

file 88
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BY FEDERAL EXPRESS

Public Utilities Commission of Ohio
Docketing Division
180 East Broad Street
10th Floor
Columbus, OH 43215-3793

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Re: In the Matter of the Two-Year Review of Centerior Energy
Corporation's Environmental Compliance Plan Pursuant to
Section 4913.05, Revised Code - Case No. 94-1698-EL-ECP

Dear Sir/Madam:

Enclosed, please find the non-confidential portions of deposition testimony that constitute Exhibit 8 to the testimony of Charles E. Mann in this proceeding. Please file the Exhibit with the non-confidential portion of Mr. Mann's testimony.

This Exhibit material is being served on each party in this case.

Sincerely,

Mark L. Perlis

Mark L. Perlis

Enclosures

cc: Service List

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Technician Joan Schumler Date Processed 4-16-97

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the)
Two-Year Review of)
Centerior Energy)
Corporation's Environmental) Case No. 94-1698-EL-ECP
Compliance Plan Pursuant)
to Section 4913.05, Revised)
Code)

Deposition of RICHARD HOAG, a Witness called
for the purpose of testifying in the above matter,
before me, Ellen A. Hancik, Registered Professional
Reporter and Notary Public within and for the State
of Ohio, at the offices of Centerior Energy Corporation,
6200 Oak Tree Boulevard, Independence, Ohio on
Monday, the 7th day of April, 1997 at 2:50 p.m.
Some portions of this transcript are made separate
and under confidential seal.

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RICHARD HOAG, of lawful age,
called by the Ohio Valley Coal Company
for the purpose of testimony in the
above matter being by me first duly sworn,
as hereinafter said as follows:

EXAMINATION OF RICHARD HOAG

BY MR. PERLIS:

Q Good afternoon, Mr. Hoag.
A Good afternoon.
Q For the record, you've sat through all of
the deposition of Mr. Kovach?
A That's correct.
Q Both parts?
A Yes.
Q And Mr. Stead's deposition, as well?
A Correct.
Q Thank you. Would you state for the record
what your job title is at Centerior
Energy?
A I am the Production Strategies Manager,
and Emission Allowance Manager.
Q And what, I'm sorry, the production?
A Strategies Manager.

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APPEARANCES:

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By telephone:

Stuart H. Siegfried
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ALSO PRESENT: Ms. Nancy Caesar, Rates Assistant
Mr. Frank Stead

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Q Yeah. And to whom do you report in those
two roles?
A Eileen Buzzelli, B-U-Z-Z-E-L-L-I.
Q In both those roles?
A Yes.
Q And do you know to whom she reports with
respect to these items?
A Stan Szwed, S-Z-W-E-D.
Q How long have you been the Production
Strategies Manager or performed those
functions under a different job
description?
A Since mid January.
Q Of what year?
A '97.
Q And what was your position during calendar
year 1996?
A If it'll make it briefer, during the study
period, I was the Acting Manager of
Resource Planning and the Emission
Allowance Manager.
Q And when you say during the study period,
that includes both the 1995 study and the
1996 supplemental study?
A No, just for the 1996 update. I took over

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[1] Now I've given you some
[2] latitude.
[3] MR. PERLIS: I intend to
[4] follow pretty much along the same
[5] lines. I do not intend this
[6] inquiry to be even extensive or
[7] direct into the methodology,
[8] underlying data, etc. I'm
[9] interested primarily in process in
[10] understanding roles, so with that,
[11] may I proceed with my questions?
[12] MR. REGULINSKI: Yes, you may
[13] and I would ask that you come to
[14] some conclusion on this quickly.
[15] MR. PERLIS: I will try.
[16] BY MR. PERLIS:
[17] Q My understanding from the earlier
[18] depositions in this proceeding that we're
[19] focussed on the 1995 study was that there
[20] was a committee of five including yourself
[21] that worked at bringing that study to
[22] fruition. And would you say that's a fair
[23] characterization?
[24] A Yes.
[25] Q And that those individuals were yourself,

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[1] Q In terms of developing the directives, if
[2] you will, the course of action for how the
[3] study was going to proceed, you basically
[4] formulated that yourself?
[5] A No. I used the same methodology that was
[6] used in the '95.
[7] Q I didn't - okay, but who made the
[8] decision to follow the same methodology as
[9] was used in 1995?
[10] A I did. Because that was the same type of
[11] methodology in '92 and '95 and for
[12] consistency's sake, we did it for '96.
[13] Q I understand. You say that what you did
[14] in 1996 was you sought updated information
[15] from the fuels and the rates departments,
[16] is that correct, among other updated
[17] information that you may have sought?
[18] A That is correct.
[19] Q Were there other departments within
[20] Centenor that you sought additional
[21] information from, data in preparation of
[22] this 1996 study?
[23] A Okay, information that we would have
[24] updated for this study would have been the
[25] fuel pricing, the allowance pricing, and

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[1] Mr. Kovach, Mr. - I believe it's Evans
[2] and Mr. Krueger and Mr. Fink; is that
[3] roughly -
[4] A That sounds about right, yes.
[5] Q Okay. Now when you undertook the work in
[6] the 1996 study, did you similarly have a
[7] committee or did you basically take most
[8] of the responsibility that that committee
[9] had and undertake it personally?
[10] MR. REGULINSKI: May I enter
[11] an objection? Just a moment, and
[12] give the witness a chance to write
[13] down the five people who worked on
[14] the '95 study so he can recall
[15] them correctly.
[16] THE WITNESS: Okay.
[17] MR. PERLIS: Okay.
[18] MR. REGULINSKI: Please
[19] continue with your questioning, or
[20] we can read the question back.
[21] ---
[22] (Record read.)
[23] ---
[24] A I would have to say that I'd undertook
[25] most of that responsibility myself.

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[1] the load forecast.
[2] Q Not system utilization?
[3] A What do you mean by system utilization?
[4] Q The extent to which the generating plants
[5] were going to run.
[6] A That would fall out as part of the load
[7] forecast.
[8] Q I see. Did you produce any or seek to
[9] produce any data or information regarding
[10] projected wholesale sales of power or
[11] purchases of power in connection with the
[12] 1996 study?
[13] A No, I did not. That's not our
[14] standardized methodology for approaching
[15] studies. We did everything on a service
[16] territory, native load customer basis.
[17] Q Service territory, native load, and
[18] customer?
[19] A No, service territory, native load.
[20] Q Basis?
[21] A Right.
[22] Q And that's the methodology that you'd
[23] always followed in the past?
[24] A Yes.
[25] Q Has the level of wholesale sales and

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- [1] purchases been increasing for Centerior as
[2] a system?
[3] MR. REGULINSKI: Objection,
[4] relevance. Without waiving the
[5] objection, let the witness answer.
[6] A I couldn't answer that right now. I
[7] really don't know.
[8] Q But you said that you were in charge of
[9] the wholesale sales for the company.
[10] MR. REGULINSKI: He didn't
[11] say that. I object. That's a
[12] very bad characterization of the
[13] earlier witness's testimony.
[14] Q Well, then let me rephrase the question
[15] this way. What is your responsibility
[16] with respect to wholesale sales and
[17] purchases in the company?
[18] A I provide information to our wholesale
[19] power traders, our wholesale power
[20] marketers. They actually make the deals
[21] and again, I've been doing that since
[22] January, early January of this year.
[23] Q You evaluate all of the deals, and see all
[24] of the deals?
[25] A No, I provide them information.

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- [1] Q Other than that, did you change the
[2] methodology in any way from the previous
[3] studies?
[4] A Not from the '95 study, no.
[5] Q And you did not seek other information.
[6] Now as you sought that information, whom
[7] did you seek the fuel pricing information
[8] from?
[9] A We requested that from the Fuel Supply and
[10] Planning section of procurement.
[11] Q And from whom did you receive the
[12] information?
[13] A I believe it was Joe Lang.
[14] Q And the allowance pricing information?
[15] A I provided that.
[16] Q And the load forecasting information?
[17] A That came from our 1996 LTFR that was
[18] approved by the Commission in May of '96.
[19] Q And when you say the load forecast came as
[20] approved by the Commission, what does that
[21] mean? Was it a specific set of numbers as
[22] to what the load was going to be?
[23] A We provide on an annual basis to the
[24] Commission a load forecast, and that is
[25] worked up every year and submitted, and

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- [1] Q So the power marketers have the authority
[2] to make deals for the company without your
[3] approval?
[4] A They have their own person that they
[5] report to.
[6] Q Person?
[7] A They do not report to me.
[8] Q They report to a person within C.E.I. or a
[9] person within the power marketing company?
[10] A Within Centerior's wholesale power
[11] marketing.
[12] Q I see. When you say -- when you consulted
[13] the wholesale power marketers, you mean
[14] Centerior wholesale power marketers?
[15] A Yes.
[16] Q As opposed to outside third party power
[17] marketers?
[18] A Correct.
[19] Q I misunderstood that. So returning then
[20] to the three items that you sought
[21] additional information for in preparing
[22] the 1996 study, fuel pricing, allowance
[23] prices and load forecasts, those were the
[24] three areas you cited, correct?
[25] A Correct.

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- [1] they approved it, and then we incorporated
[2] it into our models.
[3] Q And do you incorporate it as the only load
[4] forecast that you look at or do you have a
[5] high, medium and low load forecast that
[6] were all equally approved?
[7] A For this study, it was the only one.
[8] Q And over what period did that load
[9] forecast run?
[10] A It's a 20 year forecast.
[11] Q Now when you do your work to prepare load
[12] forecasts, when the company does its work
[13] to prepare load forecasts, for let's say,
[14] submission to the Commission, you say they
[15] do that on an annual basis.
[16] A Yes.
[17] Q Do they run multiple computer models and
[18] evaluation of possible load forecasts for
[19] projections?
[20] A I really don't know.
[21] Q From whom do you get the load forecast,
[22] just out of the published reports and you
[23] don't -- do you not deal with specific --
[24] did you not deal with specific individuals
[25] in preparing the '96 study?

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[1] A I did not deal with a specific individual.
 [2] Q Mr. Hoag, with respect to the fuel pricing
 [3] information that you received from
 [4] Mr. Lang or others from the Fuel
 [5] Department, or the Planning Department, is
 [6] all of the information that you received
 [7] incorporated into the various tables, some
 [8] of which were filed under confidential
 [9] seal in the 1996 study or was there
 [10] substantial information that you looked at
 [11] and chose not to include in the study?
 [12] MR. REGULINSKI: May I have
 [13] that question re-read, please?
 [14] ---
 [15] (Record read.)
 [16] ---
 [17] MR. REGULINSKI: Can I ask a
 [18] clarification question?
 [19] Substantial information not
 [20] included, are you referencing
 [21] loads information, or just fuel
 [22] pricing information?
 [23] MR. PERLIS: That was a very
 [24] lengthy question. Perhaps I
 [25] should just strike it and start

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[1] mean that you did not request at that time
 [2] from Mr. Lang in the Fuel Department fuel
 [3] price projections for 6.0 pound coal for
 [4] use at Eastlake?
 [5] A That is correct, because 6.0 pound coal if
 [6] burned exclusively would put us over our
 [7] SIP limit which I believe is like 5.65.
 [8] Q Now you've heard testimony earlier today
 [9] by your colleague that in 1996, and as
 [10] reflected in supplemental responses to
 [11] document production requests, that in
 [12] 1996, there was a mixture of fuels at
 [13] Eastlake.
 [14] Why did you not request coal price
 [15] projections for different mixes for these
 [16] different coals?
 [17] A Those coals were selected because it's the
 [18] same ranges we have used in the '95 study
 [19] and it was information that was available
 [20] from the EVA study.
 [21] Q Which EVA study is this that you're
 [22] referring to now?
 [23] A The one that the Fuel Procurement
 [24] Department used in developing those
 [25] numbers to provide to us.

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[1] over again.
 [2] BY MR. PERLIS:
 [3] Q With respect only to the fuel pricing
 [4] information that you received from
 [5] Mr. Lang and the Planning Department, did
 [6] they submit to you information that is not
 [7] included in the various tables that were
 [8] submitted under seal in this case?
 [9] A I'll answer it by saying that the Fuel
 [10] Supply Planning group provided the
 [11] information we requested which is the fuel
 [12] pricing. If they provided more, I'm not
 [13] aware of it because the data did not come
 [14] directly to me.
 [15] Q So looking at table number 2, not under
 [16] seal in the study, it's the delivered coal
 [17] cost plus the S02 cost for the Eastlake
 [18] plant. The delivered coal cost which
 [19] would have come from Mr. Lang and others.
 [20] The only numbers that you would have
 [21] requested from them would have been for
 [22] 1.2, 1.6, 2.5, 3.8 pound coal?
 [23] A Yes.
 [24] Q And under 6.0 you have NA, not applicable,
 [25] because of the SIP limitation. Does that

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[1] Q So when you got fuel pricing information,
 [2] were you getting two separate sets? One
 [3] from Mr. Lang or one was from EVA or was
 [4] it that Mr. Lang took EVA's and then gave
 [5] you a Centerior fuel price forecast that
 [6] was based on the EVA numbers?
 [7] A Okay, Mr. Lang took the EVA study, applied
 [8] his knowledge to it and gave us the fuel
 [9] price forecast that we used.
 [10] Q You did not independently evaluate the EVA
 [11] numbers?
 [12] A No, I did not. I've never seen it.
 [13] Q You have no knowledge as to whether the
 [14] EVA numbers are based on long term coal
 [15] contracts, spot contracts, etc.?
 [16] A That is correct.
 [17] Q So again, you felt that in preparing the
 [18] 1996 study, that there was no need for you
 [19] to go outside the bounds of the prior
 [20] study, and all that was required was to
 [21] update the precise factual data that had
 [22] been included in that prior study?
 [23] A That is correct. Based on the years of
 [24] planning that we've done through the Clean
 [25] Air Act up through '95, and updating this

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[1] small portion of our plan.
 [2] Q And do you know whether EVA updated their
 [3] fuel price forecast between the 1995 study
 [4] and the 1996 study?
 [5] A No, I do not.
 [6] Q And did you ask Mr. Lang to make sure that
 [7] he was relying on up to date figures?
 [8] A When I go to a gentleman and ask him to
 [9] provide me a fuel price forecast, what he
 [10] gives me is my up to date numbers.
 [11] Q Did you have a budget for the preparing
 [12] the Supplemental Fuel Switching Study?
 [13] MR. REGULINSKI: Objection.
 [14] Relevance.
 [15] MR. PERLIS: I want to know
 [16] whether or not it was budgeted to
 [17] retain outside consultants to work
 [18] on the 1996 study.
 [19] MR. REGULINSKI: We provided
 [20] responses to that already. I'll
 [21] allow this question but I don't
 [22] think I'll allow anything more on
 [23] this. You may answer this
 [24] question.
 [25] A Let me explain our budget procedures done

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[1] recall how long it took from when the
 [2] commitment first started meeting to when
 [3] the report was finished?
 [4] MR. REGULINSKI: Objection,
 [5] relevance. Without waiving the
 [6] objection, I'll allow the witness
 [7] to answer.
 [8] A No, I don't remember the time span.
 [9] Q Do you believe that working on the 1996
 [10] study, you spent more or less time than
 [11] the group spent in 1995?
 [12] MR. REGULINSKI: Same
 [13] objection. Without waiving, the
 [14] witness can answer.
 [15] A Well, since I can't remember how long it
 [16] took in '95, I really can't say whether it
 [17] was more or less now.
 [18] Q Do you remember how much time it took you
 [19] in 1996 to work on the study? How many
 [20] man hours you put in on the study?
 [21] A I would only be guessing.
 [22] Q I'm willing to entertain your guess.
 [23] A Just within my group only, I would say
 [24] maybe 160 man hours.
 [25] Q Now, you took the numbers from fuel

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[1] in September, October, November. I took
 [2] over in July. Whether there was money
 [3] included or not, I cannot definitely
 [4] answer and normally that kind of money
 [5] would not be budgeted at my level. That
 [6] would be done in another area. In this
 [7] case, specifically down in Fuel
 [8] Procurement to update a fuel study.
 [9] Q But you made no request of Fuel
 [10] Procurement to retain outside consultants
 [11] to update the outside consultant's study?
 [12] A I made a request to Fuel Procurement to
 [13] provide me with updated numbers for the
 [14] supplemental study.
 [15] Q And however they chose to do that, they
 [16] could have chosen to rely on the older
 [17] study and just adjusted it from their own
 [18] knowledge of the fuel price market and
 [19] they could have gone out and hired an
 [20] outside consultant to have done it; it was
 [21] entirely up to them and you didn't inquire
 [22] as to how that was done?
 [23] A That is correct.
 [24] Q Now when you worked on the 1995 study as
 [25] part of that committee of five, do you

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[1] pricing, your group came up with the
 [2] allowance numbers, and you took the load
 [3] forecast numbers out of the LTFR. Why did
 [4] it take even 50 hours to do the study?
 [5] MR. REGULINSKI: I'll object,
 [6] come on. He said this was a
 [7] guess. He said maybe he'd be
 [8] guessing on the number.
 [9] Q I'll rephrase the question. What was the
 [10] bulk of the 160 hours spent on or whatever
 [11] the number of hours was, what was the bulk
 [12] of it spent on? Producing the allowance
 [13] forecasts?
 [14] A No, you have data requests, you receive
 [15] the data, enter the data, evaluate
 [16] production runs, evaluation.
 [17] Q When you say evaluate the data, in what
 [18] sense did your office evaluate the data
 [19] that you received from fuel pricing or
 [20] load forecasting?
 [21] A Well, you want to make sure that the -
 [22] that if the data is trending upwards,
 [23] somewhere in the middle, you don't have a
 [24] bogus point that comes down and goes back
 [25] up so it's inspection of the data.

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- [1] Q Basically a quality check, just to see
[2] that the curve looked like it was going in
[3] the right direction?
[4] A Right.
[5] Q Considering that, whether the number's 160
[6] hours or 100 hours, did it take more than
[7] a couple of hours to evaluate Mr. Lang's
[8] data to see that it looked like it was
[9] consistent? Did your office evaluate it
[10] for any more than an hour or two?
[11] A Again specifically, I can't answer that
[12] because Mr. Lang's data did not come to
[13] me. It came to a gentleman who worked for
[14] me.
[15] Q So it's possible it went back and forth to
[16] Mr. Lang a few times?
[17] A Oh, very well could have. I don't know if
[18] that's correct or not.
[19] Q Who is this gentleman who worked for you?
[20] A Rob Martinko.
[21] MR. REGULINSKI: M-A-R-T-
[22] I-N-K-O.
[23] Q Now with respect to the allowance price
[24] forecasts that you produced in your own
[25] department, correct?

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- [1] Emissions Exchange, and I think the
[2] publication is the Clean Air Compliance
[3] Review publication, the EATX, as well as
[4] market contacts that I've developed
[5] through being in the position for over
[6] four years.
[7] Q In 1995 with the emission allowance
[8] forecast, what was that based upon, the
[9] one used in the 1995 study?
[10] A I believe that was based on an EVA
[11] forecast that they prepared for us.
[12] Q And did that turn out to be accurate or
[13] off by a fair degree?
[14] MR. REGULINSKI: Objection.
[15] Relevance.
[16] Q Very short run?
[17] MR. REGULINSKI: Objection,
[18] relevance. Without waiving the
[19] objection, I'll let the witness
[20] answer.
[21] A I can't really say as if I went back and
[22] compared the market to what their forecast
[23] was.
[24] Q If they project a fall in 1994, would have
[25] been when they did the projection,

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- [1] A Yes.
[2] Q Did you produce that personally or did you
[3] rely on others within your department to
[4] produce it?
[5] A No, I produced that myself.
[6] Q Did you rely on other people within your
[7] department for factual information that
[8] you utilized in making that forecast?
[9] A No.
[10] Q So you brought to bear your experience
[11] since 1993 on what you knew about the
[12] allowance market in coming up with that
[13] allowance price forecast?
[14] A Correct.
[15] Q And you did not retain any outside
[16] consultant to prepare an allowance price
[17] forecast for you?
[18] A No.
[19] Q Did you look at third party projections of
[20] allowance prices in reaching your
[21] assessment of future allowance prices?
[22] A Yes, I did.
[23] Q Can you tell me whose projections you
[24] looked at?
[25] A I used Canter Fitzgerald as one source,

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- [1] correct? Did they project that there
[2] would be any fall in allowance prices
[3] between then and 1997?
[4] MR. REGULINSKI: This is for
[5] the '95 study?
[6] MR. PERLIS: Yes.
[7] MR. REGULINSKI: Same
[8] objection. Without waiving it,
[9] Mr. Hoag, you can answer.
[10] A I don't believe their forecast indicated a
[11] downward trend.
[12] Q At that time, did you have any reason to
[13] project for the company's purposes, that
[14] there would be a decline in emission
[15] allowance prices?
[16] MR. REGULINSKI: Objection.
[17] This is still about the '95 study?
[18] MR. PERLIS: Yes, it is.
[19] MR. REGULINSKI: That's
[20] enough.
[21] MR. PERLIS: It's going to
[22] the relevance of reliability of
[23] studies.
[24] MR. REGULINSKI: Yes, but
[25] your witness has admitted under

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[1] oath that the forecasts prepared
[2] are not unreasonable, and I have a
[3] protective order precluding review
[4] analysis, underlying data and
[5] studies in the '95 study.
[6] MR. PERLIS: We're not asking
[7] the question as to whether the
[8] forecast itself was reasonable or
[9] unreasonable as a forecast. We're
[10] asking whether it turned out to be
[11] accurate after the fact.
[12] MR. REGULINSKI: And the '95
[13] study is not relevant to the '96
[14] study. There was a stipulation on
[15] the '95 study. I've given you
[16] latitude on the '95 study but I've
[17] got a protective order on the '95
[18] study.
[19] MR. PERLIS: I'll rephrase
[20] the question in another way then
[21] to avoid this.
[22] BY MR. PERLIS:
[23] Q Mr. Hoag, you have at least four years of
[24] experience from 1993 through now, 1997, on
[25] emission allowance forecasts. Have you

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[1] As you've looked at all the prior
[2] ones, had any of them projected a decline
[3] in allowance prices for the coming year or
[4] two or three?
[5] A All of the previous forecasts that I've
[6] ever seen going back to the signing of the
[7] Clean Air Act where it said \$800, and then
[8] scrubber prices came down to \$600 and then
[9] down to \$400, everything has been trending
[10] down.
[11] Q Now that's the actual prices?
[12] MR. REGULINSKI: Forgive me,
[13] I don't know if the witness has
[14] completed his statement and I
[15] would ask the -- I would ask that
[16] the attorney wait until the
[17] witness has completed his answer
[18] before following up with another
[19] question.
[20] BY MR. PERLIS:
[21] Q Excuse me, and please interrupt me if I
[22] interrupt you.
[23] A Those forecasts had been trending down.
[24] When we got the EVA forecast, it was
[25] showing an increase. We went with that

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[1] been preparing annual forecasts each year
[2] for internal use here at Centerior?
[3] A Okay, the first forecast that was used
[4] with my knowledge because there were ones
[5] before me, and I can't attest to any of
[6] their validity, but the first one that we
[7] used was the EVA in December of '94.
[8] Q And have there been subsequent forecasts
[9] that you have developed internally here?
[10] A Yes, I have developed them internally on a
[11] periodic or as needed basis depending upon
[12] what was being studied.
[13] Q Have there been other needs than just the
[14] Supplemental Fuel Switching Study for such
[15] projections to be made?
[16] A Yes.
[17] Q And you've always done them yourself?
[18] A Correct.
[19] Q You haven't retained other outside parties
[20] like you did with EVA that first time?
[21] A No, they've always been internal.
[22] Q Now as you've taken all those allowance
[23] projections and forecasts together, do you
[24] find that they are -- or let me strike
[25] that.

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[1] forecast. Then in '95, based on my
[2] knowledge of the market, based on
[3] allowance prices, it was decided to go
[4] with our own forecast, and not even in our
[5] forecast, do we show a decline down.
[6] Q In fact, are you aware of Canter
[7] Fitzgerald or Emission Exchange or the
[8] other Clean Air Compliance, EATX that
[9] you've referred to, are you aware of any
[10] of them having forecasted the decline in
[11] emission allowance prices that actually
[12] occurred in 1996?
[13] A That occurred in '96?
[14] Q '95 and '96, between the time of the first
[15] study and the time of the second one.
[16] A Long term forecasts, no. Short term, yes.
[17] Q Did any -- so you are aware of some having
[18] projected a reduction short term, even
[19] though EVA didn't show that in their
[20] study?
[21] A Right.
[22] Q Now with respect to the load forecast that
[23] you've gotten out of the 1996 LTFR
[24] approved by the Commission in 1996, that
[25] load forecast tells -- in what way did you

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[1] use that load forecast?
 [2] I don't see a chart or any table that
 [3] says load forecast the way I do for
 [4] allowance prices or coal prices. How did
 [5] you use the load forecast?
 [6] A Well, the load forecast gives you a
 [7] projected peak for the month in the energy
 [8] for the month, and then you use that to
 [9] project generation at each plant.
 [10] Q And what use did you make out of that in
 [11] the 1996 Supplemental Fuel Switching
 [12] Study?
 [13] A Well, that was the load we used for the
 [14] analysis to come up with a generation for
 [15] each plant, the fuel that was burned at
 [16] each plant and be taken back out to get
 [17] the amount of SO2 generated and allowances
 [18] needed.
 [19] Q So is it fair to say that the exclusive
 [20] use of the load forecast information was
 [21] to generate table 5, the projected system
 [22] EA bank?
 [23] MR. REGULINSKI: May we see
 [24] 5, please?
 [25] ---

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[1] Q Does it affect the delivered coal cost?
 [2] A It may affect delivered coal cost but
 [3] those are evaluated costs in the table.
 [4] Q Right. What does evaluated coal cost
 [5] consist of? Is it not simply the sum of
 [6] delivered coal cost plus the SO2 cost?
 [7] MR. REGULINSKI: We've had
 [8] two witnesses speak of evaluated
 [9] coal prices prior to Mr. Hoag
 [10] being deposed from the Procurement
 [11] Department.
 [12] MR. PERLIS: Right, because
 [13] that was our understanding but
 [14] this is the man who everyone has
 [15] told me is the one who did the
 [16] study, and this is what's in the
 [17] table. I'm asking him to explain
 [18] whether the evaluated coal price
 [19] in this study is anything more
 [20] than the sum of what's stated in
 [21] the top of the table, delivered
 [22] coal cost plus SO2 cost.
 [23] MR. REGULINSKI: I was
 [24] wondering if you were going back
 [25] to the previous depositions

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[1] (Record read.)
 [2] ---
 [3] A That was one of the uses. I would not say
 [4] exclusive.
 [5] Q Can you tell me what other uses, useages
 [6] were made of the load forecast?
 [7] A I just didn't want my response to be
 [8] exclusive. There could be others but I
 [9] don't recall what they are.
 [10] Q Looking at tables 1 to 4 in the study, was
 [11] it used at all in producing those numbers?
 [12] A It would definitely not have been used for
 [13] table 1. More than likely was used
 [14] associated with tables 2, 3 and 4.
 [15] Q How might it have been used for tables 2,
 [16] 3 and 4?
 [17] A It would be used to arrive at the numbers
 [18] for those tables based on the generation.
 [19] Q So tables 2, 3 and 4 show that the
 [20] delivered coal cost plus the SO2 cost for
 [21] different pounds of SO2 coal.
 [22] Does the load forecast affect the SO2
 [23] cost, the allowance cost that you would
 [24] have used or just the delivered coal cost?
 [25] A It does not affect the SO2 cost.

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[1] regarding the evaluated coal price
 [2] for procurement. You've
 [3] clarified, thank you.
 [4] BY MR. PERLIS:
 [5] Q Just for purposes of this study, the
 [6] evaluated coal price that appears in this
 [7] study, is it simply the sum of the
 [8] delivered coal cost plus the SO2 cost?
 [9] A If delivered on that table includes
 [10] transportation, yes, but otherwise, you
 [11] have to include transportation also.
 [12] Q So delivered coal cost itself has two
 [13] components; one is transportation and one
 [14] is the mine cost?
 [15] A Mm-hmm.
 [16] Q And in what sense does the load forecast
 [17] affect either component of the delivered
 [18] coal cost?
 [19] MR. REGULINSKI: May I have
 [20] the question re-read, please?
 [21] ---
 [22] (Record read.)
 [23] ---
 [24] MR. REGULINSKI: Perhaps it
 [25] helps to review what was the

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[1] either in that question.
 [2] MR. SIEGFRIED: Excuse me,
 [3] Mr. Perlis. This is Stuart, with
 [4] the staff. I just wanted to let
 [5] you know there is another
 [6] gentleman with the staff, Mr. Ray
 [7] Strom is here as well. He's with
 [8] the Commission staff also.
 [9] MR. PERLIS: Thank you.
 [10] ---
 [11] (Record read.)
 [12] ---
 [13] A In tables 2, 3 and 4, the -- I was
 [14] incorrect in saying that the load forecast
 [15] would impact those tables. That is
 [16] delivered cost, plus SO2, plus
 [17] transportation only.
 [18] Q Delivered cost meaning FOB mine, plus
 [19] transportation, plus SO2 costs?
 [20] A Correct.
 [21] Q And the load forecast, now that you've
 [22] re-assessed the question, did not affect
 [23] the entries in the study for the delivered
 [24] coal cost transportation and SO2 cost?
 [25] A Correct.

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[1] ---
 [2] (Record read.)
 [3] ---
 [4] A It does take into account native load, and
 [5] it does grow at an escalated rate.
 [6] Q In fact, during the last 12 months of
 [7] 1996, did the load grow for C.E.I. at all
 [8] or did it contract, do you know?
 [9] A I do not know that.
 [10] Q Did you take into account at all the
 [11] emergence of competition in both the
 [12] retail and wholesale markets in preparing
 [13] the 1996 study?
 [14] A No, I did not.
 [15] Q Why not?
 [16] A I didn't feel that it was necessary to do
 [17] that for our planning study, for this
 [18] supplemental study.
 [19] Q Are you familiar with FERC Order 888?
 [20] A I have heard of it.
 [21] Q Have you heard of the Mega-NOPER that
 [22] preceded it that had been published before
 [23] your October study was submitted?
 [24] A Yes, I had heard of it.
 [25] Q So you were aware at the time that

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[1] Q So then is it the case then that the load
 [2] forecast really only affected table 5
 [3] which was the projected bank?
 [4] A Yes.
 [5] Q And there were no other tables attached to
 [6] the study. Were there other factual
 [7] tables that were prepared by you in the
 [8] course of preparing this study that were
 [9] not appended to the study, and not
 [10] submitted to the Commission?
 [11] A I do not believe so.
 [12] Q Now with respect to the load forecast, you
 [13] said that that -- I think we earlier in
 [14] this deposition, you stated that that was
 [15] based on the service territory and the
 [16] native load of the utility.
 [17] A Yes.
 [18] Q Does that load forecast and therefore, the
 [19] emission allowance bank on which it's
 [20] based, does that take into account
 [21] possible changes in the size of native
 [22] load in the future, or does it assume a
 [23] fixed native load or one that grows at a
 [24] constant escalated rate?
 [25] A Could you read that again, please?

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[1] you were preparing this study, that FERC
 [2] was going to propose rules that would
 [3] provide much more opportunity for
 [4] wholesale power competition?
 [5] MR. REGULINSKI: Objection on
 [6] two grounds. One is relevance and
 [7] two is characterization. The
 [8] witness has indicated that he had
 [9] heard about the Mega-NOPER and he
 [10] had heard about the Rule 888.
 [11] BY MR. PERLIS:
 [12] Q I'll restate the question. When you say
 [13] you had heard about them, did you
 [14] understand that that was going to have any
 [15] affect on the wholesale power market that
 [16] C.E.I. would confront?
 [17] MR. REGULINSKI: Further
 [18] objection on relevance. Without
 [19] waiving the objection, I'll let
 [20] the witness answer.
 [21] ---
 [22] (Record read.)
 [23] ---
 [24] A Again, if you're talking wholesale power
 [25] sales, our study dealt with native load.

