1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

2 - - -

3 In the Matter of the :
Application of Columbus :
4 Southern Power Company :
and Ohio Power Company :
5 for Authority to Establish:
a Standard Service Offer : Case No. 11-346-EL-SSO
6 Pursuant to §4928.143, : Case No. 11-348-EL-SSO
Ohio Rev. Code, in the :
7 Form of an Electric :
Security Plan. :
8
In the Matter of the :
9 Application of Columbus :
Southern Power Company : Case No. 11-349-EL-AAM
10 and Ohio Power Company : Case No. 11-350-EL-AAM
for Approval of Certain :
11 Accounting Authority. :

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13 PROCEEDINGS

14 before Ms. Greta See and Mr. Jonathan Tauber,

15 Attorney Examiners, and Commissioner Andre Porter, at

16 the Public Utilities Commission of Ohio, 180 East

17 Broad Street, Room 11-A, Columbus, Ohio, called at

18 8:30 a.m. on Monday, June 4, 2012.

19 - - -

20 VOLUME XII

21 - - -

22 ARMSTRONG & OKEY, INC.
222 East Town Street, Second Floor
23 Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481
24 Fax - (614) 224-5724

25 - - -

APPEARANCES:

American Electric Power Service Corporation
By Mr. Steven T. Nourse
Mr. Matthew J. Satterwhite
and Mr. Yazen Alami
One Riverside Plaza, 29th Floor
Columbus, Ohio 43215

Porter, Wright, Morris & Arthur, LLP
By Mr. Daniel R. Conway
and Ms. Christen Moore
41 South High Street
Columbus, Ohio 43215

On behalf of the Ohio Power Company and Columbus Southern Power Company.

AEP Retail Energy Partners, LLC
By Mr. Jay E. Jadwin
155 West Nationwide Boulevard, Suite 500
Columbus, Ohio 43215

On behalf of the AEP Retail Energy Partners.

FirstEnergy Service Company
By Mr. Mark A. Hayden
76 South Main Street
Akron, Ohio 44308

Jones Day
By Mr. David A. Kutik
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114

Jones Day
By Ms. Allison E. Haedt
325 John J. McConnell Boulevard, Suite 600
Columbus, Ohio 43215

Calfee, Halter & Griswold LLP
By Mr. James F. Lang
and Ms. Laura C. McBride
1400 KeyBank Center
800 Superior Avenue
Cleveland, Ohio 44114

1 APPEARANCES: (Continued)

2 Calfee, Halter & Griswold, LLP
By Mr. N. Trevor Alexander
3 Fifth Third Center, Suite 1100
21 East State Street
4 Columbus, Ohio 43215

5 On behalf of the FirstEnergy Service
Corporation.

6

McNees, Wallace & Nurick, LLC
7 By Mr. Frank P. Darr
Mr. Samuel C. Randazzo
8 Mr. Joseph E. Oliker
and Mr. Matthew R. Pritchard
9 Fifth Third Center, Suite 1700
21 East State Street
10 Columbus, Ohio 43215-4228

11 On behalf of the Industrial Energy Users
of Ohio.

12

Taft, Stettinius & Hollister
13 By Mr. Zachary D. Kravitz
and Mr. Mark S. Yurick
14 65 East State Street, Suite 1000
Columbus, Ohio 43215

15

On behalf of the Kroger Company.

16

Office of the Ohio Consumers' Counsel
17 By Ms. Maureen R. Grady
Mr. Terry L. Etter
18 and Mr. Joseph P. Serio
Assistant Consumers' Counsel
19 10 West Broad Street, Suite 1800
Columbus, Ohio 43215

20

On behalf of the Residential Ratepayers
21 of Columbus Southern Power Company and
Ohio Power Company.

22

23

24

25

1 APPEARANCES: (Continued)

2 Mike DeWine, Ohio Attorney General
By William Wright, Section Chief
3 Public Utilities Section
Mr. Steven L. Beeler
4 Mr. John H. Jones
and Mr. Werner L. Margard, III
5 Assistant Attorneys General
180 East Broad Street, 6th Floor
6 Columbus, Ohio 43215-3793

7 On behalf of the staff of the Public
Utilities Commission of Ohio.

8

Ice Miller, LLP
9 By Mr. Christopher L. Miller
Mr. Gregory J. Dunn
10 and Mr. Asim Z. Haque
250 West Street
11 Columbus, Ohio 43215

12 On behalf of the Association of
Individual Colleges and Universities,
13 City of Upper Arlington, City of Grove
City, and City of Hillsboro.

14

Boehm, Kurtz & Lowry
15 By Mr. Michael L. Kurtz
Mr. Kurt J. Boehm
16 and Ms. Jody M. Kyler
36 East Seventh Street, Suite 1510
17 Cincinnati, Ohio 45202

18 On behalf of Ohio Energy Group.

19 Bricker & Eckler, LLP
By Mr. Thomas J. O'Brien
20 100 South Third Street
Columbus, Ohio 43215-4291

21

Ohio Hospital Association
22 By Mr. Richard L. Sites
155 East Broad Street, 15th Floor
23 Columbus, Ohio 43215

24 On behalf of the Ohio Hospital
Association.

25

1 APPEARANCES: (Continued)
2 Duke Energy Ohio, Inc.
By Ms. Jeanne W. Kingery
3 155 East Broad Street, 21st Floor
Columbus, Ohio 43215
4
Duke Energy Ohio, Inc.
5 By Ms. Amy B. Spiller
Ms. Elizabeth Watts
6 and Mr. Rocco D'Ascenzo
139 East Fourth Street
7 Cincinnati, Ohio 45202
8 Thompson Hine, LLP
By Mr. Philip B. Sineneng
9 41 South High Street, Suite 1700
Columbus, Ohio 43215
10
On behalf of the Retail Sales and
11 Duke Energy Commercial Asset Management.
12 Eberly McMahon, LLC
By Mr. Robert A. McMahon
13 Ms. Elizabeth Watt
and Mr. Rocco D'Ascenzo
14 2321 Kemper Lane, Suite 100
Cincinnati, Ohio 45206
15
On behalf of Duke Energy Ohio.
16
Bricker & Eckler, LLP
17 By Mr. Thomas J. O'Brien
100 South Third Street
18 Columbus, Ohio 43215-4291
19 Ohio Hospital Association
By Mr. Richard L. Sites
20 155 East Broad Street, 15th Floor
Columbus, Ohio 43215
21
On behalf of the Ohio Hospital
22 Association.
23 Bell & Royer Co., LPA
By Mr. Barth E. Royer
24 33 South Grant Avenue
Columbus, Ohio 43215
25

1 APPEARANCES: (Continued)
2 Bricker & Eckler, LLP
By Ms. Lisa Gatchell McAlister
3 and Mr. J. Thomas Siwo
100 South Third Street
4 Columbus, Ohio 43215-4291
5 On behalf of Ohio Manufacturers
Association.
6
Vorys, Sater, Seymour & Pease, LLP
7 By Mr. M. Howard Petricoff
and Ms. Lija Kaleps-Clark
8 and Mr. Stephen M. Howard
52 East Gay Street
9 P.O. Box 1008
Columbus, Ohio 43216-1008
10
On behalf of the Exelon Generation
11 Company, Constellation NewEnergy, Inc.,
Constellation Energy Commodities Group,
12 Inc., Retail Energy Supply Association,
Direct Energy Services, and Direct Energy
13 Business, LLC, The Compete Coalition, and
PJM Power Providers Group.
14
Eimer, Stahl, Klevorn & Solberg, LLP
15 By Mr. David M. Stahl
and Mr. Scott C. Solberg
16 224 South Michigan Avenue, Suite 1100
Chicago, Illinois 60604
17
On behalf of Constellation Exelon
18 Generation Company, LLC.
19 Covington & Burling, LLP
By Mr. William Massey
20 1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
21
On behalf of The Compete Coalition.
22
23
24
25

1 APPEARANCES: (Continued)

2 Ohio Poverty Law Center
By Mr. Joseph V. Maskovyak
3 and Mr. Michael Smalz
555 Buttles Avenue
4 Columbus, Ohio 43215

5 On behalf of Appalachian Peace and
Justice Network.
6

Keating, Muething & Klekamp PLL
7 By Mr. David A. Meyer
One East Fourth Street, Suite 1400
8 Cincinnati, Ohio 45202

9 Keating, Muething & Klekamp, PLL
Ms. Holly Rachel Smith
10 HITT Business Center
3803 Rectortown Road
11 Marshall, Virginia 20115

12 On behalf of Wal-Mart Stores East, LP,
and Sam's East, Inc.
13

Bricker & Eckler, LLP
14 By Mr. Christopher L. Montgomery
Mr. Matthew Warnock
15 and Mr. Terrence O'Donnell
100 South Third Street
16 Columbus, Ohio 43215

17 On behalf of Paulding Wind Farm, LLC.

18 SNR Denton US, LLP
By Ms. Emma F. Hand
19 Mr. Thomas R. Millar
and Mr. Daniel D. Barnowski
20 1301 K Street NW
Suite 600 East Tower
21 Washington, D.C. 20005

22 On behalf of Ormet Primary Aluminum
Corporation.
23

24

25

APPEARANCES: (Continued)

EnerNOC, Inc.
By Mr. Gregory J. Poulos
471 East Broad Street, Suite 1520
Columbus, Ohio 43215

On behalf of EnerNOC.

Kegler, Brown, Hill & Ritter, LPA
By Mr. Roger P. Sugarman
Capitol Square, Suite 1800
65 East State Street
Columbus, Ohio 43215

On behalf of National Federation of Independent Business, Ohio Chapter.

Bailey Cavalieri, LLC
By Mr. Dane Stinson
10 West Broad Street
Columbus, Ohio 43215

On behalf of the Ohio Association of School Business Officials, Ohio School Boards Association, Buckeye Association of School Administrators, and Ohio Schools Council.

Whitt Sturtevant, LLP
By Mr. Mark A. Whitt
Ms. Melissa L. Thompson
and Mr. Andrew John Campbell
PNC Plaza, Suite 2020
155 East Broad Street
Columbus, Ohio 43215

Interstate Gas Supply, Inc.
By Mr. Vincent Parisi
and Mr. Matthew White
6100 Emerald Parkway
Dublin, Ohio 43016

On behalf of the Interstate Gas Supply, Inc.

1 APPEARANCES: (Continued)

2 Vectren Source
By Mr. Joseph M. Clark
3 6641 North High Street, Suite 200
Worthington, Ohio 43085
4
On behalf of Direct Energy Services and
5 Direct Energy Business.

6 Thompson Hine, LLP
By Ms. Carolyn S. Flahive
7 Ms. Stephanie M. Chmiel
and Mr. Michael Dillard
8 41 South High Street, Suite 1700
Columbus, Ohio 43215
9
On behalf of Border Energy Electric
10 Services, Inc.

11 Williams, Allwein & Moser
By Mr. Todd M. Williams
12 Two Maritime Plaza
Toledo, Ohio, 43604
13
On behalf of the Ohio Business Council
14 for a Clean Environment.

15 William, Allwein & Moser
By Mr. Christopher J. Allwein
16 1373 Grandview Avenue, Suite 212
Columbus, Ohio 43212
17
On behalf of the Natural Resources
18 Defense Council.

19 Dayton Power & Light Company
By Ms. Judi L. Sobecki
20 1065 Woodman Drive
Dayton, Ohio 45432
21
On behalf of Dayton Power & Light.
22
23
24
25

1 APPEARANCES: (Continued)

2 Ohio Automobile Dealers Association
By Mr. Charles C. Howard
3 and Ms. Sarah Bruce
655 Metro Place South, Suite 270
4 Dublin, Ohio 43017

5 On behalf of the Ohio Automobile Dealers
Association.
6

Hahn, Loeser & Parks, LLP
7 By Mr. Randy Hart
200 Huntington Building
8 Cleveland, Ohio 44114

9 On behalf of Summit and Fostoria
Ethanol.
10

Matthew Cox Law, Ltd.
11 By Mr. Matthew Cox
4145 St. Theresa Boulevard
12 Avon, Ohio 44011

13 On behalf of the Council of Smaller
Enterprises.
14

The Behal Law Group, LLC
15 By Mr. Jack D'Aurora
501 South High Street
16 Columbus, Ohio 43215

17 On behalf of the University of Toledo.

18 - - -

19

20

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1 Monday Morning Session,
2 June 4, 2012.
3 - - -
4 EXAMINER SEE: Let's go on the record.
5 Let's take brief appearances of the parties. Start
6 with the company, go around the table.
7 MR. NOURSE: Thank you, your Honor. On
8 behalf of Ohio Power Company, Steven T. Nourse,
9 Matthew J. Satterwhite, Daniel R. Conway, Yazen
10 Alami, and Christen Moore.
11 MS. GRADY: Thank you, your Honor. On
12 behalf of the residential customers of the Ohio Power
13 Company, Maureen R. Grady, Joseph P. Serio, and Terry
14 L. 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 IEU-Ohio, Frank
19 Darr, Sam Randazzo, Matt Pritchard, and Joe Oliker.
20 MS. KINGERY: Thank you, your Honor. On
21 behalf of Duke Energy Retail Sales and Duke Energy
22 Commercial Asset Management, Amy Spiller, Jeanne
23 Kingery, and Phillip Sineneng.
24 MS. KYLER: Good morning. On behalf of
25 the Ohio Energy Group, Michael Kurtz, Kurt Boehm, and

Jody Kyler.

MR. CAMPBELL: On behalf of Interstate Gas Supply, Incorporated, Andrew Campbell and Melissa Thompson.

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

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

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

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

EXAMINER SEE: Mr. Lang?

MR. LANG: Thank you, your Honors. FES calls Michael Schnitzer.

EXAMINER SEE: Mr. Schnitzer, if you'd raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you.

1 MR. LANG: Your Honors, we have premarked
2 as FES Exhibit 104, Mr. Schnitzer's testimony.
3 (EXHIBIT MARKED FOR IDENTIFICATION.)
4 - - -
5 MICHAEL M. SCHNITZER
6 being first duly sworn, as prescribed by law, was
7 examined and testified as follows:
8 DIRECT EXAMINATION
9 By Mr. Lang:
10 Q. Mr. Schnitzer, could you introduce
11 yourself, please.
12 A. Yes, my name is Michael Schnitzer.
13 Q. Could you state your employer and place
14 of business, please.
15 A. Yes. I'm a director at the NorthBridge
16 Group in Concord, Massachusetts.
17 Q. Do you have in front of you what's been
18 premarked as FES Exhibit No. 104?
19 A. I do.
20 Q. Can you identify it, please?
21 A. Yes. That is my prefiled testimony in
22 this case, the docket.
23 Q. Do you have any corrections to make to
24 your prefiled testimony?
25 A. I do have a few.

Q. What would the first one be?

A. The first one appears in two places, but the first instance is page 4, line 12, and the word "and," it says -- excuse me, the word that says "which," when it says "which when corrected," should be "and," "and when corrected." And that same correction should also be made on page 12, line 2.

Q. So that would be page 12, line 2, in the header, so it would say "...flawed in the Aggregate MRO Test, and when corrected...."?

A. That's correct. So that's the first correction, set of corrections.

The second also -- unfortunately also occurs in several places.

EXAMINER TAUBER: Excuse me.

A. So the next is page 4, footnote 4, there is a date at the end of that footnote and it should say "December 14th, 2011," rather than "2012." That same correction should also be made on page 5, footnote 6, the second line of that footnote, and then again on page 15, footnote 24, changing "2012" to "2011."

The third correction which also occurs in multiple places, the first of which is on page 6, footnote 8 in the second line, the figure

"410 million" should be "390 million." And that same change should also be made on page 31, line 11, changing "410" to "390," and then page 36, footnote 61, in the second line.

Q. Again, changing "410" to "390."

A. To "390." So those are all the ones that occur in multiple places.

Moving on to page 7, line 11, delete footnote 10 at the end of that line and delete the footnote at the bottom of the page.

On page 22, lines 6 and 7, strike the words "in the MRO Price Test" at the end of that sentence and replace it with the words "to determine the CBP," all caps, period.

And the last one is on page 41, the paragraph, lines 14 to 20, should be deleted in its entirety.

Q. That's page 41, deleting lines 14 through 20.

A. That is correct.

Q. All right. Mr. Schnitzer, if I were to ask you the questions in your prefiled testimony that's been marked as FES No. 104 with the corrections as you've made them, would your answers be the same today?

A. They would.

MR. LANG: Your Honors, Mr. Schnitzer is available for cross.

EXAMINER SEE: Ms. Kaleps-Clark?

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

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: No questions, your Honor.

EXAMINER SEE: Mr. Campbell?

MR. CAMPBELL: No questions, your Honor.

EXAMINER SEE: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions, your Honor.

EXAMINER SEE: Mr. Etter?

MR. ETTER: No questions, your Honor.

EXAMINER SEE: Mr. Nourse or Mr. Conway?

MR. CONWAY: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Conway:

Q. Mr. Schnitzer, a few preliminary points. Could I direct your attention to your Exhibit 4, and

1 specifically page 1 of 4.
2 A. Yes, I have it.
3 Q. And then direct your attention to the
4 bottom of the page, there are several lines at the
5 bottom in the last subtable, the first line of which
6 states, quote, Above-MRO costs of Bypassable
7 Generation Rates," I believe it's in millions of
8 dollars. Do you see that?
9 A. I do.
10 Q. Is there a place in your narrative
11 testimony -- well, strike that.
12 Could you describe to me how you derived
13 the $105 million figure on the first line of that
14 subtable?
15 A. Yes, just give me a moment, please.
16 Q. And I'm also interested in just exactly
17 what it represents as well as how you developed it.
18 A. Yes. That calculation or that figure
19 basically comes from a comparison of the bypassable
20 portion of the SSO rate under the ESP, so it would be
21 the ESP rate excluding the RSR charge, which is
22 nonbypassable, and excluding the GRR charge, which is
23 also, I understand, proposed to be nonbypassable.
24 And it would be comparing that portion of
25 the ESP rate with the comparable MRO bypassable rate

1 times the amount of load that's assumed to be taking
2 the SSO service as opposed to being switched. So
3 it's a difference in prices times the quantity of
4 load assumed to be taking that service.
5 Q. And so the point is that the proposed ESP
6 bypassable G rate is greater than the legacy ESP
7 bypassable rate?
8 A. The legacy ESP bypassable rate blended
9 with the CBP.
10 Q. And which of those two elements is what
11 drives the difference, the CBP portion of the blend
12 or the legacy ESP portion of the blend?
13 A. I believe it was principally the CBP
14 portion of the blend which would drive that
15 differential.
16 Q. Is there any portion of it that's driven
17 by the legacy ESP price?
18 A. I would have to check. I just looked at
19 the first power year, June to May, and the ESP rate,
20 the bypassable portion of the ESP rate is very close
21 to the legacy ESP rate in that year. I haven't
22 looked in the succeeding years.
23 Q. Okay. And then as far as the competitive
24 bid price portion of the blend, what you're using
25 there is RPM prices for capacity as well as whatever

the flow-through effects are of using RPM prices for capacity, correct?

A. That's correct. And those flow-through effects as per Ms. Thomas's model.

Q. And if you use the full cost price for capacity instead of the RPM price, then, the values in that first line of your subtable there on Exhibit 4 would change significantly, right?

A. Yes. I don't think it would be appropriate, but mechanically, mathematically, that's what would happen.

Q. And if you were to use the proposed two-tiered pricing for capacity that the company has advanced, that would also cause a significant change for that line in your table, right?

A. I'm not understanding what you mean as to how one would use a two-tiered price for purposes of pricing the default service portion of the rate.

Q. If you were to use -- okay, let me break it down. If you were to use the $255 price as the price for capacity instead of the RPM price, would you agree that that would change the results of that row at the bottom subtable of your Exhibit 4?

A. Yes, as a mathematical exercise that would be the result.

Q. And the same would be -- the same answer would obtain if I posed the question in terms of the $146 capacity price, right?

A. Yes. And in each case to a lesser extent than in response to the first question you asked me.

Q. Okay. You changed one of the values in your testimony in your initial corrections, it was a $410 million value that you changed to 390 million. Do you recall that?

A. I do.

Q. Is that related to your position regarding the pool termination rider costs?

A. Well, the figure that I changed from 410 million to 390 million is an estimate of the potential magnitude of the pool termination charge.

Q. What caused you to change the value from 410 million to 390 million?

A. Yes. My initial calculation had assumed that the $50 million threshold for triggering the pool termination rider was an annual threshold as opposed to a cumulative threshold, and when I realized that AEP's proposal was to treat that 50 million as a cumulative threshold, I went back and recalculated the figures accordingly, and it had the effect of reducing the possible size of the pool

1 termination charge from 410 million to 390 million.
2 Q. Where do you describe the calculation
3 which you used to develop the $410 million figure
4 which now is revised to 390 million?
5 A. It's described in my testimony.
6 Q. Is it described in any of the exhibits to
7 your testimony?
8 A. I believe it's in a workpaper rather than
9 exhibits, the actual details of the calculation, but
10 the description is in the testimony beginning on page
11 30.
12 Q. Could you describe for me, in a little
13 more detail than what you have in your testimony,
14 about how you developed the 390 million from what was
15 410 million?
16 A. Yes. The basic calculation is one that
17 is similar in approach to what AEP has itself used to
18 quantify these effects, I believe, in an Indiana
19 filing. But the basic calculation is to compare the
20 capacity payments that would be received were the
21 interconnection agreement to continue with the
22 reduction in revenues that AEP Ohio would receive if
23 those transactions were instead priced at market or
24 at RPM, and so there's a lost revenue, if you will,
25 in capacity revenues to AEP Ohio.

1 That loss is partially offset by, instead
2 of surplus energy going into the pool at cost, that
3 surplus energy is available to be sold into wholesale
4 energy markets at market which is greater than cost.
5 So the net of those two, the lost capacity revenues,
6 on the one hand, offset by incremental energy
7 margins, on the other, is what makes up the
8 calculation of the 390.
9 And I believe the data sources for that
10 were AEP provided their estimates of the quantity and
11 price of capacity that would be sold under the
12 pooling agreement through the end of 2014, and to
13 project forward the last five months. But using AEP
14 data for the balance of the period, the RPM numbers
15 are of course known for that entire period now, so
16 that was the source of the market.
17 And I believe there was also -- the
18 quantities of energy sold into the exchange at cost
19 also was provided by AEP at least through the end of
20 2014. So the data sources were from the company with
21 the exception, in some cases, of the last five months
22 of the period.
23 Q. So you had to use a measure of capacity
24 payments that would then support an estimate of what
25 those payments would be under the interconnection

1 agreement during a future period? In other words,
2 did you forecast what -- sounds like what you did was
3 you forecasted the capacity payments based on some
4 baseline; is that right?
5 A. Well, actually AEP provided that
6 forecast, as I said, through -- for the entire ESP
7 period save for the last five months. So it was an
8 AEP forecast of just what you described --
9 Q. Okay.
10 A. -- for the bulk of the ESP period with
11 the exception of the last five months.
12 Q. And what is the vintage of that forecast?
13 Is it from last fall, or is it something different
14 from last fall?
15 A. I don't have the date, but it's in
16 Exhibit MMS-5, the response to Interrogatory 3-003,
17 and I don't know the date of that response.
18 Q. What page is that, if you can tell me?
19 A. It's pages 2 through -- I'm sorry, that
20 was the actuals. Let me find the forecast.
21 Yes, the forecast, I'm sorry, starts on
22 page 15 of 31 on MMS-5. So that's an undated
23 response as near as I can tell, but that's --
24 whatever that vintage is; that's the source of the
25 information.

Q. You think it's from discovery from one of the prior iterations of this case based on the fact that the question asks for data from 2012, 2013, and 2014?

A. It may be. I can't tell you.

Q. What was the ESP period originally proposed by the company?

A. Well, I think my recollection was that it was a January 1, 2012, start, but it also went through the end of '15, if I'm remembering -- the last iteration anyway. I don't know what the original one was.

Q. The original is what I'm asking about.

A. Yeah, I'm not sure I recollect that sitting here today.

Q. You don't recall whether it was 2012 through '14?

A. Not sitting here this morning, sir. It's been a little while.

Q. So this exchange that you and I are having right now, it doesn't refresh your recollection as to whether this discovery response came from a prior phase of this case or the current phase.

A. You may well be correct, but I'm not in a

1 position looking at this interrogatory discovery
2 response to say definitively when it was promulgated
3 and answered.
4 Q. Okay. In any event, your assessment of
5 the capacity payments net of energy margins, the
6 390 million, it's based on a forecast of capacity
7 payments that cover, again, what period?
8 A. Through the end of 2014.
9 Q. Okay. And when did it start?
10 A. Well, for purposes of my analysis, it
11 started effective the beginning of the proposed ESP
12 period or June 1, 2012.
13 Q. Do you know whether the company's
14 proposal, in the event that this pool modification
15 rider ever goes into effect, is that it will use the
16 capacity payments experienced from a different period
17 than the forecast period you just identified?
18 A. I'm not certain of that one way or the
19 other.
20 Q. If it did, that could have an impact on
21 the results, right?
22 A. If the calculation mechanics were other
23 than for this period, that could have an effect, yes.
24 But, again, this is -- I present these numbers in my
25 testimony, but they're not in my exhibits or in the

quantification of the overall conclusions consistent with the Commission's last determination of this issue.

Q. I think the last correction you made to your testimony was to delete a paragraph. Do you recall that?

A. I do.

Q. On page 41?

A. Yes.

Q. And that paragraph described how the pool modification rider would be triggered; is that correct? Or not?

A. Well, I don't know if I --

Q. What's the topic that it covers, I guess is my question.

A. It covers the deductible, if you will, associated with the pool modification rider proposal.

Q. Okay. And the $35 million deductible is the current deductible, right? Or is it not?

A. Yes.

Q. So, yes, it is the deductible, right?

A. Yes. And my understanding is that that's on an annual basis.

Q. Just to be clear, I think what you said earlier is that you changed your estimate of the

total impact potentially of the pool modification rider because you concluded that while, previously, the deductible was annual, now it's cumulative; is that right?

A. If that's what I said, you know, I should have said the reverse.

Q. You should have said the reverse. You should have said, or you think you said, or your position is that the deductible is now annual instead of cumulative?

A. My understanding of the company's proposal is that the trigger requires them to experience a shortfall of more than $35 million but not cumulatively, more than $35 million in any -- in each year, that's my understanding.

Q. So the bottom line of all this is that whichever way it is, it causes the potential impacts of the pool termination rider to be less than it would otherwise be, right?

A. Absolutely less, that's correct.

Q. Now, continuing on with the pool modification rider topic, is it your understanding that AEP Ohio's proposed, related to the ESP, that it will transfer the Amos and Mitchell plants to Appalachian Power Company and Kentucky Power Company?

A. That's my understanding.

Q. And is it also your understanding that if those plants are transferred in that manner, according to AEP Ohio's proposal, that there will be no potential impact from the pool modification rider?

A. Yes.

Q. So the AEP proposal actually contemplates no pool modification rider, right?

A. Yes. If things go as the company proposed -- proposes, there would be no pool modification rider. But the possibility of a pool modification rider is part of the proposal in the event that those events do not take place.

