

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 Friday, June 1, 2012.

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VOLUME XI

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1 Friday Morning Session,
2 June 1, 2012.

3 - - -

4 EXAMINER SEE: Let's go on the record.
5 Let's take appearances of the parties, name and
6 client only, starting with the company, move around
7 the room.

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

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

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

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

21 MR. SINENENG: Good morning, your Honor.
22 On behalf of Duke Energy Retail Sales and Duke Energy
23 Commercial Asset Management, Amy Spiller, Jeanne
24 Kingery, and Phillip Sineneng.

25 MR. BOEHM: Good morning. On behalf of

1 the Ohio Energy Group, Kurt Boehm.

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

4 MR. CAMPBELL: Good morning. Andrew
5 Campbell on behalf of Interstate Gas Supply,
6 Incorporated.

7 MR. YURICK: Mark Yurick for the Kroger
8 Company.

9 MR. MILLAR: On behalf of Ormet Primary
10 Aluminum Corporation, Tom Millar, Dan Barnowski, and
11 Emma Hand.

12 MS. KALEPS-CLARK: On behalf of Exelon
13 Generation Company, LLC, Constellation NewEnergy,
14 Inc., and Constellation Energy Commodities Group,
15 David Stahl, M. Howard Petricoff, and Lija
16 Kaleps-Clark.

17 And on behalf of RESA and Direct Energy,
18 M. Howard Petricoff, Lija Kaleps-Clark, and Steve
19 Howard.

20 MR. BEELER: Steven Beeler and Werner
21 Margard, Assistant Attorneys General, on behalf of
22 the staff.

23 EXAMINER SEE: At the conclusion of
24 Mr. Hess's testimony yesterday, there was several --
25 the admission of several exhibits outstanding.

1 With an opportunity to review the
2 transcript, the Bench finds that AEP Exhibits 130
3 through 134 shall be admitted into the record as well
4 as AEP 136 and 137. 133 and 139 were withdrawn. 135
5 is not being admitted into the record.

6 So let me try that one more time. AEP
7 Exhibits 130, 131, 132, and 134 are admitted into the
8 record. 135 is not being admitted into the record.
9 AEP 136 and 137 and 138 are being admitted into the
10 record. 133 and 139 were withdrawn.

11 (EXHIBITS ADMITTED INTO EVIDENCE.)

12 EXAMINER SEE: Let's go off the record
13 for a second.

14 (Discussion off the record.)

15 EXAMINER TAUBER: Let's go back on the
16 record.

17 Mr. Boehm.

18 MR. BOEHM: Thank you. OEG calls Steve
19 Baron.

20 (Witness sworn.)

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 - - -

23 STEPHEN J. BARON

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

DIRECT EXAMINATION

By Mr. Boehm:

Q. Good morning, Mr. Baron.

A. Good morning.

Q. Can you please state your name and business address for the record.

A. Yes. My name is Stephen J. Baron. It's J, period, Kennedy and Associates, Incorporated, 570 Colonial Park Drive, Suite 305, Roswell, Georgia, 30075.

Q. Did you cause to be filed testimony marked OEG 102, the direct testimony of Steve Baron?

A. Yes.

Q. Did you have any changes to that testimony?

A. No.

Q. If I asked you the same questions as appeared in your testimony, would your answers be the same?

A. Yes.

MR. BOEHM: Mr. Baron is available for cross-examination.

EXAMINER TAUBER: Thank you.

Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No questions, your

1 Honor. Thank you.

2 EXAMINER TAUBER: Mr. Barnowski?

3 MR. BARNOWSKI: No questions.

4 EXAMINER TAUBER: Mr. Yurick?

5 MR. YURICK: No questions.

6 EXAMINER TAUBER: Mr. Campbell?

7 MR. CAMPBELL: No questions.

8 EXAMINER TAUBER: Mr. Siwo?

9 MR. SIWO: No questions, your Honor.

10 EXAMINER TAUBER: Mr. Sineneng?

11 MR. SINENENG: No questions, your Honor.

12 EXAMINER TAUBER: Mr. Darr?

13 MR. DARR: No questions. Thank you.

14 EXAMINER TAUBER: Mr. Lang?

15 MR. LANG: No. Thank you.

16 EXAMINER TAUBER: Mr. Serio?

17 MR. SERIO: Thank you, your Honor.

18 - - -

19 CROSS-EXAMINATION

20 By Mr. Serio:

21 Q. Good morning, Mr. Baron. I have just a
22 few questions. If you could turn to page 6 of your
23 testimony, please. You talk about "RG Steel Wheeling
24 Company" there. Do you see that?

25 A. Yes.

1 Q. And you indicate the rider RPD would
2 provide a benefit for RG Steel Wheeling. Do you have
3 any quantification how much benefit the rider would
4 provide to RG Steel Wheeling?

5 A. No, I don't.

6 Q. So there's nothing that I could compare
7 to that required investment of up to \$100 million it
8 would take to restart the plant?

9 A. No. Except, based on my experience,
10 steel operations such as the RG Steel Wheeling
11 facility, if it were to be restarted, typically can
12 and do rely on interruptible power to make the fa --
13 the production economic. And so it would
14 generally -- based on my experience, it would be very
15 important to a facility that does this arc furnace
16 melting.

17 Q. But it's your understanding that benefit
18 would be something once the plant was up and running
19 and not a benefit that would help get it up and
20 running.

21 A. That's correct. But conceptually, a
22 company, when it's making its economic decision as to
23 whether to start a business -- to restart an
24 operation such as this, is going to be evaluating
25 its -- its costs and expenses, the revenues. And RG

1 Steel would have to factor in the price of
2 electricity which is a critical input into the
3 steelmaking process and so the IRP credit would play
4 a role in that and it would play a significant role
5 in my view.

6 Q. But you can't put any kind of
7 quantification on that significant role?

8 A. That's correct. I have no -- I have not
9 done any analysis of that.

10 MR. SERIO: Okay. That's all I have.
11 Thank you, your Honor.

12 EXAMINER TAUBER: Thank you.

13 Ms. Moore?

14 MS. MOORE: No questions, your Honor.
15 Thank you.

16 EXAMINER TAUBER: Thank you.

17 MR. BEELEER: No questions. Thank you.

18 EXAMINER TAUBER: Thank you.

19 Mr. Boehm, redirect?

20 MR. BOEHM: No redirect, your Honor.

21 EXAMINER TAUBER: You may be excused.

22 THE WITNESS: Thank you, your Honors. I
23 appreciate being taken early.

24 MR. BOEHM: OEG moves for the admission
25 of OEG Exhibit 102.

1 EXAMINER TAUBER: Are there any
2 objections to OEG Exhibit 102?

3 Hearing none, it shall be admitted into
4 the record.

5 (EXHIBIT ADMITTED INTO EVIDENCE.)

6 MR. BOEHM: Thank you.

7 EXAMINER TAUBER: Thank you.

8 Mr. Lang.

9 MR. LANG: Thank you, your Honor. FES
10 calls Rodney Frame.

11 May I approach?

12 EXAMINER TAUBER: You may.

13 (Witness sworn.)

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 - - -

16 RODNEY FRAME

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

19 DIRECT EXAMINATION

20 By Mr. Lang:

21 Q. Mr. Frame, could you introduce yourself,
22 please.

23 A. My name is Rodney Frame. I'm employed by
24 Analysis Group, Incorporated, which is an
25 economic/financial consulting firm. My office is in

1 Washington, D.C.

2 Q. Do you have in front of you what's been
3 premarked as FES Exhibit No. 103?

4 A. Yes, I do.

5 MR. LANG: Your Honors, I have also
6 provided a copy of FES Exhibit No. 103 to the court
7 reporters.

8 EXAMINER TAUBER: Thank you.

9 Q. Can you tell us what Exhibit 103 is,
10 please.

11 A. Exhibit 103 is testimony that I prepared
12 on behalf of FirstEnergy Solutions addressing certain
13 issues associated with the AEP pool agreement.

14 Q. Do you have any corrections to make to
15 that testimony?

16 A. I do have two minor corrections.

17 Q. What's the first one?

18 A. The first one is on page 6 and that would
19 be in footnote 4. There is a quotation mark in front
20 of the second word, the second word being "firm," and
21 that quotation mark should not be there, but,
22 instead, should be moved three words over so that it
23 is in front of the word "characterized."

24 Q. Okay. And what is the second correction?

25 A. The second correction is on page 31 in

1 footnote 20. On the second-to-last line, just inside
2 the close of the parentheses, there is a quotation
3 mark that should be removed.

4 Q. Just delete the quotation mark.

5 A. That's correct.

6 Q. Mr. Frame, if I asked you the questions
7 in your testimony today, would your answers be the
8 same?

9 A. Yes.

10 MR. LANG: Your Honors, Mr. Frame is
11 available for cross.

12 EXAMINER TAUBER: Thank you.

13 Ms. Kaleps-Clark?

14 MS. KALEPS-CLARK: No questions, your
15 Honor. Thank you.

16 EXAMINER TAUBER: Mr. Barnowski?

17 MR. BARNOWSKI: No questions, your Honor.

18 EXAMINER TAUBER: Mr. Yurick?

19 MR. YURICK: No questions.

20 EXAMINER TAUBER: Mr. Campbell?

21 MR. CAMPBELL: No questions, your Honor.

22 EXAMINER TAUBER: Mr. Siwo?

23 MR. SIWO: No questions, your Honor.

24 EXAMINER TAUBER: Mr. Boehm?

25 MR. BOEHM: No questions, your Honor.

1 EXAMINER TAUBER: Mr. Sineneng?

2 MR. SINENENG: Nothing, your Honor.

3 EXAMINER TAUBER: Mr. Darr?

4 MR. DARR: Nothing, your Honor.

5 EXAMINER TAUBER: Mr. Etter?

6 MR. ETTER: No questions, your Honor.

7 EXAMINER TAUBER: Mr. Nourse?

8 MR. NOURSE: Thank you, your Honor.

9 - - -

10 CROSS-EXAMINATION

11 By Mr. Nourse:

12 Q. Good morning, Mr. Frame.

13 A. Good morning, sir.

14 Q. So your purpose of your testimony is to
15 recommend an auction-based standard service offer be
16 implemented by AEP Ohio; is that fair?

17 A. I don't think that is accurate. On page
18 2 of my testimony, I discuss what the purpose is. It
19 is to provide an overview of the AEP pool agreement
20 and then to consider whether the pool agreement
21 contains provisions that would preclude the
22 implementation of competitive -- a CBP while the pool
23 agreement is in effect.

24 Q. Is it your understanding that AEP Ohio
25 has maintained that the pool agreement prohibits an

1 auction?

2 A. My recollection is that the AEP Ohio
3 position is that the pool agreement does not
4 explicitly prohibit an auction but would present the
5 potential for significant financial harm and, as
6 well, that the pool agreement was not designed or
7 implemented with a contemplation of a competitive bid
8 process.

9 Q. Okay. Does your testimony address the
10 issue of significant financial harm to AEP Ohio --

11 A. Yes.

12 Q. -- in an auction?

13 A. Yes.

14 Q. Where do you address that?

15 A. I think that it is addressed in certain
16 questions beginning around on page 21.

17 Q. And what's your conclusion of the
18 financial harm that would be caused by such an
19 auction?

20 A. We may have been miscommunicating
21 slightly. I'm speaking about the AEP pool agreement
22 and the financial harm that might result as a result
23 of the AEP pool agreement were a CBP to be
24 implemented. I'm not certain that was the context of
25 your question.

1 Q. It was. And so what's your conclusion on
2 financial harm that would be caused by doing an
3 auction while the pool is in place?

4 A. To some extent the answer would depend
5 upon the nature of the auction, but it seems likely
6 to me that the auction would not result in financial
7 harm to AEP Ohio or the other pool members.

8 Although, it may also be true that AEP
9 Ohio would earn less after the implementation of that
10 auction than it would were the status quo to be
11 continued. But that earning less is not what I would
12 call a "pool-related event" but, rather, a
13 consequence of adjusting the regulator pricing system
14 to a market pricing system.

15 Q. Okay. So the -- you said it seems likely
16 that the financial harm would not occur tied in with
17 the pool doing an auction in the context of the pool.
18 So you haven't reached any definitive conclusions on
19 whether there will be or whether there won't be
20 financial harm based on doing an auction while the
21 pool is in effect, have you?

22 A. I'm struggling with your use of the term
23 "definitive." My conclusion is pretty strong based
24 upon the review that I've done and my understanding
25 of the pool agreement and how the transactions will

1 be -- would be treated.

2 Ultimately, there would be decisions to
3 be made by the operating committee that would -- the
4 operating committee for the pool agreement that would
5 decide -- make the final decision on how transactions
6 are treated. But my reading of the pool agreement
7 is, as you've stated, that the financial harm would
8 not occur.

9 Q. "Would not occur." Your prior answer you
10 said it was "not likely," so are you saying it --

11 A. I think I'm saying the same thing, sir.

12 Q. Okay. So you agree that the pool --
13 there's never been an auction of this nature or scope
14 in the 60-plus years' history of the pool, correct?

15 A. I don't have any understanding that there
16 has been. I don't believe so.

17 Q. Okay. And you're not sure how it's going
18 to operate under the pool, are you? There's several
19 places in your testimony where you outline various
20 potential outcomes. But you're not clear on how the
21 auction would flow through the pool, are you?

22 A. I think this is the same question that
23 you've asked, or it seems to me to be the same
24 question. What I've done is examine the pool
25 agreement and how I believe the transactions would be

1 treated based upon what the pool agreement says.

2 Ultimately, I recognize that the
3 operating committee would need to make certain
4 decisions and that they would be the final determiner
5 for those.

6 Q. Do you agree that the purpose of the pool
7 is that the members brought together their capacity
8 and share capacity and energy in order to serve the
9 load that each of the members has?

10 A. They did bring together capacity to serve
11 the load. I don't know that I would call that "the
12 purpose." I think the purpose would be to -- for the
13 members to come together and, as part of that
14 process, to retain AEP Service Company to help them
15 operate the system efficiently and squeeze more
16 benefits out of it.

17 Q. So you don't believe the purpose of the
18 interconnection agreement is to pool generation
19 resources to serve the load of the members?

20 A. The agreement does that. It accomplishes
21 that. I'm saying that there's a reason to do that.
22 There's a reason to pool the generation, and the
23 reason to pool the generation is to operate more
24 efficiently.

25 Q. Okay. Under your proposal to auction the

1 Ohio load, does the -- does the AEP Ohio generation
2 resource serve the load in Ohio?

3 A. Please repeat that.

4 MR. NOURSE: Can you read it back?

5 (Record read.)

6 A. The way the pool works is that the energy
7 that is available to the pool is used to serve the
8 load of the members. And the energy that is
9 available to the pool comes from the pool members'
10 capacity as well as purchases that might be made.

11 In a physical sense, the energy from one
12 machine cannot be said to serve any particular
13 customer. It's simply that the pool on an overall
14 basis is responsible for supplying all of the loads.
15 Now, of course, in a financial sense there are
16 linkings of particular generation sources to
17 particular loads.

18 Q. And the pool itself is a financial
19 arrangement, is it not?

20 A. The pool is -- has financial aspects to
21 it. I don't restrict it to just financial aspects.

22 Q. Well, part of your answer was about the
23 physical delivery of power and that was just -- I
24 guess that's a matter of physics, but I'm asking
25 about the financial effect.

1 And isn't the pool -- the whole purpose
2 of the pool to -- to bring together capacity
3 resources to be able to, from a financial standpoint,
4 pool resources and serve the load of the members? Do
5 you agree with that?

6 A. I think you've asked that question, and I
7 responded that the purpose, or a major purpose of the
8 pool, was to bring the resources of the members
9 together so that the loads can be served more
10 efficiently.

11 Q. Okay. And then my follow-up question was
12 whether, under your proposal, the auction procurement
13 brings in energy when there's already resources there
14 in the pool to serve, so would you agree that that
15 displaces the members' capacity resources?

16 A. What would happen with an auction is that
17 more energy would be brought in from outside of the
18 pool. The pool itself would still generate precisely
19 the same quantity of energy that it would generate
20 otherwise because it's just as economic before the
21 auction as it would be after, but that a company by
22 the bringing of more energy in from the outside of
23 the pool would be an equal amount of an increase in
24 wholesale sales by the pool. So the inflow and the
25 outflow related to the auction are essentially a wash

1 and the same AEP generators are generating.

2 I think that we should clarify that in
3 that answer. I was -- I should clarify. I was
4 talking about what would be an energy-only auction.

5 Q. Okay. Is that your recommendation, that
6 we do an energy-only auction?

7 A. My recommendation is that you should move
8 to an auction as soon as that can be done; an
9 energy-only auction might be an easier way to get
10 that accomplished. It's not the goal -- it's not the
11 end state, I should say. The end state would be a
12 full -- a full requirements auction that would
13 include both capacity and energy components.

