

1           Q.    If we're talking about what a cost-based  
2 rate is, you would agree that you take the net book  
3 value and you provide a return on that investment.

4           A.    Well, OVEC's a little unique in that  
5 there's no, I think there's probably 99.9 percent  
6 debt. There's no real equity costs associated with  
7 that contract.

8           Q.    Okay. But it's a --

9           A.    But if you, it has a capital cost  
10 component, it's just the weighting of equity would be  
11 very low in that particular situation.

12          Q.    Okay. And we stumbled on this a little  
13 earlier, OVEC is approximately, what, 2.2 gigawatts  
14 of capacity?

15          A.    I haven't looked at it in a while but  
16 that sounds about right.

17          Q.    But to determine AEP's right to coal and  
18 that power there's something called a power  
19 participation ratio, right?

20          A.    Yes.

21          Q.    And Columbus Southern Power company has  
22 the right to take and the obligation to buy  
23 4.4 percent of the power produced by OVEC, right?

24          A.    That sounds about right. Now, obviously,  
25 we're talking '10-'11 at this point when CSP was a

1 separate company. Since that time, of course, the  
2 company's been merged and Ohio Power assumed all  
3 rights and obligations under that contract.

4 Q. Of course, that's what -- if we were  
5 doing this for a 2013 or 2012 FAC, but in 2010 and  
6 '11 --

7 A. That sounds about right.

8 Q. CSP, okay.

9 And Ohio Power Company had the right to  
10 take and the obligation to purchase approximately  
11 15.5 percent of the output from OVEC.

12 A. Again, I haven't checked, but those  
13 numbers certainly sound in the ballpark as I recall.

14 MR. OLIKER: At this time I'd like to  
15 mark an exhibit just for clarity of the record. I'd  
16 like to mark as IEU-Ohio Exhibit No. 14 the Prefiling  
17 of Amended and Restated Intercompany Power Agreement  
18 and Amended Restated OVEC-IKEC Power Agreement.

19 EXAMINER PARROT: So marked.

20 (EXHIBIT MARKED FOR IDENTIFICATION.)

21 Q. Mr. Nelson, do you see the document that  
22 has been marked as IEU-Ohio Exhibit 14?

23 A. Yes.

24 Q. Now, does this document appear to be the  
25 intercompany power agreement that controls purchases

1 from OVEC, the sponsoring company, as filed at the  
2 Federal Energy Regulatory Commission?

3 A. Well, it's captioned Refiling of Amended  
4 and Restated Intercompany Power Agreement and Amended  
5 and Restated OVEC-IKEC Power Agreement.

6 Q. Is it true -- but what I just classified  
7 as the document that controls purchase from OVEC, do  
8 you agree with that characterization?

9 A. It's quite a thick document, I don't --  
10 I'm not that familiar with the document to say that.

11 Q. Okay.

12 A. I would assume it does, but I'm not an  
13 attorney and I haven't reviewed the document in its  
14 entirety.

15 Q. But you have no reason to believe that  
16 this document is inaccurate.

17 A. No. As I read, I assume it's what the  
18 caption says it is.

19 Q. Okay. And earlier we talked about power  
20 participation ratios. Can you turn to what is page  
21 41 of 115.

22 MR. OLIKER: And I would note that that's  
23 a number that AEP Ohio has inserted I believe in its  
24 response to discovery. Actually, I could be wrong.

25 Q. Let me know when you get there.

1           A.    Yes, I'm on page 41.

2           Q.    Okay.  And do these appear to be the  
3 power participation ratios that we were discussing?  
4 You see Columbus says 4.44 and Ohio Power says 15.49?

5           A.    Yes.

6           Q.    So just to clear that up, you agree that  
7 the power participation ratio for Columbus Southern  
8 Power is 4.44 percent of the output of OVEC.

9           A.    Yes.

10          Q.    And you agree that Ohio Power Company's  
11 power participation ratio is 15.49 percent.

12          A.    Yes.

13          Q.    Okay.  Thank you.

14               MR. OLIKER:  And either I can put an  
15 exhibit or would counsel like to stipulate that this  
16 contract has actually been indeed approved by FERC?  
17 I have the entry, but --

18               MR. SATTERWHITE:  Yes, this is the one we  
19 provided to you --

20               MR. OLIKER:  Yes.

21               MR. SATTERWHITE:  Yes.

22               MR. OLIKER:  Great.

23          Q.    (By Mr. Oliker) Okay, Mr. Nelson, I  
24 believe earlier you were in the room when we were  
25 going over AEP's responses to IEU's interrogatories.

1 A. Yes.

2 Q. Is there still a copy of those  
3 interrogatories at the Bench?

4 A. I don't see one. I have a copy that I  
5 brought with me.

6 Q. Of what has been marked as IEU Exhibit  
7 13.

8 A. I guess I'd prefer to see what's been  
9 marked, make sure that I don't have a different  
10 version.

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

12 EXAMINER PARROT: You may.

13 Q. Now I'd like to focus on OVEC and what is  
14 marked as IEU Exhibit 13. Could you please turn to  
15 interrogatory No. 8, and let me know when you're  
16 there.

17 A. I'm there.

18 Q. Okay.

19 A. Oh, did you say "8"?

20 Q. Eight, yes, I did.

21 A. I'm sorry, I was on 9.

22 Q. Now, if we wanted to determine the amount  
23 of megawatt-hours that Columbus Southern Power  
24 Company had a right to call from the other generating  
25 units, we would multiply the power participation

1 ratio of Columbus Southern by the total number  
2 contained in interrogatory No. 8, right?

3 A. I'm not sure that's -- that may or may  
4 not produce the right result in the sense that I  
5 think the people who take the power have a right to  
6 dispatch it according to their needs, so, you know,  
7 and a unit can produce 8760 hours times their  
8 theoretical capacity, you said it was 2200. This is  
9 just how this unit dispatched in that particular  
10 year.

11 Q. Right.

12 A. It may or may not be total output and it  
13 may be some members taking power may not have wanted  
14 it dispatched, et cetera. So there's a lot of  
15 variables to say that we could take this number times  
16 the participation ratio and get what AEP Ohio -- I'm  
17 a little leery about that. I might be right but  
18 there's too many variables there to say that.

19 Q. But it would be very close, right?

20 A. Well, depends. OVEC in the market in  
21 2012, for example, where gas prices were 2 bucks may  
22 have produced a fraction of these kilowatt-hours  
23 because it dispatches on an economic basis. And I  
24 think we'll have to clear up some of the discussions  
25 about dispatch and so forth but we'll get to that

1 later.

2 Q. Okay. I'd like to follow up on that.  
3 But based on the power participation ratio, that  
4 dictates the amount of power, the total output that  
5 you have an obligation to buy, right?

6 A. With the caveat that we have a choice of  
7 whether we want to take that power. I think it's  
8 whether we want to have it dispatched for our needs.  
9 I think there may be that caveat but maybe we can  
10 develop your line of questioning, let's see if that  
11 presents a problem.

12 Q. Okay. Well, as we just discussed, CSP  
13 has a power -- you know when I refer to "CSP" I'm  
14 talking about Columbus Southern, right?

15 A. Yes.

16 Q. CSP has a power participation ratio of  
17 4.44 percent. Would you agree, subject to check,  
18 that 4.44 percent of 14,634,079,000 kilowatt-hours is  
19 649,753,000 kilowatt-hours?

20 A. Do you want me to do the math for you?

21 Q. Sure.

22 A. You had 643 million?

23 Q. I said "649." That's close enough.

24 A. Did you take 4.4? Maybe I used the wrong  
25 percent.

1 Q. I divided 4.44.

2 A. Oh, 4.44. That might be the difference.  
3 I'll accept that.

4 Q. Subject to check you'll accept that,  
5 okay, thank you.

6 And if we look at the next interrogatory,  
7 Columbus Southern Power Company allocated 455 million  
8 kilowatt-hours, approximately, so that means  
9 70 percent of the output of OVEC was actually  
10 allocated to CSP customers.