Q. In event the proposal is not accepted, right?

A. Those aspects of it, that's right.

Q. And so if you're -- so if you're modeling the ESP and the company's proposals as they have been proposed, then there is no pool modification rider.

A. That's right. And if you look at MMS-4 where you had me several moments ago, there is no inclusion of any costs associated with the pool modification rider on page 1, page 2, or page 3 of MMS-4.

Q. Well, that's helpful, and I was also

1 hoping you might just take it out of your testimony
2 also. Can I get you to go that far?
3 A. No, sir. I think it's appropriately
4 caveated in the testimony as a risk, which is what it
5 is. And I think it's also -- I describe why I don't
6 include it in the tables consistent with the
7 Commission's guidance in its December order, but why
8 I believe it's, nonetheless, a relevant fact as a
9 risk that is there associated with the company's ESP
10 proposal, and I'm comfortable with it being included
11 in my testimony in that fashion.
12 Q. Okay. Let me ask you one other series of
13 questions on the same topic and then I'll move on.
14 You indicated that $390 million is a net amount, it's
15 net of margins from energy off-system sales, correct?
16 A. Yes, sir.
17 Q. And what's your understanding of the way
18 that energy off-system sales margins are collected
19 by -- retained by AEP Ohio?
20 A. My understanding is that under the
21 interconnection agreement that there is some sharing
22 of those margins with sister companies of the
23 agreement.
24 Q. So under the pool agreement, the
25 interconnection agreement, AEP Ohio retains some

fraction of the margins from the sales that it makes off system, right?

A. That's my understanding, yes.

Q. And if we were to terminate the interconnection agreement, then would Ohio Power, AEP Ohio, then retain a hundred percent of the margins from off-system sales and not simply the fraction that it previously retained pursuant to the agreement?

A. I think that's right, yes.

Q. And can you tell me, can you confirm for me, beyond a doubt, that in your calculations, you took into account the fact that upon termination of the pool, the retention of energy off-system sales margins would rise to a hundred percent from the current level?

A. That was certainly my intent.

Q. So if you didn't do that, we should make an adjustment to the offset piece of your calculation and see what impact it has on the 390 million, right?

A. Yes. The intent was to credit a hundred percent of the margins from the sales.

Q. And we could figure that out by looking at your workpapers, right?

A. I believe so, yes.

Q. Do you have your workpapers with you today?

A. I do not.

Q. And the fact that your calculations appear in the workpapers and not in an exhibit is another reflection of how tenuous this pool modification rider is, right?

A. No, sir.

Q. Also on your exhibits, specifically Exhibit MMS-2, you have there kind of a scorecard of the various approaches to pricing capacity and the impacts on the price, the overall price for capacity, well, excuse me, for the overall competitive benchmark price; is that right?

A. Yes, for the CBP, that's right.

Q. If I were to -- if I were interested in figuring out the translation of dollars per megawatt-day pricing to dollars per megawatt-hour pricing, which is what you end up with in this table, I could do that, could I not? By some pretty simple algebra, right?

A. Well, it's -- the operations are algebraic, yes.

Q. Okay. And, for example, if you look at the Column 3 in your table, the Thomas Tier 2 CBP --

do you see that?

A. I do.

Q. -- and then under the capacity line, there's a $15.75 per megawatt-hour value. Do you see that?

A. I do.

Q. Okay. So if I wanted to convert the dollars per megawatt-hour into dollars per capacity -- excuse me, dollars per megawatt-day, I could just divide the 255 by the 15.75, right?

A. Well, that would give you the, kind of the net algebraic translation from 255 to 15.75 under the assumed mix of customer classes which underlie Column 3.

Q. Okay. And what I'm trying to get is dollars per megawatt-day for $1 per megawatt-hour. So if I divided the $255 per megawatt-day by the $15.75 per megawatt-hour, then I would get the dollars per megawatt-day that correspond to $1 per megawatt-hour, right?

A. Well, the result of that -- the result of that calculation would have -- would be megawatt-hours per megawatt-day, that's just doing the, if I understand your 255 in the numerator and the 15.75 in the denominator.

Q. Let me see if I can cut to the chase here. Is it accurate that the -- for every dollar per megawatt-hour capacity, it corresponds to about $16 per megawatt-day?

A. Would you restate your question, please?

Q. My question was: Let me cut to the chase here.

A. Thank you for being complete.

Q. Is it accurate that a dollar per megawatt-hour for capacity corresponds to a little over $16 per megawatt-day?

A. So you're -- are you asking me if every dollar per megawatt-hour, for a dollar per megawatt-hour change in the capacity portion of the CBP, that that would translate to 16?

Q. $16, roughly, per megawatt-day.

A. May I use my calculator for a moment?

EXAMINER SEE: Yes.

MR. LANG: Go ahead.

A. That would be the result of the calculation you described, again, under the assumption of a particular mix of customer classes.

Q. Okay. And so if I were to take whatever the value it is that you just derived, which I assume is about $16 and change, and multiplied it times, for

example, in Column 2 of your table -- or, your Exhibit MMS-2, Column 2, the $9.01 per megawatt-hour for capacity -- do you see that?

A. I do.

Q. If I took the value you just calculated and multiplied it times the $9.01, I'd get the 145.70 or whatever the number is for the tier 1 capacity pricing in dollars per megawatt-day, right?

A. Yes.

Q. So a $10 per megawatt-hour value would correspond to about $162 per megawatt-day; is that right?

A. Yes. Again, with the constant under this particular assumption about the customer class mix.

Q. Everything else being held the same, right?

A. Yes, sir.

Q. Okay. Do you know what the experience has been with regard to the simple swap energy price as far as -- what the experience has been from last fall at the time of the stipulation hearing and today, how it's changed?

A. Generally, it's gone down.

Q. And by how much has it gone down, would you say?

A. I don't have that number offhand. We did check the numbers that Ms. Thomas used in her most recent analysis and those looked pretty close, to us, to the current market, but I didn't compare them to the prior stipulation ESP assumptions.

Q. Do you, you know, ballpark, do you know whether it's about a $10 per megawatt-hour decline?

A. I really -- I haven't done that comparison.

Q. Well, if it were a $10 per megawatt-hour decline in the simple swap price since the time of the stipulation, would you agree that it would, in that event, that it would equate to roughly a $160 per megawatt-day decline in the capacity price?

A. I'm sorry, to 160?

Q. The $10 per megawatt-hour decline in the simple swap energy price -- let me start over.

A $10 per megawatt-hour decline in the simple swap energy price, if that decline would have occurred instead with regard to the capacity price, that it would equate to a decline of about $162 per megawatt-day for capacity price.

A. Are you asking me if a decline of $10 per megawatt-hour in the simple swap price would produce a similar average rate effect as $160 per

1 megawatt-day decrease in capacity price? Is that
2 what you're asking?
3 Q. For purposes of the competitive bid
4 price, yes.
5 A. Roughly, I would say that would be
6 correct. Again, ignoring the ripple effects that are
7 in the AEP model.
8 Q. Okay. And the ripple effects would
9 simply accentuate the decline beyond that $10 per
10 megawatt-hour.
11 A. Yeah. The ripple effects, in the way
12 that the model is constructed, the ones that I focus
13 on, are related to the change in capacity price as
14 opposed to -- so the ripple effects are not the same
15 for a change in the energy price and a change in
16 capacity price, that's my point.
17 Q. Okay. But they are directionally the
18 same; are they not?
19 A. Yes.
20 Q. And would you agree that a $10 per
21 megawatt-hour decline in the simple swap energy price
22 would provide a substantial increment of additional
23 headroom for a competitive supplier, compared to the
24 scenario where there's not a decline in the simple
25 swap price?

A. Well, it sort of begs the question of "Compared to what?" If the "compared to what," if the SSO price is the same and the only thing that changed is what you described, then the answer would be "yes."

But in the MRO test, of course, the decline in the simple swap price also translates to -- partially to a decline in the SSO price, and so that would mitigate the effect that you're describing.

Q. It would mitigate it not completely, it would just partially mitigate it, right?

A. Right. By the proportion of the blend, that's right.

Q. Let me change topics, Mr. Schnitzer. I want to discuss with you your testimony that compares the modified ESP, now under consideration, to the stipulation ESP from last fall, okay?

A. Yes, sir.

Q. Under the modified ESP that we're currently considering, do you agree that the company has proposed no increases to the base G rates during the term of that ESP?

A. Yes and no. For as long as the base G rate is applicable, that's the case. But for the

1 last five-month period where the company is proposing
2 a hybrid, if you will, of a $255 per megawatt-day
3 capacity charge plus market energy, all the analysis
4 that's here in this docket suggests that that would
5 increase the G rate for that five-month period quite
6 substantially.
7 Q. So putting that aside, that five-month
8 period, you would agree that the company, the
9 five-year period January through May of 2015 --
10 A. "Five-month period," sir?
11 Q. Excuse me?
12 A. The "five-month period," not the
13 "five-year period."
14 Q. Did I say "five-year"? Thank you.
15 So you would agree with regard to the
16 five-month period, January through May 2015, putting
17 that aside, that the company's modified ESP proposes
18 no increase to the base G rates during the term of
19 that ESP prior to January 2015.
20 A. Yes, that's a big -- that's a big
21 "provided for." That's a substantial increase that
22 you've asked me to ignore for purposes of answering
23 your question, but yes.
24 Q. Under the stipulation ESP, there were
25 increases to the base G rates, correct?

A. Yes.

Q. And could you turn to page 42 of your testimony.

A. Yes.

Q. There's a table you have on page 42 at the bottom. Do you see that?

A. I do.

Q. You show a net increase in the base G rate of $14 million towards the bottom third of that table. Do you see that?

A. I do.

Q. And what produces that $14 million? Where does it come from?

A. It's the net of several effects, and I'm looking to see where those are described.

Yes, if you look at page 40, starting on line 11, and here this whole Q and A is an explanation for the $104 million figure in the category of the table that you were referring me to, which is the 14 plus the 90. Do you see that?

Okay. So we're saying the total increase in cost to SSO customers, comparing the stipulation ESP to the modified ESP, is 104 million; is two pieces, 90 and 14.

Q. Right.

A. So the sentence on lines 9 and 10 of page 40, says, "Over 85 percent of this increase in rates is attributable to the new non-bypassable RSR in the Modified ESP." So that's the $90 million figure, shown on the table in the next page, is attributable to the RSR charge, the new RSR charge, which was not in the stipulation of the ESP.

So the balance of that page is a description of a -- what accounts for the remainder, the $14 million you were asking me about.

Q. Right.

A. So the first part of that is to acknowledge what you have been asking me about, that in the modified ESP, the G rate is slightly lower and held flat rather than increasing over the term of the ESP.

On the other hand, there's this five-month period that we also talked about where the company's proposal is to charge market energy plus $255 a megawatt-day capacity.

And so using the company's assumptions about switching and the company's assumptions about energy and the like, the simple swap and all that stuff, what you find is the net of those two effects is a plus $14 million, meaning the price increase in

1 the last five months of the ESP period more than
2 overcomes the savings in the prior two years and
3 seven months. So the 14 million is the net of those
4 two.
5 Q. So the savings is the difference between
6 the stipulation ESP rates and the -- holding the base
7 G rates constant during the 2012 June through 2014
8 period?
9 A. Yes. The first, what would that be, 31
10 months I guess, and so yes, there is a -- I can't
11 tell you what the number is, what the savings number
12 is, but then there's a cost increase number that
13 occurs in the last five months, and the net of those
14 two numbers is a plus 14 of cost increase.
15 Q. And you don't explain in your testimony
16 anywhere how that calculation is actually done, how
17 the netting occurs, do you?
18 A. Well, I think I describe -- there's two
19 separate pieces of math. There's one piece that says
20 what would the stipulation rate -- what was the
21 stipulation rate for the June 1 to December 2014
22 period, and what is the modified ESP rate for that
23 same period.
24 And you have a difference -- and you have
25 a present assumption, using the current assumptions,

as to what the retained load will be for that period. So that's the algebra for that one. It's a comparison of two rates times the retained load. And so that's piece one and that's in a workpaper.

And then the second piece is to compare the stipulation ESP rate for the January 2015 to May 2015 period and to compare that to the company's estimate, corrected for the $255 per megawatt-day, for what the ESP rate would be for that same period, times the company's assumption of the retained load during that period.

And then those two numbers, one of which have opposite signs, are added together. And the details of the calculation are in a workpaper, but the description of the calculation is here in the testimony.

Q. And the description is in the table and then on page 40?

A. Yes, sir.

Q. Okay. And that's it, right?

A. That, plus the workpaper, that's right. It's all using the company's assumptions.

Q. And do you have any recollection, ballpark accuracy, as to what the benefit of the proposed ESP is during the first 31 months?

A. I don't. I'm sure it's in the workpaper, but, sitting here, I don't recollect what that piece was.

Q. Let me go back to page 21 of your testimony.

A. Yes, I have it.

Q. In the bottom half of the page, I think starting on line 11, you state that "The MRO price shown in Exhibit LJT-5," which refers to one of Ms. Thomas's exhibits, "includes a competitive bid price with a capacity charge based on a blending of $355 per megawatt-day, $146 per megawatt-day, and $255 per megawatt-day." Do you see that?

A. I do.

Q. Can you explain to me where in Ms. Thomas's Exhibit 5, LJT-5, the three capacity prices are inputted or are accounted for?

A. I don't have -- I don't have LJT-5 in front of me.

MR. CONWAY: May I approach, your Honor?

EXAMINER SEE: Yes.

MR. CONWAY: I'm handing Mr. Schnitzer what I'll represent is a copy of LJT-5. Thank you.

Q. My question is simply, you know, please explain to me where the three different capacity

prices, in your view, factor into Ms. Thomas's exhibit.

A. So I'm looking at LJT-5, which you have just handed me, and I'm looking at line 10, and I'm looking at the far right-hand corner of line 10.

Q. The $63.80?

A. 63.80. And then I'm looking at Exhibit MMS-2, where you and I were discussing a few moments ago. And if you look at Column 4, which is what I understand to be a blend of Columns 1, 2, 3, at the bottom of that column you will see the same $63.80 figure.

So it's my understanding that Ms. Thomas did the CBP model calculation under alternative capacity price assumptions shown in the three columns to the left, and that the 63.80 figure that shows up in LJT-5 is a blend of those three numbers to the left.

Q. And is it your understanding that the 355 assumption that Ms. Thomas made was applicable to nonshopping load?

A. When Ms. Thomas calculated, in Column 1, the CBP portion of the MRO price, which is -- that price is a component of what would be charged to nonshopping load, my understanding is she used the

355 for that purpose in Column 1.

Q. And for shopping load, is it your understanding that Ms. Thomas used the tier 1 price of $146 per megawatt-day price for the tier 1 and then the $255 per megawatt-day for the tier 2?

A. That's my understanding, yes.

Q. And that relates to the shopping portion of the load, right?

A. That's right.

I'm sorry. Mr. Conway, if I can just clarify my last answer. I think you asked me about capacity numbers she used for the nonshopping load. And I just -- as I'm thinking about that answer, the test that Ms. Thomas does, comparing the ESP and the MRO, is under the assumption of a hundred percent retained load.

So I guess while it's true that the company's proposal is to charge shopping customers the two capacity prices that you described, I'm not sure what you meant when you asked me what Ms. Thomas had used in her analysis, because her MRO ESP analysis assumes a hundred percent retained load when she quantifies the dollars.

Q. Is it your understanding that the price, the weighted price that Ms. Thomas develops, is

weighted based on the amount of shopping that occurs and, similarly, the amount that is retained load that does not shop?

A. I'm sorry, which prices are you asking about?

Q. The 355, the 255, and the 146, is the weighted average cost based on the weighting of the portion of the load that's retained that doesn't shop priced at the 355, the portion that does shop at the tier 1 price at 146, and then another portion that shops at the 255.

A. So just so I'm clear, you're asking me for purposes of the calculation that she did in LJT-5 --

Q. Right.

A. -- where she used a blended capacity price in determining the CBP on the MRO branch of the test, did she determine the weights in the manner that you just described; is that your question?

Q. Yes.

A. I believe that's right, but I don't -- it doesn't affect my prior answer which is that her quantification of benefits, in either LJT-1 or LJT-5, is on the presumption of a hundred percent retained load.

1 Q. Could you turn to page 2 of your Exhibit
2 4.
3 A. Yes.
4 Q. And at the top, in the parenthetical
5 below the title, it indicates "MRO Capacity for
6 Switched Load: Tier 1 at RPM and Tier 2 at $255 per
7 megawatt-day."
8 A. Yes, sir.
9 Q. If you go down to the "Capacity" line
10 under the "Competitive Benchmark Price," part of the
11 "MRO Pricing" section. Do you see that?
12 A. Yes.
13 Q. A dollar-thirty value, that's the first
14 value you see there, that's an RPM-based value; is
15 that right?
16 A. Yes.
17 Q. And so that does not reflect a blend or a
18 weighting of RPM, on the one hand, and $255 per
19 megawatt-day on the other hand, does it?
20 A. No, because competitive benchmark price
21 is not a price that is applicable to switched load.
22 Q. And would the same be true, then, of each
23 of the other values on that row?
24 A. Yes. That's the derivation for the price
25 that would be paid by nonswitching customers. The

1 numbers in that block have nothing to do with what
2 switched load would pay.
3 Q. So no matter what the capacity price that
4 is used by the company, we would always use the "RPM
5 price" in the fashion that you have done here, right?
6 As far as your position goes.
7 A. I think my position is that the RPM price
8 is the appropriate price to use in determining the
9 CBP portion of the MRO rate.
10 Q. So if the Ohio Commission concludes, as
11 part of the state compensation mechanism, that
12 two-tiered pricing, 146 per megawatt-day and 255 per
13 megawatt-day, is appropriate, you would still present
14 this test in terms of RPM -- prevailing RPM prices as
15 you have presented them in your Exhibit MMS-4 on page
16 2 here.
17 A. Yes, that's right. Those are two
18 distinct issues.
19 Q. Okay. I have a question or two for you
20 about the ESP MRO comparison, the test. Is it your
21 understanding that there is one test that the ESP has
22 to pass, being whether it is -- the proposed ESP has
23 to pass, the test being whether the proposed ESP is
24 more favorable in the aggregate, as compared to the
25 expected results that would otherwise apply under an

MRO?

A. That's my understanding of what the statute says. The company has proposed a several-part test as part of its claim that it satisfies that standard, but that's my understanding of the standard.

Q. Is it your understanding that in order to get the ESP approved, the company has to pass two tests, one, an ESP versus MRO price test, and then, secondly, an in-the-aggregate test for the ESP compared to the expected results of the MRO?

A. You'll have to ask the lawyers the answer to that question. AEP, in this case, has put forward those two separate tests and has claimed that it meets both prongs of the test. My testimony simply says that properly constructed on a quantitative basis, the company's ESP does not meet either of those tests.

Q. Do you have an understanding as to whether ultimately there is only one test that needs to be passed?

A. The statutory language is more favorable in the aggregate and I think that's what has to be satisfied. But, again, if you're asking me for a legal conclusion as to whether there are separate

1 subtests that need to be met to satisfy that
2 standard, I'm the wrong one to ask that question.
3 Q. Well, let me -- final question,
4 hopefully, on this line. Assume that the price test,
5 in comparison of the price under the proposed ESP to
6 the expected price under an MRO, indicates that the
7 MRO is more favorable or that the ESP is unfavorable,
8 and yet in the aggregate, assume for me, that the
9 expected results of the MRO are less advantageous
10 than the benefits in the aggregate from the ESP,
11 okay?
12 A. Uh-huh.
13 Q. In that situation, do you have an opinion
14 as to whether or not the ESP would be acceptable
15 without modification?
16 A. Well, I can't -- as a matter of law, I
17 can't comment. As a matter of policy, I would think
18 that the Commission would be interested in the
19 aggregate test. But, as I say, in this instance,
20 it's the company that has put forward these two
21 separate tests and claimed, on a quantitative basis,
22 they passed them both.
23 And my testimony is, well, if you're
24 going to put those tests forward, let's correct the
25 numbers, and you don't pass either. That's what my

1 testimony says.
2 Q. Do you recall testifying, during the
3 stipulation ESP hearing last fall, regarding a method
4 used to calculate the maximum above-market capacity
5 rate?
6 A. I do.
7 Q. And you calculated that, in your prefiled
8 testimony, that the maximum above-capacity market
9 rate would be $162 per megawatt-day. Do you recall
10 that?
11 A. Yes. And just so we're clear, I believe
12 I characterized that as a maximum rate assuming that
13 the Commission found that it was both legal and
14 appropriate from a policy perspective to have
15 above-market capacity cost recovery. And so the
16 number that I calculated was underneath that umbrella
17 or caveat, but, yes.
18 Q. Okay. And that was your kind of, I won't
19 say "quick and dirty," but it was your presentation
20 of what a cost-based rate would look like, right?
21 A. I wouldn't characterize it that way. It
22 was the most that could conceivably be economically
23 justified assuming that the company had an
24 entitlement to recovery of not just its going-forward
25 costs, but its sunk costs. And under that kind of

1 predicate, it was the maximum conceivable rate that
2 would be consistent with that.
3 Q. And the way the rate was developed was
4 that you calculated a capacity revenue requirement of
5 $497 million, then converted that into the dollars
6 per megawatt-day, right?
7 A. Well, I don't remember the specific
8 figure that you -- that you're referring to, but the
9 approach basically was to, in effect, calculate the
10 net unrecovered amount after taking into account
11 various puts and takes of other capacity revenues,
12 other energy revenues, and the like.
13 Q. Well, would you like to take a look at
14 the sheet from your Exhibit 5 from your prior
15 testimony to confirm that, or will you accept it
16 subject to check, that what you did is you came up
17 with ultimately a $497 million value and converted
18 that into the $162 per megawatt-day value?
19 MR. LANG: Your Honor, at this point we
20 object. This is not part of his testimony in this
21 case.
22 MR. CONWAY: The question is, I think,
23 whether it's relevant to his testimony. And the
24 issues he covers in this case, because he's taking
25 the position that the appropriate price is the RPM

price, and he has testified previously about alternatives to the RPM price, and I think it's appropriate to explore with him, and I think the Commission might very well be interested in it.

In any event, it's, to one extent or another, it is part of the record in this case from the prior phase.

EXAMINER SEE: I'll allow it.

Q. Would you accept, subject to check, that the revenue requirement that you translated into the $162 was 497 million?

A. If you have it there, I'd just as soon look at it, please.

Q. Okay.

MR. CONWAY: May I approach, your Honor?

EXAMINER SEE: Yes.

A. I'm sorry, if you could repeat your question one more time.

Q. I will if I can recollect what's on that page. That's okay, I'm just kidding.

What you did in your earlier phase is you calculated a revenue requirement of $497 million, then converted that into the $162 per megawatt-day, right?

A. Yes. It was a net revenue requirement to

be recovered in this fashion, and that's correct, that's what I did.

But I also just want to correct the record in respect to the manner in which you characterized my prior testimony, which is in that testimony as well, I took the position that, the same one that I take now, for purposes of the CBP RPM is the only appropriate capacity price. This figure was not ever offered in reference to that assumption.

Q. I understand that.

A. I just want to make sure that there's no lack of clarity on that point.

Q. Thank you. I did not mean to imply that you were advocating the $162 per megawatt-day value or the approach, but just simply that you had done the calculation and arrived at that result.

And then do you recall having a discussion about whether or not the 497 million net amount included fuel cost deferrals and --

MS. GRADY: Objection.

Q. Do you recall having that discussion in the prior exchange we had last fall?

EXAMINER SEE: And there's an objection. On what basis, Ms. Grady?

MS. GRADY: Relevance and hearsay.

1 MR. CONWAY: Well, your Honor, it's
2 clearly relevant to what the witness has said about
3 what a cost-based rate might look like even though he
4 doesn't advocate a cost-based rate. It's not
5 hearsay. It's his own -- I'm talking about his
6 statement that he made previously and he's
7 representing a party to this proceeding, so it's not
8 a hearsay issue.
9 MR. LANG: Your Honor, just, again, to
10 correct Mr. Conway. Mr. Schnitzer has done -- this
11 testimony is not about what a cost-based rate would
12 look like. And that's why it should be -- we've gone
13 down this road, but that's why it isn't relevant to
14 what's in this modified ESP case, your Honor.
15 MR. CONWAY: Mr. Schnitzer, your Honor,
16 can clarify or describe what it is he's proposing,
17 whether it's a maximum above-market price or whether
18 it's at a basis in cost or to what extent it has a
19 basis in cost. But my question is simply whether he
20 recalls the portion of our discussion last fall in
21 which we discussed the $130 million of deferred fuel
22 expense and whether or not it's factored into the
23 497 million.
24 EXAMINER SEE: The objection is
25 overruled. The witness can answer the question.

A. I recall a conversation about whether deferred fuel was in or out of that calculation, and the impact if it had not been taken into account.

Q. And if it had not been taken into account, the impact was that it would increase the maximum above-market price to somewhere a little bit above $200 a megawatt-day, right?

A. Yes. And my recollection of that exchange is that that was all -- as far as my testimony is concerned, it was under the assumption that there was an unrecovered deferral fuel balance in a certain amount, and if that were the case, what would be the effect. But I don't recall that I --

Q. Right.

A. -- confirmed the specific figures or the proposition at that point.

Q. Okay.

MR. CONWAY: Thank you, your Honor.

Thank you, Mr. Schnitzer. Those are all the questions I have.

EXAMINER SEE: Mr. Margard or Mr. Beeler?

MR. MARGARD: No questions. Thank you.

EXAMINER SEE: Redirect, Mr. Lang?

MR. LANG: Can we have a few minutes, please, your Honor?

EXAMINER SEE: Certainly.

MR. LANG: Thank you.

(Recess taken.)

EXAMINER SEE: Mr. Lang.

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

EXAMINER SEE: Thank you, very much, Mr. Schnitzer.

THE WITNESS: Thank you.

MR. LANG: Your Honors, we would move FES Exhibit 104.

EXAMINER SEE: Are there any objections to the admission of FES Exhibit 104?

MR. CONWAY: No.

EXAMINER SEE: Hearing none, FES Exhibit 104 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Etter or Ms. Grady?

MS. GRADY: Ms. Grady.

EXAMINER SEE: Ms. Grady, okay.

MS. GRADY: Thank you, your Honor. OCC calls to the witness stand, Beth Hixon.

EXAMINER SEE: Could you raise your right hand.

(Witness sworn.)

