

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

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

- - -

PROCEEDINGS

before Ms. Greta See and Mr. Jonathan Tauber,  
Attorney Examiners, and Commissioner Andre Porter, at  
the Public Utilities Commission of Ohio, 180 East  
Broad Street, Room 11-A, Columbus, Ohio, called at  
8:30 a.m. on Thursday, June 7, 2012.

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VOLUME XV

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1 Thursday Morning Session,  
2 June 7, 2012.

3 - - -

4 EXAMINER TAUBER: Let's go on the record.  
5 Let's begin with appearances, brief appearances this  
6 morning. We'll start with the company and work our  
7 way around the room.

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

12 MR. ETTER: Good morning, your Honor. On  
13 behalf of Ohio's residential utility customers, the  
14 Office of the Ohio Consumers' Counsel, Maureen Grady,  
15 Joe Serio, and Terry Etter.

16 MR. SMALZ: Yes, your Honor. On behalf  
17 of the Appalachian Peace and Justice Network, Michael  
18 R. Smalz and Joseph V. Maskovyak.

19 MR. LANG: On behalf of FirstEnergy  
20 Solutions, Mark Hayden and Jim Lang.

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

23 MS. KINGERY: Good morning, your Honors.  
24 On behalf of Duke Energy Retail Sales and Duke Energy  
25 Commercial Asset Management, Amy Spiller, Jeanne

1 Kingery, and Philip Sineneng.

2 MR. KURTZ: For the Ohio Energy Group,  
3 Michael Kurtz.

4 MS. McALISTER: Good morning, your  
5 Honors. On behalf of the OMA Energy Group, Lisa  
6 McAlister and J. Thomas Siwo.

7 MR. CAMPBELL: On behalf of IGS, Mark  
8 Whitt, Andrew Campbell, and Melissa Thompson.

9 MR. BARNOWSKI: Good morning, your  
10 Honors. On behalf of Ormet Primary Aluminum  
11 Corporation, Dan Barnowski, Emma Hand, and Tom  
12 Millar.

13 MS. KALEPS-CLARK: Good morning, your  
14 Honors. On behalf of the Exelon/Constellation  
15 companies, Lija Kaleps-Clark, M. Howard Petricoff,  
16 and David Stahl.

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

20 MR. BEELER: Steven Beeler, Werner R.  
21 Margard on behalf of the Commission staff.

22 MR. HAQUE: Good morning, your Honors.  
23 On behalf of the Association of Independent Colleges  
24 and Universities of Ohio, the City of Grove City, the  
25 City of Hilliard, the City of Upper Arlington, Asim

1     Haque, Chris Miller, and Greg Dunn.

2                   EXAMINER TAUBER: Looks like that's  
3     everybody.

4                   Mr. Haque.

5                   MR. HAQUE: May I approach, your Honors?

6                   EXAMINER TAUBER: You may.

7                   MR. HAQUE: Your Honors, what I've  
8     presented to you is the direct testimony filed in  
9     this case on behalf of Mayor Drew Hastings of the  
10    City of Hillsboro. I'd like to request that it be  
11    marked as Hillsboro Exhibit 101 and be entered into  
12    the record.

13                  EXAMINER TAUBER: It shall be so marked.

14                  (EXHIBIT MARKED FOR IDENTIFICATION.)

15                  EXAMINER TAUBER: Mr. Haque, no parties  
16    have indicated an intention to cross-examine  
17    Mr. Hastings?

18                  MR. HAQUE: That is correct, your Honor.

19                  EXAMINER TAUBER: Are there any parties  
20    here who have an intent to cross-examine  
21    Mr. Hastings?

22                  (No response.)

23                  EXAMINER TAUBER: Hearing none, Hillsboro  
24    Exhibit 101 shall be admitted into the record.

25                  MR. HAQUE: Thank you, your Honor.

1 (EXHIBIT ADMITTED INTO EVIDENCE.)

2 EXAMINER TAUBER: Mr. Etter.

3 MR. ETTER: Yes, good morning, your  
4 Honor. OCC calls Jonathan Wallach.

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

7 (Witness sworn.)

8 EXAMINER TAUBER: Thank you.

9 - - -

10 JONATHAN WALLACH

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

13 DIRECT EXAMINATION

14 By Mr. Etter:

15 Q. Good morning, Mr. Wallach.

16 A. Good morning, sir.

17 Q. Would you state your name and address,  
18 please.

19 A. Yes. My name is Jonathan Wallach. I'm  
20 Vice President of Resource Insight. My business  
21 address is 5 Water Street, Arlington, Massachusetts.

22 MR. ETTER: Your Honors, we would like to  
23 have marked as OCC Exhibit 117 the direct testimony  
24 of Jonathan Wallach that was dated May 4th, 2012.

25 EXAMINER TAUBER: It shall be so marked.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 Q. Mr. Wallach, do you have a copy of OCC  
3 Exhibit 117 before you?

4 A. I do.

5 Q. And was this testimony prepared by you or  
6 on your direction?

7 A. It was.

8 Q. And do you have any changes to make to  
9 your testimony this morning?

10 A. Yes, I do; just one.

11 Q. Where is that?

12 A. On page 1, lines 22 to 23, toward the end  
13 of line 22, the abbreviation "No." should be "Nos."  
14 And then on line 23, after "EL-SSO," insert the words  
15 "and 10-338-EL-SSO."

16 Q. And that case number is already listed in  
17 your list of cases in which you've testified; is that  
18 correct?

19 A. Yes, it is; in Exhibit JFW-1.

20 Q. And if I asked you these same questions  
21 today, would your answers be the same with that one  
22 correction?

23 A. Yes, they would.

24 MR. ETTER: Your Honors, we'd move for  
25 the admission of OCC Exhibit 117, and we tender the

1 witness for cross-examination.

2 EXAMINER TAUBER: Thank you.

3 Ms. Kaleps-Clark?

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

6 EXAMINER TAUBER: Mr. Barnowski?

7 MR. BARNOWSKI: No questions, your Honor.

8 EXAMINER TAUBER: Mr. Campbell?

9 MR. CAMPBELL: No questions.

10 EXAMINER TAUBER: Ms. McAlister?

11 MS. McALISTER: No questions, your Honor.

12 EXAMINER TAUBER: Mr. Kurtz?

13 MR. KURTZ: No questions, your Honor.

14 EXAMINER TAUBER: Ms. Kingery?

15 MS. KINGERY: No questions, your Honor.

16 EXAMINER TAUBER: Mr. Darr?

17 MR. DARR: No questions. Thank you.

18 EXAMINER TAUBER: Mr. Lang?

19 MR. LANG: I do have a few questions.

20 Thank you.

21 - - -

22 CROSS-EXAMINATION

23 By Mr. Lang:

24 Q. Good morning, Mr. Wallach.

25 A. Good morning, sir.

1           Q.    Now, is it your understanding that  
2    AEP Ohio's base generation rates are not cost based?

3           A.    My understanding is that base generation  
4    rates are, as proposed in this proceeding, is outside  
5    the scope of my testimony in terms of a review of  
6    what constitutes those base generation rates.

7           Q.    In terms of what you've reviewed of  
8    AEP Ohio's rates, do you have any basis for breaking  
9    out those base generation rates into cost components  
10   in any meaningful way?

11          A.    No.   That was not part of my testimony.

12          Q.    Now, in your testimony you are opposed to  
13   the proposal for an energy-only auction for  
14   100 percent of the SSO load for the first five months  
15   of 2015.

16          A.    That's correct.

17          Q.    And, is it fair to say, that's because  
18   the combination of energy pricing at market and  
19   capacity pricing at \$255 per megawatt-day would  
20   increase the SSO rates, in your opinion, by about  
21   \$5 per megawatt-hour?

22          A.    I believe it's inappropriate to go  
23   halfway, as the company's proposing, for two reasons:  
24   One is that it inappropriately increases costs to  
25   ratepayers above what they would pay according to the

1 company if they continued to pay at the base  
2 generation rate plus actual fuel costs through the  
3 FAC, through the fuel adjustment charge;

4 It's also inappropriate because,  
5 according to the company's numbers, the combination  
6 of energy pricing at market plus capacity at \$255 a  
7 megawatt-day would be -- would be above what  
8 prevailing market prices are expected to be and, in  
9 fact, would be higher than -- more above those market  
10 prices than prices that would prevail if the company  
11 continued to charge the base generation rate plus the  
12 FAC.

13 Q. So when you say you oppose going halfway,  
14 does that mean you support an auction where both  
15 energy and capacity are priced at market?

16 A. That would certainly be a reasonable  
17 approach.

18 Q. Now, you relied on Ms. Thomas's workpaper  
19 called "CBP 255" for the \$67 per megawatt-hour rate  
20 that's shown on page 11 of your testimony, it's  
21 actually page 11, line 11; is that right?

22 A. I modified the worksheet CBP-255 of the  
23 spreadsheet filed with the long name, "LJT-WP  
24 2012-03-30 Exhibits 2-4 and WPS.xls."

25 Q. And when you say you "modified" that,

1     what do you mean?

2             A.     For the purposes of determining what the  
3     rate would be under full market pricing.

4             Q.     All right. Well, in terms of what she  
5     shows as the rate at -- with a capacity price of  
6     \$255 per megawatt-day, is that the part of her  
7     workpaper that you relied upon for the  
8     \$67 megawatt-hour?

9             A.     For the \$67, yes.

10            Q.     Did you also review her workpaper called  
11     "CBP 146," which calculates capacity prices at  
12     \$146 per megawatt-day?

13            A.     I did.

14            Q.     And, in that workpaper, she showed that  
15     at \$146 per megawatt-day, the auction would result in  
16     a price of approximately \$60 per megawatt-hour; is  
17     that your understanding?

18            A.     Subject to check. I don't recall.

19            Q.     Well, and you ran a similar calculation  
20     in your testimony shown, I think, on Exhibit JFW-2.  
21     And can you tell me what JFW-2 shows, what capacity  
22     price is involved?

23            A.     That is using the prevailing RPM price --  
24     well, the zonal capacity price for the 2014-2015  
25     delivery year as provided by the company actually

1 from their testimony in 10-2929.

2 Q. So that's using an RPM-delivered price of  
3 approximately \$154 per megawatt-day; is that right?

4 A. That's correct.

5 Q. And the result is that the auction  
6 results would beat the SSO prices if capacity is  
7 priced at RPM during this -- the five months of 2015;  
8 is that correct?

9 A. That's correct, yes.

10 Q. Now, witness -- OEG Witness Kollen in  
11 this case has testified in support of using a  
12 three-year average of the RPM prices for the next  
13 three years of approximately \$69 per megawatt-day.  
14 Are you familiar with his testimony?

15 A. No, I am not.

16 Q. Well, if the energy-only auction is  
17 supported by a capacity price at approximately  
18 \$69 per megawatt-day, do you agree that the auction  
19 would be significantly below SSO pricing?

20 MR. NOURSE: Your Honor, I object. This  
21 is friendly cross. It's not something that this  
22 witness is familiar with. Mr. Lang is trying to get  
23 him to say things that help Mr. Lang's position and  
24 it doesn't relate to this witness's testimony.

25 EXAMINER TAUBER: Mr. Lang?

1 MR. LANG: And, your Honor, this witness  
2 testifies in opposition to an auction for the five  
3 months of 2015, and I'm simply testing the bases of  
4 the assumptions upon which he's providing that  
5 testimony.

6 EXAMINER TAUBER: I'll allow the  
7 question.

8 THE WITNESS: Could you repeat the  
9 question, please?

10 Q. (By Mr. Lang) Sure. If the energy-only  
11 auction is supported by capacity priced at  
12 approximately \$69 per megawatt-day, then the auction  
13 would be significantly below the SSO price based on  
14 the analysis you've done; isn't that right?

15 A. It would certainly be below the price  
16 that I estimate using the RPM clearing price.

17 Q. Now, so would you agree that the failing  
18 of the proposed auction for 2015 is that energy is  
19 priced at market, but capacity is priced well above  
20 market?

21 MR. NOURSE: Objection.

22 EXAMINER TAUBER: Mr. Nourse?

23 MR. NOURSE: This is friendly cross, your  
24 Honor.

25 EXAMINER TAUBER: Mr. Lang?

1 MR. LANG: Same basis, your Honor.

2 EXAMINER TAUBER: I'll allow it.

3 A. Yes.

4 Q. Now, you also oppose the 5 percent  
5 auction. I think that starts around page 13 of your  
6 testimony; is that correct?

7 A. That's correct.

8 Q. And with regard to energy being priced at  
9 market and capacity being priced above market, it's  
10 essentially the same criticism you have of the  
11 5 percent auction; is that correct?

12 A. My criticism of the 5 percent is  
13 essentially the same as for the hundred percent  
14 auction, yes.

15 Q. Now, at the top of page 14, you state  
16 that capacity for the 5 percent auction would also be  
17 priced at \$255 per megawatt-day, correct?

18 A. That's my understanding of the company's  
19 proposal.

20 Q. Did you review AEP Witness Nelson's  
21 testimony from the second day of this hearing?

22 A. I've only reviewed his prefiled  
23 testimony.

24 Q. Are you aware or do you know that  
25 Mr. Nelson testified in this hearing that AEP Ohio

1 has not determined whether capacity for the 5 percent  
2 auction will be priced at \$255 per megawatt-day?

3 A. I'm not aware of that, no.

4 Q. If capacity and energy were priced at  
5 market during 2013 and 2014, then I believe your  
6 estimate is that the auction price would be  
7 approximately \$52 per megawatt-hour; is that correct?

8 A. That is correct.

9 Q. So, with the 5 percent auction, would you  
10 support an auction where both the energy and capacity  
11 are priced at market?

12 A. Again, that would be reasonable.

13 Q. Now, on page 16 of your testimony, at  
14 lines 8 and 9, you refer to the "Fixed Resource  
15 Requirement capacity." Here are you referencing the  
16 capacity that is priced under the reliability pricing  
17 model?

18 A. Are you referring to -- I'm sorry, would  
19 you give me a line number, please?

20 Q. Sure. It's page 16, lines 8 and 9,  
21 starting at the end of line 8, you refer to "Fixed  
22 Resource Requirement capacity."

23 A. That's correct. And fixed resource  
24 requirement is a provision of the RPM market.

25 Q. So --

1           A.     But the cost I'm citing there is the  
2     company's estimate of their full embedded cost.

3           Q.     And your understanding is that the fixed  
4     resource requirement and how capacity is priced under  
5     the fixed resource requirement, that is a component  
6     of the reliability pricing model; is that right?

7           A.     Well, there are provisions, my  
8     understanding, under the RPM market for the process  
9     for pricing capacity under the fixed resource  
10    requirement mechanism. There are not actually prices  
11    set in the rules for the fixed resource requirement  
12    mechanism in the tariff.

13          Q.     Now, you reference both Dr. Pearce's and  
14    Dr. Lesser's calculations of full embedded costs in  
15    your testimony. Would you agree that capacity is not  
16    priced under the reliability pricing model using full  
17    embedded costs?

18          A.     Under the non-FRR provisions? That's  
19    correct. It's set at the market clearing price for  
20    the RPM auctions.

21          Q.     So is it your understanding that under  
22    the FRR alternative of the reliability pricing model  
23    that the capacity would be priced at full embedded  
24    costs? Is that your understanding?

25          A.     Not necessarily. As I said, my

1 understanding is that a price is not set under the  
2 RPM rules for FRR capacity; there are provisions for  
3 how to set that price.

4 Q. Okay. So at page 17 of your testimony,  
5 line 17, at the start of that line, you refer to "the  
6 actual cost of capacity." With regard to that actual  
7 cost of capacity, for purposes of the reliability  
8 pricing model, do you know whether the reliability  
9 pricing model addresses what the actual costs should  
10 be in terms of embedded costs or avoided costs? Do  
11 you have any opinion on that?

12 A. Again, the reliability pricing model, the  
13 RPM market sets the price for the base residual  
14 auction at the price at which demand clears with  
15 supply. It has no bearing on embedded cost or actual  
16 cost. It's a function of price offers from suppliers  
17 and the relationship between those price offers and  
18 the demand curve established by PJM for the purposes  
19 of those base residual auctions.

20 Q. And for purposes of the FRR alternative  
21 of the reliability pricing model, is your answer the  
22 same or different?

23 A. Once again, there are provisions -- my  
24 understanding, there are provisions under the FRR  
25 mechanism for how capacity is to be priced, but it's

1 not necessarily the case that capacity would be  
2 priced under the FRR mechanism at the RPM clearing  
3 price.

4 MR. LANG: Sounds like it's to be  
5 determined.

6 Thank you, Mr. Wallach. That's all the  
7 questions I have.

8 Thank you, your Honor.

9 EXAMINER TAUBER: Thank you.

10 Mr. Smalz?

11 MR. SMALZ: No questions, your Honor.

12 EXAMINER TAUBER: Mr. Nourse?

13 MR. NOURSE: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Nourse:

17 Q. Good morning, Mr. Wallach.

18 A. Good morning, sir.

19 Q. We haven't met before. I'm Steve Nourse  
20 with Ohio Power Company.

21 Looking at your testimony on page 3,  
22 where you begin to summarize your findings and  
23 conclusions, and it appears that the one concern you  
24 have is that you'd like to see -- I'm reading the  
25 sentence on page 8 -- or, lines 18 through 20, and

1 you're making a statement here that the proposals for  
2 transitioning to full competitive pricing by  
3 mid-2015, "may impede any intended transition and be  
4 harmful to SSO customers." Do you see that?

5 A. That's my testimony, yes.

6 Q. Is that saying that you'd like to see the  
7 auction-based SSO happen sooner? Is that what you  
8 mean by that?

9 A. Not necessarily.

10 Q. What do you mean?

11 A. It could either happen sooner at market  
12 prices for both energy and capacity, it could happen  
13 sooner for a portion of the load at market prices for  
14 energy and capacity, it -- you could continue to  
15 charge rate base generation rates plus actual fuel  
16 costs.

17 Q. Well, those are possibilities, but I'm  
18 trying to determine your opinion or your  
19 recommendation relative to this statement. So you  
20 don't -- it could happen any of those ways, you don't  
21 have a preference?

22 A. Well, if this Commission has a preference  
23 for accelerating the transition to competition, then  
24 my recommendation would be to do either full or  
25 partial auctions at market pricing for both energy

1 and capacity.

2 Q. Okay. And would you agree that, to your  
3 understanding of the Ohio regulatory requirements, is  
4 it necessary or required that an SSO offering be  
5 based on an auction?

6 A. My understanding is that it is not  
7 necessary, no.

8 Q. Okay. And are you familiar with the  
9 market rate offer brand of SSO?

10 A. I am generally aware of that provision,  
11 yes.

12 Q. Okay. And what's your understanding of  
13 an MRO?

14 A. That it would be based on an auction.

15 Q. It would be based on an auction year one  
16 a hundred percent?

17 A. I believe that there are phase-in  
18 percentages associated with an MRO which, I don't  
19 believe they're mandatory, my understanding is that a  
20 utility could choose to go to a hundred percent  
21 immediately, but that there are, as I said, there are  
22 percentages in the code that would allow a blending  
23 of an auction-based price and existing SSO rates.

24 Q. Okay. So you believe there are  
25 percentages for blending but they can be disregarded?

1           A.     That's my understanding.

2           Q.     So you're not aware of any minimum  
3     period, under an MRO option, for getting to a hundred  
4     percent auction-based SSO?

5           A.     Again, my understanding is that the  
6     percentages increase by 10 percent per year for five  
7     years and then my recollection is that the code is  
8     silent on what happens after you hit the 50-percent  
9     mark.

10          Q.     Okay.  So are you saying that five years  
11     is the minimum period to get to a hundred percent?  
12     Is that your understanding?

13          A.     Again, that's my understanding of what's  
14     laid out in the code, yes.

15          Q.     So your statement, a few moments ago,  
16     that you thought a utility could get to a hundred  
17     percent in year one, that's not correct, is it?

18          A.     I don't believe that that was what I  
19     said.

20          Q.     Okay.

21          A.     I said that my understanding is that  
22     those percentages are not mandatory caps.

23          Q.     Okay.

24          A.     I may be mistaken in that impression.

25          Q.     That's fine.  The transcript will speak

1 for itself.

2 Can you turn to page 4. Now, in lines 4  
3 through 7, I think you're referencing the statement  
4 here that you made a few moments ago during your  
5 earlier cross-examination that you believe that the  
6 auction that's an energy-only auction, as proposed by  
7 the company, both with the 5 percent part of the  
8 proposal next year as well as the hundred percent in  
9 2015, you believe both of those proposals would  
10 create higher prices for customers than SSO rates  
11 and, therefore, should be rejected; is that accurate?

12 A. Well, the discussion on lines 4 through  
13 7, if that's what you're referencing, my statement  
14 there is that based on the company's projections for  
15 prices, that an energy-only auction would result in  
16 rates that are even more above fully competitive  
17 prices than would be the case if you -- if the  
18 companies simply charged SSO at the base generation  
19 rate plus the fuel adjustment charge.

20 Q. Okay. Perhaps I stated it slightly  
21 different. What you said was it's your testimony and  
22 recommendation that the company's proposed auctions  
23 be rejected because they would produce prices that  
24 would be greater than SSO prices; do I have that  
25 correct?

1           A.    And, again, my testimony is that it's --  
2   the company's proposal should be rejected for two  
3   reasons: One is that it inappropriately increases --  
4   it would increase SSO prices above those that would  
5   prevail if the company continued to charge at the  
6   base generation rate plus fuel adjustment; but also  
7   because it would drive SSO prices even more above  
8   competitive market prices than if the company  
9   continued to charge the base generation rate plus the  
10  fuel adjustment charge.

11           Q.   Well --

12           A.   And if --

13           Q.   Go ahead.

14           A.   Let me finish. If the goal of the  
15  transition to competition is to get you to  
16  competitive market prices, it's unreasonable to have  
17  auctions which drive you further from competitive  
18  market prices during the transition.

19           Q.   Okay. Well, you've mentioned your two  
20  reasons now a couple times, and each time you do  
21  that, to me it sounds like you're saying the same  
22  thing with both reasons. Can you help me distinguish  
23  the two reasons that you listed a couple times now?  
24  It sounds to me like you're saying the same thing  
25  twice.

1           A.    I don't believe I am.

2           Q.    Help me out.

3           A.    Well, I think my words speak for  
4 themselves, but I think it's unreasonable to increase  
5 rates to SSO customers and it's especially  
6 unreasonable if it serves -- if it doesn't serve any  
7 other purpose, for example, to accelerate the  
8 transition to competition.

9                   Or, to put it another way, if market  
10 prices were significantly higher, then going to full  
11 market pricing might result in SSO rates that are  
12 above what would prevail if the company were to  
13 charge at the base generation rate plus the FAC.

14          Q.    Okay.

15          A.    In fact -- let me finish, please.

16          Q.    Please do.

17          A.    In that case, even though by going to  
18 full market pricing you might be increasing rates to  
19 SSO customers, this Commission might deem that to be  
20 appropriate for the purposes of advancing another  
21 policy issue which is to transition to competition.

22                   In this case the company's proposal would  
23 not only increase rates -- SSO rates charged to  
24 customers, but it would be, well, it would impede the  
25 policy goal of trying to transition to competitive

1 market prices.

2 Q. Okay. So are you saying that competition  
3 is only good if it lowers prices?

4 A. Well, it's the hope that competition  
5 would lower prices, but it's not necessarily the case  
6 that competition is only good if it lowers prices.

7 Q. But you only think it should be pursued  
8 if it lowers prices, correct?

9 A. That's not my testimony, sir.

10 Q. Okay. I thought your objection was that  
11 this proposal creates prices that are higher than the  
12 SSO prices.

13 A. No. My testimony, again, is that I have  
14 two objections, that it increases costs to SSO  
15 customers, and it does so in a way that pushes you  
16 further away from competitive market prices. So it  
17 serves neither goal.

18 Q. Now, a couple times you've mentioned  
19 "base generation plus FAC." That's the same thing as  
20 SSO rates, right?

21 A. It's shorthand for SSO rates.

22 Q. Well, it may be longhand for SSO rates to  
23 say "base generation rates plus fuel adjustment" --

24 A. Well, there are other items in the SSO  
25 rate.

1           Q.    But they're equivalent, in your  
2 terminology, correct?

3           A.    Yes.

4           Q.    Okay.  Now, are you familiar,  
5 historically, with market rates in Ohio for  
6 electricity?

7           A.    By which you mean?

8           Q.    You don't know what I mean?

9           A.    Are you saying am I familiar with what  
10 market -- PJM market pricing has been in Ohio or --

11          Q.    What is your definition of "market  
12 rates"?

13          A.    A market rate would be a rate based on  
14 wholesale market prices.

15          Q.    For capacity and energy?

16          A.    Correct.

17          Q.    Okay.  And are you familiar with market  
18 rates in Ohio historically?

19          A.    I'd say generally no.

20          Q.    Okay.  Are you familiar with AEP Ohio's  
21 SSO rates historically?

22          A.    No.

23          Q.    So it's fair to say you don't know the  
24 relationship between market rates and SSO rates of  
25 AEP Ohio historically, correct?

1           A.    My understanding is limited to the  
2   company's description of that relationship in their  
3   prefiled testimony.

4           Q.    Okay. Well, that's a good description;  
5   you can rely on that.

6                    Okay. Now, on page 4, the middle  
7   paragraph, you make a reference to the company's  
8   energy sales discount or offset of \$3 per  
9   megawatt-hour. Do you see that?

10          A.    I do.

11          Q.    And what's your understanding of the  
12   context of that number?

13          A.    The energy sales margin?

14          Q.    Yeah; where did you get the \$3 and what's  
15   the context of what you're referring to here?

16          A.    My understanding is that Mr. Allen uses  
17   that \$3 a megawatt-hour figure for the purposes of  
18   his calculations in the retail stability rider, and  
19   it's my understanding that it's the company's  
20   proposal that the calculation of the retail stability  
21   rider were to include this energy sales margin of  
22   \$3 a megawatt-hour.

23          Q.    Okay. And did you calculate -- did you  
24   perform any kind of alternative calculation to the  
25   \$3 credit?

1           A.    No, I did not.

2           Q.    Now, at the bottom of page 4, carrying  
3 over to page 5, you're referring to the alternative  
4 proposal for a shopping credit.

5           A.    That's correct.

6           Q.    Okay. And is it your understanding that  
7 that shopping credit was the company's primary  
8 proposal or an alternative?

9           A.    I believe I described it as an  
10 alternative.

11          Q.    Now, have you done an analysis of the  
12 alternative proposal for the \$10 per megawatt-hour  
13 shop credit?

14          A.    By "analysis" you mean?

15          Q.    Well, you talk about it in your  
16 testimony, right?

17          A.    I do.

18          Q.    And you reject it as well; is that  
19 correct?

20          A.    I don't reject the conceptual proposal to  
21 offer a shopping credit.

22          Q.    But you reject the alternative as stated  
23 in the company's application and testimony?

24          A.    What I stated was that the company has  
25 not offered any basis for their proposal of a \$10 per

1 megawatt-hour credit but, again, I don't reject the  
2 conceptual proposal to offer a shopping credit under  
3 the appropriate conditions.

4 Q. Okay. But -- so your objection is that  
5 you perceive it as a lack of basis. What is the  
6 basis that you're looking for?

7 A. As I state in my testimony, the shopping  
8 credit should be based on an estimate or a forecast  
9 of the expected margin from off-system sales of  
10 energy freed up by migration of customers from SSO to  
11 competitive supply.

12 Q. Okay. So, regardless of the calculation  
13 or a basis for the \$10 credit, do you believe it  
14 would benefit customers?

15 A. I believe it would be a reasonable  
16 measure for the purposes of promoting the transition  
17 to competition.

18 Q. Now, on page 5, further down the page,  
19 the paragraph that begins on line 21, I believe  
20 you're saying here that you reject the company's  
21 two-tiered capacity charge proposal and suggest that  
22 the rate, down on line 23, quote, should be priced at  
23 the capacity cost approved in Case No. 10-2929, end  
24 quote. Do you see that?

25 A. I do.

1           Q.    Okay.  So it's your understanding and  
2   expectation that the 10-2929 case will produce a  
3   capacity charge that's priced at the capacity cost,  
4   correct?

5           A.    It's my expectation that the outcome of  
6   10-2929 will be a decision as to how the company  
7   should price capacity for the purposes of sales to  
8   competitive retail suppliers.  And it's my testimony  
9   that whatever that outcome is, whatever that decision  
10  is, that's how capacity sales should be priced.

11          Q.    Okay.  But you state in line 23 that it  
12  "should be priced at the capacity cost"; do you not?

13          A.    I do.

14          Q.    Did OCC file testimony in that case?

15          A.    I'm not aware one way or the other.

16          Q.    You don't know?

17                Turn to page 10.  On pages 10 and 11,  
18  you're talking about this comparison of the energy  
19  auction and market prices, and so you start out, at  
20  the bottom of page 10, line 23, you refer to the  
21  "Company's price projections."  Did you rely on the  
22  company's price projections?

23          A.    As I stated in my testimony, I relied on  
24  Ms. Thomas's price projections for all components,  
25  other than capacity.

4100

1 Q. So, do you agree with those projections?

2 A. For the purposes of this analysis, I  
3 adopted them, yes.

4 Q. You did evaluate them and decided to  
5 agree and use them, correct?

6 A. I did my best to evaluate them. They  
7 were -- the workpapers were not complete, but as far  
8 as I could tell, the approach that Ms. Thomas used  
9 was reasonable.

10 Q. Okay. And that applies to both of the  
11 auctions that you viewed and discuss in your  
12 testimony, both of the energy auction proposals,  
13 rather?

14 A. Again, I used Ms. Thomas's projections  
15 for both of those analyses, yes.

16 Q. Yeah. Okay.

17 MR. MARGARD: Mr. Nourse, if I can just  
18 ask you to move the mic a little closer.

19 MR. NOURSE: Can't hear? Okay.

20 MR. MARGARD: Thank you.

21 THE WITNESS: I'm sorry, you can't hear  
22 me or him?

23 MR. MARGARD: I can't hear him. Thank  
24 you.

25 Q. (By Mr. Nourse) If you'd turn to page 16,

1 and you had a brief discussion about the FRR a little  
2 bit earlier, so you are familiar with the FRR option,  
3 correct?

4 A. I am.

5 Q. Is it fair to say that an FRR entity  
6 bypasses the RPM market pricing?

7 A. That's correct.

8 Q. And is it fair to say an FRR entity  
9 dedicates its capacity resources to match up with the  
10 load that's covered in its FRR plan?

11 A. That's reasonable, yes.

12 Q. Okay. And it's also fair to say that an  
13 FRR entity does not participate in the base residual  
14 auctions under the RPM market?

15 A. That's correct.

16 Q. And would you agree that -- well, you  
17 agree that AEP Ohio is an FRR entity through the  
18 middle of 2015, correct?

19 A. That's my understanding.

20 Q. And so the BRA clearing prices that are  
21 in effect or in place through the middle of '15 did  
22 not include or reflect the inclusion of AEP Ohio load  
23 or AEP Ohio generation resources, correct?

24 A. That's correct.

25 Q. Okay. Do you agree that prices -- the

1 clearing prices from the BRA for those periods would  
2 have been different had the -- had either the load or  
3 the resources been included in the auction?

4 A. Well, I don't have any basis for saying  
5 one way or the other.

6 Q. Okay. Now, is it your understanding of  
7 the FRR option that the FRR entity has an opportunity  
8 to establish a cost-based rate for capacity?

9 A. My understanding is that the provision --  
10 that the mechanism makes provision for a state-based  
11 process for setting that price.

12 Q. So you're referring to the state  
13 compensation mechanism?

14 A. Yes.

15 Q. Okay. And is it your understanding that  
16 there's also an opportunity to establish a cost-based  
17 rate before the FERC under the FRR?

18 A. I can't recall, frankly.

19 Q. Okay. Now, on page 17, lines 15 through  
20 17, you make the statement that the reasonableness of  
21 the two-tiered capacity price cannot be determined at  
22 this time, correct?

23 A. That's correct.

24 Q. Okay. And your reason in that sentence  
25 states that it can't be determined because it's

1 uncertain whether the two-tiered prices represent a  
2 discount to the actual cost of capacity. Do you see  
3 that?

4 A. I do.

5 Q. Again, so what you're saying here is that  
6 you anticipate that the 10-2929 docket will determine  
7 the company's cost or actual cost of capacity and  
8 that that will, as a benchmark, tell us whether these  
9 two-tiered prices proposed in the ESP case are  
10 reasonable. Is that what you're saying?

11 A. Actually, what I'm saying is that the  
12 reasonable approach would be for the company to set  
13 their capacity price at what is decided in 10-2929,  
14 that is the case for setting the capacity price and  
15 so it is reasonable to set the price at the outcome  
16 of that case.

17 Q. Okay. So under that reasoning, since  
18 you're withholding judgment on the reasonableness of  
19 the two-tiered price as proposed in this case, does  
20 that mean you'll -- in the end you'll find that,  
21 perhaps, one of the tiers might be reasonable, but  
22 you're not going to agree with both tiers?

23 A. No. My recommendation is that there not  
24 be tiers and there not be discounts; that the price  
25 be set at what the price is set at in 10-2929 and

1     that that be the price for all load that migrates to  
2     competitive supply.

3             Q.     So you don't need to reserve judgment.  
4     You don't like the two-tiered capacity proposal,  
5     period, correct?

6             A.     My recommendation is to set it at the  
7     price in 10-2929 and then, under the appropriate  
8     conditions, to go with the alternative of providing a  
9     shopping credit.

10            Q.     So when you said the reasonableness  
11     cannot be determined at this time, that's not really  
12     true, is it?

13            A.     No; it is true. It cannot be determined  
14     at this time, but my testimony is that it doesn't  
15     actually need to be determined at any time. You  
16     simply need to set it at what the price that is  
17     determined in 10-2929.

18            Q.     Now, if you turn to page 18, you're  
19     talking about the "Shopping Credit Alternative" in  
20     Section V. Do you see that?

21            A.     I'm there.

22            Q.     And, at the bottom of the page, you state  
23     that the -- you're talking about the operating  
24     margins, I believe, and you say that "such margins  
25     should be credited either to competitive retail

1 service providers through the price charged for  
2 capacity or to switching customers via a shopping  
3 credit, but not both."

4 A. That's correct.

5 Q. Okay. So I'm trying to understand the  
6 statement. You're saying that the capacity charge  
7 should be set correctly and then, as an alternative  
8 to that, the shopping customers could get a credit,  
9 but you shouldn't mix and match those two things.

10 A. My testimony is that the decision about  
11 whether to offer a shopping credit hinges on how the  
12 capacity price is set in 10-2929. If that capacity  
13 price is set based on -- is set reflecting the margin  
14 from off-system sales, then it is not appropriate to  
15 also offer a shopping credit based on that margin of  
16 off-system sales in this case.

17 Q. Okay. So a couple things there. You're  
18 saying that any shopping credit should be based  
19 strictly and solely on the off-system sales margin  
20 from freed-up sales because of shopping.

21 A. That's correct.

22 Q. And then with respect to your hinging  
23 statement, is it your understanding that the  
24 company's proposed -- the alternative proposal of a  
25 \$10 shopping credit had any conditions about how

1 capacity is priced?

2 A. Well, the condition is that it's an  
3 alternative to the offer of discounted capacity, so,  
4 in that sense, it's hinged on how the capacity price  
5 is set.

6 MR. NOURSE: Correct.

7 Okay. Thank you, Mr. Wallach.

8 That's all I have, your Honor.

9 EXAMINER TAUBER: Thank you.

10 Mr. Margard?

11 MR. MARGARD: I have none. Thank you,  
12 your Honor.

13 EXAMINER TAUBER: Mr. Etter, redirect?

14 MR. ETTER: If we can take a couple  
15 minutes, your Honor?

16 EXAMINER TAUBER: Sure. We can take a  
17 five-minute recess at this time.

18 Let's go off the record.

19 (Recess taken.)

20 EXAMINER TAUBER: Let's go back on the  
21 record.

22 MR. ETTER: No redirect, your Honor.

23 EXAMINER TAUBER: Thank you.

24 Mr. Wallach, you may be excused.

25 THE WITNESS: Thank you.

1 EXAMINER TAUBER: Thank you.

2 MR. ETTER: We move for the admission of  
3 OCC Exhibit 117.

4 EXAMINER TAUBER: Are there any  
5 objections to OCC Exhibit 117?

6 MR. NOURSE: No.

7 EXAMINER TAUBER: Hearing none, it shall  
8 be admitted into the record.

9 (EXHIBIT ADMITTED INTO EVIDENCE.)

10 EXAMINER TAUBER: Mr. Margard.

11 MR. MARGARD: Thank you, your Honor.  
12 Staff would respectfully call Mr. Gregory Scheck to  
13 the stand, please.

14 EXAMINER TAUBER: Mr. Scheck, please  
15 raise your right hand.

16 (Witness sworn.)

17 EXAMINER TAUBER: Thank you.

18 MR. MARGARD: Your Honor, I respectfully  
19 request that the prefiled testimony of Gregory  
20 Scheck, filed in this proceeding on May 9th of 2012,  
21 be marked for purposes of identification as Staff  
22 Exhibit 103.

23 EXAMINER TAUBER: It shall be so marked.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

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GREGORY C. SCHECK

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

DIRECT EXAMINATION

By Mr. Margard:

Q. Mr. Scheck, please state your name.

A. My name is Gregory C. Scheck.

MR. MARGARD: We might want to check the  
microphone, your Honor.

MR. SERIO: Counsel, I think  
Mr. Cunningham's testimony was marked as Staff 103.

MR. ETTER: And Strom's is 104.

MR. MARGARD: We're on 105.

MR. BEELER: Yes.

EXAMINER TAUBER: We'll mark the Exhibit  
as 105.

MR. MARGARD: Thank you, your Honor.

And thank you, Mr. Serio and Mr. Etter.

MR. ETTER: Always glad to help.

Q. (By Mr. Margard) Is the microphone  
working now, Mr. Scheck?

A. Let's see. Yes, it is.

Q. Thank you.

Now, will you please state your name.

A. My name is Gregory C. Scheck.

1           Q.    And by whom are you employed and in what  
2 capacity?

3           A.    I am employed by the Public Utilities  
4 Commission of Ohio as a Utilities Specialist.

5           Q.    Mr. Scheck, do you have before you what  
6 has now been properly marked as Staff Exhibit No.  
7 105?

8           A.    Yes.

9           Q.    And is this testimony that you prepared  
10 or was prepared at your direction?

11          A.    It was prepared by me.

12          Q.    Mr. Scheck, do you have any corrections,  
13 changes, additions, or modifications to this  
14 testimony as it was filed?

15          A.    Yes, I do.

16          Q.    Will you please detail those for us.

17          A.    Yes. I don't have page numbers on mine,  
18 but it's under question 10 in the answer. And the  
19 change relates to, in the first sentence of my  
20 answer, it says, "Not if there are other issues, such  
21 as security and interoperability, that need to be in  
22 compliance with the NISTER guidelines...."

23               And the capitalization of "NISTER" should  
24 actually, where the capital letter "E" is, it should  
25 be a capital letter "I." And that stands for the

1 "National Institute for Standards and Technology  
2 Interagency Report."

3 EXAMINER TAUBER: Could you repeat that,  
4 Mr. Scheck?

5 THE WITNESS: The NISTIR, N-I-S-T-I-R,  
6 stands for the "National Institute for Standards and  
7 Technology Interagency Report."

8 EXAMINER TAUBER: Thank you.

9 MR. MARGARD: May I approach, your Honor?

10 EXAMINER TAUBER: You may.

11 Q. (By Mr. Margard) Mr. Scheck, I'm going to  
12 give you a numbered copy of your testimony just for  
13 you to have in reference for the convenience of the  
14 other parties.

15 Do you have any other changes or  
16 corrections?

17 A. No, I do not.

18 Q. Mr. Scheck, if I were to ask you the same  
19 questions that appear in Staff Exhibit 105, would  
20 your responses be the same?

21 A. Yes, they would.

22 Q. And, to the best of your knowledge and  
23 belief, are they correct, accurate, and reasonable?

24 A. Yes.

25 MR. MARGARD: Your Honor, I would

4111

1 respectfully move for the admission of Staff Exhibit  
2 105, subject to cross-examination, and I tender  
3 Mr. Scheck for that purpose.

4 EXAMINER TAUBER: Thank you.

5 Ms. Hand?

6 - - -

7 CROSS-EXAMINATION

8 By Ms. Hand:

9 Q. Good morning, Mr. Scheck.

10 A. Good morning.

11 Q. I'd like to talk to you a little bit  
12 about your IRP-D testimony. Starting at page 7,  
13 lines 2 through 4, of your testimony.

14 A. Yes.

15 Q. You state that the value that you have  
16 calculated for the -- and are recommending for the  
17 IRP-D discount is based on AEP's proposal, but using  
18 a lower FRR generation value based on what Staff  
19 Witness Medine has recommended; is that correct?

20 A. Yes, it is.

21 Q. Okay. Now, is it your position that the  
22 IRP-D credit should be set relative to the value  
23 that's ultimately established for AEP's FRR  
24 generation?

25 A. Yes, I do.

1           Q.    So then, in that case, if, hypothetically  
2 speaking, the Commission were to adopt AEP's  
3 recommendation for the value of the FRR generation,  
4 your position would be that the IRP-D value that AEP  
5 set correspondingly should be adopted?

6           A.    Yes. With the one caveat that I believe  
7 staff's overall position for capacity would be what  
8 the RPM base residual auction produces for the next  
9 several years, otherwise, it will be whatever the  
10 Commission deems as the appropriate value for the  
11 capacity, cost of capacity for AEP.

12          Q.    Okay. And so then if the Commission were  
13 to choose a capacity price that were in between AEP's  
14 recommendation and staff's recommendation, an IRP-D  
15 credit should similarly be calculated out based on  
16 that price and come out somewhere in between AEP's  
17 recommendation and staff's recommendation?

18          A.    Yes.

19          Q.    Now, isn't it true that AEP Ohio's  
20 proposed interruptible tariff service is a form of  
21 demand response?