11 A. Yeah, that's what that tells me is that  
12 if the first number was correct -- let's do a  
13 hypothetical. If the first number is correct in  
14 theory, is some of OVEC allocated to off-system  
15 sales? Is that your basic question?

16 Q. Yes, about 30 percent.

17 A. In this instance if your number is  
18 correct, that would be about 30 percent, let's accept  
19 that but let's move on to the allocation. And this  
20 goes back to the ESP 1 case. If you have my  
21 testimony there, I describe how a dispatch is done  
22 and, remember, all units and so forth are dispatched  
23 on variable cost of production, so what we do is  
24 assign the least-cost generating resources to  
25 internal load customers. The higher cost resources



1 get assigned to off-system.

2 So with this we'd say for OVEC in a  
3 particular year, if these numbers are correct, that  
4 OVEC at some point was assigned to off-system because  
5 it was higher than some other resources available to  
6 internal load. But remember, dispatch is always on  
7 your variable cost of production; it has nothing to  
8 do with fixed cost of production.

9 And so, yes, and that's what we -- when I  
10 designed the fuel clause, we designed it along the  
11 lines of a typical fuel clause, that's how a dispatch  
12 is done, that's how cost reassignment is done, units  
13 are done on variable cost of production.

14 So each unit is stacked, as I think you  
15 mentioned in some other cross-examination of  
16 witnesses, and the least-cost units are assigned to  
17 internal load customers.

18 By the way, I use internal load customers  
19 because internal load is both your retail customers  
20 and your firm wholesale customers. CSP has no firm  
21 wholesale customers at this time. It did in '10 and  
22 '11. Ohio Power had one firm wholesale customer. So  
23 that's how the dispatch works.

24 Fixed costs of units and so forth are not  
25 included in dispatch and they're not included in the

1 cost of reconstruction and so that's -- so I think I  
2 wanted to clear that up because I think you seem to  
3 be headed down the path of perhaps why isn't -- why  
4 is the fixed cost of these contracts assigned a  
5 hundred percent to internal load customers.

6 And, of course, that was -- in my  
7 testimony in the ESP case I described that. At the  
8 bottom, if you've still got my testimony around I can  
9 point you to where I describe specifically how fixed  
10 costs in these contracts are going to be assigned to  
11 the internal load customer. It starts at the bottom  
12 of page 11 of that testimony and at the top of 12.  
13 And, of course, that was the methodology, the FAC was  
14 approved by this Commission in the ESP 1 cases.

15 MR. OLIKER: Your Honor, at this time I  
16 would move to strike everything starting with "when I  
17 designed the fuel clause" which was completely  
18 unresponsive to my question. I merely asked him  
19 whether a portion was allocated to off-system sales.  
20 We may get to those questions later but they had  
21 nothing to do with what I asked him.

22 MR. SATTERWHITE: Your Honor, they have  
23 everything to do with what he asked him. He asked  
24 him about what's off-system sales, what's allocated  
25 which way, and I think Mr. Nelson gave a very good

1 answer for the record to kind of put everything into  
2 context.

3 We talked about dispatch today, we've  
4 talked about other issues, and it all dealt with how  
5 the allocations are figured and he expressed exactly  
6 how that was and made it perfectly clear for the  
7 record.

8 EXAMINER PARROT: I'm going to allow the  
9 answer to stand.

10 Q. (By Mr. Olikier) Mr. Nelson, now, if we go  
11 back to interrogatory 8 and we apply Ohio Power  
12 Company's power participation ratio of 15.5 percent  
13 to the number on interrogatory No. 8, could you tell  
14 me what their right to the kilowatt-hour output is  
15 for OVEC?

16 A. On page 41 was the percentage?

17 Q. Yes, it is. The 15.49 --

18 A. Four-nine.

19 Q. -- percent if you want to be exact,  
20 Mr. Nelson.

21 A. This doesn't show the comments. Let's  
22 see. It shows 226 million.

23 Q. Billion?

24 A. Yeah, maybe I left off some decimals,  
25 2.26, not the greatest calculator.

1           Q.    Subject to check would you agree that  
2   there coal and the power is 2.26?

3           A.    We can agree that you take the  
4   participation ratio times the numbers shown on 14  
5   if -- for illustrative purposes I guess.

6           Q.    Okay.  So subject to check 2.266 billion  
7   kilowatt-hours --

8           A.    Yes.

9           Q.    -- is the amount, okay.

10                  And based on the total output, would you  
11   also accept, subject to check, that -- sorry, turning  
12   to interrogatory No. 9, the 2.266 billion  
13   kilowatt-hours is, compared to the 1.729 billion  
14   kilowatt-hours, is 76 percent was allocated to SSO  
15   customers?

16           A.    Yes, again, that would be based on the  
17   reconstruction we talked about, the highest cost,  
18   variable cost of production is assigned to off-system  
19   sales, lower cost would be assigned to SSO customers  
20   and that would be on an hour-by-hour basis.  So some  
21   of this generation did get assigned to off-system  
22   sales.

23           Q.    And let's move on to interrogatory No.  
24   10.  No, sorry, wrong one.  Interrogatory No. 11.  We  
25   have a similar kilowatt-hour output for the OVEC

1 units in 2011, about 14-1/2 billion approximately,  
2 kilowatt hours.

3 A. Yes.

4 Q. Would you agree that 4.44 percent of the  
5 14.468 billion kilowatt-hours is 642,386,000  
6 kilowatt-hours, approximately?

7 A. That sounds about right.

8 Q. And then if we compare that number, what  
9 was allocated to CSP customers in interrogatory 12,  
10 CSP only allocated 245,771,000 kilowatt-hours to SSO  
11 customers which is approximately 38 percent of the  
12 output.

13 A. That's correct. And, by the way, if you  
14 went through all our generating units, our whole  
15 fleet, you would get a similar result. Almost all  
16 our units are, at some point are allocated to  
17 off-system sales.

18 We have a lot more generation in Ohio  
19 Power than we need to serve our SSO customers so all  
20 our units would typically be assigned a portion of  
21 their -- to off-system sales. So it's not unique to  
22 these unit power type arrangements.

23 MR. OLIKER: Your Honor, I'd move to  
24 strike the remainder of his answer which was not  
25 responsive to my question.

1 MR. SATTERWHITE: Your Honor, he's making  
2 a statement about what's happening here and showing  
3 that that's not unique, that it's nothing special.

4 EXAMINER PARROT: I think it completes  
5 the answer.

6 MR. OLIKER: Okay.

7 Q. Going back to interrogatory 11, if we  
8 apply the power participation ratio of Ohio Power of  
9 15.49 percent to the 14.468 billion kilowatt-hours  
10 from 2011, Ohio Power is required to purchase  
11 2.241 billion kilowatt-hours in 2011?

12 A. That sounds about right.

13 Q. If you look at interrogatory 12, Ohio  
14 Power only allocated 980 million kilowatt-hours in  
15 2011, correct?

16 A. Yes, that's what -- 980 million did you  
17 say?

18 Q. Yes.

19 A. Yes, that sounds correct. Per the  
20 discovery response.

21 Q. And that means that only 44 percent of  
22 the output from OVEC in 2011 was allocated SSO  
23 customers.

24 A. That sounds correct.

25 Q. And, just to be clear, while all these

1 off-system sales are occurring, there's no sharing of  
2 margins with SSO customers.

3 A. Yeah, that's addressed -- I happen to  
4 have a copy of the order in the SSO proceeding, and  
5 the Commission ruled on that issue which was  
6 raised --

7 Q. Mr. Nelson, I asked you about your  
8 understanding. I didn't ask you about an order.

9 MR. SATTERWHITE: Can the witness finish  
10 his answer?

11 A. Well, I want to show, yeah, that is  
12 correct, because the Commission ruled on that issue  
13 which was well litigated in ESP 1. I can give you  
14 the page number, if you'd like, to that order. I  
15 don't know we need to debate a topic the Commission  
16 has ruled on time and again.