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- [1] That is not wholesale power sales.
 [2] Q But by native load then, you mean the
 [3] demand that consumers within your service
 [4] territory place upon the system for power?
 [5] A Correct.
 [6] Q And so you assume that that is entirely
 [7] satisfied out of system generation?
 [8] A For the purposes of the study, yes.
 [9] Q And do you believe that during the period
 [10] of 1997 through 1999, that an increasing
 [11] percentage of the consumer load might be
 [12] satisfied out of power purchased from
 [13] other suppliers' generation facilities?
 [14] MR. REGULINSKI: Objection.
 [15] Relevance. Without waiving the
 [16] objection, I'll let the witness
 [17] answer.
 [18] A That could or could not happen.
 [19] Q Are you aware of any developments that
 [20] might cause it to happen? Any factors
 [21] that would tend to increase the
 [22] importation of power by Centerior to
 [23] satisfy its native load?
 [24] A No.
 [25] Q Would Centerior be obligated to import

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- [1] be entirely purchased power but it could
 [2] be increasing percentages of purchasing
 [3] power versus generated power?
 [4] A Yes.
 [5] Q And those percentages could vary over
 [6] time?
 [7] A Correct.
 [8] Q With the emergence of -- do you agree that
 [9] there's been -- that there is now emerging
 [10] a much more vibrant wholesale power
 [11] market?
 [12] MR. REGULINSKI: Objection.
 [13] Relevance. Without waiving the
 [14] objection, the witness can answer.
 [15] A At times, there is, yes.
 [16] Q Does that provide perhaps opportunities
 [17] for C.E.I. to sell power in the wholesale
 [18] market more often than it may have in the
 [19] past?
 [20] A We have power traders and power marketers
 [21] that are out there trying to sell our
 [22] power on a day to day basis.
 [23] Q And in doing a 20 year emission allowance
 [24] bank forecast, why did you not undertake
 [25] some analysis of what the likely effects

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- [1] power if it could do so at cheaper costs
 [2] than it could do so by generating from its
 [3] own units?
 [4] MR. REGULINSKI: Can we
 [5] clarify obligated for retail
 [6] customers? Obligated for
 [7] wholesale customers?
 [8] Q Yes. For its retail customers, for its
 [9] native load, if Centerior is able to
 [10] satisfy that native load more cheaply by
 [11] buying power from others, is it generally
 [12] obligated to try to do that, in lieu of
 [13] running its own generation units?
 [14] MR. REGULINSKI: Objection as
 [15] to relevance. Without waiving the
 [16] objection, I'll let the witness
 [17] answer.
 [18] A It is our policy to provide the power to
 [19] our customers at the cheapest least cost
 [20] possible.
 [21] If that's generation plus purchase
 [22] power or generation only, whichever way,
 [23] that's the way we do it.
 [24] Q Or purchase power only, in some cases.
 [25] Well, never -- you're saying it will never

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- [1] of competition both in the wholesale and
 [2] retail markets would be?
 [3] A Again, our study addresses native load
 [4] system requirements only. Wholesale power
 [5] sales are not included, unless they are
 [6] known and contracted and signed at the
 [7] time and in place.
 [8] Q In your capacity of reviewing and working
 [9] with the wholesale power marketing people
 [10] in the company, do you get the sense that
 [11] the company believes that the wholesale
 [12] power market is going to be more active
 [13] for C.E.I. over the next 20 years?
 [14] A Potentially.
 [15] Q What about at the retail level? Do you
 [16] foresee that there may be retail
 [17] competition for your native load customers
 [18] in the next 20 years?
 [19] MR. REGULINSKI: Objection,
 [20] scope and relevance. Without
 [21] waiving the objection, I'll let
 [22] the witness answer.
 [23] A There may be.
 [24] Q Are you familiar with efforts made by a
 [25] number of other states to open up their

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[1] markets, retail markets to competition?
 [2] MR. REGULINSKI: Same
 [3] objection. Without waiving, let
 [4] the witness answer.
 [5] A On a gross basis, I am, yes.
 [6] Q Are you aware that Federal legislation is
 [7] expected to be introduced and seriously
 [8] debated this year?
 [9] MR. REGULINSKI: Objection.
 [10] Q That would give an impetus to retail
 [11] competition?
 [12] MR. REGULINSKI: Objection.
 [13] A No, I am not aware of that.
 [14] Q If retail competition does come for Ohio
 [15] as well as other neighboring states, I
 [16] assume Centerior would be able to try to
 [17] sell power to other customers' native
 [18] load, other utilities' native load?
 [19] MR. REGULINSKI: I'll have a
 [20] continuing objection to retail
 [21] competition, so I won't have to
 [22] continue to interrupt, but the
 [23] record will note a continuing
 [24] objection to this line of
 [25] questioning as irrelevant.

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[1] plants?
 [2] MR. REGULINSKI: May I have
 [3] that question again, please?
 [4] ---
 [5] (Record read.)
 [6] ---
 [7] MR. REGULINSKI: I'll note
 [8] for the record that not only did
 [9] the Examiner grant a motion for
 [10] protective order on the '95
 [11] Environmental Compliance Plan but
 [12] also granted a motion for
 [13] protective order on the analytical
 [14] methodology, underlying data and
 [15] studies and alternatives and
 [16] scenarios and conclusions of each
 [17] for the May 30, 1996 long term
 [18] forecast report.
 [19] And while I have again
 [20] permitted substantial leeway into
 [21] questions that are related to the
 [22] long term forecast report, which
 [23] includes not only load growth
 [24] forecasts, but also includes how
 [25] the company will meet that load

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[1] Without waiving that objection,
 [2] I'll let the witness answer.
 [3] A As Mr. Kovach stated earlier, if you're
 [4] going to come play on my baseball field,
 [5] I'm going to come play on your baseball
 [6] field.
 [7] Q And when you go to play on these baseball
 [8] fields, are you going to be playing
 [9] basically on cost and service?
 [10] A I would think that might be the --
 [11] Q Do you think the least cost suppliers of
 [12] power are likely to have an upper hand in
 [13] the competitive marketplace?
 [14] A I would think so.
 [15] Q When you undertook your study, did you
 [16] undertake any evaluation as to whether or
 [17] not the Centerior plants were below
 [18] average in cost compared to other regional
 [19] electric generation facilities?
 [20] A No, I did not.
 [21] Q You did not see the need to do that?
 [22] A No.
 [23] Q Now in undertaking the load forecast, does
 [24] Centerior consider possible retirement or
 [25] reduction in utilization of particular

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[1] growth for generation planning. I
 [2] don't believe it's appropriate and
 [3] the Examiner I believe also agrees
 [4] it's not appropriate and so I
 [5] would ask that the attorney wrap
 [6] up his 1996 LTFR questions and I
 [7] would object to this question but
 [8] permit the witness to answer.
 [9] MR. PERLIS: Just for the
 [10] record, counsel would like to
 [11] remind Mr. Regulinski that our
 [12] view, of course, is rather
 [13] different of paragraph 7 of the
 [14] Order, but the witness has been
 [15] instructed to answer the question.
 [16] MR. REGULINSKI: I
 [17] understand.
 [18] THE WITNESS: May I please
 [19] ask for it to be re-read?
 [20] ---
 [21] (Record read.)
 [22] ---
 [23] A The utilization or reduction or retirement
 [24] of plants is not an input to the load
 [25] forecast. The load forecast -- those

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[1] might be outputs from it, but the load
[2] forecast is not dependent upon our current
[3] generation.
[4] Q The emission allowance bank that's
[5] projected in table 5, does that depend
[6] upon the degree of system utilization of
[7] each of the plants within the Centerior
[8] system?
[9] A Yes.
[10] Q Did you undertake a study in preparing the
[11] allowance bank in number 5? Do you
[12] prepare any analysis of the company's
[13] plans with respect to general - the
[14] utilization of generating facilities?
[15] A Table 5 reflects any changes that were
[16] made at the time of the study to
[17] Centerior's generation and then those
[18] would be reflected in this table as a
[19] difference compared to the '95 table.
[20] Q Does the allowance bank forecast,
[21] therefore, not take into account the
[22] company's announced plans to reduce
[23] utilization of several of the coal fired
[24] units?
[25] A Table 5 does reflect the announcement for

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[1] Q And how did you decide what the total
[2] consumption or output of electricity was
[3] going to be during each of those years?
[4] A That comes from the load forecast.
[5] Q So is there anything other than the load
[6] forecast that was relied upon in producing
[7] table 5?
[8] A I guess I don't understand what you're
[9] driving at or --
[10] Q Does the load forecast contain an output
[11] of system electricity production?
[12] A The load forecast, no.
[13] Q So where does that come from? You take
[14] the number of kilowatt hours to be
[15] consumed as your load and what do you do
[16] to that to come up with the emission
[17] allowance?
[18] A It's run through a production costing
[19] model.
[20] Q Who did the runs on the production cost
[21] model?
[22] A Personnel in my area.
[23] Q And how many runs did they do to come up
[24] with the emission allowance bank?
[25] A I really don't know how many runs they

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[1] the changes at Ashtabula and Eastlake.
[2] Q Which changes are those you're referring
[3] to?
[4] A In the fall of last year, we
[5] decommissioned two units at Ashtabula C
[6] plant, and we mothballed a third unit at C
[7] plant, and there's potential cycling
[8] activity at Eastlake for weekends for one
[9] unit.
[10] Q And all those effects were incorporated
[11] into the load forecast output and the
[12] emission allowance bank forecast in
[13] table 5?
[14] A Reflected in this table but again, those
[15] have nothing to do with the load forecast.
[16] Q So you took the load forecast - in making
[17] table 5, you took the load forecast and
[18] then you factored in certain - what else
[19] did you factor in then besides the load
[20] forecast to come up with the table 5
[21] emission allowance bank? How did you -
[22] A You have your starting year allowances,
[23] you have your carry over from the previous
[24] year, subtract out your consumption for
[25] that calendar year.

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[1] did.
[2] Q Did they do extensive sensitivity analysis
[3] on any particular factors that would
[4] affect the size of the emission allowance
[5] bank?
[6] A The sensitivity that was done was the
[7] various sulfur levels as indicated through
[8] tables 2, 3 and 4.
[9] Q Other than the sulfur levels, for each -
[10] they did the sulfur levels, so in other
[11] words - well, actually, it's a good -
[12] MR. REGULINSKI: Mr. Perlis,
[13] we've been going at it for two and
[14] a half hours. Is this a good
[15] time, or do you want to keep going
[16] before a break?
[17] MR. PERLIS: I'm happy to
[18] take a break if the witness wants
[19] one.
[20] MR. REGULINSKI: Let's take a
[21] five minute break.
[22] MR. PERLIS: That's fine.
[23] ---
[24] (Short recess had.)
[25] ---

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[1] Q Mr. Hoag, let's continue if we might.
 [2] A All right.
 [3] Q I'd like to return to the manner in which
 [4] you constructed table 5 in the study.
 [5] Again, I'm not asking for the
 [6] specific numbers but the methodology that
 [7] was used in constructing the table.
 [8] You say you took the load forecast
 [9] output for system demand for kilowatt
 [10] hours, is that correct? And then you ran
 [11] some models.
 [12] Could you explain in a little bit
 [13] more detail what you did to the output
 [14] from the load forecast to come up with the
 [15] column of emission allowances that we see
 [16] in table 5?
 [17] A Okay. To get the projected system EA
 [18] bank, you start with initial allocation
 [19] for each year. You subtract from that
 [20] your allowances or your SO₂ generated
 [21] which is equivalent to EA's.
 [22] One ton of SO₂ is equal to one
 [23] allowance. The SO₂ generated or the EA's
 [24] consumed is the output from a production
 [25] costing model which utilizes the load

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[1] monthly energy that will be consumed, or
 [2] generated.
 [3] The production costing model tells
 [4] you how that energy is going to be
 [5] dispatched throughout the month.
 [6] Q Okay. We'll get to the dispatching, but I
 [7] just want to focus on what you called
 [8] originally the load duration curve.
 [9] Does that consist of any judgment or
 [10] adjustments made in your office to the
 [11] load forecast?
 [12] A No, it does not.
 [13] Q So you get this monthly peak energy
 [14] generated, and then you have to determine
 [15] from which plants that generation is going
 [16] to come, and the reason you have -- the
 [17] witness is shaking his head yes -- and is
 [18] the reason you have to determine that so
 [19] that you can then determine which plants
 [20] will be operating and what their emissions
 [21] will be when they're so operating?
 [22] A Would you read that back, please?
 [23] ---
 [24] (Record read.)
 [25] ---

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[1] duration curve to come up with specific
 [2] generation for each plant, and then it
 [3] gives you specific sulfur consumed.
 [4] Q Thank you. For my help, I'd like to break
 [5] that down into pieces.
 [6] MR. PERLIS: Could I ask the
 [7] court reporter to read back
 [8] starting with the output of the
 [9] production costing model?
 [10] ---
 [11] (Record read.)
 [12] ---
 [13] Q When you speak of the load duration curve,
 [14] I take it that is the consumer demand in
 [15] kilowatt hours over time that was the
 [16] output from the load forecast?
 [17] A Yes.
 [18] Q Are any adjustments made to the load
 [19] forecast as approved by the Commission to
 [20] come up with a load duration curve, or you
 [21] just take the numbers out of the load
 [22] forecast and it's one unique load duration
 [23] curve?
 [24] A The load forecast gives you the -- I
 [25] believe it's the monthly peak and the

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[1] A I'm not sure I fully understand the
 [2] question.
 [3] Q Shall I try to rephrase it?
 [4] A Please.
 [5] Q I'm not as artful here in the terminology
 [6] as you are, so please bear with me and
 [7] we'll get it right. I'll try to get it
 [8] right.
 [9] You said before that you utilize the
 [10] load duration curve in the production
 [11] costing model to come up with specific
 [12] generation for each plant.
 [13] A Correct.
 [14] Q Why -- what do you do when you get the
 [15] specific generation from each plant to
 [16] produce this table?
 [17] A The plants in the model are dispatched
 [18] hour by hour. That tells you how much
 [19] coal is burned.
 [20] You have your assumption for what
 [21] value of sulfur coal is being used. That
 [22] allows you to say for that generation, you
 [23] consumed so many tons of coal at a certain
 [24] sulfur level, and then you can back into
 [25] what the amount of SO₂ generated is for

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[1] the month.
 [2] Q And then you add up the total SO2
 [3] generated, and you determine how many
 [4] allowances would therefore be consumed in
 [5] that period of time by the company?
 [6] A Correct.
 [7] Q Okay. Now in applying these production
 [8] costing models to determine which
 [9] generating facilities are going to run,
 [10] that's what you mean by a dispatch model,
 [11] correct?
 [12] A Correct.
 [13] Q Now this dispatch model, is this a
 [14] dispatch model that makes predictions for
 [15] 20 years, or is it sort of a current
 [16] dispatch model that tells you what would
 [17] happen today under certain circumstances?
 [18] A This model is a model that we use that
 [19] will do for the next 20 years. It can
 [20] look ahead 20, 30, 40 years.
 [21] Q What are the major factors in the
 [22] production costing model that determine
 [23] which generating facility is going to be
 [24] dispatched?
 [25] A There are several. Number one, being fuel

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[1] PROMOD for the right to use the model?
 [2] A I believe it's a lease, yes.
 [3] Q Do you make modifications to PROMOD that
 [4] are only Centerior specific or do you take
 [5] PROMOD the way it is provided to all the
 [6] other utilities and use it as received?
 [7] A Use it as received, but the PROMOD input,
 [8] it has to be customized to your corporate
 [9] situation.
 [10] Q And among the inputs would be fuel prices,
 [11] including transportation, allowance
 [12] prices, outage schedules, and wholesale
 [13] power sales?
 [14] A Those are some of them, yes.
 [15] Q Are there any other major inputs that you
 [16] have to customize?
 [17] A Their program, the instruction manual is
 [18] three volumes about that thick.
 [19] (Indicating.)
 [20] Q I'm asking in general terms, I'm asking in
 [21] general terms what are the major factors,
 [22] the major inputs that have significant
 [23] effects. If you were to give a list of
 [24] the top ten, you've given me four here,
 [25] what else would be on the list?

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[1] price which includes the transportation,
 [2] allowance price, outage scheduling, any
 [3] wholesale power sales that you might have.
 [4] Those are the big ones that I can think of
 [5] right now.
 [6] Q Let's start with the last one, wholesale
 [7] power sales.
 [8] Before I do that, the production
 [9] costing model which you are referring to,
 [10] is this a proprietary model of a third
 [11] party?
 [12] A Yes, it is.
 [13] Q And would that be PROMOD?
 [14] A Correct.
 [15] Q And that's spelled for the court reporter,
 [16] P-R-O-M-O-D, all caps?
 [17] A Right.
 [18] Q And does Centerior lease the model so to
 [19] speak to do - does Centerior run the
 [20] model itself or does it rely on the third
 [21] parties to run the - proprietor of PROMOD
 [22] to run the model?
 [23] A We run the model.
 [24] Q And you do that under some sort of fee
 [25] arrangement, where you pay the owner of

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[1] A I would think those four would be
 [2] sufficient.
 [3] Q Okay. Let's start with wholesale power
 [4] sales, if we might. When you made or when
 [5] your department made the inputs for
 [6] wholesale power sales, who decided what
 [7] the wholesale power sales were going to be
 [8] as an input into the model?
 [9] A Again, if there was no existing sale on
 [10] contract that was not already included in
 [11] the load forecast, we would have included
 [12] it, but there were not any.
 [13] Q I don't understand the response. Let me
 [14] ask it in pieces again. Are you saying
 [15] that whatever wholesale sales there were
 [16] taken into account in the load forecast?
 [17] A That's correct.
 [18] Q And there were some wholesale sales taken
 [19] into account in the load forecast?
 [20] A For which there are long term contracts,
 [21] yes.
 [22] Q And those are different wholesale
 [23] contracts than may have existed back for
 [24] the January, '95 study?
 [25] A They could be. I don't know specifically.

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- [1] Q Going forward now for the 20 year planning
[2] horizon, do you assume any changes in the
[3] wholesale power contracts going forward
[4] for the 20 years, or do you just take the
[5] contracts that were in place as of that
[6] time?
[7] A I took the contracts in place as of that
[8] time, and as I said before, the study,
[9] dealt then with strictly system native
[10] load.
[11] Q Well, when you say the study dealt with,
[12] by that you mean that the way in which you
[13] provided inputs into the production
[14] costing model just used the native
[15] forecasting load and made no adjustments
[16] for increases or decreases in wholesale
[17] sales in the future that were not already
[18] committed in contract?
[19] A Correct.
[20] Q Okay. Did you do any sensitivity analysis
[21] that would have indicated what would have
[22] happened if you assumed a five or a ten
[23] percent increase in wholesale sales?
[24] A No, I did not.
[25] Q Or wholesale purchases? Did you do any

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- [1] Q So if you do the planning from the five
[2] year increments, whatever the first five
[3] years is, you just assume that that will
[4] be replicated in each of the next five
[5] year segments that make up the 20 year
[6] period roughly?
[7] A Approximately. It's not exactly five for
[8] five.
[9] Q With respect to allowance prices, in what
[10] sense are allowances prices an input into
[11] the generation production costing model?
[12] MR. REGULINSKI: Pardon me,
[13] Mr. Perlis. Have you given any
[14] consideration on hiring an expert
[15] on PROMOD to assist you in
[16] development of your case?
[17] MR. PERLIS: I don't believe
[18] I have to answer that question.
[19] MR. REGULINSKI: We could
[20] spend the rest of the day here
[21] explaining how PROMOD works to you
[22] or you could hire yourself an
[23] expert who could sit down and
[24] explain for a fee how PROMOD works
[25] and how utilities work PROMOD.

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- [1] sensitivity analysis of changes in
[2] wholesale purchases?
[3] A No.
[4] Q So in effect, you made no real adjustments
[5] of your own for wholesale power sales as
[6] an input into the production costing
[7] model. You took what you got from the
[8] load forecast?
[9] A Correct.
[10] Q Outage scheduling, explain what you mean
[11] by the input for outage scheduling.
[12] A On an annual basis, all of our turban
[13] generators, boiler equipment need
[14] maintenance, both short term and long
[15] term. We plan that on a four year cycling
[16] or five year or three year maintenance
[17] cycle.
[18] So in a calendar year, you might have
[19] a specific maintenance cycle coming up.
[20] That all has to be input for I believe we
[21] do a five year planning horizon for
[22] specific outage schedules. After that, it
[23] just goes into a cycle mode that this unit
[24] is going to have three weeks this year,
[25] three weeks five years from now.

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- [1] MR. PERLIS: I'm asking this
[2] gentleman how he approached the
[3] utilization of PROMOD in preparing
[4] the study and the output in
[5] table 5.
[6] MR. REGULINSKI: And if you
[7] had this expert, these questions
[8] would take a lot shorter time.
[9] You don't know the first thing
[10] about PROMOD, you don't know the
[11] first thing about system dispatch
[12] and that's apparent from your
[13] questions.
[14] Now if you had an expert
[15] instead of wasting our time with a
[16] court reporter explaining to you
[17] what PROMOD is, how it works, what
[18] dispatch is, what a generation
[19] outage is -
[20] MR. PERLIS: I think I didn't
[21] take very much time on wholesale
[22] power sales. I'm not going to
[23] take very much time on the other
[24] factors. There are only two more
[25] to go.

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[1] BY MR. PERLIS:

[2] Q Now in allowance prices, Mr. Hoag, could
[3] you explain to me how generally the
[4] production costing model takes allowance
[5] prices into account as an input?

[6] A Allowances for every -- we enter the
[7] forecast that I create into the database,
[8] and then for every allowance that's
[9] generated, it's charged that forecasted
[10] rate for that year.

[11] Q And the purpose for that is that you're
[12] trying to get an all-in or an exclusive or
[13] what you might call an evaluated price?

[14] A Correct.

[15] Q For fuel and the allowance and so that
[16] fuel price would be transportation and the
[17] mine mouth costs, and then you add the
[18] allowances?

[19] A Correct.

[20] Q And then you come up with an all-in cost
[21] of running each of the particular
[22] generation units, and the production
[23] costing model is supposed to schedule them
[24] so that the least cost one would run first
[25] and then going up to the next highest cost

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[2] (Record read.)

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MR. REGULINSKI: Objection as
to relevance. Without waiving the
objection, let the witness explain
how PROMOD works to the attorney.

A If any plant has an existing fuel
contract, just like these were for
Ashtabula and Eastlake, the same
methodology is used to come up with the
delivered cost, plus SO2 there as was used
for --

Q And in order to use the PROMOD model, you
have regularly or periodically revised
estimates of what the fuel costs are for
all of your generating facilities?

A Yes.

Q With respect to the fuel prices for
Eastlake and Ashtabula, do you know from
what date those prices were forecast when
used in your 1996 study?

A No, I do not.

Q Going forward into the future for the 20
year period, you're relying on then the

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[1] one, etc.?

[2] A Correct.

[3] Q Now as you do that, what do you assume the
[4] allowance cost is for a unit of fuel
[5] consumed at Eastlake and at Ashtabula when
[6] you run your PROMOD model?

[7] A I guess I don't understand the question.

[8] Q Do you assume that the allowance price is
[9] the projected market cost of allowances or
[10] do you assume some other basis of
[11] allowance costs?

[12] A The allowance cost is what was in the
[13] allowance forecast supplied for the study
[14] which I believe is table 1, yes.

[15] Q Okay. And then for the fuel prices, is it
[16] also -- it says that you just use the fuel
[17] prices that are in the projections in this
[18] study, as well?

[19] A That is correct.

[20] Q And what about for the other Centerior
[21] units that aren't in the study that are in
[22] the PROMOD model? What do you use for
[23] their fuel prices?

[24] MR. REGULINSKI: May I have
[25] that question again, please?

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fuel prices and the allowance prices that
are forecasted in the study for Eastlake
and Ashtabula?

A Correct.

Q So then if I sum up then, at least with
these four major factors, if we're looking
at the adjustments that are made, the
judgment, if you will, that's imparted by
you and your office to the PROMOD model,
you don't do anything on the wholesale
power sales; you take the outage
scheduling that the company has developed
for a myriad of purposes in the use of
PROMOD, and you just use the allowance and
the fuel prices for Eastlake and Ashtabula
that are in the study that you got from
either yourself, in the case of allowance
price, and in the case of fuel prices, in
the case of Mr. Lang supplying them to
you?

MR. REGULINSKI: May I have
that question re-read, please?

(Record read.)

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- [1] A Yes.
- [2] Q Now does the PROMOD -- did your
- [3] development of table 5 with the use of the
- [4] PROMOD model take into account any changes
- [5] in plant utilization other than from these
- [6] factors? Any sort of, let's say, any
- [7] projection of any reduced utilization of
- [8] any particular plant?
- [9] A As I stated earlier, table 5 did include
- [10] the September shutdowns of the two units
- [11] at Ashtabula C plant, the mothballing of a
- [12] third plant and the weekend cycling of an
- [13] Eastlake unit.
- [14] Q And those were all changes from what might
- [15] have been assumed for PROMOD back when the
- [16] 1995 study was done?
- [17] A Correct.
- [18] Q Looking forward 20 years, does it make --
- [19] are there any efforts made to project any
- [20] other similar changes in plant
- [21] utilization, cycling, shutdowns, etc.?
- [22] A I do not believe so, but I cannot
- [23] specifically recall.
- [24] MR. REGULINSKI: I would also
- [25] note for the record, that again,

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- [1] help you to have the sealed
- [2] portion?
- [3] A On page 4 of the study, it talks in the
- [4] middle of the bottom paragraph, that the
- [5] Centerior's plans are to be one in which
- [6] it uses both coal and/or emission
- [7] allowances at these units so that it may
- [8] reserve allowances based on a rate of 2.4
- [9] to 3.8 pounds of SO₂ per MM BTU so I would
- [10] have to say that table 5 goes back to
- [11] probably a coal in the range of 2.4 to
- [12] 3.8.
- [13] Q Doesn't the PROMOD model have to have used
- [14] a specific pounds per MM BTU?
- [15] A It probably did, and I'm saying I can't
- [16] definitely tell you which one of those two
- [17] it used.
- [18] Q Do you think it's -- unfortunately, I
- [19] can't find this citation but I recall
- [20] seeing that it was 2.5 pounds per MM BTU
- [21] at Eastlake. Is that possible that that
- [22] was the number that was used?
- [23] A I would not want to hazard a guess.
- [24] Q Is there any reason to believe that what
- [25] you used was the mix of fractions of 2.5,

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- [1] this question appears to go for
- [2] the long term forecast report
- [3] which includes not only the
- [4] company's forecasts of load but
- [5] also includes a plan and method to
- [6] meet their loads using local
- [7] generation, power purchases,
- [8] cycling and other aspects so these
- [9] matters are and have been reviewed
- [10] by the Commission, and the
- [11] company's long term forecast
- [12] report and that the Examiner fully
- [13] recognizing that, granted a
- [14] protective order so we wouldn't
- [15] have to waste our time discussing
- [16] these matters in deposition.
- [17] MR. PERLIS: Thank you,
- [18] Mr. Regulinski.
- [19] BY MR. PERLIS:
- [20] Q Now with respect to the fuel and allowance
- [21] prices, when you ran the PROMOD model to
- [22] come up with table 5, what did you assume
- [23] was the composition of fuel at the
- [24] Eastlake plant?
- [25] MR. REGULINSKI: Would it

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- [1] 3.6 and 6.0 coal that appeared in OVCC-27
- [2] that was referenced in Mr. Kovach's
- [3] deposition?
- [4] A I highly doubt that because the OVCC
- [5] document number 27 was prepared well after
- [6] the study.
- [7] Q But at this time, you're not sure exactly
- [8] what the pounds of SO₂ per MM BTU were
- [9] that you assumed for purposes at Eastlake
- [10] in running the PROMOD model?
- [11] A Of whether table 5 was --
- [12] Q Yeah.
- [13] A -- between the differential of 2.5 to 3.8?
- [14] No, I can't tell that off the top of my
- [15] head.
- [16] Q But that number would be available to you
- [17] somewhere in your records?
- [18] A I would imagine it would be.
- [19] Q And the same thing goes for Ashtabula.
- [20] You'd be able to determine from your
- [21] records what the exact pounds of SO₂ per
- [22] MM BTU were assumed for purposes of that?
- [23] A I think I could, yes.
- [24] Q Now you would agree that it will make a
- [25] difference whether you use 2.5 or 3.8 for

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[1] number 29 from the OVCC
[2] Interrogatories.
[3] Q Would you take a moment to look at that
[4] question and answer?
[5] A Okay.
[6] Q Do you remember preparing this?
[7] A Yes, I do.
[8] Q Thank you. Does this response indicate
[9] that the actual cost of your allowances is
[10] a small fraction of the evaluated cost of
[11] allowances that you used for purposes of
[12] this study?
[13] A The evaluated cost we used for the study
[14] is market price, okay, plus escalators and
[15] adders and whatever other conditions I
[16] figure that the market is going to go
[17] through or gyrations it's going to go
[18] through.
[19] Q Don't you say in your answer here that the
[20] average cost basis of allowances consumed
[21] during 1997 through 1999 should be well
[22] below five dollars per allowance?
[23] A Yes, I do, and that relates to what we
[24] charge our customers on a monthly basis as
[25] part of our EPC process, electric fuel

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[1] A The Fuel Planning Supply Department
[2] purchases the least cost coal for the
[3] units and that is passed through the EPC
[4] process to our customers.
[5] Q Just the delivered fuel portion of it.
[6] A I cannot specifically state which portions
[7] of it are passed through.
[8] Q Well, is it generally the case that the
[9] delivered fuel cost --
[10] MR. REGULINSKI: We will
[11] stipulate for the record that
[12] under Ohio law, acquisition and
[13] delivery cost of fuel is recovered
[14] from our customers, under Ohio
[15] law.
[16] MR. PERLIS: Currently. On a
[17] current basis?
[18] MR. REGULINSKI: It's done on
[19] a semiannual basis. There's
[20] reconciliation adjustments based
[21] upon whether or not the numbers
[22] that are projected are actuals.
[23] It's an entire process. We will
[24] stipulate to that process.
[25] BY MR. PERLIS:

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[1] clause. That's the weighted average cost
[2] of the inventory you're seeing there,
[3] \$1.94.
[4] Q So you only charge your customers either
[5] \$1.94 or five dollars. You don't charge
[6] them the ninety dollars that you estimated
[7] as the '97 allowance cost, do you?
[8] A Correct. We charge them the \$1.94, the
[9] weighted average cost of the inventory at
[10] that month.
[11] Q And when you change your fuel decision
[12] from 6.0 to 2.5 or 3.8, are you able to
[13] pass through the entire fuel price, the
[14] delivered fuel price to your customers on
[15] a current basis?
[16] MR. REGULINSKI: Objection.
[17] The pass through of fuel costs is
[18] not a part of this proceeding.
[19] It's part of the electronic fuel
[20] component proceeding as this
[21] witness has testified but
[22] recognizing that, recognizing the
[23] objection to relevance, we will
[24] not waive the objection, and let
[25] the witness answer.

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[1] Q So is it the case then, Mr. Hoag, that for
[2] charging your customers for the allowances
[3] that you use up in '97 through '99, you're
[4] only collecting five dollars from them but
[5] you're able to collect the full amount of
[6] the delivered cost of coal difference
[7] between the lower sulfur and the higher
[8] sulfur coal?
[9] A We are charging the customer the weighted
[10] average inventory which is \$1.94 and since
[11] I didn't project any purchases, I said it
[12] would be less than five dollars.
[13] Q Fine.
[14] A As far as the fuel goes, as I said, we are
[15] allowed to pass through the cost of the
[16] fuel to the customer through the EPC
[17] mechanism.
[18] Q So by passing through that difference,
[19] aren't you obtaining allowances that you
[20] will use in the future rather than the
[21] ones that you're charging to your
[22] customers today at the lower five dollar
[23] or less than five dollar cost?
[24] MR. REGULINSKI: May we have
[25] that question re-read, please?