1 EXAMINER SEE: Thank you. Have a seat.
2 Please make sure your microphone is on.
3 - - -
4 BETH E. HIXON
5 being first duly sworn, as prescribed by law, was
6 examined and testified as follows:
7 DIRECT EXAMINATION
8 By Ms. Grady:
9 Q. Good morning, Ms. Hixon.
10 A. Good morning.
11 Q. Ms. Hixon --
12 MS. GRADY: At this time, your Honor, OCC
13 would ask to have marked for identification purposes
14 as OCC Exhibit No. 114 the testimony of Beth E.
15 Hixon.
16 EXAMINER SEE: The exhibit is so marked.
17 (EXHIBIT MARKED FOR IDENTIFICATION.)
18 Q. Ms. Hixon, do you have in front of you
19 what has been preliminarily identified as OCC Exhibit
20 No. 114?
21 A. Yes, I do.
22 Q. Can you identify that document for me,
23 please?
24 A. It's my testimony in this case.
25 Q. Ms. Hixon, was the testimony prepared by

1 you or under your direct supervision and control?
2 A. Yes, it was.
3 MS. GRADY: Your Honor, at this time I
4 would ask that an exhibit marked as 114-A, would be
5 the June 1st, 2012, filing at the Commission which is
6 the errata sheets pertaining to the testimony of OCC
7 witnesses Ms. Hixon and Mr. Soliman.
8 EXAMINER SEE: The exhibit is so marked.
9 (EXHIBIT MARKED FOR IDENTIFICATION.)
10 Q. Ms. Hixon, do you have front of you what
11 has been preliminarily identified as OCC Exhibit
12 114-A?
13 A. Yes, I do.
14 Q. Can you identify that for me, please?
15 A. These are corrections to my testimony and
16 to Mr. Soliman's testimony.
17 Q. With respect to the Exhibit 114 and
18 114-A, if I asked you the questions that are
19 submitted in Exhibit 114-A with the corrections --
20 let me strike that.
21 If I asked you, with respect to OCC
22 Exhibit No. 114, if the questions directed to you are
23 true and accurate to the best of your belief, what
24 would your answer be?
25 A. Yes.

Q. Subject to the corrections in 114-A.

A. Yes.

MS. GRADY: Your Honor, at this time I would offer Ms. Hixon up for cross-examination and preliminarily move for admission of OCC Exhibit No. 114.

EXAMINER SEE: Any cross for this witness, Ms. Kaleps-Clark?

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

EXAMINER SEE: Mr. Barnowski?

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

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions.

EXAMINER SEE: Mr. Campbell?

MR. CAMPBELL: No questions, your Honor.

EXAMINER SEE: Mr. Siwo?

MR. SIWO: No questions, your Honor.

EXAMINER SEE: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions, your Honor.

EXAMINER SEE: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER SEE: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Conway:

Q. Good morning, Ms. Hixon.

A. Good morning.

Q. Can you tell me with regard to the various changes that you've made to your testimony, do you regard any of them as significant? And if so, which ones?

A. I think taken as a whole, the changes are significant. There's different reasons for each of the changes and then they flow through.

Q. Can you explain to me what caused the change in the dollar values that you present at page 12, line 16, and page 13, line 2?

A. On page 12, line 16, the amount changed from 86.6 to 28.1. That's a direct follow-through from the correction to Schedule BEH-1, if you turn to that. And on the SSO price comparison is the amount that was changed to 28.1 million, that is a carry forward from Schedule BEH-2a.

Q. So you're referring to the Revised Schedule BEH-1?

A. Yes, sir.

Q. You're not talking about the Attachment BEH-1.

A. Not the Attachment. The Schedule.

Q. Could you go back and --

A. Sure. If you turn to Schedule -- Revised Schedule BEH-1, the "SSO Price Comparison" is the 28.1 million. That number comes forward from Revised Schedule BEH-2a at the bottom of the page. And the change occurred there because the MRO price differential is being applied to the percentage of the SSO load. And the same number -- mathematical or numerical change occurs on Revised Schedule BEH-2b and carries forward as well.

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

(Discussion off the record.)

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

Q. Looking at Revised Schedule BEH-2a, it looks like in the bottom part of that schedule that's entitled "MRO-ESP Price Comparison" -- do you see that?

A. Yes.

Q. -- that looks identical to your original Schedule BEH-2a which originally had three rows, lines 28 through 30. So those remain the same, right?

A. Yes.

Q. And then what you've done is you have taken fractions of each of the periods that are reflected in the columns based on the percentage of SSO load to total load that you've got indicated on line 31 of Revised Schedule BEH-2a?

A. Yes.

Q. That's a new line in your testimony, right?

A. Yes.

Q. And then you perform the math on the line 30 that is indicated by a percentage of line 31, and that gives you the result on line 32; is that right?

A. Yes.

Q. So on the one hand, on Revised Schedule BEH-2a, performing this last -- this new calculation that you just added reduces the benefit that you had previously calculated from 86.6 million to 28 million, right?

A. Yes, that's correct. Rather than

applying it to total connected load, it's only applied to the SSO load.

Q. And then on Revised Schedule BEH-2b, you performed a similar reduction to the -- what is, I guess, a cost of the modified ESP, the $50 million cost, you perform a similar adjustment based on the percentage of SSO load to total load values that are on line 31 of that revised schedule, right?

A. Yes.

Q. And that ends up reducing the modified ESP cost from 50 million to 17.5 million, right?

A. Right.

Q. I want to talk to you for a bit about the market rate offer alternative in the MRO-ESP comparison, okay?

A. I'm sorry, was that --

Q. Are you okay with that topical area?

A. I'm fine with that topic.

Q. Thank you.

A. Or can I choose another one?

Q. Unfortunately for you, no.

A. Okay.

Q. You've made all your choices, that's why we have your testimony we have in front of us --

A. Okay.

Q. -- now it's my turn to make the choices.

Let's assume that we are in an MRO starting June 1, 2012, okay?

A. Okay.

Q. At that point there's a 10 percent blend of the competitive benchmark price with a 90 percent proportion of the legacy ESP price, right?

A. Yes. During the first year.

Q. And that continues until May of 2013?

A. Yes.

Q. And then after that June of 2013, through May of 2014, it goes up to a 20 percent proportion from the competitive bid price and that's blended with an 80 percent proportion of the legacy ESP price, right?

A. Right.

Q. And then similarly -- similarly, 30 percent competitive bid and 70 percent legacy ESP pricing for the remainder of 2014, right?

A. Under the company's proposal, yes, it wouldn't be a full year, but yes.

Q. Okay. And then I want you also to assume that corporate separation proceeds even under the MRO alternative, okay?

A. Okay.

Q. And that it happens sometime in 2014 but, in any event, before January 1 of 2015, okay?

A. Okay.

Q. So by January 1st, 2015, Ohio Power Company doesn't own generation assets anymore, it's transferred them, all right?

A. All right.

Q. How do you think Ohio Power might procure the capacity and energy that it will need to supply the SSO load for the January through May 2015 period?

A. Are you talking about under the company's proposed modified ESP or under an expected MRO?

Q. Under an expected MRO, looking at the MRO alternative --

A. Okay.

Q. -- and we have -- the assumption is we have corporate separation sometime before January 2015, okay, and then we still have SSO load, though, that's in place that needs to be served under the MRO alternative starting January 1, 2015, for that five-month period of the future, okay?

A. Under an expected MRO that had been approved by the Commission, you would be into the third year, that January 2015 date, so there would continue to be a blending of 70 percent of the

generation service price, or what you're calling a "legacy ESP price," with an expected bid price. The acquisition of the supply would probably be done through a competitive bidding process to determine the MRO price.

Q. So would the price that would be paid for the supplies being purchased at that time for the SSO, be at a similar level to the price that's assumed to be paid for the competitive bid price portion of the blended MRO?

A. No.

Q. You're saying that that could not happen?

A. You asked me if it was at a similar level. No, I don't believe it would be.

Q. You don't think the pricing would be similar, competitive benchmark price for that period for the 30 percent and the price paid for power supply for the 70 percent remainder that's being blended.

A. My understanding is that if an MRO had been approved, that the pricing would be determined in the blending that we just discussed, and that the price for the standard service offer that's going to be blended at 70 percent is the legacy SSO price.

Q. Okay.

A. I think you've entered the concept of what would it cost or what would the price be to supply that; I make a distinction.

Q. Okay. Let me back up a little bit. Assume for me that there is a procurement that takes place at the competitive bid price, that's the price paid for the power supply procured for SSO starting January 1, 2015, okay?

A. I understand.

Q. Okay. And is it your understanding that the ESP pricing, the legacy ESP pricing is permitted to be adjusted for the cost of purchased power? If you know.

A. If you look at my testimony at page 6, I think there is a description that the MRO, at line 14, the MRO SSO generation price is a blend of the most recent standard service offer price adjusted for costs of fuel, purchased power, supply and demand portfolio requirements and compliances.

Q. So it would be adjusted for the costs of purchased power then, right?

A. Yes, that's allowed.

Q. And what if the entire 70 percent is being procured through the competitive bid price, which is the same as the price assumed for the

30 percent portion of the blend, and the purchased power costs, as a result, are priced at that level, what would be the adjustment, in your view, to the legacy ESP price that would occur?

MS. GRADY: May I have the question reread, please?

(Record read.)

A. I think that the legacy ESP price would be subject to the Commission's approval of whatever the legacy ESP standard service offer generation price mechanism was. So if that mechanism changed at the point that you're describing, where now there is no longer base generation and there's only a fuel component, I think that that would have to be approved by the Commission as part of the MRO going into it or during the process of the MRO.

If that were approved by the Commission that you could eliminate the legacy generation and simply have a complete flow-through, there may be an adjustment necessary.

Q. When you said "eliminate the legacy generation," you meant --

A. Legacy generation base generation rate.

Q. Okay. So, in that scenario, you could foresee that the price that would be applied to the

70 percent legacy ESP portion could be the same price that's applicable to the 30 percent competitive bid price, right?

A. I guess what I'm struggling with is understanding that the fuel and purchased power that is in the legacy ESP, subject to audit, all of that would have to be approved. If all of that were approved and it were determined, then, that it were prudent for the electric distribution utility to purchase power in that fashion, yes, there could be an adjustment or it could be the same.

Q. There could be an adjustment to legacy base rate, or it could be the same as the legacy base rate, or there could be an adjustment that results in the 70 percent proportion being priced at the same level as the competitive bid price proportion; what did you do? I'm just trying to clarify that.

A. Okay. Could you try again, please?

Q. Okay. So would you agree, then, that under the scenario that you just reiterated or stated, that the pricing for the 70 percent legacy ESP portion of the blend could end up being the same as the pricing for the 30 percent competitive bid price portion of the blend?

A. Given all the caveats that I had in my

1 explanations about how the MRO was to be structured,
2 and whether or not the Commission approved the ESP
3 legacy generation components continuing in that
4 fashion.
5 Q. Okay. Could you turn to your Schedule
6 BEH-1.
7 A. I have that.
8 Q. Which has now been revised, correct?
9 A. Correct.
10 Q. You see the lines for the "Generation
11 Resource Rider"?
12 A. Yes.
13 Q. It's, I think, maybe the fourth line in
14 that first subtable in Schedule BEH-1. Do you see
15 that?
16 A. Yes.
17 Q. Now, you list in the column entitled "ESP
18 period (June 2012 through May 2015)," a value of
19 8.4 million. Do you see that?
20 A. Yes.
21 Q. And that's your estimate of the cost of
22 the generation resource rider during that period?
23 A. If you look at footnote D, it's
24 Mr. Nelson's estimate.
25 Q. And you are adopting his estimate for

purposes of your testimony?

A. I'm accepting it.

Q. And that 8.4 million, it shows up in both the "AEP Ohio requested $355.72 capacity" columns and then also in the "$145.79 capacity" columns, right?

A. Right.

Q. And that 8.4 million is the cost of the generation resource rider over the course of the June 2012 through May 2015 period; if you didn't already answer that question?

A. That's what Mr. Nelson has calculated as the net cost, yes.

Q. Thank you.

And those are the costs for the Turning Point Solar Project?

A. Yes.

Q. Now, assuming that AEP Ohio's electric security plan is approved, it will last for that three-year period, right?

A. The ESP, yes.

Q. Okay. And then what happens after the three-year term of the ESP?

A. The company would be under an obligation to file a new standard service offer before the Commission.

Q. Which could be another electric security plan.

A. It could.

Q. Now, you also list in your schedule -- Revised Schedule BEH-1, an amount of 346.4 million as a further cost of the GRR that will be incurred after May of 2015.

A. Yes.

Q. And that shows up in both the $355.72 capacity columns as well as the $145.79 capacity columns, right?

A. Right.

Q. Now, those costs, the 346.4 million of costs, those will be incurred, if at all, after the end of the proposed ESP, that is after the June 2012 through May 2015 period?

A. Yes, that's what I indicate in the heading, "post May 2015."

Q. On the other hand, the 8.4 million are going to be incurred during that period, right?

A. That's the current estimate, yes.

Q. And the company hasn't requested in this case an actual rate to recover this $8.4 million, has it?

A. The company's requested a rate mechanism;

they haven't requested a value.

Q. Right. So they haven't proposed to start charging the $8.4 million as soon as the ESP goes into effect, right?

A. No, not beginning in June 2012.

Q. Okay. Nor have they proposed to start charging for any of the costs that will be incurred if the project goes forward after the end of the ESP, 346.4 million, right?

A. They've not proposed a level. They propose to recover those costs through the rate mechanism of the GRR, but not a level at this point, no.

Q. So, again, for example -- not for example. Again, if the Commission approves the ESP as proposed by the company next month, that would not include, at that point, a rate for this GRR that they would be charging customers next month, right?

A. A rate mechanism, but not a level of a rate.

Q. So they wouldn't be collecting from customers at that point.

A. Not until the Commission approves it.

Q. The $346.4 million, is that an estimate of payments that you believe customers would actually

1 pay to the company?
2 A. If you look at my footnote on D, on that
3 schedule, as well as my testimony, I explain that the
4 346.4 million is not net of market energy and
5 capacity revenues. The company has not estimated
6 those beyond May 2015. So, in a sense, 346.4 million
7 is what Mr. Nelson has said the cost would be. I
8 suppose you could think of it as a worst-case
9 scenario, if you made zero energy and capacity
10 revenues, customers might pay that amount.
11 Q. Are there any energy and capacity
12 revenues that are factored into the $8.4 million
13 estimate for the three-year ESP period?
14 A. Yes, there are. Those are shown in
15 Mr. Nelson's testimony.
16 Q. You did not extend whatever that
17 calculation was to try to estimate an offset for the
18 346.4 million, did you?
19 A. No, I did not attempt to estimate that.
20 Q. And is the 346.4 million, which doesn't
21 include any offsets for energy and capacity sales, is
22 it a sum of costs to be incurred or is it a net
23 present value of the stream of annual payments by
24 customers over the life of the project?
25 A. Just as Mr. Nelson summed the three

1 amounts that he used for the ESP, I summed similarly
2 the entire amounts over the life of the plan. It's a
3 summation, not a net present value.
4 Q. So his three-year summation -- excuse me,
5 his summation is over three years.
6 A. Correct.
7 Q. And the summation that you perform is
8 over how many years?
9 A. Over the remaining life, I believe it's a
10 25-year life, so it would be 22 years.
11 Q. So would you agree that the impact of net
12 present value in a 25-year stream of payments would
13 be greater than the impact of net present value in a
14 3-year stream of payments?
15 A. Probably.
16 Q. Is it not -- is it more than just
17 "probably"? Is it "yes" for sure?
18 A. I'm trying to think of any scenarios
19 where it might not be. I can't come up with any.
20 Q. Okay.
21 A. So yes.
22 Q. Now, if the Commission were to adopt this
23 aspect of your position, that is, including these
24 $346.4 million of post-May 2015 costs as costs of
25 this ESP, what would happen in the next ESP with

1 regard to the Turning Point project's costs?
2 MS. GRADY: May I have that question
3 reread, your Honor?
4 EXAMINER SEE: Yes.
5 (Record read.)
6 A. If the Commission were to consider that
7 these future costs arise out of this ESP and took it
8 into consideration in this case, then you wouldn't
9 count those costs if, in regards to a second -- or,
10 to a subsequent ESP, because that subsequent ESP
11 would not contain those costs.
12 Q. So the Commission would exclude Turning
13 Point Solar Project costs from the next MRO-ESP test,
14 right?
15 A. I guess I'm hesitating just a bit
16 because, given that you've established it as a
17 placeholder rider in this ESP, it's being established
18 by this ESP. It's not real clear the intention of
19 the company of what they intend to use the GRR for
20 after Turning Point.
21 Q. I'm just talking about Turning Point.
22 A. So if it's just Turning Point and you're
23 seeking approval of Turning Point in this case as a
24 placeholder and you consider those costs here,
25 couldn't very well go into the subsequent ESP and say

that those are a cost, these identical costs are the same, that the same identical costs are the cost of that subsequent ESP.

Now, if the GRR continued and the company had subsequent costs, those might be considered, for other units.

Q. What do you suppose the impact would be on the company's decision to accept a modified ESP? And in this sense I'm not talking about "modified" as in big "M," what we have before us, but "modified" in the sense that the Commission makes further modifications, okay?

What would be the impact, in your judgment, upon the company's willingness to accept a modified ESP that includes $346 million of costs from Turning Point Solar in the calculation of those modifications?

THE WITNESS: Could I have the question reread, please?

(Record read.)

MS. GRADY: I'm going to object.

MR. CONWAY: She hasn't even read it back yet.

EXAMINER SEE: The witness only asked for the very beginning.

MS. GRADY: For the very beginning. I thought the witness was getting ready to answer and I wanted to prevent that.

MR. CONWAY: Okay.

MS. GRADY: Thank you.

EXAMINER SEE: On what basis, Ms. Grady?

MS. GRADY: On the basis that this witness cannot testify as to what the company's decision and how it will impact the company's decision, she does not have personal knowledge of how the company would view or how it would impact from the company's perspective.

MR. CONWAY: Well, your Honor, I just asked her to exercise her judgment, her common sense, and experience, and if the answer is she can't, that's fine. If she can, I'd like to hear what she thinks would be the impact on the company's reception of a modification of its proposed ESP that adds $346 million of costs for the Turning Point Solar Project into the ESP.

EXAMINER SEE: I'll allow the witness to answer the question.

A. Well, the reason I had it read back is I thought at the beginning you said what impact did I think it would have on the company's decision, and I

1 don't think I know why the company decides what they
2 do.
3 Q. Okay.
4 A. That being said, I think that given the
5 first part of this case and the fact that the company
6 was ordered to provide these costs, that the company
7 has been fully aware that these costs are under
8 consideration and at issue in this case, so it is
9 something that I think they would have considered
10 already.
11 Q. They would have considered what already?
12 A. Just taken it into consideration that
13 these costs are at issue.
14 Q. The 8.4 million or the 346.4 million?
15 A. The entire cost.
16 Q. You think that because of what the
17 Commission has directed them to present, as far as
18 the supplemental testimony goes, that they should
19 have, at that point, recognized that their ESP might
20 be assigned an additional $346.4 million of costs?
21 A. Yes.
22 Q. What would happen, in your judgment, if
23 the Commission adopts your recommendation and
24 assigns, as a cost of the ESP, another $346.4 million
25 related to Turning Point, and the company, in

1 response to that, cancels the Turning Point project?
2 A. I'm not exactly sure. There's a lot of
3 unknowns that you've left out of that example. Does
4 the company accept the Commission's modification?
5 What is the finding of the Commission after adopting
6 this?
7 Q. Well, they're not going to accept the
8 modified ESP if they canceled the TPS project. So
9 you can assume that.
10 A. And so if you could just rephrase it
11 again, please.
12 Q. Well, what do you suppose would be the
13 result in the next ESP if the company cancels the TPS
14 project and rejects the modified ESP which has
15 attempted to assign to -- which has been burdened
16 with this additional $346.4 million?
17 MS. GRADY: Objection.
18 MR. CONWAY: What's the basis?
19 EXAMINER SEE: Your basis, Ms. Grady?
20 MS. GRADY: Calls for speculation.
21 EXAMINER SEE: I'll allow the witness to
22 answer the question.
23 THE WITNESS: I'm sorry, but could I have
24 it read, please?
25 (Record read.)

A. You've asked me what the result would be in the next ESP.

Q. What would be the impact.

A. What would be the impact. Are you talking dollar amounts? Are we going back to the impact on the company's decision making?

Q. You know, I'm really just kind of focusing in on your testimony on this point, the $346.4 million cost that you've assigned to the GRR. If the company's reaction is to cancel the project, says, "We're not going to allow our ESP proposal to be saddled with another $346.4 of cost, we're just going to cancel the project if that's what the Commission's decision is," in that event, what's the impact on the next ESP of the cancellation of the TPS project with regard to those 346.4 million?

MS. GRADY: Objection. Relevance this time. I'm not sure why we're talking about the next ESP and what the impact of her recommendations would be on the next ESP. We have a present ESP, our hands are full at this point in time.

MR. CONWAY: If I may, your Honor?

EXAMINER SEE: Yes.

MR. CONWAY: The question is what is the reasonableness of this proposal, and I think it

1 merits evaluation by reference to what's going to be
2 the likely outcome if this recommendation is adopted.
3 So I'm asking her what she thinks is going to be the
4 impact if her recommendation were adopted.
5 EXAMINER SEE: The objection is
6 sustained.
7 Q. (By Mr. Conway) Ms. Hixon, I believe
8 you've already addressed that. You don't believe
9 that approval by the Commission of the GRR on a
10 placeholder basis means that the Commission is
11 granted approval for any specific cost recovery of
12 any particular project, right?
13 A. By definition, the placeholder creates
14 the mechanism, but does not set a rate.
15 Q. Well, let me try a different scenario for
16 you. Your recommendation is adopted. The Commission
17 adds $346.4 million into the current ESP's cost
18 bucket and makes adjustments to the proposed ESP as a
19 result. And then the Commission concludes that there
20 is no need for the TPS and the project is canceled.
21 Or the company withdraws its request for approval of
22 the project, okay?
23 A. Okay.
24 Q. So we have an ESP that's been revised in
25 accordance with a $346.4 million cost as well as the

8.4 million, and then the project is canceled. Yet the company has, in this case, accepted the modified ESP. Do we come back and revise the modified ESP once the cancellation occurs and get back the company the 346.4 million or the 8.4 million?

MS. GRADY: Objection.

EXAMINER SEE: Sustained.

Q. Now, let me just follow up with you on the $346.4 million concept. The concept being that you treat as costs of the current ESP, costs that won't be incurred until after the ESP is over for a rider; does this apply to any other riders in your view that extend past the end of the current ESP? Or is it just the GRR?

A. Off the top of my head, I'm not sure what riders you might be referring to. I can't think of any. If you have an example.

Q. Sure. How about the energy efficiency and peak demand reduction cost recovery rider? Which will presumably continue on after the end of the three-year ESP period. Do you think that we ought to estimate what the future costs are from that rider and treat them as costs of the current ESP?

A. It's my recollection that the EE/PDR rider was created by the first ESP.

1 Q. Okay. So is that your answer, that it's
2 already --
3 A. And so I don't think that that is a rider
4 being created by this ESP.
5 Q. And so is the barn door closed on that
6 rider? We can't get at its future stream of cost
7 because it was already approved in a prior ESP?
8 A. I think generally, yes, if you're trying
9 to identify what costs are being caused by the ESP
10 that's before you, the current one. The proposed
11 one.
12 Q. So what was the Commission's treatment of
13 the costs of that rider in the ESP where it was
14 established?
15 A. I don't know.
16 Q. Do you know whether the Commission looked
17 to see what costs were going to be incurred pursuant
18 to that rider in the future -- in future years beyond
19 the ESP where the rider was established?
20 A. As I said, I don't know.
21 Q. And if I asked you that same series of
22 questions about the economic development cost
23 recovery rider, would your answers be the same?
24 A. Yes; I don't know.
25 Q. And how about with regard to the

1 transmission cost recovery rider, would your answers
2 be the same if I posed those questions with regard to
3 that rider?
4 A. Yes; I don't know.
5 Q. Yes, your answers would be the same?
6 A. Correct.
7 Q. Could you turn to pages 18 and 19 of your
8 testimony. I have a few questions regarding the
9 category of benefits that you discuss in the
10 "not-readily-quantifiable" category.
11 A. I have that.
12 Q. In particular, I'd like to focus on the
13 distribution-related riders that are included in the
14 ESP. And the first question is: You're aware that
15 the company's view is that the distribution-related
16 riders are riders that could be established through
17 traditional base distribution rate cases, right?
18 A. I believe I read that in some of the
19 company's testimony on some of the riders. I don't
20 know if it was for all, but if that's the company's
21 position and you're telling me, I understand that.
22 Q. And the testimony you're referring to is
23 Mr. Allen's testimony?
24 A. I believe so.
25 Q. Mr. Allen argued that the distribution

1 improvement rider costs could be recovered through
2 distribution base rate cases?
3 A. I'm not exactly sure that he used those
4 same words by saying that the rider "could be
5 recovered." I think he was saying that -- I
6 recollect him saying those investments could be
7 recovered or those costs could be recovered rather
8 than the rider. But beyond that, yes.
9 Q. I'm sorry, I meant to pose the question
10 as you answered it, so thank you.
11 But your -- well, do you disagree, in
12 some respect, that the distribution-base-rate-case
13 approach would lead to the same cost recovery as the
14 ESP-rider approach?
15 A. Yes, I do. That's what I describe on
16 page 19 of my testimony.
17 Q. And could you just explain what your
18 position is?
19 A. As I state on page 19 at line 4, and then
20 through -- down through the rest of the page,
21 especially at line 10, even if you assume that it's
22 possible that the very exact same level of revenue
23 could be obtained through a distribution rate case
24 which is dependent upon when the case is filed, when
25 the date certain is set, the rate of return that's

1 allowed, the Commission's final decision, all of
2 those variables, even if you would assume it was the
3 exact same amount, there is an acceleration of
4 payment by the customers. You pay sooner under the
5 DIR than you would under a distribution rate case.
6 Q. And so that feature or that
7 characteristic is the elimination of the regulatory
8 lag?
9 A. I think that's how the company witnesses
10 referred to it, yes.
11 Q. And you think that's a bad thing rather
12 than a good thing.
13 A. I think it's a bad thing for the
14 residential customers that have to pay sooner rather
15 than later, yes.
16 Q. Okay. So you don't think that there
17 could be any benefits from eliminating regulatory lag
18 to customers.
19 A. There could be benefits, but in terms of
20 quantifying or attempting to acknowledge that there
21 are costs associated with those benefits, in fact, I
22 think in my BEH-1, where Ms. Thomas's distribution
23 improvement rider is not a readily quantifiable
24 benefit, I don't disagree with that, but I think it's
25 important to recognize that there is cost associated

with it.

Q. And in this case, cost is the accelerated recovery of payments from customers, compared to what would happen under some other regulatory approach?

A. As I described in my testimony, even if you assumed everything turned out exactly the same in terms of dollars, that acceleration is, at a minimum, the cost.

Q. And, again, your view is that acceleration or that elimination of regulatory lag is -- it's a -- for lack of a better term, it's a bad thing for customers.

A. No, I didn't say that. I said that there could be benefits associated with a reduction in regulatory lag. I didn't disagree with Ms. Thomas in that regard and left that in the schedule, but I'm saying we need to recognize that while benefits may be achieved, there are costs.

Q. All right. And focusing on the benefits portion of it, do you have any specific benefits in mind as being something that would favor the accelerated recovery, the reduction of regulatory lag?

