

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Fuel :
Adjustment Clause of :
Columbus Southern Power :Case No. 10-268-EL-FAC
Company and Ohio Power :Case No. 10-269-EL-FAC
Company and Related Matters :
for 2010. :

In the Matter of the Fuel :
Adjustment Clause of :
Columbus Southern Power :Case No. 11-281-EL-FAC
Company and Ohio Power :
Company and Related Matters :
for 2011. :

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PROCEEDINGS

before Ms. Sarah Parrot, Hearing Examiner, at the
Public Utilities Commission of Ohio, 180 East Broad
Street, Room 11D, Columbus, Ohio, called at 10:00
a.m. on Monday, November 18, 2013.

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24 On behalf of the Industrial Energy
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On behalf of Duke Energy-Ohio.

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13 Mike DeWine, Ohio Attorney General
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19 On behalf of the Staff.

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Monday Morning Session,
November 18, 2013.

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EXAMINER PARROT: Let's go on the record.

The Public Utilities Commission of Ohio has called for hearing at this time and place Case No. 10-268-EL-FAC and 10-269-EL-FAC, being In the Matter of the Fuel Adjustment Clause of Columbus Southern Power Company and Ohio Power Company and Related Matters for 2010. The Commission has also called for hearing at this time and place Case No. 11-281-EL-FAC, being In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters.

I would also note that pursuant to attorney examiner entry issued on June 16th, 2011, Case No. 10-870-EL-FAC and 10-1286-EL-FAC were consolidated under Case No. 10-268-EL-FAC, while Case No. 10-871-EL-FAC and 10-1288-EL-FAC were consolidated under Case No. 10-269-EL-FAC.

My name is Sarah Parrot. I'm the attorney examiner assigned by the Commission to hear these cases today.

At this time let's get started with the appearances. We'll get started with the company and

1 work our way down the table.

2 MR. SATTERWHITE: Thank you, your Honor.
3 On behalf of the Ohio Power Company Matthew
4 Satterwhite, Yazen Alami, and Steven Nourse, 1
5 Riverside Plaza, Columbus, Ohio 43215.

6 EXAMINER PARROT: Very good.

7 MR. D'ASCENZO: Thank you, your Honor.
8 On behalf of Duke Energy Ohio, I am Rocco D'Ascenzo,
9 139 East Fourth Street, Cincinnati, Ohio, 45202.

10 EXAMINER PARROT: Very Good.

11 On behalf of OCC.

12 MR. ETTER: Good morning, your Honor. On
13 behalf of residential utility consumers, the Office
14 of the Ohio Consumers' Counsel, Bruce J. Weston, Ohio
15 Consumers' Counsel, Terry L. Etter, Assistant
16 Consumers' Counsel. We are at 10 West Broad Street,
17 Suite 1800, Columbus, Ohio, 43215.

18 MR. OLIKER: Good morning, your Honor.
19 On behalf of Industrial Energy Users-Ohio, Joseph
20 Oliker and Matt Pritchard, Sam Randazzo and Frank
21 Darr of the law firm of McNees, Wallace & Nurick, 21
22 East State Street, Columbus, Ohio, 43215.

23 MS. MOHLER: On behalf of the Ohio
24 Manufacturers Association Energy Group, Mallory
25 Mohler with Carpenter, Lipps & Leland, 288 North High

1 Street, Suite 1300, Columbus, Ohio, 43215.

2 MS. MOONEY: On behalf of Ohio Partners
3 for Affordable Energy, Colleen Mooney, 231 West Lima
4 Street, Findlay, Ohio, 45840.

5 MR. HOWARD: Good morning, your Honor.
6 On behalf of Buckingham Coal Company, please have the
7 record reflect the appearance of the law firm of
8 Vorys, Sater, Seymour & Pease, LLP, by John J.
9 Kulewicz, M. Howard Petricoff, and Steven M. Howard,
10 52 East Gay Street, Columbus, Ohio, 43215.

11 Your Honor, our interest is very limited
12 in this matter. We will not have any witnesses. We
13 do not expect any cross-examination, so I may not be
14 here for every single witness, but we would like to
15 reserve the right to file a reply brief or any briefs
16 and participate. Thank you very much.

17 EXAMINER PARROT: Thank you.

18 MR. McNAMEE: On behalf of the staff of
19 the Public Utilities Commission of Ohio, Thomas W.
20 McNamee and Steven Beeler, Assistant Attorneys
21 General. The address is 180 East Broad Street,
22 Columbus, Ohio, 43215.

23 EXAMINER PARROT: Thank you.

24 Is there anyone in the room present on
25 behalf of Duke Energy Commercial Asset Management,

1 Inc.?

2 (No response.)

3 EXAMINER PARROT: Let the record reflect
4 that there's no one present today on behalf of Duke
5 Energy Commercial Asset Management.

6 All right. At this time there are a few
7 preliminary matters to be addressed. First, there
8 are a number of pending motions for intervention in
9 Case No. 11-281-EL-FAC, we have unopposed motions
10 from Industrial Energy Users-Ohio, Ohio Consumers'
11 Counsel, and Buckingham Coal, and I would note that
12 Buckingham Coal also moved to intervene in Case No.
13 11-5906-EL-FAC and those motions will be granted at
14 this time.

15 We also have pending motions from Duke
16 Energy Ohio, Inc. and Duke Energy Commercial Asset
17 Management, Inc., which are opposed to AEP Ohio.
18 Upon review of the pleadings that were filed, the
19 motions will be granted as Duke Energy Ohio and Duke
20 Energy Commercial Asset Management have met the
21 intervention criteria which are liberally construed
22 in favor of intervention.

23 A caution, however, that the issues in
24 Case No. 11-281 are limited to the fuel audit for the
25 period in question and attempts by any party to

1 broaden the scope of the proceeding will be rejected.

2 Next, on November 12th, 2013, AEP Ohio
3 filed a motion seeking leave to file out of time the
4 public version of its testimony as well as leave to
5 file a motion for protective order with respect to
6 the testimony of James Henry. Are there any
7 objections to the motion?

8 (No response.)

9 EXAMINER PARROT: Seeing none, the motion
10 will be granted.

11 Finally, turning next to the motions that
12 are pending for protective orders, we have first a
13 pending motion in Case No. 11-281 filed by AEP Ohio
14 May 24th, 2012, seeking protection of the
15 confidential version of the 2011 audit report.

16 There's also a pending motion filed by
17 AEP Ohio in 10-268, et al., on October 30th, 2012,
18 seeking renewal of a prior protective order with
19 regard to information contained in the 2010 audit
20 report.

21 No memoranda contra were filed to either
22 of those motions and they will be granted at this
23 time.

24 All right. More recently we have a
25 pending motion filed by OCC on November 8th, 2013,

1 which sought protection of the redacted portion of
2 the testimony of Daniel J. Duann as well as a pending
3 motion filed by AEP Ohio just this morning which is
4 also with respect to that testimony.

5 We also have the pending motion filed by
6 AEP Ohio on November 12th, 2013, seeking protection
7 of the confidential version of the testimony of James
8 Henry.

9 Are there any objections to any of these
10 three motions?

11 (No response.)

12 EXAMINER PARROT: Seeing none, the
13 motions will be granted.

14 Protection of the confidential
15 information that is the subject of all of these
16 motions will be afforded for a period of 18 months
17 from today which will end on May 18th, 2015, in
18 accordance with Rule 4901:1-24(F) of the Ohio Revised
19 Code.

20 Any other preliminary matters to be
21 addressed this morning from the parties?

22 MR. SATTERWHITE: Yes.

23 EXAMINER PARROT: Mr. Satterwhite.

24 MR. SATTERWHITE: Yes, your Honor, before
25 we went on the record we discussed with the parties

1 how to proceed; seeing that this is two separate
2 cases and there's confidentiality in both cases, in
3 order to move along efficiently, AEP proposed that we
4 allow the attorneys for the parties that are present
5 in the room today to just attest on the record that
6 they will keep it confidential what they hear today
7 and the entire record will be confidential and the
8 company will go back later and redact and share that
9 with the parties so a public version can be made.

10 EXAMINER PARROT: Thank you,
11 Mr. Satterwhite.

12 Is that the understanding of the other
13 parties in the room as well?

14 MR. McNAMEE: Yes.

15 MR. D'ASCENZO: Yes, your Honor.

16 EXAMINER PARROT: Very good.

17 MR. SATTERWHITE: I would suggest -- say
18 we appreciate Mr. Howard and Buckingham's
19 representation, they might not have been here and
20 they are the ones that have to leave the room when
21 certain recommendations from the auditor deals with
22 suppliers.

23 EXAMINER PARROT: Thank you.

24 Any other preliminary matters before we
25 get started with our first witness?

1 (No response.)

2 EXAMINER PARROT: All right. Seeing
3 none, Mr. Beeler, or Mr. McNamee, I believe you have
4 our first witness.

5 MR. McNAMEE: Yes. What I'd like to do
6 first I guess is lay out my general plan here. We
7 have two audit reports in confidential and public
8 versions and three auditors, so I'll call the first
9 auditor, we'll identify all four of these documents,
10 and two of the auditors will be speaking to the
11 financial audit, those are Messrs. Smith and Dady.

12 Pardon me, I may not be able to keep up
13 with this speaking.

14 EXAMINER PARROT: I'm a little under the
15 weather today myself.

16 (Discussion off the record.)

17 MR. McNAMEE: In any event, when I have
18 the financial auditors get on the stand, I will have
19 them identify the portions of the financial audit
20 that they're speaking to to hopefully speed the
21 process of cross-examination. I'll do that with both
22 of them.

23 And we'll proceed through with Smith
24 first, Dady and then Medine for the management
25 performance aspect. So that would be my plan. And

1 to that end at this time the staff would call Ralph
2 Smith.

3 EXAMINER PARROT: Please raise your right
4 hand.

5 (Witness sworn.)

6 EXAMINER PARROT: Please be seated.

7 - - -

8 RALPH SMITH

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

11 DIRECT EXAMINATION

12 By Mr. McNamee:

13 Q. Mr. Smith, could you state and spell your
14 name for the record, please.

15 A. Ralph Smith, S-m-i-t-h.

16 Q. What is your business address?

17 A. It's 15728 Farmington Road, Livonia,
18 Michigan, 48154.

19 Q. Okay. You are aware that there are two
20 cases pending before the Commission today, actually a
21 number of them but two audits pending before them.

22 A. The 2010 and 2011 FAC audits, yes.

23 Q. Were you one of the auditors who worked
24 in that case --

25 A. I was.

1 Q. -- those cases? Good.

2 MR. McNAMEE: At this time, your Honor, I
3 would ask to have marked as Staff Exhibit 1 the
4 public version of the 2010 audit and Staff Exhibit --
5 shall we call it 1A, the confidential version?

6 EXAMINER PARROT: That will work. So
7 marked.

8 (EXHIBITS MARKED FOR IDENTIFICATION.)

9 MR. McNAMEE: And also as Staff Exhibit 2
10 the public version of the 2011 audit and as Staff
11 Exhibit 2A the confidential version --

12 EXAMINER PARROT: So marked.

13 MR. McNAMEE: -- of the audit.

14 (EXHIBITS MARKED FOR IDENTIFICATION.)

15 Q. (By Mr. McNamee) Mr. Smith, do you have
16 before you what have just been marked for
17 identification as Staff Exhibits 1, 1A, 2, and 2A?

18 A. I have 1A and 2A which are the
19 confidential versions.

20 Q. That's good.

21 A. I don't have the public versions with me.

22 Q. All right. Let me hand you those so that
23 you can identify them, if you can. Are you familiar
24 with those?

25 A. Yes. I believe I have all four versions

1 in front of me.

2 Q. Good. Can you tell me what those four
3 documents are?

4 A. Yes. 1 and 1A are respectively the
5 public and confidential versions of the 2010 FAC
6 audit report, and Exhibit 2 and 2A are the public and
7 confidential versions respectively of the 2011 FAC
8 audit report.

9 Q. Did you participate in the preparation of
10 those four documents?

11 A. I did.

12 Q. In what capacity?

13 A. As an auditor.

14 Q. Good. Could you tell me specifically
15 which portions of those audits you would be in a
16 position to speak to here this morning.