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[1] ---
 [2] (Record read.)
 [3] ---
 [4] MR. REGULINSKI: Objection.
 [5] We're comparing apples and oranges
 [6] here. You're comparing fuel costs
 [7] to weighted average inventory
 [8] emission allowances. Can you
 [9] restate the question, please?
 [10] BY MR. PERLIS:
 [11] Q I'm asking whether you evaluate the effect
 [12] of your program as being the incurring of
 [13] costs today that you can fully recover
 [14] from your rate payors for the benefit of
 [15] acquiring allowances that will not be used
 [16] until the future?
 [17] A Would you re-read it, please?
 [18] ---
 [19] (Record read.)
 [20] ---
 [21] A I'm going to have to go back to what I
 [22] said before and that is, you know, we
 [23] charge the customer on the weighted
 [24] average inventory basis and the fuel flows
 [25] through the fuel clause adjustment

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[1] switching would be to purchase them in the
 [2] open market?
 [3] A Yes, you can do that.
 [4] Q Which individuals in the company make the
 [5] decision as to whether the company will
 [6] purchase allowances?
 [7] A I make the recommendation to management to
 [8] purchase. However, with this plan that we
 [9] have laid out, I see no need to purchase
 [10] right now.
 [11] Q What about other purchasing decisions that
 [12] have been made in the past? You've made
 [13] those recommendations for the decisions to
 [14] purchase?
 [15] A Correct.
 [16] Q Okay. And what sources of information
 [17] have you considered in doing so, when you
 [18] have decided to purchase allowances?
 [19] A The consumption of the plants over a
 [20] certain timeframe showed me that at the
 [21] end of the year, we would not
 [22] significantly meet our reserve, emergency
 [23] status that we set up of 60,000, and other
 [24] cases where Fuel Procurement has gone out
 [25] and purchased coals whereby I had to

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[1] proceedings, and if in the process we bank
 [2] allowances, then that happens, yes.
 [3] Q Does the company have a set of criteria to
 [4] guide it in determining how much it should
 [5] try to bank, or how it should evaluate
 [6] what the cost and benefit of a bank in
 [7] increasing the bank would be or do you
 [8] just automatically, do you have such a
 [9] criteria?
 [10] A We are using the '92 plan, the '95 plan
 [11] and the '96 plan updated as that is what
 [12] we want to do, that table 5. That is our
 [13] new goal that we're shooting for.
 [14] Q Under what criteria did you determine that
 [15] it was important to have the bank run out
 [16] in 2012, rather than 2008?
 [17] A We are trying as part of our Environmental
 [18] Compliance Plan to push any advanced
 [19] technology options such like a scrubber or
 [20] any new technology that comes along
 [21] between now and then as far into the
 [22] future as we possibly can. We are trying
 [23] to limit capital spending.
 [24] Q Isn't it true that another way of
 [25] obtaining allowances other than the fuel

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[1] account for the differential between what
 [2] they were supposed to be buying according
 [3] to the plan, and what they actually
 [4] bought.
 [5] Q But again, I come back to the criteria
 [6] then is simply the plan. There's no
 [7] independent criteria to determine what the
 [8] appropriate bank level is above the
 [9] margin?
 [10] Do you have any criteria that tells
 [11] you you'd like to have the bank at 100,000
 [12] rather than 200,000 or 200,000 rather than
 [13] 100,000 allowances?
 [14] A No.
 [15] Q Do you have any criteria by which you
 [16] measure what the cost to the company is of
 [17] having a bank that's 50,000 allowances
 [18] larger in phase two than it would be under
 [19] an alternate strategy?
 [20] A No, other than the expiration of the bank
 [21] being further out in time, which fulfills
 [22] a management objective.
 [23] Q Do you recognize that for the increased
 [24] costs of fuel consumption of the lower
 [25] sulfur coal, in the current years when you

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- [1] make the fuel switch that that cost has a
[2] carrying cost to it in terms of when the
[3] benefit will be realized in phase two?
[4] A I don't follow your question.
[5] Q Do you undertake -- do you ever factor in
[6] the time value of money or the company's
[7] cost of capital in determining whether or
[8] not it is a good idea to purchase the
[9] allowances today for use in the future?
[10] A That's what your levelized at ten percent
[11] does. It's accounts for the company's
[12] cost of capital.
[13] Q How does it do that? Would you explain
[14] that levelized ten percent line
[15] generically? You don't have to do it by
[16] reference to these numbers.
[17] A That's taking the net present value of all
[18] those calculations, all those costs,
[19] bringing them back to today's value at a
[20] ten percent rate.
[21] Q My question was when you make a purchasing
[22] decision for allowances, do you take into
[23] account the cost of money, time value of
[24] money, the cost of capital, however you
[25] phrase it, do you take into account that

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- [1] allowances, does it consider the time
[2] value of money in the time period between
[3] when you purchase the allowances, and when
[4] you might use them in phase two?
[5] MR. REGULINSKI: Objection.
[6] Relevance. Without waiving the
[7] objection, you can answer the
[8] question.
[9] A Again, I'd like to restate that our
[10] purchases have been few, and therefore,
[11] they have been for consumption in that
[12] year in order to maintain our reserve
[13] levels, and in view of that, I don't
[14] foresee purchasing now to hold for the
[15] future.
[16] Q And how do you evaluate whether it would
[17] be cost effective to purchase allowances
[18] today for use in phase two? Does the
[19] company evaluate whether it would be cost
[20] effective to purchase allowances today or
[21] at any time for use in phase two?
[22] A I have not, no.
[23] Q Have you ever considered purchasing any
[24] options or entering into any forward
[25] contracts for delivery of allowances in

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- [1] cost --
[2] MR. REGULINSKI: Objection.
[3] Q -- when you purchase allowances?
[4] MR. REGULINSKI: Objection.
[5] The purpose of this proceeding is
[6] to determine whether the projected
[7] system bank of emission allowances
[8] over the 20 year planning horizon
[9] is reasonable and appropriate and
[10] supported by the evidence.
[11] Likewise, the different costs
[12] that could be incurred for
[13] different fuel levels over a 20
[14] year planning horizon.
[15] The issue in this proceeding
[16] is not the costs including
[17] carrying costs when Mr. Hoag makes
[18] an individual purchase decision.
[19] But rather, whether to project it,
[20] the emission allowance bank is
[21] appropriate. Given that
[22] objection, can you rephrase the
[23] question?
[24] BY MR. PERLIS:
[25] Q When the company evaluates purchasing of

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- [1] the future?
[2] A I have considered some of those type of
[3] transactions.
[4] Q And when you consider that, how do you
[5] evaluate what the costs and benefits of
[6] such a transaction would be?
[7] A I do it on an economic basis.
[8] Q Could you explain what the type of
[9] economic calculation is that you make?
[10] A I might do a net present value analysis.
[11] That's the main one that I use.
[12] Q In which you would look at when the cost
[13] is incurred and determine what the present
[14] value of that cost is?
[15] A Right.
[16] Q And what about the use of the allowance?
[17] When you make that determination, how
[18] do you factor that in?
[19] A I don't understand what you mean.
[20] Q If you were to do a forward contract,
[21] you -- strike that.
[22] Has the company had opportunities to
[23] purchase allowances for use in future
[24] years?
[25] A I have not solicited for that. I have not

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- [1] asked for it. I really don't even
 [2] entertain the brokers when they call me
 [3] and talk to me about it.
 [4] Q But if you wanted to, you're aware that
 [5] there are brokers out there who would be
 [6] interested in trying to arrange sales of
 [7] future year allowances to you?
 [8] A After being in this market for four years,
 [9] I would sure hope to know that there are
 [10] brokers that would sell me allowances in
 [11] any year I want.
 [12] Q And are there people selling allowances
 [13] for use in future years?
 [14] A There are some, yes.
 [15] Q And are there some that are doing this on
 [16] a forward basis, where you don't have to
 [17] pay for the allowances today but can pay
 [18] for them in the future?
 [19] A Yes.
 [20] Q C.E.I. has never undertaken such a
 [21] transaction, has it?
 [22] A No.
 [23] Q Earlier, you stated that the EVA forecast
 [24] of emission allowance prices did not show
 [25] the drop in actual prices that occurred.

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- [1] Q But it is least cost only in the sense of
 [2] determining what the cost of allowances
 [3] that you use in the future will be,
 [4] correct?
 [5] A It's least cost in the delivered fuel cost
 [6] plus allowances, plus transportation over
 [7] the 20 year planning horizon.
 [8] Q Should C.E.I. be purchasing allowances
 [9] whenever the cost of purchase is less than
 [10] what the future value you're projecting
 [11] will be for those allowances?
 [12] A I can't answer that yes or no because it
 [13] depends upon what the cost is out in the
 [14] future, and we have a rather hefty
 [15] carrying charge of ten percent on our cost
 [16] of capital and money.
 [17] Q So you do factor in the ten percent cost
 [18] of capital in making decisions as to
 [19] whether or not you would purchase
 [20] allowances?
 [21] A Yes.
 [22] Q You don't factor that ten percent in for
 [23] purposes of doing the assessment of fuel
 [24] switching in years '97 through '99.
 [25] A That's not a cost on the allowance.

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- [1] A Correct.
 [2] Q In '95 and '96. When that happened, why
 [3] did Centerior not consider purchasing
 [4] allowances of what would have seemed lower
 [5] than the projected forecast price for
 [6] allowances?
 [7] MR. REGULINSKI: Objection as
 [8] to relevance. Without waiving the
 [9] objection, if the witness can
 [10] answer.
 [11] A Again, after reviewing our bank and the
 [12] bank levels, and our plan, I didn't see
 [13] the need to go out and spend additional
 [14] corporate funds in order to bank more
 [15] allowances.
 [16] Q Then why is there a need to do the fuel
 [17] switching to bank additional allowances?
 [18] A That's not the purpose of the
 [19] Environmental Compliance Plan, to bank
 [20] allowances.
 [21] The purpose of the Environmental
 [22] Compliance Plan is to comply with the
 [23] regulations and do it as a least cost
 [24] methodology and because of 3.8 being least
 [25] cost, that gives us that bank.

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- [1] Q So in other words, you don't view as
 [2] comparable economic decisions fuel
 [3] switching today, and obtaining allowances
 [4] that you can use in the future, and
 [5] purchasing the allowances today for use in
 [6] the future?
 [7] A Would you re-read that, please?
 [8] ---
 [9] (Record read.)
 [10] ---
 [11] A I guess I'd ask you to elaborate on that
 [12] because I'm still confused by what you're
 [13] looking for or wanting.
 [14] Q If the company has two options, one is to
 [15] fuel switch and obtain additional phase
 [16] two allowances, and the other is not to
 [17] fuel switch and to buy the allowances in
 [18] the market today for use in the future,
 [19] how do you decide which of those two is a
 [20] better economic option?
 [21] A We haven't done that analysis because we
 [22] are going for the fuel switching. Again,
 [23] by my analysis and my bank, we don't need
 [24] to go out and purchase. So therefore, I
 [25] don't really consider that an option at

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- [1] this point in time.
 [2] Q Why do you need to incur the additional
 [3] cost today of fuel switching to create the
 [4] bank in the future?
 [5] MR. REGULINSKI: Objection.
 [6] We have not testified that there's
 [7] additional cost. If you make a
 [8] clarification between delivered
 [9] cost and evaluated cost.
 [10] Q Additional delivered cost.
 [11] A Yeah, I'll go back to the 20 year planning
 [12] horizon. The levelized cost of the 20
 [13] year level showed 3.8 is the smaller
 [14] amount, and again, to fulfill a management
 [15] objective to defer the capital cost as far
 [16] into the future as possible.
 [17] Q To defer the capital cost. By that, you
 [18] mean cost that would not be passed through
 [19] currently as a cost of service?
 [20] A I'm saying the capital cost that would be
 [21] associated with any new technology that
 [22] was installed in the plant in future
 [23] years.
 [24] Q Or the capital cost associated with
 [25] purchasing allowances today for use in the

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- [1] a five minute break, if you like.
 [2] MR. PERLIS: No, I would like
 [3] to just go on. I'd like to finish
 [4] as soon as I can. Of course, if
 [5] the witness needs a break.
 [6] THE WITNESS: No, keep going.
 [7] BY MR. PERLIS:
 [8] Q Could you please tell me, as best you can,
 [9] what you view as the difference between
 [10] the decision to buy an allowance today for
 [11] use in the future is from the decision to
 [12] incur higher delivered fuel costs today to
 [13] obtain additional allowances in your bank.
 [14] A It's not a decision between those two.
 [15] It's a decision of the least cost to the
 [16] customer over the 20 year planning
 [17] horizon.
 [18] Q Have you compared the least cost of the
 [19] fuel switch to a purchase of allowances in
 [20] your study?
 [21] A No, because we don't feel we need to
 [22] purchase allowances.
 [23] Q But then how can you make a judgment as to
 [24] whether it's least cost or not as between
 [25] purchasing allowances, or engage in the

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- [1] future, that would be a capital cost also,
 [2] wouldn't it?
 [3] A I'm not sure how our accounting group
 [4] would handle that.
 [5] Q Well, do you agree that the higher the
 [6] delivered cost - that the greater the
 [7] difference in delivered cost between the
 [8] lower sulfur coal and the higher sulfur
 [9] coal, the less desirable is a fuel switch?
 [10] A Say that again, please?
 [11] Q Do you agree that the greater the
 [12] difference between the delivered cost of
 [13] coal, the higher - at the lower sulfur
 [14] compared to the higher sulfur coal, the
 [15] greater that difference, the less
 [16] desirable it is to fuel switch?
 [17] MR. REGULINSKI: A
 [18] clarification. You're talking
 [19] about at delivered prices again?
 [20] Q Yes, yes.
 [21] A If the spread is great, you would want
 [22] to - I hate to do this to you, would you
 [23] restate that again, please?
 [24] Q I think we'll just go on.
 [25] MR. REGULINSKI: We can take

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- [1] fuel switch?
 [2] MR. REGULINSKI: Objection.
 [3] I believe this is - we've gone
 [4] through this several times. You
 [5] keep circling back around to this.
 [6] I think we've been through
 [7] this before. Without waiving the
 [8] objection, the witness can answer.
 [9] A Again, our plan was to assess the least
 [10] cost of these options, all right?
 [11] Q So you did not - the company has not
 [12] considered comparing whether or not it is
 [13] least cost to fuel switch versus
 [14] purchasing allowances?
 [15] MR. REGULINSKI: Objection.
 [16] Asked and answered. We've done
 [17] that one.
 [18] MR. PERLIS: Could we please
 [19] let him answer that?
 [20] MR. REGULINSKI: Once again,
 [21] once again, but this is the last
 [22] time for this question.
 [23] A No, I did not.
 [24] Q You did not consider whether it was least
 [25] cost to purchase allowances rather than to

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[1] fuel switch?
 [2] A Correct.
 [3] Q Now if you do buy allowances for future
 [4] use, would you consider there to be a risk
 [5] that it might turn out to have been a bad
 [6] investment because of price volatility in
 [7] allowances?
 [8] A With any purchase, you have volatility and
 [9] risk.
 [10] Q Is that -- does that also apply to the
 [11] fuel switch? Is there volatility and risk
 [12] that affects the 20 year benefits for fuel
 [13] switching?
 [14] A According to my last statement, I would
 [15] have to say yes, that there is.
 [16] Q And yet, the company isn't considering
 [17] buying allowances in part because of that
 [18] risk, but you're willing to consider doing
 [19] the 20 year fuel switch?
 [20] MR. REGULINSKI: Objection.
 [21] That's argumentative.
 [22] MR. PERLIS: I'll strike the
 [23] question.
 [24] Q Before you said that one of the reasons
 [25] you don't want to purchase allowances is

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[1] He's indicated he doesn't know.
 [2] MR. PERLIS: I'll restate it.
 [3] My question's different.
 [4] Q Have you had occasion to inquire as to the
 [5] treatment of the emission allowance
 [6] prices?
 [7] A I've had no need to inquire because of our
 [8] plan stating that we were going to bank
 [9] allowances in phase one for use in phase
 [10] two.
 [11] Q So in your emission allowance capacity, if
 [12] you determine that you could get
 [13] allowances today more cheaply than what
 [14] you project into cost in the future, would
 [15] you consider purchasing the allowances
 [16] today?
 [17] MR. REGULINSKI: I'm sorry,
 [18] read that question back again,
 [19] please.
 [20] ---
 [21] (Record read.)
 [22] ---
 [23] A Again, if I'm going to have a surplus bank
 [24] that per table 5 is growing through phase
 [25] one, I don't see a need to purchase

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[1] because of the high cost of capital to the
 [2] company; is that correct?
 [3] A Correct.
 [4] Q Is there a sense in which capital is
 [5] scarce at the company, and that that
 [6] factors into your consideration?
 [7] MR. REGULINSKI: Objection,
 [8] relevance. I think we've had
 [9] testimony from Mr. Stead on this
 [10] very issue earlier from
 [11] Mr. Weissman.
 [12] MR. PERLIS: Mr. Hoag is the
 [13] Manager of Emission Allowances in
 [14] making those decisions.
 [15] MR. REGULINSKI: Without
 [16] waiving the objection, if the
 [17] witness can answer the question.
 [18] A Again, I will state I do not know whether
 [19] an allowance purchase would be a capital
 [20] or an OM expense at this point in time.
 [21] Q You've never had occasion to inquire as to
 [22] that critical fact in your emission
 [23] allowance management function?
 [24] MR. REGULINSKI: Objection.
 [25] Objection. That's argumentative.

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[1] allowances.
 [2] Q Do you agree that prices of allowances are
 [3] somewhat volatile?
 [4] A You have volatility in any market. This
 [5] has experienced up and down swings in
 [6] that.
 [7] Q In percentage terms, is it any more or
 [8] less than for fuel costs?
 [9] A That, I can't tell you.
 [10] Q And in terms of the reliability of the
 [11] forecast, do you try to track how reliable
 [12] your forecasts are year to year?
 [13] A I have not specifically tracked it, no,
 [14] but I believe it to be close.
 [15] Q Given those uncertainties, why did the
 [16] company not present sensitivity analysis
 [17] with respect to emission allowance prices
 [18] and delivered fuel costs?
 [19] A In regards to allowances, I think my
 [20] forecast is close enough that it doesn't
 [21] need to be, and as far as fuel costs, we
 [22] are doing sensitivity when we evaluate the
 [23] different sulfur costs for using different
 [24] fuel costs, but I did not do a sensitivity
 [25] around each one of them, and based on my

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[1] experience, I didn't think it was
[2] necessary.
[3] Q In 1997, has Centerior purchased any
[4] allowances?
[5] A No.
[6] Q Have you been -- did Centerior participate
[7] by making a bid in the auction in 1997?
[8] A No.
[9] Q Did C.E.I. submit a bid in any prior
[10] year's auction?
[11] A Yes.
[12] Q Did you do one in 1996?
[13] A I believe we bid in '96, yes.
[14] Q Did you receive any allowances?
[15] A No.
[16] Q Is that because your price was below the
[17] market clearing price?
[18] A That's obvious.
[19] Q Have you ever purchased any allowances at
[20] the auction?
[21] A Yes.
[22] Q Do you recall what year that was?
[23] A Well, if I didn't get any in '96, I didn't
[24] get any in '93, probably '94 and I'm not
[25] sure if I got any in the '95 one or not

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[1] back in --
[2] MR. REGULINSKI: July of '95.
[3] MR. PERLIS: '95, right.
[4] MR. REGULINSKI: I can hand
[5] this to the --
[6] Q I'm reading from the '96 order because I
[7] can't find my '95 one but it's the same
[8] seven criteria.
[9] Criteria No. 6 is a consideration of
[10] the impact of reduced consumption of Ohio
[11] coal and the resulting impact on
[12] Centerior's customers.
[13] Could you, please, describe for me if
[14] you will, the nature of the analysis that
[15] you undertook to determine the
[16] consideration of the impact of reduced
[17] consumption of Ohio coal?
[18] A Okay, obviously you and I are reading it
[19] differently because I don't read it that
[20] way.
[21] I read it as "and the resulting
[22] impact on Centerior customers." I don't
[23] separate the two or make the distinction.
[24] Q I see. Just to clarify the witness's
[25] answer, you view item No. 6 as principally

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[1] but that's all documented through the EPA.
[2] Q Would you say that the company has made a
[3] deliberate decision not to purchase
[4] allowances for future use?
[5] MR. REGULINSKI: Objection,
[6] asked and answered. Again, one
[7] more time.
[8] A I think I've stated several times that
[9] we've made the decision to only purchase
[10] on an as needed basis for specific
[11] situations.
[12] And other than that, with our bank
[13] level growing, we're not going to plan to
[14] purchase.
[15] MR. PERLIS: I'd like to take
[16] just a couple minute break, and
[17] see if I have any other questions.
[18] ---
[19] (Short recess had.)
[20] ---
[21] BY MR. PERLIS:
[22] Q I'm looking now at the seven criteria that
[23] the Commission asked the study to address
[24] in its order of, if I remember, November
[25] 12, 1996 -- not that one, it's the order

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[1] focussed on impact on Centerior's
[2] customers?
[3] A That is definitely, yes.
[4] Q Okay. In what way might reduced
[5] consumption of Ohio coal affect
[6] Centerior's customers?
[7] A Well, again we're not looking so much at
[8] the reduced consumption of Ohio coal as we
[9] are looking at the least cost to Centerior
[10] customers.
[11] What methodology of the procuring
[12] coal, maintaining compliance with the
[13] regulations and at the least cost to our
[14] customers.
[15] Q And did you consider or undertake any
[16] analysis of what might happen in the Ohio
[17] coal market in conducting this study?
[18] A Again, we looked at it only from our
[19] customers' viewpoint. We do not.
[20] Q Right, and how did you reach any
[21] conclusions that you reached about the
[22] impact on your Centerior customers?
[23] A We reached the conclusions by again, going
[24] back to tables 2, 3 and 4, and looking at
[25] the 20 year leveled cost that that is

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[1] the least cost for our customers.
 [2] Q And does that levelized cost assume that
 [3] there's going to be any change in the Ohio
 [4] market for coal? Does it take the
 [5] existing Ohio coal market as a given
 [6] forever?
 [7] A As far as the Ohio coal market goes, I can
 [8] only speak to what I pick up every now and
 [9] then in the different journals or
 [10] periodicals.
 [11] Q I'm not - excuse me.
 [12] A Let me finish, please.
 [13] Q I'm sorry. I apologize.
 [14] A Such that when I read those journals and
 [15] articles, I see that Ohio Valley Coal
 [16] Company is selling coal to other Ohio
 [17] utilities, and therefore, I don't see that
 [18] if this particular contract with Ohio
 [19] Valley Coal is lost, that it would put
 [20] them out of business.
 [21] Q Of course, that wasn't my question. My
 [22] question was what did you - not what
 [23] do you see when you're reading the papers,
 [24] but what did you do for preparing the
 [25] report, the Supplemental Fuel Switching

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[1] Q I'll start a new different way. In your
 [2] reading, did you notice that any existing
 [3] Ohio coal contracts were cancelled or
 [4] terminated and replaced by the Ohio Valley
 [5] Coal Company's coal?
 [6] A I don't recall seeing that in any of the
 [7] articles that I read or reviewed.
 [8] Q Hypothetically, if the Ohio Valley Coal
 [9] Company coal was replacing coal that would
 [10] otherwise have come from Ohio mines, would
 [11] the affect of your fuel switch then have a
 [12] net affect on Ohio coal mine production?
 [13] A I think you're asking me to evaluate
 [14] something that's two or three items down
 [15] the line and away from our plan and I
 [16] don't want to hazard a guess on that.
 [17] Q Okay. Let's go on to item No. 5,
 [18] uncertainties concerning Centerior's
 [19] anticipated need and price of allowances
 [20] in future years.
 [21] Speaking again of the study itself,
 [22] how specifically did the study evaluate
 [23] the uncertainties?
 [24] MR. REGULINSKI: Can we have
 [25] table 5? Do you have it handy?

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[1] Study, to evaluate, if anything, what
 [2] would happen to the Ohio coal market?
 [3] A Again, getting back to No. 6 that we read
 [4] it differently, I address it as from the
 [5] standpoint of Centerior's customers.
 [6] Q And so other than the analysis that's set
 [7] forth in sort of the comparison of those
 [8] columns in table 2, you did not analyze
 [9] the potential impact on the Ohio coal
 [10] market and any collateral consequences
 [11] that that might have?
 [12] A Again, we didn't read No. 6 the way you're
 [13] reading it, and that's not the way we
 [14] approached it. So, no, I can't give you a
 [15] response on that.
 [16] Q In your reading, as you've noted that the
 [17] Ohio Valley Coal Company may have entered
 [18] into certain additional sales of coal for
 [19] the phase one period, are you aware of
 [20] whose coal was being displaced when the
 [21] Ohio Valley Coal Company entered into
 [22] these contracts?
 [23] MR. REGULINSKI: Could you
 [24] clarify that question, by whose
 [25] coal is being displaced?

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[1] Or table 1 I guess. Do you have
 [2] the confidential - these are the
 [3] non-confidential. Do you need
 [4] to see the prices?
 [5] THE WITNESS: No, no.
 [6] MR. REGULINSKI: I'm sorry.
 [7] A Well, the second half of that, the price
 [8] of the allowances is table 1. The
 [9] uncertainty concerning Centerior's
 [10] anticipated need, that comes out of the
 [11] production costing model, and it shows our
 [12] bank growing through phase one; declining
 [13] during phase two.
 [14] Q You didn't do any sensitivity analysis
 [15] concerning Centerior's anticipated need
 [16] under different assumptions for the PROMOD
 [17] model, did you?
 [18] MR. REGULINSKI: Objection.
 [19] Asked and answered.
 [20] MR. PERLIS: I think in the
 [21] context of answering specifically
 [22] whether or not he evaluated these
 [23] uncertainties, in light of the
 [24] witness's previous answer, I think
 [25] a follow up is permitted. Will

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[1] you instruct him to please answer?
 [2] MR. REGULINSKI: I thought we
 [3] were concluding. Silly me. If
 [4] the witness can answer the
 [5] question.
 [6] A Again, our bank balance is growing through
 [7] phase one. The uncertainty as to need
 [8] during phase one, we have our need covered
 [9] for compliance purposes.
 [10] And in phase two, we are taking that
 [11] surplus and using it for when we are not
 [12] complying in phase two.
 [13] Q And do you read No. 5 as uncertainty only
 [14] applying to anticipated need or also to
 [15] uncertainty about price of allowances in
 [16] future years?
 [17] A I read them together.
 [18] Q So would you please tell me how the study
 [19] identifies uncertainties in emission
 [20] allowance prices in future years?
 [21] A I developed the forecast. That forecast
 [22] was used in the planning models. No, I
 [23] did not do sensitivities around it. I
 [24] didn't feel it was necessary.
 [25] I felt the forecast based on my

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[1] know whether the prices are out of line
 [2] at all with what you had forecasted the
 [3] prices to be at this time?
 [4] A I would say those prices compared to my
 [5] study forecast, the prices are high.
 [6] Q And --
 [7] A Which a higher allowance price makes a
 [8] higher sulfur coal even less attractive.
 [9] Q Did you anticipate those higher prices
 [10] when you did your 1996 forecast?
 [11] MR. REGULINSKI: Objection.
 [12] Objection.
 [13] Q Okay. I'd just like to look at a couple
 [14] of the answers to Interrogatories. Number
 [15] 1.
 [16] MR. REGULINSKI: I'm placing
 [17] before the witness a set of the
 [18] Interrogatories which he'll have
 [19] before him during these questions,
 [20] a set of the Interrogatories and
 [21] Centerior's response thereto.
 [22] BY MR. PERLIS:
 [23] Q Do I understand the process that you
 [24] followed in making your allowance forecast
 [25] would first be to determine the probable

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[1] experience was good enough, so I did not
 [2] do any sensitivities around that.
 [3] Q And in the less than one year time since
 [4] you undertook that projection of emission
 [5] allowance prices, have emission allowance
 [6] prices pretty much tracked what your
 [7] projection was?
 [8] A I would say that there has been a small
 [9] perturbation in the market that was not
 [10] anticipated, but other than that, it's
 [11] been very close.
 [12] Q And what do you think may have accounted
 [13] for that small perturbation, do you have
 [14] any idea?
 [15] A I would have to say from what I know of
 [16] the emission allowance market, it's your
 [17] client going out and trying to pursue
 [18] allowances in the November, December
 [19] timeframe.
 [20] Q What about the 1997 auction conducted by
 [21] EPA, did that represent a perturbation, as
 [22] well?
 [23] A I really haven't studied the auction
 [24] results all that much yet.
 [25] Q Do you know whether the -- so you don't

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[1] market price for current vintage
 [2] allowances?
 [3] A That's part of it, yes.
 [4] Q And then the next part of it would be to
 [5] determine an inflation and escalation
 [6] factor to apply to the current vintage
 [7] allowances for determining future years'
 [8] allowance prices?
 [9] A That's correct.
 [10] Q Is there anything else, or do you wish to
 [11] expand on the way in which you conducted
 [12] the allowance forecast beyond that, or
 [13] does that pretty much capture it?
 [14] A No, that captures it.
 [15] Q What is the difference between the
 [16] inflation factor and the escalation
 [17] factor? Is there a difference?
 [18] A The inflation factor is a corporate
 [19] established number as what we see as
 [20] inflation for the next years in our
 [21] economic models and escalation refers to
 [22] what I feel the market is -- the allowance
 [23] market is going to do with the allowances
 [24] if no inflation were imposed upon it.
 [25] Q So the inflation is the purely general

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[1] economy wide inflation and the escalation
[2] factor is an emission allowance market in
[3] real dollars --

[4] A Correct. -

[5] Q -- factor. And what are the factors that
[6] you consider in determining the
[7] escalation, the real market increase?

[8] A Basically, my knowledge in the market,
[9] reviewing different documents that I have
[10] in my possession such as the RDI study,
[11] and EPRI, E-P-R-I study, along with the
[12] fact that in 2000, the permitted level or
[13] the allocation level drops from 2.5 down
[14] to 1.2. Taking all that into account, I
[15] developed an escalation rate.

[16] Q Is it pretty much a constant escalation
[17] rate throughout the 20 year period?

[18] A In my forecast, I generally tend to
[19] probably do near term pretty close and
[20] then as I get out, I do increase in
[21] escalation a little bit just because of
[22] the time difference, but it's not that
[23] large a difference.

[24] Q Mm-hmm.

[25] - - -

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[1] Q And was that price above or below where
[2] you projected in the 1995 study?

[3] MR. REGULINSKI: Objection,
[4] relevance. Without waiving the
[5] objection, go ahead and answer.

[6] A I can't remember if it was above or below.

[7] Q Okay. Have you considered at all whether
[8] new environmental regulations now being
[9] proposed in Washington might affect the
[10] trend in future market prices for emission
[11] allowances?

[12] A No, I have not.

[13] Q Do you think that the proposed emission
[14] restrictions on small particulate matter
[15] might affect eventual strategies for that
[16] type of pollution and therefore, have a
[17] collateral affect on the demand for sulfur
[18] dioxide emission allowances?

[19] A If those types of proposed regulations are
[20] nearing going into the Federal Register,
[21] our Environmental Department advises us
[22] and then we start planning appropriately.
[23] So to date, no, I have not done anything
[24] with particulates.

[25] Q Question No. 4, if you will. Take a

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[1] (At this time, Ms. Mooney left
[2] the deposition.)

[3] - - -

[4] Q And in the last three years, has there
[5] been any escalation at all in emission
[6] allowance prices?

[7] A I would say yes.

[8] Q So starting from the beginning of that
[9] three year period to today, there's been
[10] an escalation in emission allowance
[11] prices?

[12] A Okay, if we start at calendar '97 and go
[13] back three years, that puts us at calendar
[14] '94, correct?

[15] If my memory serves me correctly, I
[16] think through calendar '94, the price of
[17] allowances dropped slowly, and then when
[18] we hit the auction of '95, they dropped
[19] dramatically, and then by the end of --
[20] let me take that back, that was '96.

[21] By the end of '96, the '96 auction,
[22] the prices dropped drastically and then by
[23] the end of '96, the prices were right back
[24] up to where they were at the beginning of
[25] '96 within two or three dollars.

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[1] minute to just read it.

[2] A Okay.

[3] Q Call your attention to the last sentence
[4] there, the second paragraph of the
[5] response. "To the extent --" and I quote
[6] now -- "To the extent that uncertainties
[7] affect this bank projection and its
[8] implications for Centerior's anticipated
[9] need for allowances, Centerior will buy
[10] allowances at the market price as needed
[11] to achieve least cost compliance."

[12] What strategy is this that you're
[13] describing to buy allowances at market
[14] prices?

[15] MR. REGULINSKI: Objection.

[16] We've gone over this stuff before.

[17] We will let this question go and
[18] try to answer, but I remind you,
[19] Mr. Perlis, that we've gone
[20] through the purchasing of EA's to
[21] some great extent, and whether or
[22] not Centerior is going to be
[23] purchasing EA's or not and why
[24] they are or are not. We've gone
[25] through this in great detail.

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[1] BY MR. PERLIS:

[2] Q Let me rephrase the question then. By
 [3] this, do you mean that you will continue
 [4] the policy that you've described earlier
 [5] in this deposition? That you'll purchase
 [6] allowances on a year by year basis as you
 [7] need them to keep your reserve level at
 [8] 60,000 or whatever it is?

[9] MR. REGULINSKI: Well, the
 [10] record will reflect what the
 [11] witness has said previously. With
 [12] that objection, we will allow the
 [13] witness to respond.

[14] A In my opinion, this reflects two things.
 [15] It reflects, yes, that we will buy to
 [16] maintain our bank level, but it also
 [17] indicates that we will buy allowances in
 [18] conjunction with fuel, whichever is the
 [19] least cost to our customers, or buy
 [20] allowances to supplement a fuel purchase
 [21] such that the coal vendor doesn't have to
 [22] supply the allowances, if he doesn't want
 [23] to.

[24] Q Okay. Question No. 8. You were here
 [25] earlier today when I was inquiring of

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[1] was prepared?

[2] A For the terms of that contract, it is my
 [3] understanding that, yes. In other words,
 [4] when that contract expires in 1997, that
 [5] then we switch to the EVA fuel price
 [6] forecast at that point in time so, yes, up
 [7] until September of '97, of this year and
 [8] through whatever its contract date is, we
 [9] would use the OVCC contract.

[10] Q And what were the EVA forecasts based
 [11] upon, to the best of your knowledge?

[12] A I don't know what the EVA price forecast
 [13] was based on.

[14] Q Do you know if they provided you with a
 [15] spot forecast for the fourth quarter of
 [16] '97 and for any portion of '98?

[17] A No, I do not. I do not know.

[18] Q Given that the company is pursuing a
 [19] strategy of purchasing only at the spot
 [20] market for 1998, and for the fourth
 [21] quarter of 1997, do you not think it would
 [22] be very important to know what the
 [23] forecast - whether you had forecasts of
 [24] bid prices in that period?

[25] A No, I don't think so.

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[1] Mr. Kovach about this response and he
 [2] deferred to you.

[3] "The coal price forecast -" I'm
 [4] quoting now - "The coal price forecast
 [5] used in the Supplemental Fuel Switching
 [6] Study was developed based upon C.E.I.'s
 [7] long term coal supply contract prices in
 [8] place on the date the forecast was
 [9] prepared."

[10] Were there any such long term coal
 [11] supply contract prices in place on the
 [12] date that the forecast was prepared for
 [13] Eastlake and Ashtabula?

[14] A The only long term contract I know that
 [15] was in place at that time is the current
 [16] Ohio Valley Coal Corporation contract.

[17] Q Was your coal price forecast based upon
 [18] that contract?

[19] A Again, it's not my coal price forecast.
 [20] It comes from the Fuel Department under
 [21] Mr. Kovach.

[22] Q Was Centerior's fuel price forecast
 [23] included in the Supplemental Fuel
 [24] Switching Study based upon the Ohio Valley
 [25] Coal contract in place when the forecast

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[1] Q Why not?

[2] A Because you're talking about a spot
 [3] market, and I'm talking about a 20 year
 [4] long range plan.

[5] Q So that the EVA - that the coal price
 [6] forecast in the Supplemental Fuel
 [7] Switching Study is a long term coal
 [8] forecast, looking at more long term prices
 [9] than is the spot market that you've
 [10] entered now?

[11] A I believe that's true.

[12] MR. REGULINSKI: May I have
 [13] that question and answer re-read,
 [14] please?