14 Q. Okay. And you understand, do you not,
15 that the company in its proposed modified ESP had
16 proposed doing a full requirements energy auction
17 starting in January, 2015? You understood that,
18 right?

19 A. You said "full requirements energy
20 auction." That's a bit of an oxymoron. I would call
21 it an "energy-only auction" beginning January 1,
22 2015.

23 Q. Okay.

24 A. That's my understanding.

25 Q. And your distinction there being that the

1 capacity is not part of the auction.

2 A. That's a distinction. I'm not precisely
3 sure what "energy-only" means, whether it means
4 everything but capacity, or whether it means just
5 energy and not capacity, but also not ancillary
6 services.

7 Q. Okay. But your understanding, at least,
8 was that 100 percent of the energy required for the
9 SSO load, it was part of the company's proposal for
10 2015?

11 A. That is my understanding.

12 Q. Okay. And then further you understood
13 that the company was proposing a 5 percent
14 procurement starting next year, correct?

15 A. That's not precisely my understanding.
16 There was a conditional offer depending upon, as I
17 understand it, acceptance of other elements of the
18 AEP proposal that an energy auction would occur for
19 5 percent of the load within -- I think it was a
20 six-month time period from the approvals. I don't
21 know whether -- I don't know when that would be.

22 Q. Okay. Well, that's -- everything I'm
23 asking about the ESP is a conditional offer. It's
24 tied in as a package; is that your understanding?
25 The company made a filing that had numerous features,

1 and the two auction features we just discussed were
2 among the other features of the plan, correct?

3 A. The features we've just discussed were
4 part of the plan. I simply don't know whether there
5 were more or fewer conditions on the 5 percent
6 only-energy auction as opposed to the other auction
7 pieces.

8 Q. Okay. But is it your understanding that
9 the -- if the Commission accepts your recommendation
10 and changes or modifies these auction features, that
11 the company can withdraw from the plan?

12 A. I don't have an understanding --

13 Q. Okay.

14 A. -- in that regard.

15 Q. And so you didn't consider that when you
16 made your recommendations.

17 A. You're asking me whether I considered how
18 the company would respond?

19 Q. Whether the company had to consent to
20 such a modification.

21 A. That is not part of my recommendation.

22 Q. Okay. Now, is it your understanding that
23 an auction-based standard service offer is something
24 that's required under the Ohio regulatory regime?

25 A. My understanding is that the company can

1 propose such an auction, but that it can also propose
2 an ESP which produces more favorable results than the
3 auction would to the customers.

4 Q. More "favorable results than the auction
5 would," can you explain that?

6 A. Than the market rate option --

7 Q. Okay.

8 A. -- which is auction.

9 Q. Okay. Let's explore that a little bit.
10 Is the market rate option a 100 percent auction-based
11 procurement or competitively-bid process?

12 A. I don't know.

13 Q. Okay. So it's fair to say you don't know
14 whether the standard service offer needs to be or is
15 required to be market-based?

16 A. My understanding is the one that I have
17 given you that the company has the option of the ESP
18 or the market rate option and that the ESP, if
19 selected, would have to be more favorable than the
20 market rate option.

21 Q. Okay. And, more specifically, is it your
22 understanding that the ESP is required to include an
23 auction-based component or is not required to include
24 an auction-based component?

25 A. I don't have an understanding.

1 Q. Okay. You're speaking to what you call
2 "stranded cost recovery" in your testimony, correct?

3 A. There's some discussion.

4 Q. And that concept that you advance in your
5 testimony, is it fair to say you're presuming that
6 anything above what you would consider a market price
7 is not permissible to recover?

8 A. The decision has been made, as I
9 understand things, to move toward a competitive
10 market price regime in Ohio. The result of that will
11 be market prices. If the prices that are charged are
12 above the market prices and they come down to the
13 market prices, those -- those are stranded costs, and
14 my understanding is that the time has passed for them
15 to be recovered in Ohio.

16 Q. So you believe anything above today's
17 market price would be stranded costs; is that what
18 you're saying?

19 A. I don't understand the reference to
20 "today's market price."

21 Q. Well, what are you referring to when you
22 talk about market -- "market price"?

23 A. If I was setting a price today for a
24 particular time period, say beginning June 1, 2013, I
25 could make an estimate of what the market prices

1 would be for that period beginning June 1, 2013, and
2 I could make the end day May 30, 2014, or May 30,
3 2015, or whatever period I want it, and I could make
4 an estimate of the market price for a particular
5 period.

6 Q. Okay.

7 A. But that market price that I might
8 estimate for a period that begins one year in the
9 future and extends another year or two more years
10 would not necessarily be characterized as in your
11 question as "today's market prices."

12 Q. Exactly. So you didn't answer my
13 question.

14 A. Okay. Let's try it again, I'm sorry.

15 Q. What are you considering today's market
16 price when you talk about "stranded costs" in your
17 testimony? Are you talking about anything above RPM
18 pricing when it comes to capacity?

19 A. It sounds like we have two questions, I'm
20 sorry.

21 Q. I'm trying to help you get to the answer
22 here. When you talk about "stranded costs" in your
23 testimony, you stated earlier that's above market,
24 correct?

25 A. Correct.

1 Q. So what is the market price that you're
2 assuming in that statement?

3 A. It would be the market price -- excuse
4 me. It would be the market price for the time period
5 of interest.

6 Q. Okay. As we sit here today and we talk
7 about capacity pricing, are you talking about the RPM
8 price?

9 A. The RPM is a good way to determine a
10 proxy for the market price of capacity in the AEP
11 East zone.

12 Q. Why do you call it "a proxy"?

13 A. The RPM price is determined from the
14 intersection of a supply-and-demand curve under the
15 procedures that PJM employs. The supply for that
16 supply curve and the demand for that demand curve did
17 not include the AEP East load or resources. So it
18 might have included 85 percent, ballpark, of the load
19 and resources in the market were AEP to be there, but
20 it didn't include 100 percent.

21 So there's a sense in which we don't
22 really have the market clearing price for the AEP
23 zone; what would be the AEP zone were we to get a
24 market clearing price. We only have this
25 market-determined RPM price that reasonably can serve

1 as a proxy.

2 Q. So you believe it's reasonable, but the
3 fact is the RPM price did not include or reflect
4 either the load or the generation resources of AEP
5 Ohio, correct?

6 A. That's correct. It reflected a very high
7 percentage of the load and resources in PJM. But it
8 just didn't include the last increment that would be
9 associated with AEP East. So you've got most of the
10 demand and most of the supply, but you don't have
11 100 percent of it.

12 Q. Okay. But have you done a study to
13 determine what the RPM price would have been if the
14 AEP load and generation resources were actually
15 included or participated in the auction?

16 A. I have not done such a study.

17 Q. That applies for the whole period of 2012
18 through 2015, you've not --

19 A. I have not done such a study.

20 Q. Okay. So you don't know what the actual
21 price would be if the load -- the generation
22 resources of AEP Ohio were a part of the auction?

23 A. I don't know what the actual price is,
24 but I'm trying to get across the point that I think
25 that you've got a pretty good proxy because what you

1 have done is get a market price with a great deal of
2 the supply and demand in the market. So you're
3 close. You're just not precisely there.

4 Q. Okay. Well, that's speculation, isn't
5 it?

6 A. I don't think so.

7 Q. Okay. Now, have you testified in
8 stranded cost proceedings? I didn't have time to get
9 through all of your vitae. Let me just ask you that.

10 A. I don't want to appear nonresponsive.
11 The short answer is that I don't know. I do know
12 that I have on -- testified in a quote-unquote
13 stranded cost proceeding by attempting to quantify
14 stranded costs. The distinction being perhaps I
15 testified in some proceeding where there was a
16 stranded costs aspect that I wasn't involved in.

17 Q. Okay. And it wasn't a trick question
18 because, like I said, I could ask you about a prior
19 case if it's listed in your resume. But what I'm
20 getting at, do you have an understanding of what the
21 valuation or the analysis is in a stranded cost case?

22 A. I have a general understanding. A
23 specific understanding would have to arise, I'm sure,
24 within the context of the -- the legislative and
25 regulatory background against which the issue was

1 addressed.

2 Q. Okay. Well, briefly what is your
3 understanding of the stranded cost analysis? What's
4 the essence of what's being looked at?

5 A. Sure. You have an asset that might be
6 valued at \$1,000 in the regulated world, and in the
7 market world it would be valued at \$800. These are
8 hypotheticals. So if you continue in the regulated
9 world, over time you're going to get your \$100 --
10 your -- I think I said "\$1,000."

11 Q. Yeah.

12 A. You are going to get your \$1,000. If you
13 move from the regulated regime to the market regime,
14 say on a flash-cut basis, you're only going to get
15 the \$800. So the stranded cost investigation is
16 trying to determine what is that regulated value and
17 what is that market value --

18 Q. Okay.

19 A. -- and make the subtraction.

20 Q. Yes. Okay. So you say over time you'll
21 get your \$1,000 return. What kind of timeframe are
22 we talking about?

23 A. That's probably too glib. You'll be
24 offered the opportunity to get your \$1,000.

25 Q. And what's the timeframe that you look at

1 on that side of the equation?

2 A. Well, you would have numerous assets and
3 you -- with different service lives, and you would be
4 allowed, if the traditional regulatory regime
5 continues, to recoup all of those costs over all of
6 the length of their service lives.

7 Q. So the remaining service lives of the
8 assets would be the timeframe.

9 A. Correct.

10 Q. Right. Now, that's a long term to you,
11 is it not?

12 A. Most likely.

13 Q. Mr. Frame, with respect to the pool
14 agreement, you understand that it's a FERC-approved
15 agreement, and that changes to the FERC -- to the
16 agreement requires approval of FERC; is that correct?

17 A. I agree that it's a FERC-approved
18 agreement, and I agree if you make a change, a
19 modification, change the words on the paper, you
20 would have to file that with FERC.

21 EXAMINER TAUBER: Mr. Frame, could you
22 pull the mic a little closer to you.

23 THE WITNESS: I apologize.

24 EXAMINER TAUBER: That's all right.

25 Thank you.

1 Q. And the transactions in the pool
2 agreement are wholesale transactions? Do you agree?

3 A. I agree that what you are referring to as
4 transactions in the agreement are jurisdictional at
5 the FERC.

6 Q. Okay. And, again, those are -- those are
7 financial transactions, not physical transactions,
8 correct?

9 A. Well, I think we're circling back to
10 where we were earlier and there are physical aspects
11 to the pool in that the pool coordinates the
12 operation of the generators.

13 Q. Okay. So there are consequences that
14 result -- there are operational consequences that
15 result from the pool; is that what you're saying?

16 A. And going back to my previous answer, I
17 didn't mean to say there weren't financial
18 implications, but there are physical aspects as well.

19 Q. And is it -- is it fair that you're
20 saying that there are operational consequences
21 resulting from the financial arrangements in the
22 pool?

23 A. I think I would have flipped that around.
24 I think I would have said that the pool runs the
25 generation system and, as a result, hopefully if

1 they've done a more efficient operation than
2 stand-alone operations would result in, there are
3 financial benefits to be shared.

4 Q. Okay. Thank you. Now, turn to page 11
5 of your testimony, table 2. So you've got this
6 hypothetical example that you start discussing, I
7 believe, on page 10 and following. So are you there,
8 Table 2?

9 A. I am.

10 Q. You've got the "Per kW Month Cost or
11 Payment." In that column for AEP Ohio, you've got
12 \$10 there. Do you see that?

13 A. I do.

14 Q. Now, are you aware of the actual per kW
15 month cost that AEP Ohio receives as a long member in
16 the pool?

17 A. I've got some sheets with that
18 information on it.

19 Q. Okay. If you need to refer to your
20 workpapers, that's fine. I'm asking you what the
21 current level is, if you know.

22 A. Bear with me. I'm doing a calculation.
23 I believe the materials that I've seen would put it
24 in the neighborhood of \$14 a kW per day.

25 Q. Okay. And do you know what that would be

1 equivalent to on a dollar-per-megawatt-day basis?

2 A. I apologize with respect to my last
3 answer. My last answer was for AEP -- for Ohio Power
4 stand-alone without Columbus and Southern in it.

5 My understanding is that the AEP -- the
6 blended AEP Ohio rate would fall somewhere between
7 the stand-alone rates for the two. I believe the
8 stand-alone AEP -- the stand-alone Ohio Power rate
9 was in the neighborhood of 460 to 480 dollars per
10 megawatt-day. The Columbus Southern one was a little
11 bit lower than that.

12 Q. Okay. So you haven't done the
13 calculation, the blending you just referred to, for
14 the total company?

15 A. Actually, I think I have. I just don't
16 have it in my mind.

17 Q. Okay. It's fair to say it exceeds \$400
18 per megawatt-day?

19 A. I believe so.

20 Q. And that's what the actual -- the other
21 members of the pool pay AEP Ohio for capacity under
22 the pool, correct?

23 A. The members that have a shortfall, using
24 the computational procedure, would make that payment;
25 if a member was not short, it wouldn't make that

1 payment.

2 Q. Correct. But that's the rate that AEP
3 Ohio gets paid --

4 A. That's what AEP Ohio gets paid.

5 Q. Under the pool.

6 A. That's correct.

7 Q. Okay. Now, do you think it's problematic
8 at all for the other members of the pool to pay a
9 rate exceeding \$400 per megawatt-day while, under
10 your proposal, the CRES providers would get an
11 RPM rate which today would be \$16 per megawatt-day?
12 Do you see any problems with that?

13 A. I don't see any problems at all. I don't
14 think the comparison is germane in any sense. If you
15 think about the pool agreement, the concept of the
16 pool is some -- some companies getting together to
17 pool their resources and squeeze more out of the
18 system with an expectation that they'll -- there will
19 be benefits. They are all bringing something to the
20 table, and they're sharing whatever costs are
21 involved.

22 It's a long-term deal. It's not a --
23 it's not a deal where you expect every component in
24 the pool to be priced on a market transaction. It
25 just has to be something that's sufficiently

1 favorable for all of the members, overall, for them
2 to want to -- to agree to participate.

3 On the other hand, the other part of your
4 comparison, what a CRES provider will pay, that --
5 the relationship between a CRES provider and AEP Ohio
6 is a completely different arrangement than that
7 between AEP and Appalachian in the AEP pool. It's an
8 arm's length transaction without any expectation that
9 there's a mutuality or long-term arrangement that
10 goes beyond just the individual transaction.

11 Q. If it's an arm's length transaction, why
12 do you think the Commission would have to order it to
13 occur under your testimony?

14 A. I've gotten lost now.

15 Q. Okay. Can you turn to page 10 of your
16 testimony. And the answer that begins on line 5,
17 you're talking about the per kW payments that we
18 just -- that we just discussed in Table 2 and how
19 they're calculated. Do you see that?

20 A. I do.

21 Q. And you say it's the sum of two things.
22 The first thing is the weighted average embedded
23 investment cost, correct?

24 A. Correct. Investment cost of the
25 non-hydroelectric-owned capacity.

1 Q. Yeah. And we'll get to that section (i)
2 in a minute. So is -- when you refer to embedded
3 investment costs, what does that mean?

4 A. In this context I'm using the embedded as
5 basically the old costs, the acquisition costs that
6 were incurred by the facilities that are already
7 there as opposed to some forward-looking cost
8 concept.

9 Q. Okay. Is that -- sorry.

10 A. This particular -- as I understand it,
11 this particular computation, the computation for the
12 equalization charge in the pool agreement, is based
13 upon an installed cost times a carrying charge
14 factor.

15 Q. Okay. Is it net plant or gross plant?

16 A. Well, that's what I just meant to say.
17 This one would be gross plant times the carrying cost
18 factor.

19 Q. And often is that calculated in the pool?

20 A. You are -- you're asking me how often
21 the -- what value are you asking me the frequency of
22 which it is calculated?

23 Q. It's Roman (i), line 6 through 8, page
24 10, the one we were just discussing.

25 A. The computation is made monthly which is

1 not to say that the installed investment cost itself
2 would also change monthly.

3 Q. Okay. So you believe it's done monthly.
4 Are you --

5 A. Yes. If you refer to Article 6 of the
6 agreement, it refers to "monthly computations."

7 Q. So are these the same types of costs --
8 let me back up.

9 Are you familiar with the capacity charge
10 case in Ohio?

11 A. "Familiar with" is a pretty strong
12 statement. I'm aware that it's going on, and I'm
13 aware that it has produced certain computations.

14 Q. Okay.

15 A. \$355 per megawatt-day as an example.

16 Q. Right. So you are generally familiar
17 with the proposed formula and the proposed cost-based
18 charge that AEP Ohio filed in that case?

19 A. I haven't studied it in detail.

20 Q. Okay. Well, you recited the correct
21 number. Are these the same types of costs that are
22 included in the company's \$355 cost-based proposed
23 rate?