17 A. Yes. I should be able to speak to, in
18 Chapter 1, the financial audit findings, financial
19 audit recommendations, and that would apply to both
20 reports, and in the 2010 report and the 2011 report
21 to Chapter 7, and within Chapter 7 there may be
22 questions on certain areas. Let me just give a broad
23 overview to what I think I'll be able to answer and
24 then other portions that I may need to defer to
25 Mr. Dady to answer.

1 One of the recommendations concerned the
2 calculation of carrying charges and there should be
3 an offset for accumulated deferred income taxes; I
4 should be able to speak to issues pertaining to that.

5 Another area related to River
6 Transportation Division, and I should be able to
7 speak to that area.

8 Another area relates to purchased power
9 and particularly certain contracts such as the
10 Lawrenceburg generation station; I should be able to
11 speak to that to some extent depending on the level
12 of detail that parties want to get into. If parties
13 have extremely detailed questions for that, I may
14 defer some of the detail to Mr. Dady.

15 And I'm trying to think if there's
16 anything else that was initially a potential
17 controversy. In general, I guess if there's any
18 questions about Chapter 7, I will try to field those.
19 It's possible if they go into a certain level of
20 detail that Mr. Dady was responsible for during the
21 course of the audit, I may need to defer detailed
22 questions to him to answer.

23 Q. Okay. So then with regard to those
24 portions of the audit reports that you've just spoken
25 to, were those prepared by you?

1 A. They were prepared by me and our team at
2 Larkin & Associates.

3 Q. Are the contents true to the best of your
4 knowledge and belief?

5 A. To the best of my knowledge and belief,
6 yes, they are.

7 Q. Do you have any corrections to be made to
8 those portions of the audit reports?

9 A. I'm not aware of any at this time.

10 MR. McNAMEE: With that, your Honor, he's
11 available for cross.

12 EXAMINER PARROT: Thank you, Mr. McNamee.
13 OPAE?

14 MS. MOONEY: No, no questions, your
15 Honor.

16 EXAMINER PARROT: Mr. Howard?

17 MR. HOWARD: No, thank you, your Honor.

18 EXAMINER PARROT: Ms. Mohler?

19 MS. MOHLER: No questions.

20 EXAMINER PARROT: IEU-Ohio, either one of
21 you?

22 MR. OLIKER: Your Honor, just so I
23 understand, because we are going to be completely
24 sealed, I can just go ahead and --

25 EXAMINER PARROT: Yes.

1 MR. OLIKER: It doesn't matter, AEP can
2 sort through later.

3 EXAMINER PARROT: That's right, that's
4 the process we agreed to.

5 MR. SATTERWHITE: Just a point of
6 privilege, if people can try to be respectful and not
7 make it completely crazy, I would appreciate it.

8 EXAMINER PARROT: That's good.

9 MR. SATTERWHITE: No Tourette's
10 confidential information in there.

11 MR. OLIKER: That's my intention but
12 we'll probably go confidential pretty quickly.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Oliker:

16 Q. Good morning, Mr. Smith.

17 A. Good morning.

18 Q. I hope your travel plans were okay with
19 the tornadoes in the area yesterday.

20 A. I got through all right.

21 Q. I'm going to ask you some questions this
22 morning about both 2010 and the 2011 audit reports,
23 but, by way of background, I understand you performed
24 a separate audit for Columbus Southern Power Company
25 and Ohio Power Company because they have separate

1 fuel adjustment clauses, correct?

2 A. We did look at the information filed by
3 both companies, the audit was done concurrently for
4 both.

5 Q. But you looked at them differently.

6 A. Looked at each of their quarterly fuel
7 filings and they do have different rates and we
8 reviewed them -- individual company information but
9 it was done simultaneously as part of the integrated
10 audit.

11 Q. Thank you.

12 And if I refer to the "FAC" today, you
13 know what I'm talking about, the fuel adjustment
14 clause, right?

15 A. Yes.

16 Q. And I'll try not to do that because, as
17 we just discussed, they're separate companies, but if
18 I refer to "AEP Ohio," you know I'm referring to
19 Columbus Southern Power and Ohio Power collectively,
20 right?

21 A. I'll try to keep that in mind.

22 Q. Sorry, it's force of habit on my part.
23 I'll try not to do it, though.

24 I think, as you discussed earlier with
25 Mr. McNamee, you did most of the financial portions

1 of the audit report, correct?

2 A. Larkin & Associates did the financial
3 portion and I was responsible for supervising that,
4 actually doing a bunch of the detailed stuff.

5 Q. Okay. And in the process of your review
6 you served discovery requests on the company; is that
7 correct?

8 A. Yes, we did.

9 Q. And did you review discovery requests the
10 company provided to other parties?

11 A. We reviewed the discovery that they
12 provided in response to LA requests and EPA requests.

13 Q. Did you review responses that the company
14 provided to IEU-Ohio?

15 A. I'm not certain if we did or not.

16 Q. And that's fine if you don't know.

17 A. Yeah, I think we primarily relied on the
18 audit-related discovery.

19 Q. Okay. When you're performing your audit,
20 one of your tasks is to determine the amount of costs
21 that AEP recovered, correct?

22 A. To review those and to report on them.

23 Q. So one of your responsibilities would be
24 to determine if AEP Ohio has overrecovered certain
25 costs, correct?

1 A. Well, we were primarily looking at the
2 costs that they were reporting and passing through
3 the FAC during both periods and we reviewed the audit
4 trail that they provided for both of those periods,
5 in some instances it was done on a selective or test
6 basis, and we reported on our findings for both
7 periods.

8 Q. Okay.

9 A. We did look at their balance that they're
10 carrying forward from month to month and I believe,
11 as you'll note from the audit reports, that it shows
12 that Ohio Power was undercollecting by a very
13 substantial amount.

14 Q. Okay, thank you. Referring to something
15 a little different but we'll get there.

16 You mentioned that you reviewed fuel
17 costs but you also reviewed purchased power costs,
18 correct?

19 A. We reviewed purchased power costs with
20 the specific objective of examining the costs that
21 were flowing through the FAC.

22 Q. Okay. And AEP Ohio has purchased power
23 contracts -- let me restate that. Ohio Power Company
24 and Columbus Southern Power Company have a purchased
25 power contract with the Ohio Valley Electric

1 Corporation, correct?

2 A. Correct.

3 Q. And Columbus Southern Power Company has a
4 purchased power contract with AEP Generating for the
5 output from the Lawrenceburg generating unit,
6 correct?

7 A. Correct.

8 Q. And I'd like to ask some questions about
9 your understanding of the Ohio Valley Electric
10 Corporation, and you understand if I refer to "OVEC,"
11 that I'm referring to the Ohio Valley Electric
12 Corporation.

13 A. Yes, I do understand that.

14 Q. So the OVEC generating units are Clifty
15 Creek and Kyger Creek, correct?

16 A. That's my understanding, yes.

17 Q. And those are coal plants?

18 A. Yes.

19 Q. And it's approximately 2 gigawatts? If
20 you know.

21 A. I'll take that subject to check. I don't
22 recall the capacity of those particulars units.

23 Q. And Ohio Power Company and Columbus
24 Southern Power Company have a right to call on a
25 portion of the output from the OVEC generating units.

1 A. That's my understanding, yes.

2 Q. And is it your understanding that Clifty
3 Creek and Kyger Creek have environmental controls
4 that were installed in the 2006-2007 period, if you
5 know?

6 A. I don't recall when they installed the
7 environmental controls at those units.

8 Q. But you do agree that they've installed
9 environmental controls.

10 A. It's my understanding that they do have
11 some type of environmental controls.

12 Q. Okay. And the Lawrenceburg generating
13 station, Columbus Southern Power has the right to
14 call on 100 percent of the power associated with that
15 unit, correct?

16 A. That's my understanding, yes.

17 Q. And that's a combined cycle gas plant,
18 correct?

19 A. Yes.

20 Q. Now, if we were to look in -- scratch
21 that. Let me start over.

22 At a high level, Ohio Power Company and
23 Columbus Southern Power Company recover through the
24 FAC fuel and demand charges associated with its
25 purchased power contracts, correct?

1 A. To the extent that they're allocated to
2 retail operations, that would be correct.

3 Q. Okay. Let's first talk about -- let's
4 start with the fuel portion. Ohio Power Company and
5 Columbus Southern Power Company produce more
6 generation output than is necessary to serve SSO
7 customers sometimes so it's necessary to allocate
8 fuel costs between SSO sales and wholesale sales,
9 correct?

10 A. There is an allocation between SSO and
11 wholesale.

12 Q. And the idea is so that SSO customers
13 aren't paying for more fuel than is used to serve
14 them, right?

15 A. Right. As I understand it, the SSO
16 customers are supposed to get the lower portion of
17 the generation stack in terms of fuel costs and then
18 beyond the --

19 Q. That was my next question.

20 A. -- the power that's used to serve the SSO
21 customers, that other -- the other costs in the stack
22 above that point are allocated to wholesale in
23 general.

24 Q. Okay. So, yeah, I think we're on the
25 same page. So to determine allocation AEP determines

1 its total output and then it compares that to the SSO
2 load and then it dispatches or it allocates its
3 least-cost fuel that is necessary to produce an
4 output equal to the SSO load to SSO customers. Does
5 that make sense?

6 A. That's my understanding of how it is
7 supposed to work, yes.

8 Q. Okay. So, for example, with Kyger Creek,
9 if the fuel costs associated with that plant are the
10 least-cost resources, then that would be allocated to
11 SSO customers, but if it's higher in the stack, then
12 SSO customers wouldn't pay for those fuel costs,
13 right?

14 A. I think that's correct. And I think on
15 the OVEC, I'm not sure that it breaks out by plant,
16 but that would be correct.

17 Q. Okay. Now let's talk about the nonfuel
18 portion. AEP recovers demand charges associated with
19 OVEC and Lawrenceburg in the FAC, right?

20 A. Again, to the extent that they flow
21 through to the SSO portion, that would be correct.

22 Q. Before we get into that, do you
23 understand -- would you agree that AEP's contract --

24 MR. OLIKER: Matt, this is maybe
25 confidential.

1 MR. SATTERWHITE: Thank you.

2 Q. Would you agree that Columbus Southern
3 Power Company's contract with Lawrenceburg is a
4 traditional cost-based rate for the nonfuel portion
5 of that unit? If you know.

6 MR. SATTERWHITE: Could I have that
7 question reread?

8 (Record read.)

9 A. I'm not totally certain if it's cost
10 based. I do know that they are charging demand or
11 capacity charges. I'm not sure if those are cost
12 based or if it's based on a negotiated contract.

13 Q. And that's okay. The good people may
14 appear here to answer that question I think.

15 In your review of the FAC you requested
16 detailed data on the accounting entries, particularly
17 the nonenergy components associated with Lawrenceburg
18 that were recovered through the FAC, correct?

19 A. We did, yes.

20 Q. And that's identified in section 7-71 of
21 the audit report, I believe. It says that in
22 LA-2010-2-130 you requested to see the nonenergy
23 components compared to Lawrenceburg that included the
24 FAC?

25 A. Could you give me the page reference

1 again.

2 Q. I believe it's section 7-71.

3 MR. SATTERWHITE: In which report?

4 MR. OLIKER: I think that is in the '10.

5 A. Yes.

6 Q. Okay. If I was to show you that
7 document, would you be able to identify it today?

8 A. The audit report or the data response?

9 Q. The data response.

10 A. I probably would be able to, yes.

11 MR. OLIKER: Your Honor, I'd like to mark
12 an exhibit, please.

13 Q. And, actually, before I do that, isn't it
14 true that AEP also provided a more detailed response
15 showing the detailed accounting entries on a monthly
16 basis for the Lawrenceburg generating unit for 2010?

17 A. More detailed than what you're going to
18 show me, what I haven't seen yet?

19 Q. Yes, maybe I'll just mark them both.
20 That might help us. You got me.

21 MR. OLIKER: I apologize, I had no idea
22 there would be this many people in the room today.
23 Your Honor, I'd like to mark as IEU-Ohio Exhibit 1
24 what appears to be AEP's response to IEU-Ohio's
25 discovery, which is reiterating what's in the audit

1 report for clarity, and the summary of nonenergy
2 components associated with the Lawrenceburg
3 generating unit for 2010.

4 And the second document I'd like to mark
5 as IEU-Ohio Exhibit 2 is AEP Ohio's response to
6 LA-2010-43, and I'll let you know this is an excerpt
7 from a larger document, but to save a few trees I've
8 just printed the monthly tabs for the Lawrenceburg
9 output and also Ohio Power Company is there as well
10 because we'll talk about that later.