17 Q. I didn't ask about --

18 EXAMINER PARROT: I think he's answering  
19 the question in his way, Mr. Olikier.

20 Q. Go ahead, Mr. Nelson.

21 A. I'll get you that. Okay. It's on page  
22 17 of the Commission's order in 08-917-EL-SSO, and I  
23 can read you what the Commission said. It says "The  
24 Commission is not persuaded by the intervenors'  
25 arguments. We do not believe that the testimony

1 presented offered adequate justification for  
2 modifying the company's proposed ESP to offset OSS  
3 margins from the FAC costs." And I think that was  
4 confirmed on rehearing.

5 Q. Mr. Nelson, you're not an attorney, are  
6 you?

7 A. No. But I can read a Commission's order.

8 Q. Now, isn't it true that Lawrenceburg  
9 generating unit, that contract was entered in 2007?

10 A. That's correct.

11 Q. Okay. And isn't it true -- are you  
12 familiar with the 2009 FAC case, Mr. Nelson?

13 A. Yes.

14 Q. In that case didn't the Commission  
15 determine that any costs flowed through the FAC must  
16 be net of any related benefit? If you know.

17 A. I think they were referring to perhaps a  
18 contract, coal contract, however, the FAC is a  
19 defined set of costs and so forth and I can guarantee  
20 you we followed every Commission order in the  
21 calculation of the FAC and we followed every  
22 Commission order in the calculation of the deferred  
23 balance in the application of carrying costs on  
24 deferred balances.

25 So that's a very broad statement and,



1       yes, certainly, within the FAC and within the defined  
2       FAC the Commission's statement, I don't have any  
3       issue with that. It certainly doesn't encompass  
4       benefits associated with off-system sales margins  
5       that they've already ruled is not a part of the FAC.

6               MR. OLIKER: Your Honor, I would move to  
7       strike everything starting with "We followed  
8       everything the Commission required of us." It was  
9       not responsive to my question.

10              MR. SATTERWHITE: Your Honor, he's asking  
11       him a broad statement about an offset for a benefit  
12       and Mr. Nelson gives his understanding of why -- how  
13       that fits into the question.

14              EXAMINER PARROT: And I'll agree with  
15       Mr. Satterwhite. I'm allowing the witness to  
16       complete his answers, in case you haven't picked up  
17       on that yet.

18              Q.    Okay, so let's follow that one step  
19       further. When you're making decisions regarding the  
20       fuel of FAC, if you have a benefit related to  
21       anything that is not pertaining to a coal contract  
22       and a cost, you will keep the benefit to yourself and  
23       flow the costs to the FAC.

24              A.    I didn't say that at all. I can give you  
25       an example of a benefit. We volunteered the sale of

1 emission allowance gains and losses on -- the sales  
2 of emission allowances tend to be gains, we flowed  
3 through that benefit. We're not trying to redefine  
4 the FAC here.

5 The FAC was established in the ESP  
6 proceeding and we're following everything that was in  
7 the FAC. And there are benefits and costs in effect.

8 By the way, one of the benefits of what  
9 we did in the FAC, we proposed the FAC, we said we're  
10 going to continue with the traditional allocation of  
11 least cost generation to the SSO customer, which  
12 we've done, and that's a benefit.

13 And this is an instance here where what  
14 we're doing with OVEC is assigning, if it's higher  
15 cost than other generation, then we're showing some  
16 of that flows to off-system sales and not the SSO  
17 customers. So, in fact, we are flowing through those  
18 benefits. That's a perfect example of how we are  
19 recognizing some of these benefits and providing them  
20 through the FAC to the SSO customer.

21 So, yeah, it was meant to, you know, it  
22 defined, as I said, a set of costs and benefits  
23 including the, you know, gains on allowances. We are  
24 stacking the units. We are assigning the least-cost  
25 units to the internal load customer. So, yeah, there

1 are benefits there in the way we're handling things.

2 Q. So are there any other benefits related  
3 to costs besides emissions allowance --

4 A. Well, I would say a big benefit over the  
5 years has been, you know, we've had very low-cost  
6 generation, a good coal fleet, and we continue to  
7 supply the customer with that low-cost fleet. Are we  
8 going to give it to them for free? No. They are  
9 paying for our lowest-cost generation out of the  
10 AEP Ohio units on a variable cost basis. So that's a  
11 great benefit, in my opinion.

12 Q. I think you cleared this up for me in one  
13 of your --

14 A. Long-winded answers?

15 Q. I don't know if I would have said it that  
16 way, Mr. Nelson, but --

17 A. I saved you the trouble.

18 Q. The OVEC demand allocation of 92 percent  
19 for Ohio Power Company, the reason why the 2 percent  
20 of that is allocated to SSO customers is because  
21 8 percent of it is allocated to Wheeling Power,  
22 right?

23 A. That's correct. In this particular  
24 instance, yes.

25 Q. Okay. And that existed in 2010 and 2011?

1           A.    Wheeling was a firm wholesale customer in  
2    both those years.  The percentage is going to change  
3    based on that ratio as, say, Wheeling Power grew  
4    faster than the retail customers, the percentage gets  
5    assigned to Wheeling would increase obviously.  So  
6    it's not a static percentage is my point.

7           Q.    I'm sorry to jump around here, but as you  
8    sit here today can you quantify the off-system sales  
9    margins from the Lawrenceburg generating unit in 2010  
10   or 2011?

11          A.    No.

12          Q.    And what about for OVEC, do you know?

13          A.    No.

14          Q.    Okay.  Mr. Nelson, you're very involved  
15   in all of AEP's regulatory filings that pertain to  
16   the generation aspect of the business, right?

17          A.    I get involved in some manner, or folks  
18   in my department do.

19          Q.    You review testimony in various  
20   proceedings --

21          A.    Yes.

22          Q.    -- before it's filed?

23          A.    I can't say I review it all.

24          Q.    Do you have to approve it?

25          A.    No.  Unless I'm the witness I don't

1 really have approval authority. I can comment on it  
2 if I like.

3 Q. But most of the big cases like ESP 1  
4 case, ESP 2 case, capacity case, you would be heavily  
5 involved in the testimony.

6 A. I was a witness in those cases. I might  
7 have been in a different role at the time. I wasn't  
8 necessarily in Regulatory Services so, I don't  
9 believe, in ESP 1.

10 Q. So let's talk about ESP 1. You would  
11 agree that Columbus Southern Power Company and Ohio  
12 Power Company's base generation rates produced  
13 revenue in ESP 1 equivalent to \$355 a megawatt-day.

14 A. I never did that calculation. I can't  
15 say that's -- I haven't done that calculation, I  
16 don't know.

17 Q. Have you reviewed that calculation,  
18 Mr. Nelson?

19 A. I'm not sure we did that calculation. I  
20 didn't.

21 MR. OLIKER: Your Honor, I'd like to mark  
22 an exhibit. I apologize, your Honor.

23 Q. Mr. Nelson, I'd like to show you two  
24 documents.

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

1 EXAMINER PARROT: You may.

2 MR. SATTERWHITE: Can I see them first?

3 MR. OLIKER: Matt, it's been previously  
4 proffered as Exhibit 11 and 12. I'm sorry, we're  
5 running short on copies.

6 Q. In the capacity case you reviewed  
7 Jonathan Lesser's testimony?

8 MR. SATTERWHITE: Objection, your Honor.  
9 He's trying to circumvent your earlier ruling about  
10 asking questions about cases that happened after the  
11 '10-'11 audit. Clearly he's trying to back-door your  
12 Honor's ruling before about asking this witness  
13 questions about questions and figures, obviously  
14 indicated from his previous example from the number  
15 that he gave that don't apply to this case and were  
16 not in existence in this case.

17 MR. OLIKER: Your Honor, I'm asking about  
18 ESP 1 generation rates -- ESP 1 base generation rates  
19 from 2010 and 2011. That is all that I'm asking  
20 about.