24 A. Let's see. You asked are they "the same
25 types of costs." Well, "types of costs," they --

1 there's a sense in which the answer is yes, because
2 they are costs for generators. So if a generator
3 cost is a type of cost, they are the same type of
4 cost. However, not all of the same generators are
5 included and the computational procedures are not
6 quite the same.

7 Q. Okay. Well, that's why I said "the same
8 types of costs." Both the company's formula rate
9 proposal of \$355, the weighted average embedded
10 investment cost per kW that we are talking about in
11 the pool, include embedded costs for the company's
12 generating units, correct?

13 A. Well, they do, but as we discussed a few
14 questions ago, the computation for the capacity
15 equalization under the pool starts with gross plant
16 and applies a carrying-charge factor to that as per
17 the pool agreement, and it also excludes
18 hydroelectric plants.

19 As we sit here today, I can't tell you
20 whether the hydroelectric plant is or is not included
21 in the computations in the capacity cost case, but I
22 do believe that they don't use the same gross
23 investment as the starting point. Rather, I believe
24 they use gross investment less depreciation.

25 Q. Okay. And then the second Roman numeral

1 starting at line 8 and through line 11 that you're
2 saying that the per kW payments are the sum of, can
3 you explain the second item?

4 A. Beginning on line 8, is that the
5 question?

6 Q. Yeah, the non-hydroelectric operating
7 costs.

8 A. Right. Well, the payment has two
9 components, one is the investment cost component and
10 one is the operating cost component, and they -- they
11 back out of the production costs the cost of fuel
12 costs as well as some of the maintenance expenses.
13 They are making an implicit assumption that
14 maintenance expenses is split 50/50 between fixed and
15 variable.

16 Q. Okay. Are those also calculated monthly
17 to your understanding?

18 A. Section 6.2 of the pool agreement
19 indicates they are computed monthly.

20 Q. Okay. Are you looking at the pool
21 agreement right now?

22 A. Yes, I am.

23 Q. Okay. And you indicated earlier that the
24 investment costs' piece was done monthly a few
25 minutes ago.

1 A. I believe what I indicated was that the
2 computation was done monthly, but I didn't know
3 whether the investment itself would change monthly.

4 Q. Okay. Can you review 6.211 and see if
5 that refreshes your recollection.

6 A. I have read it.

7 Q. And is it still your understanding that
8 it's monthly or is it annually?

9 A. Well, as I said before -- or what I said
10 before was that the computation is done monthly, but
11 I wasn't certain whether the investment amount for
12 the computation changed monthly. That was my
13 uncertainty. I said that the computation itself was
14 done monthly.

15 Now, you've cited me to Section 6.211
16 which indicates that the investment amount does not
17 change monthly.

18 Q. Correct.

19 A. But it doesn't say that the computation
20 is not done monthly.

21 Q. Well, it may be billed monthly, but it's
22 not made monthly, is it? The calculation itself is
23 made annually; is that correct?

24 A. No.

25 Q. Okay.

1 A. No. Section 6.2 says that the
2 computation is done each month.

3 Q. Mr. Frame, what's -- when did you first
4 read the pool, become aware of the pool?

5 A. I don't know. Years ago.

6 Q. For what purpose?

7 A. I've been studying this industry on a
8 full-time basis for most of the last 30 years and
9 familiarized myself with electric operations in a
10 large swathe of the country.

11 Q. So when did you first become familiar
12 with the AEP pool?

13 MR. LANG: Objection. Asked and
14 answered.

15 MR. NOURSE: I didn't get an answer.

16 EXAMINER TAUBER: I'll allow it.

17 A. With a high degree of comfort but not
18 absolute certainty, I'm quite certain I was aware of
19 certain aspects of the AEP pool in the early to
20 mid-'80s, and the certain aspects would be that it
21 was a centrally-dispatched pool.

22 Q. Okay. And let me ask you another
23 question about Table 2 on page 11. How are the other
24 members' equalization charge calculated? For
25 example, is it -- for AEP Ohio's costs, the payment

1 they get, is it based on AEP's costs?

2 A. In the table, in Table 2, there's a \$10
3 per month payment for per kW per month for AEP Ohio
4 and a \$7 per month per kW month payment for Kentucky
5 Power. And in the discussion I indicate that I've
6 assumed that those are the amounts, and these are
7 assumptions for purposes of the table only that those
8 are the amounts that would be produced by the formula
9 in Article 6.2 of the agreement.

10 Then the \$8.50 amount which are the
11 payments that are made by Appalachian and I&M are
12 determined in a fashion so that AEP Ohio gets its
13 recovery and Kentucky gets its recovery. So it's the
14 cost-based amounts for AEP Ohio and Kentucky that
15 drive the payments that the other two make.

16 Q. Okay. Well, it may drive it, I guess
17 that's what I'm trying to get more clarification
18 around. When Kentucky Power purchases capacity under
19 the pool, do they pay AEP Ohio specific costs? Is
20 there another way the capacity charge is developed in
21 order to determine Kentucky Power's per kW charge?

22 A. I think there is a miscommunication in my
23 example. Kentucky Power is long, not short.

24 Q. Okay. Well, in your example, let's use
25 APCo in your example then.

1 A. Okay.

2 Q. Same question.

3 A. Okay. So AEP is long and Kentucky is
4 long, and they are going to get their costs, so
5 there's a bucket of dollars that comprises the costs
6 computed under the pool agreement for AEP Ohio and
7 for Kentucky. And that pool of dollars is then
8 assigned to Appalachian and I&M such that the dollars
9 that the long companies get are precisely matched by
10 the dollars that the short companies pay each month.

11 Q. Okay. So on the cost side, the costs are
12 pooled and then there's a charge that's developed
13 that the company -- short company pays? Is that what
14 you're saying?

15 A. The costs are combined of the two long
16 companies, and then the two short companies
17 collectively pay that amount.

18 Q. And how are they combined? What do you
19 mean when you say "combined"?

20 A. Add them up.

21 Q. So is that a weighted-average summation?
22 Is that what you're saying?

23 A. I think effectively it is that, but you
24 can get there by just adding them up.

25 Q. Okay. Now, on page 12 you talk about

1 "Primary Energy" and a calculation of that charge
2 under the pool, correct?

3 A. Yes.

4 Q. Okay. Does a receiving member pay the
5 average rate of the supplying company?

6 A. I don't understand the question.

7 Q. Okay. We just had a discussion about the
8 per kW charge, and I think you concluded that it's a
9 weighted average on the cost side that gets charged
10 to the short company. I'm asking the same kind of
11 question with the primary energy now, how that charge
12 developed. The company that receives the energy pays
13 the charge?

14 A. Okay. You look at the variable
15 production costs of the non-hydroelectric-owned
16 member primary capacity of the supplying company.
17 The supplying company receives that amount. The
18 company that received the energy pays that amount.

19 Q. So it's not a weighted average, primary
20 energy; is that what you're saying?

21 A. I suppose you could call it the "weighted
22 average" or you could not. I don't know exactly what
23 you're getting at with "weighted average" in this
24 context.

25 Q. Is the -- okay. Well, I'm just trying to

1 clarify, sir. We just had a discussion about the per
2 kW charge, and I believe you said on the cost side
3 the costs are pooled and the charge is developed for
4 the short-side member to pay the kW charge, correct?

5 A. Our pooling concept there was that we had
6 two members that were long, and we had a set of
7 dollars for each of those members, and then we added
8 them together or combined them or pooled.

9 Q. Correct.

10 A. Now, in this primary energy example, we
11 have AEP Ohio is selling primary energy. There's no
12 pooling of its primary costs -- primary energy costs
13 with the primary energy costs of, say, Kentucky.

14 There would be no analogous pooling among
15 the companies for this primary energy rate. What we
16 would determine would be the variable costs of AEP
17 Ohio's own non-hydroelectric member primary capacity.

18 Q. Okay. And that's what I was trying to
19 clarify for the record. So the primary energy, the
20 purchaser member pays the actual production costs
21 for -- of the providing member for the energy,
22 correct?

23 A. It appears the average variable cost of
24 the member's owned non-hydroelectric member primary
25 capacity.

1 Q. Okay.

2 A. That's a little more precise statement
3 than you made, but I don't think -- it's just a more
4 precise way of stating it.

5 Q. Okay. Just so the transcript is clear,
6 when you said the "member's own" --

7 A. "Owned."

8 Q. You said member apostrophe "s" in that
9 case, correct?

10 A. Member apostrophe "s" owned
11 non-hydroelectric.

12 Q. Thank you. Okay.

13 On page 3, the bottom of the page there,
14 you're talking about how external purchases would be
15 treated under the pool. And whether they would be
16 considered primary capacity. Do you see that?

17 A. I do.

18 Q. Okay. And are you aware that there's a
19 distinction between a long-term purchase that's five
20 years or more and a short-term purchase such as the
21 auction that you recommend?

22 A. The way I look at the pool agreement is
23 that there's a distinction between purchases at that
24 member primary capacity and purchases that are not.
25 The factor you mentioned, the length of the purchase,

1 would be one factor that could be employed in
2 determining whether a purchase qualifies as member
3 primary capacity.

4 Q. Okay. Well, isn't it true that it's not
5 just one factor that could be employed, but it's a
6 factor that must be considered under the pool?

7 A. That's not the language of the pooling
8 agreement. The language of the pooling agreement is
9 other than that.

10 Q. You think it's optional to consider that?

11 A. If I might read from that section of the
12 agreement, it's Section 5.7.1, and it states, "All
13 determinations by the Operating Committee pursuant to
14 small Roman (ii) of Section 5.7 with respect to
15 purchases of capacity from nonaffiliated companies
16 shall take into account, but shall not be limited to,
17 the following circumstances and considerations:"

18 And then the first one of those that's
19 itemized is "...the term during which such capacity
20 will be available, a commitment from a reliable
21 source of power and energy for at least five years
22 being normally regarded as appropriate for inclusion
23 as a capacity source of a particular Member, with
24 purchases of a short or intermediate duration being
25 normally regarded as System purchases under Article

1 7."

2 Q. Okay.

3 A. Now, your question is -- gets to whether
4 they have to do it -- have to treat a less than five
5 years as short-term and a five year or longer as
6 member primary capacity and --

7 Q. No, that's not what I asked.

8 A. Okay. I'm sorry.

9 Q. I asked you if that factor was required
10 to be considered under the pool; and the language you
11 just read, doesn't that indicate that it shall take
12 into account?

13 A. I'm sorry. I misheard the question.

14 Q. Okay.

15 A. They shall take it into account. They
16 may or may not make the determination with respect to
17 the five years, but they shall take that factor into
18 account.

19 Q. Okay. So that's mandatory consideration
20 No. 1 is whether it's five years or more, correct?

21 A. Correct.

22 Q. And the auction purchases that -- I guess
23 in your testimony you are referring to "system
24 purchases," right?

25 A. Do you have a particular reference?

1 Q. On page 13, line 18. You use the
2 non-capitalized "system purchases" as a term that
3 you've come up with to -- for convenience here?

4 A. This is what I had stated a couple of
5 responses ago when perhaps I had misheard your
6 question.

7 Q. Okay.

8 A. As I read the operating committee -- as I
9 read the interconnection agreement, that there -- a
10 purchase could be classified as member of primary
11 capacity or it could be classified as, what I'm
12 calling on page 13, a "system purchase."

13 Q. Okay. And this is part of what my
14 earlier question was when I asked you you don't have
15 a definitive reading or view of how the auctions
16 would be treated under the pool? This is one example
17 in your testimony. You're saying it may or may not
18 be primary capacity, correct?

19 A. No. I think I'm saying quite a bit
20 stronger than that.

21 Q. Okay. Now, on the "system purchases,"
22 you say, I think on page 14, lines 4 through 6, that
23 "The cost and benefits of system purchases are shared
24 by the members in proportion to their MLRs," correct?

25 A. Yes.

1 Q. Okay. So, again, if the auction is
2 considered a "system purchase" in your terminology,
3 then the -- all the members would share the costs and
4 benefits of that purchase, correct?

5 A. Correct.

6 Q. Okay. So bringing in those costs and
7 benefits into the pool associated with the auction,
8 that impacts the other members of the pool, not just
9 AEP Ohio, correct?

10 A. Yes and no. Yes, because for this half
11 of what we're talking about, that's absolutely
12 correct. No, in the sense that bringing in these
13 purchases creates unequal and offsetting sales
14 opportunity.

15 So if you're buying 100-megawatt hours as
16 part of an auction, you have immediately freed up 100
17 megawatts of generation capacity that you would have
18 otherwise used -- be used for your own load that you
19 have available to the market -- to market. And as it
20 turned out, in PJM, well, you don't have to be much
21 of a salesman to do that marketing.

22 Q. Okay. So, you know, "freed up" and "made
23 available" sound good. But isn't that just another
24 way of saying that you're forcing capacity that was
25 dedicated to serve Ohio load into the market?

1 A. I wouldn't say it that way. I would say
2 it the way I said it.

3 Q. Okay.

4 A. The AEP generation fleet is in the money
5 or it's not in the money at any point or time, or
6 parts of it are in the money if it can generate at
7 less than the market clearing price, then it's in the
8 money, and the position of AEP's generation with
9 respect to the marketplace is not going to be changed
10 at all by an auction purchase.

11 So what comes in as an auction purchase
12 is going to go out as a marketplace sale. And the
13 same generation is still economic at the market
14 price.

15 Q. Does AEP Ohio's generation, their assets,
16 does that participate in the RPM capacity market
17 today?

18 A. I'll answer that question, but let me say
19 that you're asking that question following my
20 previous answer, suggesting that we're not
21 communicating.

22 My understanding is that, now in response
23 to your question, AEP, as I understand it, they have
24 put small amounts into the RPM but as a general
25 matter -- into the auction, the RPM bid process, but

1 as a general matter, their generation is covered by
2 the FRR commitment.

3 Q. And the FRR status restricts what can --
4 what assets can participate in the RPM market, does
5 it not?

6 MR. LANG: Your Honors, is the --

7 MR. HAYDEN: Speak into the mic.

8 THE WITNESS: I apologize.

9 MR. LANG: Thanks.

10 A. Is there a question?

11 Q. Yeah. Does the FRR status restrict how
12 much capacity that AEP Ohio can use to participate in
13 the RPM market?

14 A. If AEP's capacity is covered by the FRR,
15 it cannot simultaneously provide that capacity into
16 the RPM auction.

17 Q. Okay. And when you said we were
18 disconnecting, your answer a couple of answers ago
19 was that -- was that the generation units are either
20 in the money or they're not, and I think that was
21 referring to market clearing prices. And so is it
22 your understanding that the energy that AEP Ohio
23 participates in the PJM energy market?

24 MR. LANG: Just object to the form of the
25 question because there was kind of an introduction

1 and then a statement of personal belief, then a
2 question toward the end, and I think it would be
3 confusing on the record.

4 Perhaps Mr. Nourse can ask the question
5 without all the preliminaries.

6 MR. NOURSE: No. I think, Mr. Lang, I
7 stated that -- I said I think that's what he was
8 saying. He can clarify. I did ask him a question.
9 If it needs to be reread, that's fine.

10 EXAMINER TAUBER: Do you understand the
11 question, Mr. Frame?

12 THE WITNESS: I would like it reread,
13 please.

14 EXAMINER TAUBER: Okay. We can do that.

15 (Record read.)

16 THE WITNESS: I'm sorry, I didn't
17 actually get the last part of that which seemed to be
18 the question. Could I get you to just read that last
19 part again, please?

20 (Record read.)

21 A. I'm sorry, I'm still not hearing a
22 question, sir.

23 Q. Does AEP Ohio participate in the PJM
24 energy market?

25 A. Yes.

1 Q. And does AEP Ohio collect --

2 A. I'm sorry. AEP participates. AEP
3 participates in the PJM energy market.

4 Q. On behalf of AEP Ohio?

5 A. I believe it's done on behalf of the
6 members of the pool.

7 Q. Okay. And what rates does AEP Ohio
8 collect from customers for energy? Is it the market
9 rate, or is it the regulated rate?

10 A. It's the rate set by this Commission.

11 Q. Okay. Now, would you turn to page 15.
12 This is where you begin the discussion of "external
13 sales" starting on the question on line 9. Do you
14 see that?

15 A. I do.

16 Q. And you're talking about firm sales and
17 system sales, correct?

18 A. Actually, I refer to three types of
19 external sales.

20 Q. And what's the third?

21 A. System sale as you mentioned, a firm sale
22 which is included in the member load obligation, and
23 then what is referred to as a "unit or non-firm
24 sale."

25 Q. Right. Okay.

1 A. Would be a sale out of a particular
2 generating unit.

3 Q. Okay. Are you aware of any firm sales to
4 foreign companies that exist today under the pool?

5 A. I am not. I'm not saying that there are
6 or are not any. I'm simply not aware.

7 Q. Okay. When you referred to the term
8 "foreign companies," does that include affiliates
9 that are not members of the pool?