11 EXAMINER PARROT: The exhibits shall be
12 so marked.

13 (EXHIBITS MARKED FOR IDENTIFICATION.)

14 Q. (By Mr. Olikier) Mr. Smith, do you see
15 what's been marked as IEU Exhibit No. 1?

16 A. I do.

17 Q. First, maybe we can find out if you've
18 seen the data responses. Have you seen this cover
19 page, this discovery response, it's actually a
20 request for production of documents to IEU-Ohio?

21 A. I haven't seen the cover page, but the
22 response was provided to us during the course of the
23 2010 audit as referenced on page 7-71 of the audit
24 report, and it was in response to data request
25 LA-2010-2-130, and that represents a summary of the

1 nonenergy components related to the Lawrenceburg
2 contract that were included in the FAC during 2010.

3 Q. Great. And does it appear to be a true
4 and accurate copy of the document AEP previously
5 produced to you?

6 A. The monthly numbers do appear to be the
7 response to LA-2010-2-130. I think when we received
8 it, there was a different cover page on it that
9 reproduced our question and said something like "See
10 the attached."

11 Q. Okay. Thank you.

12 And quickly turning to LA -- IEU-Ohio
13 Exhibit No. 2, have you seen this document before?

14 A. Yes. LA Exhibit -- or, IEU-Ohio Exhibit
15 2 appears to be pages out of what we've referred to
16 as the monthly workbooks which shows the derivation
17 of certain amounts including purchased power amounts
18 and the allocations of those amounts to the retail to
19 show what's included in the FAC.

20 Q. So one way to look at these documents is
21 the IEU-Ohio Exhibit 1 is a summary of Lawrenceburg
22 nonfuel purchased power costs and IEU-Ohio Exhibit
23 2 contains the allocation of those purchased power
24 costs between the FAC and other sales?

25 A. That would be fair, yes.

1 Q. In case you didn't mention this earlier,
2 IEU-Ohio Exhibit 1 reflects that Columbus Southern
3 Power Company incurred \$61 million in nonfuel charges
4 associated with the Lawrenceburg generating unit in
5 2010.

6 A. Yes, as shown.

7 Q. And let's go down this a little further.
8 Can you look at IEU-Ohio Exhibit 2, please.

9 A. Yes, I have it.

10 Q. So if I look at line 59, 59 through 64,
11 is that where the Lawrenceburg nonfuel costs are
12 recorded on IEU-Ohio Exhibit No. 2?

13 A. Yes. Lines 59 to 64 show components of
14 the Lawrenceburg nonfuel and the respective
15 allocations of each of those items.

16 Q. And those counts line up perfectly with
17 IEU-Ohio Exhibit 1, correct?

18 A. They should, yes.

19 Q. Okay. So if we look at line 60, which is
20 account 5550105, we -- this is for January, I'm
21 sorry, of 2010, there was \$3,047,000 in demand
22 charges from Lawrenceburg, correct?

23 A. Correct.

24 Q. And to determine how much of that flowed
25 through the FAC we look at column H, correct?

1 A. Correct.

2 Q. And column H is the same number as column
3 D, so we know that 100 percent of the demand charges
4 for Lawrenceburg were assigned to the FAC, correct?

5 A. That's correct, yes.

6 Q. Now, if we go down to line 62 through 64,
7 the totals in column D are slightly larger than the
8 totals in Column H, correct?

9 A. Yes, and for those line items there's an
10 81.34 percent allocation that has been applied.

11 Q. And just so we can talk about what's in
12 these accounts a little bit, line 62 mentions fuel
13 handling, correct? And then -- sorry, go ahead. You
14 can answer the question.

15 A. Yeah, it's described as "Lawrenceburg
16 fuel handling."

17 Q. And 63 is O&M portion affiliate and 64 is
18 the tax portion affiliate, correct?

19 A. That's correct, yes.

20 Q. But if we look, the bulk of the charges
21 are under line 60 and that's the depreciation and
22 capacity portion, correct?

23 A. Yes. The items on line 60 and 61 which
24 should be netted against each other, that would
25 basically represent the capacity charges.

1 Q. And if we were to -- could you take a
2 quick look at February through December and just
3 confirm for me that in every month of 2010 Columbus
4 Southern Power Company billed 100 percent of the
5 demand and -- let me restate that.

6 In every month in 2010 Columbus Southern
7 Power Company billed all of the depreciation and
8 capacity charges from Lawrenceburg to the FAC.

9 A. Yes, that's what these documents show.

10 Q. Okay. Let's stay on Lawrenceburg for a
11 minute here. Columbus Southern Power Company also
12 had a contract with Lawrenceburg or with AEP
13 Generating Company for Lawrenceburg in 2011, correct?

14 A. Yes.

15 Q. And you requested that AEP provide
16 spreadsheets containing the nonenergy components of
17 the Lawrenceburg generating unit for 2011 as well?

18 A. We did, yes.

19 Q. And those are similar to the spreadsheets
20 that we have here, right?

21 A. They are similar, yes.

22 MR. OLIKER: Your Honor, I'd like to mark
23 some exhibits, please.

24 Your Honor, I'd like to mark as IEU-Ohio
25 Exhibit No. 3 the summary of nonenergy components

1 associated with the Lawrenceburg generating unit for
2 2011.

3 EXAMINER PARROT: So marked.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 MR. OLIKER: And as IEU-Ohio Exhibit 4 I
6 would like to mark AEP Ohio's response to LA-2011-49
7 confidential excerpts containing detailed accounting
8 entries on a monthly basis for fuel and purchased
9 power.

10 EXAMINER PARROT: So marked.

11 (EXHIBIT MARKED FOR IDENTIFICATION.)

12 Q. Mr. Smith, the document that's been
13 marked as IEU-Ohio Exhibit No. 3 --

14 A. Yes.

15 Q. -- do you recognize that document?

16 A. I do.

17 MR. OLIKER: And, again, your Honor, I'd
18 like to clarify that I provided a cover sheet to
19 better identify the document as it was produced to
20 IEU-Ohio.

21 Q. Could you please identify for the record
22 what that document is.

23 A. IEU-Ohio Exhibit 3 is the monthly amounts
24 of Lawrenceburg nonenergy components that are
25 included in the Columbus & Southern Power fuel costs

1 for the year 2011 by month.

2 Q. And if you look to the last page of that
3 document, Columbus Southern Power Company incurred
4 \$62.2 million in nonfuel charges associated with the
5 Lawrenceburg generating unit in 2011, right?

6 A. Did you say "62.2"?

7 Q. Yes, I did.

8 A. I'd probably say rounded 62.3.

9 Q. Fair enough.

10 A. But that number appears on the document.

11 Q. I'll accept that, that clarification.

12 Okay. And does that document appear to
13 be a true and accurate copy of the document that AEP
14 previously produced in discovery?

15 A. It does, yes.

16 Q. And I think I asked this question before
17 but in case I did not, could you look at IEU-Ohio
18 Exhibit No. 2 and tell me if that document appears to
19 be a true and accurate copy of the document that AEP
20 previously produced.

21 A. IEU Exhibit 2?

22 Q. Yes.

23 A. Was the monthly workbook pages?

24 Q. Yes. I might have forgotten a step and I
25 want to make sure that that's accurate.

1 A. It does appear to be pages out of what we
2 referred to as the monthly workbooks; it appears that
3 these are accurate reproductions without checking
4 every number.

5 Q. Okay, thank you.

6 Now please look back at IEU-Ohio Exhibit
7 No. 3, and would you agree that this document
8 reflects the total nonenergy costs associated with
9 Lawrenceburg that Columbus Southern Power incurred in
10 2011?

11 A. It does appear to represent the total
12 costs.

13 Q. Okay. And now turning to IEU-Ohio
14 Exhibit 4, you recognize this document, correct?

15 A. Yes, I do.

16 Q. And would you agree it contains detailed
17 accounting entries associated with fuel and purchased
18 power for 2011?

19 A. It contains detail of the fuel and
20 purchased power costs and shows how those costs by
21 account number were allocated to the retail FAC
22 costs.

23 Q. So, stated differently, this document,
24 like the 2010 document we looked at earlier, shows
25 how the total purchased power costs are allocated to

1 the FAC.

2 A. IEU-Ohio Exhibit 4 --

3 Q. Yes.

4 A. -- shows that as you just described, yes.

5 Q. Okay. And looking at line 59, again, the
6 Lawrenceburg nonfuel components are contained on that
7 line through 64, right?

8 A. Yes, they are.

9 Q. And would you agree that the accounts
10 match up in IEU-Ohio Exhibit 4 with IEU-Ohio Exhibit
11 3?

12 A. They should match up, yes.

13 Q. Okay. And, again, on line 60 there's
14 depreciation and capacity portion Lawrenceburg,
15 right?

16 A. Yes.

17 Q. Would you agree that because column D and
18 column H have the same number, we know that AEP or
19 Columbus Southern Power allocated a hundred percent
20 of the demand -- I'm using that word, I'm sorry.

21 Would you agree that because the line --
22 the column D and H contain the same number, we know
23 that Columbus Southern Power Company allocated
24 100 percent of the depreciation and capacity portion
25 to the FAC?

1 A. Yes.

2 Q. Okay. And if you look at all of the
3 other months in 2011, then you see the same result,
4 that 100 percent of the depreciation and capacity is
5 allocated to the FAC.

6 A. I believe it shows the same result for
7 every month of 2011, 100 percent of that particular
8 item was allocated to the FAC.

9 Q. Okay. Now, because a portion of the
10 nonfuel costs, particularly lines 62 to 64, shows
11 there's an allocation, and this is in January of
12 2011, about 14 percent does not go to the FAC, does
13 that indicate that AEP is allocating that to
14 wholesale sales?

15 A. It's assigned off system.

16 Q. Okay. When AEP makes an off-system sale
17 with the Lawrenceburg generating unit, there's a
18 margin associated with that sale, is it offset
19 against any other cost in the FAC?

20 A. I'm not sure I understand the question.

21 Q. Stated differently, if there's an
22 opportunity sale from the Lawrenceburg generating
23 unit, does AEP share the margin associated with that
24 sale with SSO customers? If you know.

25 A. I'd have to do some checking to answer

1 that question.

2 Q. Fair enough.

3 As far as you know, looking at this
4 document is there a line that indicates a credit for
5 those sales?

6 A. I think the document we're looking at
7 here just addresses certain accounts and I'm looking
8 at them, there's 501 which is fuel costs, 555 which
9 is purchased power, 411 which is allowance gains and
10 losses. Wholesale sales would typically go into a
11 different account and I don't see it on this
12 particular page.

13 Q. Okay. Thank you.

14 A. Offhand I think it would be 447 and it's
15 not on this particular page, I'd have to do some
16 further checking to see if it's reflected somewhere
17 else.

18 Q. That's okay. We can -- I'm sure AEP can
19 answer that question later. Thank you.

20 And now we just talked about the
21 Lawrenceburg generating station. Columbus Southern
22 Power Company also has a contract with OVEC, right?

23 A. Yes.

24 Q. And if you look at line 53 of IEU-Ohio
25 Exhibit No. 4, we can see the OVEC demand charges,

1 right?

2 A. Yes.

3 Q. But at the same time we don't have as
4 much detail about OVEC in this spreadsheet as we have
5 about Lawrenceburg, right?

6 A. I think that's fair.

7 Q. Okay. But we do know, if you look at
8 line D of column 53 and line H, the number's the same
9 so we know 100 percent of the demand charges
10 associated with OVEC for Columbus Southern Power were
11 allocated to the FAC, right?

12 A. Right, for this particular month of
13 January.

14 Q. And for January it was \$829,000, right?
15 I know it's small writing.

16 A. 829,846.

17 Q. And if we look at each of the other
18 months, isn't it true that Columbus Southern Power
19 Company allocated 100 percent of the demand charges
20 for OVEC to the FAC?

21 A. No. I think you'd have to go through
22 month by month.

23 Q. Would you --

24 A. For example, the next page is
25 January 2011 Revised and if you look at line 52, you

1 can see that the allocation is 92.2 percent so I
2 think you have to go through month by month and
3 you're probably going to find it's not always
4 100 percent.