A. From a customer perspective, I see the benefits as minimal, given that it's my experience

1 that the numbers usually do not come out the same,
2 that the distribution investment rider amounts, when
3 placed against the entire picture of the company's
4 operating expenses, additions, deductions to rate
5 base, might result in less payment.
6 Q. Is it possible that accelerated recovery
7 or reduction in regulatory lag could have a
8 beneficial impact on the company's cost of capital?
9 A. I'm not an economist, but my general
10 understanding of cost of capital and what is
11 considered in that, it could very well.
12 Q. Would it be a benefit to customers if the
13 accelerated recovery or the reduction in regulatory
14 lag was associated with reductions in costs being
15 reflected in rates?
16 A. I'm afraid I don't understand the last
17 part.
18 Q. Well, for example, a fuel clause, right,
19 sometimes the costs that are incurred to procure
20 fuel, which customers pay for, go down, right?
21 A. They may, yes.
22 Q. And if they go down, then customers
23 benefit from the reduction or elimination of
24 regulatory lag, right?
25 A. If there's a fuel cost component.

Q. Right.

A. That changes on a periodic basis, yes.

Q. I'm just giving you an example.

A. Okay.

Q. I'm asking you whether it's possible that rate mechanisms could be used not simply to flow through increases, but also to flow through decreases to customers --

A. Right.

Q. -- and, in that event, reducing regulatory lag, accelerating the process is a benefit, right? For customers.

A. To the extent that the rate mechanisms do what you say, yes.

MR. CONWAY: Thank you, Ms. Hixon.

That's all I have, your Honor.

EXAMINER SEE: Mr. Margard? Mr. Beeler?

MR. MARGARD: No. Thank you, your Honor.

EXAMINER SEE: Redirect, Ms. Grady?

MS. GRADY: We would appreciate five minutes.

EXAMINER SEE: Certainly.

MS. GRADY: Thank you.

(Recess taken.)

EXAMINER SEE: Let's go back on the

record.

Ms. Grady.

MS. GRADY: There is no redirect, your Honor. Thank you. And at this time we are going to defer moving for admission of Exhibit 114 and 114-A until after Mr. Soliman, OCC Witness Soliman, takes the stand. The company has represented it will have no objection to that procedure.

EXAMINER SEE: That's fine.

Thank you, Ms. Hixon.

Let's go off the record for just a second.

(Discussion off the record.)

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

Ms. Kingery.

MS. KINGERY: Duke Energy Retail Sales would call Phillip North to the stand.

EXAMINER SEE: Mr. North, if you'd raise your right hand.

(Witness sworn.)

EXAMINER SEE: Have a seat. Please make sure your microphone is on.

MS. KINGERY: May I approach?

EXAMINER SEE: Yes, you may.

1 - - -

2 PHILLIP NORTH

3 being first duly sworn, as prescribed by law, was

4 examined and testified as follows:

5 DIRECT EXAMINATION

6 By Ms. Kingery:

7 Q. Mr. North, would you please state your

8 name and business affiliation for the record.

9 A. Phillip North, Duke Energy Retail.

10 Q. And do you have in front of you what has

11 been marked as Duke Energy Retail --

12 MS. KINGERY: I don't think I asked for

13 it to be marked. Would the Bench mark the testimony

14 of Phillip North as Duke Energy Retail Sales Exhibit

15 102.

16 EXAMINER SEE: The exhibit is so marked.

17 MS. KINGERY: Thank you.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Mr. North, do you have in front of you

20 what has just been marked as Duke Energy Retail Sales

21 Exhibit 102?

22 A. I do.

23 Q. And would you identify that document for

24 the record.

25 A. It is my direct testimony.

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

A. It was.

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

A. I do.

Q. Would you please go through those corrections for us.

A. Yes. I'm going to make a series of numerical corrections but they are primarily based on correcting four numbers in my first attachment; however, I'll start in my testimony.

The first correction is on page 6, line 14. The last number of "493.1" should read "504.6." On page 9, line 5, the number "1.416" should read "1.427." All of these corrections are a result of the flow-through of calculations.

In Attachment PN-1, page 1, line 13, these are the four numbers I need to correct: The first -- I'll start at the first column of numbers and work from left to right. "62.16" should read "62.12"; "62.17" should read "61.79"; "62.23" should read "61.82"; and "62.08" should read "64.28."

Line 15 would then be updated with the following numbers moving from left to right: "1.46"

should be corrected to say "1.42"; "2.16" should be corrected to "1.78"; ".56" should be corrected to ".15"; and ".52" should be corrected to "2.72."

EXAMINER SEE: I'm sorry, those last two numbers again, please?

THE WITNESS: ".52" should be corrected to "2.72."

EXAMINER SEE: And the previous change?

THE WITNESS: ".56" should be corrected to ".15."

A. I'm now going to update line 17, it's in dollars and there are millions, so it's going to be a long string of numbers. I'll say them just one at a time instead of the total numbers so we get the correct numerical order. "70,202,113" should be corrected to read "68,274,318"; "104,196,034" should be corrected to say "85,856,901"; "16,020,626" should reflect "4,362,768"; "10,232,913" should reflect now "53,656,614."

Finally, on Attachment PN-3, which flows through those results, the first row should be updated to read as follows: Column 1, "70.2" should read "68.3"; Column 2, "104.2" should read "85.9"; Column 3, "26.3" should read "58"; and Column 4, "200.7" should read "212.7."

The last row needs to be updated for the summation. First column, "451.6" should read "449.7; "562.6" should read "544.3"; "393.7" should read "425.4"; and "1,416.2" should read "1,427.7."

Q. And is that all of your corrections?

A. Yes.

Q. And subject to those corrections, if I were to ask you these same questions today, would your answers be the same?

A. No, they would not.

Q. And in what regard would they not be the same?

A. The Commission recently issued an order in the 10-2929 case that impacts my analysis.

Q. And have you prepared any calculations of the dollar value of that impact?

A. I have.

MS. KINGERY: May I approach, your Honor?

EXAMINER SEE: Yes.

MS. KINGERY: We have two documents here that we would like to have marked as exhibits, the first is a one-page exhibit that we would like to have marked as Duke Energy Retail Sales Exhibit 103; the second is a four-page document that we would like to mark as Duke Energy Retail Sales Exhibit 104.

EXAMINER SEE: Okay.

(EXHIBITS MARKED FOR IDENTIFICATION.)

MR. CONWAY: Jeanne, is that something different than the first copy you handed out?

MS. KINGERY: I thought I passed it out.

Q. (By Ms. Kingery) Mr. North, would you identify what we have just marked as Duke Energy Retail Sales Exhibit 103?

A. Yes. Duke Energy Retail Sales Exhibit 103 reflects the Commission's order in the 10-2929 case for one month of tiered capacity pricing during the term of this ESP. It creates a weighted average capacity price for each of the residential, commercial, and industrial users, and then that allows me to flow through, to 104, those capacity prices as they have now been weighted.

On Duke Energy Retail Sales Exhibit 104, those capacity prices have flown through to the competitive benchmark price on line 7 for the planning year 2012-2013. It has then impacted the MRO pricing for the blend that utilizes that competitive benchmark price. So lines 10 of Column 1 have been updated, as well as lines 12 of Column 1.

In addition, lines 13 and 15 have been updated to reflect the planning year 2012-2013 change

to the competitive bid price.

I would also note that those are highlighted. In addition, the corrections that were previously mentioned have been included in this exhibit.

Line 17 has also been updated to reflect this new competitive bid price as it's the multiplication of lines 15 and line 16.

And Exhibit PN-1, page 2 of 2, the "Planning Year 2012/2013" table has been updated for these new capacity prices in dollars per megawatt-hour reflecting the Commission's order of tiered capacity prices for one month.

In Exhibit PN-2, I have taken the effect of the May 30th order on my estimation of the premium to market pricing that the proposed tiered capacity prices have to market prices or the state compensation mechanism in this case.

And finally, in Exhibit PN-3, I have flowed the results through so the first column, "Planning Year 2012/2013," has been updated, both row one, row three, and row five, as well as the "Total ESP Term," rows one, three, and five, with the "Total Quantifiable Detriments of the ESP" now updated to $1,393.6 million.

Q. Thank you very much. And subject to the revisions you made earlier and the updates that you just walked us through, if I asked you these questions, would your answers be the same today as in the written document?

A. They would.

Q. Thank you.

MS. KINGERY: The witness is available for cross-examination.

EXAMINER SEE: Mr. Conway.

MR. CONWAY: Thank you, your Honor. This is a lot to digest. It may be much ado about nothing, but it may be something significant, and so I would suggest we take our lunch break now and give us an opportunity to review what the witness has introduced here. I think it will help to make things go more efficiently during cross-examination.

MS. KINGERY: We have no objection to that.

EXAMINER SEE: Let's take a lunch break until 12:45.

(Thereupon, at 11:55 a.m. a lunch recess was taken until 12:45 p.m.)

- - -

1 Monday Afternoon Session,
2 June 4, 2012.
3 - - -
4 EXAMINER SEE: Let's go back on the
5 record.
6 Cross-examination of Mr. North.
7 Ms. Hand?
8 MS. HAND: No questions, your Honor.
9 EXAMINER SEE: Mr. Campbell?
10 MR. CAMPBELL: No questions, your Honor.
11 EXAMINER SEE: Ms. Kyler?
12 MS. KYLER: No questions, your Honor.
13 EXAMINER SEE: Ms. Watts?
14 MS. WATTS: No questions, your Honor.
15 EXAMINER SEE: Mr. Darr?
16 MR. DARR: No questions, your Honor.
17 EXAMINER SEE: Mr. Lang?
18 MR. LANG: No. Thank you.
19 EXAMINER SEE: Mr. Maskovyak?
20 MR. MASKOVYAK: No questions, your Honor.
21 EXAMINER SEE: Mr. Etter?
22 MR. ETTER: No questions, your Honor.
23 EXAMINER SEE: Mr. Conway?
24 MR. CONWAY: Thank you, your Honor.
25 - - -

CROSS-EXAMINATION

By Mr. Conway:

Q. Good afternoon, Mr. North.

A. Good afternoon.

Q. You made a significant number of changes to your testimony on direct exam. Can you give me a sense of the nature of the changes.

A. In my update of Duke Energy Retail Sales Exhibit 103 and 104, I took into consideration the Commission's recent order in the 10-2929 case. That resulted in a slight increase of the competitive bid price for the planning year 2012-2013, that needed to flow through in the MRO versus ESP, as well as a decrease in what I termed as the "Premium to Market Pricing" resulting from one month of tiered capacity prices in the state compensation mechanism.

Q. So is that the only driver of the changes, the recognition of the additional month's worth of two-tiered pricing for capacity?

A. Those changes were the only changes beyond my corrections. If you'd like me to go over my corrections, I can.

Q. Were there any corrections that you made that you regard as significant?

A. I don't know quite what you mean by

"significant," but the price results were about $12 million of additional harm from my original direct filed testimony. When I added my update per the Commission order, it was about a $30 million decrease from the detriments that I had said off of that base, and so the net result is perhaps $20 million less than what I had shown.

Q. What is the reason for why the net adverse impacts of the ESP increased by $10 million or so?

A. I incorrectly used the prospective ESP in my original analysis, instead of Laura Thomas's prescribed legacy ESP, updated for fuel and purchased power, that was corrected, offset by the recent Commission order, gets you to that roundabout number of 10 millionish to 20 million.

Q. You referenced the "prospective ESP." Did you mean to say the "prospective ESP prices"?

A. Correct.

Q. So you corrected, on line 13 of your Attachment PN-1, the proposed ESP prices, and you corrected them by substituting for the values you had on line 13, the values from Ms. Thomas's testimony; is that right?

A. Line 13 is the proposed ESP price in the

1 MRO versus ESP test which would be the legacy ESP
2 updated for the things that you are allowed to update
3 for. "Proposed" in this case referring to what those
4 updates would be per Laura Thomas's testimony.
5 I incorrectly used the new ESP values
6 instead of those legacy ESPs updated for -- ESP
7 prices updated for the updates available to them
8 under Laura Thomas's testimony.
9 Q. Let me turn your attention to line 13 of
10 Attachment PN-1, Mr. North.
11 A. Could you refer me to Duke Energy Retail
12 Sales Exhibit 102 or 104?
13 Q. Whichever one has got the most current
14 version of your Attachment PN-1.
15 A. That would be 104.
16 Q. Okay. And then could you also get before
17 you your prior iteration of that attachment, which I
18 guess would be the version that's attached to your
19 Exhibit 102.
20 A. Page 1?
21 Q. Attachment PN-1, page 1.
22 A. Yes.
23 Q. Okay. And on line 13, you have "Proposed
24 ESP Price" values, right?
25 A. Those are the words that I used there.

"Proposed" in this case referring to the legacy ESP, updated for fuel and the other available updates to it under Laura Thomas's testimony.

Q. Now I am confused. If I look up at line 8, I see the reference to "Generation Service Price." Do you see that?

A. Yes, sir.

Q. And is that not the legacy price that you're referring to there?

A. I apologize. I'm looking at my testimony as updated. Are you referring me now back to 102, not 104 as you told me earlier?

Q. I asked you to actually get both of them out in front of you.

A. Okay. Which one would you like me to refer to?

Q. Well, I'd like you to refer to either one --

A. Okay.

Q. -- if you'd like to refer to 104, that's fine, okay?

A. Okay.

Q. On line 8, it says "Generation Service Price." Do you see that?

A. I do see that.

Q. And is that not referring to the legacy ESP prices, the ones that get blended 90, 80, 70, et cetera?

A. That is true. Actually, I'd like to correct what I just said, I apologize, I was turned around based on the 102 versus 104, line 13, is the proposed ESP of the new ESP from Laura Thomas's testimony. Line 8 is the legacy ESP updated for fuel and purchased power. And I apologize for the confusion.

Q. Okay. So on line 13 of your, I guess it's of your Exhibit 104 --

A. Yes.

Q. -- you list the proposed ESP price values for the four periods, correct?

A. The three planning years, but yes, you've bifurcated the planning year '14-'15.

Q. Right. There's four values there, right?

A. Correct.

Q. And what you've done is, in your corrections today, you have substituted for the values previously on line 13 values you've obtained from Ms. Thomas's testimony regarding proposed ESP prices, right?

A. That is correct.

Q. And when did you determine that you needed to make the corrections to line 13, that is, the proposed ESP price changes and all the other flow-through changes that result from that? When did you determine that you needed to make those changes?

A. Between when I filed the testimony and today.

Q. Was it at the same time -- was it last Friday or was it some period before last Friday?

A. It was before the Commission order in the 10-2929 case.

Q. Which was on May 30th?

A. That would be correct, I believe.

Q. So sometime before last Wednesday you realized that you needed to make these revisions?

A. That is correct.

Q. Was it well before it or was it right around that time?

A. I don't know what your definition of "well before" is. It was before it.

Q. Now, line 10, the "Expected Bid Price" on Exhibit 104 for Duke. Do you see that?

A. Yes, sir.

Q. What is the assumption regarding capacity pricing that underlies the values that we see on line

10?

A. I have used the state compensation mechanism pricing that the Commission has recently updated in its order.

Q. So you don't use -- do you use -- you don't use the prevailing RPM prices for those values on line 10? The prevailing -- by "prevailing," I mean the prices that will be in effect during the relevant period that you've got identified up at the heading of each of the columns.

A. I do, except for one month of planning year 2012-2013, as I show in the creation of that under Duke Energy Retail Sales Exhibit 103.

Q. Okay. So still referring to Exhibit 104, line 10, "$48.74." Do you see that?

A. I do.

Q. That contains 11 months of prevailing RPM and 1 month of two-tiered pricing for capacity; is that right?

A. That is correct.

Q. Okay. And then if you go to planning year 2013-2014 and look at the "$51.37" value there. Do you see that?

A. Yes.

Q. Does that include the prevailing RPM

price as you understand it to be today for that period?

A. I believe in my testimony I note that it is an estimate as not all of the incremental auctions have taken place, but everything that is known at this time, yes, that is the RPM.

Q. So it's all RPM as we know it at this point, right?

A. That is correct.

Q. And then for the June through December period of planning year 2014-2015, the "$60.35" value. Do you see that?

A. I do.

Q. And that similarly reflects the prevailing RPM price during that period as we know it today.

A. That is correct.

Q. And then --

A. I would note, though, that it reflects the state compensation mechanism which is the RPM pricing.

Q. Okay. And then the same holds true for the January through May 2015 period, the "$60.35" there, it reflects the prevailing RPM price for that period as we know it today?

A. Yes.

Q. Okay. Now, go down to the proposed ESP price. Do you see that?

A. I do.

Q. It's on line 13. Now, you got these values, I think you agreed with me, you got these values from Ms. Thomas's testimony, right?

A. That is correct.

Q. Do you remember where you got them in her testimony?

A. I believe it was JLT-2, I believe. Thinking that the only change would be for the January through May period.

Q. And I -- first off, I'm sorry to -- this isn't supposed to turn into a thousand questions, but Laura Thomas's initials are "LJT."

A. I apologize.

Q. And her Exhibit 4 develops weighted average competitive benchmark prices for the electric security plan; does that sound familiar to you?

A. The line 13's prices were pulled from her estimate of the proposed ESP under tiered capacity pricing, so I believe that the January through May period should utilize the tiered pricing.

Q. So the proposed ESP price for the

2012-2013 planning year is $62.12, right? That's the corrected value?

A. Correct.

Q. And then for the next year, 2013-'14, it's $61.79, correct?

A. Correct.

Q. And then for the June to December period of the 2014-2015 planning year, the proposed ESP price is $61.82, right?

A. Correct.

Q. And then we get to the January through May 2015 period where you have listed a value of "$64.28." Do you see that?

A. I do.

Q. What capacity prices underlie the $64.28 value?

A. I believe Ms. Thomas utilizes the tiered capacity prices for this value as she draws the competitive bid price for this period.

Q. So you think it's the combination of 146 and 255 or some blend of those prices that's the capacity pricing that underlies that $64.28?

A. I believe so.

Q. Okay. And then that's not the prevailing RPM price during that period as we know it today, is

it?

A. That is not.

Q. The prevailing RPM price is somewhat lower than that?

A. It is.

Q. And the somewhat lower prevailing RPM price is the price that you used when you established the expected bid price for that January through May period, the $60.35 on line 10, right?

A. That is correct.

Q. So you have two different capacity pricing assumptions that underlie your value for the January-May period on line 10, the expected bid price of $60.35, on the one hand, and the $64.28 on line 13 for the proposed ESP price, right?

A. I might characterize it in a different fashion. A tenet of your ESP is the usage of tiered capacity prices. The underlying market price or the state compensation mechanism, as it currently stands, is that prevailing RPM price. So I don't think that there's a different fundamental assumption.

Q. You think the RPM capacity -- excuse me, do you think that the capacity price that you've assumed or that underlies the $60.35 on line 10 for the January through May of 2015 period is the same

capacity price that underlies the $64.28 value on line 13?

A. No. I believe we just covered that.

Q. Okay. So you agree that those are two different capacity pricing assumptions that underlie those two values, correct?

A. That is correct.

Q. The $60.35 value that's on line 10, it feeds into the MRO annual price on a blended basis and helps to support that $61.56 result, correct?

A. Yes.

Q. Okay. And then the $61.56 result from line 12 is then carried down to line 14, right?

A. Yes.

Q. Okay. And then that $61.56 MRO annual price reflecting blending is then subtracted from the proposed ESP price of $64.28, right?

A. Yes.

Q. And then the result is $2.72, right?

A. Yes.

Q. $2.72, then, underlies, in part, the value you develop on line 17, a surplus of ESP pricing over market pricing, right?

A. Correct.

Q. Okay. Let me go back to the comparison

on lines 13 and 14 that leads to the $2.72, okay?

A. Okay.

Q. All right. You would agree with me, then, that the capacity pricing that is underlying the $64.28 is different than the capacity pricing that's underlying the $61.56, one of which is subtracted from the other.

A. I believe we covered that; yes.

Q. Okay. So do you, then, see any apples-to-oranges problem we have here with your comparison, and the subtraction that you have accomplished here on lines 13 and 14, to develop the $2.72 difference on line 15?

A. I do not.

Q. Okay. Mr. North, your testimony at the outset indicates that you began working with Duke Energy in 2008. And where were you employed before that, if you were in employment somewhere before then?

A. In 2008, I was -- prior to that, I was in college.

Q. Okay. So you graduated in 2008, in the spring, from that great school down south in Oxford, Ohio?

A. I appreciate your characterization; yes.

Q. Well, we have common ground there.

A. I'm glad we can continue as friends.

Q. Okay. So you graduated in the spring of 2008, and then did you go straight to work for Duke or did you go somewhere else first?

A. I began working for Duke as a contract worker. At the end of the summer I continued to work for Duke for -- on shortened hours while I completed my master's in economics, also at Miami University.

Q. So you had no prior experience in the industry before your employment with Duke began; is that right?

A. I hadn't worked another job in the energy industry prior to that, no.

Q. Could you turn to page 4 of your testimony.

A. Yes.

Q. At lines 3 and 4, you have a sentence where you state, quote, An MRO, by definition, is based upon competitive bid prices or market rates, end quote. Do you see that?

A. I do.

Q. Could you explain to me how the market-rate-offer approach to determining a standard service offer rate works? How is the MRO rate

1 determined under a market rate offer?
2 A. The competitive bid process is a process
3 by which potential suppliers would, in this case, bid
4 on the ability to supply full-requirements service
5 for the retail customers of, in this case, AEP Ohio.
6 Q. Okay. So there's a competitive bid
7 process which is integral to the establishment of the
8 market rate offer SSO price, correct?
9 A. Yes.
10 Q. But it's not the only aspect of that
11 price setting for the MRO, is it?
12 A. It is not.
13 Q. There's a blend that takes place, right?
14 A. Yes, there is.
15 Q. And the blend is based on the legacy ESP
16 price, right?
17 A. That is correct.
18 Q. And that's, of course, not subject to any
19 competitive bidding, it just is what it is, right?
20 A. That is correct.
21 Q. So although the MRO is based, in part,
22 upon competitive bid prices or market rates, it's not
23 entirely based upon competitive bid prices or market
24 rates, right?
25 A. It is not based entirely; in fact, it's

1 based on a prescribed amount of market rates.
2 Q. In fact, it's based, in large part, in
3 the early years on the legacy ESP price, right?
4 A. That is correct.
5 Q. Also at page 4 you state that "...current
6 market prices must be used for capacity...." I'm
7 looking at lines 1 through 3. Actually, you say that
8 "...current market prices must be used for capacity
9 and not the significantly higher costs that AEP Ohio
10 seeks to impose upon shopping customers, via charges
11 to CRES providers." Do you see that?
12 A. That is correct. I see that.
13 Q. How is the price for capacity that
14 AEP Ohio charges CRES providers established?
15 A. I believe as AEP is currently an FRR
16 entity, it is established as a "of-right-now" through
17 a state compensation mechanism.
18 Q. So there's an element of it which is the
19 result of AEP Ohio's FRR status and then there's some
20 element of it that's a result of the state
21 compensation mechanism that's in place in Ohio. Is
22 that what you're saying?
23 A. The state compensation mechanism is a
24 function of the FRR process. If you were not an FRR
25 entity and still in PJM, then you would be, in your

1 zone in this case, rest of market, if you were in
2 MISO, you would have your short-term capacity market
3 as well.
4 Q. Okay. So, in any event, AEP Ohio's
5 capacity pricing is dependent upon the fact that it's
6 an FRR entity, and it's also dependent, at this
7 point, on the state compensation mechanism; is that
8 right?
9 A. As it currently stands, yes.
10 Q. And with regard to the FRR status of
11 AEP Ohio, can you describe for me how that aspect
12 affects the pricing for AEP Ohio's capacity?
13 A. I don't understand what you mean by
14 describe how it affects AEP's pricing.
15 Q. You know -- do you know what the pricing
16 rules are that apply to capacity provided by AEP Ohio
17 as a result of its FRR status?
18 A. Currently the FRR, while I'm not an FRR
19 expert, provides for a state compensation mechanism
20 which the state has taken into account and issued.
21 There's also an interim mechanism for a
22 short-term period which is now through the July 2nd,
23 2012, period, after which it continues on as RPM. I
24 believe.
25 Q. And the interim mechanism is part of the

1 state mechanism to which you referred or is it
2 separate from it?
3 A. It is a part of the -- it is the state
4 mechanism.
5 Q. So the interim pricing is the state
6 mechanism and it's only in place for a relatively
7 short period of time?
8 A. Well, it depends on what you would want
9 to term as the "relatively short period of time."
10 The change that they've made is for a very short
11 period of time. But the interim mechanism provides
12 actually for all time. It provides for the first
13 seven months given the tiered pricing, and it also --
14 provides for the first six months, I apologize, and
15 it also provides for the period beyond, which it is
16 RPM pricing.
17 Q. I'm not sure I followed you. Which
18 periods are you referring to, the six-month period --
19 A. Which would be January 1st, 2012, through
20 what is now July 2nd of 2012.
21 Q. Are you familiar with any other
22 mechanisms related to or provisions related to
23 AEP Ohio's FRR status which bear upon or could bear
24 upon the pricing that AEP Ohio would use for its
25 capacity?

A. As far as I know, the state compensation mechanism supersedes other mechanisms. That being, if there was no compensation mechanism whatsoever and you had not gone and discussed this with FERC, it would be RPM. Then you have the opportunity to request a compensation mechanism, I believe, with the FERC. But the state has the overarching power to create a state compensation mechanism.

Q. Going back to the statement at the top of page 4, where you state, starting at line 1, that "...current market prices must be used for capacity...." Do you see that?

A. I do.

Q. And what are you referring to there specifically as "current market prices"?

A. I would make sure we draw the delineation between market prices and prices based on market forces. In this case, market prices would be the state compensation mechanism as the Commission sets the, quote/unquote, market price, which would be the price utilized by suppliers as they think about prospective full-requirements service in a competitive bid process.

Q. Okay. So the reference to "current market prices" is not necessarily to the prevailing

RPM price, then?

A. It is to the extent that the state compensation mechanism has relied upon it for its pricing.

Q. And to the extent that the state compensation mechanism does not rely upon prevailing RPM pricing, then the reference is to that other pricing, not to RPM, right? The current market pricing reference.

THE WITNESS: I'm sorry, could I have that read back, please?

(Record read.)

Q. Maybe I should try that one again. Start over.

A. I'd appreciate it.

Q. Okay. To the extent that the state compensation mechanism doesn't rely upon prevailing RPM prices, then the reference in your testimony to "current market prices" is a reference to something other than prevailing RPM prices, right?

A. That is correct. As I've updated in my testimony with the recent order.

Q. And what is the current capacity pricing that is being used by AEP Ohio?

A. As of right now?

Q. Yes.

A. I believe it is the interim tiers.

Q. And what are those?

A. In roundabout numbers, 146 and 255.

Q. And that's not the current RPM pricing, is it?

A. It is not.

Q. Could you focus on lines 10 through 12 of your testimony on page 4. Do you see that?

A. Yes.

Q. And you list three capacity prices on line 11, the "$16.73," the "$27.86," and the "$125.99." Do you see that?

A. I do see them.

Q. Are you familiar with -- well, strike that.

When we compare the ESP price and the MRO price in that price test comparison, the ESP price that we compare is dollars per megawatt-hour, right?