10 A. No.

11 Q. Okay. Now, are you aware of a firm sale
12 to Wheeling Power?

13 A. I believe that I have seen reference to
14 such a sale. I'm not aware of the details of that
15 transaction or how it would be classified under the
16 pool agreement.

17 Q. So you don't know how it's treated from
18 an MLR perspective?

19 A. I don't know how it's treated from an MLR
20 perspective. It may be treated as part of a member's
21 internal load, but I don't know.

22 Q. Do you know how the Wheeling Power
23 agreement is treated from an energy perspective?

24 A. I do not.

25 Q. Okay. Can you turn to page 17. Okay.

1 And lines 5 through 12, you're talking about the
2 procedure and allowance for a modification of the
3 pool. Do you see that?

4 A. Yes.

5 Q. Okay. Now, do you know when the last
6 time or how many times in general the pool has been
7 modified?

8 A. If you look at the first page of -- I
9 don't know how it's going to be referred to. The
10 first page of the interconnection agreement does list
11 the modifications and the dates.

12 Q. Yes.

13 A. I don't have any information independent
14 of that.

15 Q. Okay. And what was the most recent
16 modification?

17 A. November 1, 1980.

18 Q. Okay. Do you know what that modification
19 related to?

20 EXAMINER SEE: Mr. Nourse, is your mic
21 working?

22 MR. NOURSE: I hope so. Is that better?

23 A. There was a FERC hearing preceding that
24 point. It may have related to the FERC decision, but
25 I'm not certain of that.

1 Q. Okay. Now, you rely on and refer to
2 Section 12.1 in your testimony about the modification
3 process on page 17. Do you know whether any of the
4 modifications listed on the front of the pool have
5 been made under Section 12.1?

6 A. I do not.

7 Q. Do you know who the members of the
8 operating committee are in the pool?

9 A. I've seen them identified in certain
10 materials that I've reviewed, but I don't have their
11 names before me other than I believe that
12 Mr. Munczinski would be the pool chairman.

13 Q. Okay. Is it fair to say that each of the
14 members are represented on the operating committee?

15 A. That's my understanding.

16 Q. And is it your understanding under
17 Section 12.1 that the members would need to agree to
18 modification?

19 A. The modification has to be agreed to by
20 the members. I'm not certain whether that means each
21 and every member must agree or there's some voting
22 mechanism either weighted or unweighted. I do not
23 know the answer to that part.

24 Q. Okay. So in order for them to agree, is
25 it fair to presume they would have to determine if

1 it's in their interest to pursue such a modification?

2 A. Again, I don't know what the voting
3 format would be, whether three can outvote one or
4 not. It's kind of tautological that the members
5 would have to agree in some broad sense that a change
6 would be in their overall best interest, but that
7 could be a very broad basis for making such a
8 determination.

9 Q. Well, it's tautological, so you agree to
10 my question. That's what I was expecting, a "yes"
11 answer to that.

12 A. And the reason I state it as I did is
13 because it's possible that one member might agree to
14 something that didn't benefit that member in the
15 immediate term but agreed to it because it was
16 beneficial to the other member, but for no other
17 reason.

18 Q. So the member would agree because it
19 helps another member and hurts the member that's
20 agreeing?

21 A. That's not what I meant to say. The
22 member that's agreeing might not be affected at all.
23 It may perceive no interest other than that it would
24 be beneficial to the other member.

25 Q. All right. So you mentioned "regulatory

1 approvals" on line 11, page 17. The reference there
2 is to FERC, correct?

3 A. Yes.

4 Q. Okay. And are you familiar with any of
5 the timeframes in FERC cases involving modifications
6 that have occurred historically?

7 A. No.

8 Q. Okay. And you mentioned that some of the
9 language suggests that a modification would be
10 effective the following January 1, right?

11 A. Yes.

12 Q. And if you look at the front page of the
13 agreement that we talked about earlier, are those --
14 do those dates indicate that they became effective on
15 January 1 in any instance?

16 A. They do not.

17 Q. Okay. Is it fair to say in a FERC
18 proceeding of that nature, if a substantive change is
19 made to the pool, there are -- there are multiple
20 stakeholders in each of the members -- the pool
21 members' jurisdictions, which comprise seven states
22 in the east, all those stakeholders will have an
23 interest in and will likely participate in that FERC
24 proceeding?

25 A. Well, there are certain multiple

1 stakeholders that are interested in AEP's business
2 before regulatory commissions. What particular
3 modification that there might be and how each of
4 those -- how substantive each of those parties might
5 deem it to be, I have no idea. I don't know what the
6 change might be. So I don't know if they participate
7 or not.

8 Q. Okay. Do you have experience in FERC
9 proceedings that -- are they generally something that
10 would happen in 90 days or 6 months or 18 months,
11 this kind of proceeding?

12 A. The proceedings that I've been involved
13 with span quite a range of time periods.

14 Q. Okay.

15 A. Some are not controversial and there are
16 no interventions and go through rather quickly.
17 Others are not in that category.

18 Q. And your understanding is that the
19 current effective date for termination of the pool
20 that's being pursued by AEP, by the members, is
21 January 1, 2014?

22 A. That is my understanding.

23 Q. Okay. So even if the company -- all the
24 members agreed to pursue a modification and
25 incorporate the auction recommendation we have, would

1 the -- would the difference in effective date be a
2 matter of months as compared to January 1, 2014?

3 MR. LANG: Could I have the question read
4 back, please?

5 EXAMINER TAUBER: Sure.

6 (Record read.)

7 MR. NOURSE: It should have been January
8 1, 2014.

9 Q. So what I'm asking is, the current goal
10 being pursued by AEP is to terminate the pool by
11 January 1, 2014, and under this modification process,
12 even if all the members agreed and we tried to add
13 the auction, and there is a big fight at FERC about
14 that, the outcome would be probably a few months
15 different from January 1, 2014, at best. Can you
16 agree with that?

17 A. Two comments. First of all --

18 MR. LANG: Objection to the question as
19 it assume facts not evidence. Adding an auction
20 process to the pool through this modification
21 process, I don't believe that's what's in Mr. Frame's
22 testimony.

23 A. First of all --

24 EXAMINER TAUBER: Hang on one second.

25 Mr. Nourse, any response?

1 MR. NOURSE: I think he is ready to
2 respond. I think he understands the question, so I
3 am sure he got his assistance from counsel. He is
4 ready to respond, your Honor.

5 EXAMINER TAUBER: I'll allow the
6 question. You may answer.

7 THE WITNESS: Thank you.

8 A. First of all, it's not my view that the
9 pool agreement needs to be modified to allow an
10 auction to occur. That's what the testimony states.

11 Second, you're asking me to speculate on
12 the time period that might be required to get the
13 modification approved at FERC, if one was necessary.
14 I can't do that. I do know that the answer depends,
15 and it would be a lot different if it was a rather
16 controversial change that was being imposed that
17 might be deemed to harm certain parties as opposed to
18 a change that did not harm certain parties and that
19 various parties had signed off on in advance. So
20 beyond that, I just don't know.

21 Q. Okay. Why are you talking about the
22 modification provision in your testimony?

23 A. My testimony is that the agreement does
24 not need to be modified to have a CBP by AEP Ohio.

25 On the other hand, if it's more

1 controversial than I think it to be, more difficult,
2 if the operating committee has some problems they
3 can't solve themselves, they've got an avenue out
4 with respect to the modification procedure.

5 Q. Okay. Can you turn to page 18. So this
6 is where you begin talking about the CBP
7 recommendation, correct?

8 A. I'm there.

9 Q. And are you recommending that AEP Ohio
10 provide capacity to the suppliers in the auction and
11 then they, in turn, use that capacity to support
12 their bid in the auction; is that what you're
13 recommending?

14 A. Okay. The context of your question is
15 that there would be an energy-only auction conducted
16 and -- is that correct?

17 Q. No. I'm asking about your recommendation
18 which, let's start there, at line 15 and 16, aren't
19 you saying that the -- the auction that you're
20 talking about would include the all-in?

21 A. Are you on page 18 of my testimony?

22 Q. Page 18.

23 A. Okay. There is no recommendation on page
24 18.

25 Q. Okay.

1 A. It's a description of the type of
2 auctions that other -- other entities and other load
3 serving entities in PJM have conducted.

4 Q. Well, let's clarify. What is your
5 recommendation relative to energy-only versus all-in
6 or some other description you want to provide?

7 A. My recommendation is that AEP should move
8 to an auction as expeditiously as possible. If --
9 ultimately that should be a capacity and energy
10 auction. If including the capacity component takes
11 too much time or makes it too controversial because
12 of the types of issues you just raised with respect
13 to potential modifications or intervenor groups, then
14 an energy-only auction would be a fine place to start
15 as Mr. Banks has recommended.

16 Q. Okay. But the energy-only auction
17 alternative, I'll say that you're -- you just now
18 spoke of, that presumes or embedded within your
19 recommendation there is that AEP Ohio is still
20 providing capacity to CRES suppliers or to auction
21 bidders at RPM rates, correct?

22 A. The capacity would be supplied at RPM
23 rates. It's an open question in my mind as to who it
24 would be supplied to, and by that I mean would AEP on
25 the one hand be supplying capacity to the bidders who

1 would bundle it in their product and may effectively
2 sell it right back to AEP, that would be one
3 alternative. Or a second alternative would be that
4 AEP is the capacity supplier to the retail customers
5 under the SSO.

6 Q. Okay. And is it your understanding that
7 the issue in Ohio that's been litigated in the
8 capacity case we talked about earlier, does that
9 issue as to the appropriate capacity charge apply to
10 shopping load or nonshopping load or both?

11 A. Are you asking me to characterize the
12 litigation that has gone on with respect to the rate
13 to be charged the CRES providers?

14 Q. I'm asking you what your understanding of
15 the capacity case is that we talked about earlier.
16 Is the issue there to establish the capacity charge
17 for shopping load only?

18 A. My understanding is it is to establish
19 the unbundled capacity price for the -- that is
20 provided to the CRES providers.

21 Q. For shopping load only?

22 A. Maybe there's a definitional problem.
23 I'm thinking of CRES providers as --

24 EXAMINER TAUBER: Mr. Frame, could you
25 use the mic.

1 THE WITNESS: I apologize again, your
2 Honor.

3 A. I'm thinking of CRES providers as serving
4 shopping load.

5 Q. Right. And so your recommendation here
6 is completely above and beyond that, is it not? I
7 think it deals with the SSO nonshopping load capacity
8 price, correct?

9 A. Right. My recommendation -- my
10 discussion here is in the context of how to complete
11 the service package that would be bid in an
12 energy-only market. Where's the capacity going to
13 come from and how is it going to be priced?

14 Q. Okay. And that issue you just described,
15 was that an issue in the capacity case, if you know?

16 A. I'm not involved in that case, so I
17 really don't know.

18 Q. Okay. So the auction that you're
19 recommending here for SSO load, is it fair to say
20 whatever margin AEP Ohio has on capacity in current
21 SSO rates would be displaced and would be priced
22 instead at RPM? Is that the effect?

23 A. The capacity should be priced at a market
24 level in my view. If the current price is above the
25 market level, then the current price needs to come

1 down.

2 Q. Okay. Page 19 in lines 12 and 13, and,
3 again, your belief, talking about this auction
4 context for SSO, you say that "...the LSE purchases
5 electricity from the winning bidders but retains the
6 responsibility to provide SSO service to its
7 customers." Do you see that?

8 A. I do.

9 Q. And when you are referring to the "LSE"
10 there, are you talking about the electric
11 distribution utility, AEP Ohio?

12 A. Well, the sentence that begins on line
13 11, was that the subject of your question?

14 Q. It does begin on line 11.

15 A. I'm there talking about what I talk
16 about -- what I refer to as "LSEs" elsewhere in PJM
17 that have conducted auctions.

18 Q. Okay.

19 A. So it would very specifically not be AEP
20 Ohio.

21 Q. Okay. So in the example in this case
22 where you are recommending the auction for AEP Ohio,
23 in that context would AEP Ohio be the LSE?

24 A. Yes.

25 Q. So it's not your understanding that under

1 the PJM rules that the winning bidder would become
2 the LSE under an auction scenario?

3 A. I'm not talking about PJM rules here.

4 Q. You're talking about solicitations
5 conducted by PJM entities. What did you mean by
6 that?

7 A. Entities like Public Service Electric and
8 Gas, Jersey Central Power and Light, PECO, PPL,
9 Allegheny, Delmarva that have conducted
10 solicitations.

11 Q. Why didn't you call them "PJM entities"?

12 A. They are all located within PJM.

13 Q. Is "Load-Serving Entity," capital L-S-E,
14 is that a PJM term?

15 A. It may be. It's a common term in the
16 business.

17 Q. It's not your understanding that that
18 term was created through PJM tariffs?

19 A. If your question is do the PJM -- were
20 they the original party to use the expression "LSE,"
21 I have no idea. It's a much broader generic term
22 than what might be in the PJM tariff.

23 And I would be very surprised if
24 somewhere earlier in this testimony I didn't refer to
25 "load-serving entity" and then put in an abbreviation

1 for load-serving entity as "LSE."

2 Q. And you're not using that term the same
3 way that PJM tariffs use the term? Is that what you
4 are saying?

5 A. I'm not doing so with any specific
6 intention to do so. It's more of a generic shorthand
7 expression.

8 Q. Okay. On page 19 as well, you state just
9 above there that, in lines 9 and 10, AEP Witness
10 Nelson confirmed "...the Pool Agreement does not
11 explicitly preclude AEP Ohio from conducting a CBP to
12 support its SSO." Do you see that?

13 A. I do.

14 Q. Okay. You've got the discovery response
15 you referenced attached to your testimony. Could you
16 turn to that?

17 A. I have it.

18 Q. Okay. Can you read -- it's one sentence.
19 Can you read that.

20 A. I'm sorry. I may have the wrong one.

21 Q. It's Exhibit RF-3. Are you there?

22 A. I'm going back to the original statement
23 in the text. A moment, please. I'm there.

24 Q. Okay. Can you read the one sentence
25 response into the record, please.

1 A. Let me read the question too.

2 Q. Go ahead.

3 A. "Does the AEP Pool Agreement preclude AEP
4 Ohio from participating in a wholesale power
5 procurement auction? If so, identify the relevant
6 provisions of the AEP Pool Agreement."

7 "Response. Not explicitly, but
8 conducting an auction to support AEP Ohio's standard
9 service offer is not contemplated by the Pool and
10 doing so without amending or resolving the Pool would
11 expose AEP Ohio to extensive financial and regulatory
12 risk."

13 Q. Okay. Now, do you agree there may be
14 financial and regulatory risk if the existing pool
15 resources are displaced through an auction?

16 A. I've tried to examine this sentence in
17 the context of what the pool agreement provides and
18 the statements in Mr. Nelson's testimony on the same
19 topic, and I haven't been able to figure out how
20 there would be the financial concern.

21 As I've indicated -- and it's easiest to
22 explain with the energy-only auction that we've
23 discussed. As I've indicated, what that would
24 involve is the purchase of power energy at market
25 prices, a quantity of energy at market prices, and

1 the freeing up of internal generation to supply
2 energy back to that same market at market prices.

3 So it seems to me that it's going to be a
4 wash or very largely a wash and that's why I have --
5 I struggle with the notion that there are going to be
6 these adverse financial consequences. I haven't seen
7 them explained.

8 But when I read the pool agreement, it
9 seems to me that there's a symmetry in how the
10 purchases under the CBP would be treated, and these
11 would be the system purchases that you and I
12 discussed earlier, and how the associated sales would
13 be treated, and that both would be allocated on the
14 member load ratio. And my testimony includes a
15 discussion that it doesn't look like the member load
16 ratios would change as a result of this -- the CBP
17 either. So I don't see the financial concerns.

18 Q. Okay. Well, let me give you a couple of
19 examples. So you said it would free up energy sales
20 in the market. Could some of those sales be
21 considered system sales under the pool?

22 A. I think that that's the most likely
23 scenario if the auction was for -- was an energy-only
24 auction. If the auction only acquired energy, then
25 it wouldn't seem to me that the system had any more

1 capability as a result of the auction to make firm
2 sales than it had beforehand.

3 Q. And what happens with system sales under
4 the pool?

5 A. The benefits from the system sales are
6 shared in proportion to the MLRs.

7 Q. Okay. So increased system sales means
8 increased benefits to the other members looking at
9 that one issue?

10 A. The increased system sales will mean
11 increased benefits for all members. The purchases
12 that allow those increased system sales will mean
13 costs for all members. The costs and the benefits
14 will be the same.

15 Q. And any margins or profit from those
16 sales would be shared among the members, in some
17 cases, returned to ratepayers in other states,
18 correct?

19 A. Whatever treatment exists under fuel
20 adjustment and purchased power clauses exists in the
21 states and there will be a division between
22 Appalachian and its customers and I&M and its
23 customers, according to whatever those procedures
24 are.