5 Q. Mr. Smith, at the top of that page,
6 that's Ohio Power Company though, right?

7 A. That's Ohio Power, right.

8 Q. But if you look in -- just for Columbus
9 Southern Power, we'll get to Ohio Power in a second,
10 but for just Columbus Southern Power Company if you
11 look at each month, the allocation on line 53 shows
12 100 percent the demand charges for OVEC were assigned
13 to the FAC.

14 A. I guess I'll take that subject to check.

15 Q. Fair enough. I know it's small writing.

16 A. It looks like Ohio Power's different.
17 Columbus Southern, it could be that they're doing a
18 hundred percent per month.

19 Q. Okay. Could you look at what has been
20 marked as IEU-Ohio Exhibit No. 2 now, please.

21 A. I still have it.

22 Q. I'm sorry?

23 A. I still have it.

24 Q. Okay. And this is for 2010. If you look
25 at line 53, then we also see that in 2010 Columbus

1 Southern Power Company allocated a hundred percent of
2 the demand charges from OVEC to the FAC.

3 A. Yes, that appears to be the case.

4 Q. And Ohio Power aside, we'll talk about
5 that later, if you look in each month at 2010, again
6 I apologize for the small writing, would you agree
7 that Columbus Southern Power Company allocated
8 100 percent of the demand charges from OVEC to the
9 FAC?

10 A. Subject to check it does appear that
11 there's a hundred percent allocation.

12 Q. Okay.

13 MR. OLICKER: Your Honor, just to tie this
14 together, I'd like to mark two more exhibits, please.
15 May I approach, your Honor?

16 EXAMINER PARROT: You may.

17 MR. OLICKER: Thank you.

18 Q. Mr. Smith --

19 A. Yes.

20 Q. -- let me mark these first.

21 MR. OLICKER: Your Honor, I'd like to mark
22 as IEU-Ohio Exhibit No. 5 AEP Ohio's response to
23 IEU-INT-1-7-1 --

24 EXAMINER PARROT: So marked.

25 MR. OLICKER: -- which contains a summary

1 of OVEC demand charges for 2010. And I'd like to
2 mark as IEU-Ohio Exhibit No. 6 AEP Ohio's response to
3 IEU-INT-1-10 Attachment 1.

4 EXAMINER PARROT: So marked.

5 (EXHIBITS MARKED FOR IDENTIFICATION.)

6 MR. OLIKER: And that contains a summary
7 of OVEC demand charges in 2011.

8 Q. (By Mr. Oliker) Mr. Smith --

9 A. Yes.

10 Q. -- do you see the document that's been
11 marked as IEU-Ohio Exhibit 5?

12 A. I do.

13 Q. And have you seen this document before?

14 A. I'm not sure we've seen it in this exact
15 same format. I think we've seen similar information
16 in IEU-Ohio Exhibits 2 and 4 from the monthly
17 workbooks. I'm not sure if we've seen it summarized
18 like this. It's possible we have but I just don't
19 recall.

20 Q. Just to check, then, if we look at what
21 has been marked as IEU-Ohio Exhibit No. 5, and if you
22 look at the first column for Columbus Southern Power
23 Company and we compare the January 10 number to the
24 January 10 number on IEU-Ohio Exhibit No. 2, would
25 you agree that the demand charge is the same?

1 A. It is.

2 Q. And the retail allocation there reflects
3 100 percent, right?

4 A. It does.

5 Q. So this document appears to summarize
6 what's contained in IEU-Ohio Exhibit No. 2?

7 A. It does.

8 Q. Okay. And if we look at what has been
9 marked as IEU-Ohio Exhibit No. 6 and we compare that
10 to IEU-Ohio Exhibit No. 4, would you agree that the
11 demand charges for Columbus Southern Power Company
12 for January 2011 are the same as the demand charges
13 reflected on IEU-Ohio Exhibit No. 4 for January 2011?

14 A. Yes.

15 Q. So you would agree that IEU-Ohio Exhibit
16 No. 6 summarizes IEU-Ohio Exhibit No. 4.

17 A. Without checking each individual number
18 it does appear to summarize that information.

19 Q. Okay. Now, let's stay in IEU-Ohio
20 Exhibit No. 4 and let's talk about Ohio Power Company
21 now. Ohio Power Company has a contract with OVEC as
22 well we've talked about, right?

23 A. Right.

24 Q. And if we look at page 2 of IEU-Ohio
25 Exhibit No. 4, there's demand charges located on line

1 52, right?

2 A. Yes, line 52 shows the OVEC demand
3 charges.

4 Q. And column D reflects that there's about
5 \$2.9 million in demand charges for January of 2011?

6 A. It does.

7 Q. Okay. And 92.2 percent of that was
8 allocated to the FAC, right?

9 A. Yes.

10 Q. And that appears to match up with
11 IEU-Ohio Exhibit 6, it shows the same demand charge
12 and the same allocation, right?

13 A. It does, yes.

14 Q. Okay. And that 92 percent number appears
15 to flow through every single month on both IEU-Ohio
16 Exhibit No. 6 and IEU-Ohio Exhibit No. 4, right?

17 A. Approximately 92 percent. It varies
18 slightly every month, but --

19 Q. Within a percent, though, right?

20 A. Within about a percent, right.

21 Q. Okay. So you would accept, subject to
22 check, that IEU-Ohio Exhibit No. 6 summarizes the
23 Ohio -- for Ohio Power and Columbus Southern Power
24 Company summarizes IEU-Ohio Exhibit No. 4.

25 A. Yes, it appears to summarize that

1 information.

2 Q. Now, and I think we talked about this
3 with Columbus Southern Power Company, again, you
4 don't see the detail regarding the allocation of fuel
5 costs for OVEC to the FAC, right? And this is on
6 IEU-Ohio Exhibit No. 4.

7 A. It doesn't have the same breakout for
8 OVEC that it did for Lawrenceburg.

9 Q. Right.

10 A. The line we've been talking about is just
11 for demand charges.

12 Q. Okay. Thank you.

13 And just to try to close that loop, if
14 you look at IEU-Ohio Exhibit 5 and compare that to
15 IEU-Ohio Exhibit No. 2, on page 2, the January '10
16 Ohio Power OVEC charges are the same, right? So we
17 can assume that IEU-Ohio Exhibit No. 5 summarizes IEU
18 Exhibit No. 2 for Columbus Southern Power and Ohio
19 Power?

20 A. It does appear to be that IEU-Ohio
21 Exhibit 5 does appear to summarize the information
22 shown on IEU-Ohio Exhibit 2 for 2010 for both
23 companies.

24 MR. OLIKER: We're making good progress,
25 your Honor. Give me a minute to find myself.

1 Q. Mr. Smith, I think we just established
2 that -- excuse me, there's one more thing I'd like to
3 talk about.

4 The 91-92 percent allocation of OVEC
5 demand charges for Ohio Power Company to the FAC, do
6 you know if that is a result of an Ohio Power Company
7 contract with one of its affiliates?

8 A. I'm not sure that particular percentage
9 is. I am aware that there's a contract between Ohio
10 Power and Wheeling Power where Ohio Power supplies
11 the generation for electricity for Wheeling. I don't
12 know if this is related to that or not, I just don't
13 recall off the top of my head.

14 Q. And that's okay, we can talk to AEP about
15 that. Thank you.

16 But what we have established, with the
17 exception of Ohio Power Company for about 8 percent
18 of the demand charges, all the demand charges from
19 Lawrenceburg and OVEC are allocated 100 percent to
20 the FAC, right?

21 A. All the demand charges shown on these
22 particular reports are allocated and flow through the
23 FAC in the manner we just described earlier.

24 Q. Okay. And if we were to look in the
25 audit report for 2010 and 2011, there isn't an

1 identification or recommendation from Larkin &
2 Associates that the Commission disallow recovery of
3 demand charges associated with OVEC and Lawrenceburg
4 because AEP is being compensated for them elsewhere;
5 is that correct?

6 A. That recommendation is not in either the
7 2010 or 2011 audit reports.

8 Q. Okay. Switching gears a little bit, you
9 previously testified in another case involving
10 AEP Ohio where AEP requested to establish a
11 cost-based capacity mechanism, correct?

12 A. We testified in 10-2929 docket on
13 determining a capacity rate to charge to alternative
14 energy suppliers.

15 Q. And in that case Columbus Southern Power
16 Company and Ohio Power Company requested that they be
17 permitted to recover from alternative energy -- let
18 me state that differently.

19 In that case Columbus Southern Power
20 Company and Ohio Power Company requested authority to
21 establish a cost-based capacity mechanism, correct?

22 MR. SATTERWHITE: Objection, your Honor.
23 Now we're getting into matters beyond the two audit
24 periods.

25 MR. OLIKER: Your Honor, I'm about to

1 establish the capacity mechanism was based upon the
2 2010 FERC Form 1 and included the Lawrenceburg and
3 OVEC generating units.

4 MR. SATTERWHITE: He's trying to apply
5 this to cases and decisions that came after the two
6 audit periods in something that's completely
7 unrelated to the review of this fuel adjustment
8 clause in these two periods. It's inappropriate.
9 It's going to expand the whole scope of this entire
10 case.

11 MR. OLIKER: Your Honor, what I will
12 demonstrate through my cross-examination is that
13 AEP Ohio is already receiving sufficient compensation
14 for its purchased power contracts and its base
15 generation rates and is double recovering them from
16 the FAC.

17 MR. SATTERWHITE: I'm going to point out
18 in that testimony and point out, your Honor, as
19 you're well aware in the decision that came out last
20 week, this is a pending matter in another case before
21 the Commission and I don't want to be fighting 50
22 fronts on something where I think it's inappropriate.

23 This is a simple review of a fuel
24 adjustment clause from 2010 and 2011 and it would be
25 inappropriate to expand it and get into matters that

1 occurred after the fact.

2 MR. OLIKER: Your Honor, I'm really happy
3 he mentioned the Commission decision because, first,
4 if you look at the concurrence of the two
5 Commissioners, they highlighted this issue and said
6 that it needs to be reviewed in a fuel adjustment
7 clause case and as well as the majority opinion which
8 said that the CBP case was not the correct forum
9 which implicitly adopted the concurrence saying that
10 it should be reviewed in a fuel adjustment clause
11 case. That's where we are.

12 MR. SATTERWHITE: And if I may, your
13 Honor, it's the time period here. I can argue that
14 it shouldn't even be in later FAC but that's not an
15 issue your Honor has to decide today, this is a
16 2010-2011 prior to all the decisions counsel for IEU
17 is talking about and it really inappropriately
18 expands the scope of this FAC and causes us to reopen
19 everything that occurred in the capacity case and
20 everything else and review everything now that we
21 have actual numbers.

22 I mean, we talked about the possibility
23 of having rebuttal. If we're going to open this up,
24 get ready for a couple weeks of rebuttal because
25 we're going to have a capacity case here.

1 MR. OLIKER: Your Honor, the length of
2 rebuttal is not a reason for diminishing the hearing
3 on direct -- cross-examination, they're free to put
4 on rebuttal if they so choose.

5 MR. SATTERWHITE: It was the point, your
6 Honor -- I'm sorry, I didn't mean to cut you off.

7 MR. OLIKER: They claimed in that case
8 that their ESP 1 rates provided \$355 a megawatt-day.
9 That was based on their 2010 FERC Form 1 which
10 included the Lawrenceburg and OVEC generating units.

11 MR. SATTERWHITE: Your Honor, we're
12 talking about the world in 2012 where something was
13 established about what we're going to do going
14 forward, this case is about 2010 and 2011.

15 MR. OLIKER: The order today has nothing
16 to do with it. And, your Honor, this is specifically
17 based on 2010 and '11 base generation rates that I
18 will refer to, I'm not going to get into anything
19 about 2012.

20 EXAMINER PARROT: Anything else on this?

21 MR. SATTERWHITE: I would just reiterate
22 I think we're entering into an area that's brand-new
23 after this case and decisions and Commission focus
24 changing the entire environment after the fact and
25 this is supposed to be a simple fuel adjustment

1 clause audit.

2 EXAMINER PARROT: I think I'd like to
3 take just a five-minute recess and ponder this one.

4 MR. SATTERWHITE: Okay.

5 EXAMINER PARROT: Let's go off the
6 record. We will reconvene in five to ten minutes.

7 MR. SATTERWHITE: Thank you.

8 (Recess taken.)

9 EXAMINER PARROT: Let's go back on the
10 record.

11 I'm going to sustain the objection to the
12 question that's pending. We'll see where you go from
13 here, Mr. Olikar.