A. That is correct.

Q. And is it a price that's reflecting what a customer would pay at the meter for a megawatt-hour of service?

A. I believe so, yes.

Q. Okay. And, on the other hand, the price

to which it's being compared, the MRO price, is that similarly a price that we're estimating regarding what a customer would pay to, say, a CRES provider for a metered megawatt-hour of service?

A. I believe so, yes.

Q. And --

A. Well, let's go back a second. I apologize. What a customer would pay to a CRES provider may or may not be different than what the competitive bid process would allow for under an MRO. I think that there's a slight delineation there that should be accounted for.

Q. But the idea is to compare what you would pay under the proposed -- as a customer under the proposed ESP plan, to what you would pay under an MRO alternative, right?

A. Yes.

Q. And so to have an apples-to-apples comparison, we would compare what the customer is expected to pay or projected to pay per metered megawatt-hour, on the one hand, to a metered megawatt-hour on the other hand, right?

A. That seems like a fair characterization.

Q. Are you familiar with the scaling factor, forecast pool requirement, and capacity loss factor

that affects the cost of capacity procured through the RPM market?

A. I am aware that in the -- PJM actually calculates that through the PLC, I believe. They can also, I believe, in AEP's territory, you guys utilize that factor on the pricing side.

Q. And on the "PLC," for those of us who aren't as conversant as others, what is the "PLC"?

A. It's the peak load contribution. It's essentially the capacity that PJM or the utility calculates that you contribute toward that overall peak of PJM.

Q. You do have some familiarity with those costs and the factors used to develop what those costs are?

A. I know that they exist.

Q. And do you know how those factors affect the amount that CRES providers pay for capacity?

A. If they are loss factors, I would imagine the CRES providers would pay more.

Q. And so assuming that they are all taxes on or costs of the service, the capacity service, it's your assumption that they would increase the cost per megawatt-hour that the CRES provider would pay, right?

A. That seems fair.

Q. And, again, if you haven't already, can you explain, to the extent you can, your understanding about how CRES providers would be billed for and pay for those costs, the costs relating to scaling, forecast pool requirement, and capacity losses?

A. In what way would you like me to describe how they pay for them? I guess I'm confused as to what you are attempting for me to answer.

Q. How is it -- when a CRES provider gets a bill, how is the bill presented, if you know?

A. I do not know how the bill is presented to a CRES provider.

Q. So you don't know whether, when the bill is presented, the CRES providers see a rate that has been grossed up from the values that you've quoted in your testimony to take into account those factors.

A. You know, I've heard from our billing sector that the majority of Ohio, and other PJM territories, utilize that grossing-up factor in the PLC and so the price isn't shown, and I've heard that AEP may or may not do that differently. I couldn't tell you specific to AEP.

Q. You mentioned the "grossing-up" in the

PLC. How does that -- how would it work in that scenario?

A. Again, specifically, I can't tell you how it's shown, but you would take into account the losses and the gross-up factors, so if you began with a number, and grossing up obviously would imply that the number increases, so it would result in some other number that you're being billed by PJM.

Q. And the number, what is it, the number that you had in mind just then that you referred to?

A. I didn't have a specific number in mind.

Q. Oh, I know you didn't. I didn't mean nominally what the number is, but are you talking about the rate or are you talking about the quantity or something else?

A. The math necessarily doesn't matter, it can be on the rate or on the quantity. The majority of territories that I'm familiar with it is on the quantity.

Q. And you would -- would you agree that if it's not on one or the other, then the risk is that it's not being accounted for properly? "One or the other" being the quantity or the rate.

A. The way you've described those mechanics, I would agree with you.

1 Q. So if, in the AEP zone, the method for
2 accounting for those factors is to increase the price
3 as opposed to increasing the quantity, then you would
4 agree that that would be an appropriate way to
5 account for the additional costs of the three
6 factors.
7 A. It's all about how you want to price
8 the -- how you want to show the effects, right. It's
9 the total number that matters to the customer of what
10 they pay. There's a multiplication involved that has
11 those factors and you can show it via the price or
12 via the quantity.
13 Q. It has to be one way or the other, right?
14 A. Well, I certainly wouldn't recommend
15 doing it on both.
16 Q. Or on neither.
17 A. Neither would also be poor.
18 Q. Yeah. Because if you did it on neither,
19 then you'd run the risk of not recovering all those
20 costs, right?
21 A. When you use the word "recovering all
22 those costs" --
23 Q. I'm talking about the three factors, the
24 scaling, the forecast pool requirement, and capacity
25 losses.

A. You're required to show up with the capacity in question. And so if you charged less than the capacity, if you were to put it on the quantity side or less than the dollars, then yes, you wouldn't recover all of the costs as you described it.

Q. Could you turn to Attachment PN-1.

A. Of Exhibit 104 or 102?

Q. I suppose it would be 104. That's the updated one, right?

A. Yes, sir.

Q. Now, if you could look, as one example of this, at the top of page 2 of Exhibit PN-1, there you have -- I guess those are corrected capacity values for the three classes, the "$2.80," the "$2.34," and the "$1.69" for the residential, commercial, and industrial classes. Do you see that?

A. I do see that.

Q. And those values translate to or are they equivalent to, on a dollars per megawatt-day basis, the $16.73 per megawatt-day that you recite in your testimony on line 11 on page 4?

A. Those numbers reflect the calculations of Duke Energy Retail Sales Exhibit 103.

Q. This is for planning year 2012-2013,

right?

A. That is correct.

Q. And is the capacity price that you assume for purposes of Exhibit 103, as well as the corrected Exhibit PN-1, page 2 of 2, the "$16.73" that you've got listed on line 11 on page 4?

THE WITNESS: I'm sorry, could I have it repeated back?

(Record read.)

Q. Let me withdraw that question. I apologize for not updating my questions for the revision that you've made to your testimony and your exhibits.

The 2.80, the 2.34, and the 1.69, those are a blend of two values that are listed on Exhibit 103 of the two sets of values at the bottom of the page, the July capacity price and the RPM capacity price, correct?

A. That is correct.

Q. Okay. And the RPM capacity price that's blended with the July capacity price is the $1.41, the $1.08, and the 81 cents that you previously had listed on your Attachment PN-1, page 2 of 2, which now has been updated, right?

A. You're referring to Duke Energy Retail

Sales Exhibit 102?

Q. Yes.

A. Yes, it is.

Q. Okay. So if you go to your Exhibit 103, the $1.41, the $1.08, and the 81 cents, those are based on the prevailing RPM capacity price of $16.73 that you referred to on page 4 of your testimony, line 11?

A. That is correct.

Q. And just to be clear, the $1.41, the $1.08, and the 81 cents for the three classes, those are just converted from the $16.73 per megawatt-day, right?

A. That is correct.

Q. And there's no adjustment in that conversion that reflects scaling, forecast pool requirement, and capacity losses, is there?

A. The way that those were calculated was based on a ratio of the proposed AEP, in this case, cost of capacity prices with the RPM prices. If AEP had determined that the 355 included those scaling factors, then my 16.73, the RPM numbers, would not include those scaling factors.

Q. Well, do you know whether your values, the $1.41, the $1.08, and the 81 cents, includes the

scaling factors, the FPR, and the capacity losses?

A. I believe I previously stated that I don't know if the 355 includes that.

Q. I wasn't asking about the 355. I was asking about your values, the 1.41, the 1.08, and the 81 cents.

A. As we previously discussed, the math works in the same way whether you apply it to the quantity or to the price. In this case the "quantity" being the implied load factor, adjusted for the PLC, adjusted for those scaling factors.

If your implied load factor that is underlying that does not include that and the price does include that, then my use of "355" would have been incorrect in this case and I would have had to apply the scaling factor to the RPM prices.

If that scaling factor is of some quantity, let's call it less than 10 percent, although, I don't know, let's say it is 10 percent to be fair, then the resulting effect would be in this range of 16 cents, 27 cents, and $1.23 that would need to be adjusted as I look at the embedded price of those quantities.

Q. What would be the -- what would be the factors that you would -- or, the adjustments you'd

make if it were on the order of 20 percent?

A. I believe the math would not change; it would just be the 20 percent would be utilized.

Q. So it would be twice the figures that you just cited?

A. That's how the math works, 10 times 2.

Q. Okay. Would you agree that in the comparison of the ESP versus the MRO prices, if the scaling factor, the forecast pool requirement cost, and the capacity loss costs are not captured by the competitive bid price, that you could end up understating the cost of the MRO?

A. I believe that if you did not include those, then you would overstate the benefit, perhaps, of the MRO.

Q. Let me turn your attention to page 6, and particularly at lines 9 through 12. You state that you "have determined that the proposed ESP harms customers versus the expected results under the MRO by over $200 million through the three-year period." Do you see that?

A. I do.

Q. And is that your estimate of the disadvantage from the use of the proposed pricing of the ESP to the pricing that you estimate for the MRO

1 option?
2 A. Yes. You can see in Exhibit PN-3, the
3 "MRO Price Test," the "Total ESP Term" is
4 206.6 million, which is over 200 million through the
5 three-year period.
6 Q. And that's -- that results from the
7 difference between using RPM pricing, on the one
8 hand, for capacity, and using the two-tiered capacity
9 pricing that the company has proposed, on the other
10 hand?
11 A. No.
12 Q. Okay.
13 A. This is the MRO versus ESP price
14 comparison. It would be the -- if you look at PN-1,
15 page 1, and it's the difference between lines 13 and
16 14, which results in line 15, is then multiplied by
17 line 16, and results in line 17, you can see those
18 four values.
19 It just so happens that I translated
20 those into millions of dollars and those are the
21 prices that you see or the values that you see --
22 Q. Okay.
23 A. -- with planning year 2014-2015, the sum
24 of the other, and then the "Total ESP Term" being the
25 summation of all four of those numbers from PN-1.

1 Q. Okay. So let me see if I have this
2 right. The $206 million is not simply the difference
3 between pricing at RPM versus pricing at the
4 two-tiered level, because you need to factor in the
5 blending; is that right?
6 A. I don't know why you bring up the
7 two-tiered level. The tiers do not take into -- do
8 not affect the MRO price test for the first two years
9 and five months -- or, seven months. It is only the
10 remaining January through May period where you
11 suggest going forward in the market utilizing those
12 tiers in which the tiering would have an impact on
13 the MRO price test.
14 Q. I believe at some point in your testimony
15 you refer to a $923 million above-market amount. I
16 see it at the bottom of page 7 and it continues on
17 the top of page 8.
18 A. Correct. That has been updated in the
19 Exhibit 104.
20 Q. What's been updated?
21 A. The "923."
22 Q. What is it now?
23 A. "894.4." [verbatim] You can see under
24 Exhibit PN-2, which is where the "923" originally
25 came from --

Q. I see it, thank you.

That 894 million of what you referred to as, I believe, above-market capacity payments during the term of the ESP, that represents the difference between capacity at the prevailing RPM price and capacity priced at full cost; is that right?

A. That is incorrect. All of these values, aside from the effect of the May 30th order in the "premium" that I call it, are from WAA-4, page 1. Effectively, I take his capacity revenues at BRA and subtract them from the proposed capacity revenue in the ESP, in which case this is the tiers that are being utilized.

I then adjust it for the effect of the May 30th order, which decreases that premium by 29 million for the one month, in this case it's actually 31 days, so a month and one day, giving you the July 1st effect, and get to the "Premium to Market Pricing."

"Market," again, being the state compensation mechanism.

Q. Could you refer to your Exhibit PN-2.

A. Duke Energy Retail Sales Exhibit 104 or Duke Energy Retail Sales Exhibit 102?

Q. I think we want to look at the most

current one, so that would be 104, right?

A. Okay.

Q. Do you see the first line of that where it says "Capacity Revenues at Full Cost"?

A. I do.

Q. The number there in the total column is, I suppose it's -- I'm not sure if it was 2 billion or 2 million. "2,283." Do you see that?

A. I do see that.

Q. What is that?

A. That is --

Q. Is that millions?

A. That's in millions.

Q. Okay. And then the line under that is "Capacity Revenues at BRA," base residual auction. Do you see that?

A. I do see that.

Q. And the value there is 371 million, right?

A. Yes.

Q. And then we have the proposed capacity revenue in the ESP in the next line, which in the total column is 1,294,000,000. Do you see that?

A. I do.

Q. Okay. Now, just quickly tell me how you

1 get to the 894 in the "Premium to Market Pricing" row
2 from those three values above.
3 A. Well, you can't get to the 894 from just
4 those three values above. If you notice, on the
5 second -- they're separated by a gray area, but in
6 the first row, below that gray area, there's an
7 effect of the May 30th, 10-2929 order; it's
8 $29 million.
9 Q. Right. For the planning year '12-'13,
10 right?
11 A. Correct. So if you were to subtract the
12 391 in this case, the proposed capacity revenue in
13 the ESP, minus the capacity revenues at BRA, you
14 would get the premium to market pricing, and in that
15 first planning year, '12-'13, you have to include the
16 effect of the May 30th order, and carrying that over,
17 you get 894 as a summation.
18 Q. I didn't follow you there. You started
19 with your planning year '12-'13, right?
20 A. Correct.
21 Q. And you -- well, first of all, let me ask
22 you, is the premium to market pricing simply the
23 total number? Is it the sum of the preceding three
24 values on the three planning years or not?
25 A. It is.

Q. And the $309 million, can it be derived from some combination of the four values that lie up above it in that column?

A. Yes. Sum the immediate three above it.

Q. So the 54 --

A. Well, actually don't sum the immediate three above it. I apologize. Take 391, the second number in the column, I guess is what it would be, of three, subtract the 54 million, and then you get, in this case I've shown it as a negative, add the negative 29 million, gets you 309.

Q. 391 minus 54, right?

A. That is correct.

Q. So that's -- if my math serves me right, that's 337, right?

A. Yes.

Q. Then I subtract the 29 from that?

A. That is correct.

Q. That gets you close to 309.

A. Rounding.

Q. And then in the planning year '13-'14, what we do is we just take the 413 million, we subtract the 57 million.

A. You can follow the same process given that there's a zero value for the remaining two

1 periods.
2 Q. So is the answer to my question, yes, you
3 subtract the 57 million from the 413 million, we're
4 up to the 356?
5 A. Yes.
6 Q. And then, similarly, with regard to the
7 third column, you subtract the 260 from 490, right?
8 A. Correct.
9 Q. And the values in the first row, the
10 "Capacity Revenues at Full Cost," they're presented
11 for informational purposes, but they're not used in
12 the calculations; is that right?
13 A. That is correct.
14 Q. Now, the "Proposed Capacity Revenue in
15 ESP," that third line of the top part of the table on
16 Exhibit PN-2 --
17 A. Yes.
18 Q. -- where did you get those values and
19 what do they represent again?
20 A. They're from Exhibit -- as detailed in
21 the footnote, Exhibit WAA-4, page 1.
22 Q. The "Capacity Revenues at BRA," that row,
23 do you see it?
24 A. I do.
25 Q. And if those values do not include the

1 effects of scaling, forecast pool requirements, and
2 capacity losses, then they would be understated by
3 some amount, correct?
4 A. I believe my previous answer to that
5 question holds.
6 Q. Which is that -- is the answer to my
7 question "yes" or is it something else?
8 A. Yes.
9 Q. Okay.
10 MR. CONWAY: Thank you, Mr. North.
11 I have no further questions, your Honor.
12 EXAMINER SEE: Mr. Margard or Mr. Beeler?
13 MR. MARGARD: No. Thank you, your Honor.
14 EXAMINER SEE: Redirect, Ms. Kingery?
15 MS. KINGERY: May we have a couple
16 minutes?
17 EXAMINER SEE: Yes.
18 (Recess taken.)
19 EXAMINER SEE: Let's go back on the
20 record.
21 Ms. Kingery.
22 MS. KINGERY: We have nothing further,
23 your Honor. And we would move for the admission of
24 Duke Energy Retail Sales Exhibits 102, 103, and 104.
25 EXAMINER SEE: Are there any objections

to the admission of DERS 102, 103, and 104?

MR. CONWAY: No, your Honor.

EXAMINER SEE: DERS Exhibits 102, 103, and 104 are admitted into the record.

MS. KINGERY: Thank you, your Honor.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Thank you, Mr. North.

EXAMINER TAUBER: Mr. Darr.

MR. DARR: Thank you, your Honor. IEU calls Kevin Murray.

EXAMINER TAUBER: Could you raise your right hand, please?

(Witness sworn.)

EXAMINER TAUBER: Thank you.

Mr. Darr.

MR. DARR: Thank you, your Honor.

- - -

KEVIN M. MURRAY

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

DIRECT EXAMINATION

By Mr. Darr:

Q. Please state your name.

A. Kevin Murray.

Q. By whom are you employed?

A. McNees, Wallace & Nurick.

Q. In what capacity are you employed?

A. I'm a technical specialist.

Is this mic on, I can't tell?

EXAMINER SEE: Just a minute.

MR. DARR: To simplify things, if I may, I would request that four exhibits be identified --

EXAMINER SEE: Mr. Darr, if you could use a mic, please.

(Discussion off the record.)

MR. DARR: If I may, I'd like to have several exhibits marked. As IEU Exhibit 125, the public testimony previously filed by Mr. Murray.

EXAMINER TAUBER: It shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. DARR: As 126, the confidential testimony that was filed by Mr. Murray.

EXAMINER TAUBER: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. DARR: As IEU 127, a one-page document which is listed as "Exhibit KMM-19."

EXAMINER TAUBER: It shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. DARR: And as IEU Exhibit 128, a one-page document that has, across the top of it,

"Exhibit KMM-20." Those have all been distributed at this point to the folks in the room.

EXAMINER TAUBER: The exhibits are so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Darr) Mr. Murray, do you have in front of you what's been previously marked as Exhibits 125 and 126?

A. I have Exhibit 126 only.

Q. Okay. Are you familiar with Exhibit 125?

A. Yes.

Q. Could you identify 125 for us, please?

A. 125 is the public version of my testimony.

Q. And could you identify for us what's been previously marked as IEU Exhibit 126?

A. IEU Exhibit 126 is the confidential version of my testimony.

Q. Do you have any corrections to 125 and 126?

A. Yes.

Q. Could you list those for us, please?

A. Sure. Start with the easy one. Turning to page 15 of Exhibit 126, and I think the paginations are identical on both, on line 4, the

year "2011" should be "2001."

MS. MOORE: Your Honor, we're having a little bit of difficulty over here hearing Mr. Murray. I'm not sure if his mic is working.

EXAMINER TAUBER: If you could slide it closer to you.

THE WITNESS: Okay. Do you want me to repeat that?

MS. MOORE: That's okay. I heard you. I just want to make sure I'm able to hear all of your responses. Thank you.

THE WITNESS: Okay.

A. Then on page 70 -- actually, I'm sorry, page 55, on line 3, the "price" should be "prices," plural.

And the other corrections to my testimony really flow through changes that were made to what has now been marked as IEU Exhibits 127 and 128.

Q. Okay. Let's go to 127 and then we'll come back to the last change in the text. Could you identify for us what's been marked IEU-Ohio 127?

A. Yes. This is a correction to Exhibit KMM-19 in my testimony.

Q. What is the purpose of this correction?

A. In this exhibit, I calculate a weighted

1 average price for the 2014-2015 delivery year, as
2 well as a weighted average price for the 2015-2016
3 delivery year.
4 When preparing a response to an AEP Ohio
5 interrogatory, I discovered an error in the price for
6 the 2015 to 2016 delivery year. The correct price
7 that's now shown on IEU Exhibit 127 is "$63.08 per
8 megawatt-hour."
9 And then if you turn to IEU Exhibit 128,
10 that value carries through to that exhibit as well.
11 In the column labeled "June 2015 through May 2016,"
12 it appears on line 2 as well as on line 20. And it
13 affects the corresponding calculations of the
14 relative ESP versus MRO benefit. The correct value
15 or the value on line 26 of the "ESP Benefit" is now a
16 negative $1.89 per megawatt-hour.
17 Q. Does it affect line 15 as well, on page
18 70? Let's go to page 70.
19 A. Certainly.
20 Q. Sorry. I got ahead of you.
21 A. Yeah. If you turn to page 70 of my
22 testimony, the changes that were made to what has
23 been marked as IEU Exhibit 128 affect the two values
24 shown on that page. On line 14, the value of "$2.08
25 per megawatt-hour" should be changed to a "$1.89 per

1 megawatt-hour." And then on line 15, the cost of
2 "29 million" should be adjusted to be "26 million."
3 Q. Do you have any other corrections to your
4 testimony at this time?
5 A. I have one more. On page 65, on line 12,
6 again this is a change that's necessary by the
7 changes to Exhibits 127 and 128, the value of "$63.46
8 per megawatt-hour" should be changed to "$63.08 per
9 megawatt-hour."
10 Q. Any other changes?
11 A. No.
12 Q. With those changes, if you were asked the
13 questions contained in your prefiled testimony
14 previously identified as Exhibits 125 and 126, would
15 your answers be the same?
16 A. Yes.
17 MR. DARR: The witness is ready for
18 cross-examination, your Honor.
19 EXAMINER TAUBER: Thank you.
20 We have an outstanding motion to strike
21 by Ohio Power Company, and at this time we're going
22 to deny the motion to strike. As has been the case
23 this entire proceeding, parties will have the
24 opportunity, during cross-examination, to raise any
25 issues they might have.

So let's begin with cross-examination. We'll start with Ms. Kaleps-Clark.

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

EXAMINER TAUBER: Ms. Hand?

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

EXAMINER TAUBER: Mr. Yurick?

MR. YURICK: No questions.

EXAMINER TAUBER: Mr. Campbell?

MR. CAMPBELL: No questions, your Honor.

EXAMINER TAUBER: Mr. Siwo?

MR. SIWO: No questions, your Honor.

EXAMINER TAUBER: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: Nothing.

EXAMINER TAUBER: Mr. Maskovyak?

MR. MASKOVYAK: No. Thank you, your Honor.

EXAMINER TAUBER: Mr. Etter?

MR. ETTER: No questions, your Honor.

EXAMINER TAUBER: Ms. Moore?

1 MS. MOORE: Thank you, your Honor.
2 - - -
3 CROSS-EXAMINATION
4 By Ms. Moore:
5 Q. Hi, Mr. Murray. How are you?
6 A. I'm fine. Thank you.
7 Q. Directing your attention first to lines
8 20 through 22 on page 4 of your direct testimony.
9 A. Which lines, please?
10 Q. Lines 20 through 22.
11 A. Okay.
12 Q. There you state, quote, the significantly
13 above market capacity price that AEP-Ohio is
14 proposing to levy on shopping customers is an
15 additional cost of the modified ESP. Do you see
16 that?
17 A. Yes.
18 Q. When you refer to "market capacity
19 price," to what are you referring?
20 A. Prices based upon the prevailing market
21 prices or RPM.
22 Q. And are all references to "market
23 capacity prices" in your testimony references to
24 "RPM"?
25 A. Yes.

1 Q. Thank you.
2 A. To the best of my recollection, yes.
3 Q. Now, this proposed capacity charge that
4 you refer to on lines 20 through 22, this charge
5 would be levied to CRES providers, not directly to
6 shopping customers, correct?
7 A. That's my understanding.
8 Q. Now, Mr. Murray, there are a number of
9 places in your testimony where you quantify the
10 difference in revenues that the company would realize
11 between June 2012 and May 2015 under the proposed
12 discounted two-tiered capacity pricing mechanism, as
13 opposed to the RPM price, correct?
14 A. Correct.
15 Q. And you quantify that amount to be
16 770 million; is that correct?
17 A. Do you have a specific reference in my
18 testimony?
19 Q. Yes. Page 5, line 7.
20 A. Yes.
21 Q. Now, this calculation assumes that CRES
22 providers would pass through, on a dollar-for-dollar
23 basis, the cost of capacity to their customers,
24 correct?
25 A. That's correct.

Q. You agree, though, that it would be possible for a CRES provider to pass through less than 100 percent of their costs to their customers?

A. It's certainly possible. It's not necessarily rational economic behavior.

Q. Are you aware of -- well, would it be more or less likely that less than 100 percent of an increase in price would be passed through to a residential customer as opposed to a commercial or industrial customer?

THE WITNESS: Could I have the question reread?

EXAMINER TAUBER: Sure.

(Record read.)

A. I'm not following your question.

Q. Okay. You said it's "not necessarily rational economic behavior" for a CRES provider to pass through less than 100 percent of their -- of an increase in the price they pay for capacity to their customers, correct?

A. (Witness nods head.)

Q. My question is: In your opinion, is it more or less likely that this passthrough would occur in the context of a residential customer as opposed to a commercial or industrial customer?

A. I don't think I'd differentiate based upon things like customer class. It has to do, more likely, with the status of contracts at any given point in time.

And earlier when I was talking about not passing through the cost being possible but not necessarily economically rational, I think I've previously testified that it's certainly possible for a CRES provider to adopt a business strategy to be a loss leader in order to acquire market share. So you could make offers that are below cost if you felt, on a short-term basis, that was in your long-term interest to do so.

Q. Sir, do you remember testifying in Case No. 10-2929-EL-UNC in April of this year?

A. Yes.

MS. MOORE: Your Honor, may I approach?

EXAMINER TAUBER: Yes.

Q. Mr. Murray, I'm handing you a copy of your transcript from your testimony from that proceeding. Do you recognize that as your transcript from your testimony in that proceeding?

A. It appears to be.

Q. Could you turn to the flagged page which I believe is page 1,364 of the transcript. And if

1 you could, could you read the question beginning on
2 line 22, through the end of your answer which is on
3 page 1,365?
4 A. "Question: Is that a universal provision
5 in CRES provider" contracts -- it says "contrast" but
6 I think it should have been "contracts" -- "with
7 their customers, or is it just a subset of all the
8 contracts in your knowledge?
9 "Answer: It is certainly not universal.
10 It is I think more common as a business practice
11 involving contracts for commercial and industrial
12 customers. I think it would be less likely to see
13 those type of provisions in residential customer
14 contracts."
15 Q. Thank you.
16 Just for clarity of the record, that
17 question and answer were regarding 100 percent
18 passthrough by CRES providers to customers; is that
19 correct?
20 A. Again, it was talking about the terms and
21 conditions that exist today in CRES provider
22 contracts.
23 Q. Thank you.
24 And on page 59 of your direct testimony,
25 I believe you discuss some actual supply offers that

1 have been made by FES and by AEP Retail. Actually
2 page 59, going on to page 60. Do you see that?
3 A. Yes.
4 Q. In your opinion, are the offers that you
5 discuss here in your testimony representative of
6 offers that are being made by CRES providers
7 throughout Ohio?
8 A. I couldn't say that they're
9 representative. They're a sample of what was readily
10 publicly available at the time. Some CRES providers
11 make standing offers on their website, other active
12 CRES providers do not, you have to contact them for a
13 specific offer. So they're representative of what
14 was publicly available at the time.
15 Q. Okay. So this is a sample that you found
16 that you thought at the time you found them were
17 representative of kind of what's available in Ohio?
18 A. Yes.
19 Q. Now, on page 7 of your testimony, in a
20 couple of places, on lines 9 and 15 --
21 A. Let me catch up, please.
22 Q. Sure.
23 A. Okay. Which lines, please?
24 Q. Well, on line 9 and also on line 15, you
25 refer to "the anticompetitive electric industry

structure" or "the anticompetitive structure of the industry."