21 MR. SATTERWHITE: Didn't you just ask  
22 about Dr. Lesser's testimony in 10-2929?

23 MR. OLIKER: Who is talking about ESP 1  
24 base generation rates.

25 EXAMINER PARROT: I think I'll see where

1 this is headed before we -- please proceed.

2 MR. OLKER: Okay.

3 Q. (By Mr. Olier) Mr. Nelson, if you would  
4 please turn to page 20 of Dr. Jonathan Lesser's  
5 testimony.

6 MR. SATTERWHITE: Objection, your Honor.  
7 He can ask these questions about what happened at  
8 that time period without referring to a witness in a  
9 case that happened after this that's not even part of  
10 this proceedings. Using Dr. Lesser as the basis to  
11 ask these questions is inappropriate.

12 He can ask Mr. Nelson if he knows about  
13 this information from that time period but he's  
14 clearly just trying to put stuff in the record that  
15 was proffered because it was improper before.

16 MR. OLKER: Your Honor, he said he  
17 testified in that case, he reviewed testimony, he's  
18 responsible for filings in that case, and this refers  
19 to this time period to the base generation rates in  
20 effect in ESP 1 and I haven't even asked him a  
21 question about it.

22 MR. SATTERWHITE: That's the point, your  
23 Honor, he asked general questions about what you're  
24 involved with with AEP, now he's trying to introduce  
25 documents and ask questions based upon it from that

1 time period. If you have a question about ESP 1, ask  
2 the question about ESP 1, don't ask about what Dr.  
3 Lesser said in a later case about ESP 1.

4 EXAMINER PARROT: I still want to hear  
5 the question first. I think that may be our next  
6 step.

7 MR. SATTERWHITE: I'm just worried that  
8 we're going to try to now I want this document in the  
9 record because I asked a question about it.

10 EXAMINER PARROT: And I'm very aware of  
11 that concern.

12 MR. SATTERWHITE: Thank you, your Honor.

13 MR. OLIKER: And maybe another one will  
14 help us too.

15 First, I'm just trying to make a  
16 foundation for what Mr. Allen later responds to,  
17 that's what I'm trying to lay a response to with  
18 AEP's witnesses.

19 Q. (By Mr. Oliker) Can you look at page 20?  
20 Can you please look at that testimony, Mr. Nelson?

21 A. Yeah, I'm on the page.

22 Q. Are you familiar with the claim that  
23 AEP's base generation rates didn't recover \$355 a  
24 megawatt-day?

25 MR. SATTERWHITE: Objection, your Honor,



1 now we're asking about arguments in a later case that  
2 don't apply to the 2010 and 2011 audit. He admitted  
3 himself he's trying to tie it to another piece of  
4 testimony to another case after this clearly beyond  
5 the scope.

6 MR. OLIKER: ESP 1, your Honor.

7 EXAMINER PARROT: How is that filing in,  
8 I'm failing to see it in.

9 MR. OLIKER: Because counsel won't let me  
10 ask the questions to tie it in.

11 EXAMINER PARROT: What does the 355  
12 capacity rate have to do with the ESP 1 rates?

13 MR. OLIKER: Because that's what they  
14 recovered in ESP 1, that is what AEP claimed.

15 EXAMINER PARROT: You're using  
16 Dr. Lesser's testimony to --

17 MR. OLIKER: Because Mr. Allen has  
18 responded to Dr. Lesser, and as you will see in a  
19 moment, Dr. Lesser submitted direct testimony,  
20 Mr. Allen responded to it.

21 EXAMINER PARROT: Rebutted, yes. I was  
22 there.

23 MR. OLIKER: I know.

24 MR. SATTERWHITE: We all were, your  
25 Honor.

1 EXAMINER PARROT: I'm just failing to see  
2 how this is tying together.

3 MR. OLIKER: It will. It will.

4 MR. SATTERWHITE: Mr. Allen's not on the  
5 stand, Mr. Nelson is.

6 EXAMINER PARROT: That's why I --  
7 (Interruption.)

8 MR. OLIKER: Any statements made by  
9 Mr. Allen are admissible against AEP. He is a  
10 representative of the party who testifies on their  
11 behalf, and if Mr. Allen says base generation rates  
12 from ESP 1 recovers 355 a megawatt-day, I ask  
13 Mr. Nelson about that.

14 MR. SATTERWHITE: Your Honor, I'm not  
15 sure where to start by objecting to that statement.  
16 I mean, he's basically saying that anything said in  
17 any case without the context of the pain we went  
18 through in that long case I could take a sentence out  
19 and apply it. We are dealing with the 2010 and '11  
20 FAC audit and this is a poor attempt to try to bring  
21 in the proffered testimony.

22 Mr. Nelson can answer questions about the  
23 2010, about the ESP 1, he shouldn't be asked to  
24 answer for Dr. Lesser or Mr. Allen.

25 EXAMINER PARROT: I think I'm going to

1 agree at this point and sustain the objection. I  
2 think if you want to try to go about this in a more  
3 direct fashion, I think maybe we can get there more  
4 directly.

5 MR. OLIKER: I can ask it very directly,  
6 your Honor. We'll use a different document.

7 Q. (By Mr. Olikier) Mr. Nelson, at the time  
8 of the capacity case your ESP 1 rates were in effect,  
9 correct?

10 MR. SATTERWHITE: Objection. Relevance.

11 EXAMINER PARROT: I'll overrule this one.  
12 We'll see how we're headed this time.

13 Q. Correct?

14 A. Was the ESP 1 rates in effect? I believe  
15 so.

16 Q. So although you had a pending ESP 2  
17 application, the ESP 2 rates weren't in effect  
18 either, right?

19 A. That's what I recall. Though I'm a  
20 little fuzzy on the time, I'd rather have a timeline  
21 in front of me.

22 Q. So in 2012 to 2011 your base generation  
23 rates didn't change, did they?

24 A. Could you repeat that?

25 Q. From 2012 to 2011 your base generation

1 rates did not increase.

2 A. You're going backwards, '12 to 2011.

3 Q. Correct, '11 was the same level as '12.

4 A. I can't remember that. I mean, we had  
5 certain escalators and so forth, I'm not sure what,  
6 you know, might have changed during that time without  
7 looking at the rates. I can't give you a direct  
8 answer.

9 Q. Okay. Well, prior to having your ESP-2  
10 rates in effect, so if the ESP 1 rates were still in  
11 effect, and when you were pursuing a cost-based  
12 capacity rate AEP Ohio was claiming its base  
13 generation rates produced 355 a megawatt-day under  
14 ESP 1.

15 MR. SATTERWHITE: Objection, your Honor.  
16 Now we're trying to take a debate from the capacity  
17 case and apply it retroactively to the '10-'11 audit.

18 MR. OLIKER: The problem is we've got the  
19 company trying to take the upside of having  
20 cost-based rates in one case and trying not to get  
21 you to look at them in another case but really  
22 they're talking about the same exact period.

23 MR. SATTERWHITE: I'll object to the  
24 characterization there. We're trying to deal with  
25 the 2010-'11 audit right now. It's counsel for IEU

1       that's to trying to blow this case into every  
2       possible case out there.

3               We have separate cases. The Commission  
4       manages its docket. In a capacity case we're looking  
5       forward to what we're going to do going forward from  
6       there in the Commission's new day. We're trying to  
7       pull out of that or just pieces of that into this  
8       case and it's improper. We need to stick within the  
9       confines of what this case is about.

10              MR. OLIKER: It is related to ESP 1, your  
11       Honor, and it's --

12              EXAMINER PARROT: How does that tie into  
13       the audit?

14              MR. OLIKER: It ties into the audit  
15       because we're looking at the purchased power costs --  
16       purchased power costs for demand. They said that  
17       they need to recover these through the fuel clause,  
18       but at the same time they came up with the 355 rate  
19       based on their 2010 numbers and that equaled 355 and  
20       included the purchased power, but if the base  
21       generation rates already give you that much  
22       compensation in --

23              EXAMINER PARROT: So we're back to our  
24       double-recovery argument, right? Is that where all  
25       of this is headed?