14 MR. OLICKER: Your Honor, what is the
15 pending question, I'm sorry?

16 EXAMINER PARROT: That's what I had to
17 see too. You were asking the witness regarding his
18 familiarity with the capacity case 10-2929.

19 MR. OLICKER: I apologize. Can I
20 understand what exactly you're sustaining that I
21 cannot ask questions about --

22 EXAMINER PARROT: I think the direction
23 you were headed I believe is outside the scope of the
24 current proceedings and that's the basis.

25 MR. OLICKER: Your Honor, if that is the

1 case I'll be making an extensive proffer and this
2 will be an issue for briefing and we're going to do
3 this anyway, but --

4 EXAMINER PARROT: I think, Mr. Olier, if
5 this helps, you know, if you want to ask the
6 questions, ask questions to the witness regarding
7 what, if anything, was done in the audit to address
8 this issue in the current audits in 2010 and '11, you
9 may do that, but we do need to limit the scope of
10 things here to the audits that are under review in
11 these proceedings.

12 MR. OLIER: Your Honor, I appreciate
13 that. The difficulty is that the information that
14 was in the witness's possession did not occur until
15 after he completed the audit and that's why we're
16 reverse on this issue, is because he didn't make the
17 recommendation. And I think if he had the
18 information in his possession at the time he would
19 have.

20 MR. SATTERWHITE: If I may respond to
21 that, your Honor, because it seems like we're
22 testifying now so I'll put my two cents in, I think
23 he makes the exact point that we're talking about
24 something that occurred in 2012 going forward.

25 MR. OLIER: It's not though, it's

1 relating to ESP 1 rates that were in effect during
2 this defined audit period, it's the base generation
3 rates what they recovered.

4 MR. SATTERWHITE: Also, IEU could have
5 filed testimony on this if they believed that.

6 EXAMINER PARROT: Again, I'm going to cut
7 you off at this point. I made my ruling, we're
8 limiting things to the audits that were completed as
9 things stood at the time. If you want to ask
10 questions to the witness if this was an issue he
11 considered during those audits, you may do that, but
12 that's the extent of those things now. If you need
13 to make your proffer, please do that.

14 MR. OLIKER: I do, your Honor. At this
15 time I would like to mark several exhibits.

16 MR. SATTERWHITE: Could I make a
17 suggestion, Joe?

18 MR. OLIKER: Yeah.

19 MR. SATTERWHITE: Do you want to move
20 your prior exhibits so we can get those in.

21 MR. OLIKER: That's unusual but --

22 MR. SATTERWHITE: I was just making a
23 suggestion so we can figure out what was part of the
24 proffer. Go ahead, I apologize.

25 EXAMINER PARROT: Let's make that clear

1 when we get to the end of the proffer, we can state
2 that at that point.

3 MR. OLIKER: I would like to mark for
4 identification the excerpted portions of the
5 testimony of Kelly Pearce as IEU-Ohio Exhibit No. 7.

6 EXAMINER PARROT: So marked.

7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 MR. OLIKER: Case No. 10-2929-EL-UNC.
9 Would you prefer I give them to you and the court
10 reporter, your Honor?

11 EXAMINER PARROT: Please. I'll mark
12 them.

13 MR. OLIKER: I'll mark them all and then
14 I can explain why they're relevant and should be
15 admitted. We'll go down the list.

16 I would mark as IEU-Ohio Exhibit No. 8, I
17 would like to mark AEP Ohio's 2010 -- or, let me
18 scratch that. As IEU Ohio Exhibit No. 8 I would like
19 to mark Ohio Power Company's 2010 FERC Form 1.

20 EXAMINER PARROT: So marked.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 MR. OLIKER: These are excerpted copies.
23 And as IEU-Ohio Exhibit No. 9 I would
24 like to mark Columbus Southern Power Company's 2010
25 FERC form 1.

1 I would also like to mark as IEU-Ohio
2 Exhibit No. 10, I believe we're on, the rebuttal
3 testimony, these are excerpted portions of William
4 Allen on behalf of Ohio Power Company in Case No.
5 10-2929-EL-UNC.

6 And I would also like to mark as IEU-Ohio
7 Exhibit 11 transcript Volume III from Case No.
8 10-2929-EL-UNC, and these are excerpted pages 635
9 through 637.

10 I may have just one more, your Honor.
11 For completeness of the record I would like to mark
12 as IEU-Ohio Exhibit No. 12 excerpts of the direct
13 testimony of Jonathan Lesser on behalf of FirstEnergy
14 Solutions in Case No. 10-2929-EL-UNC.

15 EXAMINER PARROT: All right. The
16 exhibits are so marked.

17 (EXHIBITS MARKED FOR IDENTIFICATION.)

18 MR. OLIKER: I'll now go through each one
19 and explain why the proffer should be accepted.
20 Looking at what has been marked as IEU Ohio Exhibit
21 7, which are the excerpted portions of Dr. Pearce's
22 testimony, Exhibits KDP-3 and KDP-4 show how AEP Ohio
23 calculated its cost of capacity, specifically it
24 contained an annual production fixed cost quantity
25 that was used to determine a megawatt-day capacity

1 rate.

2 That number was derived by adding up
3 several elements that are contained throughout KDP-3
4 for Columbus Southern Power Company, specifically it
5 included from KDP-3 page 4, line 2, containing
6 operation and maintenance expense of \$217 million.
7 That number was determined from page 14 which
8 contained a demand charge and on line 11 purchased
9 power of \$106 million was reflected in that number.

10 And embedded within the \$106 million of
11 purchased power for Columbus Southern Power were
12 demand charges for Lawrenceburg and the Ohio Valley
13 Electric Corporation as reflected on Columbus
14 Southern Power Company's FERC Form 1 from 2010, and
15 you can see that by looking at what has been marked
16 as IEU-Ohio Exhibit No. 8. The excerpt contained
17 there is limited to purchased power on line 1 of page
18 326, reflects a charge from AEP Generating, the total
19 from AEP Generating is contained on line 1 of page
20 327 of \$60 million in demand charges which ties
21 directly to the amounts that were -- it's the same
22 quantity that was flowed through the FAC in 2010 as
23 reflected on IEU-Ohio Exhibit No. 1 and 2.

24 And looking at page 326.3 of what has
25 been marked as IEU-Ohio Exhibit No. 8, line 2 says

1 "OVEC power scheduling" which is identified on page
2 327.2 -- I'm sorry, 327.3 of \$13 million,
3 \$13.2 million for demand charges from OVEC for
4 Columbus Southern Power Company which also ties back
5 to IEU-Ohio Exhibit No. 2 and IEU-Ohio Exhibit No. 5.

6 Moving on to what's been proffered as
7 IEU-Ohio Exhibit No. 9 -- your Honor, I apologize.
8 Does your record reflect that Exhibit No. 8 is Ohio
9 Power Company's FERC Form 1 or Columbus Southern
10 Power Company?

11 EXAMINER PARROT: Exhibit 8 is Ohio Power
12 Company.

13 MR. OLIKER: I believe that the -- let
14 the record reflect that my previous -- when I
15 previously referred to the FERC Form 1 of
16 Columbus Southern Power Company I was referring to
17 what has been marked as IEU-Ohio Exhibit No. 9
18 instead of Exhibit No. 8.

19 Turning back to Exhibit No. 7, KDP-4
20 contains a similar calculation of a capacity charge
21 as for Ohio Power Company as Columbus Southern Power
22 Company and embedded in that charge is a demand
23 charge for OVEC, and looking at what's been marked as
24 Exhibit No. 8 it contains Ohio Power Company's FERC
25 Form 1, the demand charge for OVEC is taken

1 specifically from the FERC Form 1, it is embedded
2 with the total number that's contained for purchased
3 power in KDP-4.

4 And looking at what has been marked as
5 IEU-Ohio Exhibit No. 10 is the rebuttal testimony of
6 William Allen. On page 19 Mr. Allen refers to
7 statements made by Jonathan Lesser that AEP Ohio's
8 base generation rates contain less than \$355 a
9 megawatt-day according to ESP 1 rates.

10 And slowly we can take a look at that,
11 what has been marked at IEU-Ohio Exhibit No. 12
12 specifically on page 20 it states Table 1 compares
13 BGR, base generation rates, under ESP 1 which is
14 currently in effect in AEP Ohio's embedded capacity
15 and ancillary services costs.

16 Mr. Allen on page 19 and page 20 is
17 responding to that allegation and provides a table
18 that claims base generation rates in effect at the
19 time during ESP 1 provide AEP with capacity equal to
20 \$355 a megawatt-day.

21 And if you look at Exhibit 11, which is
22 the transcript from the hearing in Case No. 10-2929,
23 there's a question and answer from Mr. Allen,
24 involving Mr. Allen, and he responds on line 20, "So
25 to answer your first question on the level of

1 revenues that AEP should receive, you know, we've
2 talked about the 355 a megawatt-day price and
3 questions have come out through the hearing to talk
4 about the SSO rates.

5 "If you do a comparison of our SSO rates
6 to the capacity rates, we've talked about they are
7 close."

8 And the Commission confirms that on page
9 25 of the opinion and order in the capacity case
10 saying that AEP Ohio contends its proposed cost-based
11 capacity pricing roughly approximates and is
12 therefore comparable to the amount the company
13 receives from its SSO customers for capacity through
14 base generation rates.

15 MR. SATTERWHITE: I'm sorry, Joe, you
16 weren't reading from that, there you were reading
17 from something else.

18 MR. OLIKER: That's from the opinion and
19 order in the capacity case.

20 MR. SATTERWHITE: Okay.

21 MR. OLIKER: So to tie all this together,
22 the testimony of AEP's witnesses identified in these
23 exhibits that have been proffered shows that during
24 2010 and 2011 AEP received compensation for all of
25 its capacity, including its purchased power

1 contracts -- scratch that.

2 AEP requested \$355 a megawatt-day for all
3 of its capacity including its purchased power
4 contracts based upon its 2010 FERC Form 1 rates, and
5 AEP claimed it deserved that 355 a megawatt-day
6 because its base generation rates in effect at the
7 time during ESP 1 provided adequate compensation to
8 achieve 355 a megawatt-day.

9 And that is relevant to this proceeding
10 because we're in a 2010-2011 fuel case which shows
11 that at the time AEP received sufficient compensation
12 in its base generation rates that it didn't need to
13 recover OVEC and Lawrenceburg demand charges through
14 the fuel adjustment clause. And the Commission
15 should consider that double recovery in this
16 proceeding.

17 EXAMINER PARROT: Does that conclude your
18 proffer?

19 MR. OLIKER: I believe it does, your
20 Honor.

21 I would like to ask a few follow-up
22 questions of the witness but only about what he did
23 or did not consider at the time of the audit report.

24 EXAMINER PARROT: All right. But to
25 answer my prior question, does that conclude your

1 proffer?

2 MR. OLIKER: It does, your Honor.

3 EXAMINER PARROT: All right. If you have
4 other questions for the witness, please proceed.

5 Q. (By Mr. Oliker) Mr. Smith, you completed
6 the audit of the 2010 fuel adjustment clause in
7 spring of 2011, right?

8 A. 2010 was concluded, the audit report is
9 dated May 26th, 2011, so the actual work was done a
10 bit before that.

11 Q. And for 2011 when was that audit report
12 completed?

13 A. The 2011 audit report is dated
14 May 24th, 2012, most of the work was done prior to
15 that date.

16 Q. And if you remember, you testified in the
17 capacity case after you had completed most of the
18 work for the 2011 audit report, correct?

19 MR. SATTERWHITE: Objection. His
20 testimony in the capacity case is irrelevant, again,
21 to this audit period.

22 MR. OLIKER: Your Honor, I'm just trying
23 to peg down what he considered and when he considered
24 it.

25 EXAMINER PARROT: I'll allow that

1 question.

2 A. I don't recall exactly when the hearing
3 was. I think it was after the audit report was
4 filed. I looked up in our file and it looks like the
5 initial direct testimony was filed on April 17th,
6 2012, in the 10-2929 capacity rate case.

7 Q. So that's pretty close to when you
8 submitted the final audit report, right? When the
9 testimony was filed.

10 A. Pretty close in time, yes.

11 Q. So am I correct that you did not
12 consider, in drafting a recommendation in this case,
13 any of the issues in the capacity case?

14 A. In drafting the two respective fuel audit
15 reports we were not aware of and didn't make the
16 connection to some of the recent information that's
17 been brought out concerning that there may be a
18 double recovery of some of these purchased power
19 capacity costs.