A. Yes.

Q. Are you referring to the industry structure that existed in Ohio prior to 1999 when you make those references?

A. The reference that I'm making here is in the context of some of the actions taken by the Federal Energy Regulatory Commission. So it's anticompetitive in the context of the market structure at the wholesale level. And what FERC found was the fact that there were vertically-integrated utilities that owned generation, created a situation where utilities were operating their transmission assets to the detriment of third-party users of their transmission assets in order to advantage the generation ownership.

So I think you can say there was perhaps a parallel structure that existed in Ohio prior to 1999 and, in some respects, still exists today by virtue of where corporate separation stands. But my specific reference in this section of my testimony was relative to things that FERC was doing.

Q. Okay. And my question is: What time period were you referring to when you used the phrase

1 "anticompetitive structure"?
2 A. This is in the context probably of
3 looking at what FERC did with Order 888, so it's --
4 working from memory here. I think that rule was
5 promulgated in the mid-1990s.
6 Q. Okay. Would you agree that the industry
7 structure that you referred to as "anticompetitive,"
8 was legislatively and administratively created,
9 overseen, and regulated prior to the mid-'90s?
10 THE WITNESS: Could I have the question
11 reread?
12 (Record read.)
13 A. I'm not sure I'd agree with the "created"
14 type statement in your question, but it was -- what
15 I'm referring to here is a wholesale market which is
16 regulated by FERC.
17 Q. Would you agree that the wholesale
18 market, which is regulated by FERC, was created prior
19 to the mid-1990s?
20 A. The wholesale market has existed for
21 many, many years.
22 Q. Thank you.
23 A. So yes.
24 Q. Turning now to page 10 of your direct
25 testimony, specifically on lines 11 through 13, you

1 state that SB 3 -- under SB 3, "the provision of
2 generation supply to retail customers was declared to
3 be and is a competitive service...." Do you see
4 that?
5 A. Yes.
6 Q. Okay. Isn't it true that in 2008, IEU
7 argued that the General Assembly should repeal the
8 statutory declaration that generation service is a
9 competitive service?
10 MR. DARR: Objection. Relevance.
11 MS. MOORE: May I respond, your Honor?
12 EXAMINER TAUBER: Yes.
13 MS. MOORE: Throughout the course of this
14 proceeding and also in Mr. Murray's testimony there's
15 been a lot of discussion about the history of -- the
16 history of electric deregulation in Ohio, and there
17 have been some allegations made that AEP Ohio has
18 changed its position. I'm simply asking and testing
19 with Mr. Murray the extent to which other parties may
20 have also changed their position over time.
21 EXAMINER TAUBER: I'll allow it for now.
22 THE WITNESS: Could I have the question
23 reread?
24 EXAMINER TAUBER: Yes.
25 (Record read.)

A. You mentioned my testimony in the capacity case, the 10-2929 case, a few minutes ago. My recollection when I was here for cross-examination, I was shown a document that appeared to be an advocacy piece on behalf of IEU-Ohio, probably drafted at a point in time when the legislature was considering what eventually became SB 221.

My recollection is there was a position in that paper that suggested, yes, that the legislature should declare generation to no longer be a competitive service.

Q. And so the answer to my question is "yes."

A. Yes.

Q. Okay.

MS. MOORE: May I approach, your Honor?

EXAMINER TAUBER: You may.

MS. MOORE: Thank you.

Q. Mr. Murray, I'm handing you what's previously been admitted, AEP Ohio Exhibit 136.

MS. MOORE: Would the Bench like another copy?

EXAMINER TAUBER: Yes, please.

Q. Mr. Murray, directing your attention to

the fourth paragraph on the first page of the document that I just showed you. Well, first let me ask: Do you recognize this document?

A. It appears to be the document that I referenced a few minutes ago in my response to a previous question.

Q. Directing your attention, as I said, to the two sentences of the fourth paragraph on the first page. Could you read aloud those sentences, please?

A. Sure. "The rate shock clock is ticking in Ohio. We have urged Ohio's leaders to consider how the worthwhile objectives of electric restructuring might be better accomplished through changes to Ohio's electric restructuring law."

Q. What is your understanding of what those sentences mean?

A. Again, my sense is, again, based upon the date that appears in the title, is this -- this is a document that was drafted at a point in time where the legislature was considering changes to Ohio's electricity law. And this is a -- these two sentences, I think, are advocating IEU's position that they believe some changes in the legislation are appropriate.

Q. If you'll turn with me to page 2 of this document, in the box titled "Summary of Recommendations." Can you read item 2 in that list of summary -- that list of recommendations aloud?

A. Sure. "We recommend that the General Assembly repeal the statutory declaration that generation service is a competitive service for purposes of giving Ohio better options to affect the price of electricity. This action would align Ohio law with reality and position Ohio to better control electric price and service outcomes for the benefit of the public interest."

Q. Do you agree that that item says that repealing the competitive service designation for generation service would align Ohio law with reality?

A. I think I just read what it says word for word.

Q. Do you agree that that's what it says?

A. Yes.

Q. Would you agree that that statement is advocating for reregulation of service in Ohio?

A. No, I wouldn't. I think at the time people were advocating for changes for the status of electricity law here in Ohio. My understanding is that consistently, throughout that debate, IEU-Ohio

1 did not advocate a return to cost-based regulation.
2 Q. Well, what was IEU-Ohio advocating in
3 this section, then, where they request that the
4 "General Assembly repeal the statutory declaration
5 that generation service is a competitive service"?
6 MR. ETTER: Objection, your Honor. This
7 document has already been admitted into evidence and
8 if the company wants to use it on brief, they're
9 entitled to do it. I don't think that going through
10 it now with this witness serves any purpose and just
11 extends this hearing. It's irrelevant.
12 EXAMINER TAUBER: Ms. Moore?
13 MS. MOORE: Your Honor, this document is
14 not irrelevant. Mr. Murray goes on, at length,
15 discussing the history of electric deregulation, the
16 change in position that IEU views AEP Ohio to have
17 taken over the course of that history. And when
18 Mr. Hess, from IEU, was questioned about this
19 document, he referred these questions to Mr. Murray
20 on cross-examination. So I'm simply trying to
21 complete the record on this document.
22 EXAMINER TAUBER: And the objection is
23 overruled.
24 MS. MOORE: Thank you.
25 THE WITNESS: There's probably a question

pending and I probably need reminded what it is.

(Record read.)

A. I think -- and, again, I've testified to this previously, I think the position that IEU was advocating at the time was one in which they were seeking to give the Ohio Commission more statutory tools to affect the price for generation service in Ohio.

Q. And one of the statutory tools that IEU was seeking to give the Ohio Commission at that time was the ability to declare or to consider generation service a noncompetitive service?

A. That was the position that IEU-Ohio advocated quite unsuccessfully.

Q. Turning now to Item 3 in that Summary of Recommendations, if you could read that to yourself and tell me when you've read it.

A. I've read it.

Q. What is your understanding of what Item 3 is saying?

A. My recollection is that Section 4928.17(E) -- actually, I've got Senate Bill 3 here. Let me refresh my memory.

That specific section, as it existed at the time, allowed an electric utility to divest

1 itself of any generating asset at any time without
2 Commission approval subject to other provisions in
3 Title 49.
4 Q. Okay. What is your understanding of what
5 IEU is advocating in Item 3 under the Summary of
6 Recommendations on page 2?
7 A. Again, on this specific item?
8 Q. Uh-huh.
9 A. The ability to transfer generation assets
10 without Commission approval be repealed.
11 Q. And the last part of this point No. 3
12 refers to, quote, schemes like those of Monongahela
13 Power. Do you see that?
14 A. Yes.
15 Q. What is that referring to?
16 A. Well, it was a long history there, so let
17 me try to give you a condensed version.
18 Q. Great.
19 A. Back with the implementation of SB 3, my
20 recollection is there was a stipulation that
21 contemplated Monongahela Power ending their market
22 development period early. And sometime before 2005,
23 Monongahela Power actually took steps to do that.
24 And I believe what they proposed at the time was
25 conducting a competitive bid for, I believe, just

1 their commercial and industrial customers.
2 The Commission entertained that
3 application for a while, but ultimately rejected it
4 finding that, I believe, for example, there were only
5 a few bidders who even responded to the request for
6 proposal.
7 Monongahela Power had also transferred
8 its generating assets to a nonregulated affiliate,
9 and so eventually there was a determination that
10 because Monongahela Power had transferred its
11 generating assets to a nonregulated affiliate, but
12 was statutorily obligated to provide a standard
13 service offer through 2005 at the rates specified by
14 SB 3, the Commission made a finding that Monongahela
15 Power was imprudent for failing to put in place
16 contracts to fulfill that ongoing obligation.
17 Monongahela Power was not very happy with
18 that determination and appealed that to the -- to a
19 federal appellate court, I believe, I'm not sure
20 which one.
21 Again, an ongoing dispute ultimately how
22 that would resolve was AEP was requested and agreed
23 to acquire the distribution territory of Monongahela
24 Power. So the scheme is shorthand for Monongahela
25 Power was doing a lot of things trying to rely upon

1 federal law and federal preemptions to forestall the
2 Ohio Commission from producing generation price
3 outcomes that the Ohio Commission thought were
4 reasonable.
5 Q. So is it your testimony that
6 Monongahela's scheme was, in part, its attempt to use
7 a CBP? Was that the scheme that is being referred to
8 here?
9 A. No. I referred to a competitive bid as
10 one aspect of a long process that drug out over
11 actually a two- or three-year period.
12 Q. Okay.
13 A. The scheme I referenced, I think, is more
14 referring to trying to use federal preemption
15 arguments as a means to foreclose what the Ohio
16 Commission thought were reasonable generation price
17 outcomes.
18 Q. And the Ohio Commission's underlying
19 concern with Monongahela Power's proposal was that
20 there were high market rates at the time; is that
21 correct?
22 MR. DARR: Objection. Requires
23 speculation on the part of the witness.
24 MS. MOORE: May I respond, your Honor?
25 EXAMINER TAUBER: Yes.

1 MS. MOORE: I don't believe that I've
2 asked Mr. Murray to speculate at all. I've asked
3 him -- he's testified to his personal recollection of
4 the issues during that relevant time period, and I've
5 asked him what he believes the Commission's concern
6 was.
7 EXAMINER TAUBER: The objection is
8 overruled.
9 A. My recollection is there was an
10 expectation, if Monongahela Power had proceeded on
11 the path in which it was pursuing, that the prices
12 would have been a significant increase from the
13 levels that were, prior to that point in time, in
14 effect. Both -- due to both, I would say, prevailing
15 market conditions at the time as well as a perception
16 that there was a lack of competition at that time.
17 Q. Mr. Murray, if you could turn to page 11
18 of AEP Exhibit 136. I'm directing your attention to
19 the first paragraph of that page, the one that begins
20 "Because SB 3 declares." Do you see that one?
21 A. Yes.
22 Q. Could you read aloud the last sentence of
23 that paragraph?
24 A. It says, "But for this competitive
25 service declaration in SB 3, the generation service

1 component included in the SSO would be subject to
2 pricing in accordance with Ohio's traditional
3 cost-based standard."
4 Q. So this would be one of IEU's
5 recommendations made in this piece, correct? Or it
6 would go along with IEU's recommendations made in
7 this document?
8 A. I think your first question said
9 recommendation made in this case.
10 Q. I said "piece."
11 A. "Piece."
12 Q. Yes. But I changed that to "document."
13 A. This is a statement that IEU-Ohio made in
14 this document.
15 Q. Thank you.
16 Turning your attention to page 4 of this
17 document. If you'll look at the sixth paragraph from
18 the top, which is also the third paragraph from the
19 bottom, do you see the statement, "The term
20 'market-based' is not defined by Ohio law or PUCO
21 regulations"?
22 A. Yes.
23 Q. And then it goes on to say, "Ohio's
24 electricity objectives require the PUCO to ensure
25 that prices are reasonable." Do you see that?

A. You've read it correctly.

Q. Do you agree with those statements?

MR. DARR: Objection. Relevance.

MS. MOORE: Your Honor, this is relevant because "market-based rate" has been used by all of the parties in this proceeding. There is a debate, ongoing, over the meaning of "market-based rate" in this proceeding, and this is relevant to IEU-Ohio's understanding of the term "market-based rate."

MR. DARR: If I may respond, your Honor?

EXAMINER TAUBER: Yes.

MR. DARR: The question that she asked of Mr. Murray was whether or not he thought this was appropriate. Whether he thinks it's appropriate or not is a separate and distinct question from what the Commission can decide in this case. Certainly, you can ask his opinion about that, but I'm not sure how it advances the cause here to where we want to go today. It's just not relevant in the way the question was framed.

MS. MOORE: May I respond, your Honor?

EXAMINER TAUBER: Briefly.

MS. MOORE: Just to clarify, I asked Mr. Murray if he agreed with the statement, and it's directly relevant because he uses the term

"market-based rate" throughout his testimony.

EXAMINER TAUBER: I'll allow it, but let's stay on track.

MS. MOORE: Thank you.

THE WITNESS: Could I have the question reread?

EXAMINER TAUBER: Yes.

(Record read.)

A. Working from memory, I think there's policy objectives set forth in Section 4902. I don't recall if they were modified significantly by SB 221, but my recollection is that going back prior to SB 221, there were provisions that suggested that prices be reasonable.

Q. Now, is it your understanding that under SB 221, rates are required to be market based or just reasonable?

A. Under SB 221?

Q. Yes.

A. I believe there's statutory language that suggests both are required.

MS. MOORE: Can I approach, your Honor?

EXAMINER TAUBER: Yes.

Q. Mr. Murray, I'm handing you a document that's been marked as AEP Exhibit 141.

EXAMINER TAUBER: 141?

MS. MOORE: It shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you recognize this document?

A. No.

Q. Would it appear to you to be, from its title, a markup of Senate Bill 221 from the General Assembly's website?

A. It appears to be a printout from the General Assembly's website. It is referenced -- it's a -- appears to be some version of Senate Bill No. 221, under the 127th General Assembly.

Q. And does it say, in the top left corner, that it's "SB 221 As Enrolled"?

A. Yes.

MR. ETTER: Objection. It's not clear whether the document itself is SB 221 as enrolled, or if this is a link up here to SB 221 as enrolled, because it's -- it appears to be the printout of a web page and so this could be merely a link.

There are other links over to the side mentioning "Synopsis of Committee Amendments" and "Fiscal Notes" and things like that, so it's not clear whether this document itself is 221 as enrolled or if this, up here, is just a link to SB 221 as

1 enrolled.
2 MS. MOORE: Your Honor, at this point
3 right now we're willing to represent that this is
4 SB 221 as enrolled and ask Mr. Murray additional
5 foundation questions if that would be okay.
6 EXAMINER TAUBER: Yeah, we'll allow that.
7 MS. MOORE: Thank you.
8 Q. (By Ms. Moore) Mr. Murray, if you could
9 turn to page 7 of this document.
10 A. Just so we're on the page, based on the
11 numbering at the --
12 Q. At the top right-hand corner of the page,
13 yes. Thank you for that clarification.
14 Do you see toward the bottom of the page,
15 "Section 4928.14"?
16 A. Yes.
17 Q. Now, and you see that 4928.14 goes on
18 from page 7 to the top of page 8, correct?
19 A. Yes.
20 Q. And that -- a portion of the text of that
21 section has been crossed out?
22 A. Yes.
23 Q. Do you recall whether there was a
24 requirement under SB 3 that SSO rates be
25 market-based?

1 A. That's my recollection.
2 Q. Okay. Would you agree that that
3 requirement, which appeared under SB 3, was repealed
4 under SB 221?
5 A. Yes; but it was replaced by what I would
6 call "the electric security plan and market rate
7 option" under 221, and my understanding is both of
8 those are considered market-based rates.
9 Q. Sure. By whom are they considered
10 "market-based rates"?
11 A. Well, I consider them market-based rates.
12 That's my opinion. I think there's -- if you look at
13 the MRO option, it specifies that the rate is to be
14 established through a competitive bidding process.
15 So it's inherent in the process that the rate is
16 market-based.
17 And if you look at the statutory
18 requirement for an electric security plan rate, the
19 standard that it has to pass in order to be approved
20 by the Commission is that it's more favorable in the
21 aggregate than a market-based rate. So it's more
22 favorable than a market-based rate.
23 Q. Just to clarify, the standard that an ESP
24 has to pass is that it has to be approved as being
25 more favorable in the aggregate than the expected

1 results of an MRO; is that correct?
2 A. That's correct.
3 Q. Okay. Now, does the statutory section
4 that sets forth the definitions of an ESP in an MRO
5 use the phrase "market-based"?
6 A. I don't recall it. I'd have to see the
7 actual statutory language.
8 Q. Okay. If you could look with me on page
9 7 of this document, deviating slightly, if you look
10 at 4928.14(A), which is marked out as we discussed
11 earlier, would you agree that on the second line,
12 towards the end of the second line of Section A, the
13 requirement that "a market-based standard service
14 offer" is crossed out?
15 A. Yes.
16 Q. Would this be consistent with your
17 understanding that the requirement that standard
18 service offers under SB 3 be market-based was
19 repealed under SB 221?
20 MR. DARR: Objection.
21 EXAMINER TAUBER: Mr. Darr.
22 MR. DARR: We have just been through
23 Mr. Murray's understanding of the effect of Senate
24 Bill 221. I previously raised the question about
25 whether or not this whole line of questioning is

1 relevant to the ultimate outcome here. I re-raise
2 both issues at this point, one, that we've already
3 been down this road, two, it's not relevant.
4 MR. ETTER: OCC joins in this objection,
5 your Honor.
6 MS. MOORE: I'll move on, your Honor.
7 EXAMINER TAUBER: Thank you.
8 Q. (By Ms. Moore) Mr. Murray, would you
9 agree that -- actually, sorry, let me back up.
10 If we could go back quickly to AEP
11 Exhibit 136. And if you could turn with me to page 7
12 of that document. And -- are you there?
13 A. Yes.
14 Q. Looking at the last paragraph on that
15 page, could you read aloud the first sentence of the
16 last paragraph?
17 A. "There is nothing in SB 3 that requires
18 an auction or competitive bidding process being used
19 to establish a 'market-based price' for the SSO."
20 Q. And you would agree that was the position
21 that IEU-Ohio advocated in this document?
22 A. Yes.
23 Q. Would you agree with this statement?
24 A. As we've identified, the prior version of
25 Section 4928.14 required a market-based standard

1 service offer. I think what this sentence is saying
2 is that this specific statutory language didn't
3 require that in order to establish a market -- that
4 market-based standard service offer, you had to
5 conduct either an auction or a competitive bidding
6 process. I think what it's trying to suggest is that
7 there's other options available to setting
8 market-based prices.
9 Q. Thank you.
10 Directing your attention to page 13 of
11 your testimony, on lines 22 and 23 of page 13, you
12 state that "...AEP Ohio has claimed that it cannot
13 move promptly to market-based pricing for generation
14 capacity service...." Do you see that sentence?
15 A. Yes.
16 Q. Can you describe where specifically
17 AEP Ohio has made such a claim?
18 A. I believe it's made it in this
19 proceeding.
20 Q. And where in this proceeding was it made?
21 By which witness?
22 A. I may be confusing cases at this point
23 between the capacity case and this case, but AEP has
24 represented that by virtue of the existence of the
25 AEP East interconnection agreement as well as its

1 status as an FRR entity, that it believes it's
2 foreclosed from moving to a process that would
3 involve a hundred percent competitive solicitation
4 for its standard service offer load, prior to both
5 the termination of its -- the pool agreement as well
6 as the termination of its FRR status.
7 Q. As you sit here today, can you point me
8 to any specific witness's testimony, in either this
9 case or the capacity case, where this statement was
10 made?
11 A. My recollection is, again, working from
12 memory here, I think Rich Munczinski may have
13 testified to this effect.
14 Q. Going back to this case, would you agree
15 that under AEP Ohio's proposal, that were the
16 proposal to be accepted as proposed -- approved as
17 proposed, that AEP Ohio would be moving to
18 market-based pricing in the next three years?
19 A. You'd have to be a little more specific
20 with your question.
21 Q. Okay. Assuming that AEP Ohio's proposed
22 modified ESP is accepted as proposed by the
23 Commission and approved, okay? Would you agree that
24 AEP Ohio would be moving to market-based pricing for
25 energy and capacity in approximately three years?

A. No. Not necessarily.

Q. Can you explain why?

A. AEP has proposed an electric security plan with a three-year term, but what happens after that three-year term is the function of whatever AEP files next in the way of a successor electric security plan or standard service offer. So until we see that level of detail, it's a big leap of speculation as to what might be in there.

Q. Do you agree that AEP Ohio has included, as part of its proposal in this proceeding, that it will move to a competitive bid process in 2015?

A. AEP has suggested that, but, again, that depends on what the next ESP or MRO looks like.

Q. Was the 2015 competitive bid process included in the application and AEP witness testimony in this case?

A. I don't believe so.

Q. Now, you said a few minutes ago that there would be a "big leap of speculation as to what might be in there." I'm going to ask you to make the big leap of speculation with me and assume that AEP conducts a competitive bid process in 2015, okay? As proposed.

A. Okay.

1 Q. Would you agree that if that were to
2 occur, that that would be a shorter period of time --
3 a shorter term, transition to market, than would
4 otherwise be permitted under a market rate offer?
5 A. For a utility that owned generating
6 assets as of a date certain, under SB 221, the
7 blending period to get to -- under an MRO, initially
8 requires a blending period of a minimum of six years.
9 There is a provision that says the
10 Commission has the authority to revisit that in the
11 second year of an MRO. So -- and the Commission has
12 addressed this issue in a prior proceeding involving
13 Duke Energy Ohio.
14 My reading of that order, and again my
15 layman's opinion here, is I think the Commission
16 views itself as having the discretion in the second
17 year of an MRO to look to whether or not it could
18 actually accelerate the blending process and speed it
19 up. So the default, at least on an initial MRO, is
20 six years, but there may be another outcome.
21 Q. Okay. This is your understanding of the
22 MRO blending period, correct?
23 A. That's correct.
24 Q. As a layperson.
25 A. And, just to clarify, for an initial MRO,

you would, regardless of the term, you would have to follow the statutory blending period, again, you couldn't revisit that until two years hence.

Q. Mr. Murray, would you agree that it is permissible that ESP rates be greater than prevailing market rates? And by "permissible," I mean permissible under the SSO statute?

A. I think it's a mathematical possibility, particularly -- yes.

Q. You were present for Mr. Hess's cross-examination last Thursday?

A. Yes.

Q. Okay. Were you present when he and Mr. Nourse discussed this possibility?

A. Yes.

Q. Okay. And would you agree that the demonstration that they walked through in AEP Exhibit 138 demonstrated that it would be permissible or it is permissible for an ESP rate to be greater than a market rate?

A. You may be trying to shorten this up, but I don't have a copy of that exhibit with me, so if you want to walk back through it, I'd be happy to do that.

Q. Sure.

1 MS. MOORE: May I approach, your Honor?
2 EXAMINER TAUBER: Yes.
3 MS. MOORE: Thank you.
4 Q. Mr. Murray, I'm handing you what's been
5 previously admitted as AEP Exhibit 138.
6 MR. DARR: Can you give me a second while
7 I pull out the exhibit?
8 MS. MOORE: Absolutely.
9 MR. DARR: Thank you.
10 Q. Mr. Murray, let me know after you've had
11 an opportunity to review the document.
12 A. Okay. I've reviewed it.
13 Q. Now, when you stated earlier that it was
14 mathematically possible for an ESP to have higher
15 rates or rates greater than prevailing market rates
16 and still pass the MRO test, would this document
17 provide an example of such a mathematical
18 possibility?
19 A. It's a mathematical example.
20 Q. Thank you.
21 Now turning your attention to your
22 testimony on page 17, specifically page 17, line 16,
23 through page 18, line 6, there you discuss that
24 FirstEnergy's Ohio EDUs responded positively to the
25 Commission's support of rate stabilization plans in

2003, even though FirstEnergy's Ohio EDUs had previously incorporated corporate separation plans; is that correct?

A. Yes.

Q. For the two-year period following FirstEnergy's -- the FirstEnergy utilities' corporate separation, do you know who supported the FirstEnergy utilities' SSO load?

A. You'd have to be specific about what two years you're referring to there.

Q. I believe it's 2006 through 2008, which is three years. I apologize for my miscalculation.

A. My recollection is FirstEnergy had a contract with its -- one or more of its nonregulated affiliates. I don't recall the specifics.

Q. Okay. Do you recall whether one of those agreements was with FirstEnergy Solutions Corporation?

A. I don't recall.

Q. Okay.

A. It may have been. My hesitation is I know, at one point in time, FirstEnergy had its nuclear assets in a separate operating company, so just fuzzy memory here, there may have been multiple affiliates involved.

1 Q. Who owned FirstEnergy's generation after
2 corporate separation? At least the fossil.
3 A. Again, what timeframe?
4 Q. From 2006 to 2008.
5 A. Again, I don't recall the specifics. I
6 think there was one or more nonregulated affiliates.
7 Q. Okay. Do you know -- so your testimony
8 is that, to your recollection, there was one or more
9 nonregulated affiliates that supported the FE
10 utilities' SSO load from 2006 to 2008, correct?
11 A. That's my recollection.
12 Q. Okay. Did those unregulated utilities,
13 didn't they collect SSO rates for the capacity and
14 energy that they provided to FirstEnergy's SSO
15 customers?
16 A. I don't recall what the specifics were in
17 terms of how the accounting was handled.
18 Q. Would it be possible, in your view, for
19 such an arrangement to exist?
20 A. Again, I don't recall the specifics.
21 There was a FERC wholesale contract that would govern
22 whatever revenues were passing back and forth.
23 Q. So, then, is it your testimony that you
24 do not recall the basis for your statement that
25 FirstEnergy's electric distribution utilities

1 responded favorably to the Commission's support of
2 the rate stabilization plans in 2003?
3 A. No. I think I've indicated that -- what
4 my testimony indicates here is, notwithstanding the
5 fact that the generating assets were transferred to a
6 nonregulated affiliate, FirstEnergy agreed to come
7 forward with a rate stabilization plan.
8 Q. But you don't recall the specifics of
9 FirstEnergy's arrangements with those unregulated
10 affiliates that may have been beneficial and --
11 A. They were relying upon their affiliates
12 to provide generation service. I don't recall the
13 specifics of the contractual arrangements.
14 Q. Do you recall whether the SSO revenue was
15 passed on to that affiliate or those affiliates?
16 A. Again, the terms and conditions of the
17 contracts would govern, and I just don't recall what
18 they were.
19 Q. Directing your attention to pages 23
20 through 26 of your testimony, there you offer your
21 opinion that in your view, AEP Ohio has modified its
22 opinion on the reasonableness of RPM over time; is
23 that correct?
24 A. Yes.
25 Q. Would you agree that IEU's views about

RPM have also changed over time?