25 Q. So the effect is that you're taking away

1 margin for nonshopping customers in Ohio that AEP
2 Ohio would receive and you're giving ratepayers in
3 other states refunds? Isn't that one effect of your
4 auction?

5 A. There's no -- there's no margin being
6 taken away from Ohio customers. That's not what I'm
7 saying.

8 Q. Do you know what rates are collected
9 today from nonshopping customers by AEP Ohio?

10 A. Do I know what the rates are today?

11 Q. Yeah.

12 A. Not off the top of my head.

13 Q. Do you know what capacity costs are
14 recovered through those nonshopping SSO rates?

15 A. I don't know.

16 Q. Do you know if they are the margin that's
17 above the RPM capacity rate that's reflected in those
18 rates?

19 A. Oh, to be sure, if there's a margin on
20 the capacity side, it's above the RPM. One of the
21 things that is going to happen if you have an auction
22 is that you're going to end up pushing prices to
23 market. And if market prices are lower -- if market
24 prices are lower than regulated prices, then there is
25 going to be a loss of revenue to AEP Ohio. I'm not

1 saying otherwise.

2 What I am saying is, however, is that
3 that's the result of a decision to go to market
4 rather than to have the regulated system of price
5 determination; and that's not a pool-related event.
6 And when you go to the pool and see how these
7 trans -- go to the pool agreement and see how these
8 transactions will be handled under the pool
9 agreement, that's where it's a wash.

10 Q. Okay. Well, it's a result of your
11 recommendation is what it is, right? Wasn't I
12 correct in stating that under your recommendation,
13 the margin associated with nonshopping customers for
14 AEP Ohio would be taken away, and the result is sales
15 into the market, it would increase ratepayer refunds
16 in other states --

17 A. Sir, you had legislation here in 1999 to
18 start the process to go to market supply. That's not
19 my recommendation. That's the legislation that's
20 been on the books for roughly 13 years now.

21 Q. Okay. That's the basis of your
22 recommendation, that assumption?

23 MR. LANG: Could the -- had you finished
24 your answer?

25 THE WITNESS: I believe I had.

1 MR. LANG: All right. Sorry to
2 interrupt.

3 Q. Okay. Let me break it down again. The
4 current SSO rates that are approved today, 12 or 13
5 years after the legislation you're talking about, are
6 approved by this Commission, the margins that are in
7 those rates under your recommendation go away to the
8 extent they are above RPM capacity; is that correct?

9 A. The margins that AEP is going to make,
10 AEP Ohio is going to make in a market world, are
11 dictated by the market, and if those market prices
12 are less than the regulated prices, they're going to
13 take a hit.

14 That is the result of moving from the
15 regulated regime to the market-priced regime. I
16 didn't come up with the recommendation originally. I
17 support it because I'm strongly in favor of using
18 market principles in the supply of electricity. So I
19 support it but that is the legislation from 1999.

20 Q. Well, I don't question what you're --
21 you're intending to recommend, but then when you add
22 the part about the 1999 legislation, sir, that's what
23 I want to clarify.

24 So we talked about this early on, and I
25 thought you had already agreed, is it your

1 understanding that an SSO today in Ohio is required
2 to be auction-based or purely market-based pricing?

3 A. We did discuss this before, and as I
4 understand things, PUC has an option to propose the
5 market rate option or the ESP. And the ESP has a
6 requirement that it has to be more favorable on an
7 overall basis than the market-rate option for it to
8 be accepted.

9 Q. And we also discussed earlier that you
10 didn't know if the market rate option is a full
11 market rate or if it's a blending of market and
12 non-market, correct?

13 A. That's correct.

14 Q. Okay. So would you agree that to the
15 extent there are increased costs for other members
16 under the pool based on your recommendation, a result
17 of the auctions, that that also creates regulatory
18 risk for AEP, the other members, when they go to
19 their state commissions and traditional regulatory
20 jurisdictions for recovery?

21 A. My testimony is not that the other states
22 are going to incur decreased cost.

23 Q. Well, I said to the extent there are
24 increased costs is my question.

25 A. So you have a hypothetical question for

1 me.

2 Q. The question I have is what I read. Do
3 you need it read back?

4 A. I'm trying to eliminate the possibility
5 that there is confusion as to whether I have
6 testified that there is -- that there will be an
7 adverse cost effect on other jurisdictions.

8 Q. Feel free to add that into your answer.
9 Do you need the question read back?

10 A. Yes.

11 MR. NOURSE: Can you read it back,
12 please, "so you agree."

13 (Record read.)

14 A. It is not my testimony that there are
15 going to be increased costs for other jurisdictions.
16 That -- your question is asking whether such presumed
17 increased costs might create recovery risks in those
18 other jurisdictions. I suppose the answer is that it
19 might, that each state will have to make its own
20 determination.

21 For sure the costs under the pool
22 agreement are costs under a FERC-approved agreement,
23 and so I'm not sure the states would have much of a
24 choice but to accept what comes out of the agreement
25 without a challenge before FERC.

1 Q. Well, okay. Mr. Frame, you go through a
2 number of matters in your testimony, pages 20 to 30,
3 in that region. You are going through several areas
4 where you're essentially concluding that you don't
5 think there is an impact on the pool. But can you
6 point me to where you evaluate the impact of the
7 primary energy sales and revenues under the pool?

8 A. I'm not sure there is a place.

9 Q. Have you evaluated the impact of primary
10 energy sales or revenues of the auction
11 recommendation?

12 A. I'm not sure there would be an impact.

13 Q. Have you evaluated the impact?

14 A. I'm not sure there would be an impact.

15 Q. Does that mean you have evaluated it and
16 you have reached a conclusion?

17 A. You've asked me the question, and my
18 reaction is that I don't think there is such an
19 impact.

20 Q. And I asked you a question about whether
21 you evaluated the impact. Have you evaluated the
22 impact?

23 A. What do you mean by "evaluated"? I am
24 not really trying to be cute. You've asked me
25 whether -- I've told you I don't think there is an

1 impact, and then you're asking me have I evaluated
2 that, and I'm just not clear what you're asking.

3 Q. So you've reached a conclusion that you
4 believe there is no impact on the primary energy
5 sales and revenues of the auction?

6 A. As I sit here today, I don't -- I don't
7 understand where that impact would be. I did not
8 address it in the testimony.

9 Q. Okay. You did not address it nor attempt
10 to quantify any impact on primary energy sales or
11 revenues, correct?

12 A. Correct.

13 MR. LANG: Mr. Nourse, sorry to
14 interrupt.

15 MR. NOURSE: I think I'm almost done.

16 MR. LANG: Okay.

17 MR. NOURSE: See if I have any more
18 questions.

19 MR. LANG: You knew where I was going.

20 MR. NOURSE: We are definitely about
21 there.

22 Q. (By Mr. Nourse) Mr. Frame, could you turn
23 to page 32. You have a question starting on line 12
24 where you talk about -- the question is: "Does the
25 AEP Pool Agreement Provide Guidelines for The

1 Commission in Determining How Retail Electric Service
2 in Ohio Should Be Priced?"

3 The answer is: "No" with an additional
4 explanation. Do you see that?

5 A. Yes.

6 Q. Okay. Is the SSO auction that you're
7 recommending, is that a retail transaction or a
8 wholesale transaction?

9 A. I think of the purchases that AEP would
10 make as wholesale purchases.

11 Q. Okay. Can you turn back to page 30. So
12 this is where you make the conclusion -- or the
13 assertion that I believe you answered a few minutes
14 ago, that you believe the impact of an energy-only
15 auction would be "relatively slight." On page -- or
16 line 5, you say it "should be relatively slight." Do
17 you see that?

18 A. Yes.

19 Q. Okay. Then further down on line 10 and
20 11, you say, "...both the energy purchases and the
21 concomitant sales will occur at a competitive market
22 prices," right?

23 A. Yes.

24 Q. And that's the basis for you saying
25 the -- there would be a wash or that it would be

1 "relatively slight," correct?

2 A. It's part of the basis. The other part
3 of the basis is later in the paragraph -- and it's
4 not just the purchases and sales that are offsetting,
5 but the sharing mechanisms based on the MLRs are also
6 symmetric.

7 Q. Okay. So --

8 A. The sharing benefits for the purchases
9 and the sales.

10 Q. Okay. So if there is -- they are
11 essentially offsetting, where is the benefit to
12 customers going through this whole exercise?

13 A. The immediate benefit is the movement
14 toward market prices that we talked about. So we're
15 moving from regulated prices to market prices. So
16 there's just a whole body of evidence that pricing
17 things at the market results in better
18 decision-making by -- by sellers and buyers. That's
19 the answer.

20 Q. So you perceive the benefit to be getting
21 a below-cost RPM-based capacity charge in place,
22 correct?

23 A. No. I consider the benefit to be pricing
24 electricity at market price just like myriads of
25 other goods and services are priced.

1 MR. NOURSE: Okay. Thank you. That's
2 all the questions I have.

3 EXAMINER TAUBER: Thank you.

4 Mr. Beeler?

5 MR. BEELER: No questions. Thank you.

6 EXAMINER TAUBER: Mr. Lang?

7 MR. LANG: Just a couple of minutes?

8 EXAMINER TAUBER: Sure. Let's go off the
9 record.

10 (Discussion off the record.)

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

13 Mr. Lang.

14 MR. LANG: Thank you, your Honor. We
15 have no redirect.

16 EXAMINER TAUBER: Thank you.

17 Mr. Frame, you may be excused. Thank
18 you.

19 THE WITNESS: Thank you.

20 MR. LANG: Your Honor, we would move FES
21 Exhibit 103.

22 EXAMINER TAUBER: Is there any objection
23 to FES Exhibit 103?

24 MR. NOURSE: No.

25 EXAMINER TAUBER: Hearing none, it shall

1 be admitted into the record.

2 (EXHIBIT ADMITTED INTO EVIDENCE.)

3 EXAMINER SEE: Mr. Serio or Mr. Etter?

4 MR. SERIO: Thank you, your Honor. We
5 would call Sebastian Coppola.

6 (Witness sworn.)

7 EXAMINER SEE: Thank you. Have a seat.

8 - - -

9 SEBASTIAN COPPOLA

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

12 DIRECT EXAMINATION

13 By Mr. Serio:

14 Q. Please state your name and your address
15 for the record.

16 A. Sebastian Coppola. My business is
17 located at 1359 Springwood Lane, Rochester Hills,
18 Michigan 48309.

19 MR. SERIO: May I approach, your Honor?

20 EXAMINER SEE: Yes.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 Q. Do you have in front of you what we have
23 marked for identification purposes as OCC Exhibit
24 112?

25 A. Yes.

1 Q. And is that the direct testimony you
2 prepared in this proceeding?

3 A. Correct.

4 Q. And is this -- was this testimony
5 prepared by you or at your direction?

6 A. Yes.

7 Q. And do you have any corrections to make
8 to your testimony?

9 A. Yes. On page 6, there is a typographical
10 error. The first line, line 1, there should be a
11 bullet as item "a." and then the following bullets
12 should be renumbered in sequence so that the last
13 one, "f.," should be "g."

14 Q. So on line 1, that sentence is "a.," line
15 2 would be "b.," line 4 would be "c.," line 7 would
16 be "d.," line 10 would be "e.," line 15 "f.," and
17 line 18 would be "g."

18 A. Correct.

19 Q. Do you have any other corrections to
20 make?

21 A. No.

22 Q. With those corrections then, if I were to
23 ask you the same questions, would your answers be the
24 same?

25 A. Correct.

1 MR. SERIO: Mr. Coppola is available for
2 cross-examination, your Honor.

3 EXAMINER SEE: And I note that there is
4 an outstanding motion to strike what Mr. Coppola has
5 now made item "a." on page 6. As we have done with
6 other witnesses, understanding that Mr. Coppola is
7 not an attorney or is not represented as such in his
8 testimony, we will -- we will deny the motion to
9 strike and acknowledge that it is a lay opinion.

10 Let's move to cross-examination of this
11 witness.

12 Mr. Howard?

13 MR. HOWARD: No questions, your Honor.
14 Thank you.

15 EXAMINER SEE: Mr. Barnowski?

16 MR. BARNOWSKI: No questions, your Honor.

17 EXAMINER SEE: Mr. Yurick?

18 MR. YURICK: No questions.

19 EXAMINER SEE: Mr. Campbell?

20 MR. CAMPBELL: No questions.

21 EXAMINER SEE: "Mr. Sinwoe"?

22 MR. SIWO: Siwo. You're going to get it.
23 No questions, your Honor.

24 EXAMINER SEE: Eventually.

25 Mr. Boehm?

1 MR. BOEHM: No question, your Honor.

2 EXAMINER SEE: "Mr. Sinenen"?

3 MR. SINENENG: Sineneng. No questions,
4 your Honor.

5 EXAMINER SEE: Striking out today.

6 Mr. Oliker?

7 MR. OLIKER: No questions, your Honor.

8 EXAMINER SEE: Mr. Lang?

9 MR. LANG: No. Thank you.

10 EXAMINER SEE: Mr. Alami?

11 MR. ALAMI: Thank you, your Honor, a few
12 questions.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Alami:

16 Q. Good morning, Mr. Coppola.

17 A. Good morning.

18 Q. How are you today?

19 A. Fine. Thank you.

20 Q. Looking at -- initially at your page 3 of
21 your testimony and specifically in response to
22 question 5, it looks like you testified or submitted
23 testimony in several cases before the Michigan
24 Commission; is that correct?

25 A. Correct.

1 Q. And this is the first case in which you
2 are submitting testimony before the Ohio Commission?

3 A. Correct.

4 Q. Can you check to see if your mic is on?
5 And this is the first time you're filing
6 testimony in a case involving AEP Ohio; is that
7 correct?

8 A. Yes.

9 Q. Given your familiarity primarily in
10 Michigan and with the Michigan Commission, is it your
11 understanding that Michigan is a traditional
12 ratemaking state?

13 A. Yes. There's only been partial
14 deregulation.

15 Q. And is your understanding that -- what is
16 your understanding as to the regulatory regime in
17 Ohio currently?

18 A. Well, I've read Senate Bill 221, and the
19 requirements that that bill requires utilities to, in
20 effect, open up their markets to retail sales.

21 Q. What markets?

22 A. The retail residential and commercial,
23 industrial.

24 Q. Was it your understanding that the
25 generation service component in Ohio is intended to

1 be a competitive market?

2 A. That's the intent of Senate Bill 221.

3 Q. On page 5 of your testimony
4 specifically -- in response to question 8, you have,
5 as the purpose of your testimony, "...to perform a
6 review of the Company's proposed Pool Termination
7 Rider and to make recommendations regarding that
8 rider"; is that correct?

9 A. Correct.

10 Q. And what is your -- well, let me back up
11 for a second. What did you do in preparation for
12 filing your testimony in this case?

13 A. I read the testimony of Mr. Nelson,
14 company witness, and a few of the other company
15 witnesses. I also read Senate Bill 221 and some, you
16 know, prior cases.

17 Q. And did you read the pool agreement as
18 you refer to it on page 7, line 9?

19 A. Yes, I read it.

20 Q. And what's your understanding generally
21 of the AEP pool?

22 A. Well, it's an agreement where companies
23 that participate in the pool agreement will sell
24 excess generation to each other and get compensated
25 for that.

1 Q. That's the extent of your understanding?

2 A. If you have specific questions, I'll try
3 and answers them but.

4 Q. Is it your understanding of the AEP pool
5 that the excess generation is only sold to other AEP
6 pool members?

7 A. I don't recall specifically. I can't
8 recall specifically if it's within the companies
9 within the pool or outside per se. I just can't
10 recall.

11 Q. And when you say "excess generation," are
12 you referring to both energy and capacity?

13 A. Correct.

14 Q. Also on page 5 of your testimony in
15 response to question 9, you state that in your
16 opinion, "the Company's proposal...." and that's the
17 proposal with respect to the pool termination
18 provision; is that correct?

19 A. Yes.

20 Q. That that proposal "seeks to achieve a
21 guaranteed level of revenues." Is that your
22 testimony there?

23 A. Yes.

24 Q. And can you please elaborate on what you
25 mean by "guaranteed level of revenues"?

1 A. What the company has proposed through
2 Mr. Nelson's testimony is that the company would
3 recover any shortfall in revenues from sales that
4 would not materialize under the pool agreement;
5 currently that would be a look-back 12 months prior.

6 And any shortfall of future sales within
7 the pool agreement, if they fall short of the prior
8 12 months, then there will be a passthrough of those
9 revenues through the AEP pool provision to -- the
10 passthrough of those costs, the passthrough of those
11 lost revenues to retail customers, so full recovery
12 of historical revenues.

13 Q. And is that your general understanding of
14 the proposed pool termination provision, how it
15 operates?

16 A. That's what the testimony of Mr. Nelson
17 is.

18 Q. Do you understand that the company is
19 only proposing to invoke the pool termination
20 provision in the event it's corporate separation plan
21 as filed is not adopted by the Commission?