1 MR. OLIKER: Yes, your Honor.

2 EXAMINER PARROT: I think you're  
3 confirming, all right. So the objection is  
4 sustained.

5 MR. OLIKER: Could I have one moment,  
6 please, your Honor.

7 Q. (By Mr. Oliker) Mr. Nelson, can you tell  
8 me what a FERC Form 1 is?

9 A. A report filed with FERC of various  
10 financial information.

11 Q. What is the purpose of it?

12 A. The purpose of it is to supply the  
13 Federal Energy Regulatory Commission with certain  
14 financial information on utilities that they  
15 regulate.

16 Q. Would you agree that -- this may be my  
17 last question -- that the Commission determined based  
18 upon your 2010 FERC Form 1 you were fully compensated  
19 for your cost of capacity at \$188 a megawatt-day?

20 MR. SATTERWHITE: Objection, your Honor.

21 EXAMINER PARROT: Sustained.

22 Q. Mr. Nelson, one last question: Is it  
23 your testimony today that you do not know the amount  
24 of revenue per megawatt-day your 2010 and 2011 base  
25 generation rates produce?

1           A.    I'm not sure what you mean by do I know  
2           what they produced. We had made a filing in the  
3           capacity case based on the 2010 test year and  
4           proposed a certain rate and that rate wasn't accepted  
5           by the Commission.

6           Q.    Put differently, as you sit here today  
7           are you aware of the amount of compensation your base  
8           generation rates provided you in the 2010 and 2011  
9           converted to megawatt-day calculation?

10          A.    I didn't do any calculation of that.

11          Q.    You haven't reviewed any calculation or  
12          have been -- anywhere.

13               MR. SATTERWHITE: Objection, form.

14               MR. OLIKER: I'll restate it.

15          Q.    So at no time have you reviewed any  
16          filings of AEP Ohio to calculate the amount of  
17          revenue that base generation rates produced under  
18          ESP 1 converted to a megawatt-day calculation.

19               MR. SATTERWHITE: Objection, again. I  
20          think we're trying to get into the -- you didn't give  
21          a time period there, are you talking 2010 and 2011?

22               MR. OLIKER: Absolutely.

23               EXAMINER PARROT: Absolutely, all right.  
24          With that clarification, you may answer if you know.

25          A.    I don't know. I don't recall the facts

1 of the case. I don't know how to put it in the right  
2 context did someone do a '10 or '11. I didn't do,  
3 it, that's all I can tell you. I didn't do any  
4 calculation to verify a particular number. As we  
5 discussed in that case, it was prego what was in base  
6 rates.

7 Q. I'm sorry, when you refer to "that case,"  
8 what case are you referring to, Mr. Nelson?

9 A. It's the capacity case I guess is where  
10 you're going.

11 Q. I'm just trying to make sure we're on the  
12 same page.

13 I have a last question, then. Would you  
14 agree that base generation rates under ESP 1 provide  
15 more than enough compensation for AEP Ohio, for all  
16 of its capacity costs, including your demand charges  
17 under OVEC and Lawrenceburg?

18 A. I can refer you to Case 08-917-EL-SSO,  
19 page 52 the Commission addressed that. As you recall  
20 when we originally requested a return if the  
21 Commission didn't grant authority to transfer certain  
22 assets that we acquired in more recent years and also  
23 contracts. In the original order they granted a  
24 return on Waterford and Darby and they also granted a  
25 inclusion of the capacity costs to recover the



1 capacity costs for OVEC and Lawrenceburg.

2 On rehearing I think they eliminated  
3 Darby and Waterford but they granted us recovery of  
4 the capacity costs for Lawrenceburg and OVEC in the  
5 FAC. So we are in compliance with Commission's ESP  
6 order in 1 and it was litigated in that case, and the  
7 Commission's answer to that issue is on page 52 of  
8 the order.

9 MR. OLIKER: Your Honor, I would move to  
10 strike that because it's not responsive to my  
11 question. I asked him about the revenue produced by  
12 base generation rates, not what the Commission said  
13 about Lawrenceburg or OVEC. I'm talking about the  
14 revenue.

15 MR. SATTERWHITE: Your Honor, he asked  
16 him if he agreed with him. And he said no and cited  
17 an order that said there were elements of base  
18 generation.

19 MR. OLIKER: Didn't answer my question.

20 EXAMINER PARROT: The motion to strike is  
21 denied. If you need to follow up, if you feel you  
22 need to maybe clarify your question.

23 Q. Mr. Nelson, I can state it differently.  
24 If we look at the returns of the company in 2010 and  
25 2011 and we completely -- say we completely wiped the

1 demand charges for OVEC and Lawrenceburg out of the  
2 FAC, and AEP Ohio just collected its base generation  
3 rates, you would agree with me that there would be  
4 sufficient compensation produced by the base  
5 generation rates to fully compensate AEP Ohio for all  
6 of its capacity including its purchased power  
7 contracts.

8 MR. SATTERWHITE: Your Honor, I'm going  
9 to object now. I don't know what this has to do with  
10 trying to do an audit of a fuel adjustment clause.  
11 It seems like we're trying to litigate other  
12 cases again and see what AEP's happy with or not  
13 happy with. Other cases occurred, filings were made  
14 on these type of issues, this is not the case to be  
15 arguing this again.

16 MR. OLIKER: Your Honor, we're talking  
17 about what's in the fuel clause, whether it should be  
18 there.

19 MR. SATTERWHITE: No, your Honor, he's  
20 asking --

21 EXAMINER PARROT: I don't think that's  
22 what that question was about either.

23 MR. OLIKER: Absolutely. If they're  
24 receiving sufficient compensation someplace else, you  
25 don't need to recover it in the fuel adjustment

1 clause.

2 EXAMINER PARROT: And, again, how does  
3 that tie into the audit?

4 MR. OLIKER: Because we're auditing the  
5 demand charges, your Honor. We're auditing  
6 everything that's flown through. It's a question of  
7 whether or not it's -- it should be there. Whether  
8 it's been too much money for a charge or whether the  
9 charge should be reflected.

10 MR. SATTERWHITE: Your Honor, we're back  
11 to the double recovery argument. There's been  
12 testimony showing --

13 EXAMINER PARROT: Based on my prior  
14 ruling I'm going to sustain the objection.

15 MR. OLIKER: Your Honor, my understanding  
16 about the prior ruling was I couldn't ask questions  
17 about a capacity case that happened afterwards, now  
18 I'm being excluded --

19 EXAMINER PARROT: I'm just saying, again,  
20 I need you to limit your questions to the scope of  
21 the proceeding. As I found before, your answers were  
22 outside the scope at that time and I'm similarly  
23 finding so now.

24 MR. OLIKER: So I understand, the ruling  
25 is that I am not allowed to ask questions now about

1 base generation rates that were in effect during  
2 ESP 1 during the time period that we're discussing.

3 EXAMINER PARROT: I need you to tie your  
4 questions in to the FAC audit.

5 MR. OLIKER: Can I please have that  
6 clarification, your Honor, of whether or not I am not  
7 allowed to ask questions about the time period of the  
8 audit.

9 EXAMINER PARROT: If you can tie your  
10 questions into the audit of the fuel adjustment  
11 clause mechanism, that's what we're here to do. I'm  
12 failing to see how your questions about the base  
13 generation rates are doing that.

14 MR. OLIKER: Okay.

15 Q. (By Mr. Olikier) So, Mr. Nelson, when you  
16 testified in ESP 1 regarding inclusion of  
17 Lawrenceburg and OVEC in the fuel adjustment clause,  
18 you did not testify that AEP Ohio would fail to  
19 recover those costs if the Commission disallowed  
20 recovery of the demand charges in the FAC.