A. Perhaps.

Q. Do you agree that IEU initially was opposed to RPM?

A. Probably.

Q. Was IEU -- would you agree that IEU was opposed to RPM pricing leading up to the fall of 2008?

MR. DARR: Objection, your Honor. Same issues that I raised before with regard to relevance.

MS. MOORE: My response is the same, your Honor.

EXAMINER TAUBER: I'll allow it.

THE WITNESS: If there's a question pending, could I have it reread?

EXAMINER TAUBER: Sure.

(Record read.)

A. I wouldn't recall specific dates. RPM is a -- I believe it was created by a 2007 settlement, so IEU was certainly opposed to it at least as it was initially proposed.

Q. Now, also on pages 23 through 26 of your testimony, you discuss the "FRR alternative," correct?

A. Yes.

1 Q. Could you give a brief explanation of
2 your understanding of the "FRR alternative"?
3 A. Well, I think I describe it in a fair
4 level of detail in my testimony. The FRR alternative
5 is an option that allows a load-serving entity to
6 elect not to participate in the periodic base
7 residual auctions conducted by PJM as well as the
8 incremental auctions that are conducted prior to the
9 delivery year to set the final zonal capacity price.
10 The FRR election requires that entity to
11 submit a plan to PJM that it identifies capacity
12 resources that they will make available to the pool
13 on a common-use basis in order to satisfy the total
14 reliability objective in the PJM zone.
15 And one of the primary differences
16 between the FRR option and the base residual auction
17 is the level of capacity resources that a FRR entity
18 has to submit will be equivalent to a peak load plus
19 the installed reserve margin, which is typically
20 around 15 percent.
21 And RPM, by its structure, in the use of
22 the downward-sloping demand curve, will actually
23 clear a greater level of capacity resources into the
24 auction if, by virtue of the price offer and the fact
25 that there's a downward-sloping demand curve, you can

1 clear more capacity resources and do so at a lower
2 overall cost to load.
3 Q. Would you agree that an entity that has
4 elected the FRR option is required to supply -- I
5 believe you just stated this, but I want to make sure
6 my understanding tracks yours -- an entity that has
7 elected FRR is required to supply capacity for the
8 load in its PJM zone or to have capacity available?
9 A. The term is "capacity resources."
10 Capacity resources are broad in the sense that they
11 can include generating capacity, they can include
12 demand response, they can include energy efficiency,
13 and, in some instances, and I don't want to hold
14 myself out as an expert in this, but PJM will also
15 recognize transmission upgrades as a way to address
16 capacity.
17 Q. And you agree that AEP Ohio remains -- is
18 and remains an FRR entity until May 31st, 2015, or
19 subject to -- that AEP Ohio is subject to the FRR
20 obligation?
21 A. No. AEP Ohio is not an FRR entity. An
22 FRR entity is the AEP Service Corporation on behalf
23 of the collective group of AEP Operating Companies.
24 Q. And that's why I attempted to rephrase my
25 question. Would you agree that AEP Ohio is subject

1 to the obligations, FRR obligation, through May 31st,
2 2015, as a member?
3 A. That's my understanding.
4 Q. Thank you.
5 And you agree that AEP Ohio's generation
6 assets do not participate in the base residual
7 auction?
8 A. No.
9 Q. No, you do not agree?
10 A. No, I do not agree. And I'd caution you
11 that you're getting into an area that's confidential.
12 Q. Okay. I'll move on to a different
13 question.
14 Mr. Murray, would you agree that if
15 AEP Ohio had participated in the base residual
16 auction for the 2012-2013 delivery year, the
17 2013-2014 delivery year, and the 2014-2015 delivery
18 year, that the resulting RPM prices would have been
19 different?
20 THE WITNESS: Could I have the question
21 reread?
22 (Record read.)
23 A. No; and let me explain why. Offer prices
24 in RPM are heavily mitigated. And I think, as I
25 testified in the capacity case, capacity is

1 considered very concentrated in every region of PJM.
2 So offer prices from particularly
3 vertically-integrated utilities from legacy assets
4 are subject to mitigation.
5 The mitigation is based upon their
6 avoided going-forward costs netted against expected
7 energy and ancillary service revenues. As a
8 practical matter, in many of the past auctions that
9 has resulted in legacy assets being offered into the
10 auction at a zero offer price.
11 So if you were in a scenario where you
12 assume that AEP was offering legacy assets at a zero
13 offer price, then you're perhaps correct in that the
14 clearing price of the base residual auction might
15 have changed, it might have been lower.
16 But, as I've said, offers into the base
17 residual auction are not limited to capacity
18 resources. You can offer energy efficiency. You can
19 offer demand response resources. You can offer, in
20 some cases, qualifying transmission upgrades. All of
21 which may have offered in at significantly different
22 prices that may not have even cleared in the auction.
23 So there's a lot of moving variables
24 there in terms of whether or not, depending on what
25 you assume, whether or not the auction results would

1 have changed.
2 Q. So am I to understand that your testimony
3 is that you do not think the RPM price would be any
4 different had AEP Ohio participated in any of those
5 auctions?
6 A. No, I think, as I've testified, it could
7 be and it also may not be. It depends on a lot of
8 assumptions beyond simply did AEP choose to
9 participate. You would have to provide more
10 specifics in terms of the types of resources offered,
11 prices, quantities.
12 Q. Would you agree that, as a general
13 economic precept, that the supply, the amount of
14 supply, affects price in markets?
15 A. Yes.
16 Q. Mr. Murray, you discuss, a number of
17 times in your testimony, your opinion that a number
18 of AEP Ohio's proposals in its modified ESP
19 application would allow it to collect improper
20 transition revenues after the SB 3 transition period
21 has ended, correct?
22 A. Yes.
23 Q. And you're familiar with rate
24 stabilization plans, are you not, that were filed in
25 the 2000s, early-2000s?

A. Somewhat.

Q. Would you agree that these rate stabilization plans, for example, FirstEnergy's rate stabilization plan, AEP Ohio's rate stabilization plan, were implemented during a time when SB 3 was still in effect?

A. Yes.

Q. Would you agree that the rate stabilization plans that were approved in the mid-2000s were an additional transition for electric distribution utilities?

A. "Transition" in what sense?

Q. An additional transition to market, an additional period of transition other than that which is provided for or was provided for in SB 3.

A. I don't know that I could. I mean, rate stabilization plans were implemented and, I believe, judged by the Ohio Commission as complying with SB 3. If you think about it, the SB 3 provided, at the end of the market development period, that there would be, as I think you've indicated by the one AEP exhibit showing the markup of SB 221, that there would be market-based rates at the end of the market development period.

But rate stabilization plans, I believe,

1 my understanding is they're believed to be
2 market-based rates. So different structure --
3 different structure to get to an outcome that's still
4 deemed market based.
5 MS. MOORE: May I approach, your Honor?
6 EXAMINER TAUBER: Yes.
7 Q. Mr. Murray, do you recall testifying in
8 an earlier iteration of this proceeding in
9 October 2011?
10 A. I remember being here.
11 Q. And you testified regarding the
12 stipulation that was initially approved in this case?
13 A. Yes.
14 Q. I'm handing you a copy of your transcript
15 from that hearing. If you could confirm that. Could
16 you confirm that that is your transcript or looks
17 like your transcript?
18 A. It appears to be.
19 Q. If you can flip to the tabbed page.
20 MR. DARR: Can I have a reference?
21 Q. Which is page 1874. If you could read
22 the question beginning on line 6 -- sorry, the
23 question beginning on line 5 and your answer through
24 the end of line 15.
25 A. "Now, was the rate stabilization plans

1 that were implemented, were they a second transition,
2 in your view?
3 "Answer: The rate stabilization plans, I
4 think, are an outcome that resulted from a general
5 realization that the development of competitive
6 markets hadn't materialized in both scope and pace
7 that were expected at the time SB 3 was enacted. So
8 you can certainly characterize the rate stabilization
9 plans as providing a further transition."
10 Q. Thank you. And would you agree that the
11 SSO pricing standard in SB 3 was replaced with the
12 ESP and MRO options enacted under SB 221?
13 THE WITNESS: Could you reread that,
14 please?
15 (Record read.)
16 A. Yeah, the section -- yes.
17 Q. And would you agree that the net effect
18 of an MRO, if approved, is that it would provide an
19 additional transition period to market for the
20 company, the EDU that receives it?
21 A. No. You would have to be more specific
22 because the structure of an MRO differs depending on
23 whether or not a utility owned generation as of a
24 date certain.
25 Q. Okay. With respect to AEP Ohio

1 specifically, would you agree that an MRO, the net
2 effect of an MRO would be to provide an additional
3 transition period to market?
4 A. Well, as I previously discussed, for a
5 utility that owns generation assets as of a date
6 certain, the initial MRO statutorily mandated to have
7 a six-year blending period. So if you wanted to
8 characterize that six-year blending period as a
9 transition, fine by me.
10 Q. Well --
11 A. It's what's statutorily required.
12 Q. And under the statutory requirement,
13 rates would not be at full market rates until the end
14 of the six-year blending period under the default,
15 correct?
16 A. I don't know that I would agree with
17 that. For a utility that owns generating assets,
18 there's a minimum six-year blending period where the
19 results of a competitive bid process are blended with
20 the legacy ESP rates, but you have to keep in mind
21 that the legacy ESP rates only exist as a result of a
22 prior determination by the Commission that at the
23 time they were approved, they were better than
24 market-based rates.
25 Q. Is a blend of a CBP and an ESP, legacy

1 ESP rate, equivalent to a market rate?
2 A. Not necessarily. And, again, I think as
3 you've -- as AEP Exhibit 138 identifies, you can get
4 a mathematical outcome where an ESP price is
5 different than the one-year price. Maybe I
6 misunderstood your question.
7 Q. What is your understanding of why SB 221
8 was passed?
9 MR. DARR: Objection. Relevance.
10 MS. MOORE: Same response regarding
11 history of electric deregulation being placed
12 centrally in issue by IEU-Ohio in this case.
13 EXAMINER TAUBER: Could you provide me a
14 little more context, Ms. Moore, so I can see where
15 you're going?
16 MS. MOORE: I can just rephrase my
17 question to make it less broad, your Honor, if that
18 would --
19 EXAMINER TAUBER: Thank you.
20 Q. Mr. Murray, do you know whether, in
21 mid-2007 through mid-2008, market rates were higher
22 than SSO rates?
23 A. You'd have to give me a specific example.
24 We had obviously SSO rates that were different for
25 all of the individual -- all of the electric

1 utilities here in Ohio.
2 MS. MOORE: May I approach, your Honor?
3 EXAMINER TAUBER: You may.
4 Q. Mr. Murray, I'd like to hand you an
5 exhibit that I'd like to have marked AEP Exhibit 142.
6 EXAMINER TAUBER: Ms. Moore, could we get
7 a couple more copies?
8 MS. MOORE: Sure.
9 EXAMINER TAUBER: The exhibit is so
10 marked.
11 (EXHIBIT MARKED FOR IDENTIFICATION.)
12 Q. Mr. Murray, I've just handed you a
13 document that is entitled "State of the Market Report
14 for PJM" and dated 3/15/2012, correct?
15 A. Correct.
16 Q. Are you familiar with -- you're familiar
17 with PJM, correct?
18 A. Yes.
19 Q. Are you familiar with these publications?
20 A. I'm aware that the Independent Market
21 Monitor, which is monitoring the analytics, publishes
22 periodic state of the market reports.
23 Q. Okay. If you could turn with me to the
24 last page of the document which is page 18,
25 specifically Table 1-8. Do you see that table?

A. Yes.

Q. And that table is titled: "Total price per megawatt-hour by category: Calendar Years 2000 through 2011," correct?

A. Correct.

Q. Would you agree that this lists, on a dollars per megawatt-hour basis for the years 2000 through 2011, the price of various components of electric service including, at the bottom, a total?

A. It appears to be.

Q. Okay. And if you could look at that total line, what was the trend of prices during the period of Senate Bill 3?

A. I'm not clear what you mean when you refer to "the period of Senate Bill 3."

Q. 2003 to 2008. I'm sorry, 2000 to 2008.

A. This report at least shows that, and again, these, I think, are PJM region total prices; that the price from 2000 through 2008 increased over time.

Q. Would you agree that the market price, as demonstrated in this table, roughly doubled between 2000 and 2008, or more than doubled?

MR. DARR: Objection. Assumes a fact not demonstrated.

1 EXAMINER TAUBER: I'm sorry, I didn't
2 hear you.
3 MR. DARR: The question assumes a fact
4 that's not been demonstrated. The question lacks
5 foundation.
6 MS. MOORE: I can rephrase, your Honor.
7 EXAMINER TAUBER: Thank you.
8 Q. (By Ms. Moore) Mr. Murray, what was the
9 total market price for electricity in 2000, according
10 to this table?
11 MR. DARR: Objection again. There's no
12 demonstration here, no foundation to conclude that
13 these are whatever she's describing as "market
14 prices."
15 MS. MOORE: May I respond, your Honor?
16 EXAMINER TAUBER: Yes.
17 MS. MOORE: This is an independent
18 third-party publication. Mr. Murray stated that he
19 was familiar with this publication, and Mr. Murray
20 relies upon PJM and RPM throughout his testimony and,
21 therefore -- and testified earlier today that he
22 believes RPM to be the market price for capacity.
23 EXAMINER TAUBER: I'll allow the
24 question.
25 THE WITNESS: Could I have the question

reread?

EXAMINER TAUBER: Yes.

MS. MOORE: I'll rephrase the question, if you don't mind.

EXAMINER TAUBER: Sure.

Q. (By Ms. Moore) Mr. Murray, do you agree that the market price for electricity in 2008 was more than double the price in 2000 as demonstrated in Table 1-8?

MR. DARR: Same objection, your Honor.

EXAMINER TAUBER: The objection is noted and overruled.

A. Well, having not seen this document before appearing a few minutes ago, if you flip back two pages, this is in a section titled "Total Price of Wholesale Power," and there's a description of the components of total price and how the values in various tables in this section of the report were calculated.

So for -- again, for this wholesale price, yes, mathematically the price in 2008 is more than double the price in 2000.

Q. Do you recall what AEP Ohio's or Columbus Southern Power Company's and Ohio Power Company's SSO rates were in 2007 and 2008?

A. Not off the top of my head.

Q. Do you recall whether they were lower than $70 per megawatt-hour?

A. I don't recall. And, again, I don't think you can make the -- that comparison here. This is a price across the PJM region in total. And PJM operates in locational markets. By definition, the prices throughout the PJM region vary. And, historically, the prices for the portion of PJM that includes AEP are lower on average than the prices on the western side of PJM.

So if we were trying to, you know, discern what market prices were in the AEP region in the relevant period of time, it would require a more granular examination of data than what's in this section of the report.

MS. MOORE: Your Honor, I move to strike Mr. Murray's answer after "I don't recall" as being not responsive to my question.

MR. DARR: Your Honor, the point of the remainder of the response was to explain why he was concerned about, A, the question, and the scope of the questions, and he's explained the problem with the question, your Honor.

EXAMINER TAUBER: And the witness is able

to provide context, so the motion to strike is denied.

Q. Going back to my initial question, Mr. Murray. Do you know whether AEP Ohio's SSO rates in 2007 and 2008 were higher than $70 per megawatt-hour?

A. I don't recall.

Q. Okay. Thank you.

One last question about this document, specifically Table 1-8. Mr. Murray, now that you've had a chance to look at wholesale market rates from 2007 and 2008, does this refresh your recollection as about whether market rates were high during the time that SB 221 was passed relative to SSO rates?

A. Well, again, I don't know if these rates are higher or lower than specific SSO rates. I will agree with you that the general price trend, at both the wholesale and retail market for 2000 through 2008, was a trend of increasing prices, and have subsequently declined since then.

Q. At the time that SB 221 was passed, was AEP Ohio's SSO rate lower than market?

A. Again, I don't recall.

Q. Are you familiar with the ESP-MRO comparison that the Commission adopted in approving

1 AEP Ohio's 2008 ESP?
2 A. I recall there was one.
3 Q. Okay. Do you recall what the relative
4 ESP and MRO prices were in that proceeding?
5 A. No.
6 Q. Would you accept, subject to check, that
7 the Commission believed that the cost of the ESP was
8 673 million for CSP and 747 million for Ohio Power,
9 and the cost of the MRO was 1.3 billion for CSP and
10 1.6 billion for Ohio Power?
11 A. I'd prefer not to accept stuff "subject
12 to check."
13 MS. MOORE: May I approach, your Honor?
14 EXAMINER TAUBER: You may.
15 Q. Mr. Murray, I'm handing you the
16 Commission's March 18th, 2009, Opinion and Order in
17 AEP Ohio's 2008 ESP. If you could turn to page 72
18 which I flagged there for you and if you could read
19 the last sentence on the first paragraph of that page
20 aloud.
21 A. "Based upon our opinion and order and
22 using Staff witness Hess' methodology of the
23 quantification of the ESP versus MRO comparison, as
24 modified herein, we believe that the cost of the ESP
25 is 673 million for CSP and 747 million for OP, and

1 the cost of the MRO is 1.3 billion for CSP and
2 1.6 billion for OP."
3 Q. I'm going to ask you to do some mental
4 math. Would you agree that the ESP price on a
5 combined company basis -- or, cost of the ESP on a
6 combined company basis, rather, would be about
7 1.42 billion by those numbers?
8 A. Let me check.
9 Yes.
10 Q. And the cost of the MRO on a combined
11 company basis would be about 2.9 million?
12 A. Yes. I can do that one in my head.
13 Q. Okay. You agree that when you're
14 calculating the cost of an MRO, one would use a
15 blending of the market and legacy generation rates,
16 correct?
17 A. That's correct.
18 Q. And, therefore, only a portion of the
19 market rate is considered in the calculation of the
20 MRO cost, not the full market rate.
21 A. That's correct.
22 Q. Is it accurate that at the time of the
23 Commission's opinion and order in AEP Ohio's 2008 ESP
24 proceeding, that the total cost of the MRO was at
25 least two times the cost of the ESP?

A. Rough order of magnitude, I think that's how the math works out.

Q. So is that a "yes"?

A. Yes.

Q. And if you could turn with me to page 39 of your testimony, page 39 from about line 17 through page 40, line 8. I'll give you a second to get there.

A. Which lines, please?

Q. Page 39, line 17, through page 40, line 8, you discuss AEP Retail Energy, correct?

A. Yes.

Q. You agree that AEP Retail procures its capacity from the market, correct?

A. That's my understanding.

Q. And you agree that AEP Retail's prices are not regulated by the Commission, the prices it charges to its customers, correct?

A. That's correct.

Q. If you'll turn with me to page 51 of your testimony. On lines 22 and 23 of page 51, you characterize AEP Ohio's discounted capacity proposal as being "higher than any rate AEP-Ohio has ever been authorized to charge...." Do you see that?

A. Yes.

1 Q. Has AEP Ohio ever sought authorization
2 for a capacity charge before?
3 THE WITNESS: Could I have the question
4 reread, please?
5 (Record read.)
6 Q. And I should clarify. When I'm asking
7 this question, I mean from the PUCO. From this
8 Commission.
9 A. Is your question -- can you clarify
10 whether you're meaning a cost-based capacity charge?
11 Your question didn't specify one way or the other.
12 Q. I don't mean a cost-based capacity charge
13 or a market-based capacity charge. I mean any
14 capacity charge.
15 A. Well, there's the ongoing proceeding in
16 Case 10-2929 where the -- AEP is requesting the
17 Commission approve a -- call it "a cost-based
18 capacity charge."
19 AEP has also, on two separate occasions,
20 approached the Commission for interim relief in order
21 to implement something other than RPM-based pricing.
22 And I think most folks are aware, the most recent
23 entry, last Wednesday, granted interim relief
24 through, I think, July 2nd.
25 Q. So just to make sure I understand, your

1 understanding is that in the 10-2929 case,
2 AEP Ohio -- that's the only example you can think of
3 where AEP Ohio has sought authorization for a
4 capacity charge from the Ohio Commission?
5 A. That's the only one I recall.
6 Q. Thanks.
7 Mr. Murray, it's your position that the
8 cost of distribution riders, including the gridSMART
9 rider, the enhanced service reliability rider, and
10 the distribution investment rider, should be included
11 as costs of the company's ESP in the MRO test,
12 correct?
13 A. Yes.
14 Q. And you calculate these costs as
15 $455 million, I believe; is that correct?
16 A. Do you have a specific reference in my
17 testimony? That number sounds very high.
18 Q. I thought I did, but I seem to have
19 written down the wrong number. Give me just one
20 moment.
21 A. If it would help, I actually show the
22 cost associated with those items in my Exhibit
23 KMM-20.
24 Q. I'm sorry, Exhibit KMM?
25 A. 20.

Q. Mr. Murray, if you were to do the math and take each of the three riders that we've been talking about for the period by the number of kilowatt-hours, is that a calculation you're able to do on the stand?

A. Probably not. Which three riders are you talking about?

Q. The enhanced service reliability rider, the gridSMART rider, and the distribution investment rider.

A. In total, they're a little less than $3 a megawatt-hour.

Q. Do you have in your exhibits the connected load for the next three years for AEP Ohio?

A. Exhibit KMM-21 reproduces some numbers that are in an exhibit of, I believe it's William Allen.

Q. For the record, where specifically on KMM-21 are you referring?

A. Well, there's a table in the center of this that shows gigawatt-hours of load served and it's broken out by various assumptions relative to a capacity price. And at the bottom of the table there's a section that shows "Total Connected Load" broken out by customer class and totaled.

Q. So if you took these numbers and you summed them, you multiplied them by the $3 that you calculated for the distribution riders a moment ago, what would the -- what result would you get? It would be roughly 124 times 3, I believe.

A. I'm not very good at math on the fly.

Q. Take your time. I don't mean to rush you.

A. If we assume the connected load is right around 48,000 gigawatt-hours, that, times $3, totals up to just under $145 million each year.

Q. And then would you also have to add in for the five months in 2015 as well, right?

A. Yes.

Q. And that would be 19.7, I believe? 19,738 gigawatt-hours?

A. Yeah; but, again, if you just -- this particular table breaks out the period between June and December 14th, and then January through May 15th, but the values there of 28,434 and 19,738 are going to be very close to the 48,000 gigawatt-hours.

Q. Okay. And if I took the 145 million yearly number that you calculated a moment ago, and I multiplied that over the term of the three years, what would I get? Would it be 435 million?

A. Roughly.

Q. Now, you took a similar position with respect to the distribution investment rider in the ESP II stipulation portion of this proceeding as well, correct? You argued there that the cost of that rider should be included as cost of the ESP for purposes of the MRO test?

A. Yes.

Q. Now, are you aware of whether the Commission addressed that issue in its December 14th, 2011, Opinion and Order in this proceeding?

A. My recollection is they did.

Q. And do you recall what their treatment of it was?

A. Not the specific words, but I think the Commission concluded that the cost associated with investments that are planned to be recovered through the distribution investment rider, could be recovered through a base rate case application.

Q. Directing your attention to page 56 of your testimony -- are you there?

A. Yes.

Q. Now, from roughly lines 5 through 15, you discuss the Turning Point Solar Project, correct?

A. We've got different pages here. You had

me go to -- oh, I'm sorry, wrong page. Page 56.

Q. Yes.

A. Yes.

Q. Do you see a reference on line 7 to the "Turning Point Solar Project"?

A. Yes.

Q. And in footnote 16 on that page, you discuss the Commission's December 14th, 2011, Opinion and Order that we just talked about a moment ago, and you quote from it, correct?

A. Yes.

Q. And, specifically, the Commission stated, "As Staff witness Fortney testified, it is reasonable to include an estimated charge for the GRR, as AEP-Ohio has produced a revenue requirement for the Turning Point project, and AEP Ohio has claimed the Turning Point project as a benefit of the proposed ESP." Do you see that?

A. Yes.

Q. In your opinion, is the company claiming the Turning Point Solar Project as a benefit of this proposed modified ESP?

A. This is quoting the -- I don't know if it's quoting the testimony or a brief, but it's quoting an order that involved the prior phase of

1 this proceeding. I don't recall if in the modified
2 AEP -- modified electric security plan, AEP has
3 characterized Turning Point as a benefit or not.
4 Q. So your testimony today is that you don't
5 know whether or not Turning Point is being included
6 as a benefit of the proposed modified ESP?
7 A. Again, I don't know if AEP has
8 characterized it that way. The Commission
9 specifically issued an entry directing the company to
10 update its testimony to reflect the cost of the
11 Turning Point project.
12 Q. Do you agree, as you cited on footnote
13 16, that their -- in the Commission's view, AEP Ohio
14 was claiming Turning Point Solar as a benefit of the
15 ESP, the stipulation ESP?
16 A. I presume that what the Commission said
17 in its order was correct.
18 Q. Okay. Now if you could turn with me to
19 page 59 -- pages 59 through 61 of your testimony.
20 MR. DARR: I'm sorry, did you say "59"?
21 MS. MOORE: 59 through 61.
22 Q. Mr. Murray, you advocate using the
23 results of FirstEnergy Ohio's electric distribution
24 utilities' most recent auctions as the MRO benchmark
25 for the MRO test in this case here, correct,

Mr. Murray?

A. Yes.

Q. Is an auction clearing price a full SSO generation rate that is paid by a retail SSO customer?

A. It depends on the structure of the auction.

Q. Okay. Is FirstEnergy's auction clearing price the full SSO generation rate paid by its SSO customers?

A. It doesn't include the alternative energy resource component of pricing.

Q. Are there any other components that it doesn't include?

A. No. It's a firm full requirements product.

Q. Would you agree that SSO customers in FirstEnergy's service territory pay a price higher than the auction price that you include in your testimony?

A. Well, as I've discussed in my testimony, the FirstEnergy current SSO price is a result of the blending of the results of several auctions, and the previous auctions actually cleared at a higher price than the most recent auction price. So,

1 mathematically, it would follow that the retail SSO
2 price, by virtue of that, would be higher than the
3 strictly looking at the results of the January
4 auction.
5 MS. MOORE: May I approach, your Honor?
6 EXAMINER TAUBER: You may.
7 MS. MOORE: Thank you. I'd like to have
8 marked AEP Exhibit 143.
9 EXAMINER TAUBER: The exhibit is so
10 marked.
11 (EXHIBIT MARKED FOR IDENTIFICATION.)
12 Q. Mr. Murray, are you familiar with or
13 recognize this document?
14 A. I don't believe I've seen this particular
15 tariff before, it has an effective date of June 1,
16 2012, but I'm certainly familiar with prior versions
17 of the same rate schedule.
18 Q. And you recognize this as rider GEN for
19 the FirstEnergy -- or, I'm sorry, for The Cleveland
20 Electric Illuminating Company?
21 A. Yes.
22 Q. What is "rider GEN"?
23 A. Rider GEN collects, from customers taking
24 standard service offer generation service, revenues
25 that are paid to the winning bidders in the SSO

1 auction.
2 Q. And rider GEN is one of the riders that
3 SSO customers pay for generation SSO service,
4 correct?
5 A. Yes.
6 Q. And do you see where there are energy
7 charges on the second half of the page, bottom of the
8 page?
9 A. Yes.
10 Q. And do you agree that the lowest energy
11 charge that appears would be, well, winter for GT
12 customers?
13 A. Yes.
14 Q. I'm going to ask you to get your
15 calculator out again. Are you able to calculate that
16 energy charge which is 4.9868 cents on a megawatt --
17 dollars per megawatt-hour basis?
18 A. I don't even need a calculator. It's
19 $49.89 per megawatt.
20 Q. And then if you could look with me to the
21 capacity rate for that same customer class for
22 winter, would you agree that it's .0524 cents?
23 A. Yes.
24 Q. And what would that be on a dollars per
25 megawatt-hour basis?

