshes his recollection.

19 EXAMINER TAUBER: The objection is
20 overruled since it's just being used to show that it
21 was a generation rider and this is the opinion and
22 order of the Commission and, as we've established
23 before, Commission opinions and orders speak for
24 themselves.

25 MR. ALAMI: Thank you, your Honor.

1 May I approach?

2 MR. DARR: May I request, your Honor, we
3 have an ongoing objection to this so that I don't --
4 obviously I'm very concerned about that and I don't
5 want to constantly raise this objection, but I want
6 to make it very clear that we object to this whole
7 line of questions based on the Duke stipulation and
8 order.

9 EXAMINER TAUBER: We will note it. If we
10 need to address it later on, we'll address it later
11 on.

12 MR. DARR: Thank you, your Honor.

13 Q. (By Mr. Alami) Mr. Duann, can you
14 identify what I've just handed you?

15 A. This is the opinion and order in the case
16 11-3549-EL-SSO.

17 Q. Can you turn to page 21, please.

18 A. Yes.

19 Q. And if could you just read the first
20 sentence under 7A.

21 A. For calendar years 2012, 2013, and 2014
22 of the ESP, Duke shall recover annually, via an
23 unavoidable generation charge, Rider ESSC, an amount
24 intended to provide stability and certainty regarding
25 Duke's provision of retail elect -- retail electric

1 service as an FRR entity while continuing to operate
2 under an ESP.

3 Q. Thank you.

4 Looking on page 17 now for your
5 testimony, lines 6 through 7, are you there?

6 A. 6 through 7?

7 Q. Yes.

8 A. Uh-huh.

9 Q. You state SSO customers do not create the
10 need for the RSR; is that correct?

11 A. Yes.

12 Q. And you're familiar, as we discussed
13 earlier, the year that the company is proposing an
14 energy auction for 100 percent of its SSO load for
15 delivery is January, 2015; is that correct?

16 A. Right. Starting January 1, 2015, yes.

17 Q. And if the auction, January, 2015,
18 auction were only possible with the RSR being present
19 as part of the company's ESP plan, would you agree
20 that the RSR is a benefit?

21 MS. GRADY: Could I have that question
22 reread, please?

23 EXAMINER TAUBER: Yes.

24 (Record read.)

25 MS. GRADY: I would object on the basis

1 it is not -- that the assumption is not in evidence
2 that an RSR is essentially needed in order to conduct
3 that auction. I think that there is conflicting
4 evidence and that is not a fact that is undisputed.

5 MR. ALAMI: If I may respond, your Honor?

6 EXAMINER TAUBER: Yes.

7 MR. ALAMI: Mr. Duann indicates he is
8 aware the company is proposing an entire package with
9 this modified ESP plan. He's aware that the RSR is
10 one component of that ESP plan and he's also aware
11 the energy auction is another component of the ESP
12 plan.

13 My question asks whether or not, in his
14 opinion, if the auction, the 2015 auction, was
15 dependent upon approval of the RSR, would the RSR be
16 of benefit for SSO customers.

17 MS. GRADY: If that's the question, then
18 I have no objection. I think your question was
19 different.

20 EXAMINER TAUBER: I was just going to say
21 if you could rephrase the question, but based on that
22 clarification, I will allow it.

23 MS. GRADY: Thank you.

24 THE WITNESS: Can I have the question
25 read back, you know, just --

1 MR. ALAMI: I can rephrase.

2 EXAMINER TAUBER: It might be easier if
3 we could just do that.

4 Q. (By Mr. Alami) In your opinion,
5 Mr. Duann, if the 2015 auction was dependent upon
6 approval of RSR as part of the company's modified ESP
7 package, would the RSR be of benefit for AEP Ohio's
8 SSO customers?

9 A. No.

10 Q. Why is that?

11 A. Because we don't know whether the auction
12 will benefit the SSO customer in 2015.

13 Q. Earlier when I showed you WAA-4 which
14 projected that SSO customers would, in fact,
15 participate in the January, '15, auction, and I asked
16 you if you had any reason to doubt the projections
17 made by Company Witness Allen, you stated that you
18 did not; is that correct?