21 A. I requested, or designed the fuel clause  
22 and requested that we be allowed to recover all  
23 purchased power costs including capacity costs which  
24 the statute allowed automatically. And Mr. Baker I  
25 think addressed the issues around Lawrenceburg, OVEC,

1 Waterford, and Darby, and the Commission ruled --  
2 ultimately decided that -- I'm assuming that they  
3 said that they weren't in the base rates because they  
4 ruled that we could recover those costs in the FAC.

5 So, again, our FAC calculations are  
6 consistent with the FAC as it was designed, the FAC  
7 as the Commission approved it, and it was clear in my  
8 testimony in that case that I was assigning  
9 100 percent of the capacity charges to internal load  
10 customers.

11 Again, I can give you the page reference,  
12 starts at the bottom of 11, top of page 12. It's  
13 very clear how those costs were going to be assigned  
14 in the FAC and I, you know, believe the auditor when  
15 they went through the '9 audit, I heard them talk  
16 today that they reviewed the FAC in the context of  
17 the Commission's orders in the ESP 1 case and in the  
18 context of what I proposed in that case. So it's  
19 consistent with that and that's -- I think it's  
20 appropriate the Commission decided that we were  
21 entitled to recover those costs.

22 Q. So the answer to my question is no.

23 A. I thought I answered the question, but if  
24 you won't mind reading the question back to me and  
25 the answer, perhaps.

1 (Record read.)

2 Q. So the answer to my question is no, you  
3 didn't submit testimony saying --

4 A. I think I said that Mr. Baker did.

5 Q. So what was the return of Columbus  
6 Southern Power Company in 2010?

7 MR. SATTERWHITE: Objection. Relevance.

8 EXAMINER PARROT: Response?

9 MR. OLIKER: Trying to figure out whether  
10 or not AEP was sufficiently compensated for these  
11 contracts and it's a pretty simple calculation based  
12 upon the total return for a company.

13 MR. SATTERWHITE: Your Honor, we have  
14 other proceedings that deal with the return, again,  
15 now we're adding another one to the stack of  
16 proceedings we're going to infringe upon.

17 MR. OLIKER: That's a different test. A  
18 completely different test. It deals with  
19 significantly excessive earnings, not overrecoveries.

20 MR. SATTERWHITE: Your Honor, I'm not  
21 sure of the relevance to the '10-'11 FAC.

22 EXAMINER PARROT: Sustained.

23 MR. OLIKER: I have no more questions,  
24 your Honor.

25 EXAMINER PARROT: OMA?

1 MS. MOHLER: No questions, your Honor.

2 EXAMINER PARROT: Staff.

3 MR. McNAMEE: Thank you, yes, I do.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. McNamee:

7 Q. Good afternoon, Mr. Nelson.

8 A. Good afternoon.

9 Q. I remember the transportation division  
10 has a contract with Ohio Power Company, doesn't it?

11 A. It has an agreement with Ohio Power as  
12 well as other AEP companies.

13 Q. Okay. Tell me, if you can, the case  
14 number of a case in which the FERC has approved or  
15 passed on that contract.

16 A. I can give you the SEC docket number.

17 Q. SEC.

18 A. Yeah. Which once the Public Utilities  
19 Act, in 2005 I think it was, extinguished the  
20 jurisdiction of the SEC at some point, I don't know  
21 that this is a proper term, kind of ceded to the FERC  
22 so that contract continued to be in the FERC  
23 jurisdiction at that point so that would have been  
24 around, I think around 2005. I think it was part of  
25 the Energy Policy Act of 2005.

1           Q.    So the answer to my question is there is  
2   no FERC proceeding that has passed on this contract.

3           A.    And that is typical.  You have a  
4   contract, unless someone raises a complaint at FERC  
5   or the company were to initiate a change in the  
6   contract, then it wouldn't necessarily be reviewed  
7   periodically.  So the process was it was initially  
8   filed with the SEC and then transferred to the FERC  
9   authority in 2005 but we didn't change it in the  
10   contract.  The contract wording, it was a formula  
11   rate contract kind of a standard contract in my  
12   opinion so, yeah, it was kind of the history of it.

13           MR. McNAMEE:  That's all I need.  Thank  
14   you.

15           EXAMINER PARROT:  Mr. Satterwhite.

16           MR. SATTERWHITE:  If I can have five  
17   minutes, your Honor, I think we can commit quickly  
18   and get Dr. Duann on and off per his schedule.

19           EXAMINER PARROT:  Let's take a  
20   five-minute break.

21           (Recess taken.)

22           EXAMINER PARROT:  Let's go back on the  
23   record.

24           Mr. Satterwhite.

25           MR. SATTERWHITE:  Your Honor, two very



1 narrow questions.

2 - - -

3 REDIRECT EXAMINATION

4 By Mr. Satterwhite:

5 Q. Mr. Nelson, you were talking with staff  
6 counsel about an SEC docket. Do you remember that?

7 A. Yes.

8 Q. Do you have -- let's do it this way: Can  
9 you turn to the 2010 report, page 7100?

10 A. Did you say "7100."

11 Q. Yes. -100.

12 A. Okay.

13 Q. About after the first long quoted  
14 paragraph there's a SEC release number and date. Is  
15 that what you were referring to?

16 A. Yes, it is.

17 Q. Second, you had a lot of conversation  
18 with Mr. Olikier from IEU about allocation factors and  
19 different matters dealing with the ESP 1 and the FAC.  
20 Do you remember those questions?

21 A. I do.

22 Q. And you referred to your testimony from  
23 the ESP 1 in 08-917, correct?

24 A. Correct.

25 Q. Do you have what's been marked as AEP

1 Exhibit No. 4 up there in front of you?

2 A. I don't have that.

3 MR. SATTERWHITE: Your Honor, can we  
4 approach and provide him a copy?

5 EXAMINER PARROT: You may.

6 Q. Is this the document you were referring  
7 to in response to a number of questions?

8 A. I'm sorry, this is the -- this is today's  
9 testimony.

10 MR. SATTERWHITE: And I misspoke, your  
11 Honor, that's AEP Exhibit No. 1.

12 A. This is No. 1.

13 Q. Yes. Is that the testimony you were  
14 referring to when you talked to Mr. Olier earlier?

15 A. It is.

16 Q. And you referred, I believe, to page 11  
17 and some other pages in there beyond the summary  
18 discussion that we had with the financial auditor,  
19 correct?

20 A. That's correct.

21 Q. And did the testimony go on to explain  
22 further what was in the summary explanation of what  
23 goes into the FAC?

24 A. Yes.

25 MR. SATTERWHITE: Your Honor, at this

1 time I would move for the full admission of the  
2 document AEP Exhibit No. 1 as it's been discussed.  
3 And with that admission I have no more questions.

4 EXAMINER PARROT: Let's hold off on that  
5 till we have recross.

6 Duke?

7 MR. D'ASCENZO: No, thank you, your  
8 Honor.

9 EXAMINER PARROT: OCC?

10 MR. ETTER: No questions.

11 EXAMINER PARROT: IEU?

12 MR. OLIKER: Your Honor, could I have one  
13 minute?

14 EXAMINER PARROT: Okay.

15 - - -

16 RECROSS-EXAMINATION

17 By Mr. Oliker:

18 Q. Just to follow up on a question from  
19 Mr. Satterwhite, I didn't ask you about any specific  
20 pages in your testimony, did I, Mr. Nelson? You  
21 volunteered them.

22 A. I did. And, by the way, I may have  
23 misspoke. It should be bottom of 12, page 12, and  
24 the top of page 13. I think I said 11 and 12.

25 EXAMINER PARROT: So 12 and 13.

1 THE WITNESS: Yes, 12 and 13.

2 EXAMINER PARROT: With that  
3 clarification.

4 MR. OLIKER: I have no more questions,  
5 your Honor.

6 EXAMINER PARROT: Questions, OMA?

7 MS. MOHLER: No questions, your Honor.

8 EXAMINER PARROT: Staff?

9 MR. McNAMEE: No, thank you.

10 EXAMINER PARROT: Thank you, Mr. Nelson.

11 MR. SATTERWHITE: At this time, your  
12 Honor, I'd move for the full admission of AEP Exhibit  
13 1.

14 EXAMINER PARROT: All right. We've  
15 already moved for the admission of AEP Exhibit 4 as  
16 well. Are there any objections to either of those  
17 two exhibits? 1 or 4.