22          A.    Yes, you could characterize it as that.

23          Q.    Okay. And isn't it true that AEP Ohio  
24 uses interruptible load as part of its FRR plan to  
25 meet its capacity needs?

1           A.    I believe that's the case, but I'm not a  
2 hundred percent sure.

3           Q.    And isn't AEP able to do this because the  
4 customer taking interruptible service is allowing AEP  
5 to interrupt its electric service at AEP's  
6 discretion?

7           A.    At AEP's discretion in the context of  
8 what the tariff does permit.

9           Q.    So, then, the customer that is taking  
10 interruptible service is offering a service,  
11 effectively offering a service to AEP that benefits  
12 the whole system; aren't they?

13          A.    Well, I could answer "yes," but I would  
14 qualify that in the sense that if it is determined  
15 that market prices are the better price to determine  
16 the value of the interruptible -- interruptions of  
17 customers, then the value would be less than what AEP  
18 would set the price at. So it depends on what the  
19 value of the interruption is worth to other  
20 customers, and that's usually determined in the  
21 marketplace.

22          Q.    Okay. But you would not expect customers  
23 to willingly offer interruptible -- offer to take  
24 interruptible service at the same price that they  
25 would take firm service, would you?

1           A.    No.

2           Q.    Okay.  So you would agree that whatever  
3 value is ultimately determined to be correct for  
4 interruptible -- the interruptible discount, that the  
5 discount that's being provided to interruptible load  
6 customers is effectively a form of payment to those  
7 customers for the service they are providing.

8           A.    That is correct.  Again, it may be some  
9 administratively-determined number by the Commission  
10 rather than the market.

11          Q.    Correct.

12                And so to the extent that it is a  
13 service -- a payment for a service that's being  
14 provided by that customer, it's not a subsidy to that  
15 customer to receive a discount for IRP-D; is that  
16 correct?

17          A.    That, again, depends on what the price  
18 is; if it's higher than market, then I believe there  
19 is a subsidy that exists.

20                MS. HAND:  Okay.  Thank you, your Honor.

21                EXAMINER TAUBER:  Thank you.

22                Mr. Campbell?

23                MR. CAMPBELL:  No questions, your Honor.

24                EXAMINER TAUBER:  Ms. McAlister?

25                MS. McALISTER:  A few, your Honor.

1                                   - - -

2                                   CROSS-EXAMINATION

3       By Ms. McAlister:

4                   Q.     Good morning, Mr. Scheck.

5                   A.     Good morning.

6                   Q.     Trying to wipe out a few questions here.

7                             Is it your understanding that only the  
8       interruptible or, I'm sorry, the only interruptible  
9       service that would be permitted above the 75-megawatt  
10      for CSP and 450-megawatt threshold for OP would be  
11      for new customers or for expanded load?

12                  A.     Yes, that is correct.

13                  Q.     So it's not that all reasonable  
14      arrangements would fall outside of that threshold,  
15      right? Only for new and expanded load.

16                  A.     Yeah, only for those arrangements that  
17      are brought in for new or expanded load.

18                  Q.     And is it your belief that a reasonable  
19      arrangement must be filed as a joint application with  
20      the company?

21                  A.     I don't know of any others that have been  
22      done that way, other than if a component of energy  
23      efficiency was filed, that could come in independent  
24      of that. A customer could actually file for  
25      something not jointly with the company as part of

1 energy efficiency.

2 Q. So there could be a unilateral  
3 application by a customer for interruptible service  
4 through a reasonable arrangement process?

5 A. Yes, that could occur. That normally  
6 would be done jointly, but I don't think EE has to be  
7 done jointly.

8 Q. Are you aware of how long it takes to get  
9 a reasonable arrangement approved by the Commission  
10 from start to finish?

11 A. I don't think there's any prescribed  
12 timeline.

13 Q. Are you familiar with how long it's taken  
14 in the past?

15 A. My understanding is that a number of  
16 reasonable arrangements have taken quite a long time,  
17 and there is a lot of analysis that goes into a  
18 reasonable arrangement. These are, in many ways,  
19 subsidies to customers that all of the customers must  
20 pay.

21 So a lot of careful evaluation has to be  
22 done in terms of jobs created; what would be the  
23 return on investment and that sort of thing needs to  
24 go into that. A lot of times that information is not  
25 forthcoming.

1           Q.    And it's your recommendation that after  
2   the ESP, any standard service offer should be a  
3   flat-priced firm service that's competitively  
4   sourced; is that right?

5           A.    In general, yes. Unless the Commission  
6   deemed otherwise. I am aware of, in some  
7   jurisdictions, at least one, that very large  
8   customers have default realtime pricing that's  
9   hourly. So if the Commission deemed that that was a  
10  better pricing mechanism for default service for  
11  large customers, that would be fine. Otherwise, in  
12  general, it would be a flat service of some sort.

13          Q.    Okay. And any interruptible service  
14  would be obtained through a curtailment service  
15  provider or a CRES provider through the competitive  
16  market.

17          A.    Correct.

18          Q.    And that's because that any benefits in  
19  the form of discounts for the interruptible service  
20  to those customers who are receiving the  
21  interruptible service would not be directly  
22  subsidized by other customers.

23          A.    That is correct.

24          Q.    But isn't it true that those customers,  
25  standard service offer customers, would also not get

1 the benefits associated with a total lower price  
2 resulting from lower peak if interruptible service is  
3 included?

4 A. I didn't follow your question. Could you  
5 repeat that again?

6 Q. Sure. Isn't it true that if there's no  
7 interruptible service included in a standard service  
8 offer, that standard service offer customers wouldn't  
9 get the benefits associated with a total lower price  
10 resulting from including interruptible service?

11 A. No, I don't agree with that.

12 Q. Why not?

13 A. Because the standard service offer may  
14 offer discounts that are much higher than what market  
15 value is, and all of the customers would actually  
16 subsidize that price through their SSO service or  
17 some form of a rider to pay for that discount.

18 So, in effect, you may actually cost more  
19 jobs by charging higher prices to the smaller  
20 commercial customers that are creating more of the  
21 new jobs than, say, larger customers that are not  
22 creating the amount of jobs that the smaller  
23 commercial ventures are doing.

24 Q. But that's not necessarily the case in  
25 all circumstances, is it?

1           A.    I think if you charge higher prices to  
2 anybody, it impacts their business.

3           Q.    I would certainly agree with that.

4                   Are you aware that the company included a  
5 proposal to increase the IRP-D credit to \$8.21 per  
6 kilowatt month if the RSR is approved?

7           A.    Yes, I am.

8           Q.    And you didn't take issue with that in  
9 your testimony, did you?

10          A.    The 8.21? I actually proposed a lower  
11 price based on capacity that our staff witness  
12 consultant Emily Medine provided.

13          Q.    So the lower price that you proposed is  
14 regardless of whether the RSR is approved or not?

15          A.    Well, if the RSR impacts the price for  
16 interruptible, then I would have to consider that  
17 change, but, in general, I'm looking at just a price  
18 for capacity.

19                   I'm not real familiar with how the  
20 derived capacity prices are determined; I think tier  
21 1 and tier 2 are dependent on RSR as far as the  
22 allocation, but I'm not sure exactly how much of the  
23 RSR makes up for that.

24          Q.    Okay.

25                   MS. McALISTER: I have no further

1 questions. Thank you, Mr. Scheck.

2 EXAMINER TAUBER: Mr. Kurtz?

3 MR. KURTZ: Thank you, your Honor.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Kurtz:

7 Q. Good morning, Mr. Scheck.

8 A. Good morning.

9 Q. I'd like to ask you to turn to page 2 of  
10 your testimony. You list your title as a Utilities  
11 Specialist in Energy Efficiency and Renewables with  
12 the Division of Energy and Environment Department; is  
13 that right?

14 A. Yes, sir.

15 Q. Okay. You're responsible for analyzing  
16 issues with respect to energy efficiency, including  
17 peak demand reduction, demand response, and smart  
18 grid; is that correct?

19 A. Yes, I am.

20 Q. Who do you report to?

21 A. Mr. Ray Strom.

22 Q. And who does he report to?

23 A. He reports to Ms. Kim Wissman.

24 Q. And who does she report to?

25 A. She would report to, I believe, Eric

1 Weldele.

2 Q. Okay. Who reports to you?

3 A. No one, sir.

4 Q. So you don't have anybody working for  
5 you?

6 A. No.

7 Q. Okay. I didn't see your educational  
8 background in your testimony; what is that, please?

9 A. I have a bachelor's degree and a master's  
10 degree in economics.

11 Q. Is there a separate department of the  
12 Commission -- does your job -- is there a separate  
13 department of the Commission or a separate group of  
14 people that work on economic development, Sara  
15 Zeigler for example?

16 A. I don't know if there is actually a  
17 separate department. I think there's a, for better  
18 or worse word, collective group of individuals that  
19 may, from time to time, work on them.

20 Beth Trombold, I believe, who used to  
21 work here, was overall in charge, and Sara Zeigler  
22 certainly does interface with that, and then various  
23 folks from Bob Fortney, myself, Tammy Turkenton, Bob  
24 Wolfe. It all depends on what are the issues, and  
25 various folks look into those particular special

1 arrangements and contracts.

2 Q. You did not list economic development  
3 issues as part of your job description.

4 A. No, I did not. Even though I have worked  
5 on it from time to time.

6 Q. From time to time.

7 A. But it's not my main thrust or my main  
8 job responsibility, so.

9 MR. KURTZ: Your Honor, I have a motion  
10 to strike, and that would be beginning on page 7,  
11 line 11, through page 8, line 9, where this witness  
12 testifies as an expert on economic development  
13 matters, but he's testified that's not his job -- he  
14 works on that from time to time. It's not his  
15 primary responsibility. There are other people in  
16 the Commission that work on economic development.  
17 He's not qualified to render an expert opinion on  
18 that subject, so I move to strike.

19 EXAMINER TAUBER: Mr. Margard, do you  
20 have a response?

21 MR. MARGARD: Your Honor, the fact that  
22 this isn't part of his primary job responsibilities  
23 does not mean that he's not qualified to offer an  
24 opinion. Mr. Scheck has testified that he's familiar  
25 with these arrangements and how they're filed and how

1 they're considered by the staff and by the  
2 Commission. He's also indicated that he has a  
3 master's degree in economics. I certainly think that  
4 he's qualified as a witness to offer an opinion on  
5 these subjects.

6 EXAMINER TAUBER: At this time we'll deny  
7 the motion to strike. The Commission will weigh the  
8 testimony of Mr. Scheck accordingly.

9 And if you want to continue with  
10 cross-examination, Mr. Kurtz.

11 MR. KURTZ: Thank your, Honor.

12 Q. Page 7, you testify, starting on line 11,  
13 question 14, that if -- essentially that  
14 interruptible rates, as part of an economic  
15 development program or as part of a competitive  
16 response, should be done by reasonable arrangements  
17 rather than through tariff -- standard tariff  
18 offering; is that correct?

19 A. Yes.

20 Q. Are you aware that FirstEnergy --  
21 Cleveland Electric, Toledo Edison, and Ohio Edison  
22 all have standard interruptible tariffs?

23 A. Yes; they have ELR OLR for FirstEnergy.

24 Q. Are you recommending that those be  
25 eliminated as part of this overall?

1           A.    FirstEnergy's ELR/OLR be eliminated?

2           Q.    Yeah, that's a standard tariff for  
3 interruptible service.

4           A.    I believe that they're currently filed  
5 and it's under review as their extension of the ESP,  
6 the prior one, those particular services were offered  
7 to customers as part of an ESP.

8           Q.    Right. Are you recommending to the  
9 Commission that they be eliminated because they're  
10 interruptible program standard offer?

11          A.    Well, at the present time, they have ESP,  
12 so they have haven't fully transitioned to the  
13 marketplace. At some point in time, if they're not  
14 part of an ESP and they're part of an MRO, then, yes,  
15 I would recommend that all forms of interruptible  
16 would be eliminated as a standard service offer and  
17 that then customers can get any kind of customized  
18 product from the marketplace.

19          Q.    So is that conditioned upon the utility  
20 being in an MRO? Is that what I understand you to  
21 say?

22          A.    Well, it doesn't necessarily have to be  
23 part of an MRO; it's just that's a market rate offer.  
24 And if the ESPs have considerations that are market  
25 based, then I believe, yes, you would eventually

1 eliminate those sort of services because customers  
2 can get those products and services in the  
3 marketplace.

4 Q. Let me start again. You testify that  
5 interruptible rates that are part of an economic  
6 development program should be by reasonable  
7 arrangement only --

8 A. Yes.

9 Q. -- and not part of the standard tariff is  
10 that --

11 A. Yes.

12 Q. Okay. FirstEnergy has an ESP, correct?

13 A. Yes.

14 Q. And they have standard tariff  
15 interruptible programs, right?

16 A. Yes, they are, and those were part of a  
17 negotiated settlement.

18 Q. And, in fact, staff's agreed for a  
19 two-year extension of those; haven't you?

20 A. I don't believe staff would necessarily  
21 agree to a two-year extension if it was not part of a  
22 negotiated settlement.

23 Q. Now, did anybody in Legal review your  
24 recommendation that interruptible rates should only  
25 be part of a reasonable arrangement and not part of a

1 standard tariff offering?

2 A. Well, I believe my attorneys would have  
3 reviewed my testimony in this case.

4 EXAMINER SEE: And just so the record is  
5 clear, that would not be the Legal department, that  
6 would be the attorneys general.

7 MR. KURTZ: Excuse me.

8 I'd like to have marked, and I don't know  
9 where OEG is, your Honor.

10 EXAMINER TAUBER: Let me check.

11 It's 103.

12 MR. KURTZ: 103. Thank you, your Honor.

13 This is just a copy of the statute.

14 EXAMINER TAUBER: This exhibit shall be  
15 so marked as 103.

16 MR. KURTZ: Thank you, your Honor.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 Q. (By Mr. Kurtz) Do you see there's a  
19 definition of "nonfirm service" in the statute that  
20 I've highlighted?

21 A. Yes, I do.

22 Q. Does that indicate that nonfirm service  
23 can be part of a reasonable arrangement or part of  
24 the standard tariff?

25 A. I don't see where it says a "standard

1 tariff," but I see it could be part of a reasonable  
2 arrangement.

3 Q. So where it refers to 4905.30?

4 A. Yes, I do.

5 Q. If you turn the page, you'll see there's  
6 a copy of 4905.30. Isn't that part of the statute  
7 that deals with standard tariffs?

8 A. Yes, it does.

9 Q. So your testimony is that interruptible  
10 rates should only be part of a reasonable  
11 arrangement, but the legislature specifically  
12 envisions that they can be part of standard tariffs  
13 as well; isn't that correct?

14 A. Well, I'm not here to really tell you the  
15 legal opinions, just, in my opinion, it should not be  
16 part of a standard service offer.

17 Q. Okay. Now, but the legislature is at  
18 least giving the Commission that option; isn't that  
19 correct?

20 A. It could be an option, yes.

21 Q. Is it -- so it should be an option, is  
22 that your testimony now, or the Commission should  
23 just ignore this provision of the code?

24 A. My position has been, and still is, that  
25 as we move forward toward competitive markets, that

1 eventually all interruptible service that is offered  
2 by a distribution utility would be eliminated and  
3 that customers can get any kind of customized product  
4 in the marketplace.

5 Q. Okay. Now, you were discussing with  
6 Miss Hand about how you calculated the \$3.34  
7 interruptible credit that you're recommending.

8 A. Yes.

9 Q. Essentially, AEP's at 355, staff's at  
10 146, roughly a third, and so you just cut the 8.21 by  
11 two-thirds and that's how you derived your number?

12 A. Close to that, yes.

13 Q. What did I miss?

14 A. Well, you said "two-thirds" and I don't  
15 know if it's exactly two-thirds.

16 Q. But that's what you did.

17 A. Essentially, yes, I used the same  
18 formula.

19 Q. What's your recommendation if the  
20 Commission compensates AEP for capacity other than  
21 through the -- just the straight capacity charge?  
22 For example, what if they got an ESSC like Duke got  
23 as a part of a capacity compensation, how would your  
24 recommendation work?

25 A. I guess I'm not really that familiar with

1 Duke's ESSC compensation mechanism.

2 Q. What if the Commission approves a  
3 two-tiered capacity pricing --

4 A. That is possible.

5 Q. Okay. Well, how does your recommendation  
6 work then?

7 A. Well, I still would apply the same  
8 capacity charge except it may be the capacity amount  
9 or the value may be changed by the RSR in terms of --

10 Q. No; you missed my point.

11 The two-tiered capacity rate right now,  
12 the first group of shoppers, the 21, 31, 41 percent,  
13 versus everybody else, what if the Commission does  
14 something like that, how would your recommendation  
15 work?

16 A. My recommendation doesn't change. I  
17 believe capacity shouldn't be discriminatory between  
18 shopping and nonshopping customers; it should be the  
19 same price.

20 Q. No. No. You're missing my point. The  
21 Commission has two-tiered pricing for shoppers right  
22 now. What if the Commission extends that as a  
23 permanent matter, how does your recommendation work?  
24 We don't have one capacity number, we have two.

25 A. Well, currently, in the interim, we have

1 two, but my recommendation is capacity -- is capacity  
2 should have the same value for all customers  
3 regardless of if they shop or don't shop.

4 Q. No; you're missing my point. Right now  
5 there's two different prices for shopping customers.

6 A. I understand that, but I believe there  
7 should be only one price for capacity whether there  
8 are shopping customers of two different kinds or not.

9 Q. Okay. Well, what if the Commission  
10 disagrees and continues a two-tiered pricing system?

11 A. That's up to them.

12 Q. Well, how does your methodology work?

13 A. I still told you I believe there's only  
14 one price for capacity for all customers whether they  
15 shop or they don't shop or if -- the two categories  
16 of shopping customers.

17 Q. So you think that -- you think that there  
18 ought to be just one capacity number and you would  
19 recommend the Commission not do the two-tiered  
20 approach?

21 A. No.

22 Q. Then how would your method -- you cut  
23 AEP's number by two-thirds.

24 A. I didn't cut anybody's anything.

25 Q. The 8.21. Your 3.34 is one-third of

1 8.21. Ms. Medine's capacity number is one-third of  
2 AEP's number. Isn't that what you did?

3 A. That's what staff's witnesses have  
4 defined as their value of -- their cost of capacity.

5 Q. What if the Commission adopts a  
6 two-tiered capacity system for shoppers, how does  
7 your methodology work?

8 A. It doesn't apply to that.

9 Q. Okay. Now, you understand that an  
10 interruptible customer, IRP-D, does not pay -- will  
11 not pay the 146 Ms. Medine has testified to. You  
12 understand that, right?

13 A. I'm not following your question.

14 Q. Okay. To be an IRP-D customer you have  
15 to be standard offer, correct?

16 A. Yes.

17 Q. Okay. So what is -- the standard offer  
18 customer, what are they paying for capacity?

19 A. Currently today?

20 Q. Yes.

21 A. I don't know what they pay currently for  
22 capacity.

23 Q. So what your position is, is that the  
24 interruptible credit should be tied to the capacity  
25 price that shoppers pay, even though an IRP-D

1 customer is standard offer paying the full embedded  
2 cost capacity rate; is that your testimony?

3 A. No. My view is that capacity is  
4 capacity, and if it's a cost of capacity, it doesn't  
5 matter whether you shop or you don't shop. So I  
6 don't discriminate different types of customers.  
7 Capacity is what the cost of capacity is for AEP and  
8 otherwise. You go to market and they don't  
9 discriminate in the market; they pay the same price  
10 for capacity regardless of what type of customer you  
11 are.

12 Q. So your recommendation to the Commission  
13 is people who don't shop should pay the -- should pay  
14 Ms. Medine's price for capacity?

15 A. The same price.

16 Q. Everybody.

17 A. Everybody would pay the same price.

18 Q. So everybody ought to get -- every  
19 nonshopping customer ought to get a huge rate  
20 reduction because they're going to pay 146 a  
21 megawatt-day for capacity. Is that what you're -- I  
22 didn't see that in your testimony. Is that what  
23 you're saying?

24 A. No.

25 MR. MARGARD: And I'll object, your

1 Honor. It's not in his testimony. Mr. Scheck isn't  
2 testifying as to capacity costs here. He merely  
3 accepts the capacity cost that was recommended by a  
4 different staff expert.

5 MR. KURTZ: Well, your Honor, what's  
6 going on here is Mr. Scheck is using the capacity  
7 charge that shoppers pay as the basis for determining  
8 the interruptible credit for a nonshopping customer.  
9 To be interruptible, by definition, you can't shop;  
10 they have to be standard offer. So what I'm pointing  
11 out is the inherent inconsistency of his methodology.

12 EXAMINER TAUBER: I'll allow the  
13 question, but let's keep things on track, Mr. Kurtz.

14 Q. Okay. So to qualify for IRP-D, you're  
15 not allowed to shop, are you?

16 A. That is correct.

17 Q. Okay. To qualify for IRP-D, you must buy  
18 standard offer generation service from AEP Ohio,  
19 correct?

20 A. Correct.

21 Q. And when you buy standard offer service  
22 from AEP Ohio, you're not paying the capacity price  
23 determined in the 2929 case, are you?

24 A. At the present time I don't think the  
25 2929 case has been determined. There's an interim

1 capacity price that has been established, but that's  
2 not the final decision. And I believe capacity  
3 shouldn't be discriminatory between the shopping  
4 customers and the nonshopping customers; I think it  
5 should be the same price.

6 Q. Okay. So you think that -- the 2929 case  
7 will determine what capacity price shopping customers  
8 pay, correct?

9 A. Yes.

10 Q. The 2929 case will not have any impact at  
11 all on the capacity price that nonshopping customers  
12 pay, correct?

13 A. Well, it may not directly, but I don't  
14 know what the final determination will be in this  
15 case as far as nonshopping customers as it relates to  
16 the 2929 case with shopping customers.

17 Q. Ms. Medine's testimony was in the 2929  
18 case --

19 A. Yes.

20 Q. -- that shopping customers ought to pay  
21 146. That will have no impact whatsoever on the  
22 capacity price that IRP-D nonshopping customers pay;  
23 isn't that correct?

24 A. I disagree. Ms. Medine's testimony  
25 actually goes to her calculation of the cost of

1 capacity from AEP.

2 Q. So you're recommending that all  
3 nonshopping customers get a huge rate reduction by  
4 paying 146 instead of the embedded cost?

5 MR. MARGARD: Once again, your Honor,  
6 this witness is not testifying with respect to  
7 capacity costs.

8 MR. KURTZ: I don't think this witness  
9 is -- we're not quite connecting. I'm trying to  
10 establish what a nonshopping customer pays for  
11 capacity. It has nothing to do with Ms. Medine's  
12 146. It has nothing to do with the capacity price  
13 shopping customers will pay; that's the point I'm  
14 trying to get him to agree to.

15 EXAMINER TAUBER: The objection is  
16 overruled.

17 Q. Do you understand the difference that  
18 nonshopping customers pay -- will pay the standard  
19 offer price for generation and it has nothing to do  
20 with the price that shopping customers pay for  
21 generation?

22 A. I disagree. I think the price -- the  
23 cost of capacity for AEP should be the same whether  
24 they're shopping customers or they're not shopping  
25 customers.

1 MR. KURTZ: Okay. I guess I'll have this  
2 marked as OEG 104.

3 EXAMINER TAUBER: The exhibit shall be so  
4 marked.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 Q. Do you recognize this as the currently  
7 effective tariff sheet for nonshopping customers  
8 GS-4?

9 A. Yes.

10 Q. Okay. What do you see as the demand  
11 charge that these nonshopping customers will pay?

12 A. Well, I see a range of demand charges  
13 depending on what schedule they are, what voltage  
14 level they're at, primary, sub-transmission,  
15 transmission, depending on the voltage level they are  
16 at will determine what the demand charge will be per  
17 dollar per kW a month.

18 Q. They range from 9.38 to \$9.30 a kW month?

19 A. Yes; on the first page they do.

20 Q. And AEP is proposing to increase those,  
21 these are -- the next page you just looked at is the  
22 proposed demand charges for GS-4, correct?

23 A. Yes.

24 Q. Do you understand they're rolling in the  
25 environmental rider into rates?

1           A.    I'm not certain, but that probably is the  
2 case.

3           Q.    Now, so a nonshopping customer, large  
4 industrial, will pay three times the amount for  
5 generation, approximately \$10 a kW month, three times  
6 the credit you're recommending of \$3.34; isn't that  
7 correct?

8           A.    If the Commission accepts this proposal  
9 for AEP.

10          Q.    You mean if the Commission accepts your  
11 3.34.

12          A.    Well, they'll pay the same price under my  
13 proposal, but, if they accept AEP's proposal, they  
14 would pay these.

15          Q.    Well, this is -- you're not making any  
16 proposal as to base generation rates, are you?

17          A.    No. I'm just telling you what I believe  
18 the -- the value of capacity, whether it's determined  
19 on a cost basis for AEP should be the same as far as  
20 for all those customers that are staying with AEP,  
21 and if they decide to charge as you said, the  
22 allocation for nonshopping customers is based on  
23 cost, then it would be the same for both. So I don't  
24 see how there would be a difference between the two.

25          Q.    And you think the cost is \$3.34 a kW

1 month?

2 A. No. The value of the interruptible  
3 credit would be based on the \$146.47 that Ms. Medine  
4 put forward which would translate to \$3.44 per kW per  
5 month as an interruptible credit.

6 Q. That's the value of capacity, \$3.34?

7 A. Not exactly, because you have other  
8 factors like the coincidence with peak and things of  
9 that nature.

10 Q. Let me just back up. An interruptible  
11 customer on the AEP system is going to pay  
12 approximately \$10 a kW month to get standard offer  
13 service from the utility; isn't that correct?

14 A. If that's what's accepted.

15 Q. Is anybody proposing to change AEP's base  
16 rates other than AEP's proposal to increase them?  
17 For nonshopping customers?

18 A. I'm not following your question.

19 Q. There's two different things, the  
20 capacity price for shoppers and the price for  
21 nonshoppers. Has anybody in this case proposed  
22 reducing the generation costs for nonshopping  
23 customers? Is anybody proposing a rate reduction for  
24 nonshoppers?

25 A. I'm not certain. I'm proposing the same

1 price for capacity for both nonshopping and shopping  
2 customers.

3 Q. Okay. And what is that price?

4 A. As I told you, it's based on Ms. Medine's  
5 calculation for the cost of capacity for AEP which is  
6 \$146.47; otherwise, if it weren't for that, then it  
7 would be based on market prices which are all lower  
8 than that for the next three or four years based on  
9 the PJM base residual auction.

10 Q. And 146 is about a third of what AEP says  
11 their costs are, right?

12 A. That may be what AEP says. Our witness  
13 states that it's \$146.47.

14 Q. So you're saying that nonshopping  
15 customers ought to pay the same as shopping customers  
16 for capacity?

17 A. Capacity is capacity. If it's based  
18 on -- if they're requiring shopping customers to pay  
19 for capacity based on some cost bases, which  
20 Ms. Medine put forward, then I think it should be the  
21 same price for whether you're shopping or you're  
22 nonshopping.

23 Q. Well, then, you really are recommending a  
24 huge rate reduction for nonshopping customers.

25 A. If that's what it translates into. I'm

1 not certain exactly what the current rate they have.  
2 I'm proposing that the value should be the same  
3 whether you shop or you don't shop.

4 Q. Where is that in your testimony? That's  
5 a pretty -- that's a pretty -- let me back up.

6 That's a pretty sweeping recommendation  
7 to give all the nonshopping customers a huge rate  
8 reduction.

9 A. Well, essentially, I'll say the default  
10 position for the staff is to just base capacity on  
11 market prices which are lower than that for the next  
12 four years, I believe.

13 Q. I didn't see anyplace in your testimony  
14 where you describe that sweeping recommendation, that  
15 all nonshoppers get a big rate reduction.

16 MR. MARGARD: Your Honor --

17 A. I didn't state that.

18 MR. MARGARD: -- I'll object that the  
19 witness doesn't recommend a rate reduction. He's  
20 already testified to that.

21 MR. KURTZ: Your Honor, he's recommending  
22 that shoppers and nonshoppers pay the same for  
23 capacity. The nonshoppers are paying full embedded  
24 costs. And if he accepts Ms. Medine's, it will be --  
25 everyone will pay a third. All nonshoppers will pay

1 about a third, for generation supply capacity, that  
2 they're paying now.

3 EXAMINER TAUBER: Why don't we move on,  
4 Mr. Kurtz.

5 MR. KURTZ: That's a big rate reduction.

6 EXAMINER TAUBER: Let's move on.

7 Q. (By Mr. Kurtz) You agree that the  
8 nonshopping customers will pay -- right now are  
9 paying what's on this Exhibit 104.

10 A. If that's what they're charged currently,  
11 that's what they pay.

12 Q. Well, they're nonshoppers. They have to  
13 pay the tariff rate.

14 A. Correct.

15 Q. Okay. That's the tariff rate.

16 A. But that's subject to change after this  
17 hearing.

18 Q. Okay. And AEP's proposing to increase  
19 it, correct?

20 A. That's correct.

21 Q. Is anybody proposing to decrease it?

22 MR. MARGARD: Objection, your Honor. I  
23 don't see how we're moving on here.

24 EXAMINER TAUBER: The question's been  
25 asked and answered.

1 MR. KURTZ: That -- that's -- I agree  
2 with that.

3 Q. Let me ask you to turn to page 9 of your  
4 testimony. At the very top, line 1, you're asked:  
5 "What is Staff's longer term view regarding  
6 interruptible service being offered by an Ohio  
7 electric distribution utility?" You go into that  
8 after this ESP, all standard offer service "will  
9 likely be offered as flat-priced firm service that is  
10 competitively sourced"; is that correct?

11 A. Yes.

12 Q. Okay. And, at the end of this section,  
13 you refer to the goal of Senate Bill 3 was to develop  
14 a fair, competitive electric market, et cetera; is  
15 that correct?

16 A. Yes.

17 Q. So you're making a recommendation right  
18 now that would affect Cleveland Electric?

19 A. Well, not today until after their ESP is  
20 completed, and it depends if the Commission approves  
21 a two-year extension. They still have, I believe,  
22 another year under their current ESP arrangement and  
23 they've offered to have that continue for two more  
24 full years after that.

25 Q. I'm asking you your -- staff's -- who did

1 you -- who reviews this testimony? I think I forgot  
2 to ask you. Who approved it?

3 A. I'm sorry, I --

4 Q. Who approved your testimony?

5 A. Ultimately the management would have.

6 Q. Well, who?

7 A. Ray Strom and Kim Wissman.

8 Q. Okay. So staff's longer-term view  
9 regarding service by all electric -- Ohio electric  
10 distribution utilities is that there would be a  
11 movement towards flat-priced firm service only for  
12 nonshopping customers.

13 A. Correct.

14 Q. Okay. That would apply to Cleveland  
15 Electric?

16 A. Yes.

17 Q. Okay. Toledo Edison?

18 A. Yes.

19 Q. Ohio Edison?

20 A. Yes.

21 Q. Duke Energy Ohio?

22 A. Yes.

23 Q. Dayton?

24 A. Yes.

25 Q. Okay. Now, what kind of analysis did you

1 do to make that type of global recommendation?

2 MR. MARGARD: I'll object because I'm not  
3 sure we established that this witness performed that  
4 analysis or the policy recommendation was his.

5 EXAMINER TAUBER: The objection is  
6 sustained.

7 Q. Whose policy recommendation is this?

8 A. In terms of flat pricing?

9 Q. For all the electric utilities in Ohio.

10 A. Generally it's the staff's position.

11 Q. Is it your personal position or just  
12 staff globally? Who?

13 A. Staff globally.

14 Q. Globally, okay.

15 MR. KURTZ: Now let me have marked, if we  
16 could, your Honor, OEG 105.

17 EXAMINER TAUBER: The exhibit shall be so  
18 marked.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 Q. Do you recognize this as the policy of  
21 the state of Ohio as enacted in Senate Bill 221?

22 A. Yes, I do.

23 Q. Okay. Would you turn to part (B) where  
24 it's the policy of the state to "Ensure the  
25 availability of unbundled and comparable retail

1 electric service that provides consumers with  
2 supplier, price, terms, conditions, and quality  
3 options they elect to meet the respective needs." Do  
4 you see that?

5 A. Yes.

6 Q. Would you agree that interruptible  
7 service is a lower quality of service than firm  
8 service?

9 A. It's a lower quality but I believe that  
10 would be offered through the marketplace.

11 Q. Okay. But this says that the utilities  
12 should -- that the Commission -- that the legislature  
13 encourages that lower quality, you know, the type of  
14 service that customers want, including lower quality.

15 A. It's possible.

16 Q. Okay. You see that, under (D), that  
17 there's a policy to encourage innovation and market  
18 access, including time-differentiated pricing?

19 A. Correct. Normally, time-differentiated  
20 pricing would be something different than  
21 interruptible service; that would be pricing at  
22 different hours of the day for the whole year not  
23 just for interruptible capacity.

24 Q. You see that there's a policy to  
25 "Facilitate the state's effectiveness in a global

1 economy"?

2 A. Down at the bottom.

3 But just to complete my answer on (D):  
4 It's to encourage innovation and market access for  
5 cost-effective supply. So by offering flat service  
6 to all customers for SSO service would encourage  
7 customers to take advantage of the market access for  
8 cost-effective supply.

9 Q. Okay. So flat-priced firm service for  
10 everybody who doesn't shop?

11 A. Flat priced for -- yes. That is correct.  
12 And it's set for -- maybe very large customers, they  
13 may go to default realtime hourly pricing as they've  
14 done in other jurisdictions.

15 Q. What about the electric heat customers in  
16 northern Ohio; they should pay that same flat-rate  
17 price that --

18 A. Yes.

19 Q. -- comes out of the auction?

20 A. Yes.

21 Q. You realize there was a controversy about  
22 that not long ago?

23 A. Certainly could have been.

24 Q. Do you think the universal service fund  
25 should be done away with, the low-income subsidy, so

1 that they pay the same price as everybody else?

2 A. I don't believe that would be factored  
3 in. That would be -- universal fund is a rider to  
4 pay for those benefits, it's not directly in the  
5 market price itself, but it's something, as other  
6 riders are, attached to customers' kilowatt-hour  
7 consumption to pay for services that the state and  
8 the Commission deem to be worth providing.

9 Q. Right. That's a subsidy to low-income  
10 customers.

11 A. Right.

12 Q. You think that should be eliminated?

13 A. No.

14 Q. Okay. What about streetlighting  
15 customers, should they pay the same price as  
16 everybody else?

17 A. It depends. If it's deemed to be an  
18 important public service and there needs to be some  
19 sort of discount provided, possibly, but generally  
20 not.

21 Q. The streetlighting customers, all  
22 municipalities should pay the same price that comes  
23 out of the auction?

24 A. Well, for capacity, they wouldn't have a  
25 capacity price associated with nighttime consumption.

1           Q.    Do you realize they're exempt from the  
2    capacity pricing in the FirstEnergy system.  They  
3    don't pay anything for capacity.

4           A.    They don't really incur much for a  
5    capacity charge because their consumption is all at  
6    nighttime and that's not normally when the high  
7    prices of capacity occurs; during the middle of the  
8    night.

9           Q.    You still need capacity to supply them?

10          A.    You still do, but it could be priced out  
11   at energy.

12          Q.    Okay.  What about alternative energy,  
13   should the -- do you recommend the legislature  
14   should -- isn't that a distortion to the market that  
15   requires --

16          A.    Things that the legislature added in, it  
17   cannot remove, but, again, those come through in the  
18   form of a rider.

19          Q.    Well, right.  But it's in addition.  It  
20   requires people not to pay just the market price for  
21   electricity.

22          A.    But all customers could pay that  
23   regardless if they were interruptible or not.

24          Q.    You agree that Senate Bill 221 allows for  
25   the Commission to approve economic development

1 arrangements within an ESP, don't you?

2 A. Yes.

3 Q. Okay. So the legislature allows the  
4 Commission to approve economic development right in  
5 this case, not through a reasonable arrangement --  
6 not necessarily through a reasonable arrangement;  
7 isn't that correct?

8 A. Yes.

9 Q. Okay. Do you know what the interruptible  
10 credit that the customers on the FirstEnergy system  
11 receive right now?

12 A. It's my understanding that the  
13 interruptible credit that was developed and approved  
14 through a stipulation that was eventually approved by  
15 the Commission was \$5 for the ELR. And then there  
16 was a tying arrangement, if you received ELR at \$5,  
17 you could also get \$5 for economic development.

18 Q. So that's a \$10 credit?

19 A. Yes.

20 Q. That's three times more than what you're  
21 proposing for the interruptible customers in central  
22 Ohio?

23 A. Yes; with the qualification that those  
24 values were not predicated on any market prices  
25 whatsoever or any cost of service.

1           Q.    So even if the Commission approved AEP's  
2   proposal of 8.21, the interruptible customers in  
3   central Ohio would be paying less than the  
4   interruptible customers in northern Ohio.  Correct?

5           A.    That is correct.

6           Q.    Okay.  Your proposal would make the gap  
7   even much bigger, correct?

8           A.    Between 8.21 and 3 --

9           Q.    No; between \$10 and 3.34.  The  
10   interruptible credit to FirstEnergy is \$10.

11          A.    I don't think that's a valid comparison  
12   because the \$10 was not determined by any cost basis  
13   or market prices.  That was just some number agreed  
14   to by parties.  It had no basis on anything related  
15   to market or cost.

16          Q.    It's a lawful tariff on file.  Isn't it?

17          A.    Right.  But I'm telling you the basis had  
18   nothing to do with market or cost.

19          Q.    Why did staff agree to it for two more  
20   years?

21          A.    Staff could agree to a lot of things, as  
22   many other parties do in a stipulation, that have  
23   nothing to do with what a litigated position may be.

24               MR. KURTZ:  Your Honor, I'd like to have  
25   marked, I think as my final exhibit, OEG No. 106.

1 EXAMINER TAUBER: The exhibit is marked.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 Q. Do you recognize these as the tariffs of  
4 Ohio Edison Company?

5 A. Yes, I do.

6 Q. Okay. They have an experimental realtime  
7 pricing program?

8 A. Yes, they do.

9 Q. Turn to the second page of the tariff.  
10 You'll see that it's a fairly complicated formula,  
11 but would you agree that this is not a flat-price  
12 firm service? I mean -- let's start again. This  
13 tariff is available to nonshoppers, correct?

14 A. Yes, it is.

15 Q. Okay. And would you agree it's not a  
16 flat-price firm service?

17 A. That is correct.

18 Q. It's a fairly complicated formula rate.

19 A. Yes.

20 Q. So your recommendation is FirstEnergy  
21 should do away with this?

22 MR. MARGARD: Objection, your Honor.  
23 This witness is not making any recommendation  
24 specifically with respect to FirstEnergy in this  
25 proceeding. He is testifying with respect to his

1 recommendation with regard to AEP's proposal. He is  
2 testifying with respect to staff's policy. He has  
3 not made any recommendation with respect to  
4 FirstEnergy.

5 MR. KURTZ: Yes, he has, your Honor. On  
6 page 9, line 1, "What is Staff's longer term view  
7 regarding interruptible service being offered by an  
8 Ohio electric distribution utility?" And the answer  
9 is, long-term, all nonshoppers should get flat-priced  
10 firm service. So this is a sweeping policy  
11 recommendation for all the utilities in the state.

12 MR. MARGARD: May I respond?

13 EXAMINER TAUBER: You may.

14 MR. MARGARD: While I agree, your Honor,  
15 that he has testified with respect to staff's general  
16 policy, he's also indicated that staff has engaged in  
17 negotiations and has agreed to settlements and  
18 stipulations that involve a variety of other factors  
19 whereby different results may accrue.

20 MR. KURTZ: I can rephrase the question.

21 EXAMINER TAUBER: Why don't you do that,  
22 Mr. Kurtz.

23 MR. KURTZ: Okay.

24 Q. (By Mr. Kurtz) Do you agree that this  
25 realtime pricing tariff that is applicable to the

1 FirstEnergy utilities is not a flat-priced firm  
2 service?

3 A. Yes, it is; and I don't believe there are  
4 any customers on it.

5 Q. Okay. If you'd turn to rider CPP,  
6 critical peak pricing rider; do you see that?

7 A. Yes, I do.

8 Q. Do you see how the rates differ by  
9 summer, by winter, by rate schedule, midday-peak,  
10 shoulder-peak, off-peak?

11 A. Yes, I do.

12 Q. Is this a flat rate in your opinion?

13 A. No, it is not.

14 Q. This is quite different than a flat-rate?

15 A. Right.

16 Q. Okay. Let's see, if you turn to just a  
17 generation service rider, this is the price that  
18 nonshoppers pay for capacity and energy as a result  
19 of the auction?

20 A. I'm sorry, what page are you on?

21 Q. Rider Gen.

22 A. Rider Gen.

23 Q. The second from the back.

24 A. Yes.

25 Q. This is the capacity and the energy

1 prices that nonshoppers pay as a result of the  
2 FirstEnergy auction?

3 A. Yes.

4 Q. Do you see how the capacity and energy  
5 prices differ by rate schedule?

6 A. Yes, I do.

7 Q. Do you see how they differ by winter and  
8 summer?

9 A. Yes, I do.

10 Q. Would you consider this a flat price?

11 A. No, I don't.

12 Q. Okay. So you think, longer term,  
13 FirstEnergy ought to change this?

14 A. Probably in the long term, yes.

15 Q. Have you -- so have you discussed this  
16 with FirstEnergy?

17 A. No.

18 Q. Okay.

19 A. Well, yes, I should say I have.

20 Informally I have discussed it with some folks at  
21 FirstEnergy.

22 Q. Look at the last page, the time-of-day  
23 option --

24 A. Yes.

25 Q. -- that FirstEnergy offers. Is this your

1 opinion -- in your opinion, is this a flat price?