19 MS. GRADY: Objection.

20 A. I did not have reason to doubt, but I do
21 not have reason to --

22 MS. GRADY: Objection.

23 EXAMINER TAUBER: Hang on one second,
24 Mr. Duann.

25 MS. GRADY: I'm sorry. I think you are

1 mischaracterizing your earlier question. Mr. Duann
2 indicated he had no basis to make any determination
3 as to what the basis of Mr. Allen's exhibit showed,
4 so I think that's a mischaracterization.

5 MR. ALAMI: I believe he answered that,
6 your Honor, so I'll move on.

7 EXAMINER TAUBER: Thank you.

8 Q. (By Mr. Alami) On page 16 at line 19
9 through 21, you state that if the Commission decides
10 to approve the RSR, SSO customers should not be
11 required to pay for the RSR; is that correct?

12 A. Yes.

13 Q. And who do you believe should be required
14 to pay for the RSR if the Commission approves it?

15 A. Well, yes, it's already here. If the
16 Commission approves it, you know, assuming that they
17 approve it, then it should be paid by those non-SSO
18 customers.

19 Q. And only those non-SSO customers; is that
20 correct?

21 A. Correct.

22 Q. And your understanding is those non-SSO
23 customers are shopping customers?

24 A. They are non-SSO customers, yes.

25 Q. Could you also characterize them as

1 shopping customers?

2 A. Yes.

3 Q. And if your recommendation is that only
4 shopping customers pay for the RSR adopted, wouldn't
5 that tend to discourage shopping?

6 A. Because the shopping should be
7 discouraged.

8 Q. And why is that?

9 A. Because I already -- it's on page 17 of
10 my testimony. First of all, the SSO customer didn't
11 cause those lost revenue, and second is the SSO
12 customer is already paying highest cost for electric
13 service. So why we want those SSO customer to pay
14 more to AEP Ohio.

15 Q. Moving on to your discussions and
16 representation on the PIRR. On page 20, in your
17 answer to question 16 there on the bottom of the
18 page, you said you do not support delaying the PIRR
19 as the company has proposed; is that correct?

20 A. Yes.

21 Q. And the reason that you do not believe
22 delaying implementation of the PIRR should occur is
23 because that will actually result in an FAC deferral
24 balance; is that correct?

25 A. That's correct.

1 Q. But under the company's proposal to delay
2 the implementation of the PIRR until June of 2013,
3 all other things being equal, wouldn't that shorten
4 the recovery period under the PIRR?

5 A. You are assuming that the recovery
6 mechanism would still end on December 31, 2018.

7 Q. That's correct.

8 A. Yes. If -- if you assume it will still
9 end at the end of 2018, you delay it, the
10 amortization period will be shortened.

11 Q. And all other things being under the
12 shortened amortization period, would there be cost
13 savings associated with carrying charges not being
14 recovered at the back end of the amortization period?

15 A. Actually, I don't understand the
16 question, especially the part at the end.

17 Q. If the company is recovering the PIRR
18 charges for five years as opposed to six years, all
19 other things being equal, wouldn't that result in
20 fewer carrying charges being recovered?

21 A. Well, the problem is not everything being
22 equal because you delay that for one year, you
23 increase the carrying charge in -- carrying charge.
24 That one year delay is \$64.5 million, so you already
25 increase the beginning balance by delaying.

1 Q. And I understand that's your position.
2 My question is whether or not you took into
3 consideration in that calculation the carrying
4 charges that would no longer occur if, under the
5 company's proposal, the PIRR was recovered for five
6 years as opposed to six?

7 A. Well, if there is no delay, the
8 amortization period will also end on December 31,
9 2018.

10 Q. And under that scenario, which is the one
11 you propose, the amortization period would begin on
12 June of 2012 and end on December 31, 2018; is that
13 correct?

14 A. I don't believe I make any specific
15 recommendation on when the amortization will start.

16 MR. DARR: I'm sorry. Was that "start"
17 or "stop"?

18 THE WITNESS: "Start."

19 MR. DARR: Thank you.

20 Q. But it's your testimony that you reject
21 the company's position to delay implementation by one
22 year; is that correct?