[15] ---
 [16] (Record read.)
 [17] ---

[18] Q Okay. Looking at the next paragraph in
 [19] your response to No. 8, I quote, "The
 [20] transportation price forecast was
 [21] developed based upon the rail rates in
 [22] place on the date the forecast was
 [23] prepared. Then the rail rates are
 [24] escalated at an annual escalation rate per
 [25] the terms of the rail agreement." Close

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[1] quote.
 [2] The reference to rail rates in place
 [3] here, does that refer exclusively to the
 [4] rail rates for the teased engines and cars
 [5] that we discussed earlier with Mr. Kovach
 [6] this morning?
 [7] A I do not have knowledge of that. I do not
 [8] know.
 [9] Q Mr. Kovach said he wasn't sure and said
 [10] that I should ask you since you prepared
 [11] the study.
 [12] A I prepared the study, but he does the fuel
 [13] price forecast.
 [14] Q You don't provide any independent analysis
 [15] or review of the transportation price
 [16] forecast or the delivered coal price
 [17] forecast?
 [18] A No, that's not my area of expertise and I
 [19] don't have knowledge in that area, as I
 [20] said before.
 [21] Q Who in the company do you think knows what
 [22] the transportation price forecast was
 [23] based upon?
 [24] A Who do I think knows? It would either be
 [25] Mr. Kovach, Mr. Stead. That would be my

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[1] potential allowance deal, but I have not
 [2] published anything to the company.
 [3] Q But there was something published for
 [4] purposes of evaluating the fourth quarter
 [5] bids or a document?
 [6] A I don't know if it was specifically for
 [7] that, or I just updated it in October as
 [8] general purposes as to the way the market
 [9] had been moving. I can't remember which
 [10] of those two reasons why.
 [11] Q Would that have been a 20 year forecast or
 [12] just for '97?
 [13] A No. When I do it, I do it --
 [14] Q For 20 years?
 [15] A Yes.
 [16] Q This may be one of the last two questions.
 [17] When you have evaluated high sulfur coal
 [18] prices at the 6.0 level in the study, are
 [19] you relying on any coal prices being
 [20] charged or expected to be charged by
 [21] producers other than the Ohio Valley Coal
 [22] Company?
 [23] ---
 [24] (Record read.)
 [25] ---

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[1] two guesses.
 [2] Q I see. Mr. Kovach, what role, did you
 [3] play as the Emission Allowance Manager in
 [4] helping Centerior evaluate the '97 fourth
 [5] quarter bids?
 [6] A Can I ask you a question? You addressed
 [7] me as Mr. Kovach.
 [8] Q I'm sorry, Mr. Hoag.
 [9] A Same question applies?
 [10] Q Yes, a different answer I hope.
 [11] A I supply them with my emission allowance
 [12] price forecast and then they roll that
 [13] into their analysis.
 [14] Q And was that the same emission allowance
 [15] price forecast as utilized in the 1996
 [16] study?
 [17] A Probably not.
 [18] Q So it was an updated forecast that you
 [19] provided?
 [20] A Yes. Sometime in October, I provided it
 [21] but I don't know if it was before or after
 [22] their analysis.
 [23] Q Has that forecast been subsequently
 [24] updated since October?
 [25] A For my use only on evaluation of a

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[1] A That's a yes and no answer. Again, we use
 [2] the current Ohio Valley contract through
 [3] its termination, and then we go with a 6
 [4] pound sulfur coal that would be indicative
 [5] of Ohio coal.
 [6] Q And that's based on the EVA estimate?
 [7] A That's correct.
 [8] Q But you don't know whether the EVA
 [9] estimate looks at other producers of Ohio
 [10] coal?
 [11] A No, I don't.
 [12] Q When I was questioning Mr. Kovach, he
 [13] mentioned that he thought there might be
 [14] guidelines that the company has with
 [15] respect to emission allowance banking.
 [16] A There are guidelines that were presented
 [17] by EVA in their analysis they did for us
 [18] in '94. I am following those but there's
 [19] no approved corporate guide for them.
 [20] I mean they have not been ultimately
 [21] shown to upper management for approval.
 [22] Q Can you give me just a rough idea what the
 [23] nature of these guidelines are, what they
 [24] guide you in?
 [25] MR. REGULINSKI: Without

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- [1] revealing any confidential
[2] proprietary information from EVA,
[3] please.
- [4] Q Right.
- [5] A It lays out a couple formulas for buying
[6] and selling allowances; what criteria we
[7] should use in evaluating those purchases
[8] or sales.
- [9] Q When you say generally, you've been trying
[10] to follow those as guidelines in your
[11] decisions to purchase or sell emission
[12] allowances --
- [13] A Correct.
- [14] Q I take it those guidelines are not
[15] dependent on a specific emission allowance
[16] price forecast that may be in place at a
[17] given point in time?
- [18] A It's been quite a while since I referred
[19] back to them. I wouldn't want to hazard a
[20] guess.
- [21] Q You didn't evaluate how those guidelines
[22] might be applied for purposes of the
[23] Supplemental Fuel Switching Study, did
[24] you?
- [25] A (Indicating no.)

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- [1] STATE OF OHIO,) CERTIFICATE
[2])
[3] COUNTY OF CUYAHOGA)
[4] I, Ellen A. Hancik, a Notary Public
[5] within and for the State aforesaid, duly
[6] commissioned and qualified, do hereby certify
[7] that the above-named RICHARD HOAG, was by me,
[8] before the giving of his deposition, first
[9] duly sworn to testify the truth, the whole
[10] truth, and nothing but the truth; that the
[11] deposition as above set forth was reduced to
[12] writing by me by means of stenotype, and was
[13] later transcribed into typewriting under my
[14] direction; that said deposition was taken in
[15] all respects pursuant to the stipulations of
[16] counsel herein contained, and was completed
[17] without adjournment; that the foregoing is the
[18] deposition given at said time and place by said
[19] RICHARD HOAG; that I am not a relative or
[20] attorney of either party or otherwise interested
[21] in the event of this action.
- [22] IN WITNESS WHEREOF, I hereunto set my
[23] hand and seal of office, at Cleveland, Ohio, this
[24] 9th day of April, A.D., 1997.

Ellen A. Hancik, RPR, Notary Public
My commission expires: 2/10/98

[25]

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- [1] MR. PERLIS: Okay. I don't
[2] think I have any further
[3] questions.
[4] ---
- [5] _____
[6] RICHARD HOAG
[7] (Deposition concluded.
[8] Signature not waived.)
[9] ---
[10] ---
[11] ---
[12] ---
[13] ---
[14] ---
[15] ---
[16] ---
[17] ---
[18] ---
[19] ---
[20] ---
[21] ---
[22] ---
[23] ---
[24] ---
[25] ---

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the)
Two-Year Review of)
Centerior Energy)
Corporation's Environmental)-Case No. 94-1698-EL-ECF
Compliance Plan Pursuant)
to Section 4913.05, Revised)
Code)

Deposition of FRANK R. STEAD, a witness called
for the purpose of testifying in the above matter,
before me, Ellen A. Hancik, Registered Professional
Reporter and Notary Public within and for the State
of Ohio, at the offices of Centerior Energy Corporation,
6200 Oak Tree Boulevard, Independence, Ohio on
Friday, the 21st day of March, 1997 at 10:20 a.m.

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FRANK R. STEAD, of lawful age,
called by the Ohio Valley Coal Company,
for the purpose of testimony in this
matter, being by me first duly sworn,
as hereinafter said as follows:

MR. WEISSMAN: Mr. Stead, by
way of introduction, my name is
Andy Weissman. I'm an attorney
with the lawfirm of Dickstein,
Shapiro in Washington, D.C.

I'm here representing Ohio
Valley Coal Company in connection
with the present matter before the
Public Utilities Commission of
Ohio, and what I'd like to do this
morning is ask you what I expect
will be a relatively small number
of questions pertaining to the
company's Environmental Compliance
Plan, and the role that you may
have performed in connection with
developing that plan, and some of
the assumptions that were used in

PAGE 2

[1]
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[26] ALSO PRESENT: Ms. Nancy Casser, Rates Assistant
[27] Mr. Richard S. Hoag
[28] Mr. Michael C. Kovach
[29] Mr. Charles Mann, with Mr. Weissman
[30]
[31]
[32]
[33]
[34]
[35]

PAGE 4

the company's analysis.

EXAMINATION OF FRANK R. STEAD
BY MR. WEISSMAN:

Q With that, with that general background,
can you please state for the record what
your current position is with the company?

A My current position is the Director of the
Supply Department.

Q And when did you assume that position?

A December of 1995.

Q Could you describe - just describe
briefly for the record what the scope of
your responsibilities are in that
position?

A In that responsible area, I'm responsible
for the purchase of materials, and
services and fuel for Centerior Energy
Companies which are Cleveland Electric and
Toledo Edison.

Q How many individuals report directly to
you in that position?

A The department consists of about 236
individuals doing supply chain activities,
you know, covering entire scope of supply

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[1] determination was made as to whether to
 [2] engage in additional fuel switching at
 [3] either Eastlake or Ashtabula?
 [4] MR. REGULINSKI: Objection as
 [5] to relevancy, but I'll let the
 [6] witness answer.
 [7] A I would expect that they would be.
 [8] Q Why?
 [9] MR. REGULINSKI: Same
 [10] objection, if you can answer.
 [11] A I would think that the purchasing
 [12] individuals might have information that
 [13] might be relevant to the study.
 [14] Q What sort of information might they have
 [15] that might be relevant?
 [16] A Projections of cost of fuel.
 [17] Q Is that the only information that would be
 [18] relevant from your perspective?
 [19] A That's the only one that comes to mind,
 [20] yes.
 [21] Q The -- do you have any opinion as to what
 [22] long term might be the appropriate fuel
 [23] procurement strategy for either Eastlake
 [24] or Ashtabula?
 [25] A Yes, I do.

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[1] a long term basis at either Eastlake or
 [2] Ashtabula, or any of the other company's
 [3] generating units?
 [4] MR. REGULINSKI: Let me have
 [5] the question re-read, please.
 [6] ---
 [7] (Record read.)
 [8] ---
 [9] MR. REGULINSKI: General
 [10] objection to other units and then
 [11] ask to clarify what you mean by
 [12] long term basis.
 [13] BY MR. WEISSMAN:
 [14] Q Let me ask another question as a predicate
 [15] to that.
 [16] Mr. Stead, do you believe it's
 [17] appropriate for the company to try to
 [18] develop a long range plan as to what fuel
 [19] or fuels it might use at each of its
 [20] generating units?
 [21] MR. REGULINSKI: Objection as
 [22] to each of its generating units.
 [23] Go ahead and answer if you like or
 [24] if you can.
 [25] A I guess I have to give a yes and no

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[1] Q What is that opinion?
 [2] A The one that creates the least cost for
 [3] our customers.
 [4] Q And what steps have you taken to attempt
 [5] to determine what's likely to be the least
 [6] cost long term strategy for Eastlake or
 [7] Ashtabula?
 [8] A I would have looked at the possible
 [9] sources of fuel that could be utilized for
 [10] those facilities.
 [11] Q When you say you would have looked at the
 [12] possible sources of fuel, could you
 [13] explain in a little bit more detail what
 [14] steps you have taken to examine the fuels
 [15] that might be used on a long term basis at
 [16] those facilities?
 [17] A We've discussed with the Operations
 [18] Department what ranges of fuel that they
 [19] could utilize at their facilities.
 [20] Q Are there any other steps that you've
 [21] taken?
 [22] A None that I recall.
 [23] Q Is there someone reporting to you who has
 [24] principle responsibility for evaluating
 [25] the issue of what fuel ought to be used on

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[1] answer.
 [2] Q That's fine. Could you explain what you
 [3] mean?
 [4] A One aspect of your question is confusing
 [5] to me because I have no idea what you mean
 [6] by long term and therefore, I'm having
 [7] difficulty understanding what you're
 [8] wanting -- what you want me to respond to.
 [9] One year, five years, a hundred years?
 [10] Q What do you think is an appropriate
 [11] planning horizon as to evaluate fuel use
 [12] at a unit?
 [13] A There's two aspects of that. There's two
 [14] different perspectives on that question
 [15] because it speaks to the other part of the
 [16] question that you asked me that was
 [17] confusing to -- with respect to what
 [18] you're really asking me.
 [19] On the one hand, there are long term
 [20] determinations as to whether or not there
 [21] are fuels available that we'll be able to
 [22] support the operation at those units on
 [23] a long term basis.
 [24] There's also very short term
 [25] questioning with respect to the things

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[1] that we deal with in terms of our
 [2] procurement cycle. It tends to be a one
 [3] to two, three or four year cycle and what
 [4] we're doing in the immediate future, what
 [5] some folks might consider that also to be
 [6] long term because it's more than a one
 [7] year cycle. There are different ways of
 [8] looking at the question, and you get
 [9] completely different answers.

[10] Q That's why I asked the question I did and
 [11] I'll now repeat it. What is the planning
 [12] horizon over which you believe the company
 [13] should evaluate fuels to be at particular
 [14] units, and that just to be clear about it,
 [15] it may be that you want to specify more
 [16] than one planning horizon for different
 [17] purposes.

[18] To try to cut through the fencing
 [19] back and forth that seems to be occurring,
 [20] I would simply like you to tell me the
 [21] planning horizon or horizons over which
 [22] you believe such evaluation should be
 [23] made?

[24] A Well, for the purpose of complying with
 [25] the DCP requirements, the horizon is 20

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[1] Q What durations have you considered?
 [2] A Time periods from one to five years.
 [3] Q One to five years. Have you considered
 [4] purchases for periods of more than five
 [5] years?
 [6] A No.
 [7] Q Why not?
 [8] A We can't adequately predict where we're
 [9] going with our unit operations, or what
 [10] the market conditions will be.

[11] Q What are the uncertainties as to unit
 [12] operations that cause you to limit your
 [13] evaluation to five years?

[14] MR. REGULINSKI: I'm going to
 [15] object to this line of
 [16] questioning. As you know, the
 [17] focus of the hearing has been on
 [18] two plants, Eastlake and
 [19] Ashtabula, and the round of
 [20] questioning that we appear to have
 [21] been discussing are well beyond
 [22] those two particular plants.

[23] MR. WEISSMAN: If it will
 [24] help, I'll be glad to restrict the
 [25] questions to Eastlake and

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[1] years.
 [2] For the purpose of making decisions
 [3] for what fuel to burn in 1998, it's one
 [4] year.

[5] Q Okay. And are those the only two planning
 [6] horizons that your group uses in
 [7] evaluating fuel procurement options for
 [8] Eastlake and Ashtabula? You look at a one
 [9] year horizon, you look at a 20 year
 [10] horizon, but you don't look at anything in
 [11] between?

[12] A That's what we're currently looking at,
 [13] yes.

[14] Q That isn't my question. Are those the
 [15] only two --

[16] A The answer is yes.

[17] Q -- time periods you look at?

[18] A The answer is yes.

[19] Q Okay. Have you considered -- has the
 [20] company considered at any time since you
 [21] assumed your current responsibilities, the
 [22] possibility of entering into coal
 [23] purchases for periods of more than one
 [24] year?

[25] A We've considered it, yes.

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[1] Ashtabula.

[2] MR. REGULINSKI: I would
 [3] appreciate that. Thank you. With
 [4] the understanding that the
 [5] question is related to Eastlake
 [6] and Ashtabula, can you answer the
 [7] question?

[8] A If you repeat it.

[9] Q I'll be glad to rephrase it to save a
 [10] little time.

[11] A Just restate it.

[12] Q In looking at fuel procurement for either
 [13] Eastlake or Ashtabula, have you considered
 [14] the possibility of purchasing coal for
 [15] more than one year?

[16] A Yes, we have.

[17] Q And over what duration have you considered
 [18] entering into -- let me rephrase that, I'm
 [19] sorry.

[20] What's the longest term contract
 [21] you've considered entering into during the
 [22] last 15 months with respect to either
 [23] Eastlake or Ashtabula?

[24] A One year.

[25] Q So you've not considered entering into

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- [1] contracts of any longer duration than one
[2] year, at those two plants?
[3] A I guess I would have to revise my answer
[4] to say it went from periods of one to five
[5] years, we've looked at.
[6] Q But you've not looked at periods of longer
[7] than five years; is that correct?
[8] A No, we have not.
[9] Q Why not?
[10] A Our experience in the last number of years
[11] has been that long term contracts have not
[12] been advantageous to the company.
[13] Contracts that go longer than those
[14] periods of time.
[15] There's also a lot of volatility in
[16] the current market and as a result of
[17] that, it wouldn't be prudent to try to
[18] enter into a term of a contract much
[19] longer than that.
[20] Q Why is volatility in the market relevant?
[21] A It affects the current offers that are
[22] being made.
[23] Q In what ways?
[24] A Tends to make them more costly.
[25] Q Tends to make them more costly. Why does

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- [1] A Coals that have sulfurs less than the SIP
[2] limits now for those plants. Coals in the
[3] one, two, three, four pound range.
[4] Q Are you burning any coals at that plant
[5] now with sulfur contents in excess of four
[6] pounds?
[7] A Yes.
[8] Q Is there anything in the SIP requirements
[9] that would preclude you from continuing to
[10] burn those coals at Eastlake?
[11] A There could be, yes.
[12] Q My question is, is there anything in the
[13] current SIP requirements that preclude you
[14] from continuing to burn those coals?
[15] MR. REGULINSKI: And he
[16] answered that question by saying
[17] there could be.
[18] MR. WEISSMAN: I'd like to
[19] repeat the question and ask that
[20] he answer it.
[21] Q Is there currently anything in the SIP
[22] requirements pertaining to Eastlake that
[23] currently preclude you from burning those
[24] coals?
[25] A Which coals?

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- [1] volatility by itself make an offer more
[2] costly?
[3] A Well, in the short period of time, the
[4] last 15 months, there's been considerable
[5] pressure on the coal market because of
[6] some things that have happened in the
[7] industry that's caused some of the coals
[8] in the ridge in the grades that we use
[9] them to become in somewhat short supply
[10] and that's put the price up.
[11] And therefore, the bidding tends to
[12] be higher during that kind of a timeframe.
[13] Q What coals are you referring to?
[14] A Coals that we burn at our plants at
[15] Eastlake and Ashtabula.
[16] Q What coals are you currently burning at
[17] Eastlake?
[18] A Types of coals, yes.
[19] Q What types of coals are you currently
[20] burning at Eastlake?
[21] A Coals that have ranges of sulfur, you
[22] know, that allow us to meet our SIP limits
[23] for operation at the facility.
[24] Q Can you categorize those for me in any
[25] way?

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- [1] Q The coals with a sulfur content in
[2] excess -- the coals that you are currently
[3] burning with the sulfur content in excess
[4] of four pounds?
[5] A Depends on the quantity. And I stand by
[6] the answer I gave you before.
[7] MR. WEISSMAN: Can we go off
[8] the record?
[9] MR. REGULINSKI: Yes.
[10] ---
[11] (Discussion off the record.)
[12] ---
[13] MR. WEISSMAN: Let's go back
[14] on the record.
[15] Again, we've been off the
[16] record for an extended time period
[17] and rather than asking the
[18] reporter to read back the
[19] transcript, let me just start this
[20] way.
[21] BY MR. WEISSMAN:
[22] Q Do you know, Mr. Stead, is the company
[23] currently burning coal at Eastlake with a
[24] sulfur content in excess of four pounds
[25] SO2 per million BTU?

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- [1] A Yes, it is.
 [2] Q Are you aware at least in approximate
 [3] terms of the sulfur content of that coal?
 [4] A Yes, I think so.
 [5] Q What's your understanding?
 [6] A It's basically six pound coal.
 [7] Q It's basically six pound coal. To your
 [8] knowledge, is there anything in the state
 [9] implementation plan limitation currently
 [10] applicable to the Eastlake plant that
 [11] would preclude Centrior Corporation from
 [12] continuing to burn approximately the same
 [13] quantities of that coal that it's burning
 [14] now?
 [15] A No, I don't know of anything.
 [16] Q You're not aware of any current limitation
 [17] that would prevent the company from
 [18] continuing to use the same quantities of
 [19] that coal?
 [20] A In terms of the SIP program you
 [21] referenced?
 [22] Q Yes.
 [23] A Yes. That's my answer.
 [24] Q Are there other factors that would -- that
 [25] currently would prevent the company from

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- [1] continuing to burn the quantities of
 [2] roughly 6.0 pound coal that it's using at
 [3] Eastlake?
 [4] A Are you asking me are there current issues
 [5] or are you asking me how I responded?
 [6] Q I'm trying to clarify your answer. I'm
 [7] just trying to understand. I genuinely
 [8] don't know what the answer is.
 [9] Are there currently problems that
 [10] exist at Eastlake that might prevent the
 [11] company from continuing to burn the same
 [12] quantities of approximately 6.0 pound coal
 [13] that it's now burning?
 [14] A Not that I know of.
 [15] Q When you refer to operational difficulties
 [16] that -- I don't want to put words in your
 [17] mouth -- I'm trying to paraphrase as best
 [18] I can what I understood you to say just a
 [19] few minutes ago.
 [20] If at any point I misstate what you
 [21] indicated, please stop me immediately.
 [22] Are there operational issues that
 [23] might prevent the company from continuing
 [24] to burn the 6.0 pound coal in the future?
 [25] A Well, again, as I had answered the

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- [1] burning -- continuing to burn the same
 [2] quantities of that coal?
 [3] A Well, there always are factors. It's not
 [4] particularly that coal but any coal.
 [5] Again, our responsibility is to procure
 [6] fueling at the lowest cost for our
 [7] customers and that's the ultimate
 [8] determining factor.
 [9] Q So cost is a determining factor?
 [10] A Evaluating cost, yes.
 [11] Q Are there other -- are there any other
 [12] factors that you are aware of that
 [13] currently exist that would prevent the
 [14] company -- that might prevent the company
 [15] from continuing to burn the same
 [16] quantities of that coal at Eastlake?
 [17] A There are some potential technical issues
 [18] with respect to changes in operation of
 [19] some of the boilers, and some coals could
 [20] cause technical problems with operations
 [21] and operations will have to advise us on
 [22] what those are, and what the consequences
 [23] of those would be.
 [24] Q Are there problems that currently exist
 [25] that would prevent the company from

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- [1] question before in terms of any coal that
 [2] might be burned in the future, there are
 [3] going to be some physical changes at the
 [4] plant in terms of the way they operate to
 [5] meet other regulations, and that could
 [6] require physical equipment changes which
 [7] could affect certain coals.
 [8] I can't tell you which ones, but
 [9] those operating conditions would be
 [10] evaluated by the operating folks and we
 [11] would be informed of those.
 [12] Q So there apparently may be physical
 [13] changes at the plant in the future; is
 [14] that correct?
 [15] A There could be, you know, to meet other
 [16] compliance requirements.
 [17] Q But the company hasn't determined yet
 [18] whether those changes will be necessary;
 [19] is that correct?
 [20] A I believe there's a plan to make some of
 [21] those changes already.
 [22] Q What changes is the company planning to
 [23] make?
 [24] A I believe we have a project to change our
 [25] burners at Eastlake 5 unit sometime in the

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- [1] next two years.
 [2] Q Sometime in the next two years?
 [3] A Yeah.
 [4] Q Do you know when that change is planned to
 [5] occur?
 [6] A No, I don't.
 [7] Q Has there been any evaluation yet of the
 [8] affect that that change would have on the
 [9] coals that the company can burn at
 [10] Eastlake?
 [11] A I don't know.
 [12] Q Let's focus on Ashtabula for a second. Do
 [13] you know, is the company currently
 [14] burning -- it's probably more than a
 [15] second to be precise. Let's switch focus
 [16] to Ashtabula.
 [17] Is the company currently burning
 [18] coals at Ashtabula with the sulfur content
 [19] of six pounds per million BTU or greater?
 [20] A Approximately, yes.
 [21] Q Are there any current environmental
 [22] requirements that would preclude the
 [23] company -- that would prevent the company
 [24] from continuing to burn that coal?
 [25] A Not that I know of.

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- [1] content as that coal. No, there wouldn't
 [2] be.
 [3] Q Are there any other factors other than
 [4] cost that might prevent the company from
 [5] continuing to burn the same coals at
 [6] Ashtabula 5?
 [7] A During what period?
 [8] Q Any other factors that you're aware of
 [9] other than cost that at any time in the
 [10] future might prevent the company from
 [11] continuing to burn the same coals at
 [12] Ashtabula 5?
 [13] A I don't know what the -- there may be.
 [14] There may be.
 [15] Q And what are those?
 [16] A There may be future environmental
 [17] restrictions sometime in the future that
 [18] may change that.
 [19] Q Are there any such requirements that have
 [20] been proposed by state or Federal
 [21] officials that are currently pending? Let
 [22] me rephrase that.
 [23] Are there any proposed changes in the
 [24] environmental requirements applicable to
 [25] Ashtabula 5 that are currently pending?

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- [1] Q Are there any other factors, other than
 [2] cost that might prevent the company from
 [3] burning that coal in the future?
 [4] A Yes.
 [5] Q What are they?
 [6] A Reduced operation.
 [7] Q Reduced operation. And how would reduced
 [8] operation -- let me back up a second.
 [9] When you refer to the possibility of
 [10] reduced operation at Ashtabula, what are
 [11] you referring to?
 [12] A I'm referring to the company's plans to
 [13] stop operating some boilers at Ashtabula.
 [14] Q And if I focus specifically on Ashtabula
 [15] 5, is the company currently burning coals
 [16] with a sulfur content in excess of six
 [17] point -- of six pounds per million BTU at
 [18] Ashtabula 5?
 [19] A Yes, they are.
 [20] Q Are there any current environmental
 [21] requirements that would -- to your
 [22] knowledge, would prevent the company from
 [23] continuing to burn the same quantities of
 [24] such coals at Ashtabula 5?
 [25] A It would have to be the same sulfur

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- [1] A Not that I know of.
 [2] Q Is there the possibility that Ashtabula 5
 [3] will be shut down at some point?
 [4] A There's a possibility of that, sure.
 [5] Q When might the unit be shut down?
 [6] A I don't know.
 [7] Q Do you know if there's been any
 [8] evaluation, study or evaluation or
 [9] analysis of any kind of potentially
 [10] shutting down Ashtabula 5?
 [11] A I guess I'd rather not answer that
 [12] question. I don't think it's relevant to
 [13] the scope of this discussion.
 [14] MR. REGULINSKI: Can we go
 [15] off the record?
 [16] MR. WEISSMAN: Certainly.
 [17] ---
 [18] (Discussion off the record.)
 [19] ---
 [20] (Record read.)
 [21] ---
 [22] A With respect to the ECP work that was done
 [23] and filed, there was no studies related to
 [24] that.
 [25] Q I'm afraid that's not my question. I

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[1] MR. WEISSMAN: Yes.
 [2] ---
 [3] (Discussion off the record.)
 [4] ---
 [5] MR. REGULINSKI: Back on the
 [6] record, please.
 [7] BY MR. WEISSMAN:
 [8] Q Mr. Stead, is it important in your
 [9] judgment for Centerior Corporation to cut
 [10] costs?
 [11] A Yes, it is.
 [12] Q Why?
 [13] A Well, I'm assuming by your question that
 [14] you're speaking to the issue of being
 [15] competitive, and surviving in a
 [16] competitive market.
 [17] Q Well, I'm just trying to ask the questions
 [18] one step at a time. Is it important -- I
 [19] am just trying to -- you've said it's
 [20] important to cut costs.
 [21] I just would appreciate your
 [22] describing to me why that's important and
 [23] again, I'm not trying to play any games.
 [24] I just want to understand the basis
 [25] for your answer. I don't want to put

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[1] MR. WEISSMAN: On what basis?
 [2] MR. REGULINSKI: Go ahead and
 [3] answer the question, to the best
 [4] of your knowledge.
 [5] A My previous answer was in the context of
 [6] any business.
 [7] Q Well, I'm asking about Centerior
 [8] Corporation. Centerior Corporation in
 [9] particular.
 [10] Are there any reasons why it's
 [11] important for Centerior Corporation in
 [12] particular to try to cut costs?
 [13] A I think I just answered that question.
 [14] Q No, I think you gave me an answer
 [15] regarding businesses generally. I'm not
 [16] interested in that.
 [17] I'd like to know whether there are
 [18] any factors that differentiate Centerior
 [19] from other corporations, other utilities
 [20] in the United States, that might make it
 [21] particularly important for Centerior to
 [22] cut costs.
 [23] A Well, Centerior is a high cost producer in
 [24] terms of electricity, you know, in the
 [25] market at least from information that we

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[1] words in your mouth. That's precisely why
 [2] I'm simply asking what you meant and you
 [3] tell me what it is that you mean and I'm
 [4] trying to give you a fair opportunity to
 [5] simply explain to me directly as part of
 [6] the record in this proceeding what you
 [7] meant by what you said, and I'm sure you
 [8] have a perfectly fine answer. I just
 [9] don't want to put words in your mouth
 [10] and --
 [11] A And your question was?
 [12] Q Why is it important for the company to cut
 [13] costs?
 [14] A In any company, you know, the cost of its
 [15] product determines its ability to be a
 [16] viable company.
 [17] In our case, cost is very important.
 [18] You know, to allow us to have a viable
 [19] product in a competitive market and we're
 [20] preparing ourselves to be in a more
 [21] competitive market.
 [22] Q Is there any question as to whether
 [23] Centerior will remain a viable company if
 [24] it fails to cut costs?
 [25] MR. REGULINSKI: Objection.

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[1] have.
 [2] Q Is it important for a high cost producer
 [3] to cut its costs?
 [4] A If it wants to continue in business, yes.
 [5] Q Fine. Have there in recent years also
 [6] been constraints on the funds that are
 [7] available for capital expenditures or
 [8] other projects that might be necessary or
 [9] help improve the company's efficiency?
 [10] MR. REGULINSKI: Objection.
 [11] That's well beyond the scope of
 [12] this proceeding.
 [13] Q Mr. Stead, is this a company that has
 [14] enough money to do everything that's cost
 [15] efficient for it to do?
 [16] MR. REGULINSKI: Objection.
 [17] That's well beyond the scope of
 [18] this proceeding.
 [19] MR. WEISSMAN: No, we don't
 [20] think it's irrelevant at all. The
 [21] company's proposing to spend some
 [22] twenty million dollars for fuel
 [23] switching at Eastlake and
 [24] Ashtabula in 1998 and '99.
 [25] It's not necessary for acid

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[1] rain compliance in those years or
 [2] for many years to come.
 [3] MR. REGULINSKI: That's
 [4] relevant. Whether the study is
 [5] good or bad, that's relevant.
 [6] Whether the company has adequate
 [7] cash to do whatever it wants to do
 [8] is simply not before the
 [9] Commission at this time.
 [10] MR. WEISSMAN: Well, we have
 [11] a different position. We think
 [12] that knowing whether the company
 [13] has adequate cash is relevant in
 [14] determining whether to undertake a
 [15] discretionary expenditure of at
 [16] least ten, fifteen, perhaps twenty
 [17] million dollars for fuel switching
 [18] that's not necessary for immediate
 [19] compliance.
 [20] BY MR. WEISSMAN:
 [21] Q And therefore, I would like to know, does
 [22] the company have adequate funds at this
 [23] point to make all discretionary
 [24] expenditures that would be cost efficient?
 [25] MR. REGULINSKI: And I object

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[1] confine it to the period since December of
 [2] '95 when you assumed your current
 [3] responsibilities.
 [4] A No, I have not been.
 [5] Q There has been enough funding for
 [6] everything you thought was cost effective
 [7] to do; is that correct?
 [8] MR. REGULINSKI: Objection as
 [9] to the scope of the question and
 [10] to the relevancy. Without waiving
 [11] the objection, the witness can
 [12] answer.
 [13] A I guess I would have to answer, I can't
 [14] answer the way you ask it because I
 [15] haven't categorized the things I have
 [16] requested in terms of cost effective or
 [17] not cost effective.
 [18] I have not been refused of any
 [19] request that I've made of my management to
 [20] carry out projects that were important for
 [21] the company.
 [22] Q In determining what funds to request,
 [23] have - what criteria have you used to
 [24] determine whether to make the request?
 [25] MR. REGULINSKI: Objection.

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[1] with respect to relevance and I'll
 [2] ask the witness to respond to the
 [3] best of your knowledge.
 [4] Q Fine.
 [5] A I don't know.
 [6] Q Has there been any instance in which
 [7] you've been told, "Mr. Stead, we'd like to
 [8] provide you with money to hire additional
 [9] people or undertake a particular project.
 [10] We think the project makes sense, but
 [11] there aren't funds available?"
 [12] MR. REGULINSKI: Objection as
 [13] to relevance, but I'll let the
 [14] witness answer it to the best of
 [15] your knowledge.
 [16] A I have not been, no.
 [17] Q You've never been told no to any request
 [18] you've made on the basis that the funding
 [19] was limited?
 [20] MR. REGULINSKI: Same
 [21] objection.
 [22] A Well, with respect to that question, I
 [23] have worked for this company for 31 years
 [24] and I can give you a long list of cases.
 [25] Q Let's confine - that's fair. Let's

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[1] Can we go off the record again,
 [2] please?
 [3] ---
 [4] (Discussion off the record.)
 [5] ---
 [6] MR. WEISSMAN: Let's go back
 [7] on the record. Are you going to
 [8] allow the witness to answer or
 [9] not?
 [10] MR. REGULINSKI: Let's take a
 [11] ten minute break, if we can,
 [12] collect our thoughts.
 [13] MR. WEISSMAN: Certainly.
 [14] MR. REGULINSKI: Thank you.
 [15] ---
 [16] (Short recess had.)
 [17] ---
 [18] BY MR. WEISSMAN:
 [19] Q Mr. Stead, is Centerior Corporation
 [20] currently considering a broad range of
 [21] options to cut costs?
 [22] A Yes, we are.
 [23] Q Is it fair to say that that's because
 [24] Centerior, its management believes that
 [25] it's particularly important for Centerior

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- [1] criteria to be. As you understand it,
 [2] does the company have any flexibility or
 [3] discretion or options — let me back up,
 [4] and let me phrase it this way.
 [5] I believe we've established
 [6] previously that there are no factors that
 [7] would immediately — that would compel the
 [8] company to reduce consumption of high
 [9] sulfur coal at either Eastlake or
 [10] Ashtabula 5.
 [11] I believe also that you have
 [12] testified that nonetheless, the company
 [13] may engage in additional fuel switching
 [14] based on cost considerations. Could you
 [15] explain to me what that means?
 [16] A Whenever we make a decision to procure
 [17] fuel for use at our plants, we do that
 [18] based on evaluated cost.
 [19] Q When you say evaluated cost, what do you
 [20] mean?
 [21] A Evaluated cost is the total cost of
 [22] getting that fuel to the plant so it can
 [23] be burned.
 [24] Q Okay. Do you know — let me ask it this
 [25] way. When you say the cost of getting the

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- [1] the question.
 [2] ---
 [3] (Record read.)
 [4] ---
 [5] A You've got a lot of pre-conditions on the
 [6] question, but if the lowest cost fuel when
 [7] you take into consideration all of the
 [8] evaluation parameters, the evaluated cost
 [9] as I defined evaluated cost, would
 [10] determine what fuel we would purchase for
 [11] use at that plant.
 [12] Q When you say would determine —
 [13] A For us, you know. When you said required,
 [14] I don't know of anything that requires
 [15] anything. So I guess I don't understand.
 [16] Q Well, that's essentially, Mr. Stead, what
 [17] I was trying to get at when I asked you
 [18] ten minutes ago whether the company has
 [19] any discretion in determining whether to
 [20] engage in additional fuel switching.
 [21] A And I guess my answer to you is we have no
 [22] discretion. Whatever the evaluation says,
 [23] it says, and that's what we do.
 [24] Q What the numbers say, the company does,
 [25] correct?