2 A. No.

3 Q. Okay. So you think this should be done  
4 away with long term as well?

5 A. Yes.

6 Q. Okay.

7 A. For SSO service, that's correct.

8 Q. As I understand it, you report to  
9 Mr. Strom who reports to Ms. Wissman who reports to  
10 Mr. Weldele. These are pretty big recommendations.  
11 Have all those folks signed off on your  
12 recommendation?

13 A. They would have read my testimony.

14 Q. Did they understand you're proposing to  
15 change the way business is done for all the units in  
16 the state?

17 A. I don't know if that's radical or not.  
18 Just flat pricing -- a lot of these ones that you  
19 mentioned in here in terms of time-of-day rates and  
20 things of that nature from FirstEnergy, I believe  
21 they have zero or very, very few customers even  
22 signed up on them.

23 The other prices that have been offered  
24 are in the context of pilot offerings with smart grid  
25 for customers that have received meters that can

1 record information probably every 15 minutes, but, at  
2 least, every hour. And those have been optional in  
3 the sense of customers that want to sign up for it,  
4 and those customers are going to have to take service  
5 from the company.

6 But, going forward, the position is --  
7 from the staff is to move that into the marketplace,  
8 as well, which means that we would prefer to have  
9 competitive suppliers to offer time-differentiated  
10 rates, not distribution utilities.

11 Q. Okay. And you did discuss this with  
12 Miss Wissman, Mr. Strom, and Mr. Weldele, and they  
13 agree that --

14 A. I have not discussed anything with  
15 this -- with Mr. Weldele, but I'm sure that Mr. Strom  
16 and others within the staff are well aware of the  
17 direction that the market is going with respect to  
18 electricity.

19 Q. How are you aware that -- how are you  
20 sure that they discussed it with Mr. Weldele?

21 A. I don't know if they did.

22 Q. FirstEnergy has had their generation  
23 divested for years and has been at auction pricing  
24 for years. That's the direction the Commission's  
25 going.

1           A.    I disagree with the term "divested."  
2    "Divested" implies that the company's actually spun  
3    off the generation and has a separate company with  
4    separate stock, separate board of directors; and  
5    that's not the case with any of our electric  
6    companies.

7           Q.    I didn't mean to imply that.  The  
8    utilities own zero generation on the FirstEnergy  
9    system, correct?

10          A.    The distribution utilities don't  
11   necessarily own generation.  But the corporation  
12   still owns generation.

13          Q.    No, when I said "utility," I meant the  
14   utility.

15          A.    Yes, that's correct.  I don't know if  
16   it's been completed yet with all of them, but they're  
17   in process or should be close to that.

18          Q.    So that's where the state is going so the  
19   utilities will own no generation and they will go to  
20   an auction for nonshoppers.

21          A.    Correct.

22          Q.    Okay.  Well, FirstEnergy's already there  
23   and they have all this non-flat firm service pricing,  
24   but it's your opinion that that ought to be done away  
25   with?

1           A.    At some point in time.  It should be  
2 offered through the marketplace.

3           MR. KURTZ:  Thank you, your Honor.  Those  
4 are all my questions.

5           EXAMINER TAUBER:  Thank you.

6           Ms. Kingery?

7           MS. KINGERY:  No questions, your Honor.

8           EXAMINER TAUBER:  Mr. Pritchard?

9           MR. PRITCHARD:  Yes, your Honor.

10                               - - -

11                               CROSS-EXAMINATION

12       By Mr. Pritchard:

13           Q.    Good morning, Mr. Scheck.

14           A.    Good morning.

15           Q.    If you would turn to page 6, line 27, of  
16 your testimony.

17           A.    Yes.

18           Q.    You reference "AEP's FRR generation"  
19 here.  Is the use of "AEP" here a reference to  
20 AEP Ohio as an Ohio Power Company?

21           A.    I'm sorry, what line are you on on page  
22 6?

23           Q.    Line 27 at the very bottom.  It says "but  
24 changed the value."

25           A.    Yes; AEP's Ohio -- should be AEP Ohio.

1           Q.    And on page 6, line 27, page 7, line 2,  
2   you reference -- you're referring to the cost-based  
3   calculations that were conducted in AEP Ohio's  
4   capacity case in docket 10-2929 when you reference  
5   the AEP FRR generation?

6           A.    Yes.

7           Q.    Are you aware -- and you are aware, are  
8   you not, that the generation that served as the basis  
9   of that cost calculation was a generating asset owned  
10   by AEP Ohio?

11          A.    I'm not aware of it one way or another,  
12   but if it's AEP Ohio, then it would be AEP Ohio.

13          Q.    So you're not aware of the basis --

14          A.    I believe it's AEP Ohio is what the basis  
15   would be.

16          Q.    Do you have any reason to believe that  
17   the costs calculated that you're relying on from  
18   Ms. Medine would include any costs not -- or, any  
19   generation not owned by AEP Ohio?

20          A.    I don't think it would.

21          Q.    And on page 8 -- 8 and 9, you propose the  
22   3.34 credit, correct?

23          A.    Yes.

24          Q.    Per kilowatt month.

25          A.    Yes.

1           Q.    Do you know what the current level of the  
2 discount would translate to when you convert the  
3 customers taking service on schedule IRP-D? Do you  
4 know what the current level of that credit would be?

5           A.    Today? I think I've given two numbers;  
6 one was in the range depending on which -- it was  
7 either CSP or Ohio Power, one was around \$1.50,  
8 another price was in the upper 2 range, maybe \$3,  
9 something like that.

10          Q.    And turning to page 7 of your testimony,  
11 you believe that the IRP credit should be available  
12 to customers who enter into special arrangements with  
13 AEP Ohio, correct?

14          A.    Read the question again.

15          Q.    You propose that the IRP-D credit should  
16 also be available to customers who enter into special  
17 agreements with AEP Ohio?

18          A.    Yes, they would be the same price.

19          Q.    And would you recommend that -- where  
20 would the cost of that special arrangement be  
21 recovered?

22          A.    The cost would generally be recovered  
23 from all of the customers.

24          Q.    Through what mechanism?

25          A.    I'm not sure the mechanism, if it's part

1 of the economic development through the economic  
2 development rider, but -- I'm not positive where the  
3 money is collected actually.

4 Q. Now, if you turn to the next page of your  
5 testimony, page 8, lines 21 to 26. It's question  
6 No. 17.

7 A. Yes.

8 Q. It's your opinion that AEP Ohio should be  
9 able to count the demand response of customers who  
10 participate in the PJM demand response market,  
11 correct?

12 A. Toward their annual PDR goals.

13 Q. And if AEP Ohio is able to count them,  
14 that would have the effect or that would prohibit  
15 those customers from then turning around and offering  
16 in their demand response through the traditional  
17 mercantile customer process, correct?

18 A. I don't follow your question.

19 Q. If AEP Ohio's allowed to count those, are  
20 those mercantile customers allowed to offer those  
21 same demand response through a mercantile customer  
22 application?

23 A. If they're already participating in --  
24 I'm trying to answer your question the best I can.  
25 If customers are currently participating in PJM's

1 demand response tariffs, then what I'm saying is that  
2 AEP should be able to count those towards their  
3 goals.

4           If they're duplicative, I don't see  
5 there's any purpose of applying for AEP interruptible  
6 when they're already part of an interruptible service  
7 from PJM. That would be like getting double payments  
8 for essentially the same service.

9           Q. And just to follow up on that, so when  
10 you're saying that they shouldn't be able to apply to  
11 get the double payments, that double payment would  
12 come -- would be -- would flow through as either an  
13 incentive payment or rider exemption in the  
14 traditional energy efficiency peak demand reduction  
15 application process, correct?

16           A. Correct. I mean, they could file for an  
17 exemption under the category of energy efficiency  
18 which would be independent of peak demand reduction.  
19 They may receive an exemption on the rider due to  
20 energy efficiency improvements that they did on their  
21 own as part of a mercantile application.

22           But if they're already participating in  
23 PJM's demand response, I don't see that as qualifying  
24 for an exemption, if they're already getting payments  
25 for that from the PJM mechanism.

1           Q.    And when the customer's participating in  
2   the PJM demand response programs, PJM's offering  
3   those demand response programs to secure capacity to  
4   serve a reliability purpose and make sure there's  
5   plenty of capacity to serve energy on the electric  
6   grid; is that correct?

7           A.    That's one of their tariffs.

8           Q.    And for the state, the energy efficiency  
9   peak demand reduction portfolio requirements, that's  
10  a separate issue than PJM's reliability, correct?

11          A.    I don't know if they're entirely  
12  separate. PJM has a reliability consideration, but  
13  that also flows through -- all of the load-serving  
14  entities have their responsibilities to have  
15  reliability.

16                So AEP, itself, would have reliability  
17  that they have to fulfill and that could be provided  
18  from those customers, you know, that are providing  
19  demand response either through their tariff or via  
20  they could get reliability benefits from offering  
21  into PJM.

22               MR. PRITCHARD: Your Honor, I'd like to  
23  have marked the stipulation from Case No. 11-5568,  
24  et al. marked as IEU Exhibit 130. May I approach,  
25  your Honor?

1 EXAMINER TAUBER: You may.

2 IEU Exhibit 130?

3 MR. PRITCHARD: Correct.

4 EXAMINER TAUBER: The exhibit shall be so  
5 marked.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 EXAMINER TAUBER: Could the Bench get one  
8 more copy, Mr. Pritchard?

9 Q. Mr. Scheck, I've handed you --

10 MR. MARGARD: Mr. Pritchard, if you could  
11 wait just a moment until I have a copy in hand.  
12 Thank you.

13 Thank you.

14 Q. Mr. Scheck, I've handed you what has been  
15 marked as IEU Exhibit 130. Would you turn to page 2  
16 of the exhibit.

17 A. Yes.

18 MR. PRITCHARD: Before I proceed, I'd  
19 just like to note that this document has been  
20 certified from the Commission as a true and accurate  
21 representation of the stipulation.

22 Q. Now, on page 2, under "Signatory  
23 Parties," do you see the reference to "Commission  
24 Staff" as a signatory party?

25 A. Yes, I do.

1           Q.    Now will you turn to page 4 of the  
2   exhibit.  And, in the first bold point, do you see  
3   the recommendation that the Commission approve the  
4   EE/PDR action plan that was filed in this proceeding  
5   as supplemented and clarified by the stipulation?

6           A.    Yes.

7           MR. PRITCHARD:  Your Honor, I'd like to  
8   have marked as IEU Exhibit 131 an excerpt from the  
9   EE/PDR action plan.

10           May I approach, your Honor?

11           EXAMINER TAUBER:  You may.

12           The exhibit shall be so marked.

13           (EXHIBIT MARKED FOR IDENTIFICATION.)

14           MR. PRITCHARD:  And, again, your Honor,  
15   this document has been certified as a true and  
16   accurate representation of an excerpt, page 1 of 6,  
17   of the EE/PDR action plan.

18           Q.    Mr. Scheck, would you turn, or do you  
19   have in front of you Exhibit 131?

20           A.    That being "Demand Response" --

21           Q.    Yes.

22           A.    Yes.

23           Q.    Would you look at the page that's marked  
24   "106 of 170" in the top right-hand corner.

25           A.    I have it.

1           Q.    Would you read the initial paragraph into  
2   the record?

3           A.    "The demand response program is available  
4   to non-residential customers only and is used to  
5   supplement the peak demand reductions achieved from  
6   EE/PDR programs in order to ensure the peak demand  
7   reduction benchmark requirements of Senate Bill 221  
8   are met.

9                   "The program includes monitoring,  
10   participation and compliance with the current  
11   Commercial and Industrial Interruptible Rates offered  
12   in the AEP Ohio service territory.

13                  "In addition, PJM Demand Response Program  
14   participation can be utilized, provided mercantile  
15   customers commit that resource to AEP Ohio.

16                  "Program funding is primarily limited to  
17   gaining customer commitments for the supplemental  
18   peak demand reduction needed by AEP Ohio that include  
19   special arrangements, a standard offer or a bid  
20   process."

21           Q.    And then, further down on this page, you  
22   see a budget that was developed by AEP Ohio for --

23           A.    Yes.

24           Q.    -- the costs of the EE/PDR program, or  
25   the demand response program?

1           A.    Yes.

2           Q.    Now, would you turn back to the  
3 stipulation, the first exhibit I handed out, IEU  
4 Exhibit 130.

5           A.    Uh-huh.

6           Q.    Would you turn to page 6.

7           MR. PRITCHARD:  If I could have just one  
8 second, your Honor.

9           EXAMINER TAUBER:  You may.

10          Q.    I'm sorry.  Would you turn to page 9 of  
11 the stipulation.  Specifically drawing your attention  
12 to bullet -- or, No. 4.  Do you see the  
13 recommendation here that the costs associated with  
14 the EE/PDR action plan be collected through the  
15 EE/PDR rider?

16          A.    Yes.

17          Q.    And do you know if the Commission  
18 approved the stipulation that's been presented here  
19 as IEU Exhibit 130?

20          A.    I don't know if it's been approved yet or  
21 not.

22          MR. PRITCHARD:  No further questions,  
23 your Honor.

24          EXAMINER TAUBER:  Thank you.

25          Mr. Lang?

1                               - - -

2                               CROSS-EXAMINATION

3       By Mr. Lang:

4               Q.     Just a few questions. This is -- again,  
5       you had referenced in the beginning of your  
6       testimony, you used Mr. Roush's rider IRP-D credit  
7       derivation method, correct?

8               A.     Yes.

9               Q.     So that would include the 5 CP numbers  
10      that he used in his workpaper?

11              A.     Correct.

12              Q.     And so the 5 CP numbers that he used were  
13      from 2009. Are you aware of that?

14              A.     I wasn't aware of the date, but I'm sure  
15      he picked a year in which to do it.

16              Q.     Do you have any opinion on if this method  
17      is going to be used for purposes of this case,  
18      whether the 5 CPs should be updated or whether 2009  
19      would be appropriate?

20              A.     Well, it's generally the 5 CP would be  
21      the -- the relationship of that number to what AEP's  
22      actual peak is. So, on average, what are those  
23      customers that qualified for interruptible service,  
24      how does it relate to their peak. And it may be just  
25      75 percent of the customers' peaks, they may have

1 noncoincident peaks that are different or slightly  
2 lower during their system peak for AEP. So the value  
3 is worth three-quarters of that amount for the total  
4 in that class.

5 So you have -- you're providing a service  
6 with one single credit. So to be fair to all, you  
7 just offer it as an average rather than by individual  
8 as if you were to pay for capacity in the PJM market.  
9 It would be toward your peak load contribution;  
10 whatever that would be individually.

11 But since this is a tariff offered to all  
12 qualified, you have to figure out what that value  
13 would be, but if an updated number would be more  
14 accurate, that's fine.

15 Q. And do you have an opinion as to whether  
16 an updated number would be more accurate?

17 A. It may be slightly more accurate. I  
18 doubt if it would differ a great deal from -- because  
19 operations for most of those companies probably  
20 haven't changed significantly since '09.

21 MR. LANG: That's all I have.

22 EXAMINER TAUBER: Thank you.

23 Mr. Smalz?

24 - - -

25 CROSS-EXAMINATION

1 By Mr. Smalz:

2 Q. Yes, Mr. Scheck, I just have a few  
3 questions concerning your testimony with respect to  
4 the gridSMART project.

5 On page 4 of your testimony, in answer to  
6 the question on page 3, lines 20 to 22, specifically  
7 your answer on lines 5 to 6, on page 4, where you  
8 state "In addition, the Company agreed to increased  
9 data collection and reporting to the USDOE."

10 Do you know what types of data collection  
11 the company agreed to report?

12 A. Not exactly. Even though it's in their  
13 contract. I'm sure some of it relates to the number  
14 of customers that are taking dynamic pricing and what  
15 have been -- what are the changes that they've had or  
16 served since taking information from customers since  
17 the time they signed up for those tariffs.

18 Q. And by "dynamic pricing," do you mean  
19 time-differentiated pricing?

20 A. Yes. I should clarify,  
21 time-differentiated rates which could include  
22 everything from a simple two-part time-of-use rate to  
23 hourly pricing.

24 Q. And is that voluntary dynamic pricing on  
25 the part of the customers?

1           A.     It's voluntary in the sense, in AEP's  
2 pilot phase, that customers are given -- can opt in  
3 to take the tariff; they are not in opt-out status.

4           Q.     And do you know if the company plans --  
5 if subsequent phases of the company's gridSMART  
6 project would entail any mandatory dynamic pricing?

7           A.     Well, it's hard to say. Not at this time  
8 I don't perceive that to be the case. It's possible  
9 that the Commission could deem that some form of  
10 default risk rate could be used as an opt-out, but at  
11 the present time it's unknown.

12          Q.     Thank you.

13                 Turning to the next page, page 5, the  
14 sentence on lines 14 through 17, where you state "The  
15 Staff and the Commission will not know until that  
16 time, whether Phase I in its totality has been a  
17 success or not based on the metrics agreed to with  
18 the USDOE and any other further Staff evaluation and  
19 analysis."

20                 What metrics are you referring to?

21          A.     Well, at the present time, staff doesn't  
22 have any specific metrics. These would be USDOE  
23 metrics. As far as the various things that they've  
24 agreed to and entered into with USDOE, they've, for  
25 instance, they have agreed to install 70 of the

1 community energy's electricity storage systems.  
2 There's some problems with that at the present time;  
3 hopefully, they'll be worked out.

4 But to see the performance of energy  
5 storage over this period of time, if customers  
6 experience an outage or the company deems it's  
7 appropriate to utilize the storage to support the  
8 grid at a given time, say in the summer, to see how  
9 well the storage systems perform.

10 Those kind of metrics they would want to  
11 look at because they are actually funding the  
12 project, and roughly half the total value, roughly  
13 around \$75 million of the 150 million is being paid  
14 by taxpayers via through the stimulus funding.

15 Q. I see.

16 A. There will be many other metrics besides  
17 that. I mean, they have their realtime double option  
18 pricing, they have time-of-use tariffs that they're  
19 offering, they have the distribution automation piece  
20 of it, so there's a lot of other areas that need to  
21 be evaluated to see how they perform.

22 Q. And do these metrics include any  
23 evaluation of the impact of realtime pricing on  
24 customers' total rates?

25 A. There isn't going to be a large-scale

1 realtime price. It's going to be a very small part  
2 of the experiment, but it's not looking at it in  
3 terms of overall rates. It will be looking at what  
4 do -- what would be the impact of those customers had  
5 they just stayed on fixed standard service offer  
6 versus being on the realtime pricing, do they consume  
7 less or more electricity, and when they do consume  
8 that electricity, what was the value at that given  
9 time.

10 Q. Okay. Also on the same page, your answer  
11 beginning on line 23, specifically on line 23, where  
12 you refer to "Not if there are other issues, such as  
13 security and interoperability, that need to be in  
14 compliance with the NISTIR guidelines and/or  
15 standards...."

16 Are those specific issues, namely  
17 security interoperability, still unresolved?

18 A. At the present time I believe they're  
19 still guidelines; they're not listed down as  
20 specified standards. I think they've only resolved a  
21 few of those, maybe six of them. Those relate to  
22 cyber security. I believe the document they're  
23 referring to is No. 7628 of the NISTIR. There's a  
24 lot more to be worked out, but certainly cyber  
25 security is of a major concern. But, at the present

1 time, they're just guidelines.

2 Q. Okay. By the way, what does Phase II of  
3 the company's gridSMART project involve?

4 A. I'm not certain geographically where it  
5 goes. I've heard possibly it could be the northwest  
6 part of the greater Columbus area, but I'm not  
7 certain about that in terms of geographical area.

8 It would be similar to Phase I but it  
9 would be expanded elsewhere.

10 Q. It would involve the same components but  
11 would expand the project geographically.

12 A. Pretty much the same. There may be  
13 sections that may be dropped and certain pieces may  
14 be added or expanded upon as they move forward. As  
15 you learn from Phase I, the things that they're doing  
16 there, you might find that certain things don't work  
17 out so well and other things do much better than  
18 expected. So you would probably expand the things  
19 that did very well and probably reduce the things  
20 that don't work or modify them.

21 Q. Thank you.

22 Turn to the next page, page 6, and  
23 specifically the sentence beginning on line 14,  
24 specifically "The Staff believes that this CSP  
25 gridSMART rider should be continued and recovered

1 from all of AEP Ohio customers."

2 Now, my understanding is that AEP Ohio's  
3 also proposing to recover some of the costs of its  
4 gridSMART project from the distribution investment  
5 rider, DIR. Is that your understanding?

6 A. No. I think all the gridSMART costs are  
7 pretty much recovered through the gridSMART rider,  
8 that I know of.

9 Q. Okay.

10 A. There may be other distribution elements  
11 that are recovered through DIR that may be unrelated  
12 to the smart grid, but I'm not certain exactly what  
13 those are. I mean, tree trimming would be one of  
14 those that aren't part of smart grid, but I  
15 thought -- my understanding is they're separate.

16 Q. And those costs, in your view, should be  
17 recovered from the gridSMART rider.

18 A. If they're related to gridSMART, yes,  
19 they would come through the gridSMART rider.

20 Q. Has the staff done any projections or  
21 analysis as to the likely rate impact on customers of  
22 further expansion of the gridSMART project?

23 A. There isn't enough information to make  
24 that analysis at this time. They've just pretty much  
25 started out with signing up customers in Phase I on

1 an opt-in basis with a few of the time-of-use rates,  
2 and the subscription's been fairly decent, but there  
3 isn't enough information yet to determine whether  
4 customers have changed their behavior yet.

5 One of the -- I should mention, one of  
6 the tariffs has, I think, roughly 1,200 customers  
7 signed up, and the other one has roughly 150.

8 Q. I see.

9 A. From the last information I've seen.

10 MR. SMALZ: Thank you, Mr. Scheck.

11 Your Honor, I have no further questions.

12 EXAMINER TAUBER: Thank you.

13 Mr. Serio?

14 MR. SERIO: Thank you, your Honor.

15 - - -

16 CROSS-EXAMINATION

17 By Mr. Serio:

18 Q. Good morning, Mr. Scheck.

19 A. Good morning.

20 Q. With regard to the gridSMART, the  
21 Commission has approved Phase I, correct?

22 A. Yes.

23 Q. And there's been no approval and there's  
24 no recommendation from you with regard to Phase II,  
25 correct?

1           A.     Other than there is an element called  
2     "volt-var" which we believe would be worthwhile for  
3     the company to pursue, that is part of Phase I but  
4     can be done independently from smart grid itself --  
5     or, I should say, gridSMART, as using the AEP logo,  
6     that could go forward that could provide generation  
7     savings down the road for all customers of AEP.

8           Q.     On page 5 of your testimony you talk  
9     about whether the company should be able to proceed  
10    at their own expense and risk with a Phase II to  
11    gridSMART. Do you see that?

12          A.     Yes.

13          Q.     If the company was to go forward with  
14    Phase II prior to any Commission approval, should  
15    they be allowed to recover those costs through the  
16    rider?

17          A.     Well, from my answer I'm saying no. I  
18    mean, they could proceed at their own risk if they  
19    want to do things, but, again, that would be before  
20    the evaluation of Phase I would be completed.

21                 So my recommendation is wait till the  
22    Phase I is completed and the evaluation of that  
23    project is finished. And I don't believe that's  
24    finished until, the earliest, March 31st of 2014. So  
25    that's a couple of years out.

1           And post that, then, if all the products  
2   and services offered by the company are deemed  
3   successful, then probably the recommendation would be  
4   to go forward and expand. But, short of that, they  
5   would take the risk if they decided to expand and do  
6   more than what is in Phase I. With the exception of  
7   things that aren't related to cyber security or  
8   security, they could go ahead and expand volt-var  
9   beyond Phase I.

10           Q.   Now, earlier this morning you were asked  
11   about your recommendation regarding special  
12   arrangements rather than tariff offerings. Do you  
13   recall that?

14           A.   I don't know if I -- I don't recall  
15   exactly the question. Maybe you'll have to repeat it  
16   to me.

17           Q.   You indicated a preference that any kind  
18   of discounts be done through special arrangements,  
19   rather than through tariff offerings, correct? Isn't  
20   that what your testimony says on page 7?

21           A.   Special discounts. As far as if the -- I  
22   don't think they should be offering, through the  
23   tariff, unlimited amount of interruptible through the  
24   tariff itself, but, rather, they make the offering  
25   separately in their schedules under economic

1 development. They may offer something related to  
2 interruptible but not put it in the interruptible  
3 tariff itself.

4 Q. Why do you prefer that this be done under  
5 special arrangements rather than through the tariff?

6 A. Well, there's a limit to the total amount  
7 of interruptible and, in general, if you're going to  
8 do a special arrangement or a special contract, I  
9 view them as sort of a one-off sort of thing.  
10 They're not part of standardized SSO.

11 So if you were to offer an unlimited  
12 amount of that, I think that should go through under  
13 a title of special arrangement or special contracts  
14 and describe that you could acquire the interruptible  
15 through that, but not put it under the interruptible  
16 tariff itself which has limits of 75 megawatts and  
17 450 megawatts.

18 Q. In your opinion, when a discount is done  
19 through a special arrangement, does that involve more  
20 Commission scrutiny rather than when it's done  
21 through a tariff offering?

22 A. Correct.

23 Q. On page 9 of your testimony, on line 9,  
24 you talk about other distortions and it's your  
25 testimony that any of the discounts or special

1 arrangements constitute a distortion, correct?

2 A. In general, yes. They're through a cost  
3 basis.

4 MR. SERIO: That's all I have. Thank  
5 you, Mr. Scheck.

6 EXAMINER TAUBER: Thank you.

7 Mr. Satterwhite?

8 MR. SATTERWHITE: Thank you, your Honor.

9 - - -

10 CROSS-EXAMINATION

11 By Mr. Satterwhite:

12 Q. Good afternoon now. Mr. Scheck, how are  
13 you doing?

14 A. Good afternoon.

15 Q. I think I might be able to avoid a lot of  
16 the earlier discussion we had earlier. So let's go  
17 with the gridSMART discussion real quick.

18 A. Okay.

19 Q. Now, on pages 3 to 4, you're describing  
20 really the additions made to get the federal grant  
21 approval; is that correct?

22 A. Yes.

23 Q. And are you aware of how much the program  
24 was funded by the federal grant?

25 A. I believe the amount was 75 million or

1 pretty close to that. It might have been a little  
2 less than that. There was -- it was explained to me  
3 there was moneys carved off the top to provide to a  
4 national lab, so the amount of money directly that  
5 came to AEP was on the order of 73, a little over  
6 \$73 million.

7 Q. Do you know what percentage that was  
8 compared to the overall cost of the program?

9 A. The total cost or max reimbursable costs  
10 for the project would be 50 percent.

11 Q. And are you testifying that it was  
12 inappropriate for AEP Ohio to change the program to  
13 get the federal grant?

14 A. No.

15 Q. But the additions made by the company to  
16 receive the grant produced more requirements or data  
17 that you want analyzed before moving forward; is that  
18 fair?

19 A. That's correct.

20 Q. So you don't want to move on to any other  
21 phase or any further implementation of a gridSMART in  
22 AEP Ohio's territory until all of the data associated  
23 with Phase I is analyzed.

24 A. Yes. With the exception of volt-var.

25 Q. And is that because you feel we, the

1 Commission and the company, will not have a full  
2 appreciation of what Phase I delivered until all the  
3 data is analyzed?

4 A. That is correct; especially when you get  
5 into customers' behavior, you won't really get a good  
6 feel for that until you get a couple years of data.

7 Q. Let's move on to you mentioned volt-var,  
8 and I believe on the bottom of page 5, the top of 6,  
9 I think Mr. Smalz or Mr. Serio were talking to you  
10 about this. Is this recommendation that the company  
11 move forward based on the benefits you see of  
12 volt-var improvements?

13 A. Yes. And it has a relationship to the  
14 fact that AEP is going to close a number of power  
15 plants or has proposed to close a number of power  
16 plants to meet the new rules from the EPA and,  
17 therefore, that will cause upward pressure on  
18 generation pricing in the area.

19 So, therefore, volt-var has, at least,  
20 some level of mitigating those prices throughout the  
21 AEP system. The larger amounts you offer of  
22 volt-var, the more solid the savings become.  
23 Volt-var is part of the initial experiment. From the  
24 information we've seen, it saves roughly 3 percent of  
25 peak demand, it saves roughly 3 percent of energy.

1           Q.    And you don't feel that moving forward  
2 with volt-var has any of the securities and  
3 interoperability concerns that you have with the  
4 others?

5           A.    No, I don't.

6           Q.    So if you believe there's a benefit that  
7 can be received by customers, why is it that you  
8 don't want the company to move forward with that and  
9 receive cost recovery?

10          A.    No; I'm not suggesting that in terms of  
11 volt-var. I'm not clear about your question, but  
12 other elements of the smart grid, no, I don't believe  
13 they should proceed forward until more information is  
14 acquired. If there are other elements that certainly  
15 would benefit all customers and don't really impact  
16 cyber security or privacy issues, we'd have to look  
17 at them on a one-by-one basis.

18          Q.    That helps.

19                So for volt-var, then, you don't have any  
20 opposition to the company moving forward and  
21 including something like that in the audits that  
22 would come from the distribution investment rider to  
23 move forward, correct?

24          A.    Correct, it could go through the  
25 distribution investment rider.

1           Q.    I'm trying to decide if I'm going to ask  
2   you any questions on IRP-D or not.

3                    Back on gridSMART. Mr. Cleaver from  
4   staff also provides some testimony on gridSMART as  
5   well, correct?

6           A.    Yes, I believe that's correct.

7           Q.    Is it your understanding that both of  
8   your pieces of testimony are consistent, that the  
9   results should be finalized before relying on Phase I  
10   and moving on to a different phase?

11          A.    And the main -- in general, for pretty  
12   much most of the elements, yes.

13          Q.    Other than the volt-var that we talked  
14   about.

15          A.    Correct.

16                   MR. SATTERWHITE: Thank you. That's all  
17   I have, Mr. Scheck.

18                   EXAMINER TAUBER: Mr. Margard, redirect?

19                   MR. MARGARD: Just a couple minutes,  
20   please, your Honor.

21                   EXAMINER TAUBER: Sure.

22                   Let's go off the record.

23                   (Recess taken.)

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

1 Mr. Margard?

2 MR. MARGARD: Thank you, your Honor. I  
3 have no redirect for Mr. Scheck, and I renew my  
4 motion for admission of Staff Exhibit No. 105.

5 EXAMINER TAUBER: Are there any  
6 objections to -- actually, does the Bench have  
7 questions?

8 EXAMINER SEE: Yes.

9 Mr. Scheck, if the Commission determines  
10 that capacity costs should be at RPM, as a number of  
11 intervenors propose in the capacity case, how does  
12 that affect your IRP-D value?

13 THE WITNESS: Well, since the auctions  
14 have been determined for the next four years, I  
15 believe, it's like \$16-and-something this year,  
16 \$27 the following year, \$125.99 the next year, and  
17 the last auction, I'm not sure exactly what the price  
18 is, but, in any event, those that are less than \$146,  
19 the capacity credit would actually be lower.

20 EXAMINER SEE: And for those that are  
21 above?

22 THE WITNESS: Yes, if this past auction  
23 in May, and I can't remember what the price was if  
24 the past auction was higher than that, then it would  
25 be higher in '15 and '16; otherwise, it would be

1 lower.

2 EXAMINER SEE: Thank you.

3 EXAMINER TAUBER: Thank you, Mr. Scheck.  
4 You may be excused.

5 Mr. Margard.

6 MR. MARGARD: I renew my motion, your  
7 Honor.

8 EXAMINER TAUBER: Any objections to Staff  
9 Exhibit 105?

10 (No response.)

11 EXAMINER TAUBER: Hearing none, Staff  
12 Exhibit 105 shall be admitted.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER TAUBER: Mr. Kurtz?

15 MR. KURTZ: Your Honor, I move for the  
16 admission of OEG Exhibits 103 through 106.

17 EXAMINER TAUBER: Any objections to OEG  
18 Exhibits 103 to 106?

19 (No response.)

20 EXAMINER TAUBER: Hearing none, they  
21 shall be admitted into the record.

22 (EXHIBITS ADMITTED INTO EVIDENCE.)

23 EXAMINER TAUBER: Mr. Pritchard?

24 MR. PRITCHARD: IEU moves for the  
25 admission of IEU Exhibits 130 and 131.

1 EXAMINER TAUBER: Any objection to IEU  
2 Exhibits 130 and 131?

3 MR. SERIO: Your Honor, with regard to  
4 IEU Exhibit 130, OCC was a signatory party and we  
5 support it, we signed the Duke stip and support it,  
6 both stipulations contain language that say  
7 stipulations are not supposed to be used for  
8 precedent. So, to the extent that they're not  
9 supposed to be used for precedent, we would object to  
10 this and similarly object to the Duke stipulation  
11 being put into the record in this case.

12 EXAMINER TAUBER: Thank you.

13 There's another objection, Mr. Margard?

14 MR. MARGARD: Your Honor, I suppose not  
15 specifically an objection, but I'll note that with  
16 respect to both of these documents, which certainly  
17 reflect certified records of the Commission and,  
18 therefore, shall be admissible on those grounds, that  
19 Mr. Scheck was asked to read portions of them into  
20 the record and to indicate that they said what they  
21 said, but was never asked his opinion regarding them  
22 or even asked regarding his knowledge about these  
23 documents.

24 So I certainly acknowledge that they're  
25 Commission documents but I'm not sure their inclusion

1 as evidence does anything to support this record.

2 EXAMINER TAUBER: Mr. Pritchard?

3 MR. PRITCHARD: Yes.

4 First, to respond to OCC's objection,  
5 we're not using these for any sort of precedential  
6 value. My use of the stipulation is for enforcement  
7 purposes which is allowed by the stipulation. The  
8 stipulation sets forth a budget for the energy  
9 efficiency plan including demand response programs  
10 and it details how those things will be recovered.

11 Mr. Scheck testified that he thought that  
12 if the Commission would approve a special  
13 arrangement, it would be recovered through the EDR.  
14 The stipulation specifically states otherwise. So  
15 it's being used to enforce the terms of the  
16 stipulation and we plan on using those on brief.

17 And to address Mr. Margard's point, he's  
18 admitted that they're true and accurate and they're  
19 relevant to impeach Mr. Scheck on the point that  
20 these costs could be recovered elsewhere. The EE/PDR  
21 and the action plan in the stipulation here set forth  
22 the terms and the agreement of the parties to that  
23 case, and so our purpose here is to try to enforce  
24 those terms.

25 And he testified to the subject matter

1 that's contained in these documents and these  
2 documents will impeach his testimony and further shed  
3 light on how the Commission should rule in this case.

4 EXAMINER TAUBER: As these documents  
5 aren't being used for precedent and as they were  
6 utilized for the purposes of clarifying the record,  
7 we'll admit IEU Exhibits 130 and 131 at this time.

8 (EXHIBITS ADMITTED INTO EVIDENCE.)

9 EXAMINER TAUBER: Ms. McAlister.

10 MS. McALISTER: Thank you, your Honor.  
11 The OMA Energy Group calls Mr. Walters of the Lima  
12 Refining Company.

13 EXAMINER TAUBER: Mr. Walters, could you  
14 please raise your right hand.

15 (Witness sworn.)

16 EXAMINER TAUBER: Thank you.

17 - - -

18 RICHARD J. WALTERS, SR.  
19 being first duly sworn, as prescribed by law, was  
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 By Ms. McAlister:

23 Q. Mr. Walters, could you please state your  
24 name and business address for the record.

25 A. Yeah. It's Richard J. Walters, Sr. The

1 address is 1150 South Metcalf Street, Lima, Ohio.

2 Q. And by whom are you employed?

3 A. Lima Refining Company.

4 Q. And on whose behalf are you providing  
5 testimony today?

6 A. The OMA Energy Group.

7 Q. And was that testimony that was filed on  
8 May 4th, 2012, in this proceeding prepared by you or  
9 at your direction?

10 A. It was at my direction.

11 MS. McALISTER: Your Honor, at this time  
12 I'd like to have marked as OMA Energy Group Exhibit  
13 105-A the public version of Mr. Walters' prefiled  
14 direct testimony, and as OMA Energy Group Exhibit  
15 105-B the confidential version.

16 EXAMINER TAUBER: The exhibits shall be  
17 so marked.

18 (EXHIBITS MARKED FOR IDENTIFICATION.)

19 Q. Mr. Walters, do you have a copy of what's  
20 just been marked as OMA Energy Group Exhibits 105-A  
21 and B with you?

22 A. I do.

23 Q. Do you have any changes or additions to  
24 make to those exhibits?

25 A. No changes.

1           Q.    And if I were to ask you the same  
2 questions today as what are in those exhibits, would  
3 your answers be the same?

4           A.    Yes.

5           Q.    And they're true and correct to the best  
6 of your knowledge and belief?

7           A.    They are.

8           MS. McALISTER: Your Honor, at this time  
9 I would move for the admission of OMA Energy Group  
10 Exhibits 150-A and B, subject to cross-examination,  
11 and Mr. Walters is available for cross.

12          EXAMINER TAUBER: Thank you.

13          Mr. Barnowski?

14          MR. BARNOWSKI: No questions, your Honor.

15          EXAMINER TAUBER: Mr. Yurick?

16          MR. YURICK: No questions.

17          EXAMINER TAUBER: Mr. Campbell?

18          MR. CAMPBELL: No questions.

19          EXAMINER TAUBER: Mr. Kurtz?

20          MR. KURTZ: No questions, your Honor.

21          EXAMINER TAUBER: Ms. Kingery?

22          MS. KINGERY: No questions, your Honor.

23          EXAMINER TAUBER: Mr. Pritchard?

24          MR. PRITCHARD: No questions, your Honor.

25          EXAMINER TAUBER: Mr. Lang?

1 MR. LANG: No. Thank you.

2 EXAMINER TAUBER: Mr. Smalz?

3 MR. SMALZ: No questions, your Honor.

4 EXAMINER TAUBER: Mr. Serio?

5 MR. SERIO: Thank you, your Honor.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Serio:

9 Q. Good morning.

10 A. Good morning.

11 Q. You indicate that you have two  
12 manufacturing plants.

13 A. It's two sites. We have a manufacturing  
14 plant in Lima, and the site in Dublin is our  
15 marketing office.

16 Q. What do you manufacture specifically?

17 A. We turn crude oil into various products,  
18 mostly gasoline, diesel, and jet.

19 Q. And the end-customer that purchases those  
20 products is generally the gasoline residential  
21 customers?

22 A. Yeah. We're generally going to the  
23 middle market there, you know, to people, suppliers  
24 at the rack, et cetera.

25 Q. Now, to the extent that you're not able

1 to mitigate the costs and you have to pass them  
2 along, you pass those additional costs that you would  
3 incur from this case on to those end-use customers,  
4 correct?

5 A. Our market is determined every day by  
6 the, call it the "global and local economics," so  
7 whatever the market bears on any given day is what  
8 we're able to get for our products; and, no, we would  
9 not be able to pass those on unless the market price,  
10 you know, unless somehow everybody -- all of  
11 refining, in my view, was receiving these costs, I  
12 would then say that somehow they would get passed on,  
13 but other than that, no, that's not an option for us.

14 Q. Now, you talk about the RSR in your  
15 testimony.

16 A. That's correct.

17 Q. Is it your understanding that the RSR is  
18 to recover the cost of generation that's stranded as  
19 a result of customer shopping?

20 A. Vaguely. I mean, what I understand  
21 mostly about the RSR is that it's an attempt, as I  
22 understand it, to get AEP up to that roughly 10-1/2  
23 percent ROE.

24 MR. SERIO: That's all I have, your  
25 Honor.

1 Thank you.

2 THE WITNESS: You're welcome.

3 EXAMINER TAUBER: Ms. Moore?

4 MS. MOORE: Thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 By Ms. Moore:

8 Q. Good morning, Mr. Walters.

9 A. Good morning.

10 Q. Mr. Walters, in your testimony you state  
11 that Lima Refining in recent years has shopped the  
12 generation portion of its electric bills in order to  
13 take advantage of attractive market rates; is that  
14 correct?

15 A. That's correct.

16 Q. When you used term "market rates," to  
17 what do you refer?

18 A. Our understanding of market is the PJM  
19 auction rate in that regard.

20 Q. And so when you use "market rate," are  
21 you referring to the RPM price that is set by auction  
22 in PJM?

23 A. Yes.

24 Q. And so if I replace the words "market  
25 rates" in your testimony with "RPM price," would your

1 testimony still be accurate? And by that I mean, if  
2 I see "market rates" elsewhere in your testimony, you  
3 mean "RPM price."

4 A. Given my general ignorance on all of  
5 these acronyms, I would probably say I'm not quite  
6 sure on that. My understanding, limited as it is, is  
7 that the auction rate is the, quote/unquote, market  
8 that PJM has driven through the auction process.  
9 Beyond that and what RPM exactly stands for, I'm at a  
10 loss.

11 Q. And I think you just answered this  
12 question, but can you explain what your understanding  
13 of RPM is?

14 A. I don't believe I specifically -- maybe I  
15 did. Let me look here.

16 Beginning -- I think my understanding is  
17 that it's related to the auction price. I think,  
18 beyond that, I don't have a better understanding than  
19 that.

20 Q. Okay. How do you understand the RPM  
21 price for capacity to be set?

22 A. My understanding on that auction process  
23 is that it's set out in the future and I believe it's  
24 on a three-year process, and I know the rates are  
25 quite low now but escalate as the years -- as those

1 three years go forward.

2 Q. Okay. And you agree that it's set in an  
3 auction?

4 A. Uh-huh.

5 Q. Okay. Do you know whether that auction  
6 is a truly an open auction in which anyone can  
7 participate?

8 A. No, I don't.

9 Q. Do you know whether there are limits on  
10 the amount of capacity any party participating in the  
11 auction is permitted to bid into the auction?

12 A. I don't know that information.

13 Q. Are you familiar with the FRR option in  
14 PJM?

15 A. If I'm not mistaken, that was AEP's  
16 election to not participate because they're a  
17 generating -- they're a generating power supplier and  
18 so they -- I think that's their -- the reason they  
19 did not participate.