22 A. That's, I think, Mr. Nelson's testimony,
23 yes.

24 Q. On -- moving to page 6 then, this is --
25 this is the page where you list your key conclusions

1 as you call them; is that correct?

2 A. Yes.

3 Q. And you've just corrected your testimony
4 here today so that the line is actually now "a."; is
5 that correct, part "a." of your key conclusions?

6 A. Yes, correct.

7 Q. Looking to what's now been marked, as it
8 looks like, key conclusion "d." -- well, let me just
9 back up and I'll try to summarize what my
10 understanding of your testimony is and then you can
11 kind of correct where I'm wrong if that's okay.

12 Is it generally true that your -- your
13 testimony here today is that the pool termination
14 provision as proposed by the company should not be
15 adopted because the revenues associated with the pool
16 were not shared with AEP Ohio customers and,
17 therefore, to now ask AEP Ohio customers to support
18 the costs of those revenues in the absence of the
19 pool would be asymmetrical, unfair, and unreasonable
20 treatment?

21 A. That's one of the reasons. The others as
22 listed here on page 6, you know, add to that
23 objection that I have or recommendation that they not
24 be adopted. You know, there is no provision within
25 the law that I can see, and on the advice of counsel

1 as well. It's open-ended. I think they are all
2 listed here, but what you mentioned is just one
3 aspect.

4 Q. Right. I understand. I apologize if I
5 characterized it as your only key conclusion, but I
6 do understand that is only one aspect of your key
7 conclusion. Another one generally being what you
8 have identified that it's "open-ended," and, in that,
9 my understanding is you mean there is no -- AEP has
10 not notified or mentioned, as you say, what will
11 happen if new or additional revenues that exceeded
12 the sales margin that was in place with the existence
13 of the pool and that that will, therefore, in your
14 words, "does not provide AEP Ohio with the proper
15 incentive to limit lost revenues"; is that correct?

16 A. I think verbally, yes.

17 Q. And what do you mean by it doesn't
18 provide AEP Ohio with incentive to limit lost
19 revenues? Doesn't the company, irrespective of the
20 pool agreement provision, have an interest in
21 limiting lost revenues?

22 A. Not -- not exactly. In the sense that if
23 the company has the ability to recover those lost
24 revenues through a provision that they've proposed
25 here, then, you know, why -- why spend the time and

1 effort to try and sell those excess revenues. You
2 are pretty much assured recovery if the provision
3 goes in place, so that's the lack of incentive that I
4 mentioned.

5 Q. So it's your understanding there is a
6 disincentive because the company is assured recovery
7 of those lost revenues?

8 A. With the provision as has been proposed,
9 if they get to recover those lost revenues, then, you
10 know, there is no incentive to try hard to sell any
11 potential excess capacity or energy to others because
12 pretty much you can recover from retail customers.

13 Q. But it is your understanding that if
14 the -- if the company determines to invoke the pool
15 termination provision, it will have to make a filing
16 with this Commission wherein it will have the burden
17 of proof to recover those lost revenues; is that
18 correct? Is that your understanding?

19 A. Well, I don't know what the provision
20 will include. Right now it's uncertain or that's
21 part of the problem here is that the company's asking
22 pretty much for an open-ended blanket-type of
23 provision without knowing what the facts and
24 circumstances are.

25 Q. But it is your understanding that a

1 subsequent filing would have -- would be made by the
2 company if the pool termination is invoked; is that
3 correct?

4 A. I believe Mr. Nelson said that in his
5 testimony, yes.

6 Q. And is it your understanding that the
7 company will have "the burden of proof," as you state
8 on your testimony on page 9, line 17, to demonstrate
9 the amount and prudence of the lost revenues its
10 seeking to collect from customers?

11 A. I would think so, but until we know the
12 facts, it's hard to determine.

13 Q. But you would think so?

14 A. Again, I don't know what the company is
15 going to put forth, so it's hard for me to speculate.

16 Q. But you would agree, then, that it's not
17 a guarantee that the company will recover
18 100 percent.

19 A. Well, it's difficult for the Commission
20 or any party to know what effort the company has made
21 and be able to, you know, reasonably adjudicate
22 whether the company has made every effort necessary
23 because the financial incentive is not there and
24 that's my point.

25 Q. But that would all be adjudicated and

1 presented to the Commission by the company in a
2 subsequent filing, isn't that correct, as proposed by
3 the company?

4 A. The process would be there. You know,
5 the issue, again, in trying to put incentives or
6 disincentives in regulation is to make sure that
7 people do the right things through financial
8 incentives; and if there is a disincentive, then, you
9 know, who's to -- you know, how can you judge? It's
10 very difficult to make determinations as to the
11 effort the company has made in trying to, you know,
12 sell the excess energy.

13 Q. But that judgment will be the
14 responsibility of the Commission; isn't that correct?

15 A. Sure. It will be their responsibility
16 but, you know, they can't put themselves entirely
17 into the shoes of the company and read the mind of
18 management.

19 Q. Going back to one of your first key
20 conclusions and that's the "asymmetry" as you call
21 it, which would result in an unfair and unreasonable
22 treatment if the company were to recover the revenues
23 associated with pool termination from AEP Ohio retail
24 customers. And is it correct that a premise of that
25 conclusion is that you believe that AEP Ohio retail

1 customers did not share in the revenues associated
2 with the pool?

3 A. Yes. As a matter of fact, I think there
4 is a Commission ruling to that effect that as of a
5 certain date, I don't recall the exact date, if I
6 could take you to page 11 of my testimony, footnote
7 No. 5, I believe this case, which I believe was dated
8 March 18, 2009, the Commission in that case,
9 08-917-EL-SSO, ruled that there -- that there should
10 not be any sharing.

11 Q. Is it your understanding that the
12 Commission ruled that there would be no sharing in
13 this order of off-system sales margins or of all
14 revenues under the pool?

15 A. Off-system sales.

16 Q. Earlier you stated that you are aware
17 that AEP Ohio is no longer a traditional regulatory
18 scheme; is that correct?

19 A. Well, I think it's trying to move to a
20 full market-based power generation.

21 Q. But is it currently a cost-based
22 regulated environment?

23 A. My understanding is, as of right now,
24 it's not yet fully market-based, so it will have to
25 be obviously regulated.

1 Q. So there was a period of time that Ohio
2 was a cost-based regulatory environment; is that
3 correct?

4 A. Sure. I believe so.

5 Q. And you said that you are familiar and
6 are aware that -- well, strike that.

7 Under a traditional ratemaking or
8 cost-based ratemaking, would the revenues and
9 expenses under the pool be included in the
10 determination of customer rates?

11 A. My understanding is that prior to this
12 order that there was sharing of off-system sales
13 revenues and margins where the customers benefited
14 from those off-system sales. Subsequent to this
15 order, my understanding is that that no longer
16 occurred.

17 Q. On page 7 of your testimony, Mr. Coppola,
18 at line 10 -- before that, on line 9, you state there
19 that it's your understanding that the pool agreement
20 has been in effect since 1951; is that correct?

21 A. Yes.

22 Q. And between 1951 and the time period that
23 you just referred to in your last answer is
24 approximately 60 years, 50 years.

25 A. I think that adds up, yes.

1 Q. And in that 60-year period, is it your
2 understanding that Ohio was a traditional regulatory
3 environment?

4 A. I guess to the best of my ability, my
5 understanding is that Senate Act 221 and some
6 predecessor act or bill made some changes in
7 regulations, so until about that time I would say
8 yes.

9 Q. So until about 2008 or the enactment of
10 Senate Bill 221, it is your understanding that
11 cost-based service -- rates were determined based on
12 cost of service in Ohio.

13 A. That's my understanding, yes.

14 Q. So is it your -- is it also your
15 understanding that under a cost-based service regime,
16 revenues and expenses associated with the pool would
17 have been included in the determination of customer
18 rates?

19 A. As I said, I believe that took place,
20 yes, based on my reading of the order.

21 Q. Okay. Now on page 7, lines 13 through
22 14, you state that the step to terminate the pool was
23 taken to facilitate the company's corporate
24 separation plan; is that correct?

25 A. Yes. Here I'm just summarizing

1 Mr. Nelson's testimony.

2 Q. Okay. So it's just your understanding or
3 summary of Mr. Nelson's testimony?

4 A. Correct.

5 Q. Are you aware of the process by which the
6 company supplied notice to the other AEP pool members
7 to terminate the pool?

8 A. I understand that a letter was sent out.
9 I don't recall right now whether or not I read that
10 letter but.

11 Q. And is it your understanding that a
12 decision to terminate the pool can be made
13 unilaterally by a single pool member?

14 A. I do not know the specifics of that, no.

15 Q. Mr. Coppola, are you aware when the base
16 rates for Ohio Power and Columbus Southern Power were
17 last set?

18 A. As I recall, there was a Commission order
19 sometime in December of 2011. That was the last base
20 rate case.

21 Q. And is it your understanding in that
22 order the base rates of Columbus Southern Power and
23 Ohio Power Company were established?

24 A. That's my understanding, yes.

25 Q. And is that for the generation portion or

1 the distribution portion of the service?

2 A. The distribution portion.

3 Q. So do you know when the last base rates
4 for generation for the two companies was established?

5 A. I don't know the specific date.

6 Q. Assuming that that occurred in
7 approximately 1991 for Columbus Southern Power and
8 approximately 1994 for Ohio Power Company, is it your
9 understanding that revenues and costs associated with
10 the pool would have been included in the
11 determination of base rates for the companies?

12 A. I have no knowledge of that.

13 Q. And just based on your regulatory
14 experience in a traditional regulated jurisdiction,
15 would you expect that to occur?

16 A. Well, typically I think the company has a
17 clause that allows, you know, generation costs,
18 purchased power costs, and costs of that sort to be
19 passed on, which is pretty typical in other
20 jurisdictions as well, so that obviously allows the
21 company to recover costs and, you know, pass on any
22 credits as well.

23 Q. Are you referring to the fuel adjustment
24 clause?

25 A. Yes.

1 Q. And is it your testimony or your
2 understanding of the fuel adjustment clause that
3 primary energy sales and receipts are recovered or
4 flow through in the fuel adjustment clause as you
5 described?

6 A. Generally, yes. I don't know the
7 specifics with AEP but, you know, my experience with
8 other jurisdictions that's the way it works.

9 Q. And to the extent that the primary energy
10 sales or purchases that are recovered through a fuel
11 adjustment clause occurred at prices below market,
12 would AEP Ohio retail customers have benefited from
13 the existence of the pool?

14 A. I don't know. I don't have any
15 knowledge.

16 Q. Assuming that the primary energy sales
17 and receipts that AEP Ohio received from energy
18 purchases and sales in the AEP Ohio pool occurred at
19 costs below market, would you agree that AEP Ohio
20 retail customers would have realized a benefit?

21 A. It's a big hypothetical question. You
22 know, not knowing the facts and being able to make a
23 determination whether or not costs and what -- how
24 you define costs, are we defining it as, you know,
25 just generation, are we defining it including

1 capacity, excluding capacity? It's hard to answer a
2 hypothetical question like that.

3 Q. What's your understanding of the term
4 "primary energy sales"?

5 A. Say again.

6 Q. "Primary energy sales."

7 A. "Primary energy sales," I'm not familiar
8 with that term. Could you explain?

9 Q. Assuming, as part of the hypothetical,
10 that costs -- the costs associated with the purchased
11 energy and capacity and that that purchase occurred
12 at a cost that was below market and that those sales
13 and receipts flow through the fuel adjustment clause,
14 would AEP Ohio retail customers have benefited from
15 the existence of the pool in that instance?

16 A. I think you are asking the same question
17 I just did. I think the answer is, you know, I can't
18 answer a hypothetical question because I don't know
19 what the premise is in your definition of "costs."

20 Q. I believe I did ask the same question,
21 but I thought I had tied down what "costs" I was
22 referring to. And, again, I'm trying to -- and it is
23 a hypothetical, but I'm just trying to define "costs"
24 as just generally the costs as -- the cost of
25 purchasing energy or capacity or purchased power

1 under the pool that AEP Ohio would pay.

2 A. Assuming that, you know, your question --
3 the premise of your question is that if you include
4 all capacity and generation costs, and in totality,
5 on a comparable basis, if AEP Ohio is providing, you
6 know, generation in total rates that are below
7 market, then obviously there is a benefit, sure.

8 MR. ALAMI: Can I just have a second to
9 review my notes?

10 A. Sure.

11 Q. Just one last line of questions. Is it
12 your understanding -- or is it your understanding as
13 part of the company's pool termination provision
14 proposal that the company would absorb or incur the
15 first \$35 million of costs?

16 A. It would appear so, but the testimony of
17 Mr. Nelson is a bit contradictory in that, you know,
18 in parts of his testimony he is talking about the
19 recovery of lost earnings from the pool termination.
20 Then it specifies as well this \$35 million threshold,
21 so I'm not really clear. And, you know, from the
22 discovery we did, the answer was not answered -- the
23 question was not answered, so it's unclear at this
24 point in my mind.

25 Q. And are you referring to page 8, lines 14

1 and 15, of your testimony? And are you trying to
2 highlight or designate the contradictory nature in
3 your mind of that underlying provision by underlining
4 those words?

5 A. Correct.

6 Q. And if we can --

7 A. I'm sorry, just to be clear, it's page 8
8 lines 14 and 15?

9 Q. Correct, of your testimonies. Just to
10 provide an example to see your understanding of the
11 \$35 million: Assume that the company, with the
12 existence of the pool, receives \$100 million in
13 revenues. And assume that the company, without the
14 existence of the pool, receives \$65 million in
15 revenues. Is it your understanding of the pool
16 termination provision as proposed by the company that
17 the company would -- would seek to recover that
18 difference from AEP Ohio retail customers?

19 A. Well, I think it's more complicated than
20 that. Again, based on the limited testimony of
21 Mr. Nelson, you know, he would compare those dollars
22 to the last 12 months of revenues, determine the
23 differential, and then if that differential exceeds
24 35 million, potentially, again, assuming that we're
25 saying is complete here and not contradictory, then

1 the existence of that 35 million would be passed on
2 to customers, just following the example through.

3 Q. I'm -- that's -- that's what I'm trying
4 to get at, Mr. Coppola. Assume that the total
5 revenues received by AEP Ohio, with the existence of
6 the pool, and this is just a hypothetical, are a \$100
7 million in that look-back year, have been deemed to
8 be \$100 million. And post-pool, post the termination
9 of the pool, those revenues, those same revenues, are
10 calculated to be \$65 million. Under your
11 understanding of the pool termination, would AEP Ohio
12 seek to recovery that \$35 million difference --

13 A. If it was 35 or less?

14 Q. Yes.

15 A. And assuming, again, that his testimony
16 is that and nothing else, then there would be no
17 recovery.

18 Q. Assuming that the -- with the pool in
19 place, the look-back year resulted in the same
20 \$100 million in revenue, and post-pool termination
21 AEP Ohio received \$50 million of revenue, under your
22 understanding of the pool termination provision, what
23 amount would the company seek to recover from AEP
24 Ohio retail customers?

25 A. It would be 50 less 35, would be

1 15 million. But, you know, as I said in my
2 testimony, if they receive 120 million, it's not
3 clear -- actually, there is no testimony what happens
4 to that additional \$20 million.

5 Q. I understand. Would you agree,
6 Mr. Coppola, that the fact that AEP Ohio in the first
7 hypothetical with the \$100 million pre-pool
8 termination, \$65 million post-pool termination of
9 revenues, that AEP Ohio has an incentive to reduce or
10 somehow recover those revenues if it's in the market
11 if it's solely responsible for that difference?

12 A. Can -- one more time, maybe simpler.

13 Q. It wasn't as clear as in my head -- it
14 wasn't as clear as how I said it.

15 A. It happens.

16 Q. In going back to the first hypothetical,
17 the \$100 million with the pool in existence,
18 \$65 million of revenue, this is just a hypothetical,
19 with the pool terminated resulting in a difference of
20 revenues of \$35 million, correct?

21 A. Correct.

22 Q. Wouldn't AEP Ohio have an incentive to
23 recover that revenue in the market if, as your
24 understanding of the provision is, it wouldn't seek
25 to recover that \$35 million from AEP Ohio retail

1 customers?

2 A. Well, obviously, yes. After \$35 million,
3 they have an incentive, but, after that, there is no
4 incentive.

5 MR. ALAMI: Thank you. No further
6 questions.

7 THE WITNESS: Thank you.

8 EXAMINER SEE: Mr. Margard?

9 MR. MARGARD: No questions. Thank you,
10 your Honor.

11 EXAMINER SEE: Mr. Serio, do you need a
12 few minutes?

13 MR. SERIO: It might just take one
14 second, your Honor.

15 We have no redirect, your Honor.

16 - - -

17 EXAMINATION

18 By Examiner See:

19 Q. Mr. Coppola, throughout your testimony
20 you list several reasons why the Commission should
21 not adopt the pool termination rider, correct?