20 We were aware that they were being
21 recovered through the FAC rates. We were not aware
22 of or didn't make the connection that those same
23 costs may have been recovered somewhere else.

24 Q. Okay. Now, I'm just going to ask you a
25 hypothetical: If AEP Ohio received adequate

1 compensation in its base generation rates to fully
2 compensate it for all of its costs for capacity
3 including its purchased power contracts with
4 Lawrenceburg and OVEC, would you agree that the
5 Commission should disallow recovery of those costs
6 for the demand portion of those contracts in the fuel
7 adjustment clause case?

8 MR. SATTERWHITE: Objection, your Honor.
9 It's clearly a hypothetical to circumvent your
10 Honor's ruling about this issue that's gone forward
11 in other cases in a future period for decisions made
12 after these fuel adjustment periods. These facts
13 didn't exist at the time and he's simply trying to
14 circumvent the ruling.

15 MR. OLIKER: Your Honor, I'm asking if
16 facts existed at the time, if ESP 1 rates provided
17 sufficient compensation for all of their capacity
18 costs, whether or not they should also be allowed in
19 the fuel adjustment clause. It's related to this
20 defined time period. It's hypothetical.

21 EXAMINER PARROT: I understand that,
22 Mr. Oliker, but again, I want to limit the scope of
23 the proceedings to the audit report that has been
24 completed by the auditors, so if you have questions
25 related to that, please put them to the witness.

1 I'll sustain the objection.

2 MR. SATTERWHITE: Thank you.

3 Q. (By Mr. Olikar) As counsel for AEP
4 mentions, you completed this review specifically
5 related to the 2010 and 2011 audit period. If you
6 had known, if you had believed base generation rates
7 during 2010 and 2011 fully compensated AEP for all of
8 its capacity costs, would you have also recommended
9 that AEP be permitted to recover them in the fuel
10 adjustment clause?

11 MR. SATTERWHITE: Same objection, your
12 Honor, it's just trying to ask the same question
13 different ways.

14 MR. OLIKER: It's related to the audit
15 period, though.

16 EXAMINER PARROT: Sustained.

17 Q. Mr. Smith, you mentioned that at the time
18 you performed your audit you were not aware of the
19 possible relationship with the capacity case. If you
20 had known what you know now, would you have liked to
21 review whether or not AEP's base generation rates
22 fully compensated it for its cost of capacity?

23 MR. SATTERWHITE: Your Honor, I'll object
24 again. We're asking the witness to accept things
25 that happened subsequent to the two audit periods and

1 then retroactively apply that to a time period that
2 didn't exist and we keep going down that same line.

3 EXAMINER PARROT: I agree,
4 Mr. Satterwhite. Sustained.

5 MR. OLIKER: Can I have a moment, your
6 Honor?

7 EXAMINER PARROT: You may.

8 Q. Generally speaking, Mr. Smith, would you
9 agree that one of the things that you look for when
10 you're doing an audit is whether the company double
11 recovers costs?

12 A. I think if we're aware of a situation
13 where there could be a double cost recovery, we would
14 certainly look at that and investigate it.

15 Q. And if information came to your attention
16 after you had completed your review, would it be your
17 recommendation to potentially leave that issue open
18 for a future audit report?

19 MR. SATTERWHITE: Objection, your Honor.
20 Again, we're trying to bolster the proffer.

21 MR. OLIKER: It's a hypothetical, your
22 Honor.

23 EXAMINER PARROT: I'll allow the
24 question.

25 A. I think if there's an issue of a double

1 count such as we seem to have here, it seems like
2 that issue may deserve some further investigation.

3 Q. So would you recommend that the
4 Commission, and I think you just said this, that the
5 Commission direct a future auditor to look at an
6 issue if you didn't have time to give it the
7 attention you would have liked?

8 MR. SATTERWHITE: Objection, your Honor.
9 Now he's assuming facts that he didn't have time to
10 get in, that's not what's been established here
11 today. What's been established today is that
12 something happened after the fact.

13 EXAMINER PARROT: Can you reword your
14 question?

15 MR. OLIKER: Can I hear the way I worded
16 it the first time?

17 (Record read.)

18 Q. So, put differently, if facts come to
19 your attention about an issue after you completed
20 your review, the Commission should potentially direct
21 a future auditor to look at that issue in the next
22 audit report.

23 A. I think I would agree with that, and I am
24 aware of the statement to that effect in the current
25 opinion, the order that was just released last week.

1 That seems like an appropriate way of dealing with
2 it; direct a future auditor to review it in a
3 subsequent round of FAC audits.

4 MR. SATTERWHITE: Your Honor, I'll move
5 to strike the answer. I think the witness now has
6 gone beyond your Honor's ruling. Specifically we're
7 talking about the order from the other day not
8 impacting this case and sticking to the period in
9 this case. Now the witness is making determinations
10 about what is meant by Commissioners' statements in a
11 concurring opinion and assigning it to this audit,
12 which is inappropriate.

13 MR. OLIKER: Your Honor, we're free to
14 make arguments on brief what the Commission meant in
15 that order but I don't think we can decide that now.

16 EXAMINER PARROT: I'm going to deny the
17 motion to strike.

18 Do you have any further questions?

19 MR. OLIKER: Mr. Smith, that's all the
20 questions I have. Thank you so much.

21 THE WITNESS: You're welcome.

22 MR. OLIKER: Your Honor, no more
23 questions.

24 EXAMINER PARROT: OCC?

25 MR. ETTER: No questions, your Honor.

1 EXAMINER PARROT: Duke?

2 MR. D'ASCENZO: No questions your Honor.

3 EXAMINER PARROT: AEP?

4 MR. SATTERWHITE: May I take one second,
5 your Honor --

6 EXAMINER PARROT: You may.

7 MR. SATTERWHITE: -- to rearrange.

8 All right, your Honor, I'll try to cobble
9 this together.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Satterwhite:

13 Q. Good after -- early afternoon I guess.
14 How you doing, Mr. Smith.

15 Are you aware if AEP Ohio's base
16 generation rates in 2010 or 2011 were cost-based
17 rates?

18 A. I know we had a bunch of discussions with
19 the staff about that and I think at some point in the
20 past they were probably based on costs but then there
21 were various adjustments made to them, so I'm not
22 sure by the time you got to 2010 or 2011, I think it
23 was somewhat less than totally clear exactly what
24 costs they were based on.

25 Q. So as an auditor you couldn't trace it

1 back and say they were cost-based rates, correct?

2 MR. OLIKER: Your Honor, I object. If
3 I'm not going to be allowed to cross the witness on
4 this, why should counsel for AEP Ohio be able to
5 bolster their case?

6 MR. SATTERWHITE: Your Honor, I'm asking
7 about the rates that were in effect at the time.

8 EXAMINER PARROT: Overruled. Yeah, I
9 don't quite see the tie-in just yet. If we get to
10 that point, Mr. Olikier, please raise your objection
11 at that point.

12 A. I think at, like I said, at some point
13 they were cost based but then they went through a
14 number of adjustments and I think there was a cap
15 that was applied that affected the FAC rates in
16 particular. So by the time of the 2010 and 2011 FAC
17 audits it was pretty hard to determine exactly what
18 costs were being recovered in the base generation
19 rates. That's my understanding.

20 Q. Okay. Now, the accounts that were
21 reflected on some of the IEU exhibits, 2 and 4, the
22 monthly reports, do you have those in front of you
23 still?

24 A. Two and 4?

25 Q. Yeah. Those are the documents that had

1 all the really small numbers.

2 A. I still have those.

3 Q. Now, the accounts that are referenced on
4 here that you reviewed as part of the FAC, those are
5 included in the FAC as a result of Phil Nelson's
6 testimony that the Commission adopted in the ESP 1,
7 correct?

8 MR. OLIKER: Objection. Lack of
9 foundation.

10 MR. SATTERWHITE: I'm asking if that's
11 correct.

12 EXAMINER PARROT: Overruled.

13 A. I don't recall the exact connection or
14 whether there even is one to Mr. Nelson's testimony
15 in that case. I do know that when the FAC was
16 approved, it did envision including certain accounts
17 and the 555 account was one of the accounts that was
18 appropriately to be included in the FAC.

19 Q. Would it be helpful to refresh your
20 recollection to look at Mr. Nelson's testimony in
21 that case to see if those are the accounts?

22 A. Possibly.

23 MR. SATTERWHITE: Your Honor, may I
24 approach?

25 EXAMINER PARROT: You may.

1 Q. You don't have to read it out loud or
2 anything, I just want to refresh your recollection.

3 MR. OLIKER: Your Honor, at this point I
4 would object as he hasn't even demonstrated the
5 witness has ever seen this testimony.

6 EXAMINER PARROT: Response to the
7 objection?

8 MR. SATTERWHITE: Your Honor, this is the
9 auditor that audited the financials of the FAC in
10 this case. The Commission order speaks for itself
11 that it adopts this testimony and I think it's
12 appropriate to ask the financial auditor what the
13 basis is of the accounts that went into the financial
14 audit that he reviewed.

15 MR. OLIKER: Before he can do that he has
16 to show he has seen the testimony before there can be
17 any foundation for it to be admitted in this
18 proceeding. Otherwise there's no memory to refresh.

19 MR. SATTERWHITE: Your Honor, in the
20 beginning of the audit report he said he reviewed
21 this case. If he's never seen this testimony before
22 and he wants to say that he doesn't know the basis of
23 what he audited, he can say that and that will give
24 me all I need.

25 EXAMINER PARROT: Overruled.

1 A. We also did the 2009 audit and I think,
2 because that was the first one, one of the things we
3 wanted to be clear on at that point --

4 Q. I'm sorry, let me cut you off because all
5 I was asking was I was giving you something to
6 refresh your recollection of whether the accounts
7 that you reviewed were part of Mr. Nelson's testimony
8 that the Commission had approved.

9 MR. McNAMEE: And now I object because he
10 cut the witness off.

11 MR. SATTERWHITE: I was just trying to
12 get back to the question as asked, your Honor. I was
13 refreshing his recollection he started to give an
14 answer before.

15 EXAMINER PARROT: I'm not sure if he was
16 maybe responding to your question and I think maybe
17 we jumped in a little soon.

18 MR. SATTERWHITE: I apologize.

19 A. Yeah, I was responding to your question.
20 I know because the 2009 audit was the first one and
21 we paid very careful attention in conjunction with
22 that audit as to which accounts were being included
23 in the FAC, and if I had reviewed Mr. Nelson's
24 testimony, it would have been in conjunction with
25 reviewing the order setting up the FAC and the

1 accounts that were to be included which were starting
2 with the 2009 audit.

3 So I don't think for the 2010 or '11 that
4 I went back through our files and reread Mr. Nelson's
5 testimony, but the accounts that are included in the
6 FAC were basically the same for 2009, '10, and '11,
7 so I mean we did at some point look at the accounts
8 and the specifications for the accounts that were
9 properly determined to be included in the FAC.

10 Q. (By Mr. Satterwhite) And how did you
11 determine what accounts were properly included in the
12 FAC?

13 A. By a number of ways. I think we reviewed
14 the order, first of all, and then we went back into
15 some of the additional detail possibly including
16 Mr. Nelson's testimony that specified these accounts.

17 Q. But you don't remember, and as you do new
18 audits -- let me strike that so it's just one
19 question.

20 You don't remember the exact document you
21 looked at to determine what accounts go into the FAC
22 review, correct?

23 A. Well, we looked at the monthly workbooks
24 each month. This is in conjunction with the 2010 and
25 '11 audits. If we noticed any changes in accounts

1 from the prior year, which we also had done, we would
2 have questioned that; why did this account drop out
3 or why is this new account included.

4 But I think our initial review of the
5 accounts that were included -- to be included in the
6 FAC was done in conjunction with the 2009 audit, and
7 then from that point forward we reviewed did this
8 account drop out? Why? Is a new account included?
9 Why? Give us an explanation, that sort of thing.

10 Q. That's fair. So it's okay -- I'm trying
11 to ask how you decided whenever you set this up,
12 you're saying you relied on 2009 and just carried
13 that through to 2010. So for the 2009 audit when you
14 had to figure out what accounts you're going to
15 review and what's supposed to be in those accounts,
16 that's when you would have reviewed the Commission
17 order, correct?