20 Q. And when you state that AEP elected not  
21 to participate, do you mean that AEP elected not to  
22 participate in the base residual auction that sets  
23 the RPM price?

24 A. That's -- yeah, that's how I would  
25 understand it.

1           Q.    Okay.  Do you know whether AEP Ohio, as  
2   an FRR entity, is permitted to bid capacity into the  
3   base residual auction?

4           A.    I don't know that.

5           Q.    And you agree that competitive retail  
6   electric suppliers, or CRES providers, in AEP Ohio's  
7   service territory purchase capacity from AEP Ohio?

8           A.    Yes.

9           Q.    Do you know whether a CRES provider has  
10  the option to self-supply its capacity?

11          A.    I don't know that.

12          Q.    Now, on page 3 of your testimony,  
13  beginning at line 23, and going on to page 4, line 2,  
14  you state -- are you there?

15          A.    I'm there.

16          Q.    Okay.  You state that no one knows the  
17  RPM price for June 1st, 2015, and beyond.  Do you see  
18  that?

19          A.    I do.

20          Q.    Is this still your understanding?

21          A.    That's my understanding.

22          Q.    Now, if you could turn with me to page 7  
23  of your testimony.  Are you there?

24          A.    Uh-huh.

25          Q.    Okay.  You have a statement here on lines

1 12 through 15 where you state that "AEP-Ohio used the  
2 PJM RPM to price capacity when the PJM rates were  
3 above AEP Ohio's costs." Do you see that --

4 A. I do.

5 Q. -- part of the sentence?

6 A. Uh-huh.

7 Q. What is the basis for your belief that  
8 the PJM rates were ever above AEP Ohio's costs?

9 A. My basis on that would just be in talking  
10 to OMA representatives in the energy group and with  
11 Scioto Energy who we consult with for our electricity  
12 for the refinery.

13 Q. Have you consulted any source information  
14 or done any analysis yourself of whether the PJM RPM  
15 rate was ever higher than AEP Ohio's costs?

16 A. I have not.

17 Q. Thank you.

18 And if you could turn back with me to  
19 page 4 of your testimony. You state on lines 11 and  
20 12 that the difference between the PJM RPM price and  
21 the AEP-Ohio capacity charge will be passed on to  
22 Lima Refining, correct?

23 A. Yes.

24 Q. What's the basis for that belief?

25 A. Our contract allows it, and so given the

1 very large numbers that could be generated based on  
2 these dollars, it's my belief that that's what our  
3 CRES provider would do.

4 Q. Now, you said your "contract allows it."  
5 So does that mean that it is an option that the  
6 CRES -- that your CRES provider could exercise --

7 A. Yes.

8 Q. -- in the contract?

9 A. Yes.

10 Q. Has your CRES provider informed you that  
11 it intends to exercise that option?

12 A. They have not.

13 Q. And when did Lima Refining begin shopping  
14 for electric service?

15 A. We started this process, I'm losing track  
16 of the months, but I want to say about a year and a  
17 half ago when we first started talks, and then  
18 actually consummated a deal around August of last  
19 year.

20 Q. So around August 2011?

21 A. Correct.

22 Q. Has Lima Refining had the same CRES  
23 provider since August 2011?

24 A. Yes.

25 Q. Also on page 4 you have a table that

1 shows the difference between RPM and \$355 per  
2 megawatt-day, \$255 per megawatt-day, and \$146 per  
3 megawatt-day. Do you see that?

4 A. I do.

5 Q. Did you calculate these numbers?

6 A. I reviewed them under -- basically  
7 understand the calculations and validated it.

8 Q. Can you explain the process that you went  
9 through to review and validate them?

10 A. Yeah. We looked at what we understand  
11 the, quote/unquote, market rates to be, which are the  
12 auction rates for the next three years, and we took  
13 that calculation out for each of the years 2012, '13,  
14 and '14, and then did the same with these  
15 megawatt-per-day calculations based on the 355, 255,  
16 and 146, and came up with a difference.

17 And it does -- well, never mind. I'll  
18 stop there.

19 Q. And these numbers, again, assume a  
20 100 percent -- that 100 percent of any increase in  
21 your CRES provider's cost of capacity will be passed  
22 through to Lima Refining?

23 A. They do.

24 Q. But, again, you don't know for certain  
25 whether they will.

1           A.    I do not know that for certain.

2           Q.    In your understanding, under what  
3 circumstances would a CRES provider be required to  
4 pay \$355 per megawatt-day for capacity?

5           A.    I guess my understanding would be if  
6 that's what the ruling of the Commission is as it  
7 relates to capacity, that 355's the number, then  
8 that's the number that AEP will pass to the provider.  
9 And it's my belief, 99 percent, that they will pass  
10 that on to us and then we'll have a decision to make.

11          Q.    What is your belief that they will pass  
12 on their increase to you based on?

13          A.    Common sense. I can't fathom, again,  
14 with the millions of dollars that we're talking  
15 about, I mean, Lima's bill last year for power was  
16 \$45 million, so this is a huge number and it would be  
17 a huge number for our provider to eat, so I don't  
18 envision any way that they would eat that.

19          Q.    So you're assuming that there would be no  
20 other -- that a CRES provider or your CRES provider  
21 would possess no other way in which they could  
22 mitigate their costs or otherwise, nonetheless, offer  
23 a price lower than the standard service offer price  
24 being offered.

25          A.    Yeah; none that I'm aware of.

1           Q.    Are you aware that there are two  
2 proposals for capacity being presented in this case?  
3 Two alternatives?

4           A.    I guess I'm aware that there's a tiered  
5 approach that X percent will get potentially a lower  
6 rate. Is that what you're referring to?

7           Q.    Well, I think what you've just described  
8 is one alternative proposal.

9           A.    Okay.

10          Q.    Are you aware of a second alternative  
11 proposal in which CRES providers would pay AEP Ohio  
12 \$355 per megawatt-day and retail customers, such as  
13 Lima Refining, would receive an energy credit?

14          A.    I'm aware that there -- to that point, I  
15 guess I am aware that there was a -- there was the  
16 potential for a credit. I have not seen how much  
17 that is. My understanding, it's nominal. So I don't  
18 know that it's material to this, but that's my  
19 understanding.

20          Q.    Okay. But is it correct that you have  
21 not looked into or run the numbers to assess what the  
22 impact of that proposal would be on Lima Refining?

23          A.    That's correct. Because I don't know  
24 what that credit is.

25          Q.    Would you allow one of your competitors

1 to use your facilities at less than your cost?

2 A. I'm not -- I guess we don't -- we don't  
3 sell out our -- sell out our facilities, so I'm not  
4 sure I understand the question.

5 Q. I can state it differently. Would you  
6 allow one of your competitors to purchase your  
7 product at less than your cost?

8 A. Unfortunately, in our -- which I had  
9 explained earlier, we're subject to the market of the  
10 day. So it happens, on many occasions, where the  
11 value of our product on a given day may have been  
12 here, and if the market drops, which, for example,  
13 the cost of crude dropped to -- has dropped \$16 in  
14 the last 30 days, so, unfortunately, we have had to  
15 take a severe write-down of millions of dollars. So  
16 it happens every day because we're subject to the  
17 market on a daily basis.

18 Did that answer your question?

19 Q. Well, if you were given the choice, would  
20 you allow one of your competitors to purchase your  
21 product at less than your cost?

22 A. If we were able to set our prices, I  
23 would absolutely set them at above cost. We don't  
24 have that option.

25 Q. You touched on this briefly earlier with

1 Mr. Serio, but can you explain for me your  
2 understanding of the RSR?

3 A. Yeah. I actually -- my understanding is  
4 kind of, as best I can, it's an offset that allows  
5 AEP to get to or approach that 10.5 percent return on  
6 equity is my understanding of what that RSR is for.

7 Q. And what is the basis for that  
8 understanding?

9 A. Again, it's through my communication with  
10 people I deem to be much more experts in this than,  
11 which is the table at the OMA Energy Group and people  
12 with Scioto Energy who I consult with.

13 Q. Now, do you know whether the RSR is  
14 designed so that for each calendar year AEP Ohio  
15 would be able to earn a 10.5 percent ROE, actually  
16 earn a 10.5 percent ROE?

17 A. I don't know that, no.

18 Q. Do you agree that the ability to shop for  
19 electric service is a benefit to customers?

20 A. The way it was presented to me a year  
21 ago, yes, I believed that. Now, I'm wondering, based  
22 on the cases that are swirling around, because it  
23 feels like it's not truly competitive. And so I'm  
24 struggling, as explaining this to my boss and their  
25 boss, how competitive are we really and how fair is

1 the pricing.

2 So it doesn't feel real competitive to me  
3 right now, particularly if a couple of these  
4 proposals would go through as stated.

5 Q. Would you agree that increased  
6 transparency in electric service billing would be a  
7 benefit?

8 A. On its face, yes.

9 Q. Do you agree that price stability or rate  
10 stability would be a benefit to customers?

11 A. Yes. And the only thing I would add to  
12 that is and that is why we shopped, because we felt  
13 and believed that we were getting a two-and-a-half-  
14 to three-year deal that would give us that stability  
15 and, unfortunately, that stability has gone out the  
16 window from what -- from my interpretation of what's  
17 happening now, so.

18 Q. On page 8 of your testimony, at line  
19 18 --

20 A. I'm sorry, what line?

21 Q. Page 8, line 18.

22 A. Okay.

23 Q. You refer to the RSR as, I believe,  
24 making AEP Ohio whole for its fully loaded capacity  
25 costs.

1 A. Okay.

2 Q. Is it your understanding that the RSR is  
3 designed to make AEP Ohio whole?

4 A. It's my understanding whole to the point  
5 of approaching the 10-1/2 percent guaranteed ROE.

6 Q. Okay. So when you use the word "whole,"  
7 you don't use it to mean that AEP Ohio will be  
8 entitled to recover all of the lost revenue, all of  
9 its lost revenue?

10 A. I don't intend that because I don't know  
11 what that is. It's truly in reflection of the 10-1/2  
12 percent target ROE.

13 Q. And on line 6 of page 8, you state that  
14 the RSR would not be part of the price to compare.  
15 What do you mean by that statement?

16 A. I guess my understanding, limited as it  
17 is, is that if this RSR is passed to everybody, then  
18 it kind of comes off the table and would no longer be  
19 a part of me comparing to what my CRES provider can  
20 offer because everybody's -- everybody's-paying-it  
21 kind of a thing.

22 Q. Now, in preparing your prefilled testimony  
23 or in preparing for hearing today, did you review the  
24 company's application in this proceeding?

25 A. I reviewed, as of last night, Mr. Powers'

1 testimony briefly. But other than that, no.

2 Q. Other than Mr. Powers' testimony, which  
3 you reviewed last night, did you review any other  
4 AEP Ohio witness testimony in preparing your direct  
5 testimony or in preparing for hearing today?

6 A. No.

7 Q. And you calculate, on page 5, the impact  
8 of AEP Ohio's proposed RSR. I believe it's on lines  
9 5 through 7.

10 A. Okay.

11 Q. Can you walk me through how you performed  
12 that calculation? Actually, let me back up.

13 Did you perform that calculation?

14 A. I validated it, yes.

15 Q. Could you walk me through how that  
16 calculation was --

17 A. Yeah. My understanding --

18 MS. McALISTER: Just a second. I just  
19 want to make sure you don't go into any confidential  
20 information here because that portion has been  
21 redacted out of your testimony.

22 MS. MOORE: Thank you, Ms. McAlister.  
23 Yes.

24 Q. And when I asked you to walk me through,  
25 I just mean theoretically how you would -- what you

1 would do; not any numbers or any dollar figures.

2 A. Yeah, I got you. We took our total  
3 annual kilowatt usage and times the factor as we know  
4 it to be for RSR and it gives the number.

5 Q. And right below that you calculate the  
6 combined impact of AEP Ohio's capacity proposal in  
7 the RSR?

8 A. That's correct.

9 Q. To reach those numbers did you simply add  
10 the capacity numbers that we discussed earlier to the  
11 RSR number that we just discussed?

12 A. Yes.

13 Q. Okay. Do you agree that AEP Ohio should  
14 be fairly compensated for the capacity that it  
15 supplies to CRES providers?

16 A. I guess my stance would be, is if we  
17 followed the market forces, then that fairness will  
18 come out. And to the degree if we're not at market  
19 yet, then it's up to the Commission to determine,  
20 obviously, what fair is.

21 I know what I'm being asked to pay right  
22 now I don't consider fair, so.

23 Q. So, yes, you do agree that AEP Ohio  
24 should be fairly compensated for the capacity that it  
25 supplies to CRES providers?

1           A.    As long as I get to evaluate what "fair"  
2 is, yes.

3           Q.    Now, on page 5 of your testimony, from  
4 lines 20 to 22, you state that there are no practical  
5 ways to mitigate the increase that will result from  
6 AEP Ohio's proposals and that AEP Ohio's proposals  
7 hold customers captive to higher rates and,  
8 essentially, serve as a tax on shopping. Do you see  
9 those lines?

10          A.    I do.

11          Q.    Again, this statement assumes that CRES  
12 providers will pass on 100 percent of any increase in  
13 their cost of capacity to you?

14          A.    It does.

15          Q.    Can you explain what you mean when you  
16 state that AEP Ohio's proposals hold customers  
17 captive to higher rates?

18          A.    Well, I would go back to our whole reason  
19 for shopping was a belief that we had locked in a  
20 stable, competitive rate that we could count on for  
21 this three-year period and, based on these proposals,  
22 in my opinion, that's gone out the window. And so  
23 that -- I guess that's what I mean by that.

24          Q.    Rates won't necessarily be higher under  
25 AEP Ohio's proposals, correct?

1           A.    I don't follow.

2           Q.    The rate that you pay will not  
3 necessarily be higher than the rate you presently  
4 pay.

5           MS. McALISTER:   Could I have a  
6 clarification?  Are you talking about total -- total  
7 electric costs or a portion of the rates that is paid  
8 to AEP Ohio?

9           MS. MOORE:   I'm talking about total  
10 electric costs.  Lima Refining's total costs.

11          A.    I mean, as my understanding, our rates  
12 will absolutely go up if this -- if a portion of this  
13 proposal goes through because our CRES provider used  
14 the, quote/unquote, market rate for capacity as they  
15 made their calculations.

16                So any increase -- we already, in June,  
17 have a temporary order to, and I believe which is at  
18 the \$146 rate, and that already is costing our  
19 refinery complex \$400,000.  So, absolutely, I believe  
20 anything done here is going to cost the refinery more  
21 than what we would pay -- have paid under the CRES  
22 contract that I have.

23          Q.    Now, you just said that your CRES  
24 provider used the, quote/unquote, market rate for  
25 capacity as they made their calculations in

1 determining your contract with them, correct?

2 A. I did.

3 Q. That's an assumption, correct? You don't  
4 know for sure whether that is -- you don't know what  
5 your CRES provider used to determine what price to  
6 charge you.

7 A. I believe that's what they did and that's  
8 my understanding of what -- the consultant does know  
9 that for a fact, who understands this stuff much  
10 better than I. So, yeah, I believe that to be the  
11 case that they did use that.

12 Q. Did anyone from your CRES provider  
13 actually tell you that that's what they used?

14 A. No. Again, they work through Scioto  
15 Energy. Scioto Energy is telling me or advising the  
16 refinery and advising me. So I did not speak  
17 directly with them.

18 Q. Can you explain what you mean when you  
19 state that AEP Ohio's proposals are a tax on  
20 shopping?

21 A. I believe, and again, I guess I hate to  
22 keep repeating myself, but I believe that when we  
23 shopped, we felt like we had contracted a good  
24 competitive rate that locked in a stable price.

25 Now I believe, with the proposals that

1 are coming through, it is absolutely negating the  
2 benefits of shopping which does not seem competitive  
3 to me.

4 Q. Mr. Walters, a moment ago you stated that  
5 your bill has increased \$400,000 since June 1st. Did  
6 I understand that correctly?

7 A. I don't have the bill yet, since June's  
8 still going, but we've done the calculation and  
9 that's our estimate of the cost, yes.

10 Q. Did your CRES provider inform you that it  
11 was going to pass through a decrease in the RPM price  
12 from \$146 to \$126 on June 1st?

13 A. I am -- no, I have not spoken with them  
14 directly.

15 MS. MOORE: Thank you, Mr. Walters.

16 I have no further questions, your Honor.

17 EXAMINER TAUBER: Thank you.

18 Mr. Beeler?

19 MR. BEELER: Nothing, your Honor. Thank  
20 you.

21 EXAMINER TAUBER: Ms. McAlister,  
22 redirect?

23 MS. McALISTER: Just one question, your  
24 Honor, that I will actually steal from Mr. Serio.

25 EXAMINER TAUBER: Go ahead.

1                               - - -

2                               REDIRECT EXAMINATION

3       By Ms. McAlister:

4               Q.     Mr. Walters, would you take a lower, less  
5       stable price over a higher, more stable price?

6               A.     I guess that's a difficult one to answer  
7       because you would have to do the math and quantify it  
8       and then weigh the risks. Are we talking six months  
9       out? A year out?

10              You know, I mean, all I can tell you is  
11     what the company decided to do based on a three-year  
12     agreement that offered both stability and what we  
13     felt was a good competitive price, although higher  
14     than what we were already paying.

15              We understood that the market is driving  
16     costs higher and so we've seen a 30-percent increase  
17     since 2008 to 2011. That's millions of dollars.

18              We understand that AEP, or whoever our  
19     provider is, needs to receive, you know, full pay for  
20     the assets that they're employing. It's mitigating  
21     and holding that to a reasonable line. And the  
22     increases that we're seeing proposed are in no way  
23     reasonable.

24              So sorry for the long-winded answer, but  
25     we would have to weigh all the factors, you know,

1 because mitigating the risk and looking at  
2 variability versus a fixed rate and, you know, it  
3 would just depend on a lot of factors, so.

4 MS. McALISTER: Thank you, Mr. Walters.

5 EXAMINER TAUBER: Recross, Mr. Barnowski?

6 MR. BARNOWSKI: No questions.

7 EXAMINER TAUBER: Mr. Yurick?

8 MR. YURICK: No questions.

9 EXAMINER TAUBER: Mr. Campbell?

10 MR. CAMPBELL: No. Thank you.

11 EXAMINER TAUBER: Mr. Kurtz?

12 MR. KURTZ: No questions, your Honor.

13 EXAMINER TAUBER: Ms. Kingery?

14 MS. KINGERY: No questions, your Honor.

15 EXAMINER TAUBER: Mr. Pritchard?

16 MR. PRITCHARD: No questions, your Honor.

17 EXAMINER TAUBER: Mr. Lang?

18 MR. LANG: No. Thank you.

19 EXAMINER TAUBER: Mr. Smalz?

20 MR. SMALZ: No questions, your Honor.

21 EXAMINER TAUBER: Mr. Serio?

22 MR. SERIO: No questions. Thank you.

23 EXAMINER TAUBER: Ms. Moore?

24 MS. MOORE: No questions, your Honor.

25 EXAMINER TAUBER: Mr. Margard or

1 Mr. Beeler?

2 MR. BEELER: No. Thank you.

3 EXAMINER TAUBER: You may be excused.

4 Thank you.

5 THE WITNESS: Thank you.

6 MS. McALISTER: Your Honor, at this time  
7 I would renew my motion for admission of OMA Energy  
8 Group Exhibits 105-A and B.

9 EXAMINER TAUBER: Are there any  
10 objections to OMA Energy Group Exhibits 105-A and  
11 105-B?

12 (No response.)

13 EXAMINER TAUBER: Hearing none, they  
14 shall be admitted into the record.

15 (EXHIBITS ADMITTED INTO EVIDENCE.)

16 EXAMINER TAUBER: Ms. McAlister.

17 MS. McALISTER: Thank you, your Honor.  
18 At this time the OMA Energy Group calls Mr. Johnson  
19 from Summitville Tile Company.

20 EXAMINER TAUBER: Mr. Johnson, please  
21 raise your right hand.

22 (Witness sworn.)

23 EXAMINER TAUBER: Thank you.

24 - - -  
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DAVID W. JOHNSON

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

DIRECT EXAMINATION

By Ms. McAlister:

Q. Mr. Johnson, could you please state your  
name and business address for the record.

A. My name is David W. Johnson, and our  
address is State Route 644 in Summitville, Ohio.

Q. And by whom are you employed?

A. Summitville Tiles, Incorporated.

Q. And on whose behalf are you providing  
testimony today?

A. The OMA Energy Group.

Q. Okay. And was that testimony that was  
filed on May 4th, 2012, in this proceeding prepared  
by you or at your direction?

A. Yes, ma'am.

MS. McALISTER: Your Honor, at this time  
I'd like to have marked as OMA Energy Group Exhibit  
106-A the public version of Mr. Johnson's prefiled  
direct testimony, and as OMA Energy Group Exhibit  
106-B the confidential version.

EXAMINER TAUBER: They shall be so  
marked.

1 (EXHIBITS MARKED FOR IDENTIFICATION.)

2 MS. McALISTER: Your Honor, I'd also like  
3 to note for the record that there was a late-filed  
4 exhibit to Mr. Johnson's testimony that was  
5 inadvertently omitted from the original filing.

6 EXAMINER TAUBER: Was it distributed to  
7 the parties?

8 MS. McALISTER: I believe so. It was  
9 filed publicly, I can tell you the dates, but I also  
10 provided it to the Bench and the court reporter.

11 EXAMINER TAUBER: Thank you.

12 Q. (By Ms. McAlister) Mr. Johnson, do you  
13 have a copy of what's just been marked as OMA Energy  
14 Group Exhibits 106-A and B?

15 A. I do.

16 Q. And do you have any corrections or  
17 additions to those?

18 A. I do not.

19 Q. If I were to ask you the same questions,  
20 would your answers be the same?

21 A. Yes.

22 Q. And those are true and correct to the  
23 best of your knowledge and belief?

24 A. Yes.

25 MS. McALISTER: Your Honor, I would move

1 for the admission of OMA Energy Group Exhibit 106-A  
2 and B, subject to cross-examination, and Mr. Johnson  
3 is available for cross.

4 EXAMINER TAUBER: Thank you.

5 Mr. Barnowski?

6 MR. BARNOWSKI: No questions, your Honor.

7 EXAMINER TAUBER: Mr. Yurick?

8 MR. YURICK: No questions.

9 EXAMINER TAUBER: Mr. Campbell?

10 MR. CAMPBELL: No. Thank you.

11 EXAMINER TAUBER: Mr. Kurtz?

12 MR. KURTZ: No questions.

13 EXAMINER TAUBER: Ms. Kingery?

14 MS. KINGERY: No questions.

15 EXAMINER TAUBER: Mr. Pritchard?

16 MR. PRITCHARD: No questions, your Honor.

17 EXAMINER TAUBER: Mr. Lang?

18 MR. LANG: No. Thank you.

19 EXAMINER TAUBER: Mr. Smalz?

20 MR. SMALZ: No questions.

21 EXAMINER TAUBER: Mr. Serio?

22 MR. SERIO: Thank you, your Honor.

23 - - -

24 CROSS-EXAMINATION

25 By Mr. Serio:

1 Q. Good afternoon.

2 A. Good afternoon.

3 Q. Can you tell me what product you  
4 manufacture specifically?

5 A. We manufacture ceramic tile products,  
6 brick products, and also a line of cement-related  
7 products that are used to install ceramic tile and  
8 brick.

9 Q. And is the product that you manufacture  
10 targeted to sell to homeowners?

11 A. Mostly to commercial institutional and  
12 industrial but some residential.

13 Q. To the extent that you're not able to  
14 mitigate the cost increase that might come about from  
15 this case, then any increases that you get you're  
16 forced to pass on to your customers, correct?

17 A. If possible. We're in an extremely  
18 competitive global market in the ceramic tile  
19 industry. 85 percent of all the tile sold in the  
20 United States is imports, so we are under extreme  
21 pressure on pricing. So if you can pass it on, I  
22 would. But, in most cases, we'd have to probably eat  
23 it.

24 Q. Okay. If you were given a choice between  
25 a higher stable price and a lower unstable price,

1     what's your preference?

2             A.     My preference would be to take a lower  
3     price as long as I can get it.

4             Q.     And if you're given an option between  
5     having a higher transparent price or a lower less  
6     transparent price, what's your preference?

7             A.     Well, obviously, we like lower prices,  
8     but we like, you know, stability and we try to get  
9     both.  It's difficult for me to say I'll take one or  
10    the other.  I'd prefer lower and stable prices as  
11    best I can get them, but the market being what it is,  
12    we live in a very competitive world and we have to be  
13    good shoppers.

14            Q.     Would it be fair to say that transparency  
15    and stability are secondary to price?

16            A.     I wouldn't say they're secondary.  I'd  
17    say they're all equally important.

18            Q.     Do you understand the RSR to be a charge  
19    that the company wants in order to recover the costs  
20    of stranded generation as a result of customer  
21    shopping?

22            A.     That's my understanding.

23                   MR. SERIO:  That's all I have, your  
24    Honor.  Thank you.

25                   EXAMINER TAUBER:  Thank you.

1 Ms. Moore?

2 MS. MOORE: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 By Ms. Moore:

6 Q. Hello, Mr. Johnson. How are you this  
7 afternoon?

8 A. Good. Thank you.

9 Q. Good. If you could turn with me to page  
10 4 of your prefiled testimony.

11 A. Okay.

12 Q. You state that Summitville has shopped  
13 the generation portion of its electric bills to take  
14 advantage of attractive market rates, correct?

15 A. That's correct.

16 Q. When you say "market rates," to what are  
17 you referring?

18 A. Well, I'm referring to the contract that  
19 we entered into with AEP Retail back in May of 2011,  
20 at which time we were told the market rate for the  
21 energy that we were purchasing was \$6.29 per  
22 kilowatt-hour, and we were locked in for a period of  
23 33 months based upon that rate.

24 And I was told by my people -- again, I'm  
25 not the expert -- but my staff told me that at that

1 point in time that was considered the market price.

2 Q. Are you familiar with the term "RPM"?

3 A. You know, there's so many acronyms that  
4 you use in your industry -- I think that's referring  
5 to the rider that would make AEP whole to the extent  
6 that they get a 10.5 percent return on equity. Is  
7 that what we're referring to?

8 Q. No. I think there you're referring to  
9 the RSR which I'll talk about shortly.

10 A. RSR, okay. Maybe you can refresh my  
11 memory.

12 Q. RPM is an acronym for reliability pricing  
13 model. Does that sound familiar to you?

14 A. It's one of the many acronyms in this  
15 report here, yes.

16 Q. Do you have an understanding of what I  
17 mean when I say "RPM price"?

18 A. Is that the market price or is that the  
19 proposal price?

20 Q. I'm asking for your understanding.

21 A. No. Look, I'm not an expert on this.  
22 This was prepared by counsel and by my staff, and I  
23 can testify what this is going to cost my company,  
24 but I cannot give you all the details of how you've  
25 arrived at these formulas.

1 Q. Okay. Fair enough.

2 And just so that you know, I'm going to  
3 continue to ask you questions because there is  
4 testimony here that you've prefiled that uses some of  
5 these terms, and I'm just trying to understand the  
6 extent to which --

7 A. Well, don't use them as acronyms, then.  
8 Explain what they are and we'll try to get to the  
9 answers.

10 Q. Do you know how the RPM price for  
11 capacity is set?

12 A. I have no idea.

13 Q. Are you familiar with the term "FRR"?

14 A. What does that mean?

15 Q. I'm asking you --

16 A. What does that stand for?

17 Q. I'm asking you if you're familiar with  
18 the term. If you're not, then the answer "no" is  
19 perfectly acceptable.

20 A. No. No.

21 Q. On page 3 of your testimony, beginning at  
22 line 22, through page 4, line 2, you state that no  
23 one knows the price for June 1st, 2015, and beyond,  
24 as the PJM RPM auctions have not been conducted yet.  
25 Do you see that?

1 A. Yes.

2 Q. Is that still your understanding?

3 A. That's what my testimony states.

4 Q. And that -- okay.

5 A. So that would be my understanding.

6 Q. Now, if you'll turn to page 6 of your  
7 testimony with me, on lines 17 and 18, you state that  
8 AEP Ohio used the PJM RPM to price capacity when the  
9 PJM rates were above AEP Ohio's costs. Do you see  
10 that?

11 A. Yes.

12 Q. What is the basis for that belief?

13 A. The advice that I was given by counsel.

14 Q. So you do not know for sure whether the  
15 RPM price ever actually was above AEP Ohio's costs?

16 A. I can only rely upon the experts that we  
17 have hired and they advised me of this.

18 Q. Now, you also state in your testimony  
19 that the difference between the RPM price for  
20 capacity and the AEP Ohio capacity charge will be  
21 passed on to your company, correct?

22 A. That's what I've been told.

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

24 A. My legal advisers have advised me of  
25 such.

1           Q.    Has your CRES provider informed you that  
2   it intends to pass on any difference in the amount  
3   that it pays for capacity to you?

4           A.    My CRES provider is AEP Retail, and I've  
5   had no communication by them whatsoever.

6           Q.    So, no, they have not told you that they  
7   plan to pass on any increase in their costs to you?

8           A.    They haven't told me that they would or  
9   that they wouldn't.

10          Q.    Okay.

11          A.    I have a contract with them that I'm told  
12   now will be essentially null and void, but we don't  
13   know to what extent the increases will be.

14          Q.    Well, you just said that you're told that  
15   your contract with AEP Retail will be essentially  
16   null and void. Who told you that?

17          A.    My staff in my company.

18          Q.    Now, also on page 4 of your testimony,  
19   you have a box that has three columns and it shows  
20   numbers for the difference between RPM and \$355 per  
21   megawatt-day, the difference between RPM and \$255 per  
22   megawatt-day, and the difference between RPM and  
23   \$146 per megawatt-day. Do you see that?

24          A.    Yes, ma'am.

25          Q.    Who calculated the numbers that appear in

1     this table?

2             A.     Our counsel did.

3             Q.     Did you review these numbers?

4             A.     I did.

5             Q.     Did you perform any test or calculation  
6     to verify their accuracy?

7             A.     I didn't, but my staff did a review of  
8     this, and they pretty much have confirmed to me that  
9     if the AEP proposal -- the two that they are  
10    proposing would increase Summitville's electricity by  
11    as much as a hundred thousand dollars. So both  
12    counsel and in-house staff have advised me that these  
13    two proposals that are on the table would not be good  
14    for Summitville.

15            Q.     Now, do you know whether, when these  
16    calculations were performed, the persons performing  
17    or checking them assumed 100 percent of an increase  
18    in your CRES provider's cost of capacity would be  
19    passed on to you?

20            A.     I do not know as to that question.

21            Q.     Now, you have in here a -- as one option,  
22    the \$355 per megawatt-day --

23            A.     Right.

24            Q.     -- price. Under what circumstances do  
25    you believe a CRES provider would be required to pay

1     \$355 per megawatt-day for capacity?

2             A.     Well, I would assume if that's the option  
3     that the PUCO orders or settles on, then that would  
4     be what our rate would be.

5             Q.     Now, are you aware that there are -- that  
6     AEP has proposed two alternatives for capacity  
7     pricing in this case?

8             A.     I am aware of that.

9             Q.     Can you explain to me your understanding  
10    of the two alternatives?

11            A.     Well, I don't know all of the details. I  
12    know there were two lower-priced proposals; in the  
13    case of Summitville, both of those proposals would  
14    still be substantially more than what our contract  
15    price is with AEP Retail. The third proposal, this  
16    355-megawatt-per-day proposal, of course, would be  
17    the highest rate. But I am aware that there are  
18    these different proposals.

19            Q.     Are you aware that under the proposal  
20    that would entail a CRES provider paying \$355 per  
21    megawatt-day for capacity there is also an energy  
22    credit that would be credited directly to retail  
23    customers?

24            MS. McALISTER: Objection, your Honor. I  
25    think she's mischaracterizing the application. And I

1 would be glad to elaborate if you would like.

2 MS. MOORE: May I respond, your Honor?

3 EXAMINER TAUBER: You may.

4 MS. MOORE: I did not refer to the  
5 "application." I said "under the proposal." And  
6 this is a proposal that is part of Witness Allen's  
7 testimony in this case.

8 MS. McALISTER: There's an additional  
9 proposal that's in Mr. Powers' testimony that they  
10 stand by their litigation position, and unless the  
11 Commission approves the entire application without  
12 modification and the capacity -- I'm sorry, and the  
13 corporate separation application, then AEP will  
14 pursue all legal obligations to charge \$355 per  
15 megawatt-day for capacity.

16 EXAMINER TAUBER: Mr. Johnson, can you  
17 answer the question?

18 A. I'm sorry, would you repeat the question,  
19 please?

20 Q. I can state it differently.

21 A. Okay.

22 Q. Have you heard anything about an AEP Ohio  
23 proposal under which, you know, if the Commission  
24 adopted that proposal, retail customers would receive  
25 an energy credit?

1           A.    I have been told that, yes.

2           Q.    And when did you first hear about that  
3   proposal?

4           A.    Well, I heard it in the context of  
5   preparing for today's hearing, but I have been  
6   advised that it's a very nominal, almost negligible,  
7   amount of a credit. It would not, you know, really  
8   mitigate the increases that are being proposed --

9           Q.    Do you --

10          A.    -- to any great degree.

11          Q.    I didn't mean to cut you off.

12          A.    I'm sorry.

13          Q.    Were you aware of that credit at the time  
14   that your direct testimony was filed in this case?

15          A.    Yes.

16          Q.    Okay. Have you assessed the impact of  
17   that proposed credit on Summitville Tiles or has  
18   anyone from Summitville Tiles done that calculation?

19          A.    Well, my staff tells me that it would be  
20   a very nominal credit and it is not really material  
21   to the large increase that we would be looking at.

22          Q.    Is it your understanding that they have  
23   done some type of financial assessment and made that  
24   determination?

25          A.    My staff hasn't, but counsel at OMA has.

1           Q.    Now, I'd like to talk with you about the  
2 RSR. Can you explain what your understanding of the  
3 RSR is?

4           A.    The RSR -- find the right acronym here --  
5 it is my understanding that the RSR is an additional  
6 rider, fee if you will, that is aimed at ensuring  
7 that AEP can achieve a 10.5 percent return on equity.

8           Q.    Now, what is the basis for that  
9 understanding of the RSR?

10          A.    Well, that's upon the advice of counsel.

11          Q.    Okay. Do you know whether, under the  
12 proposed RSR, AEP Ohio would actually be able to,  
13 each year, ask for 10.5 percent -- do you know  
14 whether they would be guaranteed a 10.5 percent ROE?

15          A.    I don't know the answer to that question.

16          Q.    Would you agree that the ability for  
17 retail customers to engage in shopping for electric  
18 service is a benefit to customers?

19          A.    Yes.

20          Q.    And in preparing or reviewing your  
21 prefiled testimony or preparing for hearing today did  
22 you review the company's application in this case?

23          A.    Briefly.

24          Q.    And in preparing your prefiled testimony  
25 or preparing for hearing today did you review any of

1 the AEP Ohio witnesses' testimony that was filed in  
2 support of that application in this case?

3 A. I did not.

4 Q. Would you agree that AEP Ohio should be  
5 fairly compensated for the capacity that it supplies  
6 to CRES providers?

7 A. Yes.

8 MS. MOORE: Thank you, Mr. Johnson.

9 I have no further questions, your Honor.

10 THE WITNESS: Thank you.

11 EXAMINER TAUBER: Thank you.

12 Mr. Beeler?

13 MR. BEELEER: No questions, your Honor.

14 Thank you.

15 EXAMINER TAUBER: Ms. McAlister,  
16 redirect?

17 MS. McALISTER: No. Thank you, your  
18 Honor.

19 EXAMINER TAUBER: Mr. Johnson, you may be  
20 excused. Thank you.

21 THE WITNESS: Thank you.

22 MS. McALISTER: Your Honor, at this time  
23 the OMA Energy Group would renew the motion for  
24 admission of OMA Energy Group Exhibit 106-A and B.

25 EXAMINER TAUBER: Are there any

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1 objections to 106-A and 106-B?

2 (No response.)

3 EXAMINER TAUBER: Hearing none, they  
4 shall be admitted into the record.

5 (EXHIBITS ADMITTED INTO EVIDENCE.)

6 EXAMINER TAUBER: We'll take a lunch  
7 recess at this point in time until 1:30.

8 Let's go off the record.

9 (Thereupon, at 12:22 p.m. a lunch recess  
10 was taken until 1:42 p.m.)

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1 Thursday Afternoon Session,

2 June 7, 2012.

3 - - -

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

6 Before we begin cross-examination of  
7 Mr. Parisi, there are a couple of housekeeping  
8 matters I'd like to address.

9 There was an outstanding motion to compel  
10 filed by IEU as to responses from AEP Retail. That  
11 motion to compel is denied.

12 There was also motions to admit and  
13 objections to the testimony of OCC Witness Soliman in  
14 regards to the attached -- the revised exhibits that  
15 were attached to OCC Exhibit 114-A, I believe. Yes.  
16 Revised exhibits of Mr. Soliman were attached along  
17 with exhibits for Ms. Hixon to OCC Exhibit 114-A.

18 The objection to the admission of that  
19 exhibit is denied because we can determine the  
20 adjustments made by Mr. Soliman in regards to ADIT.  
21 I am going to allow that exhibit to be admitted into  
22 the record.

23 (EXHIBIT ADMITTED INTO EVIDENCE.)

24 EXAMINER SEE: There was also an  
25 outstanding objection as to the admission of

1 Mr. Bowser's testimony. After reviewing the  
2 transcript and the objections of the parties, I am  
3 going to grant the motion to strike pages 15, line  
4 18, to page 17, line 22.

5 So with that portion of Mr. Bowser's  
6 testimony stricken, IEU Exhibit 129 is admitted into  
7 the record.

8 (EXHIBIT ADMITTED INTO EVIDENCE.)

9 MR. ETTER: Your Honor, just for  
10 clarification, also OCC Exhibit 115, Mr. Soliman's  
11 direct testimony, has that been admitted into the  
12 record as well? I think that was also taken under  
13 advisement.

14 EXAMINER SEE: Yes, it appears that it  
15 was. It is also admitted into record.

16 MR. ETTER: Thank you.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 MR. DARR: Just to complete the record,  
19 IEU proffers the portions that have been stricken by  
20 today's ruling.

21 EXAMINER SEE: Okay. With that, let's  
22 move to the next witness.

23 IGS.

24 MR. WHITT: Yes, your Honor.

25 EXAMINER SEE: Mr. Whitt.

1 MR. WHITT: Interstate Gas Supply would  
2 call Mr. Parisi.

3 May I approach?

4 EXAMINER SEE: Yes.

5 Mr. Parisi, if you could raise your right  
6 hand.

7 (Witness sworn.)

8 EXAMINER SEE: Thank you.

9 Have a seat, and I'm going to need you to  
10 use your microphone.

11 (EXHIBIT MARKED FOR IDENTIFICATION.)

12 - - -

13 VINCENT A. PARISI

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

16 DIRECT EXAMINATION

17 By Mr. Whitt:

18 Q. Mr. Parisi, could you please introduce  
19 yourself to the Commission by stating your full name,  
20 your employer, and business address.

21 A. Vincent A. Parisi, employed by Interstate  
22 Gas Supply, 6100 Emerald Parkway, Dublin, Ohio 43016.

23 Q. Mr. Parisi, do you have in front of you a  
24 document that has been marked for identification as  
25 IGS Exhibit 101?

1           A.    I do.

2           Q.    Is this direct testimony that you've  
3 prepared for this proceeding?

4           A.    It is.

5           Q.    Do you have any corrections to your  
6 testimony?

7           A.    I do have one correction which is on page  
8 8, line 13. The line beginning "the true cost,"  
9 strike "true cost" and replace "market value." So  
10 the line would read: the market value of providing  
11 capacity to customers, period.

12          Q.    Mr. Parisi, subject to that correction,  
13 if I were to ask you the questions that appear in IGS  
14 Exhibit 101 today, would your answers be the same?

15          A.    They would.

16               MR. WHITT: With that, your Honor, IGS  
17 would move for the admission of IGS Exhibit 101,  
18 subject to cross-examination.

19               EXAMINER SEE: Before we begin  
20 cross-examination, there is a motion to strike  
21 several portions of Mr. Parisi's testimony filed by  
22 Ohio Power, and that motion is denied.

23               Cross-examination.

24               Mr. Barnowski? Ms. Hand?

25               MR. BARNOWSKI: No questions, your Honor.

1 EXAMINER SEE: Mr. Yurick?

2 MR. YURICK: No questions.

3 EXAMINER SEE: Ms. McAlister?

4 MS. McALISTER: Just a couple.

5 - - -

6 CROSS-EXAMINATION

7 By Ms. McAlister:

8 Q. Good afternoon, Mr. Parisi.

9 A. Good afternoon.

10 Q. At page 6 of your testimony you describe  
11 the adverse impacts on CRES providers' ability to  
12 offer competitive pricing to customers, and then at  
13 the bottom of the page and carrying over to page 7,  
14 you note that it's common practice for contracts to  
15 include a right to terminate or pass through the cost  
16 to customers of unanticipated increases resulting  
17 from regulatory or legislative changes.

18 Does IGS have customers in AEP's service  
19 territory?

20 A. We do.

21 Q. And do the IGS contracts generally  
22 include either a termination clause or a pass-through  
23 clause?

24 A. Generally the contracts would include a  
25 termination clause.

1           Q.    Okay.  And termination would be at IGS's  
2   discretion or the customer's option or both?

3           A.    A termination due to regulatory changes  
4   would be at IGS's discretion.

5           Q.    Okay.  From the customer's perspective,  
6   termination of the contract would have the same  
7   effect as a pass-through because the result is the  
8   customer is back on a higher rate as a result of  
9   being terminated; is that fair?

10          A.    I think that's fair.

11          Q.    Okay.  Has IGS made a determination, at  
12   this point in time, whether it will terminate  
13   contracts if the -- if AEP's proposal is adopted by  
14   the Commission?