23 A. That's correct.

24 Q. And under the company's proposal with the
25 delay of the implementation by one year, amortization

1 would combine on June of 2013; is that correct?

2 A. No, that's not correct, because it
3 depends on how -- when the Commission decides its
4 case, when the Commission approves their amortization
5 to start. My recommending is simply the company's
6 proposal of delay one year is bad for the customer.
7 It adds unnecessary costs to the customer.

8 Q. I understand, Mr. Duann, but you assume
9 the Commission has a decision in this case and the
10 amortization of the PIRR occurs beginning in January
11 of 2012 and lasts until December 31, 2018. That's a
12 period of approximately 6-1/2 years, would you agree?

13 A. Yes, if the Commission approves the
14 amortization of the PIRR start in June and ends on --
15 start in June, 2012, and ends on -- on December,
16 2018, that would be six years, seven months.

17 Q. And under your -- under the company's
18 proposal, excuse me, to delay implementation until
19 June of 2013, and assuming that the end date of
20 amortization remains constant, wouldn't that result
21 in an amortization of 5 -- 5-1/2 years?

22 A. Yes.

23 Q. Again, the difference between -- strike
24 that.

25 My question, Mr. Duann, is recovering the

1 PIRR over a shorter period of time, all other things
2 being equal, results in fewer carrying charges being
3 recovered; is that correct?

4 MR. BARNOWSKI: Objection, your Honor.
5 This whole line of questioning misstates the record.
6 I think it's highly misleading.

7 EXAMINER SEE: Speak up, Mr. Barnowski.

8 MR. BARNOWSKI: I apologize. This whole
9 line of questioning, it misstates the proposal that's
10 been made.

11 MS. GRADY: And my objection is based on
12 asked and answered.

13 MR. ALAMI: May I respond, your Honor?

14 EXAMINER TAUBER: Yes.

15 MR. ALAMI: With respect to the objection
16 from Ormet's counsel, I believe there is a record,
17 specifically by Company Witness Roush, that is a part
18 of the company's modified ESP plan, it's proposing to
19 delay implementation of the PIRR for one year,
20 thereby resulting in amortization beginning on June
21 of 2013.

22 And with respect to Ms. O'Grady's
23 objection, I believe Mr. Duann has not answered the
24 question. I'm trying to get to what he considered in
25 his calculations, the \$64.5 million, and he hasn't

1 been forthcoming with that.

2 MS. GRADY: Your Honor, and part of his
3 question said, again, "assuming all other things
4 being equal." And Mr. Duann testified that you
5 cannot make that assumption because of the fact that
6 they are asking for a delay and there's a cost to
7 that delay.

8 EXAMINER TAUBER: I'm going to overrule
9 Mr. Barnowski's objection and sustaining Ms. Grady's
10 objection.

11 Let's please move on, Mr. Alami.

12 THE WITNESS: Is there a question
13 pending?

14 EXAMINER TAUBER: No.

15 Q. (By Mr. Alami) When you calculated the
16 amount of the delaying implementation of the PIRR,
17 you only considered the delay of the one year with
18 respect to carrying charges; is that correct?

19 A. In my testimony I object to the company's
20 proposal of delay that one year. And one of the
21 reasons is this delay will add 60.4 -- \$64.5 million
22 to the deferral balance and I think that's bad for
23 the customer, especially bad when you have a large --
24 when you have an unnecessary large balance and you
25 try to cram that through, amortize that over 5-1/2

1 years as the company proposes.

2 The monthly charge for the customer will
3 be much higher than you amortize now, you know, you
4 amortize now, you have a lower balance, more lower
5 deferral balance. That's -- that's my opinion.

6 MR. ALAMI: Your Honor, I move to strike
7 that answer to that question except for the first
8 sentence. My question was really narrow and what
9 Mr. Duann considered in his calculation, I think his
10 testimony speaks for itself.

11 EXAMINER TAUBER: I'm going to deny the
12 motion to strike. I believe Mr. Duann was providing
13 context towards his answer.