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- [1] fuel to the plant so that it can be
 [2] burned, could you please describe to me
 [3] what the components are of that cost?
 [4] A In the context of evaluation, those are
 [5] cost of the coal itself from the supplier,
 [6] cost of any transportation, cost of —
 [7] well, an evaluation of the sulfur content,
 [8] you know, and other technical factors, you
 [9] know, that apply to fuel such as ash,
 [10] grindability, moisture. Those are the —
 [11] all the factors that go — I think those
 [12] are all the factors that go into an
 [13] evaluated cost of getting the fuel to the
 [14] plant.
 [15] Q Is it your position that the company, if
 [16] it is required to engage in additional
 [17] fuel switching at Eastlake and/or
 [18] Ashtabula 5, if adding together the
 [19] delivered cost of the coal itself, and the
 [20] projected cost of SO₂ allowances to offset
 [21] the emissions associated with that coal,
 [22] fuel switching appears to be cheaper?
 [23] MR. REGULINSKI: Can we have
 [24] that question re-read, please?
 [25] MR. WEISSMAN: I'll rephrase

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- [1] A That's correct.
 [2] Q And those numbers are based in part on a
 [3] projected value for allowances, correct?
 [4] A No.
 [5] Q No. What are they based on then?
 [6] A When I do an evaluation for procurement, I
 [7] use the actual bids that are presented to
 [8] me. There's no projections involved in
 [9] that.
 [10] Q So in determining what coal to burn at
 [11] Eastlake 4 and 5, for example, what have
 [12] you done to get actual bids for SO₂
 [13] allowances?
 [14] A I don't know. I don't believe we've done
 [15] anything.
 [16] Q I'm sorry, you said "I don't believe we've
 [17] done anything?"
 [18] A I don't think we have.
 [19] Q Then, I guess I'm still a little bit
 [20] confused. Let me ask though first, who
 [21] makes the decision as to what coal to burn
 [22] at Eastlake 4 and 5?
 [23] A Well, there are a number of people
 [24] involved on making that decision.
 [25] Q Is there —

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- [1] 5, or Ashtabula 5?
- [2] A I guess I'm confused by your question in
- [3] terms of the previous answers I've already
- [4] given. We evaluate proposals and make
- [5] decisions based on least cost.
- [6] Q One way to put it, Mr. Stead, and I'm
- [7] trying to understand who the "we" is, what
- [8] the process is, and to try to limit the
- [9] objections, I'm just trying to ask it one
- [10] step at a time.
- [11] I'll be glad to start at the other
- [12] end of the spectrum and rather than asking
- [13] it one piece at a time, could you describe
- [14] for me in terms of the individuals
- [15] involved, what the process is and will be
- [16] internally for deciding whether to switch
- [17] fuels at Eastlake 4 and 5 or Ashtabula 5?
- [18] MR. REGULINSKI: Objection.
- [19] Relevancy, breadth, scope. You're
- [20] overbroad. It's completely
- [21] irrelevant to process and the
- [22] people.
- [23] With that objection, I'll see
- [24] if the witness can answer. Can
- [25] you answer the question,

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- [1] was ever made as to whether to engage in
- [2] additional fuel switching at Eastlake or
- [3] Ashtabula 5?
- [4] A The study that was completed showed that
- [5] there was a particular fuel source or type
- [6] rather, that would be optimum from a cost
- [7] standpoint for the period of the study.
- [8] Q I'm not trying to be difficult. What I
- [9] don't understand is that, is there any
- [10] individual or committee within the company
- [11] that made a specific decision as to --
- [12] that looked at the results of the study
- [13] and made a specific decision up or down as
- [14] to whether based on the study, or in
- [15] whatever other information might be
- [16] relevant, there should or shouldn't be
- [17] additional fuel switching?
- [18] A Mr. Hoag, as I earlier stated was
- [19] responsible for that study.
- [20] Q So you assume Mr. Hoag made a decision one
- [21] way or the other as to whether additional
- [22] fuel switching was appropriate?
- [23] A The results of the study indicated that.
- [24] Q That additional fuel switching should be
- [25] done?

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- [1] Mr. Stead?
- [2] A I don't believe I know at this time.
- [3] Q Do you know whether any process has been
- [4] established?
- [5] A I don't think I know that answer to that.
- [6] Q Do you know whether prior to --
- [7] MR. REGULINSKI: Can we go
- [8] off the record just a minute,
- [9] please?
- [10] ---
- [11] (Discussion off the record.)
- [12] ---
- [13] Q Mr. Stead, prior to submitting --
- [14] Mr. Stead, to the best of your knowledge,
- [15] prior to submitting its October 1st, '96
- [16] Environmental Compliance Plan Review, did
- [17] the company attempt to engage in any
- [18] specific process to determine whether to
- [19] engage in additional fuel switching at
- [20] Eastlake 4 and 5 or Ashtabula 5?
- [21] A It conducted a study to determine if it
- [22] should do that or not.
- [23] Q Who participated in that study?
- [24] A Other than Mr. Hoag, I don't know.
- [25] Q Do you know whether a specific decision

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- [1] A That's what the results of the study say,
- [2] yes.
- [3] Q I assume, therefore, that the Fuel
- [4] Procurement Group has attempted to
- [5] implement Mr. Hoag's decision in that
- [6] regard; is that correct?
- [7] A We are implementing the results of the
- [8] study, yes.
- [9] Q Are you attempting to switch fuels at this
- [10] point?
- [11] A We just did that in our most recent
- [12] bidding operation, yes.
- [13] Q I'm sorry, when you say we just did that,
- [14] could you explain to me what you mean by
- [15] that statement?
- [16] A Yes, when we went out for our fourth
- [17] quarter bidding for fuel for those plants,
- [18] we asked for a range of fuel supplies that
- [19] were, you know, that were addressed in
- [20] that study, and we did the evaluation
- [21] according to the stipulation which we have
- [22] entered into, and we made an award to the
- [23] least cost provider of fuel.
- [24] Q Was there just one bidder selected?
- [25] A I think there were a number of bidders

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- [1] that were selected to meet the total
[2] requirements of the company.
[3] Q I'm trying to focus now just on Eastlake 4
[4] and 5, and Ashtabula 5. For Eastlake 4
[5] and 5, was there more than one source of
[6] coal selected?
[7] A No, I believe there's only one.
[8] Q And do you know at least in general terms,
[9] what the sulfur content of that coal is?
[10] A Yes, in general terms I know.
[11] Q What was it?
[12] A Greater than six pound.
[13] Q Greater than six pounds. So that for the
[14] fourth quarter, I guess, Mr. Stead, it's
[15] really a very simple question. I'm just
[16] trying to understand, I really am.
[17] Who makes the final decision -- who
[18] made the final decision in the fourth
[19] quarter as to what coals the company would
[20] or wouldn't procure for Eastlake 4 and 5?
[21] A I make that decision.
[22] Q You made that decision. That's fine. And
[23] in making that decision, prior to making
[24] that decision, or as part of the
[25] evaluation process, did you elicit bids

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- [1] Q And do I understand correctly that you
[2] will do that solely and strictly based
[3] upon the evaluated cost methodology
[4] currently being used by the company?
[5] A That's correct, and compliance with the
[6] SIP requirements of that plan.
[7] Q And do I also understand correctly that
[8] you believe that you are required to --
[9] rephrase that.
[10] Do I also understand correctly that
[11] assuming that the coals being considered
[12] are suitable for compliance with the SIP,
[13] the S-I-P, and are otherwise technically
[14] acceptable, do I understand correctly that
[15] you believe that in every instance, the
[16] decision as to which coals to purchase
[17] should be made by applying the company's
[18] evaluated cost methodology?
[19] A Yes, that's what we've agreed to in a
[20] stipulation and we'll do that.
[21] Q And am I also correct that in applying
[22] that methodology -- I'll rephrase it more
[23] neutrally.
[24] Do you intend in the future to
[25] continue to rely on whatever SO2 allowance

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- [1] for SO2 allowances?
[2] A Not to my knowledge.
[3] Q Then what information did you use in order
[4] to evaluate the cost associated with the
[5] difference in sulfur content between
[6] different coals?
[7] A We were provided information as to what
[8] values to use.
[9] Q By?
[10] A By Mr. Hoag.
[11] Q By Mr. Hoag. Do you know whether that
[12] information was based upon an effort to
[13] obtain actual bids?
[14] A I don't know that, no.
[15] Q Do you expect that in determining which
[16] coals to use at Eastlake in 1998, that you
[17] will also make the final decision?
[18] A With respect to specific contract awards,
[19] that's correct.
[20] Q Will you make the final decision as to
[21] whether to fuel switch -- to engage in
[22] additional fuel switching at Eastlake 4
[23] and 5?
[24] A I will make the decision with respect to
[25] what contracts to award.

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- [1] projections Mr. Hoag might supply to you
[2] in applying that methodology?
[3] A That's our practice, yes.
[4] Q You don't have any present plans to change
[5] that practice, do you?
[6] A No, we do not.
[7] Q Okay. And am I correct also that in the
[8] end, that what you'll do is that you will
[9] add together the cost, again we're talking
[10] about coals that are acceptable, given the
[11] SIP limitation and other technical
[12] factors, that in the end, that what you
[13] expect will happen is that you will make a
[14] decision as to which coals to use by
[15] adding together the delivered cost for
[16] each coal, and the values that Mr. Hoag
[17] supplies to you regarding the projected
[18] price of allowances?
[19] A And the other factors that are included in
[20] the evaluation that I told you about
[21] before.
[22] All those factors, so that all the
[23] coals are considered on an equal and fair
[24] basis, and the decision will be made based
[25] on least cost to our customers.

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[1] Q When you refer to other factors, am I
 [2] correct that you're referring principally
 [3] to further cost adjustments that are made
 [4] to reflect differences in ash content, and
 [5] other constituents of the coal?
 [6] A Yes, ash, BTU, grindability, whatever.
 [7] All those factors are, so that's it's done
 [8] on a fair basis.
 [9] Q So that the decision becomes fairly
 [10] mechanical in nature then?
 [11] A Well, it's straight forward in nature, I
 [12] guess I would say, yes.
 [13] Q Mr. Stead, and therefore, that you believe
 [14] therefore, as the decision-maker in
 [15] determining which coals to select, you
 [16] believe that you are obligated to pick --
 [17] to select the coal that has the lowest
 [18] cost under your evaluation methodology,
 [19] irrespective of what the company's needs
 [20] may or may not be for SO2 allowances?
 [21] MR. REGULINSKI: Can we have
 [22] that question re-read to us,
 [23] please?
 [24] ---
 [25] (Record read.)

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[1] correct?
 [2] A In terms of which award to issue, that's
 [3] correct.
 [4] Q Will you take into account in any way the
 [5] year in which the -- in determining, will
 [6] you take into account in any way the year
 [7] in which the company is projected to need
 [8] additional allowances to cover its
 [9] aggregate system wide SO2 emissions?
 [10] MR. REGULINSKI: May I have
 [11] that question, please?
 [12] ---
 [13] (Record read.)
 [14] ---
 [15] A Again, answering the questions that you're
 [16] asking me in the context of a decision for
 [17] 1998, no. At least I don't know of any
 [18] plans to do that.
 [19] Q I assume --
 [20] A I have no plans to do that.
 [21] Q I'm sorry?
 [22] A I have no plans to do that.
 [23] Q Would you expect to make the decision --
 [24] as of this point in time, you expect to
 [25] make the decision regarding 1999, I

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[1] ---
 [2] A I believe that's correct, yes.
 [3] Q In making your decision as to what coals
 [4] to select for 1998, do you intend to take
 [5] into account in any way the size of the
 [6] company's allowance bank?
 [7] A I don't believe so.
 [8] Q Do you intend to take into account in any
 [9] way potential uncertainties regarding the
 [10] potential future value of SO2 allowances?
 [11] A In terms of the evaluation of the bids, if
 [12] that's the question you're asking me, I
 [13] believe that's still the context you're
 [14] asking this question?
 [15] Q Yes, it is.
 [16] A No, I don't.
 [17] Q And just to be precise, really what I'm
 [18] looking for, in addition to evaluate the
 [19] bids, I'm referring specifically to the
 [20] decision as to which bid to accept.
 [21] As I understand it, you will make the
 [22] decision as to which bid to accept, and in
 [23] doing so, you will not take into account
 [24] any uncertainties regarding the potential
 [25] future value of allowances; is that

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[1] assume. Would your answer differ in any
 [2] respect for 1999?
 [3] A Well, I don't know what basis we might use
 [4] in the future, but I can speak to 1998.
 [5] Q Mm-hmm. But you really don't know what
 [6] the criteria would be for 1999 at this
 [7] point?
 [8] A It may change, I don't know. I just don't
 [9] know.
 [10] Q Do you have any reason to expect that it
 [11] would change?
 [12] A Well, the world changes as time goes on,
 [13] and one of the things that I've learned in
 [14] this job so far is that, you know, you
 [15] need to be very flexible in terms of
 [16] recognizing that the world does change,
 [17] and that you need to use different
 [18] evaluation techniques in the future.
 [19] Q Does the fact that the world changes in
 [20] general mean that shorter term commitments
 [21] are better than longer term commitments?
 [22] MR. REGULINSKI: Objection as
 [23] to the relevance of the question.
 [24] Notwithstanding the relevance of
 [25] whether a short term commitment or

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[1] long term commitment is relevant
 [2] to the scope of this proceeding,
 [3] I will ask the witness if he can
 [4] answer the question, to answer it.
 [5] A In terms of my belief today, short term
 [6] commitments are justified rather than long
 [7] term commitments. However, that could
 [8] change.
 [9] Q Could you explain briefly why you think
 [10] that's true?
 [11] MR. REGULINSKI: Same
 [12] objection. If you can answer.
 [13] A It's my belief that it's to the company's
 [14] economic advantage, you know, to use
 [15] shorter term contracting at this time.
 [16] Q Why is that the case?
 [17] MR. REGULINSKI: Same
 [18] objection.
 [19] A We have demonstrated over the last year,
 [20] that we are able to have a significant
 [21] impact on our cost of fuel and ultimately
 [22] cost to the customer by focussing more on
 [23] short term contracting.
 [24] Q That preference for short term practicing
 [25] is pretty common in - the short term

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[1] commitments?
 [2] A I don't know.
 [3] Q Have you thought about that issue at all?
 [4] A No, I don't buy SO2 allowances so I don't
 [5] know.
 [6] Q As far as you're concerned, you don't make
 [7] any decisions that involve the purchase of
 [8] SO2 allowances?
 [9] A I don't know.
 [10] Q Would you feel qualified to make that
 [11] decision, do you feel?
 [12] A No, I would not.
 [13] Q Why not?
 [14] MR. REGULINSKI: Objection.
 [15] Objection. Andy, come on. Come
 [16] on. This is a professional job
 [17] here. He said he was not
 [18] qualified. He doesn't make that
 [19] decision. Leave it at that.
 [20] MR. WEISSMAN: I want to
 [21] ask -
 [22] MR. REGULINSKI: You don't
 [23] need to dig into why he's not
 [24] qualified. He's not qualified and
 [25] he said he wasn't. Andy, leave it

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[1] purchases is pretty common in the utility
 [2] industry these days, isn't it?
 [3] A Yes, I think it is.
 [4] Q That in general, that many utilities have
 [5] concluded that in buying coal, it's better
 [6] to make commitments on a short term basis
 [7] and avoid longer term commitments; is that
 [8] correct?
 [9] A Because of very bad experience of the long
 [10] term contracts, yes, in the recent past.
 [11] Q That sometimes long term purchase
 [12] commitments that looked like they were
 [13] good at the time turned out to be not very
 [14] good decisions.
 [15] A That's correct. Particularly the Ohio
 [16] Valley conflict.
 [17] Q And can you explain to me what's different
 [18] between -- what, if anything, is different
 [19] between SO2 allowances and coal in terms
 [20] of the desirability of making -- maybe I
 [21] shouldn't even assume it.
 [22] If you were deciding whether to buy
 [23] SO2 allowances, would you expect that it
 [24] would also be true that it's better to
 [25] make short term commitments than long term

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[1] at that.
 [2] BY MR. WEISSMAN:
 [3] Q Mr. Stead, just to be clear, I'm not in
 [4] any way -- I have respect for you and I'm
 [5] not trying to in any way impune your
 [6] personal qualifications or credentials in
 [7] any way.
 [8] What I was really intending to ask
 [9] was just to explore essentially what kinds
 [10] of information or knowledge you feel you
 [11] would need in order to properly -- in
 [12] order to be properly qualified to make
 [13] decisions as to whether to purchase SO2
 [14] allowances.
 [15] A As in purchasing any item, you'd need to
 [16] know something about the market, its
 [17] availability, price ranges. Lots of
 [18] different things. You just need to know
 [19] something about that basic item.
 [20] I don't buy that item, not involved
 [21] in buying it. I haven't studied the
 [22] market or its motivations.
 [23] Q Are you -- to the best of your knowledge,
 [24] is there any -- has the company made any
 [25] decision as to whether it's appropriate to

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[1] purchase allowances on a long term basis?
 [2] A I don't know.
 [3] Q Are you aware of any effort to evaluate
 [4] whether it's appropriate to make long term
 [5] purchase commitments with respect to
 [6] allowances?
 [7] A I don't know.
 [8] MR. WEISSMAN: I think this
 [9] might be a good time to break for
 [10] lunch.
 [11] MR. REGULINSKI: Before we
 [12] do, do you think you have more for
 [13] Mr. Stead?
 [14] MR. WEISSMAN: Yes.
 [15] MR. REGULINSKI: Can you tell
 [16] me how much longer you think -
 [17] ---
 [18] (Luncheon recess had.)
 [19] ---
 [20] MR. WEISSMAN: Back on the
 [21] record.
 [22] BY MR. WEISSMAN:
 [23] Q Mr. Stead, just to complete some line of
 [24] questioning that we were discussing
 [25] earlier, let me just focus initially on

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[1] evaluation the SO2 adjustment was a
 [2] significant factor, are there
 [3] circumstances - I'm sorry, let me try
 [4] that over. I'm trying to find a way to
 [5] frame that so we'll get around some of the
 [6] problems we had in the morning.
 [7] In your judgment, once you know that
 [8] using the evaluated cost methodology, Coal
 [9] A is cheaper than Coal B, are there any
 [10] other factors that are relevant?
 [11] A No.
 [12] Q So it wouldn't matter from your
 [13] standpoint, for example, if for Coal A,
 [14] you had to pay fifteen million dollars
 [15] more for the coal itself over a two year
 [16] period as compared to Coal B, that if
 [17] under the cost evaluation methodology,
 [18] after the adjustments for SO2, Coal A was
 [19] still cheaper, that would be irrelevant
 [20] from your standpoint?
 [21] A But you wouldn't be paying more if the
 [22] lowest cost - evaluated cost would be the
 [23] lowest cost.
 [24] Q That's your understanding of the effect of
 [25] your evaluated cost methodology; is that

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[1] the decision-making process that you just
 [2] completed in determining which offers to
 [3] accept for coal for the last quarter of
 [4] 1997 at Eastlake and Ashtabula.
 [5] Did you, before determining which
 [6] coal to - which offers to accept, did you
 [7] attempt to calculate the out of pocket
 [8] expenditure, the actual cash payments that
 [9] the company would have to make during the
 [10] last quarter of '97 comparing different
 [11] alternatives?
 [12] A No.
 [13] Q Would that have been relevant to you
 [14] at all?
 [15] A Don't know.
 [16] Q Okay. Are the circumstances in which
 [17] you - it's conceivable that you might
 [18] conclude - let me withdraw that.
 [19] If, for example, you concluded that
 [20] Coal A was cheaper than Coal B using your
 [21] evaluated cost methodology, but Coal A was
 [22] a relatively low sulfur coal, as to which
 [23] the adjustment for SO2 was relatively
 [24] modest, and Coal B the more - was a
 [25] higher sulfur coal, wherein making your

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[1] correct?
 [2] A That's how we make our decision, yes.
 [3] Q Okay. So that if you pick Coal A, it
 [4] means you're paying less for Coal A than
 [5] Coal B?
 [6] A No.
 [7] Q I'm sorry?
 [8] A No, it's the evaluated cost. It's not
 [9] what you're paying for the coal. What
 [10] you're paying for the coal is completely
 [11] separate, you know.
 [12] I mean you - just let me explain
 [13] again to you what the evaluation process
 [14] is then since you obviously don't
 [15] understand.
 [16] Q No, I think I do understand it and I'm
 [17] just struggling for a way to frame the
 [18] question that Mr. Regulinski will find
 [19] satisfactory.
 [20] If you were faced with the situation
 [21] in which on an evaluated cost basis, the
 [22] difference between two coals was very
 [23] small, but on a - but that the cost for
 [24] the coal itself, the purchase price for
 [25] the coal and the transportation of the

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- [1] coal to the plant was very different
[2] between the two coals, would that factor
[3] be relevant in your decision?
[4] A It has not been, no, so no, it wouldn't
[5] be.
[6] Q It wouldn't be relevant?
[7] A No.
[8] Q So if Coal A were a fraction of a penny
[9] per million BTU cheaper than Coal B on an
[10] evaluated cost basis, but the cost to
[11] procure coal for Coal A was several
[12] million dollars greater than the cost to
[13] procure the coal for Coal B, that would
[14] not be a factor?
[15] Am I correct in understanding that
[16] that would not be a factor that you would
[17] take into account that you would select
[18] Coal A?
[19] A Our responsibility is to look at total
[20] evaluated cost and we would go with the --
[21] with all other factors being equal, we
[22] would go with the lowest evaluated cost.
[23] Q Well, I'm trying to understand to what
[24] extent you look at other factors.
[25] A Well, I was talking about technical

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- [1] MR. REGULINSKI: Objection,
[2] relevance. I'll let the witness
[3] answer.
[4] A I don't believe so.
[5] Q Do you have any contractual obligation
[6] which, all other things being equal, would
[7] require you to select -- to purchase
[8] additional coal from Ohio Valley Coal if
[9] the price for such coal on an evaluated
[10] cost basis were identical to the price for
[11] other alternatives?
[12] MR. REGULINSKI: Same
[13] objection. I'll let the witness
[14] answer.
[15] A I guess I don't know the answer to that.
[16] Q In comparing a high sulfur coal and a
[17] medium sulfur coal, would you take into
[18] account in any way whether the company
[19] planned to hold the additional allowances
[20] that might be preserved by using medium
[21] sulfur coal, or to try to sell those
[22] allowances in the allowance market?
[23] A That's not a consideration in our
[24] evaluation.
[25] Q Would the existence or absent -- absence

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- [1] factors, I'm sorry. There's no -- I think
[2] what you're trying to talk about is cash
[3] flow differences.
[4] Q Right.
[5] A We do not consider any cash flow
[6] differences.
[7] Q And would you not intend to consider any
[8] cash flow differences in the future?
[9] A Have no plans to do that, no.
[10] Q You have no plans to. Would you consider
[11] in any way potential impacts on the local
[12] coal industry in Ohio?
[13] A For what?
[14] Q In determining which coals to select.
[15] A No, no. It's not a factor in our
[16] evaluation.
[17] Q That's completely irrelevant for purposes
[18] of your evaluation, correct?
[19] A That's correct.
[20] Q Okay. Are there any special contract
[21] obligations that you have to Ohio Valley
[22] Coal that subsequent to October 1st, 1997,
[23] would affect in any way your choice
[24] between coal offered by Ohio Valley Coal
[25] and any other vendor?

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- [1] of an immediate demand for allowances be
[2] relevant in any way in your analysis?
[3] A I don't know what you mean by an immediate
[4] demand. By what? By what?
[5] Q If you had two alternatives that were very
[6] close to one another, and one involved a
[7] lower or medium sulfur coal, and the other
[8] involved a high sulfur coal, would you
[9] need -- in selecting between those two
[10] coals, would you need to know anything
[11] at all about whether there was -- there
[12] were buyers to whom the company might be
[13] immediately able to sell the allowances
[14] preserved by using medium sulfur coal?
[15] A That's not a consideration in our
[16] evaluation.
[17] Q So if, in fact, there were no market for
[18] allowances at the time -- there was -- no
[19] one was interested in buying, that would
[20] be irrelevant in making the determination?
[21] A Yes, that's correct, or whether there was
[22] a market and someone wanted to buy them.
[23] Either case is irrelevant.
[24] Q Either way, it's irrelevant?
[25] A Yes.

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- [1] Q Am I correct that you also wouldn't need
[2] to know one way or another what the
[3] company needs might be planning to do with
[4] the allowances preserved by using medium
[5] sulfur coal, that --
[6] A Nor the allowances consumed by using high
[7] sulfur coal.
[8] Q You wouldn't care whether the company's
[9] plan was to hold the allowances for use at
[10] a distant date, or to sell them
[11] immediately in the market; that wouldn't
[12] affect your analysis?
[13] A No.
[14] Q Okay.
[15] A We evaluate, you know, EA's in the
[16] evaluation.
[17] Q Do you try to take into account volatility
[18] in the allowance market in anyway in
[19] making your decision?
[20] A I don't.
[21] Q To your knowledge, does anyone in the
[22] company?
[23] A They may. But I don't know if they do or
[24] not.
[25] Q Do you think it's appropriate to take into

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- [1] significant differences in the price paid
[2] for delivery and for purchase and delivery
[3] of the coal itself, do you intend to take
[4] into account at all the company's
[5] potential need for cash for other uses?
[6] MR. REGULINSKI: Objection,
[7] relevance. I'll let the witness
[8] answer if he can.
[9] A It's not part of our evaluation criteria
[10] right now. I have no opinion on that.
[11] It's not something we do.
[12] Q So at least in the last quarter of 1997,
[13] you didn't take into account differences
[14] in the -- you didn't take into account
[15] at all differences in the cash -- in the
[16] cost for the purchase and delivery of the
[17] coal itself in evaluating otherwise
[18] comparable alternatives; is that correct?
[19] A If you mean the cash flow --
[20] Q Right.
[21] A And you've said it in kind of a convoluted
[22] way. If you mean that, then the answer is
[23] no, we did not consider that.
[24] Q I agree that was a convoluted way in
[25] asking the question. I just want to be

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- [1] account the allowance price volatility in
[2] choosing between two alternatives that are
[3] otherwise fairly comparable using the
[4] evaluated cost methodology?
[5] A We do not use that at this time.
[6] Q Fair enough. I think that answers my
[7] question. Let me ask a slightly different
[8] question.
[9] Given your experience in procurement
[10] matters, including your experience in coal
[11] procurement in your earlier comments
[12] regarding volatility, in choosing between
[13] alternative A that involves medium sulfur
[14] coal and alternative B that involves high
[15] sulfur coal, is it your judgment that
[16] potential volatility in allowance prices
[17] should be given some weight in choosing
[18] between the two alternatives?
[19] A I don't know.
[20] Q In choosing between alternative A and
[21] alternative B, in the last quarter of
[22] 1997 -- I'm sorry, let me rephrase that.
[23] In choosing between alternatives that
[24] may be otherwise comparable on an
[25] evaluated cost basis, but involve

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- [1] absolutely clear, that both in terms of
[2] what you did in the last quarter of 1997
[3] and what you currently plan to do in
[4] 1998 --
[5] A Yes, that's correct.
[6] Q That if two coals are otherwise
[7] comparable, using the evaluated -- are
[8] reasonably comparable using your evaluated
[9] cost methodology, your intention would be
[10] to purchase the coal that is the least
[11] expensive, using that methodology
[12] irrespective of the differences or
[13] potential differences in the cash flow
[14] required to pay for the purchase and
[15] delivery of the coal itself?
[16] MR. REGULINSKI: Objection.
[17] We've asked and answered that
[18] question.
[19] MR. WEISSMAN: Will you allow
[20] him to answer?
[21] MR. REGULINSKI: One more
[22] time.
[23] A Yeah, again, that's not part of our
[24] evaluation consideration.
[25] Q Okay. So that in the last quarter of '97,

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[1] you have no idea whether there were -- let
[2] me back up a little bit.

[3] In '98, in selecting coals for '98 at
[4] Eastlake and Ashtabula 5, you'll give no
[5] weight whatsoever to whether there are
[6] other uses for cash that all other things
[7] being equal, might favor purchase of high
[8] sulfur coal; is that correct?

[9] MR. REGULINSKI: Objection.
[10] And perhaps we can get around it
[11] if you could define for me what
[12] you mean by other needs or uses of
[13] cash.

[14] Q Let me ask it this way: Before you make a
[15] decision in selecting among two otherwise
[16] comparable coals for use in '98 at
[17] Eastlake or Ashtabula 5 --

[18] MR. REGULINSKI: May I just
[19] ask, this is as a result of a coal
[20] bid solicitation and these are
[21] responses to bids? Is that the
[22] context of this question?

[23] MR. WEISSMAN: Yes, and
[24] basically, let me back up a little
[25] bit then just to be sure we're

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[1] that's not yet been covered or has a
[2] portion of that already been covered?

[3] A I guess I can't answer your question
[4] because I don't understand why you're not
[5] concerned about the other part of the
[6] Eastlake plant.

[7] Q Well, I was just trying to save time.

[8] A But that does affect the answer. I guess
[9] the answer is I don't know the answer
[10] to your question. I apologize.

[11] Q To your knowledge --

[12] A I don't know the answer.

[13] Q Just to try to shortcut a little bit, am I
[14] correct that the company has previously
[15] made commitments to cover a substantial
[16] portion of its requirements at Eastlake 4
[17] and 5 for 1998?

[18] A We have some contracts to cover some
[19] portion of that. I don't know if it's
[20] substantial or not, and I don't look at it
[21] as just 4 and 5 alone. Again, you're
[22] asking a question I just don't know the
[23] answer to, I'm sorry.

[24] Q It's hard to look at coal procurement --
[25] coal procurement decisions with just two

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[1] making the same assumptions here.

[2] BY MR. WEISSMAN:

[3] Q Before selecting coals for use in '98 at
[4] Eastlake and Ashtabula 5, do you intend to
[5] elicit bids?

[6] A I'm sorry, I'm lost now. Could you
[7] switch -- could you ask that question --

[8] Q Mr. Regulinski was just pointing out that
[9] I was making certain assumptions in my
[10] question, so I'm trying to step back a
[11] couple paces and just ask a very straight
[12] forward question to make sure we're making
[13] the same assumptions.

[14] Namely, I assume you've not
[15] selected -- let me make another
[16] assumption: Take one more step back.

[17] Have you selected -- have you
[18] purchased all of the fuel required for
[19] Eastlake 4 and 5 and Ashtabula 5 in 1998?

[20] A I don't believe so.

[21] Q Have you covered -- let me phrase it this
[22] way. As between the units I've just --
[23] all of the units I've just referenced
[24] combined, is there still at least 1.2
[25] million tons of expected requirement

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[1] units at Eastlake. You really have to
[2] look at the whole plant?

[3] A I just can't do that, I'm sorry.

[4] Q Other than evaluated cost and compliance
[5] suitability for compliance with
[6] environmental requirements, and other
[7] technical factors, are there any other
[8] considerations of any kind that you intend
[9] to take into account in choosing among
[10] offers to provide coal to Eastlake or
[11] Ashtabula 5 in 1998?

[12] A I don't know of any now. I have no plans
[13] for any.

[14] Q Do you intend to consult with Mr. Hoag
[15] before selecting among those offers?

[16] A I have no plans to do that.

[17] Q All right. Is there anyone within the
[18] company who you expect to consult with
[19] before selecting among such offers?

[20] A Yes.

[21] Q Could you please identify the individuals
[22] you plan to consult with?

[23] A Mike Kovach and the fuel purchasing staff.

[24] Q Anyone else?