18 A. Correct.

19 Q. And any testimony supporting that
20 Commission order that the Commission might have
21 referenced in their order, correct?

22 A. The testimony referenced in the order
23 that had further details on the particular accounts
24 would have been looked at at that point in time.

25 Q. Okay. Thank you.

1 MR. SATTERWHITE: Your Honor, I'd like to
2 mark the direct testimony of Philip Nelson from
3 08-917 as a cross-examination exhibit. I believe
4 this will be AEP Exhibit No. 1.

5 EXAMINER PARROT: So marked.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 MR. McNAMEE: What was it marked?

8 MR. SATTERWHITE: AEP Exhibit No. 1.

9 MR. McNAMEE: Okay.

10 MR. OLIKER: I actually brought a copy
11 with me.

12 MR. SATTERWHITE: Okay.

13 MR. OLIKER: So you can have my extra, if
14 you want it.

15 MR. SATTERWHITE: Thank you.

16 Q. (By Mr. Satterwhite) Mr. Smith, you
17 testified that you reviewed the Commission order and
18 likely any testimony cited in the Commission order or
19 supporting the Commission order, correct?

20 A. Correct.

21 Q. Can you turn to page 5 of this testimony
22 and tell me if the accounts included in this
23 testimony are consistent with what you reviewed as
24 part of the FAC for the 2010 and 2011.

25 MR. OLIKER: Object. He still has not

1 established that he's reviewed this testimony.

2 MR. SATTERWHITE: Your Honor, he
3 established that he reviewed testimony in support.
4 This is testimony from this case and I'm trying to
5 see if the information in here is consistent with
6 what he's reviewed as an auditor.

7 EXAMINER PARROT: Overruled.

8 A. Account 501, fuel, is in the FAC, that's
9 been reviewed. Account 502, steam expense from
10 environmental subaccounts, is included in the FAC as
11 well. Account 509, allowances, is included in the
12 FAC. Neither Columbus Southern nor Ohio Power have
13 nuclear fuel expenses so there's no cost for that
14 included in the FAC.

15 547, other fuel expense, is includable in
16 the FAC. I'm not sure if either company had actual
17 dollars in that account.

18 Purchased power including both energy and
19 demand and capacity charges is included in the FAC,
20 and the PJM ancillary services recorded in account
21 555 are not included in the FAC but are included for
22 recovery somewhere else.

23 Q. And just to be clear what you're
24 referring to right there is stated, your
25 understanding is it's the same as what's written

1 here, correct?

2 A. Yes, I'm comparing the account
3 descriptions in Mr. Nelson's testimony with the list
4 of accounts that's included in the FAC.

5 Q. Correct. Because when you say something
6 is not included, I want to make sure it's clear that
7 Mr. Nelson is also including that in his statement
8 and you're not saying that there's something here
9 that's inconsistent with what's included in the FAC,
10 right?

11 A. Right. Mr. Nelson's description of 555,
12 purchased power, indicated that what is included --
13 what is included in the FAC is both energy and demand
14 or capacity charges.

15 Q. Okay.

16 A. And what is not included in the FAC are
17 the PJM ancillary services costs.

18 Q. Thank you.

19 A. Account 507 will be includable and it
20 says the demand charge for a CAP purchase under FERC
21 unit power of sale contract is recorded in 507. I
22 don't see any costs in 507 but that may be because
23 the printing is so small and I'm having a bit of
24 trouble reading that.

25 Q. Understood. And if it helps all I'm

1 looking for is the structure of the FAC. Don't need
2 you to cross-reference with the small numbers, I
3 wouldn't force you to do that. I'm looking to see
4 the structure.

5 A. 555, other power expenses, would be
6 includable, and for 11.8 and for 11.9 gains or losses
7 from the disposition of emission allowances would be
8 includable.

9 There's kind of a generalized category
10 then on the bottom of page 7 including, for example,
11 a carbon tax; to my knowledge no carbon tax has been
12 included in the FAC.

13 I think that completes the account
14 descriptions.

15 Q. Does that help refresh your recollection
16 as well of what the Commission adopted in its order
17 that you first relied on in 2009 and then flowed
18 through in 2010 and '11 of the basis that you relied
19 on?

20 A. It does help refresh my recollection.
21 And, again, I think the understanding was that the
22 FAC would recover certain costs, but the FAC was not
23 knowingly set up to produce a double recovery I don't
24 believe of any of these costs.

25 MR. SATTERWHITE: Objection, your Honor,

1 I move to strike. He's giving an answer to what I
2 wasn't -- I'm asking a question of what the
3 parameters of the FAC were set up in the FAC.

4 MR. OLIKER: Your Honor, he was just
5 clarifying his answer.

6 EXAMINER PARROT: I'll allow the answer
7 to stand.

8 Q. Mr. Smith, there's two auditors today for
9 the financial part of the audit report, correct?

10 A. Yes.

11 Q. Appearing.

12 What's the relationship between the two
13 of you as far as equals, superior-subordinate?

14 A. I guess I'm probably the supervisor and
15 Mr. Dady's a knowledgeable auditor and he was
16 involved in additional levels of detail review for
17 this particular audit, so that's why I'm taking first
18 stab at answering questions and if they get into one
19 of the areas that he looked at in detail that people
20 want to ask him about detail, then hopefully he'll be
21 able to answer those more detailed questions.

22 Q. Is it fair to say that the
23 recommendations would have come through you as far as
24 whether a recommendation made the report or didn't
25 make the report?

1 A. No. I think the recommendations are
2 based on our firm's recommendations, at least for the
3 financial part, Larkin & Associates. Everybody on
4 the audit team had input in discussions and just
5 asking if somebody had the final say, it was probably
6 me. But it was really a work of the team that we
7 used to do the audit.

8 Q. So it's a collaborative approach but
9 you're the head of the collaboration, essentially; is
10 that fair to say?

11 A. That would be fair, yes.

12 Q. And you followed the same processes to
13 audit both you and the other auditor, correct?

14 A. It was an integrated effort.

15 Q. And what's the relationship with
16 Ms. Medine and your firm?

17 A. Ms. Medine was heading up the management
18 performance part of the audit. The relationship of
19 our firm to EVA on these particular audits were that
20 we were a subcontractor to Energy Ventures Analysis.

21 Q. And the recommendations you made, is
22 there a -- is Ms. Medine's firm sort of the auditor
23 that's employed by staff and then your
24 recommendations go through that auditor before they
25 make it into the report?

1 A. As I understand it, the contract, which I
2 think is actually between AEP Ohio and Energy
3 Ventures, and Ms. Medine may be able to talk more
4 about that if you need to get into it, but we're a
5 subcontractor to EVA, but the financial portion of
6 the audit was basically done under our supervision
7 and there was a lot of interaction and collaboration
8 back and forth between Ms. Medine's group and our
9 group, but the financial audit recommendations I
10 think are basically ours.

11 I'm sure that they looked at them before
12 the report draft was issued and we've looked at
13 theirs, but, you know, the responsibility for the
14 management performance-related findings and
15 recommendations would be Ms. Medine's and the
16 responsibility for the financial audit findings and
17 recommendations would be ours.

18 Q. That's the core of my question. The
19 management auditor doesn't really edit for content
20 and tell you that you need to change your
21 recommendation. It's your responsibility for the
22 financial recommendations, correct?

23 A. It's our responsibility for the financial
24 recommendations. There may have been some, you know,
25 editing suggestions going back and forth both ways

1 basically to try to make sure that things are
2 factually accurate and are clearly responsible.

3 Q. Fair enough. I'd like you to open up
4 either audit report you have up there in front of you
5 to page 7-3. So for purposes of the record it's
6 Staff Exhibit 1 or 2. Just so I'm in the right one,
7 identify which one you've opened and audit year,
8 please.

9 A. I have the page for the 2011 report.

10 Q. I grabbed the other one so let me grab
11 the same thing just so I'm in the right one with you.

12 Can you identify what that is, that page?

13 A. Yes, this is the certificate of
14 accountability.

15 Q. Is this another one of your
16 responsibilities, to certify the accountability on
17 behalf of Larkin & Associates?

18 A. Yeah. Again, this is a firm signing -- a
19 firm-signed letter.

20 Q. Represented -- I'm sorry, I didn't mean
21 to cut you off. Go ahead.

22 You are the representative for the firm
23 and you mentioned earlier this is a chapter that you
24 would be sponsoring so this is your letter's firm
25 [verbatim] certifying the authenticity of the audit

1 report, correct?

2 A. Correct.

3 Q. And I notice in the letter you mention
4 your reliance upon Chapter 4901:1-11. Do you see
5 that?

6 A. Yes.

7 Q. And that's an Administrative Code section
8 that was repealed in 2003, I believe, correct?

9 A. It was repealed, but it's still very
10 useful as guidance for conducting fuel audits. It
11 provides kind of like a base for guidelines of items
12 that should be reviewed.

13 Q. That's fair. So when you go into the
14 audit, you still use the repealed section of the
15 Administrative Code sort of to see the areas you
16 should look at when doing a fuel adjustment clause
17 audit, correct?

18 A. We definitely look at that section of the
19 former -- the former section of the Code to develop
20 our audit plan and definitely use that for guidance
21 as to areas that should be reviewed.

22 Q. In the last sentence of the first
23 paragraph you say "Our examination does not provide a
24 legal determination of AEP Ohio's compliance with
25 specific requirements." Do you see that?

1 A. Yes.

2 Q. So are you saying that you leave the
3 determination of compliance with legal requirements
4 with the Commission? Is that what that means?

5 A. We're not attempting to present any
6 legal -- I mean, we're not representing this to be a
7 legal finding, I mean obviously we have to read
8 orders and apply some interpretation to those in
9 order to do the review and analysis, but this chapter
10 of the report is not attempting to present any kind
11 of legal conclusion. That's up to the attorneys and
12 ultimately to the Commission.

13 Q. So you would agree it's up to the
14 Commission who speaks to their orders what the legal
15 finality is of issues, correct?

16 MR. OLIKER: Your Honor, could I have one
17 moment?

18 Matt, I can't understand if you're
19 talking about that portion of the Administrative Code
20 or legal issues in general. I think the record's a
21 little blurry right now.

22 MR. SATTERWHITE: Does the witness not
23 understand? I'm trying to ask in his report, this is
24 his certification, I'm asking him for the report that
25 he does, does he leave it to the Commission and the

1 Commission's orders to make legal determinations.

2 A. We leave it to the Commission to make the
3 ultimate legal determinations.

4 Q. Are you familiar with the Administrative
5 Code rule that does set up the fuel adjustment
6 clause?

7 A. Probably, but if you ask me what code
8 section it is, I probably couldn't tell you right off
9 the top of my head.

10 Q. But it's something you review before you
11 start audits or in 2009 you reviewed for how you were
12 going to review this audit for CSP and OP, correct?

13 A. Right.

14 Q. And how does that Administrative Code
15 rule compare to the repealed Administrative Code
16 section that you use as guidance?

17 A. Without actually taking a look at it it
18 would be hard for me to answer that question.

19 Q. Do you know if it lays out the different
20 things that you should look at as an auditor in
21 multiple sections of the rule?

22 A. From my recollection and understanding is
23 that this former section lays out more detail and
24 that's why that's the source for guidance.

25 Q. And, in fact, the new rule -- maybe I'm

1 being unfair. Hopefully I have it here and I can
2 refresh your recollection. Would it help if I showed
3 you the rule so you could verify if this is the rule
4 that currently governs fuel adjustment clauses?

5 A. Possibly.

6 MR. OLIKER: Matt, are you just using --

7 MR. SATTERWHITE: Just to refresh.

8 MR. OLIKER: Are you also going to show
9 the rest of the rule on fuel adjustment clause and
10 rules for an ESP? I would request that that rule be
11 provided to give a full explanation of the rules
12 pertaining to FACs if he's going to refresh his
13 recollection.

14 MR. SATTERWHITE: Right now I'd just like
15 to ask the witness if this refreshes his recollection
16 as to what he looked at as the auditor reviewing
17 this.

18 EXAMINER PARROT: Proceed.

19 Q. Let me know when you've had time to
20 review what I've put in front of you.

21 A. Okay, I've had a chance to look at it.

22 Q. Really all I'm trying to establish is is
23 it your understanding that 4901:1-35-09 is the basis
24 of the fuel adjustment clause that you're reviewing
25 in this case from an Administrative Code rule point

1 of view.