18 MR. ETTER: OCC would object, again, to  
19 the full admission of Exhibit 1 because it was not  
20 presented to all the parties and we have no idea what  
21 all is in there.

22 MR. OLIKER: I would as well, your Honor.  
23 I did not refer to it, he volunteered it in many of  
24 his, as he quoted, long-winded answers that were not  
25 responsive to my questions.

1 EXAMINER PARROT: Anyone else?

2 (No response.)

3 EXAMINER PARROT: At this point I'll  
4 admit, let's start with AEP Exhibit 4, I don't  
5 believe I heard any objections to that, so that will  
6 be admitted.

7 (EXHIBIT ADMITTED INTO EVIDENCE.)

8 EXAMINER PARROT: With respect to AEP  
9 Exhibit 1, we'll go ahead and add pages 12 and 13 to  
10 the pages that we previously admitted.

11 MR. SATTERWHITE: Can I make one pitch  
12 for the rest? What we discussed earlier was a  
13 summary of what went into the FAC and as he explained  
14 in some of his answers, it provided more information  
15 to back up the summary, so it might be beneficial to  
16 the Commission.

17 EXAMINER PARROT: I think I'm going to  
18 adhere to my ruling.

19 MR. SATTERWHITE: Thank you, your Honor.

20 EXAMINER PARROT: We will admit pages 12  
21 and 13 in addition to the pages we previously  
22 admitted which were 5 through 7 plus the cover page.

23 MR. SATTERWHITE: Thank you, your Honor.

24 EXAMINER PARROT: Thank you, Mr. Nelson.

25 And Mr. Olikar.

1 MR. OLIKER: I believe I already moved  
2 for the admission of 13. In case I didn't, I'd move  
3 for that, but I think I did, but I would also move  
4 for admission of the OVEC Power Agreement, which is  
5 IEU-Ohio Exhibit 14.

6 EXAMINER PARROT: 13 was already  
7 admitted. Are there any objections to 14?

8 MR. SATTERWHITE: No, your Honor.

9 EXAMINER PARROT: Hearing none, IEU  
10 Exhibit 14 is admitted.

11 (EXHIBIT ADMITTED INTO EVIDENCE.)

12 EXAMINER PARROT: Any further witnesses  
13 from the company?

14 MR. SATTERWHITE: That is it for direct,  
15 your Honor.

16 EXAMINER PARROT: Very good. Let's go  
17 off the record.

18 (Discussion off the record.)

19 EXAMINER PARROT: Let's go back on the  
20 record.

21 I believe OCC has our next witness.

22 MR. ETTER: Yes, OCC calls Dr. Daniel  
23 Duann.

24 EXAMINER PARROT: Please raise your right  
25 hand.

1 (Witness sworn.)

2 EXAMINER PARROT: Please be seated.

3 MR. ETTER: May I approach, your Honor?

4 EXAMINER PARROT: You may.

5 MR. ETTER: This is the confidential  
6 version, it is opposite of what AEP did. It has  
7 yellow for 2010 and green for 2011.

8 EXAMINER PARROT: Thank you.

9 MR. ETTER: I'd like to mark for  
10 identification OCC Exhibit 1 the public version of  
11 the direct testimony of Dr. Daniel Duann that was  
12 filed on November 8th, 2013, and Exhibit 1A the  
13 confidential version of Dr. Duann's testimony.

14 EXAMINER PARROT: So marked.

15 (EXHIBITS MARKED FOR IDENTIFICATION.)

16 - - -

17 DANIEL J. DUANN

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

20 DIRECT EXAMINATION

21 By Mr. Etter:

22 Q. Would you state your name, please?

23 A. Daniel J. Duann.

24 Q. And you are an employee of the Ohio  
25 Consumers' Counsel?

1 A. Yes.

2 Q. In what capacity are you employed?

3 A. I'm a principal regulatory analyst.

4 Q. And would you give your business address,  
5 please.

6 A. Yes. It's 10 West Broad Street, Suite  
7 1800, Columbus, Ohio, 43215.

8 Q. Thank you.

9 And do you have a copy of what we have  
10 identified as OCC Exhibits 1 and 1A before you?

11 A. Yes.

12 Q. And is this the testimony that you  
13 prepared or was prepared at your direction?

14 A. Yes.

15 Q. And this was filed on November 8th,  
16 2013, correct?

17 A. Yes.

18 Q. And do you have any changes or  
19 corrections to make to this testimony?

20 A. No.

21 Q. And the questions you answered here are  
22 truthful to the best of your knowledge?

23 A. Yes.

24 Q. And if you were asked these questions  
25 today, would you answer them the same way?



1 A. Yes.

2 Q. Thank you.

3 MR. ETTER: We have nothing further, your  
4 Honor. We tender the witness for cross-examination.

5 EXAMINER PARROT: AEP Ohio.

6 MR. ALAMI: Thank you, your Honor, no  
7 cross.

8 EXAMINER PARROT: Duke?

9 MR. D'ASCENZO: No questions, your Honor.

10 EXAMINER PARROT: IEU?

11 MR. OLIKER: No questions, your Honor.

12 EXAMINER PARROT: OMA?

13 MS. MOHLER: No questions.

14 EXAMINER PARROT: Staff?

15 MR. BEELER: No questions.

16 EXAMINER PARROT: Thank you, Dr. Duann.

17 MR. ETTER: Your Honor, then I move for  
18 the admission of OCC Exhibits 1 and 1A.

19 EXAMINER PARROT: Are there any  
20 objections?

21 (No response.)

22 EXAMINER PARROT: Hearing none, OCC  
23 Exhibits 1 and Exhibits 1A are admitted.

24 (EXHIBITS ADMITTED INTO EVIDENCE.)

25 EXAMINER PARROT: Any further witnesses

1 from OCC?

2 MR. ETTER: No, your Honor.

3 EXAMINER PARROT: Very good.

4 IEU.

5 MR. OLIKER: Your Honor, could we go off  
6 the record. I have a minor housekeeping matter.

7 EXAMINER PARROT: Let's go off the  
8 record.

9 (Discussion off the record.)

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

12 MR. OLIKER: Your Honor, IEU-Ohio calls  
13 Joseph Bowser as a witness.

14 EXAMINER PARROT: Raise your right hand.

15 (Witness sworn.)

16 EXAMINER PARROT: Please be seated.

17 - - -

18 JOSEPH G. BOWSER

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

21 DIRECT EXAMINATION

22 By Mr. Oliker:

23 Q. Please state your name for the record.

24 A. My name is Joseph G. Bowser.

25 Q. And what is your profession?

1 A. I'm an accountant and financial analyst.

2 Q. And who is your employer?

3 A. McNees, Wallace & Nurick.

4 Q. And what is your address?

5 A. 21 East State Street, Columbus, Ohio.

6 Q. Did you prepare testimony in this  
7 proceeding?

8 A. Yes, I did.

9 MR. OLIKER: Your Honor, I'd like to mark  
10 the testimony of Joseph Bowser on behalf of  
11 Industrial Energy Users-Ohio as IEU-Ohio Exhibit 15.

12 EXAMINER PARROT: So marked.

13 (EXHIBIT MARKED FOR IDENTIFICATION.)

14 MR. OLIKER: May I approach, please?

15 EXAMINER PARROT: You may.

16 Q. Mr. Bowser, did you prepare testimony in  
17 this proceeding?

18 A. Yes, I did.

19 Q. And is that testimony marked as IEU-Ohio  
20 Exhibit 15?

21 A. Correct.

22 Q. Do you have any corrections to make to  
23 your testimony?

24 A. No, I do not.

25 Q. So is your testimony true and accurate to

1 the best of your knowledge?