22 A. I'm sorry. Is your question -- are you
23 trying to summarize my testimony in terms of?

24 Q. Let me try it again.

25 A. I didn't get the question. Is there a

1 question in there?

2 Q. Yeah, there was a "correct" at the end.

3 You're recommending that the Commission
4 deny the company's request for a pool modification
5 provision or rider.

6 A. Correct, your Honor.

7 Q. Okay. Nowhere in your testimony do you
8 recommend to the Commission ways to address what you
9 see as faults with the pool termination rider if the
10 Commission elects to adopt it?

11 A. Well, the reason for that, your Honor, is
12 that I don't think it's necessary at all and so
13 there's -- you can't modify something that shouldn't
14 be put in place at all.

15 Q. So you have no recommendations for the
16 Commission how to address the issues that you have
17 listed in your testimony on page 6.

18 A. Well, basically, my testimony is that
19 given that the company is moving to more of a
20 market-based approach and, you know, since 2009,
21 customers have not been -- have not benefited from
22 sales that the company has had in excess of what, you
23 know, off-system sales that, you know, there is no
24 basis on which the Commission should, you know,
25 impute to customers any lost sales from the

1 termination of the pool. So basically I don't see
2 any purpose that's served to the benefit of the
3 customers to have this type of provision in place.

4 EXAMINER SEE: Thank you.

5 MR. ALAMI: If I could perhaps have some
6 follow-up questions?

7 EXAMINER SEE: The Bench is the last
8 stop.

9 Mr. Serio?

10 MR. SERIO: Thank you, your Honor. We
11 would move Exhibit 112 into the record.

12 EXAMINER SEE: Are there any objections
13 to the admission of OCC Exhibit 112?

14 MR. ALAMI: No objections.

15 EXAMINER SEE: Exhibit 112 is admitted
16 into the record.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 EXAMINER SEE: You are dismissed,
19 Mr. Coppola. Thank you very much.

20 THE WITNESS: Thank you, your Honor.

21 EXAMINER SEE: Let's go off the record
22 for a minute.

23 (Discussion off the record.)

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

1 Mr. Serio.

2 MR. SERIO: Thank you, your Honor. We
3 call Jim Williams to the stand.

4 May I approach, your Honor?

5 EXAMINER SEE: Yes.

6 (Witness sworn.)

7 EXAMINER SEE: Have a seat.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 - - -

10 JAMES D. WILLIAMS

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

13 DIRECT EXAMINATION

14 By Mr. Serio:

15 Q. Would you please state your name and
16 address for the record.

17 A. My name is James Williams, and my address
18 is 10 West Broad Street, Suite 1800, Columbus, 43215.

19 Q. And do you have with you a document that
20 I've marked for purposes of identification as OCC
21 Exhibit 113?

22 A. Yes, I do.

23 Q. And would you identify that document?

24 A. Yes. This is my direct testimony.

25 Q. And was that testimony prepared by you or

1 under your direction?

2 A. Yes, it was.

3 Q. Do you have any changes or corrections to
4 make to that testimony?

5 A. Yes, I do.

6 Q. And would you please identify that change
7 or correction?

8 A. On page 6 of the testimony under
9 "Disconnections for Nonpayment," Columbus Southern
10 Power, I would like to change that number to
11 "38,077," For Ohio Power to "41,483." The total is
12 then "79,560." And the percentage becomes "6.2"
13 percent.

14 And then on line 4 --

15 EXAMINER SEE: Mr. Williams, let's go
16 through that one more time.

17 THE WITNESS: Under "Columbus Southern
18 Power," "Disconnections for Nonpayment" the number
19 should be "38,077," for Ohio Power "41,483." The
20 total is then "79,560," "6.2."

21 And then on line 4, I would like to
22 change the "approximately 73,000" to "79,000." And
23 it would become "6.2" percent. That is my only
24 change.

25 Q. With those changes, if I were to ask you

1 the same questions again, would your answers be the
2 same?

3 A. Yes.

4 MR. SERIO: Mr. Williams is available for
5 cross-examination, your Honor.

6 EXAMINER SEE: Mr. Howard?

7 MR. HOWARD: No questions, your Honor.
8 Thank you.

9 EXAMINER SEE: Mr. Barnowski?

10 MR. BARNOWSKI: No questions, your Honor.

11 EXAMINER SEE: Mr. Yurick?

12 MR. YURICK: No questions.

13 EXAMINER SEE: Mr. Campbell?

14 MR. CAMPBELL: No. Thank you.

15 EXAMINER SEE: "Mr. Seewoo"?

16 MR. SIWO: Siwo. No questions, your
17 Honor.

18 EXAMINER SEE: Mr. Boehm?

19 MR. BOEHM: No questions, your Honor.

20 EXAMINER SEE: Mr. Sineneng?

21 MR. SINENENG: No questions, your Honor.

22 EXAMINER SEE: Mr. Olikier?

23 MR. OLIKER: No questions, your Honor.

24 EXAMINER SEE: Mr. Lang?

25 MR. LANG: No. Thank you.

1 EXAMINER SEE: Mr. Satterwhite?

2 MR. SATTERWHITE: Pronounced properly,
3 your Honor. Thank you.

4 EXAMINER SEE: I'm going to get them all
5 right before the end of the hearing.

6 MR. SATTERWHITE: You've yelled at me
7 enough.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Satterwhite:

11 Q. Good afternoon, Mr. Williams. How are
12 you doing today?

13 A. Good afternoon, Mr. Satterwhite.

14 Q. On page 2 of your testimony you talk
15 about some of your background. You state that you
16 have been involved on behalf of OCC in the electric
17 rules and disconnection rule review proceedings?

18 A. Yes.

19 Q. What was your involvement to help
20 formulate the OCC positions in those dockets?

21 A. It was primarily on the
22 consumer-protection side, looking at disconnect,
23 credit, creditworthiness rules, evaluating
24 disconnection rules, ways to help mitigate the
25 effects of disconnections on the electric service and

1 safety standards, looking at a review of some of the
2 matters such as the reliability performance
3 standards, some of the consumer protections
4 associated with disconnections as they're related in
5 the ESS rules, and that's primarily it.

6 Q. And in the time since that time, I notice
7 you've provided testimony in a lot of water rate
8 cases. Are those along those same lines or did those
9 deal with the affordability of rates as well in that
10 testimony?

11 A. They typically address the affordability
12 of rates in a different set of rules. 4901:1-15
13 would be the standards that exist for water works
14 companies.

15 Q. And is it fair to characterize your
16 testimony in this proceeding as looking at the
17 affordability of AEP Ohio rates going forward?

18 A. Yes, it is.

19 Q. And have you stayed informed on the
20 ongoing rate matters presented to the Commission by
21 AEP Ohio recently?

22 A. Yes.

23 Q. So you're aware of the recent variations
24 of the ESP proceeding we're in now and the
25 distribution case that was mentioned earlier this

1 morning?

2 A. Yes, I'm generally aware of those.

3 Q. So you feel you have enough background
4 understanding of the AEP Ohio rates to make the
5 recommendations you're making in -- and the opinions
6 you are presenting in your testimony today?

7 A. Generally, yes.

8 Q. Now, you cite two policies/provisions in
9 your testimony from 4928.02 and those would be (A)
10 and (L), correct?

11 A. Yes.

12 Q. Page 4. And you conclude on lines 16 and
13 18 of page 4, that the Commission has a duty to
14 ensure the policies are being implemented as part of
15 reviewing an ESP, correct?

16 A. That is correct.

17 Q. And are these the only policies you
18 reviewed from that statute?

19 A. Yes.

20 Q. Where does the stability of an electric
21 utility fit within the policies under this statute?

22 A. I'm not familiar with that.

23 Q. Now, in the (L) policy there, you provide
24 some testimony about "at-risk populations," correct?

25 A. That is correct.

1 Q. And you provide your definition of
2 "at-risk" on page 5, around lines 10 to 11, right?

3 A. Yes.

4 Q. And is it your contention that the
5 modified ESP as presented by AEP Ohio does not
6 support at-risk populations?

7 A. It's my contention that the current --
8 that affordability appears to be an issue with the
9 current ESP, that the modified ESP II would increase
10 rates and thus make utilities even more unaffordable.

11 Q. If you look at your testimony on page 4
12 and the policy that you cite at (L), it reads:
13 "Protect[ing] at-risk populations, including, but not
14 limited to, when considering implementation of any
15 new advanced energy or renewable energy
16 resources..., " correct?

17 A. That's correct.

18 Q. And are you taking that policy, applying
19 it to this case to say that the modified plan
20 provided by AEP does nothing to protect at-risk
21 populations?

22 A. What I'm saying is that the protection of
23 at-risk populations is a requirement of a -- of an
24 ESP including the modified ESP II.

25 Q. Correct. I'm just trying to see what

1 your understanding is of how you would apply that to
2 what's been presented by AEP Ohio. Is it your
3 understanding that there's nothing -- there's no
4 impact or protection for at-risk populations in the
5 presentation of the company?

6 A. Yes. To the extent that the rates are
7 increasing, it's more of -- it presents more of an
8 issue for the at-risk population.

9 Q. And let me get an understanding of what
10 you think would help protect at-risk populations.
11 Would contributions to organizations, like the
12 Partnership with Ohio, assist at-risk populations?

13 A. Yeah. That type of thing does help. I
14 mean to the extent fuel funds and things like that
15 are available to help customers pay the bills, all
16 those types of things are very positive.

17 Q. You are familiar with the Neighbor to
18 Neighbor Program?

19 A. I'm familiar with it.

20 Q. Funding with those types of -- those
21 types of programs helps at-risk populations, correct?

22 A. My understanding is that there's -- that
23 the funding for the Neighbor to Neighbor Program was
24 done through the distribution rate case. I'm not
25 aware of funding that's been provided for Partnership

1 with Ohio or the Neighbor to Neighbor Program through
2 the ESP, ESP II, or the modified ESP II.

3 Q. But if there were funds available because
4 of the modified ESP, that would be a benefit and help
5 protect at-risk populations in general, correct?

6 A. Yes.

7 Q. And also would you consider some type of
8 rate relief for the residential class a protection or
9 benefit to at-risk populations?

10 A. Yes.

11 Q. You mentioned the recent distribution
12 case we talked about earlier that you kept apprised
13 of for AEP Ohio. Are you aware that that did provide
14 funding for the PWO as well as a discount for
15 residential customers?

16 A. Yes. Well, when you're talking about a
17 "discount," are you -- a --

18 Q. Credit. I'm sorry, a credit.

19 A. Okay, yes.

20 Q. If I cut you off, just tell me.

21 Do you recall what the funding of the PWO
22 and the credit to residential customers was in that
23 case?

24 A. I don't recall the amount of the credit.
25 I believe that the funding for at least the Neighbor

1 to Neighbor Program was set at about a million
2 dollars.

3 Q. And do you remember what that was related
4 to in that case of where the funding came for those
5 provisions?

6 A. No, I don't.

7 Q. Maybe I can refresh your recollection
8 here.

9 MR. SATTERWHITE: Your Honor, may I
10 approach?

11 EXAMINER SEE: Yes.

12 MR. SATTERWHITE: The Bench has already
13 taken administrative notice of the Opinion and Order
14 in 11-351.

15 Q. See if this helps with some of the
16 specifics. And I think if you turn to pages 5 and 6,
17 the bottom of 5 and top 6, it covers that area, if
18 you could read that to yourself real quick.

19 A. Okay.

20 Q. And isn't it true as a result of the
21 distribution investment rider that was expected to
22 come from the ESP proceeding, that approximately
23 \$46.7 million of that was credited to negate the base
24 distribution revenue requirement from that case?

25 A. That's true.

1 Q. And then going on to page 6, it talks
2 about the remaining about \$15.7 million, correct?

3 A. Yes.

4 Q. And what was the amount that was going to
5 be credited to residential customers as associated
6 with collection from the DIR?

7 A. 14,688,000.

8 Q. And then I believe you said it was about
9 a million dollars for PWO; that what's reflected in
10 the order as well?

11 A. Yes, a million dollars then towards
12 Partnership with Ohio.

13 Q. And those are annual amounts, correct?

14 A. Yes.

15 Q. Now, the distribution -- what's your
16 current understanding of the collection or payment of
17 these credits right now by AEP Ohio?

18 A. I believe that they are included within
19 rates.

20 Q. And that's despite the distribution
21 investment rider not being collected right now; is
22 that correct?

23 A. Yes, I believe, though, again, that there
24 are other witnesses that probably -- I believe that
25 Witness Allen has addressed this issue in his

1 testimony for the company and I believe that
2 Ms. McCarter's addressed it with staff. I don't
3 address that credit in my testimony.

4 Q. I understand that. That's fine.

5 So are you aware --

6 EXAMINER SEE: Mr. Williams, would you
7 pull the mic closer to you and make sure you speak
8 into the mic, please.

9 THE WITNESS: Yes, your Honor.

10 EXAMINER SEE: Thank you.

11 Q. But it's your understanding that
12 currently the credit's being given to residential
13 customers, and the PWO is receiving the contribution
14 as a result of the case, correct?

15 A. Yes. I believe it's my understanding
16 that it's part of the distribution rate case.

17 Q. But also as we discussed and was
18 established in the portions we read from the 11-351,
19 that was tied to collection of the distribution
20 investment rider, correct?

21 A. Yes.

22 Q. And is the distribution investment rider
23 part of the modified ESP as proposed by the company?

24 A. Yes, it is.

25 Q. And didn't -- was there some

1 clarification in the distribution case dealing with
2 what to do with these credits associated with the
3 distribution investment rider pending the litigation
4 of the modified ESP?

5 A. I'm not familiar with that. I know that
6 it was part of the ESP II. I know that there's
7 provisions for addressing I believe it's \$64 million
8 as part of the modified ESP II. Beyond that, I
9 really don't have an understanding how that would
10 work.

11 MR. SATTERWHITE: May I approach, your
12 Honor?

13 EXAMINER SEE: Yes.

14 MR. SATTERWHITE: I would like to mark as
15 AEP 140 an entry from the Commission of March 21,
16 2012, in the 11-351 case.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 Q. Now, Mr. Williams, on the back page of
19 this document, does this appear to be an entry signed
20 by four of the five Commissioners from March 21,
21 2012?

22 A. Yes, it does.

23 Q. I would like to draw your attention to
24 paragraph 5 on page 3. Give you a second to read
25 that. I would like to ask you a question about that

1 paragraph.

2 A. Okay. I've read it.

3 Q. Did you read the whole paragraph? You're
4 good. I was trying to keep up with you. Couldn't do
5 it.

6 So is it your understanding from
7 reviewing this order that there was a question about
8 what to do with the items committed to by the company
9 in the distribution rate case after the distribution
10 investment rider was unapproved as a result of the
11 stipulation?

12 A. Yes.

13 Q. And Ohio Power actually requests a
14 clarification so it wouldn't have to pull out of the
15 stipulation while the modified ESP moved forward; is
16 that correct?

17 A. That is correct.

18 Q. And down near the end, just above
19 paragraph 6, is there a representation that the
20 clarification will avoid interruption of the benefits
21 and terms of the stipulation and will provide rate
22 certainty in this time of transition and modification
23 of the ESP II order?

24 A. Yes, that's correct.

25 Q. So is it your understanding overall that

1 the benefits from the distribution rate case
2 associated with the distribution investment rider are
3 matters pending the outcome of its modified ESP?

4 A. Well, either -- either this modified ESP
5 or some other type of a case, distribution case.

6 Q. And stated another way, didn't the
7 company, with the clarification, preserve the right
8 to file a new rate case that would end the benefits
9 associated with the last rate case depending on the
10 outcome of the modified ESP?

11 A. Yes, that was one of the possible
12 options.

13 Q. And are you also aware that one of the
14 benefits that the company is proposing as part of the
15 modified ESP is a stay out of the distribution rates,
16 to have none affected before June 1, 2015?

17 A. Yes, I'm aware of that provision.

18 Q. Okay. Let's move on. I would like to
19 talk about you have a table on page 6 that you had
20 some corrections to. Now, footnote 5, is that the
21 source for the data that you have at the table there?

22 A. Yes, the PUCO staff. It's provided from
23 the company to the PUCO and then PUCO staff provides
24 the data to OCC.

25 Q. And they provided that in this 08-723

1 docket?

2 A. It's -- I use that citation because
3 that's where kind of the PIPP Metrics Data came from
4 is out of that case.

5 Q. Correct. But could someone go to that
6 docket and verify the numbers that you've used in
7 this table?

8 A. This just cites to the fact that the data
9 is available but they would have to come to the PUCO
10 staff to get the data.

11 Q. And that's my point, you can't go to the
12 docket that you've cited and search that docket
13 publicly to verify the numbers that you've included
14 here, correct?

15 A. No, you cannot.

16 Q. And, in fact, other than a letter on
17 change of counsel, nothing has been filed in that
18 docket since 11-16 of 2010, correct?