2 MR. OLIKER: Objection, your Honor.
3 Mischaracterized the law.

4 MR. SATTERWHITE: Your Honor, I'm asking
5 the witness as the auditor if he understands this as
6 the basis.

7 EXAMINER PARROT: Overruled.

8 A. It looks like this is at least one of the
9 current code provisions that would apply to the
10 review of purchased power adjustments.

11 Q. And all I'm trying to do is earlier you
12 mentioned that the current version that authorizes
13 fuel adjustment clauses and the version of
14 Administrative Code rule that was repealed are
15 significantly different. This is significantly --
16 covers less area than the guidance you rely on with
17 the repealed rules, correct?

18 A. Right. This doesn't have the appendix,
19 the former chapter 4901:1-11, that provides the
20 detailed guidance for items that should probably be
21 reviewed.

22 Q. I'd like to go to the recommendations now
23 on page 1-9 of Staff Exhibit 2 which is the 2011
24 audit report. If you can go there for me, I'd
25 appreciate it.

1 A. 1-9 of the 2011 report?

2 Q. Yeah, now that I got you there I'm
3 actually not going to ask that question. Trying to
4 sell that in here.

5 Just to close the loop, when we were
6 talking about the rules that govern the fuel
7 adjustment clause, I believe you stated earlier, and
8 correct me if I'm wrong, that the Commission's order
9 in the ESP 1 would also be a source of what would
10 govern the scope of the fuel adjustment clause audit,
11 correct?

12 A. Could you specify which Commission order
13 because there's talk about --

14 Q. Sure, the Commission issued an order, in
15 fact I think you cite it in your letter, it's in the
16 beginning of the audit report, on page 1-1 of the
17 audit report there's a reference to case numbers
18 08-917 and 918. Do you see that?

19 A. I do see that.

20 Q. And I'm just trying to verify your
21 understanding about the scope of what defines the
22 fuel adjustment clause. You agree that the
23 Commission order in that case set up the fuel
24 adjustment clause in the annual audits, correct?

25 A. I believe that's correct. Yeah. I also

1 noticed that the accounts that are listed here on
2 pages 1-1 and 1-2 that we were talking about earlier.

3 Q. And those are the ones that correspond to
4 Mr. Nelson's testimony that we reviewed, correct?

5 A. Yes.

6 Q. Now, you discussed with Mr. Olier a
7 little bit the allocation of OVEC and Lawrenceburg
8 costs. Do you remember that?

9 A. I do remember it.

10 Q. Are you aware that generation from
11 AEP Ohio's Muskingum River plant is allocated to
12 wholesale sales similar to OVEC and Lawrenceburg?

13 MR. OLIER: Your Honor, object. Lack of
14 foundation.

15 MR. SATTERWHITE: Your Honor, I'm asking
16 if he's aware of how costs are allocated.

17 EXAMINER PARROT: Overruled.

18 A. I'm generally aware of how costs are
19 allocated, and I discussed that earlier.

20 Q. Under a traditional cost-of-service
21 regulation would the nonfuel costs of these units be
22 allocated fully to full requirement customers?

23 MR. McNAMEE: Can I have that question
24 reread, please?

25 (Record read.)

1 MR. McNAMEE: Objection. We haven't done
2 that in Ohio since 2000. Why are we talking about it
3 here?

4 MR. SATTERWHITE: Your Honor, I'm trying
5 to explore this witness's opinions on these issues so
6 I'm trying to see in a cost-of-service environment
7 versus a noncost-of-service environment if we get to
8 that point what his viewpoints would be.

9 MR. OLIKER: And I would also object as
10 the question stands. What are "full requirements
11 customers"?

12 EXAMINER PARROT: The objections are
13 overruled. Let's see where you're headed.

14 MR. SATTERWHITE: Okay.

15 Q. (By Mr. Satterwhite) Do you need the
16 question reread?

17 A. I don't understand the question.

18 Q. Okay. Under traditional cost-of-service
19 regulation there's nonfuel costs of units that are
20 recovered from customers, correct?

21 A. Correct.

22 Q. So under Ohio's current regulatory model
23 would there be any adjustment to base rates from
24 excess energy from a unit like Muskingum?

25 A. I guess I'm -- what do you mean by "the

1 current regulatory model," and is that based on the
2 generation rate case?

3 Q. We established what was -- what would be
4 recovered under a traditional model of rate recovery,
5 what would come from a plant, so I want to take you
6 to the environment we're in now for cost recovery.
7 So you take the Ohio Muskingum River plant that's
8 allocated to wholesale customers. Would that have an
9 impact or would that make an adjustment to base rates
10 for a company like Ohio Power?

11 A. I think I'd need a lot more information
12 to be able to answer that type of question.

13 Q. What information would you need?

14 A. I would probably have to look back at the
15 company's last generation base rate case to see what
16 was included in there, see how particular units were
17 allocated, see if any changes had been made to that
18 over the course of the years, and if you're asking
19 about a particular plant or particular units in a
20 particular plant, it seems like that would require
21 some detailed drill-down and examination to determine
22 whether that's in or out of rates and how it was
23 handled.

24 MR. SATTERWHITE: Let me see if there's
25 anything -- one second, your Honor.

1 Thank you, your Honor, that's all I have.

2 Thank you very much.

3 EXAMINER PARROT: Any redirect?

4 MR. McNAMEE: I doubt it, but if I might
5 have a moment.

6 EXAMINER PARROT: You may.

7 (Off the record.)

8 MR. McNAMEE: I do.

9 EXAMINER PARROT: Very good.

10 - - -

11 REDIRECT EXAMINATION

12 By Mr. McNamee:

13 Q. Mr. Smith, Mr. Satterwhite asked you a
14 question about a repealed rule, a rule that's no
15 longer effective, that you indicated you relied on.
16 Why did you rely on it?

17 A. We rely on it for a few reasons, one
18 being, like I explained with Mr. Satterwhite, that it
19 does provide useful guidance, but beyond that it has
20 a relationship to what the Commission ordered in
21 terms of the fuel audit.

22 The Commission will issue an order saying
23 we want a fuel audit for this period or these periods
24 so it instructs staff to issue an RFP, and when staff
25 issues the RFP, it specifically instructs the auditor

1 to make -- to refer to and use as guidance, subject
2 to the auditor's judgment, the former Chapter
3 4901:1-11 and related appendixes of the Ohio
4 Administrative Code.

5 So Commission issues an order, the order
6 says issue an RFP, the RFP says look at this former
7 rule for guidance in doing your fuel audit.

8 MR. McNAMEE: That's all I have.

9 EXAMINER PARROT: Thank you.

10 Any recross, Ms. Mohler?

11 MS. MOHLER: No.

12 EXAMINER PARROT: Mr. Oliker?

13 MR. OLIKER: I believe I'm limited to
14 staff's questions?

15 EXAMINER PARROT: You are.

16 MR. McNAMEE: Yes.

17 MR. OLIKER: No recross, your Honor.

18 EXAMINER PARROT: Mr. Etter?

19 MR. ETTER: No, your Honor.

20 EXAMINER PARROT: Mr. -- is it D'Ascenzo?

21 MR. D'ASCENZO: That's correct. No, your
22 Honor.

23 EXAMINER PARROT: And Mr. Satterwhite.

24 MR. SATTERWHITE: No, your Honor.

25 EXAMINER PARROT: Thank you very much,

1 Mr. Smith. You are excused.

2 MR. SATTERWHITE: I would like to move
3 admission -- I'm sorry.

4 EXAMINER PARROT: That's what I was going
5 to say, let's deal with exhibits. I think we'll wait
6 on the staff until the conclusion of each auditor's
7 testimony.

8 Mr. Oliker.

9 MR. OLIKER: Your Honor, at this time I
10 would like to move for first the admission of
11 IEU-Ohio Exhibits 1 through 6, and would you like to
12 do that now and then the proffer next?

13 EXAMINER PARROT: Let's go ahead and do
14 that. Are there any objections to the admission of
15 IEU Exhibits 1 through 6?

16 MR. McNAMEE: No.

17 MR. SATTERWHITE: No, your Honor.

18 EXAMINER PARROT: Seeing and hearing none
19 IEU Exhibits 1 through 6 are hereby admitted.

20 (EXHIBITS ADMITTED INTO EVIDENCE.)

21 MR. OLIKER: Again, I would move for the
22 admission of IEU-Ohio Exhibits 7 through 12 which I
23 believe I've demonstrated through my proffer are
24 relevant to whether or not AEP is already receiving
25 sufficient compensation in its 2010 and '11 base

1 generation rates so that it would be double
2 recovering its demand charges for the OVEC and
3 Lawrenceburg units in the FAC.

4 EXAMINER PARROT: I think I've heard your
5 thoughts on the matter already, Mr. Satterwhite. I'm
6 going to adhere to my prior ruling --

7 MR. SATTERWHITE: Thank you, your Honor.

8 EXAMINER PARROT: -- and deny the
9 admission of IEU Exhibits 7 through 12. Of course,
10 you have proffered those for us today.

11 Finally I think we have one --

12 MR. SATTERWHITE: I move the admission of
13 AEP Exhibit 1.

14 EXAMINER PARROT: Any objections to that
15 exhibit?

16 MR. OLIKER: Your Honor, I would just
17 like a clarification that AEP will only rely on the
18 portions of the exhibit that were referred to during
19 cross-examination.

20 MR. SATTERWHITE: I'm just looking to see
21 if there's anything else that defines the scope of
22 the audit, your Honor.

23 MR. ETTER: Your Honor, OCC would concur,
24 I haven't seen the copy of the testimony that was
25 presented and so, you know, it was a very limited

1 cross-examination.

2 MR. SATTERWHITE: Your Honor, we'd prefer
3 to have the whole thing in, it's the basis of what's
4 in the Commission order that adopts all the
5 provisions that are in here. So the company would
6 prefer to have the whole thing admitted.

7 EXAMINER PARROT: Any other parties wish
8 to weigh in?

9 (No response.)

10 MR. SATTERWHITE: I guess I'd point out,
11 your Honor, each of the categories as you go on it
12 gives more meat, for lack of a better term, behind
13 the accounts.

14 MR. OLIKER: The witness didn't talk
15 about the meat, though.

16 MR. ETTER: He just spoke to the specific
17 accounts.

18 EXAMINER PARROT: I think at this point
19 I'm going to agree and limit the admission of, at
20 this point anyway, if you find you can make use of it
21 later in the hearing, we'll reconsider at that point,
22 but I think at this point we'll limit the admission
23 to pages 5, 6, and 7 as well -- of course, the cover
24 page as well.

25 MR. SATTERWHITE: Thank you, your Honor.

1 (EXHIBIT ADMITTED INTO EVIDENCE.)

2 EXAMINER PARROT: Let's go off the
3 record.

4 (Discussion off the record.)

5 EXAMINER PARROT: Let's go back on the
6 record.

7 We are going to break just for a few
8 minutes.

9 (Recess taken.)

10 EXAMINER PARROT: Let's go back on the
11 record.

12 MR. McNAMEE: Your Honor, we've had a
13 brief discussion off the record here. It's my
14 understanding that no party has any question for
15 Mr. Dady and everyone is willing to stipulate that
16 the identification and the veracity I guess of his
17 portions of the audit report, so apparently there's
18 no need to bring him, put him on the stand.

19 EXAMINER PARROT: Is that consistent with
20 everyone's understanding in the room?

21 MR. SATTERWHITE: Yes, your Honor.

22 MR. D'ASCENZO: Yes, your Honor.

23 EXAMINER PARROT: I see nods, that's
24 good. I think at this point we're going to take a
25 short five-minute break before we continue with our

1 next witness. Thank you.

2 (Recess taken.)

3 EXAMINER PARROT: Let's go back on the
4 record.

5 Mr. McNamee.

6 MR. MCNAMEE: Thank you, your Honor. The
7 staff would call Emily Medine.

8 EXAMINER PARROT: Would you raise your
9 right hand.

10 (Witness sworn.)

11 EXAMINER PARROT: Thank you.

12 - - -

13 EMILY MEDINE

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

16 DIRECT EXAMINATION

17 By Mr. McNamee:

18 Q. State and spell your name for the record,
19 please.

20 A. Sure. Emily Medine, M-e-d-i-n-e.

21 Q. By whom are you employed and in what
22 capacity?

23 A. I am employed by Energy Ventures
24 Analysis, Inc. and I'm a principal in the consulting
25 firm.

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