2 A. Yes, it is.

3 Q. And if you were asked those questions  
4 again today, would your answers be the same?

5 A. Yes, they would.

6 MR. OLIKER: Your Honor, I would move for  
7 admission of the exhibit and tender the witness for  
8 cross-examination.

9 EXAMINER PARROT: Thank you.

10 AEP?

11 MR. SATTERWHITE: I assume we're last.

12 EXAMINER PARROT: Oh, that's fine. Let's  
13 start here with Duke.

14 MR. D'ASCENZO: No questions, your Honor.

15 EXAMINER PARROT: OCC?

16 MR. ETTER: No questions, your Honor.

17 EXAMINER PARROT: OMA?

18 MS. MOHLER: No questions.

19 EXAMINER PARROT: Staff?

20 MR. BEELER: No questions, thank you.

21 EXAMINER PARROT: No questions from the  
22 staff so you truly are last.

23 MR. SATTERWHITE: Thank you, your Honor,  
24 I hear that a lot.

25 - - -

## CROSS-EXAMINATION

By Mr. Satterwhite:

Q. Mr. Bowser, good afternoon. Good to see you.

A. Good afternoon.

Q. Hopefully we can deal with this rather quickly. I'd like to have you turn in your testimony to page 6.

A. Yes, I'm there.

Q. And on page 6 there's a footnote where you incorporate by reference testimony from an AEP employee Mr. Thomas Mitchell. Do you see that?

A. Yes, I do.

Q. And that testimony that you incorporate is from a case in the West Virginia jurisdiction, correct?

A. That's correct.

Q. And it's dealing with a energy clause down in West Virginia, correct?

A. I believe that's correct, yes.

Q. And the West Virginia utility jurisdiction is a traditional cost of service jurisdiction, correct?

A. If you mean by "traditional" that there's not customer choice, is that what you mean?

1 Q. What's your definition of "traditional  
2 cost of service jurisdictions"? I'm asking what you  
3 think, when someone says "traditional cost of service  
4 jurisdiction," how would you define that?

5 A. I would think of that as rate base based  
6 regulation, basically.

7 Q. So West Virginia does not have a statute  
8 similar to Ohio that deals with an electric security  
9 plan, an SSO, a market rate offer, a SEET, correct?

10 A. I can't say that for sure. I don't know  
11 that for sure.

12 Q. So you don't know --

13 A. No, I don't.

14 Q. -- how it's structured?

15 MR. SATTERWHITE: One second, your Honor.

16 Q. But it is fair to say that the fuel  
17 adjustment clause that we're discussing today in this  
18 case was established under an Ohio statute that has  
19 an electric security plan, market rate offer, and  
20 SEET as we discussed earlier, correct?

21 A. It was established under a phase-in plan.

22 Q. As part of an electric security approved  
23 by the Public Utilities Commission of Ohio, correct?

24 A. That's correct.

25 Q. Do you do any work in the state of

1 West Virginia?

2 A. No, I have not.

3 Q. So you've never appeared as a witness in  
4 a regulatory matter in that jurisdiction?

5 A. No.

6 MR. SATTERWHITE: That's all I have, your  
7 Honor.

8 Thank you, Mr. Bowser. Sorry you didn't  
9 get into your water very much there.

10 EXAMINER PARROT: Any redirect?

11 MR. OLIKER: Your Honor, if I can have  
12 maybe one minute to confer with the witness, I  
13 believe we may not.

14 EXAMINER PARROT: You may.

15 (Off the record.)

16 EXAMINER PARROT: Let's go back on the  
17 record.

18 - - -

19 REDIRECT EXAMINATION

20 By Mr. Oliker:

21 Q. Mr. Bowser, do you remember when counsel  
22 for AEP Ohio asked you whether it is important that  
23 Mr. Mitchell recommended an ADIT offset in a  
24 traditional cost of service jurisdiction?

25 MR. SATTERWHITE: Objection, your Honor,

1 I didn't ask that. I asked a comparison of what the  
2 jurisdiction was. I didn't ask anything about what  
3 Mr. Mitchell said about it. It was totally just to  
4 distinguish between the two jurisdictions.

5 EXAMINER PARROT: Do you want to rephrase  
6 your question? Let's try that.

7 Q. Okay, Mr. Bowser, do you remember when  
8 counsel for AEP Ohio asked you whether or not the  
9 jurisdiction Mr. Mitchell testified in is a  
10 traditional cost of service jurisdiction?

11 A. Yes.

12 Q. For purposes of your testimony today do  
13 you believe that it matters that Mr. Mitchell  
14 testified in a traditional cost of service  
15 jurisdiction?

16 A. No, I don't believe it matters.

17 Q. And explain why, please.

18 A. With respect to the ADIT issue which is  
19 the main issue in my testimony, ADIT is a source of  
20 cost-free capital and I don't believe that it makes a  
21 difference as to whether or not that should be  
22 deducted in a determination of carrying charges  
23 whether it's cost-based regulation or not.

24 And in fact, as the fuel auditors picked  
25 up in their 2011 audit findings and I believe their



1 2010 as well, you know, they raised this very same  
2 issue saying that the ADIT issue should be addressed  
3 in this proceeding and that's in part why I included  
4 that in my testimony.

5 MR. OLIKER: I have no more questions,  
6 your Honor. Thank you.

7 EXAMINER PARROT: Duke?

8 MR. D'ASCENZO: No, your Honor.

9 EXAMINER PARROT: OCC?

10 MR. ETTER: No, your Honor.

11 EXAMINER PARROT: OMA?

12 MS. MOHLER: No.

13 EXAMINER PARROT: Staff?

14 MR. BEELER: No.

15 EXAMINER PARROT: AEP?

16 MR. SATTERWHITE: Nothing, thank you.

17 EXAMINER PARROT: Thank you very much,  
18 Mr. Bowser.

19 I think we already heard a motion for  
20 admission of IEU Exhibit 15. Are there any  
21 objections?

22 MR. SATTERWHITE: No objection.

23 EXAMINER PARROT: Hearing none, IEU  
24 Exhibit 15 is admitted.

25 (EXHIBIT ADMITTED INTO EVIDENCE.)

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

3 (Discussion off the record.)

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

6 Mr. Satterwhite.

7 MR. SATTERWHITE: Thank you, your Honor.  
8 The company is going to endeavor to look quickly to  
9 see if there are rebuttal issues from all the issues  
10 that came up today that we need to file. If so,  
11 we'll be filing by 5:30, the close of business on  
12 Wednesday of this week with the understanding that  
13 then we can move forward to hearing on that rebuttal  
14 testimony this Friday, based on availability of a  
15 hearing room.

16 MR. ETTER: Excuse me, your Honor, you'll  
17 give electronic service on --

18 MR. SATTERWHITE: Absolutely.

19 EXAMINER PARROT: Keep the parties  
20 apprised of what our plan is for the remainder of the  
21 week.

22 MR. SATTERWHITE: Yes.

23 EXAMINER PARROT: Thank you.

24 Also while we were off the record the  
25 parties discussed a briefing schedule and the parties

1 have agreed to file their initial briefs in these  
2 proceedings on January 7th with reply briefs being  
3 filed on January 21st, 2014.

4 Is there anything else to come before us  
5 today?

6 (No response.)

7 EXAMINER PARROT: Hearing none, we are  
8 adjourned, thank you.

9 (Hearing adjourned at 4:48 p.m.)

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## 1 CERTIFICATE

2 I do hereby certify that the foregoing is a  
3 true and correct transcript of the proceedings taken  
4 by me in this matter on Monday, November 18, 2013,  
5 and carefully compared with my original stenographic  
6 notes.

7  
8 Maria DiPaolo Jones, Registered  
9 Diplomate Reporter and CRR and  
Notary Public in and for the  
State of Ohio.

10 My commission expires June 19, 2016.

11 (73935mdj)

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Summary: Transcript Part 3 of 3 (Public Version) electronically filed by Mr. Matthew J Satterwhite on behalf of Ohio Power Company