19 A. I don't know what the last entry was in
20 the case.

21 Q. Did you review that docket at all when
22 you included it as a footnote in your testimony?

23 A. Yes, but I don't recall the last date in
24 which there were things done on the case.

25 Q. Would it help if I showed you a copy of

1 the docket card and you could verify that? Does that
2 help you identify when the last few filings were in
3 that docket?

4 A. Yes, it does.

5 Q. So the footnote that cites to the case
6 really just provides an overall background of how --
7 of where these issues were considered, but it doesn't
8 provide any indication where the data is located,
9 correct?

10 A. I believe that I did say that the PIPP
11 Metrics Data is reported to the PUCO staff.

12 Q. Right. I'm just trying to give outside
13 people reviewing this transcript and the Commission
14 to see how to verify the date, but you can't do that
15 by looking at anything publicly; you have to contact
16 staff to look for that data, correct?

17 A. Yes. We obtained the data from the PUCO
18 staff as we have for many, many years. Not -- I
19 mean, this case formalized a process for this data,
20 but OCC's received this data for many years.

21 Q. All right. You state in the first row,
22 this is where you made your corrections, that there
23 is approximately 79.5 thousand disconnections for
24 nonpayment and 6.2 percent. Is that the correction?

25 A. That is correct.

1 Q. Are these customer disconnections due to
2 their unwillingness to pay their bill?

3 A. This data doesn't really provide
4 rationale in terms of why people are disconnected.
5 It's just a bottom line for numbers of disconnects
6 for nonpayment.

7 Q. So you would agree with me that there are
8 situations where a customer might be able to pay but
9 doesn't pay their bill, correct?

10 A. I would think that somebody that -- that
11 people would want to pay the bill if they could to
12 avoid a disconnection of service. It can be very
13 expensive to get reconnected.

14 Q. Are you aware of problems, especially in
15 college towns and among roommates, with disconnects
16 happening because the students move out and aren't
17 coming back?

18 A. I suspect those things can happen.

19 Q. So when you state that the numbers in
20 this column are based on the inability to pay, that's
21 an assumption you're making beyond just the
22 disconnects for nonpayment, correct?

23 A. Well, the intent is these are just bottom
24 line numbers of number -- of people that are
25 disconnected for nonpayment. Again, I really don't

1 speculate the reasons why the payments aren't made.

2 Q. Right. But you're using this table to
3 look at the affordability of rates, so any
4 connotation that those numbers are associated with an
5 inability to pay is your spin on what the numbers
6 are, correct?

7 A. I would tend to think that the vast
8 majority of people would pay the bill if they could
9 to avoid a loss of service.

10 Q. Right. But again, that's not the data
11 that's gathered. That's your assumption based on the
12 date that you are reading, correct?

13 A. That is my assumption.

14 Q. And is it possible for those customers to
15 have been disconnected at multiple times over that
16 year?

17 A. That's possible.

18 Q. And the next row you talk about the PIPP
19 Plus program. You state that there has been
20 approximately 112,000 customers that are on that
21 program. And you state that we're on a specialized
22 PIPP Plus payment program to avoid loss of service,
23 correct?

24 A. That is correct.

25 Q. And "specialized PIPP Plus," that just

1 really deals -- there is one PIPP program. That's
2 just the new name since the DOD took it away from the
3 Commission, correct?

4 A. Yes. The use of the word -- I was just
5 trying to designate that there is a specialized
6 payment program for low-income customers.

7 Q. Okay. There is not a different tier or
8 different -- okay.

9 A. No, there's not.

10 Q. And the Percentage of Income Payment Plan
11 is a program to assist customers with lower incomes
12 to pay their service, correct?

13 A. That's correct. Customers that are at or
14 below 150 percent of the federal poverty level at a
15 household level could qualify to be on PIPP Plus.

16 Q. And how many of the customers that you
17 identified in row two that are on this program were
18 also potentially disconnected in the first row of
19 your table at some point during the year?

20 A. It's possible some of those could be
21 included.

22 Q. Does OCC do customer education to let
23 customers know about their eligibility to be on the
24 PIPP program?

25 A. Yes, we do.

1 Q. And it's correct, isn't it, the
2 Commission, DOD, and other community agencies, and
3 the company do community education to let people know
4 about the eligibility for the program?

5 A. That is correct.

6 Q. So is it -- should a customer, at this
7 lower level of income, not enroll in the assistance
8 program if they are able to pay their bill?

9 A. Well, at a certain income level, I mean,
10 you know, PIPP was established to be able to help
11 prevent disconnects, and when the program was set up
12 back in 1988, it was designated as a specialized
13 payment program to help low-income customers avoid
14 loss of service during the winter months. So that
15 was sort of its genesis. For every low income
16 customers it could be advantageous to be paying the
17 percentage of income rather than an actual bill.

18 Q. Right. My question is, if a customer
19 with a lower income is able to pay their bill, are
20 you saying they shouldn't sign up for this program to
21 take advantage of the -- of the benefits of it?

22 A. No, there could be benefits that go
23 beyond just -- just avoiding loss of service. A
24 primary one would be avoidance of loss of service,
25 but it could be beneficial for customers that can

1 make all their payments to be on the program to avoid
2 a true-up in arrearages and things like that.

3 Q. And some customers that might be able to
4 pay their bill might be on the program just because
5 there's good customer education and why not take
6 advantage of the program, correct?

7 A. That's possible.

8 Q. Now, if rates increase as a result of the
9 modified ESP and the Commission approves what the
10 company has requested, does the percentage of the
11 customer's income increase and, therefore, their
12 payment in the PIPP program increase?

13 A. No. They make their payment based upon
14 just a percentage of income, so they pay the same
15 6 percent of their monthly income for PIPP regardless
16 of what the actual electric bill is. However, you
17 know, to the extent that the modified ESP II
18 increases rates, that could be more of a burden on
19 all customers that are paying for PIPP Plus through
20 the USL.

21 Q. I understand that but here we are talking
22 about the at-risk customers, correct? And it's your
23 testimony that an increase in rates won't affect
24 those customers that are on the PIPP program because
25 it's based on their percentage of income, correct?

1 A. Yes. They pay a percentage of their
2 income for the bill.

3 Q. And the other column -- or row, I'm
4 sorry, you have in your table deals with other
5 payment plans, correct?

6 A. Yes.

7 Q. And these payment plans are developed by
8 the Commission under the rules that OCC and the
9 companies and all had input in, correct?

10 A. Not just that. The numbers that I've
11 included aren't just Commission-ordered payment
12 plans. They would be other payment plans that the
13 company provides in addition to those.

14 Q. That's a good point. Under the rule that
15 sets this up, really it's set up to have the customer
16 and the company work together to figure out a payment
17 plan to avoid loss of service, correct?

18 A. That's the hope.

19 Q. So overall, and on page 7, and I think we
20 can all do the math to update this, but you say
21 there's 236,000 customers. That would change with
22 the corrections in the table, correct?

23 A. Yes.

24 Q. Okay. So whatever number that number is,
25 that number is, but your statement is there are that

1 many customers that are struggling to pay their
2 electric bill, correct?

3 A. Yeah, up to that number of customers.

4 Q. And actually, isn't a -- from the numbers
5 you've given, isn't that more of an elevated cap
6 because, as you've stated already, there could be
7 multiple disconnects for customers and there could be
8 PIPP customers that are just taking advantage, and I
9 don't want to say "taking advantage" in a bad way,
10 but just using the service that they are allowed to
11 use so they might not be struggling to pay the bills,
12 correct?

13 A. I see this as an "up to" number. I don't
14 necessarily see it as elevated because I wouldn't
15 have data to support that either way.

16 Q. That's correct. You can't state a
17 further breakdown of what's in the columns -- or, the
18 rows in your testimony. You are just relying on the
19 base numbers that are there in making an assumption
20 for the overall number, correct?

21 A. That is correct.

22 Q. Now, the PIPP Plus program and the
23 payment plans in the rules and the ability for the
24 company and customers to work together as encouraged
25 in the rules, that will ultimately exist regardless

1 of what happens in this case, correct?

2 A. Yes.

3 Q. Now, in general, you asked the Commission
4 to consider customer affordability prior to approving
5 the modified ESP in this case. I want to get some
6 understanding of how far you think that goes. Is the
7 purpose of the Public Utilities Commission of Ohio to
8 review plans to provide free or disconnected service
9 below the cost of the utility?

10 A. No.

11 Q. So you're not opposed to a utility
12 receiving a fair rate of return as part of the
13 Commission's oversight?

14 A. That's what this proceeding is all about.

15 Q. But you're not opposed to it, is my
16 question.

17 A. No.

18 Q. Now, you also discuss customer surveys on
19 the bottom of page 7. And you relied upon 2011 data
20 for the number you use on page 7, line 4, correct?

21 A. Yes. This was 2011 survey data.

22 Q. And we've already established -- do you
23 know when AEP Ohio filed their initial ESP
24 application for this "ESP II" as some people call it?

25 A. The modified ESP II?

1 Q. No, the initial one before the
2 stipulation. Would you accept it's probably around
3 January of 2011?

4 A. I suspect so.

5 Q. And then in the distribution rate case
6 that we talked about, that was around February of
7 2011, correct?

8 A. Yes.

9 Q. Do you know if the AEP case -- and try
10 not to laugh when you hear this -- received any press
11 coverage?

12 A. I believe there was a little.

13 Q. And what was your impression of the press
14 coverage? Was it all in favor of AEP's rate plans?

15 A. No. It was generally negative.

16 Q. And that took place over the course of
17 2011, correct?

18 A. I think that a lot of that was really
19 earlier this year when -- when the rates from the ESP
20 II went into effect. Late last year and then early
21 this year.

22 Q. And also there was some around the
23 signing of the stipulation back in September,
24 correct?

25 A. There may have been some then. I tend to

1 recall it occurring much later.

2 Q. Okay. Do you run across a lot of
3 customers who welcome the possibility of rates
4 increasing?

5 A. Generally not.

6 Q. So do you think that an elevated sense of
7 awareness of potential rate increases and negative
8 implications in the press could cause customers to
9 think more about their rates and have a lower opinion
10 of the level of rates that they are paying?

11 A. Could have.

12 Q. Let's go to page 9 of your testimony
13 where you talk about the reliability standards. And
14 in that testimony you're discussing a future unfilled
15 case dealing with reliability standards, correct?

16 A. Yes. As part of the last case where the
17 reliability standards were set, there was a
18 stipulated agreement for a new reliability case to be
19 filed this June.

20 Q. When you say "last case," you are not
21 referring to an ESP. There was a stand-alone case to
22 deal with standards, correct?

23 A. Reliability standards case.

24 Q. So is it your testimony that the
25 affordability of compliance with those standards

1 should also be a factor to consider in those upcoming
2 cases?

3 A. Yes. I believe that -- and as I believe
4 I stated in my testimony that items such as the
5 enhanced service reliability rider, the ESRR, DIR,
6 that anything like that be looked at in context with
7 the reliability performance standards case.

8 Q. But --

9 A. Affordability should be considered at
10 that point.

11 Q. But you are really asking the Commission
12 to look outside of the modified ESP case, as well to
13 the future standards case, to take into account, when
14 setting those standards, the affordability of
15 reaching a number that might be a standard, correct?

16 A. There's another case being filed this
17 month.

18 Q. Oh, I know.

19 A. And as a result of that case, I wanted to
20 point out that affordability should be considered as
21 part of that as well, that the reliability standards
22 should be considered -- as they are being considered,
23 that affordability be one of the considerations that
24 are looked at.

25 Q. And does -- is that because some spending

1 you feel may not justify meeting the standard
2 established by the Commission, that there has to
3 be -- you can't just spend your way out of it?

4 A. I don't know that I look at it at that
5 level as much as when I look -- look at the fact that
6 hundreds of thousands of customers could be
7 struggling to pay their electric bills. Are there
8 any of these kinds of items like the enhanced
9 reliability riders that do those really make sense in
10 this kind of an environment and to look at it more
11 from that context.

12 Q. So that deals, like I said, with your
13 overall theme of your testimony about the
14 affordability of the rates in the plan in this case,
15 but I want to sort of bifurcate this because it feels
16 like you are making a recommendation for the future
17 case as well for the Commission just to consider
18 spending in relation to what standards are
19 established; is that fair?

20 A. Yes, that the standards should help
21 determine what that level -- what the level of
22 spending is.

23 Q. And affordability, I guess maybe instead
24 of "spending" I should use our word, "affordability,"
25 you want to make sure what level the standards are

1 set at relates to the affordability for customers; is
2 that a better way to say it?

3 A. Yes.

4 MR. SATTERWHITE: One second, I'm
5 wrapping up.

6 Q. Can you turn to JDW-2 for a second, page
7 8.

8 A. I'm there.

9 Q. And I believe about halfway down where it
10 talks about reasonable -- "Reasonableness of Electric
11 Rates," that's the line you were citing on page 7 of
12 your testimony, correct, the 58 percent?

13 A. Yes.

14 Q. And in the next column does that give the
15 industry average of what the customer response is?

16 A. I don't know if it's an industry average.
17 It's an average for the market strategies
18 incorporated for the surveys they do.

19 Q. And that's of utility rates, correct?

20 A. Yes.

21 Q. And what's the average of that ranking?

22 A. Sixty.

23 MR. SATTERWHITE: That's all I have.

24 Thank you, sir.

25 EXAMINER SEE: Mr. Margard?

1 MR. MARGARD: No questions. Thank you,
2 your Honor.

3 EXAMINER SEE: Redirect, Mr. Serio?

4 MR. SERIO: Thank you, your Honor.

5 - - -

6 REDIRECT EXAMINATION

7 By Mr. Serio:

8 Q. Mr. Williams, do you recall
9 Mr. Satterwhite asking you about the possibility that
10 some customers could be disconnected multiple times
11 in the course of the same year?

12 A. Yes.

13 Q. Now, every time a customer is
14 disconnected, they would have to pay to be
15 reconnected, correct?

16 A. That is correct.

17 Q. Are you familiar with the level of those
18 reconnection charges?

19 A. I know they are very expensive.
20 Customers have to pay an additional deposit,
21 reconnection fees. I don't know what they are for
22 the company. I believe they are \$36.

23 Q. And based on your experience, how often
24 do you see customers get disconnected, pay the
25 reconnection fee, and then get disconnected again

1 multiple times in the same year?

2 A. That's not been my experience because of
3 just the amount of time that's required, you know,
4 for customers to then default again and get to a
5 point where they end up in disconnect status. So
6 it's not been my experience that it would be like
7 that.

8 MR. SERIO: Thank you. That's all I
9 have, your Honor.

10 EXAMINER SEE: Recross?

11 MR. SATTERWHITE: No, your Honor.

12 EXAMINER SEE: Okay, Mr. Satterwhite.
13 Mr. Howard?

14 MR. HOWARD: No. Thank you.

15 EXAMINER SEE: Mr. Barnowski?

16 MR. BARNOWSKI: No. Thank you.

17 EXAMINER SEE: Mr. Yurick?

18 MR. YURICK: No questions.

19 EXAMINER SEE: Mr. Campbell?

20 MR. CAMPBELL: No. Thank you.

21 EXAMINER SEE: Mr. Siwo?

22 MR. SIWO: No questions, your Honor.

23 EXAMINER SEE: Mr. Sineneng?

24 MR. SINENENG: No. Thank you.

25 EXAMINER SEE: Mr. Olikier?

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1 MR. OLIKER: No questions, your Honor.

2 EXAMINER SEE: Mr. Lang?

3 MR. LANG: No. Thank you.

4 EXAMINER SEE: Thank you, Mr. Williams.

5 THE WITNESS: Thank you.

6 MR. SERIO: Your Honor, I would move for
7 admission of OCC Exhibit 113 into the record.

8 EXAMINER SEE: Any objections?

9 MR. SATTERWHITE: No objections.

10 EXAMINER SEE: OCC Exhibit 113 is
11 admitted into the record.

12 (EXHIBIT ADMITTED INTO EVIDENCE.)

13 MR. SATTERWHITE: Your Honor, the company
14 would move for admission of AEP Exhibit 140.

15 EXAMINER SEE: Are there any objections
16 to the admission of AEP Exhibit 140?

17 MR. SERIO: No objection, your Honor.

18 EXAMINER SEE: AEP 140 is admitted into
19 the record.

20 (EXHIBIT ADMITTED INTO EVIDENCE.)

21 EXAMINER SEE: With that, we are
22 adjourned for the day until 8:30 a.m., Monday,
23 June 4. Off the record.

24 (Thereupon, the hearing was adjourned at
25 12:46 p.m.)

3223

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Friday, June 1, 2012, and carefully compared with my original stenographic notes.

Karen Sue Gibson, Registered
Merit Reporter.

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(KSG-5537)

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in

Case No(s). 11-0346-EL-SSO, 11-0348-EL-SSO, 11-0349-EL-AAM, 11-0350-EL-AAM

Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 06/01/12 - Volume XI electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.