14 Q. And in making that \$64.5 million
15 calculation, you simply looked at -- well, you tell
16 me, does that \$64.5 million figure only represent the
17 amount of carrying charges as a result of one year of
18 the PIRR?

19 A. The 64.5 million is the carrying charge
20 that would be incurred based on the company's
21 deferral balance estimate -- deferral balance of
22 \$549.4 million right now and also using the carrying
23 charge rate of 11.15 percent. So for that delay
24 until June, 2013, you will add the carrying charge
25 during that period would be 60.45 million, right?

1 Q. Is that a --

2 A. Yes, \$64.5 million.

3 Q. Okay. On page 22 of your testimony in
4 your answer to question 17 --

5 A. Yes.

6 Q. -- you state that it is unreasonable and
7 inconsistent with state policy for the company to
8 recover carrying charges on the PIRR calculated using
9 weighted average cost of capital; is that correct?

10 A. No, I don't think that's what I say.

11 Q. What do you say there? Is it your
12 testimony that -- it's your testimony, correct, on
13 page 22, line 14 -- lines 13 and 14 -- excuse me, on
14 lines 12 through 14, "This certainty in future
15 collection means that if AEP Ohio is allowed to
16 impose carrying charges on the PIRR during the delay
17 period, the lower risk should equate to a lower
18 interest rate, such as the cost of long-term debt
19 instead of the much higher WACC, being used."

20 A. Yes, that's correct, right. And I don't
21 think that's the question you asked.

22 Q. And are you aware that the Commission has
23 already determined that the weighted average cost of
24 capital is the appropriate carrying charge for the
25 PIRR balance?

1 MS. GRADY: Objection.

2 MR. DARR: Objection, your Honor.

3 MS. GRADY: I think -- I think that's a
4 misstatement. There is -- there is an issue as to
5 whether or not that weighted average cost of capital
6 applies during the amortization period or only
7 applies during the accrual period.

8 EXAMINER TAUBER: Mr. Darr, you had
9 another objection?

10 MR. DARR: Same thing, your Honor. I
11 think this issue was recently addressed by the
12 Commission's recent opinion whether or not this issue
13 would be addressed in the 4920 cases. So I believe
14 the question assumes a fact that not only is not
15 informed but is not demonstrated by the record in --
16 of this Commission.

17 EXAMINER TAUBER: I believe we are
18 getting close to varying outside the context of this
19 proceeding.

20 MR. ALAMI: Your Honor, I simply asked if
21 Mr. Duann was aware that, as part of the ESP I, the
22 Commission had approved BAA -- WACC carrying charge
23 for the PIRR.

24 MS. GRADY: And, again, we are objecting
25 on the basis that that -- that order is subject to

1 interpretation. There are parties to this proceeding
2 that -- that contend that that order, the WACC, only
3 applies to the amortization period as opposed to the
4 recovery period.

5 MR. DARR: And it strikes me, your Honor,
6 the motion to strike which was granted in part and
7 denied in part --

8 EXAMINER SEE: Hold on, Mr. Darr. Hold
9 on for a second, Mr. Darr.

10 MR. DARR: Thank you, your Honor.

11 EXAMINER TAUBER: Mr. Alami, if you could
12 just move on, please, from that question.

13 MR. ALAMI: Certainly.

14 Can I have a second, please, your Honor?

15 EXAMINER TAUBER: You may.

16 Q. (By Mr. Alami) Mr. Duann, on page 19 of
17 your testimony at lines 9 and 10 --

18 MS. GRADY: Could I have that page
19 reference? I'm sorry.

20 Q. At page 19, lines 9 through 10, you
21 define the term "PIRR Case Application" to refer to
22 Case Nos. 11-4920 and 11-4921; is that correct?

23 A. Yes.

24 Q. And do question 23 which begins on 27 --
25 excuse me. Do question 22 and your answer to 22,

1 question 23, your answer to question 23, question 24
2 and your answer to 24 all relate to the PIRR case
3 application?

4 MS. GRADY: Objection.

5 EXAMINER TAUBER: Ms. Grady?

6 MS. GRADY: Your Honor, obviously counsel
7 is trying to re -- re -- or make another motion to
8 strike and we -- that motion to strike was denied,
9 your Honors. You granted portions and you denied
10 portions and now we're trying to revisit that issue.
11 I would ask that the objection be sustained on the
12 basis that you made the ruling. The ruling stands
13 and unless an interlocutory appeal is made, I think
14 we need to move on.