[25] A There are several people that work for

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[1] Mike; depends on who he would assign to do
[2] the evaluation. I don't know who that
[3] would be at this time.
[4] Q What information do you expect to request
[5] that they provide you before you make your
[6] decision?
[7] A They would provide me the evaluation of
[8] the bids.
[9] Q By that, you mean the evaluation using the
[10] evaluated cost methodology?
[11] A Yes.
[12] Q Do you plan to seek any other information
[13] from anyone within the company before
[14] making the decision?
[15] MR. REGULINSKI: Objection.
[16] We've gone through this. You're
[17] asking the same questions now.
[18] These are redundant. They've been
[19] asked and answered.
[20] I will let him answer this
[21] but we've gone through this three
[22] times now. We really have. I
[23] object. It's been asked and it's
[24] been answered. I'll let him try
[25] to answer it again, but I won't

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[1] Q Prior to that time, do you intend to ask
[2] anyone else in the company to evaluate or
[3] re-evaluate the company's current policy
[4] regarding banking of allowances?
[5] A I have no plans to do that.
[6] Q All right. Is there a current policy
[7] regarding banking of allowances?
[8] A I believe there is.
[9] Q Do you know what it is?
[10] A No.
[11] Q Is it fair to assume you didn't take --
[12] haven't taken it into account in the coal
[13] procurement decisions you've made to date?
[14] A That's correct.
[15] Q Do you -- and do you have any present plan
[16] to take it into account in your decisions
[17] in '98?
[18] A No plans to change what we've been doing,
[19] no.
[20] Q Do you personally have any judgment as to
[21] whether the size of the company's
[22] allowance bank is appropriate?
[23] A No, I have no opinion on that.
[24] Q Do you know of any plans by anyone else in
[25] the company to further evaluate the

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[1] let him go again. One more time?
[2] A I guess would like to add I would also
[3] consult with legal. We always consult
[4] with legal on our contracts.
[5] Q Would you make any effort to obtain
[6] information about other needs for cash
[7] that may exist within the organization?
[8] MR. REGULINSKI: Objection.
[9] Asked and answered. Don't
[10] respond.
[11] Q I take it from that that the answer is no?
[12] MR. REGULINSKI: No.
[13] Objection. Asked and answered.
[14] Do not respond. Go off the
[15] record, please.
[16] ---
[17] (Discussion off the record.)
[18] ---
[19] Q Mr. Stead, to your knowledge, let me ask
[20] you this. Mr. Stead, when do you expect
[21] to make a decision about what coals you
[22] will select to fill any currently unmet
[23] requirements at Eastlake or Ashtabula 5
[24] for 1998?
[25] A Sometime between now and the end of '97.

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[1] company's policy with regard to banking
[2] allowances between now and the end of the
[3] year?
[4] A No, I do not.
[5] Q Mr. Stead, are you -- in recent years, has
[6] demand for Ohio coal been diminishing?
[7] MR. REGULINSKI: Objection,
[8] relevance. I'll let the witness
[9] answer the question.
[10] A I don't know.
[11] Q So you have no idea whether there's been a
[12] shrinking of demand?
[13] MR. REGULINSKI: Objection.
[14] Asked and answered.
[15] A No, I don't.
[16] Q Is there any reason that that might be of
[17] concern to the company?
[18] MR. REGULINSKI: Objection.
[19] Relevance. I'll let the witness
[20] attempt to answer the question.
[21] A I guess I don't know.
[22] Q Mr. Stead, prior to making your decision
[23] regarding coals to select for use at
[24] Eastlake and Ashtabula 5 in the fourth
[25] quarter of '97, did you read any of the

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[1] for purpose of the 20 year study, is to
 [2] look -- is to do a forecast over a very
 [3] long period of time and come up with a
 [4] basic game plan in terms of what looks to
 [5] be in the best interest of the customer
 [6] but at the same time, as we had said at
 [7] the time of that initial study that was
 [8] first discussed in the first hearing, you
 [9] know, the decisions that are made on a
 [10] year by year basis or on an award by award
 [11] basis needs to be based on the actual
 [12] conditions in the coal market, EA market
 [13] and all those factors that I've talked
 [14] about over the last several hours, that
 [15] are present at the time because that's
 [16] reality.

[17] The study is a study and it's only a
 [18] forecast. What's reality is what you
 [19] actually have in your hand at the time
 [20] you're going to make a decision that you
 [21] make an award, and you certainly don't
 [22] want to do something that's going to
 [23] penalize the customer because there's some
 [24] proliferation in the coal market at the
 [25] time you're going to make your decision to

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[1] the forecast.

[2] Q I'm also confused about one thing that's
 [3] really confusing to me, and that's the
 [4] idea that you don't consider the
 [5] allowances that are needed to burn the
 [6] high sulfur coal when you evaluate the
 [7] bids that you receive. That's so
 [8] confusing to me.

[9] I don't understand how you could
 [10] purchase six pound coal, six pound sulfur
 [11] coal in phase one without considering the
 [12] allowances needed to burn the coal,
 [13] whether you've got them banked or whether
 [14] the coal supplier is going to supply them
 [15] to you.

[16] And I don't understand how you can
 [17] say, so I must be missing something so let
 [18] me try asking it this way.

[19] How would you justify not considering
 [20] the allowances that are burned up by the
 [21] use of the six pound sulfur coal?

[22] A Okay. We do consider those and I
 [23] apologize. I must have not been clear in
 [24] my previous discussion, but there is a
 [25] full consideration of the cost of

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[1] make an award.

[2] And that's what we evaluated as far
 [3] as the every six month fuel adjustment,
 [4] what was the actual decisions that were
 [5] made relative to what could have been made
 [6] and were we doing the best for the
 [7] customer during that time period? Still
 [8] meeting all the environmental reg issues
 [9] that have to be met and all those other
 [10] things.

[11] Q So the least cost plan with the 20 year
 [12] horizon that's embodied in the study that
 [13] says that lower sulfur coal would be
 [14] burned at Ashtabula and Eastlake, would be
 [15] overridden say, on a year to year basis
 [16] based on the evaluated cost of the coal;
 [17] is that correct?

[18] A Yes, that's correct. I wouldn't use the
 [19] word overridden, though. You've got to
 [20] make the proper economic decision under
 [21] the regulations, and award contracts based
 [22] on evaluated cost.

[23] Sometimes those may be different than
 [24] what the long term plan says they could
 [25] have been. Again, the long term plan is

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[1] allowances when we do that evaluation that
 [2] I've talked about in my previous
 [3] discussions. It includes a full
 [4] consideration of the cost of those
 [5] allowances.

[6] You know, what's not considered is
 [7] whether we have to go buy new ones or use
 [8] ones we have, okay, but we do consider the
 [9] full cost or full value, whichever way you
 [10] want to look at it, of those allowances
 [11] and make a direct comparison of those
 [12] costs against low sulfur coals which would
 [13] not require the same amount of EA's, you
 [14] know, to allow them to be burned.

[15] Q Okay. So what you don't consider is the
 [16] source of the allowance, but you do
 [17] consider the value of allowances?

[18] A Absolutely, that's correct.

[19] Q And I also believe you said that you
 [20] weren't aware of -- didn't consider the
 [21] bank of allowances that you have going in
 [22] when you make a fuel procurement decision.
 [23] That you're not considering how many
 [24] allowances you have in the bank. Was that
 [25] correct?

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the)
Two-Year Review of)
Centerior Energy)
Corporation's Environmental) Case No. 94-1698-EL-ECF
Compliance Plan Pursuant)
to Section 4913.05, Revised)
Code)

Deposition of MICHAEL A. KOVACH, a Witness called
for the purpose of testifying in the above matter,
before me, Ellen A. Mancik, Registered Professional
Reporter and Notary Public within and for the State
of Ohio, at the offices of Centerior Energy Corporation,
6200 Oak Tree Boulevard, Independence, Ohio on
Friday, the 21st day of March, 1997 at 2:15 p.m.

PAGE 3

[1]
[2] MICHAEL A. KOVACH, of lawful age,
[3] called by the Ohio Valley Coal Company
[4] for the purpose of testimony in this
[5] matter, being by me first duly sworn,
[6] as hereinafter said as follows:
[7]

EXAMINATION OF MICHAEL A. KOVACH

BY MR. WEISSMAN:

[9] Q Good afternoon, Mr. Kovach.
[10] A Good afternoon.
[11] Q Could you please -- could you please
[12] describe what your role was in preparing
[13] the Supplemental Fuel Switching Study
[14] submitted to the Ohio Commission on
[15] October 1st of last year?
[16] A Basically my role was reviewing the study
[17] that was done from the Fuel Procurement's
[18] perspective.
[19] Q What specific issues did you attempt to
[20] review?
[21] A The pricing that they were using.
[22] Q The pricing they were using for coal?
[23] A I'm sorry, for the coal; the different S02
[24] specifications of coal.
[25]

PAGE 2

[1]
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[26] ALSO PRESENT: Ms. Nancy Coeuer, Rates Assistant
[27] Mr. Richard S. Hoag
[28] Mr. Frank R. Stead
[29] Mr. Charles Mann, with Mr. Weissman
[30]
[31]
[32]
[33]
[34]
[35]

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[1] Q Okay. So is it basically the study
[2] used -- the study contained estimates of
[3] the price for coal with different sulfur
[4] contents?
[5] A Yes.
[6] Q And you attempted to -- you reviewed the
[7] reasonableness of the estimates that were
[8] used?
[9] A Well, reasonableness of the estimates and
[10] where the estimates came from as far as,
[11] you know, the traceability of the
[12] estimates also, yes.
[13] Q How were the estimates developed?
[14] A A buyer in our section used the -- an
[15] estimate from EVA pricing coupled with
[16] some of his experience as far as the FOB
[17] fine pricing estimates and then the
[18] transportation estimates I believe would
[19] be, if there was actual rates like a
[20] contract in effect. That's what they
[21] would have used in absence of some actual
[22] contract value that they could use. They
[23] would have used an EVA estimate.
[24] Q Who was the individual who did that
[25] analysis?

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[1] A Joe Lang.
 [2] Q And did you review his work?
 [3] A Yes.
 [4] Q Do you know what the approximate date was
 [5] of the EVA study that he used?
 [6] A No, I don't recall right now.
 [7] Q And I guess I'm a little bit unsure. Did
 [8] Mr. Hoag develop estimates with you which
 [9] you then reviewed, or did you -- did your
 [10] group provide input to Mr. Hoag?
 [11] A Mr. -- I'm sorry, I don't understand,
 [12] Mr. Hoag as far as what estimates?
 [13] Q On the cost for coals with different
 [14] sulfur content for delivery at Eastlake
 [15] and Ashtabula, who provided the initial --
 [16] A I think I misunderstood one of your
 [17] questions, as far as the costs for coal
 [18] with different sulfur content.
 [19] What I had meant was here's the cost
 [20] that the Fuel Procurement was using for a
 [21] six pound coal. This is the cost we're
 [22] using for 2.5 pound coal. That estimate
 [23] in the table would have been produced by
 [24] Mr. Hoag, if that's what you're referring
 [25] to; that combined SO2 table, SO2 delivered

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[1] Q Did you or anyone else in your section
 [2] review any other aspect of the work -- of
 [3] the supplemental study that was being
 [4] prepared by Mr. Hoag?
 [5] A As far as review, we would have read the
 [6] entire report. Is that what you're
 [7] asking? Did we review the whole report?
 [8] Yeah, I would have read the whole report
 [9] before it went in.
 [10] Q Were you asked for comments on any other
 [11] issues that were raised by the report?
 [12] A I provided comments whether I was asked or
 [13] not.
 [14] Q What issues did you comment on?
 [15] A I don't recall. I know I probably had
 [16] some comments. Nothing major that stands
 [17] out, that I would remember that I
 [18] provided.
 [19] Q Okay. Do you know who else was involved
 [20] in either preparing or reviewing the
 [21] supplemental fuel switching study?
 [22] A No, maybe Mr. Hoag would be better to ask
 [23] that. I'm sure there were other people
 [24] though, but I don't know at this time.
 [25] Q Okay.

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[1] fuel price table that was in the study.
 [2] That would have been done by Mr. Hoag.
 [3] Q Okay. So would this be correct that the
 [4] Fuel Procurement section provided the coal
 [5] related component of the figures that were
 [6] used by Mr. Hoag?
 [7] A Yes.
 [8] Q And then Mr. Hoag provided the SO2
 [9] allowance component?
 [10] A Correct.
 [11] Q And then Mr. Hoag basically added the two
 [12] figures together in order to come up with
 [13] the estimated all-in number for both coal
 [14] and SO2 allowances?
 [15] A Yes.
 [16] Q That's a fair description of the process?
 [17] A Yes.
 [18] Q Okay. So that at least one role that your
 [19] section performed was to provide the coal
 [20] related input into those numbers?
 [21] A As far as fuel and transportation pricing,
 [22] FOB mine transportation price and
 [23] transportation price which was delivered
 [24] price of the different fuel
 [25] specifications.

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[1] A I don't remember.
 [2] Q I planned to ask him, as well. You would
 [3] assume on something like this that there
 [4] would be a number of people involved?
 [5] A Right.
 [6] Q Just because of the importance?
 [7] A Importance and the accuracy, correct.
 [8] Q When did -- to the best of your
 [9] recollection, when was the issue of
 [10] preparing a supplemental fuel switching
 [11] study first discussed? The study's dated
 [12] October 1st.
 [13] I'm just trying to -- did you start
 [14] working on it a week beforehand or a month
 [15] beforehand, or a year beforehand?
 [16] A I probably -- it could have been in
 [17] process before I was even in Fuel.
 [18] I actually started there as manager
 [19] towards the end of September, and it could
 [20] have been in progress before that. You
 [21] know, could have been after. I'm not
 [22] quite sure when Rich's section started
 [23] preparing that study.
 [24] Q Okay.
 [25] A You have to ask him that. As far as Fuel

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[1] Procurement, the pricing information that
 [2] they were using was basically the same
 [3] information that's in the corporate model
 [4] so that would have been prepared around
 [5] the beginning of the year sometime so that
 [6] information was definitely before a week
 [7] before, I think, but the rest of it, I'm
 [8] not sure.

[9] You'd have to ask Rich. The fuel
 [10] pricing would have been sometime in the
 [11] beginning of that year.

[12] Q Beginning of?

[13] A '96.

[14] Q Prior to the -- just to back up, I'm
 [15] sorry.

[16] As I understand, it was sometime in
 [17] late September when you became manager of
 [18] Fuel Procurement?

[19] A Mm-hmm, yes.

[20] Q What was your position prior to that?

[21] A Well, I was on a rotation of assignment
 [22] working on a fossil operation performance
 [23] improvement program for a while and at
 [24] that time, I was also the manager of
 [25] Resource Planning.

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[1] A No.

[2] Q Okay. Did you attempt to evaluate the
 [3] reasonableness of the input that Mr. Lang
 [4] provided for use by Mr. Hoag regarding
 [5] coal prices?

[6] A Yes, with Mr. Lang.

[7] Q With Mr. Lang?

[8] A Yes.

[9] Q How did you go about trying to review the
 [10] input Mr. Lang was providing?

[11] A Basically, discussed with him where the
 [12] estimates came from, and how he went about
 [13] deriving that, and basically how they
 [14] compared to current pricing.

[15] Q So essentially, you were just getting
 [16] started in Fuel Procurement at that point,
 [17] correct?

[18] A Correct.

[19] Q And what you were doing was trying to make
 [20] sure that somebody who had more experience
 [21] in the area seemed to be going about
 [22] developing estimates in a reasonable,
 [23] orderly way?

[24] A Correct.

[25] Q Were you concerned at all by the fact that

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[1] Q For how long had you been manager of
 [2] Resource Planning?

[3] A Maybe four or five months.

[4] Q Before that, what position did you hold?

[5] A I was a senior engineer in System
 [6] Planning.

[7] Q And for how long did you hold that
 [8] position?

[9] A Couple years, maybe.

[10] Q Okay. In your position as a senior
 [11] engineer in System Planning, did you have
 [12] any responsibility for coal procurement?

[13] A No.

[14] Q Had you had any responsibility for coal
 [15] procurement before you became an
 [16] assistant -- a senior engineer in System
 [17] Planning?

[18] A No.

[19] Q In your position as manager of Resource
 [20] Planning, did you have any responsibility
 [21] for coal procurement?

[22] A No.

[23] Q Do you have any prior training or
 [24] experience or have you taken any course
 [25] work relating to coal procurement?

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[1] he apparently was using an EVA report that
 [2] was -- had been prepared quite a number of
 [3] months earlier?

[4] A I'm not sure how much earlier it was
 [5] prepared but no, I wasn't.

[6] Q I thought you indicated that your
 [7] recollection was that it was prepared
 [8] towards the beginning of the year.

[9] A Right, but I'm not sure. I said the
 [10] forecast. I don't know when the EVA
 [11] report was prepared.

[12] Q So the forecast --

[13] A That we were using.

[14] Q -- was prepared towards the beginning of
 [15] the year?

[16] A Right.

[17] Q Do I understand correctly that it, in
 [18] turn, was based on an EVA report that
 [19] might have been somewhat old?

[20] A Correct. It could have been.

[21] Q Do you know how much older it was?

[22] A No.

[23] Q Was that -- was that a potential concern?
 [24] Were you worried that the estimates might
 [25] be based on stale data?

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[1] A No.
[2] Q Why not?
[3] A I wasn't concerned.
[4] Q It just wasn't --
[5] A I don't know. I don't know. It wasn't a
[6] concern.
[7] Q It just wasn't an issue you really
[8] focussed on?
[9] A It wasn't an issue that raised concern in
[10] me.
[11] Q Well, did you have any specific reason to
[12] believe that the use of earlier estimates
[13] was still reasonable?
[14] A I was relying on the opinion of my
[15] workers.
[16] Q Did you ask Mr. Lang whether he was
[17] concerned at all regarding the potential
[18] staleness of the data that he was using?
[19] A No, no.
[20] Q Okay. So you don't know whether he was
[21] concerned one way or the other?
[22] A No.
[23] Q Okay. Do you know whether there's been
[24] any volatility in the relevant coal
[25] markets during the course of the last year

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[1] there may have been other inputs, but I
[2] don't know who it would have been.
[3] Q To your knowledge, was there any kind of a
[4] task force or review committee that was
[5] involved in preparing or reviewing the
[6] study?
[7] A I don't know. I don't remember. You'd
[8] have to ask Rich.
[9] Q Okay. In reviewing the study, did you
[10] attempt to go back and look at the order
[11] that was issued by the Commission in 1995
[12] with respect to the company's
[13] Environmental Compliance Plan?
[14] A I can't remember if I did pull that out
[15] again. I may have looked at that before I
[16] reviewed it. I don't remember.
[17] Q Do you remember the major issues that were
[18] raised back then about the adequacy of the
[19] company's earlier Environmental Compliance
[20] Plan?
[21] A I could summarize for you what I thought
[22] the main issues were.
[23] Q Please.
[24] A Or I mean issue.
[25] Q Please do.

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[1] or two?
[2] A My understanding is within the last year,
[3] prices have been spiking.
[4] Q Do you know why that's been occurring?
[5] A I've heard numerous issues relating to a
[6] certain utility buying a lot more coal due
[7] to poor nuclear performance, lowering of
[8] coal inventories amongst different
[9] suppliers; things along those lines.
[10] Q So that your understanding is that any
[11] spikes are due principally to poor
[12] performance at some nuclear units in the
[13] region?
[14] A Could be, yeah. Amongst probably some
[15] other things.
[16] Q And therefore, you expect that they'll be
[17] temporary in nature?
[18] A Yes.
[19] Q I may have asked this already, in which
[20] case I apologize, do you have any
[21] knowledge regarding other inputs? That is
[22] inputs other than yours that Mr. Hoag may
[23] have obtained in preparing the
[24] supplemental study?
[25] A Oh, I think I said I'm not sure. I'm sure

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[1] A The way I understand basically the issue
[2] surrounding that is we were dealing in
[3] this study with strictly the replacement
[4] of the 1.2 million tons of higher sulfur
[5] coal.
[6] Q Mm-hmm.
[7] A And the general effect on that.
[8] Q And what factors were relevant to take
[9] into account in determining whether to
[10] replace the 1.2 million coal?
[11] A There was a list of issues in that
[12] stipulated agreement.
[13] Q Do you recall what any of those issues
[14] were?
[15] A No, not off the top of my head.
[16] Q In your judgment, is it appropriate for
[17] the company to make a decision about
[18] whether to replace that 1.2 million tons
[19] based solely on the use of the evaluated
[20] cost methodology described by Mr. Stead?
[21] A Yes.
[22] Q Just for clarity of the record, am I
[23] correct that you were present throughout
[24] Mr. Stead's deposition?
[25] A Yes.

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- [1] Q Are there -- in your mind, are there any
 [2] concerns as to whether there might be
 [3] something missing if the company made its
 [4] decision on whether to replace the 1.2
 [5] million tons based solely on the use of
 [6] the evaluated cost methodology?
- [7] A No. I mean you never say never, but at
 [8] this time, nothing comes to mind.
- [9] Q Do you think that -- as a person with a
 [10] lot of experience in planning, do you
 [11] think that uncertainties regarding
 [12] allowance prices are relevant in choosing
 [13] between different coals for purposes in
 [14] connection with an acid rain compliance
 [15] program?
- [16] A Well, let me answer that two ways because
 [17] I'm not quite sure. I know what you're
 [18] asking but I mean when Rich's section
 [19] actually does -- runs -- I'm assuming the
 [20] Promod runs they did in the -- they would
 [21] look at the certainty or uncertainty of
 [22] SO2 allowance cost.
- [23] I'm certain they would do that, but
 [24] as far as fuel procurement when we're
 [25] doing it at our evaluated cost, we would

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- [1] probably middle of '94.
- [2] Q When is the first time you looked at an
 [3] allowance price forecast, for example?
- [4] A Probably the '93, '94 timeframe.
- [5] Q What's the general pattern been in terms
 [6] of the accuracy of allowance price
 [7] forecasts for that time period through the
 [8] present?
- [9] A My general impression in the beginning,
 [10] they were much higher than they turned out
 [11] to be right now. The forecasts are
 [12] probably pretty close is my general
 [13] impression.
- [14] Q I'm sorry, I'm not sure I heard that
 [15] correctly, excuse me if I repeat a little
 [16] bit. Hearing I have a hard time
 [17] compensating for.
- [18] Were you saying that the price
 [19] forecasts in '93 or '94 were about the
 [20] same as they've turned out to be or fairly
 [21] different?
- [22] A No, I'm saying back in the beginning, like
 [23] maybe the '93 timeframe or maybe even
 [24] sooner than that, it appeared that in the
 [25] beginning, the allowance forecasts were

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- [1] also like look at a base allowance price,
 [2] high and low allowance price saying that
 [3] high allowance price, low allowance price
 [4] to see if it has any affect in our
 [5] evaluation.
- [6] And Rich would also supply us, you
 [7] know, a high, low base forecast for
 [8] allowances.
- [9] Q Okay. What happens if it does have an
 [10] affect on your decision?
- [11] A We probably discuss it, but it really
 [12] didn't in this evaluation that we had
 [13] done.
- [14] Q Do you recall for the last quarter of '97,
 [15] what the range was between the base, the
 [16] high and the low?
- [17] A No.
- [18] Q Was it significant?
- [19] A I don't remember. It couldn't have been
 [20] that significant because I don't remember.
- [21] Q Well, am I correct that it's been a
 [22] number of years that you've been having at
 [23] least some involvement with issues
 [24] pertaining to allowance prices?
- [25] A As far as I was in System Planning since

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- [1] much higher than the prices actually --
 [2] real prices actually turned out to be, and
 [3] if you look at 1996, 1997, it appears the
 [4] forecast prices are probably closer to
 [5] what's really happening.
- [6] Q What happened the last time the company
 [7] submitted an Environmental Compliance Plan
 [8] to the Commission? Were the allowance
 [9] price forecasts used then accurate?
- [10] MR. REGULINSKI: Objection,
 [11] relevance. If you can answer that
 [12] question.
- [13] A I don't know what you're asking.
- [14] Q With your system planning background, when
 [15] you reviewed the '96 study, did you go
 [16] back and look at whether the assumptions
 [17] used in doing the earlier study were
 [18] accurate?
- [19] A No, I didn't.
- [20] Q Do you know whether anybody else did?
- [21] A I'm not sure if Rich would have or not.
 [22] You'll have to ask him.
- [23] Q Would it bother you if the assumptions
 [24] that were used eighteen months earlier
 [25] turned out to be off by a factor of 50

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[1] percent?
[2] MR. REGULINSKI: Objection.
[3] The witness has already indicated
[4] that he did not consider the
[5] forecast. That that was done by
[6] another individual.
[7] MR. WEISSMAN: I'm trying to
[8] take advantage of the individual's
[9] background in System Planning, and
[10] really ask him with your System
[11] Planning background --
[12] MR. REGULINSKI: And I have a
[13] witness who is going to respond to
[14] the emission allowance price
[15] forecast which your witness by the
[16] way said was not unreasonable, by
[17] the way.
[18] You weren't there at that
[19] time when he told me that the
[20] forecast was not unreasonable.
[21] MR. WEISSMAN: Actually I
[22] was, but he didn't think I was
[23] listening.
[24] MR. REGULINSKI: You were
[25] sleeping, weren't you?

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[1] mind, sensitivity in analyses are pretty
[2] important to making sound decisions,
[3] aren't they?
[4] MR. REGULINSKI: Objection,
[5] relevancy. Can you tie this into
[6] the issue before the Commission?
[7] MR. WEISSMAN: Yes.
[8] MR. REGULINSKI: Please do.
[9] MR. WEISSMAN: We think that
[10] the company has failed to
[11] adequately take into account
[12] uncertainties regarding allowance
[13] prices in its decision-making.
[14] I'm trying to explore with
[15] the witness whether in making
[16] proper planning decisions, it's
[17] important to take into account
[18] uncertainty.
[19] BY MR. WEISSMAN:
[20] Q Is it?
[21] A I think it is important to look at
[22] different levels of uncertainty, yes.
[23] Q In your experience as a system planner,
[24] how often did price forecasts tend to fall
[25] by 50 percent over a space of 18 to 24

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[1] BY MR. WEISSMAN:
[2] Q From a System Planning perspective, is it
[3] important to do sensitivity analyses?
[4] A From the System Planning perspective, I
[5] would say yes.
[6] Q Okay.
[7] A I'm here representing the fuel perspective
[8] also.
[9] Q Is the policy within the company that
[10] every individual should be blind to
[11] anything other than the responsibility of
[12] his or her section?
[13] MR. REGULINSKI: Objection.
[14] Can you rephrase the question.
[15] Q Is it or isn't it?
[16] MR. REGULINSKI: Objection.
[17] Can you rephrase the question for
[18] me, please?
[19] Q I'm trying to understand, do you feel an
[20] obligation to take into account your prior
[21] experience and expertise in reviewing
[22] decisions or studies in which you were a
[23] participant?
[24] A Yes.
[25] Q And with your system planner experience in

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[1] months for any input?
[2] A I don't remember.
[3] Q Can you recall off hand any instance in
[4] which a forecast was that far off?
[5] A I don't remember right now.
[6] Q Did you have occasion to examine in any
[7] way at any time the accuracy of the
[8] company's allowance price forecasts in
[9] successful environmental compliance plans?
[10] MR. REGULINSKI: Objection,
[11] previous environmental compliance
[12] plans is outside the scope,
[13] according to the examiner.
[14] MR. WEISSMAN: I'm not asking
[15] anything about the recommendations
[16] in those reports. I'm asking the
[17] witness about whether there were
[18] any -- whether he has reviewed
[19] prior allowance price forecasts
[20] and if so, whether he draws any --
[21] would draw any conclusions from
[22] that review regarding the level of
[23] confidence that the company should
[24] have in its current forecasts.
[25] MR. REGULINSKI: This is

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- [1] regarding emission allowances?
 [2] MR. WEISSMAN: That's
 [3] correct.
 [4] MR. REGULINSKI: Okay.
 [5] A As far as review, I've never been
 [6] responsible, you know, solely responsible
 [7] for doing emission allowance forecasts.
 [8] All I can say is my general impression of
 [9] different forecasts. Is that what you're
 [10] asking for?
 [11] Q Yes.
 [12] A Okay, I feel right through they're pretty
 [13] accurate. I mean, there's no reason to
 [14] really doubt them now and as I stated
 [15] earlier, it seems like in the past,
 [16] consultants were projecting very high
 [17] allowance prices and those really didn't
 [18] materialize. They were lower. But as far
 [19] as now, I feel they're pretty accurate.
 [20] Q Do you have any assessment of why the
 [21] earlier forecasts didn't materialize?
 [22] A No.
 [23] Q Why do you have confidence in the current
 [24] forecasts?
 [25] A I just feel based on my own assessment,

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- [1] next five years, the next ten years, the
 [2] next fifteen years? How do you go about
 [3] making that decision?
 [4] A All those factors that I just mentioned, I
 [5] basically would put them into a dispatch
 [6] model and see what develops as the least
 [7] cost plan.
 [8] Q Help me. How would a dispatch model --
 [9] A Well, using some sort of a dispatch tool
 [10] such as Promod might help as to give you
 [11] projected allowance levels, things along
 [12] those lines and let you know what the best
 [13] combination of fuel prices, allowance
 [14] prices, and, you know, unit firing rates,
 [15] things like that produces.
 [16] Q Okay. Are you aware in connection with
 [17] the preparation of the supplemental study,
 [18] of any effort to examine the impact of
 [19] maintaining or displacing the 1.2 million
 [20] tons of high sulfur coal on the size of
 [21] Centerior's allowance bank?
 [22] A I believe that, yes, they did do a run; a
 [23] study on that.
 [24] Q When you say "they," who are you referring
 [25] to?

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- [1] that they're pretty close to where the
 [2] allowance -- I mean they're closer to
 [3] where allowances are selling.
 [4] There's a real market that's
 [5] developed now and it seems like earlier
 [6] there was no true market. You know, back
 [7] I guess in the '91-92 timeframe.
 [8] Q In connection with the preparation of the
 [9] '96 study, the '96 supplemental study, are
 [10] you aware of any effort to review the
 [11] appropriateness of the size of Centerior's
 [12] allowance bank?
 [13] A No.
 [14] Q Do you have any views as to what
 [15] criteria -- in your judgment, what
 [16] criteria should the company take into
 [17] account in determining the appropriate
 [18] size of its allowance bank?
 [19] A Cost of coal, cost of allowances, unit
 [20] dispatch levels, unit availabilities.
 [21] Q Should the company retain --
 [22] A Load.
 [23] Q Is the right thing to retain enough
 [24] allowances to cover potential needs for
 [25] the next three months, the next year, the

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- [1] A Rich's section.
 [2] Q Rich's section. And when you say a study,
 [3] is that something different than the table
 [4] that shows the --
 [5] A No. The table that was in the study.
 [6] Q That shows the size of the bank?
 [7] A Mm-hmm.
 [8] Q Are you aware of any discussion that
 [9] occurred internally as to whether the bank
 [10] that resulted from displacing the 1.2
 [11] million tons of high sulfur coal was --
 [12] I'm tempted to say too hot, too cold or
 [13] just about right -- essentially too large,
 [14] too small or just about exactly optimal?
 [15] A Not that I recall.
 [16] Q Do you have any judgments on that issue?
 [17] A No.
 [18] Q Did you or Mr. Lang attempt to -- in
 [19] connection with the preparation of the
 [20] supplemental study, did you or Mr. Lang
 [21] attempt to evaluate the potential impacts
 [22] of displacing the 1.2 million tons of high
 [23] sulfur coal on the Ohio coal market?
 [24] MR. REGULINSKI: Objection.
 [25] Could you tie that into one of the

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[1] seven items listed in the 94-1698
 [2] order issued by this Commission on
 [3] July 20, 1995?
 [4] MR. WEISSMAN: Sure. If it
 [5] would help, I'd be glad to.
 [6] MR. REGULINSKI: Maybe number
 [7] 6?
 [8] MR. WEISSMAN: The order is
 [9] in this pile?
 [10] MR. REGULINSKI: I'll tell
 [11] you what. We can break --
 [12] MR. WEISSMAN: I don't really
 [13] prefer to break. If you wouldn't
 [14] mind, if you could show me.
 [15] ---
 [16] (Short interruption had.)
 [17] ---

BY MR. WEISSMAN:

[18] Q My apologies for the delay. One of the
 [19] factors that the company is required to
 [20] consider in preparing its supplemental
 [21] study under the Commission's July 20, 1995
 [22] order is, "A consideration of the impact
 [23] of reduced consumption of Ohio coal and
 [24] the resulting impact on Centerior's
 [25]

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[1] relevant is relevant under the
 [2] stipulation that we're proceeding
 [3] under.
 [4] Would you mind amending your
 [5] questions to stay relevant under
 [6] the stipulation?
 [7] MR. WEISSMAN: I disagree
 [8] with your legal assessment. I'll
 [9] be glad to modify the question.
 [10] BY MR. WEISSMAN:
 [11] Q Do you think it's relevant under the
 [12] stipulation to consider the potential
 [13] impact on the long term production
 [14] capability of the Ohio mining industry
 [15] that might result from displacing 1.2
 [16] million tons of Ohio coal?
 [17] A It could be relevant as far as the fuel
 [18] projections that we're using.
 [19] My understanding is that, you know,
 [20] they would have some kind of projection in
 [21] there as far as how that affects price
 [22] when we go out, yeah.
 [23] Q Are there circumstances in which the
 [24] company might want to increase its
 [25] consumption of high sulfur coal in the

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[1] customers."
 [2] Can you tell me what steps, if any,
 [3] you or anyone else in the Fuel Procurement
 [4] section took to evaluate the potential
 [5] impact of displacing the 1.2 million tons
 [6] of Ohio coal?
 [7] A We looked at that six pound estimate as
 [8] representative of an Ohio high sulfur coal
 [9] estimate, so as far as how that was
 [10] integrated into the study that Rich did,
 [11] he can answer that.
 [12] Q Did Fuel Procurement try to assess whether
 [13] there would be any potential impact of
 [14] displacing -- did the Fuel Procurement
 [15] section try to assess whether if the
 [16] company displaced the 1.2 million tons of
 [17] Ohio coal and switched to an out of state
 [18] coal, that there might be any impact on
 [19] the number of surviving mines in the Ohio
 [20] coal industry?
 [21] A Not to my knowledge.
 [22] Q Do you think that's a relevant factor to
 [23] consider under the statute?
 [24] MR. REGULINSKI: Objection.
 [25] The question I think which is

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[1] future?
 [2] A There would be.
 [3] Q Would any set action or set of actions
 [4] that diminish the long term supply of high
 [5] sulfur coal potentially diminish the
 [6] options available to the company in the
 [7] future?
 [8] A It could.
 [9] Q Do you know whether over the last several
 [10] years, there have been significant
 [11] declines in demand for high sulfur coal in
 [12] this region?
 [13] A No, I'm not aware of any significant
 [14] declines in demand.
 [15] Q Would it surprise you if there's been a
 [16] very significant drop off in demand for
 [17] high sulfur coal over the last four or
 [18] five years?
 [19] A No.
 [20] Q Would it -- do you think there's any
 [21] reason to think that there might be major
 [22] problems for the company and for its
 [23] customers in the future if some of the
 [24] existing Ohio mines were to shut down?
 [25] A There could be.