A. Fifty-two cents per megawatt-hour.

Q. Okay. Now, if you added the -- it's -- if you could clarify for me, I think you just said it would be 52 cents -- never mind. My confusion.

Could you add together those two numbers, the $49.89 and the 52 cents that you just calculated?

A. A total of $50.41 cents.

Q. And there are also other generation-related riders that are included in the total price that SSO customers pay, correct, besides rider GEN?

A. Again, I think I mentioned the alternative energy resource rider is not part of the bid price, so that would be an additional Gen cost for Cleveland Electric Illuminating Company. I don't recall if there's other generation-related riders.

Q. Would there be an additional cost related to uncollectible accounts?

A. There may or may not be. Again, I don't recall.

Q. What about rider GCR?

A. I don't recall what rider GCR is.

Q. You agree that FE and AEP Ohio are in different zones within PJM, correct?

A. Yes.

Q. You agree that prices can and often do differ between those zones?

A. They can.

Q. Would you agree that they have differed in the past?

A. Yes.

Q. Did you account for the basis differential between the AEP zone and the ATSI zone for energy in doing your calculation?

A. Not explicitly.

Q. So no, you did not?

A. That's correct.

Q. If you could turn with me to page 64 of your testimony. Are you aware of the results of the PJM base residual auction for the 2015-2016 delivery year for AEP Ohio?

A. Yes.

Q. And what are they?

A. You're talking about for the zone in which AEP is a --

Q. Yes, for the AEP zone.

A. The zone in which AEP is considered part of, or PJM, I think, has referred to as "the balance of RTO zone," and I believe the clearing price was $136 a megawatt-day.

Q. Okay.

A. That's the price paid to capacity resources.

Q. And what would the RPM price in that zone be for that delivery year? The scaled-up -- you'll agree that the RPM price includes other things besides the clearing price, other charges in addition to the clearing price?

A. In the process of converting the auction clearing price to a rate that is charged to competitive suppliers, there's a scaling factor that I believe the company discussed with Duke Witness North.

So, yeah, I mean, there's a scaling factor that mathematically what's happening is you're clearing a level of capacity resources in excess of your peak demand to allow for the fact that you want to have capacity reserves.

So, mathematically, the megawatts that you want to collect the capacity revenues from, or load, is a smaller quantity of megawatts than the quantity of megawatts that actually clear in the auction.

Q. And mathematically what is the scaled-up RPM price in delivery year 2015?

A. It varies year to year. Order of magnitude, it's typically an increase between 15 and 20 percent.

Q. Do you know what it will be for the delivery year 2015-2016?

A. Offhand, no.

Q. But you said it's typically an increase between 15 and 20 percent.

A. Again, order of magnitude, that tends to be what the mathematical product of the scaling factor is. We could, for example, look at the current delivery year, June 1, the auction clearing price was around $16 a megawatt-day. The final prices being charged to load is around 20.

Q. If you could, could you calculate what -- taking the auction clearing price by, say, 20 percent, the 20 percent scaling factor, what that number would be?

A. If we scale $136 a megawatt-day by 20 percent, it is a value of $163.20.

Q. Thank you.

If you could turn with me to page 70 of your testimony, specifically lines 13 through 17, you calculate there the cost of the ESP, you do the MRO test for the June 2015 through May 2016 year,

1 correct?
2 A. That's correct.
3 Q. In this calculation you used the RPM
4 price for the 2014-2015 delivery year on the MRO side
5 of the test; is that correct?
6 A. That's correct, because at the time I
7 prepared my testimony, the auction clearing prices we
8 just discussed were not known.
9 Q. Sure. And as we've just discussed, the
10 auction clearing price for the 2015-2016 delivery
11 year is higher than that for the 2014-2015 year?
12 A. Yeah.
13 Q. How would the result of your analysis
14 done on page 70, lines 13 through 17, change based on
15 the 2015-2016 auction results?
16 A. Directionally, it would move the market
17 rate offer higher, all other things being equal.
18 Q. Thank you.
19 If you could turn to page 80 of your
20 testimony. On lines 16 through 20, you state that
21 your "analysis indicates that an MRO that blends bid
22 prices with legacy ESP rates rather than the Modified
23 ESP's accelerated blending MRO would be more
24 favorable to SSO customers than an MRO where the SSO
25 price is determined entirely through a CBP in the

1 June 2015 to May 2016 delivery year," correct?
2 A. Correct.
3 Q. And when you refer to the "Modified ESP's
4 accelerated blending MRO," what does that mean? Or
5 why do you call it "accelerated blending"?
6 A. It is because the -- what the company has
7 represented is, in the period June 2015 through
8 May 2016, the SSO price will be a hundred percent
9 based upon a competitive bid.
10 And if you look at the results under an
11 MRO, because that's in the fifth year, the statute
12 would require the -- under an MRO, for there to be a
13 50/50 blend of a legacy ESP rate with the competitive
14 bid results.
15 Q. And you state in your testimony that you
16 performed this analysis using Exhibit KMM-20,
17 correct? Which I believe is IEU Exhibit 128 in its
18 revised form.
19 A. Yes.
20 Q. Which numbers in Exhibit KMM-20 did you
21 compare to reach the conclusion you did on Exhibit
22 128?
23 A. Again, if you look at IEU Exhibit 128,
24 comparing an ESP price, as shown on line 12, of
25 $64.15 a megawatt-hour, to a price of $62.27 an hour,

a difference in a buck 89. And as we previously discussed, that difference would shrink somewhat by virtue of the higher capacity price in the most recent auction.

Q. And you revised KMM-20 when, last? When did you most recently revise Exhibit KMM-20?

A. Actually, I had previously revised it, I think, on May 18th when we -- I discovered an error preparing a discovery request.

In looking at the exhibit again this morning, what I realized is I had initially revised this exhibit to pick up the value of $63.08 that appears on line 12, and I had overlooked picking up that same value on line 20. So when I realized that this morning, I went back to our office and prepared a correction to reflect that.

Q. So your most recent revision was today?

A. Yes.

Q. Okay.

A. For that single change.

Q. But you didn't correct your capacity assumption for the June 2015 through May 2016 planning year when you made your most recent revision, correct?

A. No; there wouldn't have been time. I

1 discovered that second error literally at about
2 10:00 o'clock as I was sitting here, so I went back,
3 corrected it, tried to get an updated exhibit for
4 when I appeared today.
5 Q. Did you consider correcting your exhibit
6 to reflect the correct capacity input for the
7 June 2015-May 2016 planning year, prior to today?
8 A. No.
9 Q. Okay. Mr. Murray, I have another
10 question for you about Exhibit KMM-20, IEU Exhibit
11 128. If you'll look with me at line 18, there you
12 have the percentages for the blending for the MRO
13 test; is that correct?
14 A. Yes.
15 Q. Okay. The third and fourth columns,
16 June 2014 through December 2014 and January 2015
17 through May 2015; do you see those two?
18 A. Yes.
19 Q. Okay. You agree that each of those two
20 periods is a six-month period?
21 A. Yes.
22 Q. So would I be correct that for both of
23 those columns, the percentage on line 18 should be
24 70 percent?
25 A. You're correct. You've picked up an

1 error.
2 Q. Under your methodology.
3 A. Yeah.
4 Q. Okay. And then for the June 2015 through
5 May 2016 year, would that percentage also change on
6 line 18?
7 A. Yeah. It should actually be 60 percent.
8 Q. And just to make sure that we get our
9 changes reflected correctly on the record, IEU
10 Exhibit 128, line 18, the column "January 2015
11 through May 2015," that number should be "70 percent"
12 not "60 percent," correct?
13 A. That's correct.
14 Q. And on that same line, the "June 2015
15 through May 2016" year, should be "60 percent" under
16 your methodology, not "50 percent," correct?
17 A. That's correct.
18 Q. Assuming you agree that these changes are
19 correct, right?
20 A. Yeah, I've made an error.
21 Q. Would that, then, reduce the cost of the
22 ESP relative to the MRO in your MRO test?
23 A. It would actually make the MRO price
24 slightly higher.
25 Q. And so, then, under your MRO test, the

negative ESP benefit that you list on line 26 would be smaller, correct? It would be a smaller negative number or, possibly, a positive number depending on the results of the calculation if you did it out?

A. Yes.

Q. Okay. And, actually, if I could point your attention, as well, to line 23 of this document, it appears we have the same issue for the "January 2015 through May 2015" column and the "June 2015 through May 2016" column that we just discussed previously.

Would you agree that for line 23, from "January 2015 to May 2015," that number should actually be "30 percent" instead of "40 percent"?

A. Yes.

Q. And would you agree that for line 23, from "June 2015 through May 2016," that that number should be "40 percent" instead of "50 percent"?

A. Yes.

Q. Okay. Thank you.

Still on Exhibit KMM-20, in lines 1 and 2, you state that the source of the -- of your inputs is "Exhibit DMR-1," correct?

A. Correct.

Q. Can you explain why you took these

numbers from DMR -- Exhibit DMR-1 instead of Exhibit DMR-2?

A. I don't recall what DMR-2 is off the top of my head. DMR-1 was David Roush's overall projection of ESP rates.

MS. MOORE: May I approach, your Honor?

EXAMINER TAUBER: You may.

Q. Mr. Murray, I'm handing you Exhibits DMR-1 and DMR-2. Would you agree that Exhibit DMR-2 is entitled "Market Comparable Generation Rates"?

A. Yes.

Q. Would you like a moment to review the exhibits?

A. Yes, please.

Q. Okay. Let me know when you're ready to proceed.

A. Okay.

Q. And so my question was: Can you explain why you used the numbers from Exhibit DMR-1 rather than those from Exhibit DMR-2?

A. Again, I was using numbers from DMR-1 because they reflect the base -- breakdown of the base generation rate.

Q. Are the --

A. And you can see -- Exhibit DMR-1, page 1

of 1, June 2012 through May 2013, the total for AEP Ohio is listed as 2.25 cents which corresponds to $22.50 a megawatt-hour. I think our numbers are the same.

Q. Would you agree that Exhibit DMR-1 reflects billing as opposed to metered kilowatt-hours?

THE WITNESS: Could I have the question reread?

EXAMINER TAUBER: Yes.

(Record read.)

Q. I should have said "billed kilowatt-hours."

A. I'm not understanding your question.

Q. Sure. Does Exhibit DMR-1 reflect billed kilowatt-hours?

A. It's based upon a forecast.

Q. Of billed kilowatt-hours?

A. That would be my expectation.

Q. Okay. Now, if you could look at Exhibit DMR-2. Does Exhibit DMR-2 reflect metered kilowatt-hours?

A. It says in a footnote, "Computed using forecasted connected load."

Q. Would you agree that "connected load" --

"forecasted connected load" is a synonym for "metered"?

A. That would be a question for Mr. Roush.

Q. Do you know, in your opinion, is "connected load" analogous to "metered"?

A. Again, that would be a question for Mr. Roush.

Q. I'm asking you your opinion, sir.

A. I don't know what he meant.

Q. And if you'll look with me on Exhibit KMM-20, IEU Exhibit 128, lines 13 through 16, for lines 15 and 16, you state again that your source is "Exhibit DMR-1," correct?

A. Correct.

Q. And for line 13, you state that your source is "David M. Roush Work Papers," correct?

A. Yes.

Q. Which workpapers did you use?

A. The workpapers that support DMR-1.

Q. Okay.

A. They all roll up to -- basically, DMR-1 is the summation of all of Mr. Roush's workpapers.

Q. And what did you use for the numbers that you included for the "Environmental Rider" on line 14?

A. Well, if you look for the June 2012 to May 2013 period, I show a value of 16 cents per megawatt-hour.

If you look at Exhibit DMR-1, page 1 of 2, in the portion of the table listing "Current 2012 Rates Before Proposed ESP," it has a total company value of 16 cents.

Q. Are you aware that AEP Witness Thomas used rates and numbers from Exhibit DMR-2 in her MRO test?

A. I don't recall.

Q. And if you'll look with me, under the list of sources on IEU Exhibit 128, there's a second source (B) which is "Exhibit AEM-2." Do you see that?

A. Yes.

Q. What is that exhibit?

A. Well, I appear to have a typo in my exhibit because this should be a reference to (C) and I'm not seeing a (C) reference in a footnote above.

But these are actually workpapers of -- or, an exhibit from Andrea Moore in the initial phase of the case. And I believe she provided some of the values for the enhanced service reliability rider. Again, working from recollection here, so I'm not

positive on that.

Q. Okay.

MS. MOORE: I have no further questions, your Honor.

Thank you, Mr. Murray.

EXAMINER TAUBER: Mr. Margard?

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

EXAMINER TAUBER: Mr. Darr?

MR. DARR: A few minutes, and maybe we could take a recess for a few minutes as well since we've been doing this for a while.

EXAMINER TAUBER: Sure, let's do that. Let's go off the record.

(Recess taken.)

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

Mr. Darr.

MR. DARR: Thank you, your Honor.

Very briefly.

- - -

REDIRECT EXAMINATION

By Mr. Darr:

Q. Mr. Murray, could you turn your attention to AEP Exhibit 138.

A. I'm there.

Q. This exhibit purports to show an expected bid price or market price of $50 with a proposed ESP price of $60. Under those circumstances, and absent any restrictions on shopping, would you expect customers to continue with the SSO rate when that market condition existed?

A. No; I would expect them to switch to a competitive retail supplier.

Q. And as a result, would you expect that the above-market revenue listed to be at $2-1/2 billion would be realized?

A. No.

Q. You were also asked a couple questions about IEU's position with regard to RPM in the 2007-2008 period. Do you recall those questions?

A. Yes.

Q. And you indicated at the time, I believe, that IEU raised some concerns about the nature of RPM, correct?

A. That's correct.

Q. And would you detail your recollection as to what those concerns were in 2007-2008?

A. Sure. The structure of the reliability pricing model is such that the clearing price in the

1 auctions is set by the highest bid or the last bid
2 that clears. It ends up being the price that's paid
3 to all capacity resources in the auction. So
4 mathematically, other than the last marginal bid, all
5 of the over-capacity resources that clear in an
6 auction are being paid a price significantly in
7 excess of their bid price.
8 That produces a concept called -- known
9 as "inframarginal revenues." And, particularly, if
10 you're an older, lower-cost resource, and as has been
11 the case with RPM prices that have fluctuated up and
12 down, in some years where prices are high you can
13 see -- obtain a substantial amount of inframarginal
14 revenues to offset your fixed costs or avoided costs
15 or going-forward costs as a result of the structure
16 of the auction.
17 A number of consumer interests, including
18 IEU, have, from the get-go, expressed a concern that
19 the structure of RPM is such that it can provide a
20 very lucrative stream of revenues for older legacy
21 assets, but doesn't necessarily target revenues --
22 or, the historical perspective was there was a
23 possibility that perhaps the auction structure didn't
24 -- wouldn't target enough revenues to incent new
25 capacity to come into the market.

1 So historically at a point in time when
2 RPM was being considered, IEU advocated for a -- to
3 the extent an auction structure was going to be used,
4 one that featured a pay-as-bid type of mechanism. So
5 that's the historical context.
6 I think, in fairness, there were a lot of
7 assumptions made by various parties about how RPM
8 would or would not work that have turned out or been
9 mitigated somewhat in terms of what's happened since
10 1997.
11 Q. Do you also recall some questions about
12 the transition period that might be afforded by going
13 to an MRO as opposed to some other mechanism for
14 setting the market price?
15 A. Yes.
16 Q. And under the MRO, would you expect a
17 company to recover any transition costs associated
18 with stranded or other assets that could not be
19 recovered through a market price?
20 A. No.
21 Q. And why is that?
22 A. The statutory deadline for recovery of
23 transition cost is long passed, so even though you
24 might want to term an MRO "a transitional-type
25 pricing mechanism," the use of the word

1 "transitional" in that context has no suggestion at
2 all that there's any opportunity to recover
3 transition costs.
4 Q. Finally with regard to KMM-20, you
5 identify that there are some computational problems
6 with it?
7 A. That's correct.
8 Q. And have you been able, over the break,
9 to identify the corrections, if any, to those
10 computational errors?
11 A. Yes. In fact I can actually give you the
12 correct numbers.
13 Q. Now, this a number assuming RPM based on
14 the 2014-2015 level? Or did you update for the
15 2015-2016 auction?
16 A. I did not update to the 2015-2016
17 auction.
18 Q. Okay. Could you identify the
19 computational changes that you --
20 A. Sure.
21 Q. -- that should be --
22 A. The column labeled "January 2015 through
23 May 2015," because I used an incorrect blending
24 percentage of 60 and 40 percent as opposed to 70 and
25 30 percent, the correct changes actually produce a

number that's identical to the values that I show for June 2014 through December '14.

So for January 2015 through May 2015, on the line 19, the correct value is "$42.12"; on line 24, the correct value is "$17.48." The total value on 25 is "$59.60." And if you do the -- subtract that number from the ESP price of $72.94, it produces a difference of "negative $13.34."

Updating the calculations for the June 2015 through May 2016 period, the value of "$60.17" shown on line 17 should be multiplied by a factor of "60 percent," that produces a value of "$36.10."

Conversely, the value of "$64.36" shown on line 22 should be multiplied by a factor of "40 percent." When you do that, it produces a value of "$25.74."

The total of what the corrected values on line 19 and 24 would show a value of "$61.84" on line 25, and the calculated ESP benefit on line 26 is a "minus $2.31."

Q. So, directionally, a little bit less negative effect, but still a negative effect.

A. I don't believe it would change any of the overall conclusions in my testimony.

MR. DARR: Thank you.

That's all I have, your Honor.

EXAMINER TAUBER: Thank you.

Ms. Kaleps-Clark?

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

EXAMINER TAUBER: Ms. Hand?

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

EXAMINER TAUBER: Mr. Yurick?

MR. YURICK: No questions.

EXAMINER TAUBER: Mr. Siwo?

MR. SIWO: No questions, your Honor.

EXAMINER TAUBER: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Mr. Sineneng?

MR. SINENENG: No questions, your Honor.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER TAUBER: Mr. Maskovyak?

MR. MASKOVYAK: No. Thank you, your Honor.

EXAMINER TAUBER: Mr. Etter?

MR. ETTER: No questions, your Honor.

EXAMINER TAUBER: Ms. Moore?

1 MS. MOORE: Just a few, your Honor.
2 - - -
3 RECROSS-EXAMINATION
4 By Ms. Moore:
5 Q. Mr. Murray, with respect to AEP Exhibit
6 138, is it correct that your testimony, in response
7 to Mr. Darr's questions a moment ago, was that
8 customers will shop, given the rates for the market
9 price in the ESP set forth in that exhibit?
10 A. In the absence of artificial shopping
11 barriers, that would be my expectation.
12 Q. And I believe your testimony earlier was
13 that all customers would shop; is that correct?
14 A. My expectation is that given the price
15 differentials that are shown on this exhibit, there
16 would be a high percentage of shopping customers.
17 Not all customers can shop. PIPP customers, for
18 example, are statutorily not allowed to shop.
19 Q. Would you agree that the market price in
20 ESP rates in AEP Exhibit 138 are average rates?
21 THE WITNESS: Could I have that question
22 reread?
23 (Record read.)
24 Q. If I can help clarify my question. Those
25 rates wouldn't be applicable to every single

customer, would they; some customers might have higher, some customers might have lower?

A. Presumably they're average rates. That appears to be what the exhibit has done.

Q. And that would be the same case with your exhibits as well, your exhibits to your testimony would set forth average rates for --

A. That's correct.

Q. And you would agree that, again, some customers -- the price some customers pay under an ESP would be higher than $60, some would be lower than $60; the market price for some customers would be higher or lower than $50.

A. That's correct.

Q. So you agree that not a hundred percent of customers would shop even -- of the customers that could shop, not all of those customers would.

A. Not necessarily. This is a hypothetical exhibit, so we don't really have actual rates as a point of comparison.

I agree with your suggestion that if there -- if this example -- if the numbers underlying this example are such that there are particular customers whose ESP rate is higher than a market price, logically they wouldn't shop. But,

1 conversely, that would suggest there's an even
2 greater incentive for some other population of
3 customers to shop.
4 Q. You would agree with me, sir, that AEP
5 Exhibit 138 demonstrates that ESP rates are permitted
6 to be above market.
7 A. I think I've previously testified that
8 that's a mathematical possibility.
9 Q. Okay. Now, if you could look with me at
10 IEU Exhibit 128. A few moments ago, in response to
11 some questions from Mr. Darr, you corrected your
12 calculations for some of the numbers in the June 2015
13 through May 2016 column, correct?
14 A. That's correct.
15 Q. And what was your ESP benefit that you
16 calculated for June 2015 through May 2016?
17 A. After the corrections?
18 Q. Yes.
19 A. I came up with a negative $2.31 per
20 megawatt-hour.
21 Q. Could you walk me through how you came up
22 with that number?
23 A. Well, again, the -- I'll recheck the
24 calculations here.
25 The value of $60.17 that's shown on line

17 should be multiplied by a factor of 60 percent. That produces a value of $36.10. The value of $64.36 that's on line 22 should be multiplied by a factor of 40 percent; that produces a value of $25.74. When you add 25.74 to $36.10, you get a value of $61.84. Taking the value of 64.15 that's on line 12, subtracting $61.84 produces a difference of $2.31.

If it would be helpful, I would be more than willing to make these corrections and produce a clean exhibit.

MR. DARR: We can have that for you in the morning, your Honor.

EXAMINER TAUBER: We can do that.

Q. I just have one clarification question about one of the calculations. Mr. Murray, you stated a moment ago, I believe, that the number for the -- the corrected number for line 23, for line 24 -- sorry, for line 24 in the "June 2015 through May 2016" column, should be "25.74"; is that correct?

A. Yeah. That's $64.36 times a factor of 40 percent.

Q. Could you doublecheck that calculation?

A. My calculator gives me 25.74.

Q. Are you starting with 63.08?

A. No, I'm starting with 64.36. The 63.08

1 does not include an alternative energy requirement,
2 so I had to add that to it to get to a comparable
3 number. Thank you.
4 MS. MOORE: I have no further questions.
5 Thank you very much.
6 EXAMINER TAUBER: Mr. Margard?
7 MR. MARGARD: No. Thank you, your Honor.
8 EXAMINER TAUBER: Thank you, Mr. Murray.
9 You may be excused.
10 Mr. Darr?
11 MR. DARR: I move the admission of IEU
12 Exhibits 125 through 128. And, again, if you would
13 like, we will substitute a clean version of 128 in
14 the morning.
15 EXAMINER TAUBER: Yeah, we can do that.
16 Are there any objections to 125 through
17 128?
18 MS. MOORE: No, your Honor.
19 One thing, your Honor, with respect to
20 IEU Exhibit 128, because IEU plans to submit a
21 corrected copy tomorrow, we would suggest that
22 perhaps we --
23 EXAMINER TAUBER: We can defer on that.
24 MS. MOORE: Okay. So we'll admit 125,
25 126, and 127, and then we'll review the supplemented

128 tomorrow.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER TAUBER: Ms. Moore.

MS. MOORE: AEP Ohio moves for admission of Exhibits 141, 142, and 143.

EXAMINER TAUBER: Are there any objections to 141, 142, and 143?

MR. DARR: No objections, your Honor.

MR. ETTER: Yeah, we would object to 141 and 142. 141, as we mentioned earlier, although Ms. Moore represented that it's an authentic copy, there's nothing on here that shows that it's an authentic copy of SB 221. And, in fact, there's the disclaimer, just under the heading on that website, that says "The online versions of legislation provided on this website are NOT official."

And so, therefore, there's no indication anywhere within the face of the document itself that this is actually the enrolled version of SB 221 and, therefore, should not be admitted as an exhibit.

And as far as 142, I know that the questions that were asked about it were fairly general, but to put it into the record of this proceeding, the data on Table 1-8, we have no way of verifying its accuracy or its authenticity and no way

of cross-examining whoever put this together, and so it's hearsay and should not be allowed in as an exhibit.

EXAMINER TAUBER: Ms. Moore, do you have a response?

MS. MOORE: Thank you, your Honor.

With respect to AEP Exhibit 141, while we believe that this is a public record and is self-authenticating, we would alternatively request that the attorney examiners take administrative notice of Revised Code 4928.14 as it was enacted in Senate Bill 3 and as it is enacted today at a minimum.

MR. DARR: Your Honor, I think the solution to this problem might simply be to take administrative notice of the enrolled act, which would be available in most law libraries and would address, I believe, the issue that's been raised here. It might be a simpler solution than chasing this particular exhibit.

MR. ETTER: And to have the -- this exhibit withdrawn and just take administrative notice of it.

EXAMINER TAUBER: We'll take administrative notice of the enrolled act of 221.

1 MS. MOORE: That's fine with us, your
2 Honor.
3 EXAMINER TAUBER: We'll do that, then.
4 MS. MOORE: Finally, with respect to AEP
5 Exhibit 142, your Honor, the witness testified that
6 he's familiar with these reports, his own counsel
7 didn't object to the questioning about the report,
8 it's an independent publication, and I believe that
9 the table would satisfy a number of exceptions to the
10 hearsay rule, possibly including the market reports
11 exception and possibly the voluminous records
12 exception.
13 MR. DARR: While I didn't join in the
14 objection, I do recall that I objected rather
15 strenuously as to the relevance of most of the
16 information. So with that caveat, I am not objecting
17 to the admission of that particular exhibit.
18 MS. MOORE: And I would also note that
19 this document is analogous to PUCO documents that
20 have been admitted throughout the course of this
21 proceeding, your Honor.
22 EXAMINER TAUBER: At this time we'll
23 admit AEP Exhibits 142 and 143, and we'll take
24 administrative notice of Senate Bill 221, and we
25 won't admit AEP Ohio Exhibit 141 into the record as

we took administrative notice of it.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER TAUBER: We'll reconvene tomorrow morning at 8:30.

MR. NOURSE: Your Honor, can we discuss scheduling? It can be off the record.

EXAMINER TAUBER: Yeah, let's do that off the record. Let's go off the record.

(Discussion off the record.)

EXAMINER SEE: We're adjourned until 8:30 a.m.

(Thereupon, the hearing was adjourned at 5:04 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, June 4, 2012, and carefully compared with my original stenographic notes.

_____
Maria DiPaolo Jones, Registered Diplomate Reporter and CRR and Notary Public in and for the State of Ohio.

My commission expires June 19, 2016.

(MDJ-4023)

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Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 06/04/12 - Volume XII electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.