15 EXAMINER TAUBER: Mr. Alami?

16 MR. ALAMI: May I respond, your Honor?

17 EXAMINER TAUBER: Yes.

18 MR. ALAMI: I was trying to establish
19 what was in and what was out. I believe these
20 questions and answers of Mr. Duann's testimony and he
21 states there on page 27, lines 15 through 16, "I
22 recommend a shorter period of amortization than the
23 one currently proposed in the PIRR Case
24 Application...."

25 These questions relate to matters

1 currently pending before the Commission in the PIRR
2 case application, the amortization period of the FAC
3 deferral, the length of the amortization period, the
4 interest rates used to calculate the carrying
5 charges, and I'm simply trying to determine whether
6 or not that is, in fact, the case that his reference
7 to these questions and answers are to the PIRR case.

8 EXAMINER TAUBER: We'll see where you are
9 going with it.

10 MR. ALAMI: I'm simply asking Mr. Duann
11 if these questions and answers as part of his
12 testimony we just identified relate to issues in the
13 PIRR case application.

14 THE WITNESS: Is that a question pending?

15 EXAMINER TAUBER: Yes.

16 THE WITNESS: Can I have the question
17 reread?

18 (Record read.)

19 A. I think the issue is related to the ESP
20 rate proposed by the company.

21 Q. In what way?

22 A. Because I believe Mr. Roush included in
23 his exhibit what the PIRR will be for 2013, 2014,
24 2015.

25 Q. Is it also your understanding that as

1 part of Mr. Roush's testimony dealing with the PIRR,
2 it simply laid out the company's proposal to delay
3 implementation of the PIRR?

4 A. No; because he calculated what the PIRR
5 will be in 2013, 2014, 2015.

6 Q. And did Mr. Roush discuss the interest
7 rate used to calculate the carrying charges on the
8 PIRR?

9 A. On the PIRR during the delay period or
10 during the amortization period?

11 Q. Either.

12 A. Which one are you referring to?

13 Q. Perhaps I can clarify, Mr. Duann, and
14 move that along. On page 27 of your testimony at
15 lines 15 and 16, there is your recommendation of a
16 shorter amortization period; is that correct?

17 A. Shorter amortization period than
18 proposing in the PIRR case.

19 Q. So the proposal for a shorter
20 amortization period relates to the amortization
21 period proposed by the company in the PIRR case
22 application; is that correct?

23 A. I'm only saying that I recommend a
24 shorter period of amortization than the one currently
25 proposed in the PIRR case. And, in that case, the

1 company proposed to start in January 1, 2012, and end
2 on December 31, 2018, and I recommend a shorter
3 period than that.

4 Q. And so your answers to 23 and 22 also
5 relate to proposals of the company in the PIRR case?

6 A. I already answered that. I said this
7 answer. I related it to the PIRR rate to be charged
8 in the proposed ESP period.

9 Q. And do they also relate to proposals in
10 the PIRR case?

11 A. This PIRR case pending that addressed the
12 issues addressed, you know, how the amortization
13 would be done. There's also a proposal by the
14 company in the ESP saying they want to collect the
15 PIRR and the company make a mechanism what PIR really
16 would be.

17 Q. I'll just move on to my last line of
18 questioning. On page 29 of your testimony, you
19 discuss the environmental carrying charges; is that
20 correct?

21 A. Yes.

22 Q. And on lines 15 through 16, you recommend
23 that the environmental carrying charges be terminated
24 and the generation assets are transferred under the
25 plan; is that correct?

1 A. Yes.

2 Q. And is it your understanding that the
3 generation -- strike that -- the generating assets be
4 dedicated to serving AEP Ohio's load after the
5 transfer?

6 A. I think if you say it can, then it
7 certainly can, but I don't know whether that's the
8 actual case or not.

9 Q. Once the assets are transferred, will
10 base generation rates still be collected from SSO
11 customers?

12 A. Under the proposed ESP and the corporate
13 separation, I think the generation asset would be
14 transferred by the end of 2013, but my understanding
15 the ESP would run through May 31, 2014.