15          A.    We haven't made a determination at this  
16   point.  It will depend on the outcome of the case.

17                MS. McALISTER:  No further questions.

18                EXAMINER SEE:  Mr. Kurtz?

19                MR. KURTZ:  No questions, your Honor.

20                EXAMINER SEE:  Ms. Kingery?

21                MS. KINGERY:  No questions, your Honor.

22                EXAMINER SEE:  Mr. Darr?

23                MR. DARR:  No questions.

24                EXAMINER SEE:  Mr. Hayden?

25                MR. HAYDEN:  No questions.

1 EXAMINER SEE: Mr. Smalz?

2 MR. SMALZ: No questions, your Honor.

3 EXAMINER SEE: Mr. Etter?

4 MR. ETTER: Yes. Just a few questions,  
5 your Honor.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Etter:

9 Q. Good afternoon, Mr. Parisi.

10 A. Good afternoon.

11 Q. On page 16 of your testimony, you discuss  
12 consolidated billing where the customer receives one  
13 bill for both AEP's services and the CRES provider's  
14 services; is that right?

15 A. That's correct.

16 Q. And you state, on lines 21 to 24, that  
17 for payment and collection purposes the customer  
18 would only have to deal with one party; AEP. Right?

19 A. That's correct.

20 Q. In that situation. What if a customer  
21 has a dispute with a bill, who would they contact?

22 A. In my experience, the customers contact  
23 either -- typically if it's a metering issue, they  
24 could contact us as the supplier; they could also  
25 contact the utility.

1           If it has to do with a dispute with  
2     respect to the rate that was charged, they could  
3     contact either. They would typically be referred  
4     back to us as a supplier.

5           So it kind of depends on what the  
6     dispute's about.

7           Q.     And would the numbers of both AEP and the  
8     CRES provider appear on the bill?

9           A.     Typically that's the case.

10          Q.     And would it be clear to the customer as  
11     to, you know, who gets -- which number they should  
12     call for what complaint?

13          A.     Typically that level of detail isn't  
14     spelled out. There would usually be something on the  
15     bill that would talk, for example, about, you know,  
16     emergency contact number, who to contact in that  
17     instance. Typically around the supplier's name  
18     and/or rate there would be a contact number for the  
19     supplier. But it isn't typically spelled out in  
20     great detail who the customer should contact.

21          Q.     Thank you.

22                 Now, at the top of page 17, in line 2,  
23     you state that in a non-POR market, suppliers are  
24     forced to utilize credit standards that are often  
25     more stringent than the utility. Do you see that?

1           A.    Yes, I do.

2           Q.    Who forces them to do it?

3           A.    Typically it's the market. The fact that  
4 a supplier would ultimately be subject to the risks  
5 associated with a customer nonpayment, and without  
6 the ability to ultimately use what we think is the  
7 most effective tool, which is disconnection, we have  
8 to look, at least from IGS's perspective,  
9 very carefully at any requests that ultimately we  
10 want to enroll to ensure that they're going to pay  
11 timely each month.

12          Q.    So it's really the CRES provider's choice  
13 to do it that way?

14          A.    Ultimately it is. I mean, ultimately,  
15 the market will dictate, you know, how much risk you  
16 can put into your price to associate with that, the  
17 risk of nonpayment. So at some level it does become  
18 dictated by the market, but, certainly, at some level  
19 it's up to the individual CRES provider.

20          Q.    Now, at the bottom of page 17, and  
21 continuing on to page 18, you discuss two methods for  
22 utilities to recover the costs associated with a POR  
23 program and those two methods are a discount rate and  
24 an uncollectibles rider; is that right?

25          A.    That's correct.

1           Q.    And the discount rate is where the  
2 utility buys the receivables from the CRES provider  
3 at less than face value; is that a fair  
4 characterization of what it is?

5           A.    That's a fair characterization.

6           Q.    Is the discount usually negotiated  
7 between the CRES provider and the utility so that  
8 both believe it to represent a fair assumption of  
9 risk?

10          A.    It can be. I've experienced in other  
11 jurisdictions where it's a negotiated rate. As the  
12 markets develop, often there's a discount, it can and  
13 often is associated with the system experience with  
14 respect to what that bad debt rate may be.

15          Q.    And the quantified risk is paid by the  
16 CRES provider in the form of the discount; is that  
17 correct?

18          A.    That's correct.

19          Q.    And the uncollectibles rider would be a  
20 cost passed on to the utility's customers; is that  
21 right?

22          A.    My experience with an uncollectible rider  
23 is essentially the generation rider, for example, the  
24 uncollectible expenses for both migrating or shopping  
25 customers and nonshopping customers would all be

1 through the same rider, so all of those uncollectible  
2 expenses would be recovered in the same form.

3 Q. And the rider would include uncollectible  
4 accounts receivable that the utility purchased from  
5 the CRES provider, right?

6 A. That's correct.

7 Q. And that would represent unpaid bills  
8 from shopping customers?

9 A. It would represent the unpaid generation  
10 charges from shopping customers, that's correct, as  
11 well as the unpaid charges for the nonshopping  
12 customers.

13 Q. So that the nonshopping customers would  
14 be charged for the utility's uncollectible expenses  
15 from shopping customers; is that correct?

16 A. Generally when there's a rider for the  
17 uncollectible expenses, all those uncollectible  
18 expenses are in the same rider, so, yes, both  
19 shopping and nonshopping customers alike.

20 Q. Should that rider be bypassable?

21 A. No. Typically what we've seen is a  
22 nonbypassable rider for those generation  
23 uncollectibles because all the customers ultimately  
24 benefit from it. All the customers that are in those  
25 groups ultimately pay for it.

1 Q. And do you know whether AEP Ohio's  
2 current tariff has an uncollectibles rider?

3 A. I believe AEP's tariff has an  
4 uncollectible -- I'm sorry, has a rider for the  
5 distribution. I don't believe it has an  
6 uncollectible expense rider for generation.

7 Q. So this would have to be a new rider,  
8 correct?

9 A. It would have to be.

10 MR. ETTER: That's all the questions I  
11 have. Thank you.

12 EXAMINER SEE: Who on behalf of the  
13 company is cross-examining the witness?

14 MR. SATTERWHITE: I'm sorry.

15 EXAMINER SEE: Mr. Satterwhite, go ahead.

16 MR. SATTERWHITE: I'm sorry. I just  
17 crossed off what Mr. Etter handled for me.

18 Thank you, Mr. Etter.

19 MR. ETTER: Any time.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Satterwhite:

23 Q. Good afternoon, Mr. Parisi. I think  
24 we've met before, but I'm not positive. I'm Matt  
25 Satterwhite from Ohio Power Company.

1           A.    We have met before.

2           Q.    I thought so.

3                   First, just a clarifying question:

4   You're General Counsel and Regulatory Affairs Officer  
5   for IGS, correct?

6           A.    That's correct.

7           Q.    Is it safe to assume today that you're  
8   appearing as a Regulatory Affairs Officer and not  
9   General Counsel giving legal testimony?

10          A.    That's a fair assumption.

11          Q.    That will clear up a lot of objections  
12   and questions later.

13                   Now, you state on page 4 of your  
14   testimony that IGS is currently -- and is it okay if  
15   I call it "IGS"?

16          A.    Yeah, that's fine.

17          Q.    -- is currently serving customers in the  
18   AEP, DP&L, and Duke territories, correct?

19          A.    That's correct.

20          Q.    But you're not offering in the  
21   FirstEnergy certified territory; is that a safe  
22   assumption by them not being in the list?

23          A.    That's correct, we're not currently  
24   offering products in FirstEnergy.

25          Q.    Are you certified to offer in

1 FirstEnergy's territory?

2 A. We are certified as a CRES provider to  
3 provide in all service territories but we haven't  
4 gone through the process of registering with  
5 FirstEnergy.

6 Q. Okay. So there's no marketing efforts or  
7 anything in that territory?

8 A. That's correct.

9 Q. Is that a time-delay decision?

10 A. Generally, when IGS makes a decision to  
11 look at a market, one of the first things that we  
12 look at is whether the market has purchase of  
13 receivables. And it's not a hard-and-fast rule that  
14 we absolutely won't enter a service territory without  
15 purchase of receivable, but it is the first thing  
16 that we look at. And since FirstEnergy doesn't have  
17 one, we haven't taken a look at that market.

18 Q. You stated in your testimony that Duke is  
19 the only one who does have a purchase of receivables?

20 A. In Ohio on the electric side; that's  
21 correct.

22 Q. So, in Ohio you started in Duke's  
23 territory.

24 A. I'm not certain about the timing of when  
25 we entered between Duke and AEP.

1           Q.    And if Duke is the only certified  
2   territory that has purchase of receivables -- strike  
3   that.

4                    You stated that you haven't entered into  
5   FirstEnergy's certified territory because the first  
6   thing you look at is purchase of receivables, yet,  
7   only one certified territory in Ohio has that type of  
8   system. So is that the only basis of why you haven't  
9   marketed in every territory in Ohio?

10          A.    It's not. We entered the AEP service  
11   territory due to the prior stipulation and Commission  
12   order with respect to capacity.

13          Q.    And DP&L's territory. Why did you decide  
14   to enter there? I'm sorry, I guess I could make it  
15   an actual question instead of just statements.

16          A.    I'm not certain.

17          Q.    Okay. But you don't know of any reason  
18   why you're not marketing currently in FirstEnergy's  
19   territory as part of a business decision.

20          A.    Well, certainly the decision with respect  
21   to not entering or even, frankly, looking at it in  
22   significant detail, had a lot to do with the lack of  
23   purchase of receivables.

24          Q.    And, again, I'm sorry if I'm belaboring  
25   this point, but that wasn't a distinction in the DP&L

1 or AEP territory. You're saying that's just a factor  
2 that entered into the decision whether or not to  
3 offer in FirstEnergy's territory.

4 A. It's generally a factor that we look at  
5 in every service territory. We made an exception  
6 with respect to DP&L, AEP. The only other service  
7 territory where we offer a natural gas commodity  
8 service would be in Nicor in Illinois. I think we're  
9 just about 40 service territories; the vast majority  
10 have purchase of receivables.

11 Q. You state in your testimony that there is  
12 some purchase of receivables in the FirstEnergy  
13 certified territory just for government aggregation  
14 communities; is that correct?

15 A. There is an attachment to the settlement  
16 that deals with purchase of receivables that may or  
17 may not be related to a phase-in approach, but  
18 there's certainly a provision in there that required  
19 FirstEnergy to enter into a purchase of receivables  
20 agreement with its government aggregation providers.

21 Q. So is it your understanding that that's  
22 available to any CRES provider that serves a  
23 governmental aggregation group in their certified  
24 territory?

25 A. That would be my understanding.

1           Q.    So there is purchase of receivables in  
2   that territory, then.

3           A.    I don't know the answer to that. I can  
4   reference the attachment, but I don't know if there's  
5   actually purchase of receivables occurring currently.

6           Q.    Okay. But your testimony states it's in  
7   existence in the territory, correct?

8           A.    It was my understanding at the time of  
9   the filing. Since then, we've discussed that point  
10   in more detail and, at this point, I'm just not  
11   certain.

12          Q.    Maybe you can help me. Is that a recent  
13   distinction that's been made?

14          A.    It is.

15          Q.    How recent?

16          A.    Within the last week.

17          Q.    Now, you use the term "market price" of  
18   capacity throughout your testimony in multiple  
19   places, and when you say "market price," are you  
20   referring to the PJM RPM price?

21          A.    That's correct.

22          Q.    And you state that you rely on testimony  
23   from, is it Ray Hamman?

24          A.    Ray Hamman.

25          Q.    "Hamman"? To say that that is a

1 reasonable cost, correct?

2 A. That's correct.

3 Q. And Mr. Hamman, is he the person you  
4 would rely upon to explain these issues to you about  
5 what's reasonable and what's not reasonable?

6 A. He is.

7 Q. But IGS did not provide any testimony by  
8 Mr. Hamman in this case, correct?

9 A. That's correct. Filed testimony in the  
10 capacity case.

11 Q. You also used the term "financial  
12 windfall" in different places in your testimony,  
13 referring to the collection of the proposed capacity  
14 rate in the modified ESP that we're in right now. Do  
15 you recall that?

16 A. Generally, yes.

17 Q. The first one's on page 5, line 11 --

18 A. Thank you.

19 Q. -- if you want to reference.

20 And is the use of the term "financial  
21 windfall" based on the fact that you would recommend  
22 AEP be forced to only collect the PJM RPM rate for  
23 capacity?

24 A. It's based on my recommendation that the  
25 appropriate price for capacity would be the PJM RPM

1 price; that's correct.

2 Q. And you're aware that AEP was not a  
3 participant in the PJM RPM auction, correct?

4 A. That's correct.

5 Q. Are you also aware that AEP is an FRR  
6 company? It doesn't rely on the RPM price for  
7 capacity.

8 A. I'm aware that AEP is an FRR company,  
9 yes.

10 Q. And, the fact that they didn't bid in,  
11 they're also not a participant in getting capacity  
12 from the PJM RPM.

13 A. That's my understanding.

14 Q. But it's still your position, even with  
15 that understanding that AEP should have to charge  
16 the, whether it's 16 or 21 dollars megawatt per day  
17 capacity price that is the current RPM price,  
18 correct?

19 A. It is my position that the PJM RPM price  
20 is the appropriate price for capacity in the PJM  
21 service territory; that's correct.

22 Q. And you don't see a distinction with the  
23 fact that AEP is an FRR company that didn't  
24 participate in the PJM RPM process.

25 A. I don't.

1           Q.    Now, you state that you provide service  
2   in Duke and DP&L's certified territory. Do they  
3   provide capacity at the PJM RPM price?

4           A.    That's my understanding.

5           Q.    And, on June 1st, did IGS drop their  
6   rates to retail customers to reflect a change in the  
7   RPM price?

8           A.    I don't know what our current offers are  
9   in the market. I know we had offers in the market  
10  prior to June 1st; I'm not certain what we're  
11  offering today.

12          Q.    I'm talking about with existing customers  
13  when there was a change in the RPM price; did you  
14  flow through that change to existing customers to  
15  drop the price that you have in those contracts for  
16  those customers in Duke and DP&L's territory?

17          A.    That would really depend on what type of  
18  product the customer was on. If they were on a  
19  monthly variable, then I'm certain our prices reflect  
20  the market rates. If they're on a fixed price, then  
21  they would be charged the fixed price in the  
22  contract.

23          Q.    So it would have taken their contract  
24  saying if you would have adapted it under the monthly  
25  variable to change the price to flow through the

1 change in RPM on June 1st to customers, correct?

2 A. I'm sorry, could you repeat that?

3 Q. Yeah. I'm trying to see the distinction.  
4 You said, correct me if I'm wrong, you have two types  
5 of contracts; there's a monthly variable and a fixed  
6 price. And, by your statement, I assume that the  
7 monthly variable would pick up changes like a change  
8 in the RPM price so that would be flowed through to  
9 retail customers the full difference between the old  
10 capacity price on May 31st and the new capacity price  
11 on June 1st, correct?

12 A. The monthly variable price would reflect  
13 the market rates in the market at the time and the  
14 contract would specifically refer to the monthly  
15 variable rate formula, for example, and what would be  
16 picked up with respect to that.

17 Q. Right. My question was on capacity.  
18 Monthly rates or market rates could be generation and  
19 other things, so I'm trying to focus this on just the  
20 impact of the change in the RPM price on capacity.  
21 And my question is: Does your monthly variable pick  
22 up the entire change from May 31st to June 1st of the  
23 RPM market price?

24 A. I think what you may be asking is  
25 ultimately what our monthly variable formula would

1 take into consideration or wouldn't take into  
2 consideration, and, certainly, the capacity rate from  
3 the PJM RPM price would be part of that formula. So  
4 whatever the market rate is at the time for the RPM  
5 pricing on capacity would be part of that  
6 calculation.

7 Q. Okay. I don't think I'm hearing a direct  
8 answer, so let me say what I think you just said, and  
9 you tell me if I'm wrong.

10 You have a monthly variable formula so,  
11 therefore, if the RPM price changes from May 31st to  
12 June 1st, that formula will guarantee that customers  
13 see the complete discount from May 31st to  
14 June 1st of the RPM capacity price.

15 A. Yes. The RPM capacity price is a  
16 component in our formula. So whatever the RPM  
17 capacity price is current at the time that the  
18 calculation is made for that monthly variable rate  
19 would be considered in the formula.

20 Q. Okay. Thank you.

21 And the fixed price, that's just a fixed  
22 price for the term based on a percentage discount off  
23 of price to compare; is that fair?

24 A. It could be, or it could be just a fixed  
25 price based upon, you know, whatever the costs or the

1 rates were in the market at the time that the fixed  
2 price was created.

3 Q. And those contracts wouldn't have  
4 anything that specifically addressed capacity because  
5 it would just sort of be a price overall, correct?

6 A. I have to review it to see, but I don't  
7 think in a fixed price formula we provide anything  
8 other than the price, that's correct.

9 Q. So whether it goes -- whether capacity  
10 price goes up or down, that's just something behind  
11 the curtain for IGS to worry about that doesn't  
12 impact -- benefit or harm the customer, correct?

13 A. For the term of the fixed price, that's  
14 correct.

15 Q. In those contracts that have fixed --  
16 that are based on fixed price, is there pass-through  
17 language that deals with capacity charges?

18 A. I don't believe we have a provision in  
19 our contract that allows us, in a fixed-price  
20 scenario, to pass on increases in capacity charges.  
21 I believe we've got a regulatory "out" provision that  
22 allows us to terminate the contract.

23 Q. Does the customer also have that  
24 regulatory "out" provision if there's a change in  
25 something like capacity price that would create a

1 large discount to get out of the fixed price?

2 A. Our contracts don't have cancellation  
3 provisions in them for our residential customers with  
4 respect to a cancellation fee, for example, so even  
5 for a fixed-price period the customer could cancel  
6 without a cancellation fee --

7 Q. So --

8 A. -- pretty much at any time.

9 Q. I'm sorry. I didn't mean to interrupt  
10 you. So they wouldn't exercise the termination  
11 clause, they'd pay the exit fee and start over,  
12 essentially?

13 A. Because there's no exit fee, they could  
14 just terminate the contract or cancel the contract at  
15 the end of -- according to whatever the utility's  
16 rules are for canceling and moving on to another  
17 product.

18 Q. Okay. And my previous questions were all  
19 based on your operations in Duke and DP&L's certified  
20 territory. Would your answers all be the same for  
21 contracts that you're offering in AEP Ohio's  
22 certified territory?

23 A. They would; for our residential  
24 customers.

25 Q. What's the difference for commercial

1 customers?

2 A. It depends on the size of the commercial  
3 customer. We're not, I don't believe, currently  
4 enrolling large commercial customers, for example, in  
5 AEP's service territory, because those are one-on-one  
6 negotiated contracts that tend to have different  
7 provisions. What I've been speaking about has been  
8 more for our mass market or residential customer  
9 classes.

10 Q. So do you have any provisions in any of  
11 the, I don't want specifics from customers or  
12 anything, but any of your commercial contracts that  
13 deal with the specific question of capacity costs?

14 A. Are we speaking with respect to the AEP  
15 service territory?

16 Q. Sure.

17 A. I'm not certain. I don't believe we have  
18 larger commercial contracts currently. I've got  
19 somebody else internally, frankly, that handles that,  
20 so I'm just not as familiar with the provisions.

21 Q. Would you be more familiar if I said  
22 "anywhere in Ohio," were there commercial contracts  
23 that had specific language that dealt with capacity  
24 specifically?

25 A. Wouldn't be any more familiar, sorry.

1           Q.    Fair enough.

2                    So on the fixed-price contracts where a  
3   customer -- where the cost of capacity were higher on  
4   May 1st and then lower on June 1st, by your  
5   definition Of "financial windfall," is IGS receiving  
6   a financial windfall under those contracts with the  
7   price of capacity changing?

8           A.    With respect to a fixed-price contract  
9   that existed prior to June 1st, typically when we  
10   price a contract, we take into consideration not only  
11   the current rate in the market but those rates that  
12   we can see going forward.

13                   It will depend on the term of the  
14   contract. It will depend on when the customer signed  
15   up. But, typically, it's going to take into  
16   consideration, for example, if we know the capacity  
17   rate is going to go down, that will be part of our  
18   calculation when we price it initially.

19                   So, for example, with a contract that we  
20   may have priced at the beginning of the year, we  
21   would have taken into consideration not just the  
22   then-existing RPM-priced capacity, but also those  
23   forward prices to the extent they were relevant to  
24   the term of the contract.

25           Q.    And so in the Duke and DP&L territory,

1 because they were charging the RPM previously and  
2 currently, there's room on fixed-price contracts for  
3 IGS to lay all the costs on the table, look into the  
4 future, look into the term of the contract, and  
5 consider a number of options in whether they're going  
6 to offer a contract to a customer, correct?

7 A. Certainly we look at the forward market  
8 when we're pricing a contract that goes for a  
9 duration, for a term, and certainly all of those  
10 various components are considered.

11 Q. And one of those components would also be  
12 making some type of profit, I assume, for IGS,  
13 correct?

14 A. That's really up to the market.

15 Q. Oh, that's not a goal of IGS to make a  
16 profit?

17 A. Certainly we're a for-profit company.

18 Q. Okay. When exactly did IGS become  
19 certified to provide competitive retail electric  
20 service in Ohio?

21 A. I believe in 2011, but I'd really have to  
22 look at the application. It was within the last 18  
23 months, I believe.

24 Q. And, in fact, IGS attempted to originally  
25 intervene in this proceeding soon after its

1 certification in the September 7th stipulation  
2 portion of this proceeding, correct?

3 A. That's correct.

4 Q. So IGS, when it became certified, was  
5 aware of the ongoing question in AEP Ohio's certified  
6 territory about the cost of capacity being provided  
7 to CRES providers, correct?

8 A. At the time we were certified, we got  
9 certified to be a CRES provider in the state, so, you  
10 know, across all jurisdictions, it was at the same  
11 time we were getting certified in, I believe, three  
12 or four other states, so, yes, we were aware of the  
13 ongoing proceeding.

14 Q. And IGS entered into contracts in  
15 multiple territories -- strike that.

16 IGS entered into contracts in AEP Ohio's  
17 certified territory with the understanding of the  
18 questions surrounding capacity charges to CRES  
19 providers, correct?

20 A. I don't believe we entered into contracts  
21 in the AEP service territory until after the entry in  
22 the first ESP case.

23 Q. When you say "the first ESP case," do you  
24 mean the stipulation?

25 A. Correct.

1 Q. And in which there are a number of  
2 decisions, some we like, some we didn't. Do you -- I  
3 mean, they're all wonderful.

4 Are you referring to the December  
5 decision or the February decision?

6 A. The December decision.

7 Q. Okay. Thank you.

8 And were you waiting for that decision to  
9 come out to decide whether to enter into contracts in  
10 AEP Ohio's territory?

11 A. We were.

12 Q. And how soon after the  
13 December 14th decision did you begin to enter into  
14 contracts?

15 A. I don't think we were through the process  
16 with AEP to begin to start selling until, I don't  
17 remember the exact timing, it was the beginning of  
18 2012. January or February, in that timeframe.

19 Q. And were you discussing with customers,  
20 prior to that, the possibility, sort of extending  
21 offers subject to the ability to offer in AEP Ohio's  
22 territory?

23 A. From a mass-market residential  
24 perspective or from a commercial --

25 Q. Both.

1           A.    The answer -- I don't know. I don't  
2 believe we were from the residential perspective, but  
3 I'm not certain. That's another area in the company.

4           Q.    I'd like to talk about the tiered pricing  
5 that's proposed a little bit in the modified ESP.  
6 I'd like you to assume that AEP is following their  
7 rights under the FRR commitment and seek and receive  
8 a cost-based rate above \$255; if that were the case,  
9 would the two-tier system represent to you a discount  
10 and be a benefit of the modified ESP?

11          A.    I'm not certain I understand the tiering  
12 if the capacity rate was at 255, would there be a  
13 separate rate for a separate --

14          Q.    I'll try to ask it a little clearer.  
15                If AEP gets a -- is awarded a state  
16 mechanism that sets the price for capacity at  
17 anything above 255, would you agree that the modified  
18 ESP represents the two-tiered system, represents a  
19 discount from what that higher price would be?

20          A.    I think it would depend on what the tiers  
21 were set at. I assume -- I'm making an assumption,  
22 but I would assume you're saying that some tier of  
23 customers, ultimately, would receive something lower  
24 than the hypothetical 255.

25          Q.    What I'm looking at are the tiers that

1 are proposed by the company in this case. So assume  
2 that that's the concept. I'm trying to analyze the  
3 modified ESP as proposed. And I took the 255 as the  
4 highest tier. So assuming that the capacity price  
5 that's set is higher than 255, would you agree that  
6 the two tiers below that represent a discount and a  
7 benefit of the modified ESP?

8 A. The tier below that. I'm sorry, I think  
9 you said the "two tiers below that."

10 Q. Yes.

11 A. I think that would be correct. If the  
12 Commission ordered a capacity rate, for example, of  
13 255 and, for example, there was a tier of 146, that  
14 would be a lower tier. I don't know how many  
15 customers ultimately, under the proposal, would be  
16 able to take advantage of it.

17 Q. I want to go to the correction that you  
18 made, and I believe you knocked out about ten minutes  
19 of questions on that change. It's on page 8.

20 A. Yes.

21 Q. Why did you change "true cost" to "market  
22 value"?

23 A. I was really trying to stay consistent  
24 throughout the testimony. In my mind, the RPM -- the  
25 pricing for capacity in the PJM service territory is

1 the RPM pricing and that's a market value. And I  
2 used the word "true cost" there and what I really  
3 meant to say there was "market value." I just was  
4 trying to be consistent.

5 Q. And did you use "true cost" because you  
6 think that's synonymous with "market value"; that's  
7 what the true cost should be? Is that fair?

8 A. I think that the capacity cost -- the  
9 capacity rate in AEP's service territory should be  
10 the RPM price, that's correct.

11 Q. But do you think that the capacity price  
12 is a cost or it just should be that and it's not a  
13 cost?

14 A. I think in PJM's service territory  
15 competitive suppliers pay the RPM price. That's our  
16 cost. That's ultimately, if we're trying to  
17 establish what that rate is, for us, it's the RPM  
18 price.

19 Q. Are you familiar with the reliability  
20 assurance agreement? We'll call it "RAA."

21 A. Generally.

22 Q. Let me know -- we've had some confusion  
23 with acronyms today. I'm going to assume you know a  
24 little bit more about acronyms.

25 A. That's correct.

1 Q. So correct me if I use one incorrectly.

2 A. Thank you.

3 Q. Is the RAA generally the document or the  
4 tariff that AEP Ohio exercises under its FRR  
5 obligation? Is that your understanding?

6 A. Generally.

7 Q. Well, what's your understanding of it?  
8 Maybe I should just ask you that rather --

9 A. I think that's right. I think the RAA is  
10 the document ultimately that AEP operates under.

11 Q. Which is essentially a contract that  
12 AEP's entered into; is that correct?

13 A. That's my understanding.

14 Q. And that contract -- is it your  
15 understanding that that contract allows AEP to seek  
16 recovery based on its cost for capacity charges?

17 A. I'd have to look at it in more detail to  
18 see if it's worded that way, but, generally, I think  
19 the capacity rate is something that could be  
20 recoverable.

21 Q. And, certainly, I don't want to put words  
22 in your mouth, but they can seek to collect something  
23 other than the PJM RPM price; is that fair?

24 A. I think that AEP can certainly seek to  
25 recover something other than that, that's correct.

1           Q.    So when you say that the market value,  
2   and what you changed from "true cost" on line 8,  
3   should be recovered because that's the PJM price,  
4   that doesn't really apply to AEP Ohio, does it,  
5   because of this other contract that allows it to seek  
6   other capacity charges?

7           MR. WHITT:  Your Honor, I'm going to  
8   object to the question to the extent it asks for a  
9   legal interpretation of a contract that the witness  
10  doesn't have in front of him.  If he can answer it,  
11  that's fine, but I would like that objection for the  
12  record.

13          EXAMINER SEE:  The objection is noted.

14          A.    Yeah, as I said, I think before -- I'd  
15  really have to see the document in front of me and  
16  read it to ultimately be able to tell you what the  
17  details mean.

18          Q.    Right.  But we've established that you  
19  understand that AEP is an FRR company, correct?

20          A.    That's correct.

21          Q.    And you said you were able to testify  
22  that AEP has the right to seek to collect something  
23  different than the RPM price, whatever the exact  
24  language is you don't know, but you know that right  
25  exists, correct?

1           A.    My understanding, under 4928.143, there  
2   are -- AEP can petition the Commission and ask or  
3   seek for a number of things. Ultimately, it's up to  
4   the Commission to decide, so I think that's what I  
5   was attempting to say before.

6           Q.    Okay. So from your position in  
7   regulatory affairs for IGS, your understanding is  
8   that the company, AEP Ohio, can petition the  
9   Commission, under 4928.143, if it wants to change its  
10  capacity price under the RAA as an FRR provider,  
11  correct?

12          A.    I think they can ask for things that are  
13  enumerated under that provision. If it's enumerated  
14  under that provision, it certainly can be part of the  
15  application; if it's not, then I think -- I don't  
16  know that AEP can ask for those things.

17          Q.    But you just don't know if there's other  
18  rights under the RAA contract as an FRR that would  
19  govern this instead.

20          A.    Without reviewing it, no.

21          Q.    Okay. And you don't know with your own  
22  personal knowledge today, correct?

23          A.    That's correct.

24          Q.    And when you wrote this testimony  
25  proposing that the PJM was the appropriate -- PJM RPM

1 was the appropriate price for AEP Ohio to charge, it  
2 was that same nonunderstanding, correct?

3 A. Again, it was based upon my understanding  
4 of what is permitted under a 143 application and,  
5 ultimately, what was -- what resulted from the prior  
6 case.

7 Q. Okay. Just crossing off all my true cost  
8 questions, sorry.

9 A. That's okay.

10 Q. Let's talk a little bit about competition  
11 in general. I believe you support competition in  
12 Ohio's electric industry, correct?

13 A. I do.

14 Q. Could you define "competition" for me in  
15 the industry as it applies to our industry?

16 A. Well, ultimately, a lot of different  
17 definitions, I think. I think one definition, or  
18 maybe more an indication of competition, is a number  
19 of active providers in a service territory with  
20 multiple offers at any given point in time soliciting  
21 customers.

22 Q. So let's break that down. You say a  
23 "number of active providers." What number signifies  
24 competition?

25 A. Well, I think for -- there's a difference

1 between competition and, I think, robust competition.  
2 I think the more providers, ultimately, that are able  
3 to be in a market can be an indication of a more  
4 robust market. I don't have a specific, I don't  
5 think there's -- for me, anyway, there's not a litmus  
6 test that says that at X number of providers it's  
7 competitive and at Y it's not.

8 Q. Is two competitive?

9 A. Certainly, in my mind, more providers  
10 than two is probably a better indication of more  
11 robust competition.

12 Q. So is it fair to say you can have a,  
13 quote/unquote, competitive market, but you want a  
14 larger diversity of suppliers to have a either robust  
15 or true competitive market? Is that fair?

16 A. You know, I think to have a real vibrant  
17 competitive market, you want to have as low barriers  
18 to entry as possible and you want to have as many  
19 competitors in the market as the market can support  
20 and as many offers out to customers; I think the more  
21 offers to customers and the more competitors in the  
22 market, the more robust the competition is for  
23 consumers.

24 Q. And you stated multiple offers,  
25 soliciting customers. Is that the same thing, or is

1 it multiple offers out there and also actively  
2 soliciting as well?

3 A. I think active solicitation is an  
4 important part. There are timing elements with  
5 respect to it. There is a seasonality, for example,  
6 with respect to our business.

7 Q. Does a robust or true competitive market  
8 include subsidies for the competitors?

9 A. I don't think a robust market has  
10 subsidies either way, so I think you have to be  
11 careful with respect to subsidies flowing either from  
12 the competitive market to the nonshopping customers  
13 or vice versa.

14 Q. And are you aware if customers right now  
15 are shopping at both the 255 and at the 146 capacity  
16 price in AEP Ohio's territory?

17 A. It's my understanding that there are --  
18 there's still some room, essentially, under the 255  
19 level at the residential-customer-group level. I'm  
20 not certain with respect to the large industrial, and  
21 I think at the commercial side there isn't any room  
22 left.

23 Q. Meaning customers are shopping at those  
24 levels?

25 A. I just don't know.

1           Q.    But when you said "there's still room,"  
2   are you referring to sort of the old queue system of  
3   how much is available?

4           A.    That's correct.

5           Q.    And the fact that some is taken up, shows  
6   that there's some shopping at those levels; you think  
7   that's a logical deduction?

8           A.    I would think that's logical.

9           Q.    Some people tell me I'm not logical, so I  
10   have to make sure sometimes.

11                  Now, you state on the bottom of page 10  
12   of your testimony, lines 21 to 23. Let me know when  
13   you get there.

14          A.    I'm there.

15          Q.    The sentence in the middle of line 21,  
16   "The rationale for the limits that existed in the  
17   previous settlement would no longer be relevant if  
18   the capacity costs allowed for AEP are above the  
19   market rate." Do you see that?

20          A.    I do.

21          Q.    First of all, by "limits," you're  
22   referring to the tiered offerings, correct, because  
23   everyone had the right to shop, it was just a matter  
24   of what tier they'd be at? Is that your  
25   understanding?

1           A.     That's my understanding.

2           Q.     So what did you consider the rationale  
3     for the different tiered levels in the previous  
4     settlement? Let me rephrase that.

5                     What did you consider the rationale --  
6     you say "limits." We just clarified that that was  
7     the tiers, that's why I asked it that way.

8           A.     I think what I'm referencing here is that  
9     in the event the Commission determines that a rate  
10    higher than the PJM RPM price is the appropriate rate  
11    in AEP's service territory, that under the previous  
12    settlement there was, at least, a level at which AEP  
13    seemed comfortable given it was a signatory to the  
14    previous settlement to RPM-priced capacity up to a  
15    certain point, those were the tiers, and I think  
16    that's what I'm referencing here.

17          Q.     So is it the bifurcation of the different  
18    dockets and that the capacity docket is in a separate  
19    one, separate decision now, versus the ESP that  
20    creates the rationale no longer being in existence in  
21    this case?

22          A.     No. It's the, again, the rationale of a  
23    certain number of customers was essentially the  
24    tolerance level that, or a certain amount of load,  
25    the tolerance level that AEP had under the

1 preexisting settlement or the previous settlement at  
2 a higher -- my position or my opinion is at a higher  
3 price for that capacity that there should be a higher  
4 tolerance level.

5 Q. So when you talk about the rationale for  
6 the tiers from the previous settlement, are you  
7 referring to from AEP's point of view?

8 A. I would think from anyone who had signed  
9 the settlement agreement, it seemed at some, at that  
10 21 percent level, for example, in the 2012 timeframe,  
11 there seemed to be some comfort. I assume that's why  
12 people signed the stipulation.

13 Q. And at that time, in the stipulation, it  
14 used the same capacity tiers in existence or as  
15 proposed in the modified ESP, correct?

16 A. That's my understanding.

17 Q. But you're saying there's a change in the  
18 rationale even though it used the same tiers and the  
19 company was proposing to use the same tiers now?

20 A. I think -- no. I think what I'm saying  
21 is that the same tiers, same tiers were suggested,  
22 however, a higher capacity charge was being offered  
23 in the filing by AEP.

24 And my thinking here is that if we're  
25 going to have, by a Commission order, a higher

1 capacity charge for that first tier, for example,  
2 then certainly there should be some indifference with  
3 respect to AEP to allow more customers ultimately to  
4 take advantage of that, given, under the prior --  
5 they were comfortable with the existing tiers or the  
6 current tiers at a lower rate.

7 Q. Let's go to page 12 of your testimony,  
8 please.

9 A. Okay.

10 Q. Here you're discussing the general issues  
11 you had with the tiered proposal and you state that  
12 tier 1 customers will have to pay a higher rate in  
13 2012. Do you see that?

14 A. I do.

15 Q. And this assumption presumes that a CRES  
16 provider will pass on a hundred percent of the change  
17 in capacity charges, correct?

18 A. Yes. What I'm referencing here would be  
19 any customer that had migrated under the previous or  
20 existing rates. Ultimately, if the higher rate was  
21 authorized and the supplier continued to supply those  
22 customers, that that -- and not -- and pass on that  
23 higher rate, then that -- yes.

24 Q. And the distinction there is, I want to  
25 make sure we're in agreement on, is that capacity

1 charges are charged to CRES providers, not to  
2 customers ultimately, right?

3 A. That's correct.

4 Q. Now, would you say it's -- would you say  
5 it's a goal of IGS to get to a competitive market  
6 that it can provide more of its services to?

7 A. More of our services? Do you mean to a  
8 broader base of customers?

9 Q. Sure.

10 A. Yes. We look at markets and look at a  
11 number of things, as I said before, purchase of  
12 receivables being one of those items. But,  
13 ultimately, we serve both residential and  
14 commercial/industrial customers, and our goal would  
15 be to try to get into the markets where we can put  
16 the most broad-based offer out.

17 Q. Would IGS be participating in any  
18 auctions to provide service to AEP's SSO customers  
19 once we get to competitive auctions?

20 A. I don't know.

21 Q. Not something the company's thought  
22 about?

23 A. We participate in the auctions in natural  
24 gas in Ohio, for example. We have yet to participate  
25 in the electric auctions.

1           Q.    Would IGS be interested in the  
2           opportunity to serve AEP SSO customers as part of an  
3           auction at some time in the future?

4           A.    I don't know.

5           Q.    So you have no opinion, then, on the  
6           positions raised in this docket that getting to a  
7           full competitive bid auction for AEP Ohio's SSO load  
8           is beneficial for Ohio and customers?

9           A.    We certainly believe market rates are  
10          better for customers. We think that we're a retail  
11          provider of energy to customers, both natural gas and  
12          electric, and we believe in the retail relationship.  
13          So what's being suggested is a wholesale relationship  
14          and that's different than what we like to provide.

15          Q.    Does competition on the wholesale side  
16          promote further competition on the retail side, in  
17          your opinion?

18          A.    I think it's going to depend on a lot of  
19          parameters.

20          Q.    Now, on page 14 of your testimony, line  
21          6, you talk about anticompetitive proposals that AEP  
22          has made. Do you see that?

23          A.    I do.

24          Q.    Now, are these based in your assumption  
25          that AEP should be charging PJM RPM rates for

1 capacity?

2 A. Yes, in part. And I think some of the  
3 other things I testified to up to that point, as well  
4 as the POR.

5 Q. Back on page 12 of your testimony, lines  
6 16 to 19, you talk about the practical effect of the  
7 capacity price and allude to what could happen, that  
8 suppliers could likely limit their offerings. Do you  
9 see that?

10 A. I do.

11 Q. What products are you referring to there?

12 A. Generally, generation-related products.

13 Q. So, on line 17, it was just interesting  
14 that you used the word "products" instead of electric  
15 generation. Was there something besides generation  
16 that you're referring to as well?

17 A. Well, in a really robust, fully  
18 competitive market, it's my belief that providers --  
19 retail providers especially -- have to start offering  
20 more robust products even beyond generation products  
21 to customers. So that's why I used "products" as  
22 opposed to just "generation services."

23 Q. And what are some of those products that  
24 you could provide?

25 A. Well, for example, IGS's affiliated

1 company, called "The Manchester Group," we provide  
2 home line utility warranty products.

3 Q. Do you have an energy efficiency group  
4 that does audits or performs services for customers  
5 as well?

6 A. Not currently.

7 Q. So is the home line warranties the only  
8 other product beside generation that IGS could offer?

9 A. There are a number of other things that  
10 we're involved in, internally, that we really haven't  
11 put out into the market yet, so we're getting kind of  
12 close to --

13 Q. That's fine. I don't want you to  
14 disclose anything.

15 A. Thank you.

16 Q. But there are other products besides  
17 electric generation that you hope to be offering in  
18 the future; is that fair?

19 A. That's correct.

20 Q. Were you in the room earlier today to  
21 hear any of the testimony?

22 A. I wasn't.

23 Q. I'm going to ask a question that people  
24 opposing us have been asking, kind of see what you  
25 think from your point of view. Is it better for

1 competition to have certainty at a higher price,  
2 capacity, or uncertainty with the potential for a  
3 higher or lower price?

4 MR. WHITT: I'm going to object as an  
5 overly broad and incomplete hypothetical.

6 EXAMINER SEE: So noted.

7 MR. SATTERWHITE: It's been asked  
8 multiple times today.

9 EXAMINER SEE: So noted.

10 You can answer the question, Mr. Parisi.

11 MR. WHITT: I wasn't here either.

12 A. I think it's a difficult question to  
13 answer. Certainty in a market certainly takes a risk  
14 element out of the market. From that perspective,  
15 certainty, with respect to certain things, can make  
16 it more likely than less likely that certain  
17 competitors may enter into the market more quickly or  
18 be more involved in the market.

19 Q. But from a business planning point of  
20 view, is it better for IGS to just know what capacity  
21 pricing and other pricing is to be able to move  
22 forward and make offers?

23 A. Certainly, knowing what the capacity  
24 price is is going to be important.

25 Q. Now, on the bottom of 12 and the top of

1 13, in your testimony you state that you would change  
2 the modified ESP to provide RPM-priced capacity  
3 throughout the ESP period for an expanded tier 1  
4 group, correct?

5 A. That's correct.

6 Q. Have you done any analysis to see what  
7 the impact of that proposal would be?

8 A. No, I haven't.

9 Q. Would you balance that under the modified  
10 ESP with the RSR that's been proposed to make up the  
11 difference?

12 A. We didn't -- I didn't take a position in  
13 my testimony with respect to the RSR, so I'm not  
14 quite certain I understand what you mean by  
15 "balance." Maybe you could explain.

16 Q. So what you're doing is you're proposing  
17 a change to the tier system without a change anywhere  
18 else in the overall modified ESP to account for the  
19 change that you're proposing; is that fair?