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[1] Q What kinds of problems might occur?
 [2] A If all the mines would shut down,
 [3] potentially that could have less suppliers
 [4] and raise prices.
 [5] Q Could the impacts be significant?
 [6] A They could be. I don't know.
 [7] Q Have you made any impact -- any effort to
 [8] study that issue?
 [9] A No, I have been there. I have not studied
 [10] that issue.
 [11] Q Do you know whether anyone associated with
 [12] the company's fuel procurement activities
 [13] has attempted to assess the company's
 [14] potential long term need for high sulfur
 [15] coal?
 [16] A I don't know.
 [17] Q Do you know whether anyone has attempted
 [18] to assess the risk that a significant
 [19] number of high sulfur coal producers in
 [20] the region will be required to shut down
 [21] their activities, their mines?
 [22] MR. REGULINSKI: Objection.
 [23] I don't think -- I think we've
 [24] gone well beyond the scope of this
 [25] proceeding when we start talking

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[1] A Yes.
 [2] Q And is high sulfur coal one of those
 [3] fuels?
 [4] A Yes.
 [5] Q Since you became responsible for fuel
 [6] procurement, what steps, if any, have you
 [7] taken to assess the adequacy of the long
 [8] term availability of high sulfur coal?
 [9] A Well, first of all, in our bid proceeding,
 [10] we did ask for high sulfur coal bids which
 [11] as you know, we are planning on pursuing
 [12] one for the fourth quarter of 1997.
 [13] And secondly basically, I read, you
 [14] know. And for example, like Ohio Valley,
 [15] I've been reading that they've been
 [16] securing a lot of tonnage, so, you know, I
 [17] would assume that mine will be very
 [18] valuable in the future.
 [19] Q Do you have any idea whether some of that
 [20] tonnage resulted from other mines being
 [21] shut down?
 [22] A No.
 [23] Q Would that be relevant in your opinion?
 [24] A It could be, yeah.
 [25] Q If it turned out that long term reliance

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[1] about shutting down of Ohio mines.
 [2] That question is not before the
 [3] Commission.
 [4] I think we've gone too far
 [5] beyond. I've given him some
 [6] leeway, but you've gone 14
 [7] sentences beyond the scope of this
 [8] proceeding.
 [9] MR. WEISSMAN: We just
 [10] disagree. Are you instructing the
 [11] witness not to answer?
 [12] MR. REGULINSKI: Can we have
 [13] the question re-read?
 [14] ...
 [15] (Record read.)
 [16] ...
 [17] MR. REGULINSKI: The
 [18] objection stands. I'll ask the
 [19] witness to answer, if he can.
 [20] A No, I don't recall.
 [21] Q In your responsibility as fuel -- in your
 [22] position as fuel manager, do you believe
 [23] you have any responsibility to assess the
 [24] adequacy of the long term supply of the
 [25] fuels that the company's currently using?

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[1] on high sulfur coal were an important
 [2] option for the company, and might well be
 [3] the most cost effective but there were
 [4] real questions as to whether an adequate
 [5] number of mines would remain open to
 [6] provide that coal, wouldn't that
 [7] potentially be a very major concern in
 [8] terms of the availability to produce
 [9] electricity at the lowest cost?
 [10] A It could be.
 [11] Q Is anybody looking at that issue
 [12] internally within the company?
 [13] A Not to my knowledge.
 [14] Q Do you know whether anybody has looked at
 [15] it at any time over the past two or three
 [16] years?
 [17] A I don't recall, no.
 [18] Q Did System Planning ever ask that
 [19] anybody -- during your tenure in System
 [20] Planning, did anyone ask that issue be
 [21] assessed?
 [22] A I don't know. No, I don't remember ever
 [23] asking that.
 [24] Q Okay. Were you involved in fuel
 [25] procurement at the time the company made

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[1] its decisions regarding sources of coal
[2] for Eastlake and Ashtabula 5 during the
[3] fourth quarter of '97?
[4] A Yes, as far as they relate to the
[5] solicitation that was sent out in October
[6] so, yeah.
[7] Q What was your role in making that
[8] decision?
[9] A I had people that worked for me do the
[10] evaluation and then we presented the
[11] results of the evaluation to Frank, and
[12] discussed which bids we would award and
[13] pursue awarding.
[14] Q Did you give your staff any guidance as to
[15] what factors they should consider in
[16] evaluating the different bids?
[17] A As far as which criteria we would evaluate
[18] them on?
[19] Q Right.
[20] A Yeah, yes.
[21] Q What guidance did you give to your staff?
[22] A We discussed which would be the best
[23] criteria to evaluate by and, you know,
[24] came up with a list of things we wanted to
[25] use.

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[1] the evaluation with the high and low price
[2] of allowances as well as the base price.
[3] Q Do you know in looking at future
[4] alternatives with respect to Eastlake 4
[5] and 5, for purposes of the supplemental
[6] study, did the company look at all of
[7] the -- at the possibility of continuing to
[8] burn the same quantities of high sulfur
[9] coal that it's currently burning at
[10] Eastlake 4 and 5?
[11] A I don't recall anything that was just done
[12] for Eastlake 4 and 5, no.
[13] Q Is there any reason that you're aware of
[14] not to look at the option of continuing to
[15] do exactly what the company is doing now
[16] in terms of the quantities of high sulfur
[17] coal burned at Eastlake 4 and 5?
[18] A No.
[19] Q Was the company -- was the Fuel
[20] Procurement section asked to provide
[21] estimates for the delivered cost of high
[22] sulfur coal at Eastlake 4 and 5?
[23] A We provided high sulfur coal at Eastlake 4
[24] and 5. We provided estimates of the
[25] different coals at the different plants,

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[1] Q What were the --
[2] A Which were, okay, BTU evaluation. We used
[3] SO2, ash, grind, moisture, and seemed to
[4] me there could have been one more?
[5] Q It's the same factors that Mr. Stead
[6] described earlier today?
[7] A Yeah, right; same procedure Frank
[8] described.
[9] Q In other words, what you're describing are
[10] the specific components that were taken
[11] into account in the evaluated cost
[12] methodology?
[13] A Mm-hmm.
[14] Q And am I correct in assuming that there's
[15] no component in the evaluated cost
[16] methodology for allowance price volatility
[17] or the size of the bank or uncertainty
[18] regarding allowance prices?
[19] A You're correct. There's no component for
[20] that.
[21] Q Were those factors considered in any other
[22] way?
[23] A As far as I think I said this earlier,
[24] that Rich provided, you know, a base; a
[25] high and low forecast, and we did look at

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[1] and they ran the study based on the coal
[2] prices that we provided. I mean, which I
[3] guess I'm not sure exactly what the
[4] question is leading to.
[5] Q Just trying to determine if you recall
[6] whether there were inputs used regarding
[7] high sulfur coal at Eastlake.
[8] A Yeah, I don't recall.
[9] Q Okay. Can you tell me when you reviewed
[10] the estimates of delivered fuel costs for
[11] different fuels that Mr. Lang provided to
[12] Mr. Hoag, if you recall the questions I
[13] asked at the outset of your deposition,
[14] did you make any effort to compare
[15] Mr. Lang's estimates with respect to
[16] compare Mr. Lang's estimates with bids
[17] that the company was receiving for
[18] delivery of the same types of coals to the
[19] same plants?
[20] MR. REGULINSKI: Objection.
[21] No objection. May I just have
[22] that question re-read? No
[23] objection.
[24] ---
[25] (Record read.)

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- [1] ---
 [2] A No, I did not.
 [3] Q Okay. Do you know whether there were
 [4] significant differences between the
 [5] estimates used for any particular type of
 [6] coal in terms of sulfur content, and the
 [7] bids that the company had recently
 [8] received for delivery of the same types of
 [9] coals to the same plants?
 [10] A Can I have that question?
 [11] MR. REGULINSKI: Yes.
 [12] ---
 [13] (Record read.)
 [14] ---
 [15] A Nothing significant that comes to mind.
 [16] Q If the company received bids for any
 [17] particular -- for coal with any particular
 [18] levels of sulfur that were significantly
 [19] lower than the estimates that Mr. Lang had
 [20] been -- had developed, would there be any
 [21] reason not to use the lower actual bids?
 [22] A What do you mean, not to use the lower
 [23] actual bids?
 [24] Q For purposes of evaluating acid rain
 [25] compliance, for purposes of developing an

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- [1] A So I mean --
 [2] Q In your judgment, would it have been
 [3] desirable to elicit such bids?
 [4] A It could have been. You know --
 [5] Q What about --
 [6] A Could have been.
 [7] Q What about for 1999? Do you know whether
 [8] prior to preparing the supplemental study,
 [9] the company solicited bids for the
 [10] delivery of high sulfur coal to either
 [11] Eastlake or Ashtabula in 1999?
 [12] A No, I don't know.
 [13] Q If offers to sell such coal were made for
 [14] all of '98 or all of '99, would there be
 [15] no reason not to use -- would there be any
 [16] reason not to use the bid that was
 [17] actually made in applying the cost
 [18] evaluation methodology and comparing
 [19] different compliance options?
 [20] A Yeah. Not to use it, yeah.
 [21] Q And what would the reasons be?
 [22] A One bid doesn't necessarily represent
 [23] what, you know, what you would see from
 [24] everyone else.
 [25] Q Well --

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- [1] acid rain compliance plan. If you have an
 [2] estimate and an actual bid for the same
 [3] product delivered to the same plant, and
 [4] the actual bid is significantly lower than
 [5] the estimate, is there any reason not to
 [6] use the actual bid?
 [7] A That depends on the circumstance.
 [8] Q What circumstances might cause you not to
 [9] use the actual bid?
 [10] A What was the actual bid for? You know, if
 [11] the actual bid was for one quarter, does
 [12] one quarter represent a 20 year forecast,
 [13] you know. You have to ask questions like
 [14] that.
 [15] Q Prior to finalizing the supplemental
 [16] study, did the company seek bids for
 [17] delivery of high sulfur coal to Eastlake
 [18] or Ashtabula 5 during 1998?
 [19] A Not to my knowledge, no.
 [20] Q Why not?
 [21] A I don't know.
 [22] Q Did you -- did anyone ask you whether it
 [23] would be useful to solicit such bids?
 [24] A I wasn't down there at the time.
 [25] Q In your judgment --

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- [1] A And in that, you know what I'm saying?
 [2] Like if one 2.5 pound person gives you
 [3] this price, that doesn't mean you would
 [4] get everybody at that same price range.
 [5] Q Does that matter? I mean isn't the only
 [6] question what's the lowest cost for
 [7] getting a particular fuel delivered to
 [8] that particular plant?
 [9] A When you actually go for bids, yes, but
 [10] you're asking in context of this long
 [11] range study.
 [12] Q Right.
 [13] A And I'm saying I wouldn't necessarily just
 [14] because you have one quarter or one year
 [15] or two years of one low bid in a certain
 [16] SO2 spec, I wouldn't just change all 20
 [17] years worth of data based on that one bid.
 [18] Q What's the longest term commitment that
 [19] the company has for the purchase of coal
 [20] for use at Eastlake?
 [21] A Probably at this point, through the end of
 [22] '97.
 [23] Q Your belief is that there are no
 [24] commitments for the purchase of coal at
 [25] Eastlake after '97?

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[1] A Nothing I can recall, no.
 [2] Q What about at Ashtabula 5?
 [3] A Ashtabula 5, no. I mean, no, nothing I
 [4] can recall.
 [5] Q What about at other coal fired units?
 [6] MR. REGULINSKI: Objection.
 [7] Is that necessary?
 [8] MR. WEISSMAN: I'd like to
 [9] have some sense of whether there's
 [10] something special about Eastlake
 [11] or Ashtabula.
 [12] MR. REGULINSKI: It's before
 [13] the Commission. That's what makes
 [14] it so special.
 [15] MR. WEISSMAN: I actually
 [16] also would like the witness to be
 [17] the person who answers questions.
 [18] MR. REGULINSKI: Well, I'm
 [19] asking you to withdraw the
 [20] question. Will you withdraw it?
 [21] MR. WEISSMAN: No.
 [22] MR. REGULINSKI: Objection.
 [23] If you can answer the question, go
 [24] ahead.
 [25] A Well, for Bay Shore, we are pursuing

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[1] A Anything more than five years, I don't
 [2] think I would pursue.
 [3] Q Why not?
 [4] A I just think the electric market right now
 [5] is too volatile.
 [6] Q Why is that relevant?
 [7] A I don't know. The onset of different
 [8] retailing aspects, things like that, I
 [9] would, you know, be less apt to go for a
 [10] longer term contract now.
 [11] Q There's just too many uncertainties as to
 [12] what the company will be doing five years
 [13] from now?
 [14] A Probably, yes.
 [15] Q And too many uncertainties about what the
 [16] total coal consumption will be; is that
 [17] correct?
 [18] A Mm-hmm.
 [19] Q And what fuel prices will be like; is that
 [20] correct?
 [21] A Mm-hmm.
 [22] Q And whether there will be regulations?
 [23] MR. REGULINSKI: Objection.
 [24] We've gone way beyond the scope.
 [25] I know you think it's in the scope

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[1] western coal contracts, but to convert the
 [2] plant over to western coal which I'm sure
 [3] you're aware of that, but as far as like
 [4] Eastlake and Ashtabula, '98, I don't know
 [5] of any commitments.
 [6] Avon, you know we do have a long term
 [7] commitment at that plant. Actually two
 [8] contracts.
 [9] Q Over the roughly two and a half years
 [10] since you became Fuel Procurement manager,
 [11] have there been any new long term coal
 [12] commitments made?
 [13] MR. REGULINSKI: At any
 [14] units, Mr. Weissman?
 [15] MR. WEISSMAN: Yes.
 [16] MR. REGULINSKI: Objection as
 [17] to relevance of the question, but
 [18] without waiving the objection,
 [19] I'll ask him to answer.
 [20] A Since I became manager, no, not since I
 [21] became manager.
 [22] Q As a general matter, do you think it's
 [23] desirable to avoid long term commitments?
 [24] A Depends on your definition of long term.
 [25] Q Let's say five years or more.

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[1] but it's not. We've gone way
 [2] beyond the scope of the issue
 [3] before the State Commission.
 [4] I will let the witness answer, but
 [5] we're way out there now.
 [6] BY MR. WEISSMAN:
 [7] Q Is one of the uncertainties whether we'll
 [8] continue to have the current form of
 [9] comprehensive cost of service regulation,
 [10] or whether there will be some form of
 [11] retail competition?
 [12] A Yes.
 [13] Q Is it fair to say that we're facing an
 [14] unusual high level of uncertainty as to
 [15] what the electric utility will be like?
 [16] MR. REGULINSKI: Objection,
 [17] relevance. Don't answer the
 [18] question.
 [19] MR. WEISSMAN: I think what
 [20] might be most efficient at this
 [21] point would be if we could break
 [22] for five or ten minutes or so.
 [23] MR. REGULINSKI: Yes.
 [24] ---
 [25] (Short recess had.)

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[1] ---
 [2] (At this time, Mr. Siegfried
 [3] and Mr. Sarver left
 [4] the deposition at 3:30 p.m.)
 [5] ---

[6] MR. WEISSMAN: I'd like to
 [7] show the witness and ultimately
 [8] ask for return of, a document
 [9] entitled Environmental Compliance
 [10] Plan Review, Supplemental Fuel
 [11] Switching, confidential
 [12] information filed under seal.

[13] I'm going to show the witness
 [14] the document solely for the
 [15] purposes of allowing him to have
 [16] in front of him tables 2 and 3 of
 [17] that document while I ask certain
 [18] questions, but I intend to ask the
 [19] questions in a manner that will
 [20] avoid any need to create a
 [21] confidential transcript. Is that
 [22] permissible?

[23] MR. REGULINSKI: Yes, that's
 [24] my preference, as well.

[25] BY MR. WEISSMAN:

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[1] look at any given number on the chart,
 [2] that it will indicate to me for the year
 [3] that I've chosen, and the pounds SO₂ per
 [4] million BTU that's pertinent, it will
 [5] indicate the total of the estimated
 [6] delivered cost for the coal, and plus the
 [7] estimated value of the SO₂ allowances
 [8] needed to offset the sulfur in the coal;
 [9] is that correct?

[10] A Yes.

[11] Q Okay. And do you know essentially with
 [12] respect to the SO₂ component, is the cost
 [13] figure that is used the cost figure
 [14] necessary to essentially zero out the
 [15] sulfur?

[16] A Okay, I don't know that. There's a couple
 [17] ways you could have done these. You could
 [18] have just taken 1.2 as the zero reference.
 [19] You could have taken anything as a zero
 [20] reference. Zero is a zero reference. I'm
 [21] not sure how we did these tables.

[22] Q If I rephrase your statement by saying
 [23] that you could use any reference point you
 [24] wanted, as long as you used a consistent
 [25] reference point?

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[1] Q Here is the document. And really, my only
 [2] reason for showing it to you is to ask a
 [3] question - a series of questions
 [4] conceptually regarding how the numbers on
 [5] the tables were prepared.

[6] A Sure.

[7] Q If I ask you to look at any particular
 [8] number, if we could just pick as an
 [9] example, the year 1999, value. I'd like
 [10] to refer particularly to table 2, just as
 [11] an illustrative example, which I believe
 [12] pertains - I believe this is an
 [13] indication on the top.

[14] It pertains to the Eastlake plant and
 [15] another notation on the top that states,
 [16] "Delivered coal costs plus SO₂ costs."

[17] First of all, am I correct that what
 [18] the table includes is the numbers that
 [19] were actually used for purposes of the
 [20] study in evaluating the different fuel
 [21] choice alternatives for the Eastlake plant
 [22] in different years?

[23] A Yes.

[24] Q Okay. And would it also be correct that
 [25] the numbers on the chart basically, if I

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[1] A Right, whether you're going above or
 [2] beyond it, right. I'm not sure how he did
 [3] this table. You'd have to ask Rich.

[4] Q You're not sure what the exact reference
 [5] point is?

[6] A Right.

[7] Q If I pick the number, for example, in the
 [8] column that's labeled 3.8 pounds SO₂ per
 [9] million BTU for the year 1999, can you
 [10] describe your understanding as to what the
 [11] components are that were used to develop
 [12] that number?

[13] A It's the delivered cost of fuel in 1999
 [14] and an allowance adder which would have
 [15] been equivalent in the sense of BTU that
 [16] Rich would have added onto here.

[17] Q Is there any other cost element included
 [18] for any other adjustment based on the
 [19] characteristics of the coal?

[20] A No, not that I know of.

[21] Q Okay. Is there - would the SO₂ value
 [22] used in calculating that number be based
 [23] upon the table of allowance - of
 [24] projected allowance prices contained
 [25] elsewhere in the same supplemental study?

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- [1] A Yeah, I would assume so, yes.
 [2] Q It's something Mr. Hoag is probably better
 [3] able to confirm?
 [4] A Yeah, I think so.
 [5] Q That's fine. Do you know when the company
 [6] evaluated bids for coal to be delivered
 [7] during the fourth quarter of 1997?
 [8] Did it use the same projected SO2
 [9] allowance prices that are contained in the
 [10] table?
 [11] A I don't recall. It could have been
 [12] different. The allowance bid, we actually
 [13] solicited that I think in October, so it
 [14] would have been, you know, maybe a month
 [15] or two after this was turned in that those
 [16] were evaluated, so it could have been a
 [17] different price.
 [18] Q What SO2 allowance prices do you expect
 [19] the company to use in determining what
 [20] coals it will select for 1998?
 [21] A Well, what we do -- it might be none of
 [22] these. We could -- we'll ask Rich what
 [23] the most updated forecast is at the time.
 [24] You know, when we're ready to evaluate
 [25] bids, and that's what we would use.

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- [1] Q Would the transportation cost used in
 [2] evaluating the high sulfur coal, the 6.0
 [3] coal option for Ashtabula 5 been based
 [4] upon the EVA report as well?
 [5] A I don't recall, you know.
 [6] Q Is that something you should --
 [7] A It could have been. Most likely it was
 [8] based on a contract to a certain point and
 [9] then went to an EVA projected price.
 [10] Q Have you attempted to examine -- is there
 [11] a -- is the coal -- is the cost for
 [12] transporting coal from Powhatan No. 6 to
 [13] Eastlake or to Ashtabula 5 the same or
 [14] different from the transportation cost
 [15] associated with high sulfur coal from
 [16] other -- obtained from other areas?
 [17] A In general, it could be different.
 [18] Q Was there an effort made to take into
 [19] account those differences in determining
 [20] the value to be used for high sulfur coal
 [21] at Ashtabula 5?
 [22] A Not to my knowledge.
 [23] Q Why not?
 [24] A I don't know.
 [25] Q If there were significantly lower

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- [1] Q How frequently is the allowance price
 [2] forecast updated?
 [3] A You'd have to ask him how often he updates
 [4] it, but for the purposes of any time we
 [5] would be buying coal, we would ask him for
 [6] an update.
 [7] Q And with respect to the transportation
 [8] cost that's included in each of the
 [9] figures, each of the numbers on this
 [10] chart --
 [11] A Mm-hmm.
 [12] Q -- would that transportation cost have
 [13] been -- what would that transportation
 [14] cost have been based upon?
 [15] A You asked me this earlier. I think what I
 [16] had said was if there's an actual contract
 [17] in place for the particular plant, it
 [18] could have been based on that contract,
 [19] and if there was no contract, it was an
 [20] EVA projection of rail.
 [21] Q If I ask you to turn to table 3, I believe
 [22] it is, that pertains to Ashtabula 5.
 [23] A Okay.
 [24] Q There's a column there for 6.0 coal?
 [25] A Mm-hmm.

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- [1] transportation costs for coal for Powhatan
 [2] No. 6 or other mines servable off the same
 [3] rail line, would there be any reason not
 [4] to take into account those -- any valid
 [5] justification not to take into account
 [6] those lower transportation costs?
 [7] A Just to step back a minute, when we did
 [8] this study, my understanding of how this
 [9] works is you're just taking a
 [10] representative range.
 [11] The six pound represents in general.
 [12] It doesn't represent one in particular
 [13] mine, or two mines; just represents, you
 [14] know, here's a representative example of
 [15] what, you know, a six pound coal could be
 [16] delivered to.
 [17] Q If there were a mine with inherently lower
 [18] transportation costs that was willing to
 [19] make an offer to provide coal at a
 [20] delivered cost -- on a delivered cost
 [21] basis that reflected that transportation
 [22] cost advantage, shouldn't that be taken
 [23] into account?
 [24] A Well, the way I would handle that is when
 [25] we -- no, no, I don't think. Not in this

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- [1] study.
- [2] When you solicit the bid, and if they
- [3] turn in a bid and, you know, you put in
- [4] the actual transportation cost and it is
- [5] lower, then it's lower than what this
- [6] projected cost was, but, you know, I
- [7] wouldn't base this column of this study
- [8] for this plant like I said earlier on one
- [9] particular bid or one particular mine.
- [10] Q Do you know whether historically the
- [11] transportation costs from the Powhatan No.
- [12] 6 mine to Eastlake and Ashtabula have been
- [13] lower than the transportation costs
- [14] incurred by most other high sulfur coal
- [15] vendors?
- [16] A I don't know off the top of my head.
- [17] Q Do you know whether there's a reason why
- [18] those costs should be lower?
- [19] A One reason the Powhatan -- I don't know
- [20] what the other mines were. It's hard for
- [21] me to compare just off the top of my head
- [22] because of the fact that we use our
- [23] private equipment for Powhatan so that
- [24] cost doesn't appear in the sense from the
- [25] BTU, right off the bat, you know. It's

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- [1] then that's what we use in our evaluation.
- [2] Q Do you do that even if the expected SO2 is
- [3] lower?
- [4] A Yes. If they guarantee 2.5 pounds, then
- [5] we use 2.5 pounds.
- [6] Q Okay. Is it your practice to include
- [7] penalties or adjustment factors based
- [8] on -- in your bid solicitations, do you
- [9] specify only a maximum or an average or
- [10] both?
- [11] A I can't remember what was in the last one.
- [12] I think there was an average and I don't
- [13] think it went maximum. I don't remember.
- [14] Q As I understand it, historically, C.E.I.,
- [15] correct me if I'm wrong, but owned the
- [16] trains that were used to haul coal from
- [17] Powhatan to Eastlake and Ashtabula; is
- [18] that correct?
- [19] A Historically? I'm not positive. I know
- [20] we were using them since I'm there.
- [21] Historically, that's probably correct but
- [22] I'm not positive historically or how far
- [23] back that went.
- [24] Q They're currently being used under a lease
- [25] arrangement?

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- [1] hard for me to just draw a comparison
- [2] without seeing numbers.
- [3] Q Is the company -- did the company -- where
- [4] are we? Does the company plan to continue
- [5] using that same equipment during the
- [6] fourth quarter of '97?
- [7] A We're evaluating that now.
- [8] Q Is that an option available to the
- [9] company?
- [10] A It's an option available to the company.
- [11] Q Do I understand correctly that in
- [12] developing the estimates that are
- [13] contained in the table, that the figures
- [14] that are used are based upon the maximum
- [15] potential sulfur content under each
- [16] option? --
- [17] A Are we on table 3? Basically the SO2
- [18] potential is just what we listed up top.
- [19] I mean we're assuming that is the SO2
- [20] potential, basically.
- [21] Q What about when you evaluate bids, do you
- [22] evaluate --
- [23] A You adjust. If it's higher or lower, you
- [24] would just put in what they bid. If they
- [25] bid this is our maximum SO2 potential,

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- [1] A Yes.
- [2] Q Is there an option to extend that lease
- [3] arrangement?
- [4] A Yeah.
- [5] Q Is there any change in price? What are
- [6] the terms of that option? When does it
- [7] have to be exercised?
- [8] A We're currently looking at that. It's
- [9] pretty soon.
- [10] Q Do you recall how soon?
- [11] A Within the next couple days.
- [12] Q Within the next couple days?
- [13] A Correct, yeah.
- [14] Q Is there any risk that the company will
- [15] forfeit the option of continuing to retain
- [16] that service?
- [17] MR. REGULINSKI: Objection.
- [18] I think we're going again far
- [19] afield of what's relevant to the
- [20] study. We've already indicated
- [21] through this witness that the
- [22] study does not take into account
- [23] the different transportation modes
- [24] of using our own equipment, rather
- [25] it has six pound coal as a

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the)
 Two-Year Review of)
 Centerior Energy)
 Corporation's Environmental) Case No.
 Compliance Plan Pursuant) 94-1698-EL-ECF
 to Section 4913.05, Revised)
 Code)

Continued deposition of MICHAEL KOVACH, a witness called for the purpose of testifying in the above matter, before me, Ellen A. Hancock, Registered Professional Reporter and Notary Public within and for the State of Ohio, at the offices of Centerior Energy Corporation, 6200 Oak Tree Boulevard, Independence, Ohio on Monday, the 7th day of April, 1997 at 10:15 a.m. Some portions of this transcript are made separate and under confidential seal.

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 MICHAEL KOVACH, of lawful age, called by the Ohio Valley Coal Company for the purpose of testimony in this matter being by me first duly sworn, as hereinafter said as follows:

 MR. PERLIS: This is Mark Perlis, counsel to the Ohio Valley Coal Company resuming a deposition that had been begun by Mr. Andrew Weissman of Mr. Michael Kovach of Centerior Energy.

Before we begin, since we have people listening on the speakerphone, I would appreciate it if we just take a roll call and identify everyone who is in the room here and on the speakerphone at the other end.

So, for the record, my name is Mark L. Perlis, P as in Peter, E-R-L-I-S. I'm also an attorney with the law firm Dickstein, Shapiro, Morin and Oshinsky in

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By telephone:

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ALSO PRESENT: Ms. Nancy Cesear, Rates Assistant
 Mr. Richard S. Hoag
 Mr. Frank Stead

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Washington, D.C. and to my right is?

MS. MOONEY: Colleen Mooney. I'm with the Ohio Consumer's Counsel.

MR. HOAG: Richard Hoag, Production Strategy Manager for Centerior Energy.

MR. STEAD: Frank Stead, Director of Supply for Centerior.

MR. REGULINSKI: Mike Regulinski, counsel for Centerior.

THE WITNESS: Mike Kovach, Manager of Field Planning and Supply.

MS. CESEAR: Nancy Cesear, Regulatory Affairs, Centerior Energy.

MR. REGULINSKI: You guys on the phone are up.

MR. SIEGFRIED: My name is Stuart Siegfried, S-I-E-G-F-R-I-E-D, and I'm with the Commission Staff.

MR. SARVER: Pat Sarver,

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[1] anticipate that that solicitation would
[2] cover?
[3] A If I had to say at this point, I would
[4] just go for one year in quarter
[5] increments.
[6] Q Is Centerior actively negotiating today
[7] with any coal suppliers for the supply of
[8] coal to Eastlake after January 1, 1998?
[9] A No, not that I know of.
[10] Q Why not? Have you made -- for the record,
[11] the counsel hasn't answered the question.
[12] Do you intend --
[13] MR. REGULINSKI: The witness.
[14] MR. PERLIS: The witness, I'm
[15] sorry, excuse me.
[16] MR. REGULINSKI: Let's give
[17] the witness some time.
[18] A You know, well, we just went through a
[19] merger and we're basically waiting to see
[20] what happens with that, and we will most
[21] likely solicit as First Energy.
[22] Q Why does the merger affect how Centerior
[23] Energy will pursue coal supply for
[24] Eastlake?
[25] MR. REGULINSKI: Objection as

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[1] in better opportunities for the purchase
[2] of coal?
[3] A More buying power.
[4] Q Is that because Ohio Edison also purchases
[5] substantial quantities of coal in the
[6] similar grades that Centerior does?
[7] A I don't know what they -- yeah, I don't
[8] know.
[9] Q Where does the additional buying power
[10] come from, if not for their purchase of
[11] coal of similar quality and
[12] characteristics from Centerior's needs?
[13] A I'm talking totally on a tonnage basis;
[14] volume tonnage.
[15] Q Is there some possibility that the
[16] utilization requirements at Eastlake
[17] and/or Ashtabula would change as a result
[18] of the First Energy merger?
[19] A I don't know. It could, I don't know.
[20] Q How could those utilizations change as a
[21] result of the merger?
[22] A They could go up or they could go down. I
[23] don't know.
[24] Q Why might they go up?
[25] A There could be -- I don't know. I'm just

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[1] to relevance. Without waiving the
[2] objection, let the witness
[3] respond.
[4] A There could be more opportunities under
[5] the combined companies.
[6] Q Do you mean by that, more cost effective
[7] opportunities?
[8] A Yes.
[9] Q Could that in part be because the partner
[10] in your merger may have other supplies of
[11] coal that could be made available to
[12] Centerior?
[13] MR. REGULINSKI: Same
[14] objection, and a continuing
[15] objection to the relevance of the
[16] First Energy merger questions and
[17] the impact of the First Energy
[18] merger in this proceeding.
[19] Without waiving the
[20] objection, let the witness respond
[21] to the best of his ability.
[22] A Yeah, I don't know what they have that we
[23] could use.
[24] Q So why do you believe that Centerior --
[25] that the First Energy merger might result

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[1] saying it could go up or down. I don't
[2] know.
[3] Q Can you provide any factors that you might
[4] expect would cause it to go up or down?
[5] A I don't know. Are we talking about
[6] Eastlake here?
[7] Q Yes. Let's start with Eastlake.
[8] A Well, Eastlake is a more efficient plant
[9] than one of theirs and it could
[10] potentially go up. If Eastlake's a lesser
[11] efficient plant, than there's -- it could
[12] go down and it could stay the same.
[13] Q And by efficiency, what do you mean?
[14] A Total cost.
[15] Q Per kilowatt produced?
[16] A Cents per kilowatt hour.
[17] Q So in terms of cents per kilowatt hour, do
[18] you have any idea how Eastlake stacks up
[19] against any of Ohio Edison's plants?
[20] A Yeah, I'm not sure.
[21] Q Do you have any idea how Eastlake stacks
[22] up with respect to the industry in
[23] general?
[24] A I'm not -- I don't recall at this time,
[25] no.

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- [1] Q Do you believe that the cents per kilowatt
 [2] hour for Eastlake is above average or
 [3] below average?
 [4] MR. REGULINSKI: Objection as
 [5] to relevance to this line of
 [6] questioning. Would you care to
 [7] rephrase that question?
 [8] MR. PERLIS: Are you
 [9] instructing the witness not to
 [10] answer it?
 [11] MR. REGULINSKI: I'm asking
 [12] if you can make the question
 [13] relevant for him.
 [14] MR. PERLIS: I guess I don't
 [15] see why the question is not
 [16] relevant.
 [17] MR. REGULINSKI: Without
 [18] waiving the objection, the witness
 [19] can answer.
 [20] A Above average to what? I don't know what
 [21] you mean.
 [22] Q Above average to other coal fired
 [23] generating facilities.
 [24] A In the United States? I mean, in where?
 [25] Makes a big difference.