16 So, yes, I think for the period of
17 January -- January 1, 2014, the company still charge
18 the base generation which include the environmental
19 carrying charge even -- even generation asset already
20 transferred to -- to an affiliate.

21 Q. But it's your recommendation that the
22 company not collect, upon transfer, the environmental
23 costs -- environmental costs of environmental
24 compliance?

25 MS. GRADY: If counsel could be specific

1 to what company are you talking about. The AEP Genco
2 or are you talking about the EDU?

3 MR. ALAMI: My question was whether or
4 not Mr. Duann -- Duann's recommendation is the costs
5 of environmental compliance, once the assets are
6 transferred, should that -- those costs be recovered
7 from SSO customers.

8 A. It should not be recovered from SSO
9 customers through regulation or tariff.

10 Q. But it's your understanding that the base
11 generation rates will continue to be recovered from
12 SSO customers.

13 A. The best -- base -- current base
14 generation rate does not include environmental
15 carrying charges.

16 MR. ALAMI: Your Honor, that's all the
17 questions I have. Thank you, your Honor.

18 EXAMINER TAUBER: Thank you.

19 Mr. Margard?

20 MR. MARGARD: None, thank you, your
21 Honor.

22 EXAMINER TAUBER: Redirect, Ms. Grady?

23 MS. GRADY: May I have two minutes, your
24 Honor?

25 EXAMINER TAUBER: Sure. Let's go off the

1 record.

2 (Recess taken.)

3 EXAMINER TAUBER: Let's go back on the
4 record.

5 Ms. Grady?

6 MS. GRADY: We have no redirect, your
7 Honor. And, at this point, we would move for the
8 admission of OCC Exhibit 111.

9 MR. ALAMI: Your Honor, at this time we
10 would renew our motion to strike with the
11 understanding that previous motions to strike have
12 been granted or denied by the Bench and, if denied,
13 allowed to be explored during cross.

14 I think with respect to the questions in
15 Dr. Duann's testimony at 22, 23, and 24 and with his
16 clarification as to those questions, those answers
17 relate to positions in the PIRR case application and
18 Mr. Roush, and the company's only mention of the PIRR
19 in this case is the delay start date.

20 There's no mention of amortization
21 period. There was no mention of the ADIT and there
22 was no mention of the interest rate. For those
23 reasons, the company believes that questions 22, 23,
24 and 24 fit within the Bench's ruling on the motion to
25 strike and we renew that motion at this time.

1 MS. GRADY: A quick response, we would
2 ask that the attorney examiners' ruling initially be
3 upheld, if it is to be upheld, and would indicate
4 that we have two proposals out here.

5 We have a proposal being made in the PIRR
6 and we have a proposal -- or in the PIRR case, and we
7 have a proposal with respect to the PIRR that differs
8 from that case being made in this case. So the
9 record is quite intertwined between the PIRR case and
10 this case. So we believe that those -- those
11 questions should remain in Mr. Duann's testimony.

12 EXAMINER TAUBER: At this time we'll
13 stick to our original ruling and deny the additional
14 motions to strike, and we'll admit OCC Exhibit 111
15 into the record, absent the provisions that were
16 struck earlier.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 MS. GRADY: And, your Honor, at this time
19 we would proffer the portions that were stricken.

20 EXAMINER TAUBER: That's fine.

21 Thank you. You maybe excused, Mr. Duann.

22 We will reconvene tomorrow morning at
23 8:30.

24 Let's go off the record.

25 (Thereupon, the hearing was adjourned at

1 5:30 p.m.)

2 - - -

3 CERTIFICATE

4 I do hereby certify that the foregoing is a
5 true and correct transcript of the proceedings taken
6 by me in this matter on Wednesday, May 30, 2012, and
7 carefully compared with my original stenographic
8 notes.

9
10 Karen Sue Gibson, Registered
Merit Reporter

11 - - -

12 (KSG-5535)

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Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 05/30/12 - Volume IX electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.