20 A. That's fair.

21 Q. So this is an IGS point of view rather  
22 than looking at all the entities involved in the case  
23 and providing some type of balance; is that correct?

24 A. Well, I think when -- in my proposal  
25 ultimately that it seemed to me there should be a

1 certain level of indifference between what we had  
2 with a prior settlement and ultimately the suggestion  
3 of a higher rate capacity for that -- those tiers of  
4 customers in that if there was a comfort level at the  
5 prior RPM price for those tiers, the higher level  
6 should create the ability for more customers to  
7 ultimately take advantage of that rate.

8 Q. But in your analysis or your  
9 recommendation for this proposal, you didn't consider  
10 the impact it would have on AEP Ohio as a company,  
11 correct?

12 A. Not beyond what I've talked about.

13 Q. Is it your position that the PUCO should  
14 impair a utility's contractual rights if there's an  
15 opportunity to encourage competition in the electric  
16 industry in Ohio?

17 MR. WHITT: I'll object. Calls for an  
18 improper opinion as to what the Commission should do.

19 MR. SATTERWHITE: If I may, your Honor?

20 EXAMINER SEE: Yes.

21 MR. SATTERWHITE: He's in charge of  
22 regulatory affairs for IGS, and he's promoting  
23 competition as the shiny city on the hill, so I'm  
24 just trying to see how much he believes in that and  
25 what the Commission -- what he believes the

1 Commission should or shouldn't be doing to reach that  
2 end goal of competition. I think it's perfectly  
3 appropriate.

4 MR. WHITT: If I may be heard, your  
5 Honor. I thought we established, very early on in  
6 the cross, that he's testifying as a regulatory  
7 affairs officer and not as a lawyer giving legal  
8 opinions. What he was just asked is a pure legal  
9 opinion.

10 MR. SATTERWHITE: I believe this is  
11 another one of the common questions that have been  
12 asked throughout the hearing.

13 EXAMINER SEE: We did establish that he  
14 is here as -- not as counsel for the company, but,  
15 nonetheless, I will allow the witness to answer the  
16 question.

17 A. Could I hear the question again?

18 Q. Sure.

19 A. Thanks.

20 Q. Is it your belief or position that the  
21 PUCO should impair a utility's contractual rights if  
22 there's an opportunity to encourage competition?

23 A. Again, I think as I stated before, I'm  
24 not certain what the contractual rights are. The  
25 Commission, ultimately, has to decide this case.

1 Part of what they're going to have to decide is what  
2 capacity rate is appropriate and I think that's  
3 within the Commission's jurisdiction.

4 Q. And I'm just talking in general. I'm not  
5 talking about any contractual rights that we've  
6 talked about before, at least for purposes of this  
7 question. What I'm asking is in general, from a  
8 regulatory affairs point of view, do you think the  
9 Commission, in an effort to support competition and  
10 enhance competition in Ohio, should impair a  
11 utility's contractual rights in favor of promoting  
12 competition?

13 MR. WHITT: I'll object. The question  
14 assumes facts not in evidence. What contracts and  
15 whose rights?

16 MR. SATTERWHITE: If I may, your Honor.  
17 I think I'm asking the very broad question in  
18 general, just a policy question that a regulatory  
19 affairs executive from a utility probably has already  
20 considered, and I think it's an appropriate question  
21 and at the base of a lot of issues in this case.

22 EXAMINER SEE: I'm going to need you to  
23 rephrase, Mr. Satterwhite.

24 MR. SATTERWHITE: All right.

25 Q. Mr. Parisi, you agree that one of the

1 state policies that the Commission needs to consider  
2 under 4928, in your opinion, is to promote  
3 competition, correct?

4 A. That's correct.

5 Q. So I'd like to explore at what costs the  
6 Commission should move forward to promote that  
7 competition. So if a company has entered into a  
8 contract and the Commission has jurisdiction over  
9 that company, would it be appropriate for the  
10 Commission to favor competition and tell that company  
11 to not honor the contract in favor of competition?

12 MR. WHITT: Your Honor, again, I'll  
13 object. It's an overbroad and incomplete  
14 hypothetical.

15 MR. SATTERWHITE: If I may, your Honor,  
16 it's not incomplete at all. I think it's supposed to  
17 be broad because I'm not trying to tie it to a  
18 specific contract.

19 MR. WHITT: That's my problem with it.

20 MR. SATTERWHITE: The witness and counsel  
21 have both said they can't answer questions because  
22 they don't have specific contracts in front of them,  
23 so I'm asking an overall general policy question.

24 EXAMINER SEE: I'm going to allow the  
25 witness to answer the question to the best of his

1 ability.

2 A. Again, without seeing any specific  
3 contract, it's difficult to answer. I think, you  
4 know, ultimately, if a utility is in a position of  
5 having a contract, typically those contracts are  
6 going to be approved by the Commission. So I think  
7 the Commission has the ability, ultimately, to decide  
8 things related to those contracts there.

9 Q. And what I'm talking about is when two  
10 things are in conflict. Do you feel that the  
11 Commission should favor competition over certain  
12 contractual rights, whatever they may be, of a  
13 utility?

14 A. Again, I think what you're asking me is a  
15 balancing question. Ultimately the Commission has a  
16 role balancing those different interests.

17 Q. So it's fair to say that, just for the  
18 sake of competition, the Commission shouldn't move  
19 forward for something, it should balance and look at  
20 the impact of what they're doing to move forward to  
21 promote competition; is that fair?

22 A. I think in Ohio the policy of the state  
23 is to support competition, and I think ultimately the  
24 desire to drive toward competition for the benefit of  
25 customers is an important goal.

1           Q.    And are you referring to 4928.02 that has  
2 all the state policies?

3           A.    I am.

4           Q.    And that goes (A) through (N), does it  
5 not?

6           A.    I don't have it in front of me, but I --

7           Q.    There are a number of policies.

8           A.    There are a number of policies, that's  
9 correct.

10          Q.    And competition is one of those policies;  
11 is that your understanding?

12          A.    A number of those policies, correct.

13          Q.    And do you believe that one of those  
14 policies has more importance than another policy?

15          A.    I think they're all policies and I think  
16 it's all part of the state structure.

17          Q.    Okay. So that's a "no"?

18          A.    IGS believes in competition. Obviously,  
19 we have a preference with respect to that provision.

20          Q.    I understand that. I'm asking now your  
21 point of view of what you think proper regulation, is  
22 and there's a number of policies, and you've  
23 mentioned competition's a policy, so all I'm trying  
24 to establish is, is that the most important policy in  
25 4928.02, or are they all equal policies for the

1 Commission to consider?

2 A. Well, again, you're asking for my opinion  
3 on that, and I think competition is an important  
4 policy.

5 Q. We have that. Now I'm asking about the  
6 rest of it. Is competition more important than all  
7 the other policies?

8 MR. HAYDEN: Objection, your Honor. This  
9 question has been asked three or four times.

10 MR. SATTERWHITE: I completely agree.  
11 I'm just looking for an answer.

12 EXAMINER SEE: Overruled.

13 A. I really have to sit and look at every  
14 single one to try to make a value determination as to  
15 which policy is more important than the other. The  
16 legislature has spoken and said all of those policies  
17 are important.

18 Q. Okay. Do you think the financial  
19 integrity of an electric distribution utility figures  
20 into those state policies?

21 A. I would assume that it does.

22 Q. Now, back on page 9 of your testimony,  
23 you discuss, on the top, the question is: "Are there  
24 reasons why the Commission should resolve the  
25 capacity issue in this ESP proceeding?" Do you see

1 that?

2 A. I do.

3 Q. And you raise a concern, I believe, that  
4 if the Commission decides the capacity proceeding at  
5 what AEP has requested, the 355, that it could cause  
6 AEP to withdraw from the lower two-tiered system in  
7 this modified ESP, correct?

8 A. I think the decision in that case can  
9 have an impact on this case.

10 Q. And is your concern that AEP could  
11 withdraw the discounted -- if it's at 355, the  
12 discounted tiers, if it's awarded the 355 capacity  
13 price in the 11-2929 case?

14 A. Generally, it's my understanding that  
15 ultimately AEP can withdraw the ESP case in total if  
16 it isn't happy with the decision.

17 Q. But if the PUCO were to adopt the plan as  
18 proposed by the company, it wouldn't be able to  
19 withdraw from the application -- or, from the  
20 decision, correct?

21 A. With no modification, that's my  
22 understanding.

23 Q. Let's talk about purchase of receivables;  
24 I know you want to. Now, on page 15, line 14, you  
25 describe the practical effect of the POR program and

1 that it essentially shifts risks away from the CRES;  
2 is that correct?

3 A. I think that generally that's correct.

4 Q. And it shifts those risks to the utility,  
5 correct?

6 A. It would depend on the provisions of the  
7 program. Ultimately, our position, my position, is  
8 that the utility incur greater risk, it would be that  
9 the utility would remain harmless with respect to  
10 that. Ultimately, the utility would be in the  
11 position, under POR, to own that receivable and  
12 ultimately pursue those receivables through the same  
13 rules and provisions that they do for all the other  
14 uncollectibles.

15 Q. And maybe I'm not understanding it, so  
16 let me explain it and you tell me where I'm wrong.  
17 The goal of purchase of receivables, from an IGS  
18 point of view, is to receive payment for the services  
19 from the utility upon usage by the customer and then  
20 leave it to the utility to take care of collections  
21 from the customer for the actual final payment; is  
22 that a fair assessment of the purchase of  
23 receivables?

24 A. Generally, that's how it works, yes.

25 Q. So doesn't that shift the risk of

1 nonpayment to the utility and away from the CRES  
2 providers such as IGS?

3 A. The purchase of receivable programs I'm  
4 familiar with typically have one, two, or a  
5 combination of elements. In Ohio, for example,  
6 there's a bad-debt tracker that ultimately recovers  
7 all of the uncollectible expenses on natural gas, for  
8 example. And I believe in Duke, now, they have one  
9 as well related to the commodity so that the utility  
10 doesn't absorb the risk; they have a mechanism to  
11 ultimately recover those uncollectibles.

12 So, in my mind, once that receivable is  
13 purchased by the utility, it becomes their  
14 receivable, they have all of the tools available to  
15 them to ultimately collect on it and, in the event it  
16 ultimately is converted from a receivable to an  
17 uncollectible debt, they have a mechanism to recover  
18 that.

19 Q. So a utility that didn't have a mechanism  
20 like that, of what we call sometimes a "bad-debt  
21 rider," the risk would be shifted to them because  
22 they wouldn't have that backstop, correct?

23 A. Typically, no. If there is no bad-debt  
24 tracker or uncollectible expense rider, there's  
25 typically a discount associated with the amount that

1 the utility would pay the supplier, and that's based  
2 on what the uncollectible expense typically is  
3 projected to be and then ultimately reconciled over  
4 time.

5 Q. And that discount, I believe that's the  
6 contract you were discussing earlier with counsel,  
7 Mr. Etter, from Consumers' Counsel, are you saying  
8 when the purchase of receivables program is set up,  
9 the utility and the CRES provider determine that  
10 there's an amount that the CRES provider will provide  
11 the utility to take on the purchase of receivable  
12 obligation?

13 A. Typically, it functions in the form of a  
14 discount to the amount that the utility would pay on  
15 a monthly basis to the CRES provider.

16 What I'm familiar with, for the most  
17 part, are utility service territories where they'll  
18 set a discount rate on the amount that they'll pay  
19 the CRES provider based upon a system-wide experience  
20 with respect to uncollectibles, and then,  
21 periodically, take a look at what that actual  
22 uncollectible expense rate was and then make  
23 adjustments, going forward, based upon that.

24 Q. So it's like a tracker, kind of. They  
25 set a rate and if they're not collecting that, they

1 set a new discount in the future that can account for  
2 what they didn't recover previously?

3 A. It can, or it can take into consideration  
4 the fact that potentially it overcollected, which has  
5 been more of our experience in most jurisdictions,  
6 that typically the rate is set a little bit higher  
7 than it needs to be and often that rate goes down  
8 over time.

9 Q. Is it your understanding that, under a  
10 purchase of receivables program, a utility can  
11 disconnect customers for nonpayment of the CRES  
12 charges that they've taken on?

13 A. That's correct. In every instance that's  
14 come to mind, I may be missing one or two, but once  
15 that receivable is purchased, we transfer, through  
16 contract, all rights, title, and interest to that  
17 receivable to the utility, so it's effectively their  
18 receivable.

19 And, in Ohio, for example, under natural  
20 gas, the utility could then prosecute or work that  
21 receivable, as if it were their own, including  
22 following the rules for disconnection; ultimately  
23 disconnecting the customer for nonpayment.

24 Q. Now, if there wasn't a purchase of  
25 receivables program, can customers be disconnected

1 for nonpayment of CRES charges?

2 A. In Ohio it's my understanding that they  
3 can't be disconnected for CRES charges related to  
4 generation.

5 Q. I'm sorry, was that a "can" or "cannot"?

6 A. I'm sorry. Cannot.

7 Q. But when it becomes a purchase of  
8 receivables program, you're saying it becomes painted  
9 in the utility cloak and so it can be disconnected  
10 because it's a utility charge; is that correct?

11 A. The utility purchases the full rights and  
12 interest in it, so it is, in effect, the utility's  
13 receivable and, yes, my understanding is they can  
14 then be disconnected, again, following all the proper  
15 protocols.

16 Q. Now, in page 16 of your testimony, lines  
17 1 through 5, you give your rationale why it makes  
18 more sense for the utility to be involved in the  
19 collection process, correct?

20 A. Correct.

21 Q. You say they're more familiar with the  
22 consumer protection protocols. Do you see that?

23 A. Line 4, yes. I think that's another  
24 reason. What I'm talking about initially really has  
25 more to do with the fact that in most service

1 territories, and I don't think AEP's any different,  
2 that the account receivable management protocols, all  
3 the systems, all the IT, all the personnel, payroll,  
4 all that stuff is billed through base rates, so  
5 basically all customers pay for those things.

6 And when there isn't a purchase of  
7 receivables in place, the customers that ultimately  
8 migrate to competitive service don't have an  
9 opportunity to continue to use those services that  
10 they've paid for.

11 And then, typically, the supplier that  
12 does serve will have to sort of -- well, will have to  
13 build those same services again, so those customers  
14 that migrated effectively pay twice for a lot of  
15 those systems and services.

16 Q. Here you're really talking about the  
17 billing and collection processes on 3 to 4, right?

18 A. Really, the whole process of managing a  
19 receivable, so it's the cash, it's the accounting,  
20 it's the IT, it's the labor, the call center folks,  
21 the phones, the systems, basically everything that  
22 goes into ultimately managing a receivable.

23 Q. And what you're looking for is an  
24 opportunity to take a, I won't use "advantage" in a  
25 bad way, but to take advantage of the systems that

1 are in place in the EDU so that the CRES provider  
2 doesn't have to create that type of program for  
3 itself, correct?

4 A. Really allowing the customer to take full  
5 advantage of those systems for which they pay.

6 Q. But from a CRES provider point of view,  
7 from IGS's point of view, you would need less  
8 back-office workers, less process between your  
9 company to do these, if you could get the EDU to do  
10 it for you, correct?

11 A. It does help streamline some of our  
12 processes, that's correct.

13 Q. But to do that, that has the utility  
14 using funds collected from the regulated side in  
15 rates to support a competitive supplier, correct?

16 A. I don't believe so. The funds that are  
17 ultimately the revenue that's ultimately used to  
18 manage those receivables and manage that customer,  
19 the bill, and manage the collection process, are all  
20 typically things paid through base rates. They're  
21 not typically distribution rates. They're not  
22 typically recovered through the generation rates. So  
23 all customers, regardless of who provided the  
24 generation, pay those same rates.

25 Q. Right. What it does is use those

1 regulated rates to support the competitive side of  
2 the industry versus the distribution side of the  
3 industry, correct?

4 A. Supports the customer. Again, all  
5 customers pay for the distribution rates, all  
6 customers ultimately pay for all those systems and,  
7 again, the customer that migrates can't take  
8 advantage of those things when you don't have a  
9 purchase of receivable in place.

10 Q. Well, it's seeking to either disconnect  
11 or get money from customers, so it's really serving  
12 the CRES provider who gets guaranteed recovery of  
13 their costs, correct?

14 A. Again, I think it's allowing those  
15 customers that have paid for those services and  
16 systems to utilize those services and systems for the  
17 account receivable management process. Certainly, we  
18 would not have to then duplicate those services.

19 Q. So it's your testimony that anything a  
20 customer might pay for, that's collected from a  
21 distribution company, there's no need to replicate  
22 that on the CRES side, that the CRES should be able  
23 to take advantage of any system within an EDU that's  
24 already been paid for with base rates?

25 A. It's my position that with respect to the

1 account receivable management process, yes. We'd  
2 have to look at all the other systems to determine  
3 whether that's correct.

4 Q. Well, I'm trying to just test the theory  
5 behind the position. So you have the example of  
6 purchase of receivables. I'm asking if, from a  
7 starting point, if your testimony is, regardless of  
8 what it is, if it's been paid for in base rates and  
9 the EDU has a system, that the CRES provider should  
10 be able to take advantage of that and use that for  
11 their own purposes.

12 A. Typically, I think the customers  
13 ultimately should be able to get the benefit for  
14 those things for which they pay. If they're paying  
15 for something through base rates, they ought to  
16 either be able to take advantage of it or, frankly,  
17 avoid it.

18 Q. So is advertising recovered in base rates  
19 for a utility?

20 A. I don't know. Typically what's recovered  
21 through generation is fairly limited.

22 Q. Well, if advertising is collected from  
23 all customers, should the EDU be required to have --  
24 allow the CRES provider to use their advertising  
25 functions?

1           A.    Again, that depends on how they're  
2   recovering the costs for it and what kind of  
3   advertising we're talking about. There does -- there  
4   has to be some kind of a differentiation between the  
5   utility and ultimately the provider. Certainly you'd  
6   have to take a look at all sorts of aspects of that.

7           Q.    So, again, the underlying theory, the  
8   underlying premise of purchase of receivables, it's a  
9   case-by-case analysis that needs to be done to  
10   determine if the CRES provider should be able to use  
11   the resources of the EDU that are paid for in base  
12   rates?

13          A.    I think you'd have to look at each  
14   element, that's correct.

15          Q.    Now, Mr. Etter talked to you a little bit  
16   about the credit standards on page 17 of your  
17   testimony.

18          A.    Yes.

19          Q.    And you had initially, in your testimony,  
20   declared that the utility was able to offer credit to  
21   a larger base of customers that the CRES provider  
22   wasn't able to offer to; is that correct?

23          A.    Yeah. The ability to disconnect for  
24   nonpayment is a fairly substantial tool in the energy  
25   industry and it's not a tool available to competitive

1 suppliers.

2 Q. But I believe you told Mr. Etter that  
3 really there's no barrier that doesn't allow you  
4 to -- it's a matter of risk that the company wants to  
5 take on, and you, so far, have decided not to match  
6 the credit standards of the EDUs because that's too  
7 much risk, correct?

8 A. I'm not sure I understand. Could you --

9 Q. I'll start and break it down from the  
10 beginning. When you had a discussion with Mr. Etter,  
11 did you tell him that the credit standards that are  
12 followed by IGS for customers are ultimately truly  
13 just determined by IGS as part of how much risk  
14 they'll accept?

15 A. I think what I said was ultimately it's  
16 going to be dictated by the market, but it certainly,  
17 at some level, it's IGS's decision to decide whether  
18 or not to participate or not participate, and then  
19 how much of that exposure or risk that the market  
20 will bear is really a market determination.

21 Q. But if you wanted to -- I'm not saying  
22 it's a good business model, but you could say there's  
23 no credit standards; if you sign up, we'll provide to  
24 you. Correct?

25 A. Do you mean completely eliminate the risk

1 associated with the uncollectibles?

2 Q. I'm asking if IGS has the ability to not  
3 have credit standards. It chooses to have the credit  
4 standards it has, correct?

5 A. That's correct.

6 Q. And there's a difference in your  
7 testimony that you state between the credit standards  
8 that IGS has chosen to provide, and that the utility  
9 is able to provide, and you tie that to the ability  
10 to disconnect customers, correct?

11 A. That's correct. In part. There's also  
12 the ability -- as the utility, there are also, I  
13 think, some advantages the utility has, as the  
14 utility, to ultimately pursue a customer for  
15 nonpayment.

16 Certainly deposits are something that the  
17 utility can get typically under tariff and approved  
18 by the Commission. Whether or not a competitive  
19 supplier can get a deposit, again, is going to be  
20 dictated by what the market will bear.

21 Q. But, again, in today's environment,  
22 you're unwilling to market to a customer that doesn't  
23 meet your credit standards that might meet the credit  
24 standard of an electric distribution utility,  
25 correct?

1           A.    Generally I think that's correct.

2           Q.    But the purchase of receivables would  
3 allow you to expand your base to a class of customer  
4 that right now you think is too risky to market to,  
5 correct?

6           A.    With the purchase of receivables, we can  
7 certainly offer our products to a wide range of  
8 customers without a concern generally about  
9 uncollectibles.

10                   We still have a concern with respect to  
11 whether or not the customer's going to pay their bill  
12 because, ultimately, if the customer's disconnected,  
13 we lose that customer. And for a competitive  
14 supplier it's expensive to find a customer and retain  
15 a customer and, certainly, we'd like to keep  
16 customers.

17           Q.    But not the same concern that exists  
18 today that you won't get paid because the utility is  
19 on the hook for collecting the payment under the  
20 purchase of receivables program, correct?

21           A.    Well, again, under the purchase of  
22 receivables program, it would depend. You said  
23 "utility is on the hook." And, again, if you have a  
24 bad-debt tracker, I think the utility's kept whole if  
25 there's a discount to the receivable. And I think

1 that is a mechanism that can also maintain a positive  
2 flow for the utility.

3 Q. Just so we're clear, when we ask these  
4 questions, we agree that AEP Ohio does not have a  
5 bad-debt tracker, correct?

6 A. Currently, that's correct, yes.

7 Q. So as we sit here today and as the  
8 Commission considers this case and your  
9 recommendation, we really can't consider a bad-debt  
10 tracker as a possible out for the company if it takes  
11 on the increased risk, correct?

12 A. I could be mistaken but I think the  
13 Commission could ultimately put a bad-debt tracker in  
14 place.

15 Q. So is it part of your testimony now that  
16 you're adding -- that you would like the Commission  
17 to add a bad-debt rider for AEP Ohio as part of the  
18 modified ESP?

19 A. Certainly I think what we suggested is we  
20 ultimately put it into a collaborative to determine  
21 the best approach. If the Commission could put a  
22 bad-debt tracker in place and order a purchase of  
23 receivable, that, to me, would seem to be a good  
24 outcome.

25 Q. Now, you talked about the collaborative

1 that you recommended. Your recommendation is to move  
2 to a collaborative process. And I believe in your  
3 testimony, on page 20, you talk about the experience  
4 of other utilities being leveraged with these  
5 programs and you refer to -- the first line on page  
6 20, the first line of that answer -- about once a  
7 commission or state legislature has directed a  
8 utility to implement, it leads to this collaborative  
9 process, correct? Page 20, line 20.

10 A. I'm sorry. Okay. Yes, I see that.

11 Q. So is it your experience that -- strike  
12 that.

13 Is a purchase of receivables typically  
14 introduced by or have you seen the purchase of  
15 receivables introduced by a state legislature?

16 A. More typically it's something that's  
17 either approved or ordered through a commission, but  
18 I have seen, Illinois comes to mind, where the  
19 legislature actually spoke and required a purchase of  
20 receivable. A utility consolidated billing POR, UCB  
21 POR is how they refer to it.

22 Q. Typically you said it's done before  
23 commissions?

24 A. Typically my experience in Ohio,  
25 Pennsylvania, New York, Michigan, in most instances

1 it seems to be something done through a commission.

2 Q. And is that done on a utility-by-utility  
3 basis, or has that been done on a statewide basis in  
4 the other states that you've been in?

5 A. Could be both. In Pennsylvania, it was  
6 really utility by utility but ultimately stemmed from  
7 a commission suggestion that the utilities take a  
8 look at purchase of receivable. I wasn't around for  
9 the original part of the development of POR in Ohio,  
10 so I'm just not sure here.

11 Q. And are you familiar with the rulemaking  
12 process here before the Public Utilities Commission  
13 of Ohio?

14 A. Generally, yes.

15 Q. And is it better, from IGS's point of  
16 view, to have a single system for purchase of  
17 receivables across the state or to have each company  
18 have its own system?

19 A. Frankly, it works fine either way. We're  
20 in just, I think right around 40 utilities' service  
21 territories and there are nuances and differences  
22 between every single one, so to have a difference  
23 between one utility POR and another isn't a major  
24 concern.

25 Q. Go back to page 16 of your testimony real

1 quick. In here you list some concerns with  
2 collections. Is it your understanding the Commission  
3 currently has rules that set up the payment priority  
4 to favor unpaid CRES charges?

5 A. It's my understanding under, I think, the  
6 2003 case, that they modified the payment priority to  
7 put CRES provider unpaid receivables first in line.

8 Q. So if a customer is late in paying their  
9 bill, the unpaid CRES charges would get paid before  
10 the current EDU distribution charges, correct?

11 A. For a period, that's my understanding,  
12 yes.

13 Q. Earlier we talked about the other  
14 services that you -- the home line and the other  
15 things that you hope in the future to be able to  
16 offer. Would those also fall under the purchase of  
17 receivables?

18 A. No. The purchase of receivable programs  
19 I'm familiar with and certainly the one I'm  
20 suggesting here is just for the core charges, the  
21 generation, you know, generation-related charges  
22 here; it wouldn't extend to any other products or  
23 services offered by a CRES.

24 Q. So a CRES provider offering for other  
25 services would still have to send a separate bill to

1 customers for those other charges?

2 A. Certainly we wouldn't object to billing  
3 for them.

4 Q. But if we said no, because the Commission  
5 wouldn't allow us to, would the company have to do  
6 its own billing?

7 A. Yes.

8 Q. Would the company, IGS, have to do its  
9 own collections?

10 A. I hesitate a bit because the product we  
11 offer, there is no collection associated with it.  
12 It's just the nature of the product.

13 Q. What about the unnamed products in the  
14 future, if you had a product that there had to be  
15 collections upon, wouldn't IGS have to do the  
16 collections?

17 A. Again, without specifying any products,  
18 ultimately we would be responsible, yes.

19 Q. Turn to page 18, I believe it is, where  
20 you talk about the presence of purchase of  
21 receivables in Duke Energy's territory.

22 A. Yes, I'm there.

23 Q. I believe on 19, then, you get into what  
24 we talked about earlier with the aggregation  
25 opportunity in the FirstEnergy Services territory.

1 Make sure I want to ask the question. One second.

2 Actually, let's move to page 19 where you  
3 talk about experience with other states. You cite  
4 Exhibit 1 and the benefits of the POR programs in  
5 other states. Do you see that?

6 A. Yes, I do.

7 Q. Do you have any statistics on the number  
8 of competitive suppliers that go out of business or  
9 default on service in these jurisdictions?

10 A. Having participated in these markets for  
11 a number of years, I'm familiar when an event like  
12 that occurs; generally it's very infrequent.

13 Q. So you're saying in the states  
14 represented in the study that you've attached or the  
15 exhibit that you've attached, you do not know of any  
16 competitive suppliers that have defaulted on service  
17 or gone out of business?

18 A. I think Pennsylvania was the first  
19 exhibit, and I think Ohio was the second exhibit, and  
20 then I think the third exhibit is Illinois. There  
21 have been suppliers that have left the market; I'm  
22 familiar with that.

23 Again, infrequently, there have been some  
24 issues with how abrupt a supplier may have left. I  
25 don't remember any defaults post Enron. There may be

1 a few related to that that come to mind.

2 Q. And the companies that did enter the  
3 market or leave the market quickly, were those in  
4 states that had purchase of receivable programs?

5 A. I can think of some recent examples in  
6 Georgia and Texas, again, very small and isolated, I  
7 think, and neither of those jurisdictions have POR.  
8 Again, nothing is immediately coming to mind in  
9 Pennsylvania, Ohio, or Illinois, but I'm not familiar  
10 with every exit.

11 Q. Would you agree that if a competitive  
12 supplier were able to enter into a purchase of  
13 receivables program and, therefore, put the  
14 back-office work on the local utility, then there's  
15 less of a presence of that company in the state from  
16 a business point of view?

17 A. I don't think that's correct. The  
18 competitive market is made up of dozens and dozens of  
19 competitors that are all over the country.  
20 Receivable purchase, I don't think, is necessarily  
21 correlated to their presence in the state. Certainly  
22 in states that have it there's a more robust market  
23 and then the presence of the supplier in the market  
24 tends to be higher. I don't know if that's answering  
25 the question.

1           Q.    But it certainly would be easier in a  
2   state that had a purchase of receivables program for  
3   a guy with a Big Gulp to sit behind his computer and  
4   do stuff online to get generation, and then get the  
5   utility to do all of its collections, and not have as  
6   much of an office presence as a company, correct?

7           A.    I don't think so. I think the days of  
8   the Big Gulp are behind us.

9           Q.    But certainly a competitive -- a CRES  
10  provider that was able to take advantage of the  
11  back-office of the EDU would not have to hire as many  
12  employees for their own business to do those same  
13  functions, correct?

14          A.    Typically, the function of collecting  
15  unreceivables can be something either that's  
16  internally done or outsourced. A number of  
17  companies, for example, in Texas, a number of  
18  companies outsource the entire function related to  
19  billing and collection. Other companies do it  
20  internally.

21                Our experience would be, just speaking  
22  for IGS, that, you know, we have those functions for  
23  our commercial and industrial, for example. So we  
24  would put those capabilities somewhere else.

25          Q.    But your testimony is that it's already

1 being done, it's already being paid for by ratepayers  
2 so let's just take advantage of that system, correct?

3 A. Yes.

4 Q. And that will allow the CRES provider not  
5 to hire as many individuals in Ohio to fulfill that  
6 system of their own, correct?

7 A. Well, again, I think it's an allocation  
8 of resources. So the provider may not even enter  
9 into the market without purchase of receivables, for  
10 example. So entering with purchase of receivables,  
11 they would certainly have other staff that they would  
12 ultimately need to have to solicit customers and  
13 enroll customers and maintain those relationships.

14 Q. But you agree that if they are offering  
15 service, they wouldn't have to have staff for this  
16 purpose because they're taking advantage of what the  
17 utility has.

18 A. For the specific purpose of essentially  
19 collections and all that?

20 Q. That's correct.

21 A. Yes.

22 Q. Okay. I want to talk a little bit about  
23 your retail auction proposal.

24 A. Okay.

25 Q. Now, in this proposal, I'm looking at

1 page 23 now, at the top where you talk about  
2 99 percent of the AEP default rate for generation,  
3 including all capacity costs, would be the rate that  
4 would be set as part of that auction; is that  
5 correct?

6 A. That's the suggestion, yes.

7 Q. Just because I'm not a grammarian, I want  
8 to make sure I understand it right. Can including  
9 all capacity costs, that is sort of the all-in cost,  
10 right, not the capacity on top of the 99 percent?

11 A. Yeah; the suggestion would be the  
12 99 percent would be the full metered rate for the  
13 generation portion of the bill to the customer.

14 Q. It says "Ten percent of default service  
15 customers would be randomly assigned to receive the  
16 auction rate instead of a default service rate." Is  
17 this like a lottery for who gets the service,  
18 essentially?

19 A. Essentially. I really hadn't thought in  
20 detail about the method for ultimately determining  
21 which customers would be able to participate, but,  
22 essentially, some type of random allocation.

23 Q. And are there costs associated with  
24 running this auction?

25 A. I'm familiar on the natural gas side in

1 Ohio, for example, with the auctions, and I think  
2 there are some costs with respect to running the  
3 auction; they're fairly minimal.

4 Q. Well, if the cost of the auction on a  
5 larger scale for a utility like AEP Ohio were to  
6 amount to 2 or 3 percent of the overall cost of the  
7 rate for generation, making it actually above a  
8 hundred, above the 99 level, a hundred percent, would  
9 it still be worthwhile to move forward with the  
10 auction?

11 A. Well ultimately you would put that  
12 question to the folks that would participate in the  
13 auction. It's really up to the individual retail  
14 suppliers to determine whether or not they would be  
15 willing to self-serve at that rate.

16 Q. But if the auction cost to put on the  
17 auction had to be borne by the utility and ultimately  
18 recovered from customers, is that an appropriate  
19 auction that has a higher cost than not having a  
20 retail auction at all?

21 A. I think we'd have to see what the costs  
22 were. Certainly the utility should ultimately be  
23 able to recover its reasonably incurred costs for  
24 either a wholesale or retail auction. I don't know  
25 that the costs for a retail auction would be

1 significantly higher than wholesale; we haven't seen  
2 that on the gas side.

3 Q. And you call it an "auction," but an  
4 "auction" usually connotes, I won't use my "Storage  
5 Wars" reference again, but connotes a bidding  
6 process that brings something -- a price down,  
7 correct?

8 A. Well, I'm familiar with auctions where  
9 you could bid down, a descending clock auction, or  
10 you could have an ascending clock auction, which is  
11 ultimately what I'm suggesting here, where the price  
12 itself is preestablished. And ultimately those that  
13 would be willing to serve at that rate are, each  
14 round, putting money into the auction to ultimately  
15 determine how valuable that relationship would be  
16 with that customer.

17 Q. So this is more of an election into  
18 offering service versus a competitive auction that  
19 would lower a price; is that fair?

20 A. That's fair.

21 Q. And then at the bottom of page 23, lines  
22 19 to 20, you state that as a result of the auction,  
23 the customers that are lucky to win the lottery would  
24 be retained by the CRES provider at a monthly  
25 variable rate, correct?

1           A.     That's correct. Maintaining the right to  
2     leave at any time; there wouldn't be a cancellation  
3     fee associated with the customer being in the  
4     program.

5           Q.     And is it your plan to have that be,  
6     again, the price that's set by this auction, the  
7     99 percent, or would that be a different price?

8           A.     My suggestion would be that the  
9     99 percent run through the duration of the ESP case  
10    and ultimately those prices default to market rates.

11           My suggestion would further be that  
12    ultimately those rates would be posted on the  
13    Commission's Apples to Apples website so that there  
14    would be transparency with respect to what those  
15    rates are being charged.

16           Q.     I'm not sure I understand the answer so  
17    let me ask it this way: So after the duration of the  
18    ESP period, the customers that stay with IGS, if they  
19    were to be part of this auction, would IGS then  
20    determine what price they are based on the market  
21    that the customer would pay?

22           A.     Yeah; the suggestion would be it would be  
23    a market-based monthly variable rate determined by  
24    each individual winning supplier.

25           Q.     On the top of page 24, you talk about the

1 funds resulting from the auction. So I'm clear what  
2 those funds are, could you let me know?

3 A. As I stated before, the auction itself  
4 would be an ascending clock, so you'd have a certain  
5 number of tranches ultimately to award and, assuming  
6 you have more tranches initially in the auction,  
7 suppliers ultimately willing to serve, each round  
8 there would be a predetermined amount that would be  
9 bid per customer group to ultimately serve those  
10 customers.

11 So, essentially, the retail suppliers  
12 would be buying that relationship. The funds I'm  
13 talking about are the funds that would result in  
14 where the auction closed and whatever that level of  
15 bid was in the closing round.

16 Q. Is there a nest egg of cash that comes as  
17 a result of that?

18 A. Yes.

19 Q. And that's from the utility to fund the  
20 purchase of receivables program; is that your  
21 suggestion?

22 A. I think I say both the purchase of  
23 receivables and then the Governor has some energy  
24 initiatives that seem to be a good place for it to go  
25 as well. I think all of that can be determined

1 ultimately depending on how big the pile of funds is.

2 Q. What's the level of funds that you would  
3 expect from an auction like this?

4 A. You know, we've seen -- ultimately what  
5 we're talking about is the value of that customer to  
6 the retail provider. We've seen sales in the market  
7 for electric customers anywhere from, you know,  
8 \$500 a customer to upwards over a thousand.

9 Q. Now, on page 25 of your testimony, you  
10 address the minimum stay provisions in the tariff.  
11 Do you see that?

12 A. I'm sorry, which page?

13 Q. Page 25. I'm sorry.

14 A. Oh, that's okay. Yes.

15 Q. And you oppose the minimum stay provision  
16 in the AEP Ohio tariff, correct?

17 A. That's correct.

18 Q. You're aware that that's an approved  
19 tariff considered by the Commission, correct?

20 A. Yes.

21 Q. Are you aware of the gaming concerns that  
22 led to the creation of this type of tariff where  
23 customers would move on and off SSO service?

24 A. I'm not familiar with the background, no.

25 Q. At the bottom of the page, lines 22 to

1 23, you raise a concern with the affidavit and  
2 attestation requirements. Do you see that?

3 A. Yes, I do.

4 Q. Are you aware of the purpose of the  
5 affidavits and attestations?

6 A. My understanding from, I guess, both  
7 discussion and reading the previous provision, it was  
8 a method for ultimately determining which customers  
9 would and wouldn't get the reduced capacity rates.

10 Q. Is it your understanding that there's a  
11 difference between a CRES provider saying the  
12 customer was ready versus a customer providing an  
13 affidavit or attestation?

14 A. We've struggled, frankly, with the  
15 construct where we would enroll a customer in the  
16 service territory where there would still be capacity  
17 available at the RPM price and ultimately needing to  
18 do a second step to get that capacity price for the  
19 customer.

20 Q. Is the right to be considered a tier 1 or  
21 tier 2, in your understanding, the right of a CRES or  
22 the right of a customer?

23 A. It's under -- my understanding is it's  
24 the right of the customer.

25 Q. Page 26, top of the page there, you

1 report your -- you discuss the data that's provided  
2 to CRES providers. Do you see that?

3 A. Yes.

4 Q. Would you agree that AEP Ohio and all  
5 EDUs should provide accurate data to CRES providers?

6 A. That's helpful, yes.

7 Q. And provide that equally to all CRES  
8 providers, giving no CRES provider an advantage over  
9 the other?

10 A. I would agree.

11 Q. So do you think an EDU should take the  
12 proper amount of time to make sure the information is  
13 correct that they share?

14 A. I guess a reasonable amount of time, yes.

15 Q. Okay. I believe the last point you talk  
16 about is the Turning Point Solar facility and the  
17 GRR.

18 A. Yes.

19 Q. And you discuss a concern that if the GRR  
20 is populated with something like the Turning Point  
21 facility, that it would be anticompetitive because  
22 the shopping customers wouldn't take any benefit from  
23 that; is that correct?

24 A. Assuming there's a nonbypassable charge  
25 associated with paying for it and then ultimately

1 shopping customers didn't get to participate in  
2 either the generation or the RECs, then yes.

3 Q. But that concern, I believe you say on  
4 the bottom of 27 and top of 28, would be alleviated  
5 if either the electricity would be sold on the market  
6 with revenues being used as a credit against the cost  
7 of the rider, or the RECs generated from the rider  
8 would be used to reduce the standards for all  
9 customers, correct?

10 A. Certainly, if the competitive --  
11 competitively-supplied customer could obtain the  
12 benefits associated with those facilities, they're  
13 certainly paying for the facilities, then that would  
14 help to alleviate that concern, yes.

15 MR. SATTERWHITE: Give me one second,  
16 your Honor. I think I'm about done. I just want to  
17 make sure.

18 EXAMINER SEE: Okay.

19 MR. SATTERWHITE: All right. Thanks for  
20 your patience.

21 Q. One question. This is back on the RPM  
22 and FRR issues. Are you aware that IGS had the  
23 ability to self-supply its capacity?

24 A. IGS wasn't in the electric market at the  
25 time, so that was really not an issue for us.

1           Q.    But you are aware of the right of CRES  
2 providers to self-supply capacity, correct?

3           A.    I'm generally aware of that right.

4           Q.    And IGS, if it wanted to, now that it is  
5 certified and standing ready to serve, could  
6 self-supply in the future if it chose to?

7           A.    That's not my understanding.  Until the  
8 end of the current period I think we have to get our  
9 capacity from AEP.

10          Q.    Correct.  I mean after this period.

11          A.    After this period, correct.

12          Q.    And one last question.  We talked earlier  
13 about the variable contracts and the ability for IGS  
14 to pass through any discounts that might happen when  
15 that RPM price changes.  Are you aware if that is  
16 weighted at all or if that's just a clean plug-in,  
17 whatever the RPM is, it's ultimately taken out in  
18 that formula?

19          A.    My understanding, our formula just plugs  
20 the number in.

21               MR. SATTERWHITE:  Thank you.  That's all  
22 I have.

23               THE WITNESS:  Thank you.

24               EXAMINER SEE:  Mr. Margard?

25               MR. MARGARD:  No questions.  Thank you,

1 your Honor.

2 EXAMINER SEE: Any redirect, Mr. Whitt?

3 MR. WHITT: Your Honor, I will have  
4 fairly brief redirect. I was wondering if it would  
5 be appropriate for a break? I'm not sure what the  
6 practice has been, but I know the witness has been on  
7 the stand for about two hours now.

8 EXAMINER SEE: We can accommodate a  
9 five-minute break for you and your witness including  
10 time for you to consider whether you have any  
11 redirect.

12 MR. WHITT: Thank you, your Honor.

13 EXAMINER SEE: Let's go off the record.

14 (Recess taken.)

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

17 Mr. Whitt.

18 MR. WHITT: Yes, your Honor, I do have  
19 redirect.

20 - - -

21 REDIRECT EXAMINATION

22 By Mr. Whitt:

23 Q. Mr. Parisi, I want to ask you some  
24 questions about your testimony under  
25 cross-examination about the POR program. There was

1 some discussion about CRES providers taking advantage  
2 of or leveraging resources of the utility accounts  
3 receivable functions and systems. Do you recall that  
4 line of questions?

5 A. I do.

6 Q. Now in your experience, if a customer is  
7 behind on generation charges, are they also behind on  
8 distribution charges?

9 A. Typically that's our experience. In the  
10 few areas of where we participate where there isn't  
11 purchase of receivables, if they haven't paid our  
12 generation charges, typically they haven't paid the  
13 distribution charges either.

14 Q. And what is your experience with respect  
15 to how those charges are billed? In other words, are  
16 the distribution and generation charges typically on  
17 the same bill?

18 A. Yes, in almost every instance, for the  
19 mass market or residential customer class, the  
20 utility does consolidated billing.

21 Q. So based on what you're recommending to  
22 the Commission in a POR program as you envision it,  
23 would it be your expectation that there be any  
24 substantive change in how AEP collects accounts  
25 receivables?

1           A.    No.  The current systems -- my  
2   understanding generally for most utilities is those  
3   mechanisms are all in place because, in most  
4   instances, they have both distribution and generation  
5   charges, so the utility systems and protocols that  
6   are in place would ultimately just be used for all of  
7   those charges, not just the distribution component.

8           Q.    So under the system you envision, rather  
9   than have the CRES supplier and the utility pursuing  
10  collections activity against the same customer for  
11  different charges on the same bill, the utility would  
12  handle that function.

13          A.    That's correct.  I think in my testimony  
14  I talk about consolidating those functions and  
15  actually making it clear for customers, because in a  
16  situation where the utility is billing but isn't  
17  taking the responsibility with respect to the  
18  receivable for the generation component because of  
19  the lack of a POR, the customer has two different  
20  parties, ultimately, that's pursuing them for rates  
21  and that does get confusing for customers.

22          Q.    Okay.  Mr. Parisi, would you consider  
23  leveraging utility assets for the accounts receivable  
24  collection function to be any different in principle  
25  than a CRES provider using utility distribution lines

1 to -- over which power sold by IGS to customers  
2 travels?

3 A. No. Effectively, as I testified before,  
4 those are all components that are paid for through  
5 base rates and, ultimately, the utility customer  
6 should be able to get the benefit of those systems  
7 for which they pay. Those are both systems they pay  
8 for and certainly should be able to ultimately have  
9 the benefit of.

10 Q. Would the shared use of distribution  
11 lines strike you as more economically efficient than  
12 IGS or any other CRES provider building duplicate  
13 distribution facilities?

14 A. Certainly. Yes.

15 Q. You were asked some questions about the  
16 hypothetical person in his basement with a Big Gulp  
17 and --

18 MR. SATTERWHITE: I didn't say in the  
19 basement.

20 Q. So visions of you and Scott White sitting  
21 in his basement struck me.

22 But can you explain, for the benefit of  
23 all of us, what, if any, regulatory requirements are  
24 there to being a CRES provider?

25 A. Well, in Ohio to be a CRES provider,

1 first the provider has to submit an application to  
2 the PUCO to be certified as a CRES provider, and  
3 demonstrate the financial, managerial, and technical  
4 capability to ultimately perform; financial being a  
5 big piece of that.

6 Obviously, the Commission takes a look at  
7 the suppliers' financial position, whether they're  
8 publicly-held or privately-held, and makes a  
9 determination as to whether or not they're capable of  
10 performing the services.

11 Then there's typically a second set of,  
12 assuming the CRES provider application's been  
13 approved, a second series or process that the  
14 provider has to go through in each of the service  
15 territories to get signed up and approved with the  
16 provider or the utility in that service territory.

17 And, typically, with a POR program, I'd  
18 also add that the receivable is typically then used  
19 as a component of security, essentially. Although,  
20 the receivable is truly sold to the utility, so it's  
21 the utility's receivable.

22 Often the utility will also file a UCC on  
23 that just to ensure that they're protected with  
24 respect to those parties.

25 Q. Does IGS have an office presence in Ohio?

1           A.    We do we have an office up off of Emerald  
2 Parkway in Dublin we've been in for just about two  
3 years now. We've been in Ohio for 22 years. Prior  
4 to the office on Emerald Parkway, we had an office  
5 around the corner right off of Tuttle.

6                   I think our current office space is  
7 one-hundred-and -- I'll get the square footage wrong,  
8 but in excess of a hundred thousand square feet, and  
9 we have just about 400 employees.

10               MR. WHITT: Thank you. I have no further  
11 questions.

12               EXAMINER SEE: Recross?

13               MR. BARNOWSKI: No questions, your Honor.

14               MR. YURICK: No questions.

15               MS. McALISTER: No questions, your Honor.

16               MR. KURTZ: No questions, your Honor.

17               MR. DARR: No questions.

18               MR. HAYDEN: No questions.

19               MR. SMALZ: No questions, your Honor.

20               MR. ETTER: No questions.

21               EXAMINER SEE: Mr. Satterwhite?

22               MR. SATTERWHITE: No questions, your  
23 Honor.

24               EXAMINER SEE: Mr. Margard?

25               MR. MARGARD: No questions, your Honor.

1 EXAMINER SEE: Very good.

2 - - -

3 EXAMINATION

4 By Examiner See:

5 Q. Mr. Parisi, I have a couple of things I  
6 need to go over with you, in no particular order.

7 Mr. Satterwhite asked you if you were  
8 also counsel for IGS.

9 A. That's correct.

10 Q. Is it correct that you previously entered  
11 an appearance in this case as counsel for the  
12 company?

13 A. I did initially and I hope --

14 Q. And you have recently withdrawn your  
15 status as counsel in this case, correct?

16 A. That's correct, your Honor.

17 Q. So that you could appear as a witness,  
18 correct?

19 A. That's correct, your Honor.

20 Q. Okay. You were asked a number of  
21 questions about what appears on the bill by, I  
22 believe, Mr. Etter. Do you recall that line of  
23 questioning?

24 A. Yes, your Honor.

25 Q. To your knowledge, is it usually the

1 Commission that determines the information that's to  
2 appear on a customer's bill?

3 A. That's my understanding, your Honor.

4 Q. You were also asked questions about  
5 determination of the discount rate as far as a  
6 purchase of receivables program. Do you remember  
7 that line of questioning?

8 A. Yes, I do.

9 Q. And I think you indicated that the  
10 parties sometimes negotiate the rate of the discount?

11 A. Yes, that's correct, your Honor.

12 Q. Are you also aware of instances where the  
13 Commission would determine the discount rate for the  
14 purchase of receivable program?

15 A. Yes, that does happen occasionally as  
16 well.

17 Q. You were asked some questions by  
18 Mr. Satterwhite about your contracts with residential  
19 customers, and I believe you indicated that you have  
20 fixed-price contracts as well as contracts where the  
21 rate changes monthly.

22 A. Yes, your Honor.

23 Q. Okay. What is the term or the duration  
24 for your fixed-price contracts for residential  
25 customers generally?

1           A.     Generally, we'll have something that's  
2     around 12 months. We sometimes also offer 18-month  
3     and occasionally a 24-month product.

4           Q.     Okay. So they are possibly 1 year, 18  
5     month, and 24 months all for residential customers?

6           A.     That's correct.

7           Q.     Go to page 10 of your testimony. Wrong  
8     page.

9                     You're discussing -- let's try page 19.  
10    At lines 20 through 23 you are discussing  
11    governmental aggregation programs in the FirstEnergy  
12    territory.

13          A.     Yes, your Honor.

14          Q.     I want to be -- I want the record to be  
15    clear. Did you indicate that there is or is not a  
16    purchase of receivable program for those governmental  
17    aggregation programs?

18          A.     Your Honor, it's my understanding that  
19    currently there is not. There was a provision that  
20    was included, I believe, in the last settlement that  
21    ultimately could result in a purchase of receivable  
22    program for any supplier of government aggregation.

23          Q.     But there is not one presently.

24          A.     That's my understanding.

25          Q.     Okay. Now go to page 10 of your

1 testimony, lines 21 through 23.

2 A. Yes, your Honor.

3 Q. I believe you were discussing this  
4 sentence with Mr. Satterwhite. Do you recall that  
5 line of questioning?

6 A. Yes, I do.

7 Q. Do I understand your position correctly  
8 that you believe that if AEP receives tier 1 pricing  
9 above the point where it was before the stipulation,  
10 which was at 146 for tier 1, 255 for tier 2, if they  
11 were to receive a price above that for tier 1, that  
12 they should be willing to accept a customer cap of  
13 something greater than 21 percent?

14 A. Your Honor, it was my belief that under  
15 the prior settlement that ultimately was vacated by  
16 the Commission, the initial tiers were at an RPM  
17 rate, and that under the revised ESP that was filed  
18 they are higher rates than were initially,  
19 essentially, approved or settled by the utility.

20 My thought was if ultimately the  
21 Commission approves something at or above what was  
22 ultimately suggested in this filing at the 146 rate,  
23 that given the fact AEP was okay with a lower market  
24 rate, they should be okay with a higher market rate  
25 for more customers. I don't know if that answers the

1 question.

2 EXAMINER SEE: Okay. Thank you very  
3 much, Mr. Parisi.

4 THE WITNESS: Thank you, your Honor.

5 EXAMINER SEE: Mr. Whitt?

6 MR. WHITT: No further witnesses, your  
7 Honor. And if I haven't already done so, I move for  
8 the admission of IGS Exhibit 101.

9 EXAMINER SEE: Are there any objections  
10 to the admission of IGS Exhibit 101?

11 MR. SATTERWHITE: We renew our motion to  
12 strike, but other than that, no objection.

13 EXAMINER SEE: I will confirm the Bench's  
14 ruling as to your motion to strike and admit IGS  
15 Exhibit 101.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 EXAMINER SEE: Thank you.

18 THE WITNESS: Thank you, your Honor.

19 EXAMINER SEE: Mr. Margard.

20 MR. MARGARD: Thank you, your Honor. The  
21 staff would call Mr. Peter Baker to the stand,  
22 please.

23 EXAMINER SEE: Mr. Baker, if you'd please  
24 raise your right hand.

25 (Witness sworn.)

1 EXAMINER SEE: Thank you.

2 Mr. Margard.

3 MR. MARGARD: Thank you, your Honor. I  
4 would respectfully request the prefiled testimony of  
5 Peter Baker, filed in this proceeding on May 9th,  
6 2012, be marked for purposes of identification as  
7 Staff Exhibit No. 106.

8 EXAMINER SEE: The exhibit is so marked.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 - - -

11 PETER K. BAKER

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

14 DIRECT EXAMINATION

15 By Mr. Margard:

16 Q. Please state your name and by whom you're  
17 employed.

18 A. My name is Peter Baker. I'm employed by  
19 the Public Utilities Commission of Ohio.

20 Q. Mr. Baker, do you have in front of you  
21 what's been marked as Staff Exhibit No. 106?

22 A. Yes, I do.

23 Q. And is this testimony that was prepared  
24 by you or at your direction?

25 A. Yes, it is.

1           Q.    Mr. Baker, do you have any corrections,  
2 changes, modifications of any sort to this document  
3 as it was filed?

4           A.    Yes, I do.

5           Q.    And will you please identify those?

6           A.    Yes. On page 9, line 2 and 3 refers to a  
7 shaded portion of the table on that page. The  
8 docketed version of this testimony did not have any  
9 shading in the table. It was intended to shade the  
10 portion referring to CSP CAIDI performance end  
11 standard.

12                   Moving to page 10, line 5, the word  
13 "witnesses" should be singular, "witness."

14                   And, on page 13, there's another table  
15 that should have a shaded portion and that's the line  
16 titled "Staff's O&M Adjustment."

17                   Those are the corrections to my  
18 testimony.

19           Q.    Mr. Baker, with those corrections, if I  
20 were to ask you the questions contained in Staff  
21 Exhibit 106, would your answers be the same?

22           A.    Yes, they would.

23           Q.    And, in your opinion, are those responses  
24 true, accurate, and reasonable to the best of your  
25 knowledge and belief?

1           A.     Yes, they are.

2           MR. MARGARD: Your Honor, I respectfully  
3 move for the admission of Staff Exhibit No. 106,  
4 subject to cross-examination, and I tender Mr. Baker  
5 for that purpose.

6           EXAMINER SEE: Mr. Barnowski?

7           MR. BARNOWSKI: No questions, your Honor.

8           EXAMINER SEE: Mr. Yurick?

9           MR. YURICK: No questions.

10          EXAMINER SEE: Ms. Thompson?

11          MS. THOMPSON: No questions, your Honor.

12          Thank you.

13          EXAMINER SEE: Ms. McAlister?

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

16          EXAMINER SEE: Mr. Kurtz?

17          MR. KURTZ: No. Thank you, your Honor.

18          EXAMINER SEE: Ms. Kingery?

19          MS. KINGERY: No questions, your Honor.

20          EXAMINER SEE: Mr. Darr?

21          MR. DARR: No. Thank you.

22          EXAMINER SEE: Mr. Hayden?

23          MR. HAYDEN: No. Thank you.

24          EXAMINER SEE: Mr. Smalz?

25          MR. SMALZ: Let me see, your Honor.

1 Just one or two questions, your Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Smalz:

5 Q. On page 11 of your testimony, Mr. Baker,  
6 you talk about, in answer to question 18 --

7 THE REPORTER: Mr. Smalz, can you --

8 MR. SMALZ: I'm sorry.

9 Q. Mr. Baker, again, on page 11 with your  
10 answer beginning on line 3, you talk about your  
11 recommendation that "The Commission should require  
12 OPC to work with Staff to develop a plan to evaluate  
13 and identify proactive distribution maintenance that  
14 focuses capital spending where it will have the  
15 greatest impact on maintaining and improving electric  
16 reliability performance."

17 Do you know how long this process would  
18 take?

19 A. No, I don't have a firm idea. Hopefully  
20 it would be done within a three-month period.

21 Q. And, in the meantime, what would happen  
22 to the distribution investment rider, the DIR? Would  
23 the company start collecting it immediately before  
24 this process is completed?

25 A. I don't have a familiarity with the exact

1 process for the administration of the DIR.

2 Q. I see.

3 MR. SMALZ: Thank you, Mr. Baker.

4 I have no further questions, your Honor.

5 EXAMINER SEE: Mr. Serio?

6 MR. SERIO: Thank you, your Honor.

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Serio:

10 Q. Good afternoon, Mr. Baker.

11 A. Good afternoon.

12 Q. On page 10 of your testimony you talk  
13 about the DIR issue, and at the bottom of the page  
14 you list a number of reasons that are the concerns  
15 that you've got, correct?

16 A. Yes.

17 Q. Now, because you have those concerns, is  
18 it your position that the Commission should not  
19 approve the DIR until those concerns are addressed?

20 MR. SATTERWHITE: Objection, your Honor.  
21 It's friendly cross. OCC's already filed testimony  
22 in opposition to the DIR; they're seeking to go  
23 cumulative with this witness, friendly cross.

24 MR. SERIO: Your Honor, I don't know what  
25 his position is, so I don't know whether it's aligned

1 with OCC's position. He has issues but it doesn't  
2 say whether they oppose the DIR or not.

3 EXAMINER SEE: I'll allow it.

4 A. Could you repeat the question?

5 Q. Sure. Is it your position that the  
6 Commission should not approve the DIR until your  
7 issues are addressed or cleared up?

8 A. It is my opinion that these issues should  
9 be cleared up in the process that I describe on the  
10 next page where the company would work with staff to  
11 develop a plan.

12 Q. So, in the interim, you would be okay  
13 with there being a DIR charge?

14 A. My testimony talks about the relationship  
15 of the DIR to reliability programs.

16 Q. The four items that you list, the one is  
17 that it doesn't specify the quantity of the assets  
18 OPC plans to install; is that right?

19 A. Yes.

20 Q. So, without a specification of quantity,  
21 what charge would you anticipate being in a DIR?

22 A. We don't know what the charge will be.  
23 Again, this is -- it is these four items that I would  
24 expect to be resolved in the discussions between  
25 staff and the company.

1           Q.    The fourth item that you list there is  
2   the "quantified improvement in reliability  
3   performance."

4           A.    Yes.

5           Q.    Do you have a specific metric that you  
6   would use to measure the quantified improvement in  
7   reliability performance?

8           A.    It would be system reliability measured  
9   by either SAIFI or CAIDI.

10          Q.    So you'd simply look at the SAIDI --  
11   SAIFI or CAIDI numbers before and then look at them  
12   after, and if the numbers had not improved, what  
13   would be your conclusion?

14          A.    It would -- a tentative conclusion would  
15   be that either the program wasn't implemented or that  
16   it did not have its intended effect.

17          Q.    I had a question on page 13.  You  
18   indicate there that staff recommends an adjustment to  
19   remove 17.8 million.  Just so I'm clear, that's a  
20   reduction to the rates that OPC can recover?

21          A.    That's a reduction in the incremental  
22   costs that the company could recover through the  
23   rider.

24          Q.    And that's a forward-looking reduction?

25          A.    Yes.

1 MR. SERIO: That's all I have, your  
2 Honor. Thank you.

3 EXAMINER SEE: Mr. Satterwhite?

4 MR. SATTERWHITE: Thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 By Mr. Satterwhite:

8 Q. Good afternoon, Mr. Baker. Always a  
9 pleasure to talk to you.

10 A. Good afternoon.

11 Q. Now, you review the utility -- the  
12 reports filed by the utilities and interact with  
13 utilities to stay in touch with their reliability  
14 performance, correct?

15 A. Yes; that's the annual reports required  
16 by the Ohio Administrative Code Rule 10 and Chapter  
17 10.

18 Q. But you're busy beyond March 31st to  
19 April 30th, correct? Year-round you interact with  
20 the utilities; is that correct?

21 A. Yes, we do.

22 Q. And you also review the annual reports  
23 for AEP Ohio related to their reliability and their  
24 infrastructure, correct?

25 A. Yes, we do.

1           Q.    Now, you talk in your testimony about the  
2 reliability standards that the company, AEP Ohio, has  
3 to meet each year. What are the number of standards  
4 that the company's required to meet each year?

5           A.    There are two reliability measures and  
6 those are on SAIFI and CAIDI, and those -- for AEP,  
7 those are applied to each of the operating companies,  
8 CSP and OP.

9           Q.    So, currently, they're still in the  
10 pre-merged indices, so there's four standards or  
11 indices that they have to meet each year; is that  
12 correct?

13          A.    Yes, that's correct.

14          Q.    And were you involved in the case that  
15 set the standards, the initial standards, after the  
16 Commission rules were passed?

17          A.    Yes, I was.

18          Q.    And how many years has AEP had to report  
19 these reliability standards since they have been set?

20          A.    They've had to report their performance  
21 against these standards for performance in years 2010  
22 and 2011.

23          Q.    And prior to the movement to standards  
24 there were targets in place, correct?

25          A.    Yes, that's correct.

1           Q.    And in the two years that AEP Ohio, CSP  
2   and Ohio Power Company, have had to report their  
3   performance against these indices, how many of the  
4   individual indices has either company not met?

5           A.    Well, there's two indices and they met  
6   those indices in 2010.  CSP missed the CAIDI indices  
7   in 2011.

8           Q.    So if there's eight eligible ones so far,  
9   they're seven for eight; is that fair?

10          A.    That is correct.

11          Q.    Okay.  And, as you state on page 9 of  
12   your testimony, a single missed standard in a single  
13   year is not a violation of the rules, correct?

14          A.    That is correct.

15          Q.    Is the reason a single year missing the  
16   standards is not a violation because, from year to  
17   year, there can be swings that might cause a company  
18   to miss one of the individual indices?

19          A.    I'm not sure that's completely accurate.  
20   I think the intention was that if a company missed a  
21   standard, that they would be given an opportunity to  
22   remedy the situation so that the following year they  
23   would meet the standard.

24          Q.    But it's true, isn't it, that performance  
25   against the standards can swing depending on a number

1 of variables?

2 A. That is true, but the standards are  
3 intended to incorporate that variability.

4 Q. So the standard take a set of years under  
5 the rule to set them and try to predict what  
6 performance will be in the future and so you're  
7 performing against past years of performance; is that  
8 correct?

9 A. There's a number of factors that go into  
10 the process of setting standards, and historical  
11 performance is one of those factors.

12 Q. Now, on pages 7 to 8 of your testimony,  
13 you make the statement that "reliability measures  
14 showed worse performance," and you're comparing year  
15 2011 to year 2010, correct?

16 A. That's correct.

17 Q. For that statement?

18 A. That's correct.

19 Q. And when you say "reliability measures  
20 showed worse performance," again, just to be clear,  
21 you're not stating they failed to meet the indices,  
22 you're just saying that they were lower than the year  
23 before that had passed the indices, correct?

24 A. Just to clarify, when you say "lower,"  
25 you mean they were better or worse?

1           Q.    Yeah, that's a good point.  I realized  
2   that in the middle of my question.  I'm going to say  
3   "better or worse," I guess, that's maybe a better use  
4   of the phrase there.  So let me reask the question.

5                    So when you were saying that performance  
6   was worse in 2011 than 2010, three of the four  
7   indices still met the standard that was required  
8   under the indices that are filed with the Commission,  
9   correct?

10          A.    That's correct.

11          Q.    Now, what are the factors that contribute  
12   to reliability that are uncontrollable by a utility?

13          A.    You mean you want specifics or do you  
14   want generic?

15          Q.    Start generic, and if you don't hit what  
16   I want you to, I'll tell you to go specific.

17          A.    Well, factors that are uncontrollable  
18   would be factors that the company would be able to --  
19   unable to address in order to improve performance.

20          Q.    Items like storms; would that be an  
21   example?

22          A.    There's a number of things that utilities  
23   can do to mitigate against --

24                   THE REPORTER:  I'm sorry, I didn't hear.

25                   THE WITNESS:  There are a number of

1 actions that companies can take to mitigate against  
2 the storms causing customers to experience outages.

3 Q. Correct. And, in a perfect world, we  
4 could solve unemployment by hiring people to lay  
5 across underground wires so there would never be any  
6 problems at all, correct? I mean, there's always  
7 something you can do to improve reliability more,  
8 right?

9 A. Yes, that's true.

10 Q. So for the system that's in place, do  
11 storms contribute to reliability indices in  
12 performance of all utilities in Ohio?

13 A. Storms generally do have an impact.

14 Q. What about trees out of the right-of-way  
15 that are on private property that the utility doesn't  
16 have a right to trim; do those cause problems as  
17 well?

18 A. Yes, they do, but we recognize that  
19 utilities, through conversations with homeowners and  
20 property owners, can have an influence on those  
21 customers to allow the company to trim their trees  
22 and, therefore, improve reliability.

23 Q. Have you had success, on behalf of staff,  
24 talking to customers to allow a utility to cut their  
25 trees?

1           A.    I haven't had that experience.

2           Q.    I was hoping you had; we were going to  
3 use you.

4                   Now, are all storms excluded from the  
5 reliability numbers reported by the company?

6           A.    No. Major events are excluded from the  
7 reporting.

8           Q.    So a year of smaller storms, a number of  
9 smaller storms, that don't rise to the level of a  
10 major event, could cause a standard to be missed,  
11 correct?

12          A.    Yes, they could.

13          Q.    And did you do any analysis or anyone on  
14 staff do any analysis to try and determine what  
15 categories contributed the most to the company's  
16 missed standard this year?

17          A.    Yes, we did.

18          Q.    What did you do?

19          A.    Well, the annual report contains an  
20 analysis of all outages that contributed to the  
21 company's performance, and you can see which ones had  
22 the most impact.

23                   In addition, when the staff issued data  
24 requests in this case to -- in the company's response  
25 to those requests they had an analysis of primary

1 outages leading to a miss.

2 MR. SATTERWHITE: Thank you, your Honor.

3 At this time I'd like to mark AEP Exhibit 146 which  
4 is the AEP Ohio Supplemental Rule 10 Information, CSP  
5 CAIDI.

6 May I approach?

7 EXAMINER SEE: Yes.

8 Mr. Satterwhite.

9 MR. SATTERWHITE: Yes, your Honor.

10 EXAMINER SEE: That was a reference to  
11 "Rule 10." Could you be slightly more specific?

12 MR. SATTERWHITE: Excuse me?

13 EXAMINER SEE: Could you be slightly more  
14 specific?

15 MR. SATTERWHITE: Sure. And I can do it  
16 with the witness if that will help.

17 EXAMINER SEE: That's fine.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. (By Mr. Satterwhite) Mr. Baker, do you  
20 have what I placed in front of you that we've marked  
21 as AEP Exhibit 146?

22 A. Yes, I do.

23 Q. And the front of this refers to  
24 AEP Ohio's Supplemental Rule 10 Information. First  
25 of all, have you seen this document before?

1           A.    Yes, I have.

2           Q.    Is this the document you were discussing  
3 a minute ago of the updated information that the  
4 company provided to you in relation to the missed  
5 standard?

6           A.    Yes, that was part of the data request I  
7 was referring to.

8           Q.    When it says "Rule 10 Information" on the  
9 front, is that the 4901-10-10 rule that outlines the  
10 reliability indices?

11          A.    Yes. One of the specific items that is  
12 required in this annual report is if the company does  
13 miss one of the standards, it needs to report to  
14 staff or submit to staff a description of the causes  
15 that led to that miss, and any actions that the  
16 company is willing to take or has already taken to  
17 address the miss.

18          Q.    I apologize for the lack of page numbers.  
19 Did AEP Ohio do this as a PowerPoint or something  
20 when they provided it to you?

21          A.    Yes, it does look like a PowerPoint  
22 presentation.

23          Q.    As I move through, I'll just have to  
24 count the pages and tell you where we are. Can you  
25 turn to page 2 of the document, the back side of the

1 front page for me. And this page talks about the  
2 increase in weather events that were experienced in  
3 AEP Ohio's territory, correct?

4 A. Yes.

5 Q. And is it your understanding that there  
6 were a number of storms referenced on this page that  
7 fell outside the major storm exclusion?

8 A. Yes.

9 Q. And the company had represented to staff  
10 that that was one of the reasons why the indices was  
11 missed by the 3 percent; is that correct?

12 A. Yes.

13 Q. Now, on the next page, page 3, I'd like  
14 to draw your attention to the 37 and 42 percent below  
15 the chart.

16 A. Yes.

17 Q. Is this comparing the increase in the  
18 amount of events in 2011 compared to the historical  
19 data points used when the rule or the standard was  
20 set in 2006 to 2009?

21 A. I believe the 42 percent line refers to  
22 in excess over what was used to calculate the  
23 standard.

24 Q. And the 37 percent, I'm sorry, you are  
25 correct, is referencing the change between 2010 and

1 2011 performance, correct?

2 A. Right.

3 Q. So the 42 percent, I think you just  
4 stated this, but just to be sure, that represents the  
5 difference between the years that were used and the  
6 data that was used to originally set the standard,  
7 and it was a 42 percent difference in these metrics  
8 for those years, correct?

9 A. It was a -- it represented an increase of  
10 42 percent over the average for those years that were  
11 used for the standard.

12 Q. We don't have to go through every page  
13 here, but I'd like to pull you back halfway through,  
14 there's a page entitled "Trees out of ROW" or  
15 "right-of-way." Do you see that?

16 A. Yes, I see that.

17 Q. "ROW" is short for "right-of-way,"  
18 correct?

19 A. That is correct.

20 MR. SATTERWHITE: That's page 9 of the  
21 document for those who'll be reading this later.

22 Q. And this says a standard was based on a  
23 average of 1,337 outages in the 2006 to 2009 time  
24 period when the indices was set, correct?

25 A. That's what it says.

1           Q.    But for 2011 there were 173 more outages  
2   in the data relied upon to set the standard; is that  
3   correct?

4           A.    Yes, that's what it says.

5           Q.    You keep saying "that's what it says."  
6   Did the company or did the staff do anything to  
7   investigate these numbers after meeting with the  
8   company?

9           A.    I do not know for sure.

10          Q.    But you didn't -- did not?

11          A.    I did not personally.

12          Q.    I should have asked this earlier, but in  
13   your interactions with the company, AEP Ohio, has the  
14   recordkeeping system of AEP Ohio caused any concerns  
15   in the past for you?

16          A.    Not that I'm aware of.

17          Q.    It's generally reliable data that  
18   reflects what's happened in the field; is that  
19   correct?

20          A.    That is my understanding.

21          Q.    And two more pages back, on page 11, it  
22   says "Trees Out of Right-of-Way Continued." The  
23   bottom of that really gets into customer minutes of  
24   interruption that increased in 2011, correct?

25          A.    Where are you on this page?

1           Q.    On the bottom it says "a 17.8 percent  
2   increase over the standard." Do you see that?

3           A.    Yes, I do.

4           Q.    Is it your understanding that that  
5   represents a 17.8 percent increase or 3,000 --  
6   3,520,553 minutes of interruption above the dates  
7   that the standards were set from 2006 to 2009 that  
8   were reflected in 2011?

9           A.    Yes. That 17.8 percent above the average  
10   that was for the years that were used to -- as a  
11   basis for establishing the standards.

12          Q.    And is this the type of information that  
13   the staff would expect a company that missed a  
14   reliability indices to come in and show that there  
15   were unique factors in the year that might have led  
16   to the indices being missed in that particular year?

17          A.    Yes. We would expect to see this.

18          Q.    And you'd much prefer to see this than  
19   just we didn't do anything and we just missed it,  
20   correct?

21          A.    That's correct.

22          Q.    Now, on page 7 of your testimony, lines 3  
23   through 5, you indicate that a high percentage of  
24   Ohio Power customers were satisfied with their  
25   overall service, correct?

1           A.    Yes.

2           Q.    So you indicate that a high percentage of  
3 customers are satisfied with their service and the  
4 company's only missed one reliability standard out of  
5 the eight in the past two years, but because of that  
6 factor of missing the one reliability indices in the  
7 two years, you state that you don't believe that Ohio  
8 Power's reliability expectations are in alignment  
9 with those of its customers; is that correct?

10          A.    The statement on lines 3 through 5 of my  
11 testimony refer to survey results that were roughly  
12 matching the time period that was used for  
13 establishing the standards. And performance where  
14 CSP missed its CAIDI standard was substantially worse  
15 than the performance that was included in those prior  
16 years that were used for the standard.

17          Q.    But you didn't include in your testimony,  
18 then, any indication of survey results?

19          A.    In my testimony in this case?

20          Q.    Correct.

21          A.    Just, I believe it's only this sentence  
22 we're talking about now.

23          Q.    Now, you filed testimony in the  
24 stipulation portion of this proceeding where you  
25 found that Ohio Power's reliability expectations are

1 in alignment with its customers', correct?

2 A. Yes, I did.

3 Q. And it's the single data point that's  
4 changed since then, the one missed reliability  
5 indices, that would cause you to change your  
6 recommendation?

7 A. Yes.

8 Q. But you recognize, don't you, that there  
9 are a number of factors, as highlighted in AEP  
10 Exhibit 146, that led to the reliability indices to  
11 be missed by 3 percent; is that correct?

12 A. Yes.

13 Q. I'd like to talk with you a little bit  
14 about the recommendations on the DIR that you talked  
15 about with Mr. Serio a little bit.

16 A. Yes.

17 Q. Your recommendation is that Ohio Power  
18 work with staff to develop a plan to address the  
19 issues that you raise, correct?

20 A. And also to focus on reliability  
21 improvement.

22 Q. And I believe you told Mr. Serio that you  
23 could recommend that the Commission approve the  
24 distribution investment rider as long as that  
25 partnership with staff was continued and the issues

1 that you raise are addressed on an ongoing basis,  
2 correct?

3 A. I don't think that's what my testimony  
4 says.

5 Q. Okay.

6 A. My testimony says that if the Commission  
7 decides to approve the DIR rider, then I would  
8 recommend that the Commission order the company to  
9 work with staff to develop a plan.

10 Q. So you don't want to make any  
11 recommendation either for or against whether the  
12 Commission should approve the distribution investment  
13 rider; is that correct?

14 A. I'm not sure I can make that kind of  
15 recommendation given that I made the prior  
16 recommendation that the Commission find that  
17 reliability expectations are not in alignment.

18 Q. Right. And that all, we just talked  
19 about, relates to the single data point change of the  
20 missed indices, correct?

21 A. Yes.

22 Q. But there's no other factors -- strike  
23 that.

24 Do you have any concern that if the  
25 Commission were to approve the distribution

1 investment rider, that you would have any difficulty  
2 working with the company to address the issues that  
3 you raise?

4 A. No, I don't anticipate any difficulty  
5 there.

6 Q. And that goes back to a good working  
7 relationship with the company throughout the year in  
8 addressing issues that you raised; is that correct?

9 A. That, along with the Commission order  
10 that the company --

11 Q. Fair enough.

12 Now, the recommendation that you're --  
13 that you're making is that the company that filed the  
14 plan that they come up with with the staff; is that  
15 correct?

16 A. Yes. This recommendation is based on  
17 language that was in the Commission order on the  
18 earlier version of this case, and that's the basis  
19 for the recommendation.

20 Q. So it's your understanding that the  
21 Commission previously did approve the distribution  
22 investment rider, but it was part of the stipulation  
23 that was unapproved for other reasons, correct?

24 A. I don't believe there was a requirement  
25 in the prior stipulation for the company to work with

1 staff to develop a plan; that was in the order  
2 approving the stipulation as an addition.

3 Q. I'm sorry. I misspoke. It's your  
4 understanding that there was a previous Commission  
5 order that approved the distribution investment rider  
6 and instructed the company to work with staff in the  
7 December 14th Opinion and Order approving the  
8 stipulation in this case that was later unapproved  
9 for reasons unrelated to the distribution investment  
10 rider, correct?

11 A. Yes. That is my understanding.

12 Q. And will the Commission rely on your  
13 department to inform it on the strengths of the plan  
14 that you propose be filed with the Commission?

15 A. I would hope so.

16 Q. But you'll be a part of developing that  
17 plan before it's given to the Commission, correct?

18 A. That is correct.

19 Q. And has anyone on staff previously been  
20 responsible for the performance of an entire  
21 distribution utility before?

22 A. No, but I'm not sure that's what's being  
23 recommended. We would work with the company to  
24 develop a distribution capital plan that focuses on  
25 reliability.

1           Q.    And the issues that you list in your  
2 testimony to make sure those are addressed, correct?

3           A.    That is the level of detail that we would  
4 expect.

5           Q.    So I'm curious, I just have to ask the  
6 question, if a plan is developed by the company and  
7 staff and provided to the Commission and the  
8 Commission approves that plan, and then in a  
9 subsequent year an indices is not met, would that be  
10 a violation of the rule?

11           MR. MARGARD: I'll certainly object to  
12 the extent that that calls for a legal conclusion.

13           MR. SATTERWHITE: Your Honor, if I may.  
14 I'm trying to probe the application of a plan, if the  
15 company's required to work with the staff and have it  
16 approved by the Commission, whether that would be  
17 adequate enough of performance because it was  
18 approved by the Commission and developed by the  
19 staff, or if the rule that still placed all the  
20 responsibility upon the company would be the  
21 standard.

22                   I think it's important because, as it  
23 leads in the future decisions that are made by the  
24 company what's going to be applied in the  
25 distribution investment rider or its actions, this

1 goes to how much say the company should have in  
2 developing that plan.

3 MR. MARGARD: May I respond, your Honor?

4 EXAMINER SEE: Yes, Mr. Margard.

5 MR. MARGARD: I'm just not certain that  
6 this witness is qualified to indicate whether or not  
7 failure to meet an aspect of an agreed-upon plan  
8 would rise to the level of a rule violation.

9 MR. SATTERWHITE: If I can just add one  
10 point? Maybe it's just a clarification of the  
11 question.

12 EXAMINER SEE: Let's hear it,  
13 Mr. Satterwhite.

14 MR. SATTERWHITE: I'm asking the question  
15 from the point of view of Mr. Baker, who AEP has a  
16 great relationship working with, but who we would  
17 come to first, he and Mr. Williams, on whether we met  
18 or didn't meet the indices, and asking his opinion  
19 based on the point person for the PUCO staff and the  
20 Commission has a whole.

21 EXAMINER SEE: Recognizing that Mr. Baker  
22 is a member of the staff who cannot make a decision  
23 on behalf of the Commission, nor is he an attorney, I  
24 will allow him to answer the question to the best of  
25 his ability.

1           A.    Could you repeat the question?

2           Q.    Sure.  I'll rephrase it.

3                   In your view, if a plan was developed in  
4   concert with the staff and then approved by the  
5   Commission, and, in a subsequent year, the company  
6   did not meet a reliability indices, would you view  
7   that as a concern or not a concern because it was  
8   carrying out the plan that was developed and approved  
9   by the Commission?

10          A.    First off, a standard needs to be missed  
11   two years in a row before it's considered a  
12   violation.  But if the company missed just one year,  
13   we would work with the company to see what happened  
14   and see if there's adjustments that would need to be  
15   made to the plan in order to address the situation.

16          Q.    Let me take it a step further.  Would you  
17   view the missing in that one year, it's not a rule  
18   violation yet, as an expression that the company is  
19   not aligning its expectations, its customers'  
20   expectations, and, to be perfectly clear, as you  
21   testified previously in your testimony, that the  
22   missing of the one indices in this year would show  
23   that there was a failure to meet that standard?

24          A.    Well, regardless of what staff did, I  
25   don't think that would change the requirement of the

1 rule, but staff would certainly take that situation  
2 in consideration.

3 But with respect to whether reliability  
4 expectations were in alignment, that would be brought  
5 up in the next -- in the next SSO case and it  
6 would -- there would have to be distribution  
7 investment incentives as part of that case in order  
8 to trigger the review about whether reliability  
9 expectations were in alignment.

10 Q. But you were able to make that  
11 determination for this testimony whether the customer  
12 expectations are in line with the company's  
13 expectations, correct?

14 A. Yes.

15 Q. So I'm asking year X when this happens,  
16 would you be able to make that determination that  
17 year, as well, based on a plan that was approved by  
18 the Commission?

19 A. Yes, we could.

20 Q. Okay. And you said you'd have to take  
21 that under advisement because you agree that there  
22 can be events, like events that are at AEP 146, that  
23 the best-laid plans may not work out as expected,  
24 correct?

25 A. Well, first, I want to point out that the

1 scenario you represent is highly unlikely, in my  
2 opinion, because staff and the company would have  
3 worked out a distribution capital investment plan  
4 that is expected to improve reliability and not allow  
5 the miss to occur.

6 Q. But that would have to be an affordable  
7 plan, correct?

8 A. Well, I understand the DIR has a cap and  
9 it would -- I assume it would be under the cap.

10 Q. Right. So we can't make the perfect,  
11 most reliable, infallible system; it has to be a  
12 system that ratepayers and the company can afford,  
13 correct?

14 A. Yes, that's correct.

15 Q. And a standard that sets an indices based  
16 off some historical factors and others might have  
17 events that happen in the future that are shown to be  
18 outside of all the factors in place when the standard  
19 was set, correct?

20 A. That is possible.

21 Q. Move to your discussion on the baseline  
22 recommendation for the ESRR. I believe that's  
23 discussed from pages 11 to 14.

24 A. Okay.

25 Q. You discuss the level of funding that you

1 believe is already in existence, but is it safe to  
2 say you do not disagree with the continued funding of  
3 the ESRR, the only argument you raise is with the  
4 baseline for the rider? Is that correct?

5 A. Yes; and continued funding through the  
6 end of 2014.

7 Q. In fact, you state staff recommends an  
8 increase of \$17.8 million in annual O&M expense in  
9 its 11-351 Staff Report, correct?

10 A. Yes.

11 Q. And, from this, you then assert that,  
12 therefore, the baseline was increased from  
13 20.6 million to 38.4 million as we sit here today; is  
14 that correct?

15 A. Yes.

16 Q. I'd like to hand you a copy of the  
17 Opinion and Order from 11-351 and the stipulation  
18 that the examiners have taken administrative notice  
19 of in this case.

20 And I left off the hundred pages of  
21 tariffs in the Opinion and Order, as much as  
22 Mr. Margard wanted to read those today.

23 I'm not marking these, I just wanted to  
24 present these to you to see if it refreshed your  
25 recollection. Now, can you show me anywhere in the

1 Opinion and Order or the stipulation in this case  
2 where the Commission changed the baseline for the  
3 ESRR?

4 A. No.

5 Q. Is it not in either this stipulation or  
6 this Opinion and Order?

7 A. No, we didn't even recommend increasing  
8 the baseline of the ESRR to my recollection. What I  
9 recommended was an increase in O&M for the program in  
10 the rate case.

11 Q. And that was in the Staff Report,  
12 correct?

13 A. Yes.

14 Q. And you're using that, then, to say the  
15 baseline moved because the O&M amount that was funded  
16 as part of base rates moved, correct?

17 A. Yes; the baseline for the ESRR rider is  
18 supposed to represent the portion of that cost that  
19 is included already in base rates.

20 Q. And can you show me anywhere in the  
21 Opinion and Order or the stipulation where this is  
22 discussed and accepted by the Commission or the  
23 parties to the stipulation?

24 A. No, I cannot.

25 Q. Is that because it's not in the

1 stipulation or Opinion and Order?

2 A. I haven't examined either of these  
3 documents. I did not participate in the stipulation,  
4 so I cannot really speak to that.

5 Q. So what did you rely on, then, for your  
6 testimony to make the representation that that change  
7 has been approved by the Commission?

8 A. It is my understanding that staff made an  
9 adjustment to increase O&M for vegetation.

10 Q. But you don't know if that adjustment  
11 made it into the stipulation or the Opinion and  
12 Order, you're just referring to the staff position  
13 for the litigation portion of that case, correct?

14 A. It was -- it was my understanding that  
15 the amounts in the stipulation do include the 17.8  
16 additional amounts for vegetation O&M.

17 Q. But you can't identify anywhere in the  
18 stipulation where that's reflected; is that your  
19 testimony?

20 A. No, I cannot.

21 Q. And are you familiar with the term  
22 "black-box settlements"?

23 A. Yes, I have a general familiarity with  
24 the term "black-box settlements."

25 Q. Would you accept the description of a

1 black-box settlement that maybe final numbers are  
2 reached in a stipulation and agreement, and that  
3 different parties can, for their own sake, attribute  
4 what they want to that, but there's nothing actually  
5 attributed in the end result because it's in a black  
6 box?

7 A. Even though it was a black-box  
8 settlement, the staff's understanding is that it was  
9 arrived at by including the additional 17.8 million.

10 Q. So you admit that this was a black-box  
11 settlement, then, and that was just staff's view of  
12 what was in there? Is that correct?

13 A. That is my understanding.

14 MR. SATTERWHITE: One second, your Honor,  
15 Mr. Baker.

16 Thank you, Mr. Baker.

17 Thank you, your Honor. That's all I have  
18 at this time.

19 EXAMINER SEE: Thank you.

20 Redirect, Mr. Margard?

21 MR. MARGARD: No redirect, your Honor.

22 - - -

23 EXAMINATION

24 By Examiner See:

25 Q. Mr. Baker, on page 7 of your testimony,

1 you indicate that the survey results indicated a high  
2 percentage of Ohio Power customers were satisfied  
3 with their service? When you say -- define "high" as  
4 you use it in your testimony in that sentence.

5 A. I don't remember the exact percentage,  
6 but I believe it was somewhere in the range between  
7 75 and 80 percent.

8 Q. On page 9 of your testimony you  
9 mention -- strike that.

10 How are you aware of customer  
11 expectations?

12 A. I'm not -- with respect to --

13 Q. Okay. Let's try it this way: Go to page  
14 9 of your testimony. If you look at question and  
15 answer 15 --

16 A. Yes.

17 Q. -- you make a reference to customer  
18 reliability expectations or the company's reliability  
19 expectations being in line with that of their  
20 customers --

21 A. Yes.

22 Q. -- correct?

23 How are you aware of customer reliability  
24 expectations?

25 A. Our methodology for making this

1 determination is based on whether or not the  
2 standards are met. And the reason we use the  
3 standards is that the way the standards are  
4 established, they include the results of customer  
5 surveys during the time that was covered by the --  
6 whatever years were used to set the standards, and  
7 also they were -- they include the participation of  
8 consumer groups in the establishment of the  
9 standards. And so if the standards are later missed,  
10 then we believe that reliability expectations are not  
11 being met.

12 Q. So that in this case, given that Ohio  
13 Power Company has missed one of the reliability  
14 expectations, they are not performing to customer  
15 expectations, based on your statement here?

16 A. They are not performing up to the  
17 customer expectations that were reflected through the  
18 establishment of standards.

19 EXAMINER SEE: Okay. Thank you.

20 Mr. Margard.

21 MR. MARGARD: Thank you, your Honor. I  
22 respectfully renew my motion for the admission of  
23 Staff Exhibit No. 106.

24 EXAMINER SEE: Are there any objections  
25 to the admission of Staff Exhibit 106?

1 MR. SATTERWHITE: No objections from the  
2 company.

3 EXAMINER SEE: Staff Exhibit 106 is  
4 admitted into the record.

5 (EXHIBIT ADMITTED INTO EVIDENCE.)

6 EXAMINER SEE: Mr. Satterwhite.

7 MR. SATTERWHITE: Your Honor, the company  
8 would respectfully move for admission of AEP Exhibit  
9 146.

10 EXAMINER SEE: Any objections?

11 MR. MARGARD: No objection, your Honor.

12 EXAMINER SEE: AEP Exhibit 146 is  
13 admitted into the record.

14 (EXHIBIT ADMITTED INTO EVIDENCE.)

15 EXAMINER SEE: Thank you very much,  
16 Mr. Baker.

17 Let's go off the record for a minute.

18 (Discussion off the record.)

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

21 Mr. Margard.

22 MR. MARGARD: Thank you, your Honor.  
23 Staff would call Mr. David Cleaver to the stand,  
24 please.

25 EXAMINER SEE: Mr. Cleaver, if you would

1 raise your right hand.

2 (Witness sworn.)

3 EXAMINER SEE: Thank you. Have a seat,  
4 and please use your microphone.

5 MR. MARGARD: Your Honor, I would  
6 respectfully request that the prefiled testimony of  
7 David W. Cleaver, filed in this case on May 9th,  
8 2012, be marked for purposes of identification as  
9 Staff Exhibit 107.

10 EXAMINER SEE: The Exhibit is so marked.

11 MR. MARGARD: Thank you, your Honor.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 - - -

14 DAVID W. CLEAVER

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

17 DIRECT EXAMINATION

18 By Mr. Margard:

19 Q. Sir, would you please state your name and  
20 your position.

21 A. My name is David W. Cleaver. I work at  
22 180 East Broad Street, Columbus, Ohio, for the Public  
23 Utilities Commission of Ohio. I am the Chief of the  
24 Facility and Operations Field Division here at the  
25 PUCO.

1           Q.    Mr. Cleaver, do you have before you  
2 what's been marked as Staff Exhibit 107?

3           A.    I do.

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

6           A.    It is.

7           Q.    Mr. Cleaver, do you have any corrections,  
8 changes, amendments, or modifications of any kind to  
9 this document as filed?

10          A.    I do not.

11          Q.    And if I were to ask you the questions  
12 contained in this document today, would your  
13 responses be the same?

14          A.    They would.

15          Q.    And are they true, accurate, and  
16 reasonable to the best of your knowledge and belief?

17          A.    Yes, they are.

18               MR. MARGARD: Your Honor, I would  
19 respectfully move for the admission of Staff Exhibit  
20 107, subject to cross-examination, and I tender  
21 Mr. Cleaver for that purpose.

22               EXAMINER SEE: Mr. Barnowski?

23               MR. BARNOWSKI: No questions, your Honor.

24               EXAMINER SEE: Mr. Yurick?

25               MR. YURICK: No questions.

1 EXAMINER SEE: Ms. Thompson?

2 MS. THOMPSON: No questions, your Honor.

3 EXAMINER SEE: Ms. Kingery?

4 MS. KINGERY: No questions.

5 EXAMINER SEE: Mr. Darr?

6 MR. DARR: No questions for this witness.

7 EXAMINER SEE: Mr. Hayden?

8 MR. HAYDEN: No questions.

9 EXAMINER SEE: Mr. Smalz?

10 MR. SMALZ: No questions, your Honor.

11 EXAMINER SEE: Mr. Serio?

12 MR. SERIO: Thank you, your Honor.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Serio:

16 Q. Good evening, Mr. Cleaver.

17 A. Good evening.

18 Q. It's my understanding from your colleague  
19 this morning that it's the staff's position that  
20 there has been no authorization by the Commission for  
21 the company to proceed beyond Phase I of gridSMART;  
22 is that correct?

23 A. That's my understanding also, yes.

24 Q. And your recommendation is that the  
25 company not go forward with anything beyond Phase I

1 until all the data from Phase I has been collected  
2 and analyzed, correct?

3 A. That's essentially correct.

4 Q. Now, you indicate on page 7 that the  
5 scope of the pilot has already been expanded beyond  
6 that which the Commission approved. That's because  
7 of the additional dollars that the company got from  
8 the ARRA funding project, correct?

9 A. That's my understanding.

10 Q. Now, physically, the pilot program is  
11 located where, if you know?

12 A. It's basically in northeast Ohio. I  
13 think in the Gahanna area primarily.

14 Q. And that's the CSP service territory?

15 A. That's correct, yes.

16 Q. Do you know how many customers are  
17 involved?

18 A. I think the pilot involves approximately  
19 100,000, 110,000, in that range.

20 Q. Now, I think you talk about the DIR later  
21 in your testimony on page 12. You've indicated there  
22 that the company is not -- has not defined the total  
23 number of reclosers for statewide deployment, doesn't  
24 know the number of required pole replacements, and  
25 there's no prioritization of the circuits.

1                   Is it your testimony that absent  
2 clarification of these items, that the Commission not  
3 authorize the DIR?

4           A.    I was speaking just to, as far as my  
5 testimony is based on, Mr. I think it's Kirkpatrick's  
6 testimony that it was AEP's intent to continue a  
7 rollout of smart grid by using that as the financial  
8 mechanism. That's the only thing that this is based  
9 on, so other than that, I have no input on DIR.

10           Q.   The items that you list at the top of  
11 page 12, the concerns you have there, at lines 4  
12 through 7.

13           A.    Yes.

14           Q.    What is that related to?

15           A.    I was given the assignment to take a look  
16 at what AEP, what their intent was, so part of my  
17 assignment was to try to ascertain the detail or  
18 level of detail that AEP had gone to to make that  
19 decision; whether they had, in fact, done a detailed  
20 analysis of what the scope of the work would be.  
21 And so I issued a number of DRs or data requests to  
22 try to ascertain where AEP was, in fact, in their  
23 design, and these are just some of the samples of the  
24 responses that I got.

25                   These were just some of the items that

1 would be required for an expansion, so it just  
2 represents their response, you know, which in this  
3 case it hadn't done enough research or detail,  
4 engineering, to know how many poles weren't tall  
5 enough or new capacitors or new reclosers, they  
6 hadn't prioritized the circuits at that point in time  
7 yet and we know that not all circuits are equal as  
8 far as, you know, what can be used for distribution  
9 automation or not or volt-var or not.

10 So it was really to establish where they  
11 were in the process of valuing the total cost and the  
12 total design of a total rollout. And I think I  
13 established through these that they weren't far  
14 enough along to convince me that they knew exactly  
15 what the cost would be and what the benefits would  
16 be, so, therefore, that's the basis of my  
17 recommendation.

18 Q. So it's your recommendation that, until  
19 you have this kind of information, the company not go  
20 forward.

21 A. I think that kind of information is  
22 crucial to knowing what the total cost is. I think  
23 you can't make a prudent decision, business decision,  
24 or submit a business case without additional detail  
25 and thought and additional engineering of what it's

1 going to cost, and what it's going to take, and  
2 what's the best way to do something. How many  
3 reclosers do you need? Do you need two? Do you need  
4 five? I think until those basic assumptions are  
5 answered, I don't think you can do detailed  
6 engineering or detailed cost analysis.

7 Q. Okay. But are you recommending that the  
8 Commission not allow the company to go forward until  
9 this information is made available? Is that your  
10 recommendation?

11 A. That would be part of it, yes.

12 Q. Okay.

13 MR. SERIO: That's all I have. Thank  
14 you.

15 EXAMINER SEE: Mr. Satterwhite?

16 - - -

17 CROSS-EXAMINATION

18 By Mr. Satterwhite:

19 Q. Good afternoon, Mr. Cleaver. How are  
20 you doing today?

21 A. Good afternoon. Fine, thank you.

22 Q. Just for further clarification of  
23 Mr. Serio's question, it was go forward with the  
24 gridSMART program, correct, the discussion you were  
25 having with him?

1           A.     My understanding from what was in  
2     Mr. Kirkpatrick's testimony was that AEP had  
3     intended, based on their view or their vision, to  
4     move forward with a complete rollout beyond the  
5     Phase I 110,000 customers by using the DIR as the  
6     mechanism to finance that.

7           Q.     I just wanted to make clear because  
8     Mr. Serio asked you some questions about the DIR and  
9     gridSMART, but the conversation you just had and the  
10    testimony that was referenced, your testimony was  
11    based on the unraveling or unrolling of the gridSMART  
12    program, correct?

13          A.     That's right.

14          Q.     Okay. Now, on pages 2 and 3 of your  
15    testimony, you state the scope of your section.

16          A.     Yes.

17          Q.     Specifically, around lines 19 and 20, and  
18    the top of page 3, lines 1 and 2, you state that your  
19    section includes analyzing reliability data, service  
20    quality performance, enforce federal and state rules  
21    for safety, reliability, and service quality,  
22    correct?

23          A.     That's correct.

24          Q.     Are you familiar with any violations of  
25    any federal reliability safety standard by AEP Ohio?

1           A.    No, I'm not.

2           Q.    On page 8 of your testimony, I believe  
3   that gets into what you were just referring to about  
4   AEP intending to roll out gridSMART before analyzing  
5   Phase I, and you mentioned a reference to  
6   Mr. Kirkpatrick's testimony. Do you have his  
7   testimony in front of you?

8           A.    I do not.

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

11          EXAMINER SEE: Yes.

12          Q.    Could you review that, and I opened it up  
13   to page 10 of his testimony for you, and let me know  
14   if that's what you were referring to, the  
15   representation made by Mr. Kirkpatrick that you  
16   relied upon.

17          A.    Yes, I believe it is.

18          Q.    And does that testimony discuss a rollout  
19   of the complete DIR or application of portions of the  
20   DIR Phase I -- I'm sorry, of the gridSMART throughout  
21   the service territory through the DIR?

22          A.    It says "expand elements."

23          Q.    Okay.

24          A.    So that, I would think, it's parts of  
25   smart grid.

1           Q.    And all I'm trying to understand is what  
2   you relied upon to form the basis of your opinion  
3   that gridSMART would go territory wide.  So you used  
4   that and then you also mention -- well, is that all  
5   you relied upon for this representation?

6           A.    No, it's not.  We also issued data  
7   requests to try to clarify that.  And the response  
8   back was that based on both the Phase I pilot here in  
9   Ohio and AEP's other operating companies, their  
10  experience, that that was their intent to, again,  
11  roll out elements of smart grid.

12          Q.    And you're not opposed to a rollout of  
13  smart grid after -- or, depending, I should say, upon  
14  the results of the analyzing and mining of the data  
15  from Phase I consistent with what Mr. Scheck  
16  testified to earlier by staff, correct?

17          A.    I'm not opposed to smart grid.  I'm  
18  opposed to the Commission agreeing to any kind of  
19  rollout before we get through the analyzation phase  
20  that's required.

21                I think we've got a cake that's half  
22  baked and we really, to be prudent, need to find out  
23  not only is smart grid good, but where is it good and  
24  where can it be improved.

25                So, in general, you know, I'm not opposed

1 to smart grid, I'm just opposed to the Commission  
2 blessing something prematurely.

3 Q. And I believe you shared this with  
4 Mr. Serio, but you stated the whole point of your  
5 testimony was just dealing with gridSMART not being  
6 rolled out at this time because, as you said just  
7 now, you consider it half baked and maybe in the  
8 future, correct?

9 A. That's correct.

10 Q. Now, also on page 11 of your testimony, I  
11 believe, or somewhere around there you discuss the  
12 term "used and useful"; is that correct? I believe  
13 it's on the bottom of 12 and top of 13.

14 A. Yes.

15 Q. And why do you provide testimony on the  
16 regulatory -- let me back up.

17 What's your understanding of the  
18 regulatory term of "used and useful"?

19 A. Basically the equipment is working; that  
20 it's serving its intended function.

21 Q. And is that a term typically associated  
22 with traditional rate regulation and what can go into  
23 rates and not go into rates?

24 A. I believe that is correct.

25 Q. And would you consider that an accounting

1 term?

2 A. Not strictly, no.

3 Q. So when you use that, are you testifying  
4 to rate treatment of the gridSMART potential assets?

5 A. I'm not sure about whether it's rate  
6 treatment or not. My position is that the equipment  
7 should be working, it should be performing the  
8 intended function, and as it relates to whether it's  
9 in rates or not, I think that has been the tried and  
10 true traditional way that the Commission has struck  
11 an element of fairness, I think, between the company  
12 and the customer. So I think that's what we're  
13 comfortable with.

14 When I audit the circuits for Pete Baker,  
15 I look to see if the capacitors are not only on the  
16 pole and the pole is not only there, but if they're  
17 energized and if they're working providing some kind  
18 of benefit.

19 Q. But you're not opposing if the  
20 Commission, whether it were for the DIR, which I  
21 understand you're not in favor of doing the gridSMART  
22 through the DIR, or through the gridSMART rider, if  
23 the Commission had an audit system in place of  
24 allowing that to be recovered under whatever audit  
25 system the Commission approved for those assets,

1 correct?

2 A. That's correct.

3 MR. SATTERWHITE: That's all I have.

4 Thank you.

5 EXAMINER SEE: Mr. Margard?

6 MR. MARGARD: Thank you, your Honor. I  
7 have no redirect.

8 EXAMINER SEE: Thank you very much,  
9 Mr. Cleaver.

10 Mr. Margard.

11 MR. MARGARD: And I respectfully renew my  
12 motion for the admission of Staff Exhibit 107.

13 EXAMINER SEE: Any objections?

14 (No response.)

15 EXAMINER SEE: Staff Exhibit 107 is  
16 admitted into the record.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 EXAMINER SEE: Mr. Margard.

19 MR. MARGARD: Thank you, your Honor. I  
20 would call Doris McCarter to the stand, please.

21 EXAMINER SEE: Please raise your right  
22 hand, Ms. McCarter.

23 (Witness sworn.)

24 MR. MARGARD: Your Honor, I respectfully  
25 request that the prefiled testimony of Doris

1 McCarter, filed in this case on May 9th, 2012, be  
2 marked for purposes of identification as Staff  
3 Exhibit 108.

4 EXAMINER SEE: The exhibit is so marked.  
5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 - - -

7 DORIS E. McCARTER  
8 being first duly sworn, as prescribed by law, was  
9 examined and testified as follows:

10 DIRECT EXAMINATION

11 By Mr. Margard:

12 Q. Please state your name and your position.

13 A. My name is Doris McCarter, and I'm  
14 Division Chief of the Capital Recovery and Financial  
15 Analysis Division at the PUCO.

16 Q. And do you have before you what has been  
17 marked as Staff Exhibit 108?

18 A. Yes, I do.

19 Q. And is this testimony that was prepared  
20 either by you or at your direction?

21 A. Yes, it was.

22 Q. And do you have any changes, corrections,  
23 modifications of any sort to this document as filed?

24 A. No, I do not.

25 Q. If I were to ask you the questions

1 contained in this document today, would your expenses  
2 be the same?

3 A. Yes, they would.

4 Q. And would your answers be true, accurate,  
5 and reasonable to the best of your knowledge and  
6 belief?

7 A. Yes.

8 MR. MARGARD: Your Honor, I respectfully  
9 move the admission of Staff Exhibit 108, subject to  
10 cross-examination, and I tender Ms. McCarter for that  
11 purpose.

12 EXAMINER SEE: Ms. Hand?

13 MS. HAND: No questions, your Honor.

14 EXAMINER SEE: Mr. Yurick?

15 MR. YURICK: No questions.

16 EXAMINER SEE: Ms. Thompson?

17 MS. THOMPSON: No questions, your Honor.

18 EXAMINER SEE: Ms. Kingery?

19 MS. KINGERY: No questions, your Honor.

20 EXAMINER SEE: Mr. Darr?

21 MR. DARR: Very briefly, your Honor.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Darr:

25 Q. Ms. McCarter, you've identified, as part

1 of your responsibilities, a role in making sure  
2 electric distribution utilities comply with corporate  
3 separation requirements; is that correct?

4 A. Yes.

5 Q. And in terms of the auditing function --  
6 well, first of all, is there an audit function that  
7 you perform or your division performs?

8 A. Yes.

9 Q. What is that auditing function?

10 A. Basically what we do is look at the  
11 corporate separation plans of the companies and  
12 ensure that they are in compliance with Commission  
13 rules.

14 Q. And, as part of that, basically what  
15 you're doing is determining whether or not the  
16 electric distribution utility is operating  
17 separately, and both economically and, for lack of a  
18 better term, functionally from any competitive  
19 affiliates that might be associated with that.

20 A. Yes.

21 Q. And this auditing function would look at,  
22 for example, whether or not structural safeguards are  
23 in place?

24 A. Yes.

25 Q. And it would look at whether or not there

1 was a separate accounting in place?

2 A. Yes.

3 Q. And it would also look at any financial  
4 arrangements between the EDU and any of the  
5 affiliates as well, correct?

6 A. Yes.

7 Q. And, finally, would you also review, as  
8 part of this, the code of conduct that had been  
9 adopted by the EDU with regard to the relations that  
10 it might have or, more importantly, should not have  
11 with any affiliated company, correct?

12 A. Yes. We would look at the provisions of  
13 the plan.

14 Q. Now, is any of this kind of review done  
15 for a CRES provider?

16 A. No.

17 Q. And is that because -- is that simply  
18 because it's a statutory requirement that there be  
19 separation between the EDU and its affiliates?

20 A. Correct.

21 Q. And competitive providers are assumed to  
22 be outside those restrictions.

23 A. Yes.

24 Q. Now, with regard to your testimony on  
25 page 5, you indicate a concern with regard to

1 Ms. Hawkins' recommendation, for lack of a better  
2 term, that there not be a transfer of \$296 million in  
3 pollution control bonds; is that correct?

4 A. Yes.

5 Q. Now, with regard to those pollution  
6 control bonds, you say, quote, AEP has made no  
7 showing that the use of intercompany notes would have  
8 a substantial negative impact on AEP Ohio's cost of  
9 debt.

10 With regard to that statement, what are  
11 you referring to as "intercompany notes"?

12 A. Namely, what Ms. Hawkins had requested  
13 was that the bonds that are associated with funding  
14 these activities, a certain set of them not be  
15 transferred, and it was just basically a general  
16 request. And there was no financial impacts or  
17 anything provided that we'd say that this is an  
18 insurmountable issue or that it would have such a  
19 negative impact not to transfer them that the  
20 Commission may not desire to have them transferred at  
21 that time.

22 Q. And is there concern here that the  
23 restrictions on financial restrictions might be  
24 violated by the failure to transfer these bonds?

25 A. Yes.

1           Q.    Now, with regard to the financial  
2   restriction rules that the Commission has issued, are  
3   you aware of anything that would allow the Commission  
4   to suspend the rules simply because there may be an  
5   impact, a financial impact on AEP Ohio by its failure  
6   to otherwise comply with those financial  
7   restrictions?

8           MR. SATTERWHITE:  Objection, your Honor.  
9   I think we've crossed over previously but definitely  
10  now into friendly cross.  Ms. McCarter's made a  
11  recommendation, Mr. Darr is trying to add on that  
12  recommendation and add on what he sees as the  
13  potential harms with that in his questions, and it's  
14  not adverse to the testimony at all.

15          MR. DARR:  May I respond?

16          EXAMINER SEE:  Yes.

17          MR. DARR:  The point of this line of  
18  cross-examination is to suggest that there may be  
19  limited authority for doing anything as proposed by  
20  Ms. McCarter with regard to opening the door for the  
21  company that -- in this case the EDU to retain those  
22  bonds, so in this regard it is adverse, your Honor.

23          MR. SATTERWHITE:  If I may, your Honor?

24          EXAMINER SEE:  Briefly.

25          MR. SATTERWHITE:  I think he said it all

1 himself. Ms. McCarter's made a recommendation that  
2 the company shouldn't be allowed to do this, and now  
3 he's trying to say more reasons why and other  
4 possibilities, and that's definitely friendly cross.

5 MR. DARR: I'm suggesting, on the other  
6 hand, your Honor, that the recommendation itself is  
7 not available to the Commission or to the staff at  
8 all.

9 EXAMINER SEE: Move on, Mr. Darr.

10 Q. (By Mr. Darr) Ms. McCarter, in your  
11 review of intercompany notes, is there a process  
12 outlined, that you're aware of, that would indicate  
13 what the company is required to file to satisfy this  
14 requirement that you're proposing?

15 A. As I sit here now, no, I'm not aware.

16 Q. Now, we're here today, as opposed to  
17 writing briefs for the Supreme Court on the  
18 stipulation, because the Commission rejected the  
19 stipulation in February 2012, and one of the issues  
20 raised in that stipulation was concerns about the  
21 corporate separation. Do you recall that?  
22 Specifically the transfer of Amos and Mitchell.

23 A. I recall the language, having had the  
24 opportunity to, once again, reread the entry on  
25 rehearing, so yes, I'm aware of the language in the

1 order.

2 Q. Is this an area that's within your  
3 purview?

4 A. My understanding from reading the entry  
5 on rehearing is that the main concern expressed by  
6 the Commission was concerning the transfer of Amos  
7 and Mitchell and the megawatts. It wasn't  
8 necessarily focused on the corporate separation, per  
9 se.

10 Q. Is this an area that would be reviewed as  
11 part of your analysis of this transaction?

12 A. The megawatts, no. It would not be.

13 Q. And as part of the separation process  
14 which includes this transfer, has the staff taken any  
15 position with regard to the modified ESP as to the  
16 propriety of transferring that to another FRR entity?  
17 Transfer those two plants to FRR -- an FRR entity.

18 MR. SATTERWHITE: Your Honor, I'll object  
19 and say it's beyond the scope of this witness's  
20 prefiled testimony.

21 EXAMINER SEE: Overruled.

22 You can answer the question,  
23 Ms. McCarter.

24 A. I would have to direct you to the  
25 testimony of Mr. Choueiki and Mr. Johnson.

1 Q. So --

2 A. It is outside the scope of my testimony.

3 Q. So if we don't find it there and we don't  
4 find it in your testimony, is it fair to say that  
5 staff hasn't addressed the effects of the Amos and  
6 Mitchell transfer?

7 A. I am not aware of a staff position.

8 MR. DARR: That's all I have.

9 Thank you, your Honor.

10 EXAMINER SEE: Mr. Hayden?

11 MR. HAYDEN: No questions, your Honor.

12 EXAMINER SEE: Mr. Smalz?

13 MR. SMALZ: Could I have the microphone,  
14 please?

15 - - -

16 CROSS-EXAMINATION

17 By Mr. Smalz:

18 Q. Ms. McCarter, I'd like to call your  
19 attention to your question and answer No. 7, and  
20 specifically the last sentence in your answer. It  
21 begins on line 2, on page 4, and in that sentence you  
22 state, "The current gridSMART rider should be used to  
23 capture all gridSMART costs." What do you mean by  
24 "all gridSMART costs"?

25 A. Well, it -- to put it in the context of

1 the larger sentence that says basically if the  
2 Commission wants to do a cost-benefit analysis of  
3 smart grid, all the costs specifically associated  
4 with smart grid should be captured in that rider.

5 Q. Okay. And, under your recommendation,  
6 would any cost associated with gridSMART be captured  
7 by the distribution investment rider?

8 A. I think the intent of staff was to keep  
9 the gridSMART specific costs in the gridSMART rider.  
10 My understanding, from discussions with Mr. Scheck  
11 and Mr. Cleaver, is that the volt-var would go into  
12 the DIR because they are not specifically gridSMART  
13 related.

14 Q. And, with that one exception, all costs  
15 should go into the gridSMART rider.

16 A. All costs that are specifically related  
17 to gridSMART should be in the gridSMART rider, yes.

18 MR. SMALZ: Okay. Thank you.

19 No further questions, your Honor.

20 EXAMINER SEE: Mr. Serio?

21 MR. SERIO: Thank you, your Honor.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Serio:

25 Q. Good evening, Ms. McCarter.

1           A.    Hello.

2           Q.    Page 3 of your testimony, you identify a  
3   \$62.34 million customer credit from the last case.  
4   Do you see that?

5           A.    From the rate case, yes.

6           Q.    Okay.  When you call that a "credit," do  
7   you mean that that's something that customers have  
8   overpaid?

9           A.    No.  I'm just acknowledging that there is  
10  a mechanism from the AIR that was used to recognize  
11  the collection of the DIR.

12          Q.    So have customers prepaid that -- how is  
13  that a credit, I guess, is my question?

14          A.    I guess a "credit" isn't the best word.  
15  It's just recognizing that adjustment that was made  
16  in the rate case.  And the whole point of this is to  
17  the extent that that exists in the rate case, it  
18  would just be something that the Commission would  
19  have to consider if it did not want to approve a DIR  
20  in this case.

21          Q.    So if the Commission approved a DIR in  
22  this case, that credit would transfer to the DIR in  
23  this case?

24          A.    Could you restate it?

25          Q.    Okay.  You indicated --

1 A. Go ahead.

2 Q. It was in the rate case --

3 A. Yes.

4 Q. In the DIR there.

5 A. Right.

6 Q. So if there's a DIR as a result of this  
7 case, are you saying that that should transfer to the  
8 DIR?

9 A. It would be treated the same, yes.

10 Q. Okay. And then, if there's no DIR, then  
11 the Commission would have to do something else in  
12 order to address it.

13 A. Yes; it would have to look at its  
14 options.

15 Q. Did you make any recommendation with the  
16 alternative if there is no DIR?

17 A. No, I did not.

18 Q. Do you have any thoughts on what the  
19 alternatives might be?

20 A. Not at this time.

21 Q. Would I be correct in assuming that if  
22 the Commission did not find an alternative, then the  
23 company would benefit as a result of not transferring  
24 that if there's no DIR in this case?

25 A. If the Commission made no other

1 adjustments?

2 Q. Yes.

3 A. You asked would the company benefit?

4 Q. Yes, that's what I asked.

5 A. Okay. Yes.

6 Q. Now, is there any kind of carrying cost  
7 associated with this so that customers get interest  
8 on the fact that the company's got this credit for  
9 customers?

10 A. Is there any kind of carrying cost on the  
11 62; is that --

12 Q. Yeah. If customers of the company -- the  
13 company generally gets carrying costs --

14 A. Right.

15 Q. -- so I guess I'm asking in the reverse.  
16 Since there is a credit is there any kind of interest  
17 that customers are getting on the 63 million?

18 A. Not that I'm aware of.

19 Q. Would it be appropriate for there to be  
20 some kind of recognition and some kind of interest so  
21 that the customers benefit in a symmetrical manner?

22 A. I think that's something that the  
23 Commission would have to consider.

24 Q. Would you consider it reasonable for the  
25 customers to get some kind of interest on that

1 credit?

2 A. I think it is something that the  
3 Commission certainly would want to consider.

4 Q. Can you think of any reason not to have  
5 interest on that amount?

6 A. I think it's something the Commission  
7 would definitely be -- should consider.

8 Q. I understand that. But you can't think  
9 of any reason not to.

10 A. Not at the moment.

11 Q. Now, on page 4 of your testimony, you  
12 talk about keeping the gridSMART costs in the  
13 gridSMART rider and you say there "to the extent the  
14 Commission wishes to examine O&M savings." Would you  
15 agree with me that recognizing O&M savings is an  
16 important part of the analysis that would have to go  
17 into any ultimate determination as to whether  
18 gridSMART should go forward with Phase II or not?

19 A. I think that is generally one of the  
20 considerations that go into these types of programs,  
21 in the cost-benefit analysis, is also the related O&M  
22 savings, if there are any.

23 Q. On page 5 of your testimony, your last  
24 sentence, there's -- it's a double negative and I  
25 want to make sure I understand it. By recommending

1 that the Commission deny AEP's request to not have to  
2 transfer, you're basically saying that they should  
3 have to transfer, correct?

4 A. What I am saying is that at this time,  
5 AEP has not provided enough information for staff to  
6 recommend that the assets not be transferred, so yes.

7 MR. SERIO: Okay. That's all I have.  
8 Thank you.

9 EXAMINER SEE: Mr. Satterwhite?

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Satterwhite:

13 Q. Ms. McCarter, how are you doing?

14 A. I feel like the last speaker of a  
15 conference, of a five-day conference.

16 Q. I've got two other heads staring at me  
17 with eyes, too.

18 A. So I need to do yes/no, right?

19 Q. My first question won't be a yes/no.

20 I'm not sure I understand Mr. Serio's  
21 questions, so I wanted to ask you what you understood  
22 he was asking you about the credits to customers as a  
23 result of the DIR not being approved and something  
24 else happening. What was your understanding of the  
25 hypothetical that you were responding to there?

1           A.    I think what he was asking was if the DIR  
2   is not -- well, it was a little bit confusing to me,  
3   but I think what he was asking is if the DIR is not  
4   approved, basically should there -- what should  
5   happen with the \$62 million that was provided in  
6   the -- that was provided for in the rate case.

7           Q.    And was it your understanding he was  
8   asking if the company should pay interest to  
9   customers based on that?

10          A.    I think what he was asking is -- yes,  
11   basically.

12          Q.    And is it your understanding that the  
13   company is currently providing that payment, as part  
14   of the rate case, to offset rate increases and a  
15   credit for residential customers and a contribution  
16   to PWO?

17          A.    Yes.

18          Q.    Even though it's not collecting the DIR  
19   currently?

20          A.    Yes. And that's why I kept saying it  
21   would have to be something that the Commission took  
22   into consideration.

23          Q.    So --

24          A.    Because we do have this disconnect going  
25   on right now.

1           Q.    So your testimony is just saying it's  
2 recognizing that there is a link between the two, and  
3 you think it would be appropriate for the Commission  
4 to recognize and do something about that.

5           A.    Correct.

6           Q.    Okay. Thank you. I appreciate that.

7                   Now, on the gridSMART recommendations,  
8 the point of narrowing all the gridSMART investment  
9 under the gridSMART rider is so it's easier to track,  
10 and for the Commission to identify benefits  
11 associated with gridSMART, correct?

12          A.    Correct.

13          Q.    Is the concern that if issues related to  
14 gridSMART or investments in other areas are made, you  
15 wouldn't be able to gather all the data needed to  
16 look for the long-term benefits of gridSMART?

17          A.    Correct.

18          Q.    I'd like to get into your audit  
19 recommendations, for the process behind it for the  
20 distribution investment rider, and make sure I  
21 understand it. You're used to explaining stuff to me  
22 so this will be easy.

23          A.    Well, we actually have a live one that we  
24 just did with FE, so we have a living example.

25          Q.    Okay. Good. And you mention that in

1 your testimony and you say that would be a good proxy  
2 or a good example to follow. What makes that a good  
3 example to follow for the distribution investment  
4 rider?

5 A. It was a very thorough audit. It looks  
6 at just everything. It looks at how costs get  
7 booked. It looks at making sure rider exclusions are  
8 appropriate. It looks at application of property  
9 taxes. It will -- Blue Ridge even examined where it  
10 saw variances between, well, in two areas, where it  
11 saw variances between budgeted and actual, it would  
12 go in and examine why there would be such a large  
13 variance, or if it saw certain accounts that had  
14 significant changes going on in them, Blue Ridge went  
15 in and examined the reasons for those variances.

16 So, you know, short of a rate case, I  
17 thought they pretty much covered all the ground that  
18 would make at least staff and, hopefully, the  
19 Commission comfortable that all of the capital costs  
20 that are flowing into the DIR are appropriate, at  
21 least from an accounting perspective and from a  
22 budgeting perspective.

23 Q. And you're confident there was enough  
24 overlap in the type of projects or investment  
25 reflected in the FirstEnergy project that it would be

1 similar to the DIR that there wouldn't be a gap in  
2 the knowledge that could be applied in both places?

3 A. I think it is a process and knowledge  
4 that is readily transferable. So I don't think there  
5 is a gap.

6 Q. And are the type of investments that are  
7 in both of the riders comparable then?

8 A. Yes.

9 Q. Now, the dates you give, you say you want  
10 to have four quarterly updates, so four updates a  
11 year, and does it have the rates effective from the  
12 quarterly updates 60 days later; is that correct?

13 A. Yes.

14 Q. And then have a catchall for the year on  
15 the May 18th filing, and that would be for all  
16 parties, and you'd have 120 days to weigh in on from  
17 the industry for the update for the future rates? Is  
18 that correct?

19 A. Well, I wouldn't call it a "catchall."  
20 What it is is that would be the more in-depth review  
21 of the Blue Ridge report that I'm talking about, and  
22 that would be the one that would have the parties  
23 involved, and it would have a report similar to what  
24 that Blue Ridge put out so people could examine any  
25 concerns that they might have at that time and

1 adjustments could flow from that if necessary.

2 Q. So what happens with the other three,  
3 then? Can you just walk me through -- something's  
4 given to you to look at.

5 A. Well, basically what it is, on the other  
6 three we look at the financial information that is  
7 provided. Unless there is something very unexpected  
8 occurring, that would pretty much be where the end of  
9 our review is. We would not look into all the  
10 appropriateness of booking the transactions and  
11 transfers and anything like that.

12 I would say, though, that if, for some  
13 reason, there was some big spike somewhere in one  
14 quarter, I mean, that might elicit more research, but  
15 short of that, that would be about it for the other  
16 three.

17 Q. And would recovery change each time, four  
18 times a year, or would recovery only change with the  
19 overall large one?

20 A. What do you mean by "recovery"?

21 Q. Any type of recovery, any type of change  
22 in the distribution investment rider recovery.

23 A. Well, to the extent that you're under the  
24 caps that you're talking about --

25 Q. Correct.

1           A.    -- yeah, the rate could be adjusted on a  
2           quarterly basis. Is that what you mean?

3           Q.    Yeah, I'm trying to figure out when  
4           things could change, and I was trying to figure out  
5           if staff is reviewing, just for a general prudence  
6           but really nothing changed as far as what was  
7           collected until the year, what I would call the "year  
8           end" which is the May 18th review.

9           A.    Well, there would be adjustments to the  
10          rates each quarter. So to the extent that for some  
11          reason AEP overcollected, there could be an  
12          adjustment, but . . .

13          Q.    I'm just trying to figure out when stuff  
14          could change; that's all.

15          A.    Yes.

16          Q.    And are these -- I'm sorry, I didn't mean  
17          to cut you off.

18          A.    Go ahead.

19          Q.    And are these delays of 60 days and 120  
20          days the same process that you used for the  
21          FirstEnergy distribution rider?

22          A.    FirstEnergy currently is on the 120, and  
23          all that is the same, but, currently, they're on a  
24          90-day. I think in the stipulation, in the ESP  
25          extension, it proposes a 60-day.

1           Q.    And were there any issues, I don't know  
2    if there is or not so I'm just asking the question,  
3    with the 60-day review.  Let's take, for example, a  
4    June 30th filing, the 60-day would come two months  
5    later, and the next audit would start on  
6    September 30th.  Would you run into any problems in  
7    the FirstEnergy audit having any changes come so  
8    close to the next filing coming in?

9           A.    Well, you know, hats off to FirstEnergy;  
10   their process is running smoothly so far.  I mean,  
11   we've been through two, but they seem to be doing  
12   well.

13          Q.    And the 60 -- 90 days in that case, and  
14   now the proposed 60 days that would go forward, is  
15   that an up-to 60 days?  If the work got done earlier,  
16   staff would --

17          A.    No, it would be 60 days.

18          Q.    I can dream.

19          A.    Yeah, we don't like to train people to  
20   get that high of an expectation.

21          Q.    And the May 2015, what I'll call the  
22   "final audit," you mentioned a refund associated with  
23   that.

24          A.    Uh-huh.

25          Q.    And that's just that one-time refund for

1 the final audit, not in the interim ones, correct?

2 A. That's my recommendation.

3 Q. And you say the cost, on page 5, the cost  
4 of the external auditor will also go into the rider.  
5 Is that once the overall project is completed in that  
6 final or is that an ongoing cost that's included?

7 A. What do you mean by "final"? You mean --  
8 when I look at it, it would be the annual audit. So  
9 when you get the invoices in for that, that would be  
10 what's recovered basically the next cycle. So it  
11 would just be put into the --

12 Q. That was my question.

13 A. Yes.

14 Q. It's not a totaling until the end each  
15 year.

16 A. No.

17 Q. Okay.

18 A. Right.

19 Q. Let's talk about the pollution control  
20 bonds a little. Safe to say that staff disagrees  
21 that AEP should retain the PCBs with tender dates  
22 after the date of corporate separation, correct?

23 A. The ones in question here?

24 Q. Yeah.

25 A. I think the concern is that AEP did not

1 offer very much information -- did not offer enough  
2 information to indicate why it was acceptable not to  
3 have those transfer.

4 Q. And, in fact, you state they didn't  
5 provide substantial negative impacts, correct?

6 A. Right.

7 Q. But you don't have any reason to disagree  
8 with Ms. Hawkins, with a degree in finance and a  
9 master's in business administration, that it would be  
10 appropriate to do it this way, correct?

11 A. I don't -- wait a minute. The question  
12 was I don't disagree with her that it would be --

13 Q. You don't have any reason, yourself, to  
14 disagree with Ms. Hawkins, with her degrees in  
15 finance and business administration, that this would  
16 be an appropriate way to handle these matters, do  
17 you?

18 A. What I stated was that AEP had not  
19 provided enough information at this time. If AEP can  
20 provide information that the Commission can consider  
21 that says that, financially, this is the best road to  
22 go, then that's fine. So I haven't taken a position  
23 either way, ultimately, whether these should transfer  
24 or not.

25 Q. And that's my question. You haven't

1 taken a position.

2 A. Oh, okay. Correct.

3 Q. Okay.

4 A. The whole "with her degrees and all  
5 that," I'm like "let's cut those out of the  
6 question." You can't intimidate me that easily.

7 Q. Oh, I know. You should know I know that.

8 A. Okay. Nice try.

9 Q. So to close that loop, you don't have any  
10 reason, any evidence that's been presented to you to  
11 doubt the proposed benefits; you're just saying you  
12 don't have any information to judge her  
13 representation, correct?

14 A. I don't have enough information to say  
15 that at this moment in time the Commission should go  
16 ahead and grant AEP's request not to transfer those.

17 MR. SATTERWHITE: Thank you. That's all  
18 I have.

19 THE WITNESS: Okay.

20 EXAMINER SEE: Mr. Margard?

21 MR. MARGARD: Your Honor, no redirect.

22 EXAMINER SEE: Thank you, Ms. McCarter.

23 THE WITNESS: Thank you.

24 EXAMINER SEE: Let's go off the record.

25 (Discussion off the record.)

1 EXAMINER SEE: Let's go back on.

2 Mr. Margard.

3 MR. MARGARD: Thank you, your Honor. I  
4 renew my motion to admit the Staff Exhibit 108.

5 EXAMINER SEE: Any objections?

6 MR. SATTERWHITE: No objection by the  
7 company, your Honor.

8 EXAMINER SEE: Hearing none, Staff  
9 Exhibit 108 is admitted into the record.

10 (EXHIBIT ADMITTED INTO EVIDENCE.)

11 EXAMINER SEE: Hearing adjourned until  
12 8:30 a.m. tomorrow, where we will conclude with  
13 Witnesses Fleeter, Banks, Fortney, and Turkenton.

14 MR. SERIO: Is that the planned order,  
15 your Honor?

16 MR. MARGARD: We would propose doing --

17 EXAMINER SEE: Let's go off the record.

18 (Discussion off the record.)

19 (Thereupon, the hearing was adjourned at  
20 5:54 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 Thursday, June 7, 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-4026)

- - -

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Summary: Transcript of the Application of Columbus Southern Power Company and Ohio Power Company hearing held on 06/07/12 - Volume XV electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.