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- [1] solicitation that would cover both
 [2] Eastlake and Ashtabula?
 [3] A Or any other requirements we determine we
 [4] have on the system.
 [5] Q And with respect to Ashtabula, are there
 [6] particular characteristics, fuel needs
 [7] that you project in 1998 that would
 [8] differentiate it from Eastlake?
 [9] A No. I mean, could you be more specific I
 [10] guess?
 [11] Q Does the company -- is the company
 [12] considering some possibility of reduced
 [13] utilization at either Eastlake or the
 [14] Ashtabula units?
 [15] A Ashtabula units now? We were talking just
 [16] about 5.
 [17] Q Ashtabula Number 5.
 [18] A Not that I'm aware of on Ashtabula 5.
 [19] Q Any -- is the company considering any
 [20] closure of either of these plants?
 [21] A Not that I'm aware of. Once again, we're
 [22] just talking about 5 and Eastlake?
 [23] Q Right.
 [24] A No, not that I'm aware of.
 [25] Q And no reduction in the operations, the

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- [1] Q Let's say just in Ohio.
 [2] A Just in Ohio, I don't know.
 [3] Q What about in the mid-west? What about in
 [4] the region extending from any adjacent
 [5] state to Ohio, including Ohio?
 [6] A My thought is it would be in the top half.
 [7] Q By that, do you mean the more expensive
 [8] half?
 [9] A No, the least; the less expensive half.
 [10] Q Now with respect to Ashtabula, are you
 [11] aware of whether there are any commitments
 [12] for the purchase of coal for the Ashtabula
 [13] 5 unit that extend beyond December 31,
 [14] 1997?
 [15] A None that I'm aware of.
 [16] Q And how do you anticipate that Centerior
 [17] will meet its fuel needs at Ashtabula 5
 [18] in 1998?
 [19] A Once again, if you're referring to, you
 [20] know, to get coal for -- once again, when
 [21] we send out an RFP, we would do mostly
 [22] what we did the last time. Just one
 [23] system RFP specifying all our requirements
 [24] and soliciting bids at that time also.
 [25] Q So you would intend to do a joint

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- [1] type of operations?
 [2] A Yeah. As I said earlier, I don't know.
 [3] Q What about other coal fired generating
 [4] facilities?
 [5] MR. REGULINSKI: Objection as
 [6] to relevance.
 [7] A I don't know. I'm not doing -- you know,
 [8] I'm in fuel. I'm not doing system
 [9] studies.
 [10] Q Okay. Mr. Kovach, how much high sulfur
 [11] coal is currently being burned at
 [12] Eastlake?
 [13] A I believe about 7 -- depends on any given
 [14] year. I mean, with the loads, given
 [15] loads, I would think it's somewhere
 [16] between 600 and 850,000.
 [17] Q And at Ashtabula 5?
 [18] A Once again, depending on the different
 [19] loads, I would think it could be anywhere
 [20] between 350, and 500,000; somewhere in
 [21] that ballpark.
 [22] Q And is all of that high sulfur coal from
 [23] Ohio sources?
 [24] A I believe so.
 [25] Q How many different mines supply Ohio high

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[1] Q Right, and your answer was that he
 [2] prepared the fuel price forecast for the
 [3] 1995 study.
 [4] A No, I was talking about the '96, who
 [5] prepared the '96.
 [6] Q So Mr. Lang prepared the fuel price
 [7] forecast for the '96 study?
 [8] A Correct.
 [9] Q And did you review that fuel price
 [10] forecast?
 [11] A Yes.
 [12] Q And do you know how Mr. Lang - the
 [13] evidence on which he relied upon in making
 [14] that fuel forecast?
 [15] A Yes.
 [16] Q And what was that, sir?
 [17] A He used an EVA study as the premise and
 [18] then he adjusted that based on his
 [19] knowledge of what he knows going on in the
 [20] market; makes minor adjustments to that.
 [21] Q I'm now making reference to the response
 [22] of Centerior Energy to the Interrogatories
 [23] and document production, number 8 in which
 [24] Centerior stated, "The coal price forecast
 [25] used in the Supplemental Fuel Switching

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[1] There's rail contracts that are in there.
 [2] We had spot bids. I mean, they would have
 [3] had that in the projections.
 [4] Q The response says long term coal supply
 [5] contract prices. Do you consider bids,
 [6] spot bids, long term coal supply contract
 [7] prices?
 [8] A No. I mean the response might not be -
 [9] Q Well, it might not be what, sir?
 [10] A I'm not responsible for these, right? I
 [11] was not the -
 [12] Q You said you reviewed Mr. Lang's coal -
 [13] A Price forecasts, yeah.
 [14] Q Then how would you characterize the basis
 [15] for the coal price forecast?
 [16] A I would - as I stated earlier, it was
 [17] basically a projection by EVA which he had
 [18] done some tweaking to for the coal price
 [19] forecast, but any contracts would have
 [20] been - any contracts we had in place
 [21] would be part of that.
 [22] Q When did EVA produce this forecast?
 [23] A I don't recall.
 [24] Q And what do you think EVA based their
 [25] forecast on in the absence of long term

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[1] Study was developed based upon C.E.I.'s
 [2] long term coal supply contract prices in
 [3] place on the date the forecast was
 [4] prepared."
 [5] Then, "Coal contract prices are
 [6] escalated through the term of each
 [7] contract at an assumed annual escalation
 [8] rate."
 [9] MR. REGULINSKI: It also says
 [10] in addition, a reference -
 [11] Q "A market price for FOB mine coal prices
 [12] is developed based upon information
 [13] provided by Energy Ventures Analysis known
 [14] as EVA."
 [15] With that in mind, Mr. Kovach, you've
 [16] previously stated that for Eastlake and
 [17] Ashtabula, there are no long term coal
 [18] supply contracts in place. So could you
 [19] please tell me how it is - on what basis
 [20] the Supplemental Fuel Switching Study
 [21] determined coal price forecasts when there
 [22] are no long term contracts for Eastlake or
 [23] Ashtabula?
 [24] A Well, this study was done in 1996 and we
 [25] had a rail contract in 1996, you know.

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[1] contracts?
 [2] MR. REGULINSKI: Objection.
 [3] That's the EVA's forecast. I
 [4] don't know if this witness is
 [5] competent to testify as to what
 [6] EVA did.
 [7] Q Let me rephrase the question. In your
 [8] review of the coal price forecast, would
 [9] you have just accepted the EVA analysis
 [10] without inquiring into the basis for the
 [11] EVA's price forecast of what Centerior's
 [12] coal price costs were going to be?
 [13] A There is a basis in the report.
 [14] Q Did you inquire into what that basis was?
 [15] A I looked at it. I don't know if I
 [16] thoroughly inquired though.
 [17] Q And do you recall what that basis was?
 [18] A No.
 [19] Q I asked you before whether Mr. Fink was
 [20] at all involved in the 1996 Supplemental
 [21] Fuel Switching Study. Was he?
 [22] A Once again, I have to say what his
 [23] involvement was before I came down there,
 [24] I don't know. You know, he could have
 [25] easily been involved. You'd have to ask

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[1] Q And are you referring here generally to
[2] what might be called integrated resource
[3] plan models?
[4] A Yes.
[5] Q And PROMOD, dispatch models?
[6] A That's one of them.
[7] Q And there are other models as well?
[8] A Yeah, there's a lot.
[9] Q And you would have expected all of those
[10] models to have been utilized in the
[11] preparation of the 1996 Supplemental Fuel
[12] Switching Study?
[13] MR. REGULINSKI: Objection.
[14] Objection. This is not the
[15] witness that prepared or
[16] coordinate the '96 study. What he
[17] would expect to have been used is
[18] not relevant, and I believe you're
[19] badgering this witness now asking
[20] him questions that do not relate
[21] to the study.
[22] The witness is available for
[23] deposition who coordinated and
[24] prepared the study and is
[25] responsible for that study.

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[1] Q And would you have expected the
[2] projections of load growth for the company
[3] to have changed between January 20, 1995,
[4] and October 1, 1996?
[5] A I don't know.
[6] Q Would you have expected there to have been
[7] any factors that might have affected load
[8] growth projections, cause them to change
[9] between January 20, 1995 and October 1,
[10] 1996?
[11] A I don't know. I don't know.
[12] Q Well, what are the major factors that
[13] determine load growth projections for
[14] a company?
[15] MR. REGULINSKI: Objection.
[16] Relevance. Without waiving the
[17] objection.
[18] A I'm not here to talk about load growth. I
[19] don't know.
[20] Q Mr. Kovach, does the load growth factor
[21] into the supplemental -- does the forecast
[22] of load growth factor in at all in the
[23] Supplemental Fuel Switching Study?
[24] A Yes, I would think it factors in.
[25] Q And why would it factor in, sir?

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[1] MR. PERLIS: Well, I intend
[2] to ask Mr. Hoag a question along
[3] the same lines for what he did,
[4] but I'm asking Mr. Kovach to
[5] elaborate on his earlier response
[6] that he would have expected all of
[7] the required updates to be
[8] undertaken, given that he was the
[9] coordinator of the first report.
[10] I think it is fair to inquire
[11] of him as a witness what he would
[12] have expected to have been
[13] analyzed.
[14] MR. REGULINSKI: May we have
[15] the question re-read, please?
[16] ---
[17] (Record read.)
[18] ---
[19] MR. REGULINSKI: Without
[20] waiving the objection, let the
[21] witness answer.
[22] A Not all of them. There's a lot of models.
[23] You pick one or two you use in your
[24] company, so whatever he used, I would have
[25] expected would have been updated.

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[1] A Amount of tons of coal would give -- it
[2] would affect tons of coal burned.
[3] Q And that would in turn affect perhaps the
[4] number of allowances the company needed to
[5] have?
[6] A It could. Yeah, it could. I don't know.
[7] Q Okay. So what are some of the factors
[8] that you would expect to influence load
[9] growth projections for the company?
[10] A I don't know.
[11] Q Would projections of consumer demand for
[12] power be one such factor?
[13] MR. REGULINSKI: Objection,
[14] asked and answered. He said he
[15] doesn't know.
[16] Q Let me rephrase it. When you said you
[17] don't know, you don't know because you are
[18] unfamiliar with the factors that might
[19] effect load growth, or you're just not
[20] sure which ones have been evaluated for
[21] the 1996 study?
[22] A I'm not the witness on that.
[23] MR. PERLIS: Can we go off
[24] the record for a moment?
[25] MR. REGULINSKI: Yes.

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[1] ---
 [2] (Short recess had.)
 [3] ---
 [4] Q Mr. Kovach, we've returned after a brief
 [5] recess, and I would like to renew a line
 [6] of inquiry with a new question if I might.
 [7] In your capacity now as Manager of
 [8] Fuel Planning and Supply, do you have
 [9] occasion to inquire as to the company's
 [10] projections of load growth?
 [11] A There could be occasions. I haven't since
 [12] I've been down there inquired into their
 [13] projections of load growth.
 [14] Q In your prior capacity as the Manager of
 [15] Resource Planning, would that have been an
 [16] area within your expertise and competence,
 [17] the evaluation of load growth forecasts of
 [18] the company?
 [19] A Maybe. I'm not quite sure how to answer
 [20] that.
 [21] Q Well, Mr. Kovach, could you describe for
 [22] me some factors, the major factors that
 [23] you think affect forecasts of load growth
 [24] for Centerior Energy Corporation?
 [25] A I could give you some thoughts I had. I

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[1] effects of competition on that that may
 [2] emerge on load growth?
 [3] A It could be, you know.
 [4] Q What about the ability of Centerior to
 [5] purchase power from other sources, in
 [6] effect displacing its own generation? Was
 [7] that a factor that would be considered in
 [8] projection of load?
 [9] A No, I don't know why.
 [10] Q What -- how do you define the term load?
 [11] A The load; the electricity use within your
 [12] defined service territory.
 [13] Q How do you define electricity produced at
 [14] your generating plants?
 [15] A Generation.
 [16] Q Okay. Do you believe that the
 [17] availability of purchased power would
 [18] effect the utilization of generation
 [19] facilities of Centerior?
 [20] A Yeah, it could affect your generation. It
 [21] has nothing to do with your load forecast.
 [22] I mean, I didn't understand what you were
 [23] asking.
 [24] Q Perhaps my question was inartful.
 [25] Do you believe that both -- that load

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[1] mean I'm not sure they're right.
 [2] Q Yes.
 [3] A I would think population of your service
 [4] territory is one of them. If you know of
 [5] any potential new development coming in,
 [6] as far as industrial development,
 [7] something along those lines. Those are
 [8] probably two of the biggest, I would
 [9] think.
 [10] Q Do you believe that the onset of
 [11] competition is another factor that would
 [12] be relevant to determinations of load
 [13] growth?
 [14] A It depends on what kind of load forecast
 [15] you're doing I guess. I'm talking about
 [16] the service territory load forecast, so --
 [17] Q Right. With respect to the Supplemental
 [18] Fuel Switching Study, does it rely on a
 [19] projection of load over the full 20 year
 [20] period of the study?
 [21] A Yes.
 [22] Q So, in the context of a 20 year load
 [23] growth analysis, do you consider it -- to
 [24] the best of your knowledge, do you
 [25] consider it relevant to consider the

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[1] growth will affect the amount of emissions
 [2] that the company system-wide would have?
 [3] A It could.
 [4] Q And also the level of generation, the
 [5] operation of the generating facilities
 [6] would affect the level of emissions?
 [7] A Yeah. Once again, it could, yeah.
 [8] Q Is there any way in which the capacity
 [9] utilization of your generating plants
 [10] would not affect the output of emissions?
 [11] A Well, I could think -- yeah, off the top
 [12] of my head, I don't know what was done. I
 [13] could just give you a case where, for
 [14] example, you raised the capacity factors
 [15] on non-phase one effective units and
 [16] lowered them on phase one effective.
 [17] That's a case right there where, you know,
 [18] in the same proportion where it could have
 [19] no effect at all on what went on.
 [20] Q But in terms of the total generating
 [21] capacity, the total generating utilization
 [22] of generating capacity, that would affect
 [23] emission levels?
 [24] MR. REGULINSKI: Objection as
 [25] to relevance on total generation.

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[1] We are focussing on two generation
 [2] facilities. Without waiving the
 [3] objection, I'll let the witness
 [4] respond.
 [5] A Again, I didn't -- could you repeat the
 [6] question again?
 [7] Q Let me approach it from a different
 [8] direction. The emission allowance needs
 [9] of Centerior are determined on a unit
 [10] basis, or on a system basis?
 [11] A System.
 [12] Q So looking at the systems needs for
 [13] emission allowance, is the systems needs
 [14] affected by system generation levels?
 [15] A Yeah, it should be.
 [16] Q Can you identify any significant factors
 [17] that you think are likely to affect the
 [18] level of generation production at
 [19] Centerior's plants?
 [20] MR. REGULINSKI: Can we have
 [21] that question read back to us,
 [22] please?
 [23] ---
 [24] (Record read.)
 [25] ---

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[1] Q And do you believe that the -- to the best
 [2] of your knowledge now, do you believe that
 [3] the Supplemental Fuel Switching Study
 [4] could take into account the likely effects
 [5] or possible effects of competition on the
 [6] ability of Centerior to sell power in
 [7] other jurisdictions?
 [8] MR. REGULINSKI: Objection as
 [9] to relevance. Without waiving the
 [10] objection, I'll let the witness
 [11] respond.
 [12] A I'm not sure to what extent it was taken
 [13] into account.
 [14] Q Do you believe that it should have been
 [15] taken into account?
 [16] MR. REGULINSKI: Same
 [17] objection. Without waiving.
 [18] A I don't know.
 [19] Q Well, Mr. Kovach, if the total level of
 [20] generation matters to the allowance needs
 [21] and competition affects -- both
 [22] opportunities and challenges affect what
 [23] your generation level might be, isn't it
 [24] sort of obvious that the presence of
 [25] competition will have an affect on the

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[1] A I don't know. I don't know.
 [2] Q Will load growth be such a factor?
 [3] A Yeah. Our load growth could be, yeah.
 [4] Q Could competition be such a factor?
 [5] A I don't know.
 [6] Q If Centerior's service territory is opened
 [7] to other competing suppliers of power,
 [8] might that affect the level of both the
 [9] load as Centerior's load as well as its
 [10] generating?
 [11] MR. REGULINSKI: Objection as
 [12] to relevance. Without waiving the
 [13] objection, the witness can answer.
 [14] A It could. It could go up or it could go
 [15] down.
 [16] Q How might it go up?
 [17] A If our service territory was opened up, I
 [18] would assume everyone around us was and we
 [19] would have the opportunity to sell there.
 [20] I mean so it could actually increase.
 [21] Q And would that be most likely to happen if
 [22] your costs were such that you could offer
 [23] the power at attractive prices in other
 [24] utility service territories?
 [25] A It could.

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[1] allowance needs for the company?
 [2] A It could. As we said, I mean it could.
 [3] You could need more allowances, you could
 [4] need less. It just depends on what's
 [5] going to happen.
 [6] Q You might need more, you might need less
 [7] but do you not think that the company
 [8] should determine whether it's going to be
 [9] more or less under different scenarios?
 [10] MR. REGULINSKI: Objection.
 [11] This question's been asked and
 [12] answered. The witness has
 [13] responded he doesn't know.
 [14] MR. PERLIS: Michael, he
 [15] just --
 [16] MR. REGULINSKI: Without
 [17] waiving the objection, we will let
 [18] the witness respond again to the
 [19] same question.
 [20] A Could you repeat the what the question
 [21] was?
 [22] ---
 [23] (Record read.)
 [24] ---
 [25] A Yeah, I don't know. It could be looked at

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- [1] as an uncertainty analysis. I'm not sure.
 [2] You'd have to ask Rich if he had done that
 [3] or not.
 [4] Q Okay. You mentioned before that one
 [5] possible scenario is that Centerior would
 [6] be able to sell power in other
 [7] jurisdictions.
 [8] A Yeah, yeah.
 [9] Q And do you think that the potential for
 [10] sales by Centerior will depend upon the
 [11] cost structure of the generating
 [12] facilities and their fuel costs?
 [13] A That would be a factor, yeah.
 [14] Q And do you know how Centerior's - do you
 [15] know how the Eastlake plant's cost
 [16] structure compares to - let me rephrase
 [17] this question. Let me start over again.
 [18] Earlier you stated that you thought
 [19] that the Eastlake plant had below average
 [20] costs compared to the region of states
 [21] adjacent to Ohio. Do you recall giving
 [22] that answer?
 [23] A I don't know if it was in those exact
 [24] words, but eluding to the fact that if,
 [25] you know, I would guess that they're in

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- [1] steps in making sales of power to recover
 [2] the costs of emission allowances
 [3] associated with those sales?
 [4] A I don't know.
 [5] Q Would you say that the potential for
 [6] sales, either wholesale or retail outside
 [7] your service territory are significant?
 [8] A Once again, what do you mean by
 [9] significant?
 [10] Q Do you believe that in the future, the
 [11] advent of competition will increase the
 [12] significance of outside sales of power
 [13] either at wholesale or at retail?
 [14] A Yeah, I would agree it will increase in
 [15] significance. Wherever that level is now,
 [16] I don't know.
 [17] Q As it increases in significance, will that
 [18] affect the allowance requirements of
 [19] Centerior?
 [20] MR. REGULINSKI: Objection.
 [21] A Yeah, it could.
 [22] MR. REGULINSKI: Objection as
 [23] to relevance. Without waiving the
 [24] objection, I'll let the witness
 [25] respond.

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- [1] the better half, I mean.
 [2] Q That's Eastlake; what about Ashtabula?
 [3] A I'm not sure about that.
 [4] Q Unit 5. What don't you know about
 [5] Ashtabula that you do know about Eastlake
 [6] that allows you to say that Eastlake would
 [7] be in the better half, but you're not sure
 [8] about Ashtabula?
 [9] A I'm giving you my basic feeling and in
 [10] general, it seems that the overall fuel
 [11] cost at Eastlake was lower than Ashtabula
 [12] in the past or numbers I may have seen.
 [13] Q Now to the extent that Centerior would
 [14] sell power in other jurisdictions to other
 [15] customers, would Centerior expect its
 [16] customers to pay for the emission
 [17] allowance requirements associated with
 [18] that power?
 [19] MR. REGULINSKI: Objection as
 [20] to relevance and speculative
 [21] nature of the question. Without
 [22] waiving the objection, I'll let
 [23] the witness answer.
 [24] A I don't know what we would, you know.
 [25] Q Do you know if the company has taken any

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- [1] A It could. I don't know.
 [2] Q You stated before that you thought
 [3] Ashtabula's costs were above Eastlake's in
 [4] the past, correct?
 [5] A Yeah, I'm not - once again, I'm not sure
 [6] those were the exact words but --
 [7] Q What about Centerior's other plants,
 [8] Bayshore and Avon Lake, I believe they
 [9] were?
 [10] MR. REGULINSKI: Avon Lake.
 [11] Objection as to relevance.
 [12] Without waiving the objection.
 [13] A I'm not sure.
 [14] Q You're not sure about either one of them
 [15] and where they compare in costs?
 [16] A Not really, no.
 [17] Q Do you believe that in the world of more
 [18] competition, that Centerior might be
 [19] purchasing power from increasing the
 [20] significance of purchase power from other
 [21] sources?
 [22] A They could be. I don't know.
 [23] Q If Centerior were to increase its
 [24] purchases of power from other sources,
 [25] would that affect the allowance

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[1] requirements of the Centerior system?
 [2] A If they did, it could affect the allowance
 [3] requirements, yeah.

[4] Q So do you think that in preparing the
 [5] supplemental -- a 20 year -- in preparing
 [6] a 20 year forecast of emission allowance
 [7] requirements, that you would take into
 [8] account the likely significance of
 [9] increased purchases of power from outside
 [10] the Centerior system?

[11] MR. REGULINSKI: Objection,
 [12] relevance. Without waiving the
 [13] objection.

[14] A That could be an uncertainty. Once again,
 [15] I'm not sure what they look at.

[16] Q With the advent of competition, do you
 [17] believe that it becomes more likely that
 [18] Centerior will reduce utilization of its
 [19] generating facilities?

[20] A As I said earlier, I don't know. It could
 [21] increase. I don't know.

[22] Q As to the higher cost of Centerior
 [23] facilities as opposed to the system wide
 [24] ones, looking at it system wide, just
 [25] considering the higher cost of the

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[1] which C.E.I. might consider retiring coal
 [2] fired units because costs were too high?

[3] A There could be.

[4] Q To your knowledge, has C.E.I. considered
 [5] such retirements of any of its coal fired
 [6] generation facilities?

[7] A My understanding is we are mothballing a
 [8] unit at Avon Lake and at Ashtabula C
 [9] plant; certain units at Ashtabula C plant.

[10] Q And is that because their costs were too
 [11] high relative to the costs of other units
 [12] and the system load?

[13] A Yeah, I don't know the exact reason. A
 [14] lot of it was age of units, is what I
 [15] would guess. The age of the units.

[16] Q Was there a reduced need for those units?

[17] A Not that I'm aware of, no.

[18] Q Were there -- do you think there is any
 [19] likelihood that additional coal fired
 [20] units might be retired or substantially
 [21] reduced in utilization in future years?

[22] A As I said, and I keep saying, I don't
 [23] know. They could increase, they could go
 [24] down. I don't know.

[25] Q When you prepared the 1995 -- when you

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[1] Centerior facilities, do you think it's
 [2] more likely that they would increase their
 [3] production level or decrease with the
 [4] advent of competition?

[5] A They could increase. I mean when I'm
 [6] talking about this, I'm looking at, you
 [7] know, thinking of historical costs, and
 [8] those included, you know, some higher
 [9] price fuel contracts that are ending or
 [10] over with, so, you know, that's what I'm
 [11] looking back at. As far as how it looks
 [12] now, I'm not sure what would happen.

[13] Q Based on historical coal prices, and some
 [14] escalation of those coal prices, do you
 [15] think that the higher price -- the higher
 [16] cost Centerior units would face increased
 [17] utilization or decreased utilization with
 [18] the advent of competition?

[19] A I don't know.

[20] Q What factors might C.E.I. consider in
 [21] determining whether or not to reduce
 [22] utilization of a particular plant, coal
 [23] fired plant?

[24] A Total cost, I would think.

[25] Q And would there be circumstances under

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[1] coordinated the 1995 Environmental
 [2] Planning Review, did the company look at
 [3] the size of its emission allowance bank?

[4] MR. REGULINSKI: Objection as
 [5] to relevance. Without waiving the
 [6] objection, let the witness
 [7] respond.

[8] A I'm sure it was looked at, yes.

[9] Q And what were the factors considered in
 [10] determining the appropriate emission
 [11] allowance bank?

[12] A I don't recall. Rich Hoag had done that.
 [13] And, you know, that's a question more
 [14] appropriate to ask him. I don't remember.

[15] Q Do you recall whether outside experts or
 [16] consultants were retained to assist the
 [17] company in evaluating its allowance bank?

[18] MR. REGULINSKI: For the '95
 [19] study we're still talking about?

[20] MR. PERLIS: Yes.

[21] A I don't remember. There could have been.

[22] Q Do you know how C.E.I.'s emission
 [23] allowance bank compares to other coal
 [24] fired utilities?

[25] MR. REGULINSKI: Objection,

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- [1] relevance. Without waiving the
[2] objection.
- [3] A No.
- [4] Q Do you know what steps, if any, the
[5] company has taken to re-evaluate its
[6] emission allowance bank since the January
[7] 20, 1995 study?
- [8] A No, I don't recall at this time and once
[9] again, Rich might be able to tell you all
[10] that.
- [11] Q Which other individuals within the
[12] Centerior company are familiar with the
[13] allowance banking decisions in the
[14] company?
- [15] A Once again, that's a question Rich would
[16] ask -- you'd be able to ask him. I'm not
[17] sure who he discusses that with. He is
[18] the allowance manager also of the
[19] corporation.
- [20] Q Do you have any knowledge or view on
[21] whether C.E.I.'s bank in the first decade
[22] of phase two is greater or less than any
[23] other Ohio utility?
- [24] MR. REGULINSKI: Objection,
[25] relevance. Without waiving the

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- [1] Q Are there other people within the company
[2] who you think might be able to evaluate
[3] Centerior's emission allowance banking
[4] strategies as compared to other utilities'
[5] banking strategies?
- [6] A Yeah, Rich might do it, I would think.
- [7] Q Other than Mr. Hoag?
- [8] A I don't know of anyone else.
- [9] MR. REGULINSKI: Can we go
[10] off the record for a moment,
[11] please?
- [12] MR. PERLIS: Yes.
- [13] - - -
- [14] (Discussion off the record.)
- [15] - - -
- [16] MR. PERLIS: We're back on
[17] the record.
- [18] BY MR. PERLIS:
- [19] Q Do you have any knowledge or views as to
[20] whether C.E.I.'s emission allowance bank
[21] at the end of phase one would be
[22] significantly greater if the fuel
[23] switching that is recommended in the study
[24] is undertaken as opposed to the continued
[25] burning of high sulfur coal at current

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- [1] objection.
- [2] A No, I don't know, and I don't really have
[3] any view.
- [4] Q Compared to any other utilities east of
[5] the Mississippi River?
- [6] MR. REGULINSKI: Objection,
[7] relevance. Without waiving the
[8] objection.
- [9] A No, I'm not sure. I've never seen a layed
[10] out projection for the utilities of what
[11] their banks are in each year, at least
[12] that I can recall.
- [13] Q Can you identify any factors that you
[14] think might justify C.E.I. having the
[15] largest bank of allowances of any phase
[16] one utility?
- [17] MR. REGULINSKI: Objection.
[18] Assumes a fact not in evidence.
- [19] Q Well, let's assume that that were the
[20] case. Can you imagine what the factors
[21] are that would cause C.E.I. to have among
[22] the largest banks of emission allowances?
- [23] A No, I can't identify them right now. And
[24] once again, I would think that would be a
[25] question Rich could answer.

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- [1] levels?
- [2] A No. What do you mean by views? I mean
[3] can you be more -- I don't know.
- [4] Q Do you believe that C.E.I. will have a
[5] significantly larger emission allowance
[6] bank at the end of phase one if as
[7] recommended in the Supplemental Fuel
[8] Switching Study, C.E.I. switches to lower
[9] sulfur coal coals in place of the high
[10] sulfur coals that it's historically been
[11] using?
- [12] A Yeah, I don't know how to answer that. My
[13] thought would be whatever was in that
[14] study reflects the fuel switching.
- [15] Q And I'm asking you whether you think that
[16] is a significant increase in the bank as a
[17] result of that fuel switching?
- [18] MR. REGULINSKI: Compared to
[19] what the Commission has reviewed
[20] previously? Compared to what?
- [21] MR. PERLIS: No, I'm asking
[22] for Mr. Kovach's characterization
[23] as to whether he views the bank
[24] increase as significant.
- [25] A I don't even recall the numbers, but just

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- [1] A How much this effects that or not.
 [2] Q I'm not talking about the SIP limits.
 [3] Let's just talk about the study, the 1996
 [4] study.
 [5] Doesn't the 1996 study show that the
 [6] delivered cost of lower sulfur coal is
 [7] higher than 6.0 coal?
 [8] A Yes.
 [9] Q Those higher costs for purchasing the low
 [10] and medium sulfur coal are incurred in the
 [11] year in which you make the fuel switch; is
 [12] that not correct?
 [13] A Yes.
 [14] Q And the allowance -- the increase in
 [15] allowances that that provides for your
 [16] bank, those allowances might not be used
 [17] until some future year; is that not also
 [18] correct?
 [19] A Might. I'm not sure, you know.
 [20] Q To the extent the allowances were used in
 [21] some future year, is there not a carrying
 [22] cost, an implicit cost of funds incurred
 [23] by the company to switch the fuel to build
 [24] the bank?
 [25] A There could be a carrying cost. I'm not

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- [1] be in a position to change back and forth,
 [2] if that's possible.
 [3] Q So you want to make the comparison on a
 [4] year by year basis rather than a five year
 [5] or a ten year at a time basis?
 [6] A Well, we want to position ourselves to be
 [7] able to, you know, take advantage of any
 [8] changes, if that's possible.
 [9] Q So in some future year, if you find in the
 [10] future year that the evaluated cost of the
 [11] higher sulfur coal is cheaper than the
 [12] evaluated cost of the lower sulfur coal,
 [13] you would want to be able to purchase the
 [14] higher sulfur coal?
 [15] A If possible, yeah.
 [16] Q An when you're making the comparison of
 [17] the evaluated costs of coal, you would
 [18] like to make it as of the year in which
 [19] you are purchasing the coal?
 [20] A I'm not sure I understand that one, what
 [21] you were saying there.
 [22] Q When you make your decision -- let me
 [23] rephrase the question.
 [24] When you make the decision today as
 [25] to whether or not you're going to fuel

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- [1] familiar with it. I don't know what that
 [2] is, and once again, maybe Mr. Hoag can
 [3] answer that.
 [4] Q The report focuses on evaluated cost of
 [5] coal. Would you please describe what
 [6] evaluated cost, how it differs from
 [7] delivered cost?
 [8] A For the terms of this report, I believe
 [9] evaluated cost was putting in an emission
 [10] allowance adder. And, you know, doing BTU
 [11] equivalents of all, you know, the
 [12] different types of coals.
 [13] Q And do you understand the report's basic
 [14] conclusion to be that if the fuel
 [15] switch -- if the evaluated cost of fuel
 [16] switching of the lower sulfur coal is
 [17] lower than the evaluated all-in cost of
 [18] the higher sulfur coal, then the fuel
 [19] switch should be made?
 [20] A Almost. I agree with that up to a point.
 [21] Q What point don't you agree with it?
 [22] A As we stated in the report, we also want
 [23] to remain flexible to things that can
 [24] happen. Therefore you don't -- if you see
 [25] a changing from year to year, we want to

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- [1] switch, are you projecting the evaluated
 [2] cost against the evaluated cost today for
 [3] high sulfur coal, or the evaluated cost in
 [4] future years for the high sulfur coal?
 [5] A I'm not sure how to answer that. When
 [6] we're using those projections, each year
 [7] has its own projection and as far as the
 [8] study, I think what was done and once
 [9] again, you'd have to ask Rich what they
 [10] looked at just for a 20 year period. Does
 [11] that answer what you're asking?
 [12] Q I'm not asking so much with respect to the
 [13] study. I'm asking in terms of the
 [14] planning process, should evaluated cost of
 [15] coal, comparing the low sulfur option with
 [16] the higher sulfur option today, are you
 [17] comparing the evaluated cost of the high
 [18] sulfur coal or rather of the allowances
 [19] using the today's allowance prices, or
 [20] future years' allowance prices?
 [21] A Assuming I understand what you're asking,
 [22] you would be using today's allowance
 [23] prices; the most current allowance
 [24] projection.
 [25] Q When you increase the bank of allowances,

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- [1] some of those allowances are going to be
 [2] used in a future year, are they not?
 [3] A Yeah, I would assume.
 [4] Q And the cost incurred to increase that
 [5] bank was a current fuel cost. The higher
 [6] fuel cost for the lower sulfur coal, the
 [7] delivered fuel cost, than the higher
 [8] sulfur coal, correct?
 [9] A If it was necessarily that case?
 [10] Q Yes.
 [11] A Once again, like I said, I'm not sure it
 [12] necessarily has to be that case. For this
 [13] study it's that case, but when you
 [14] actually solicit bids we go out and we
 [15] get a whole range and they do not just
 [16] fall in the order, so I mean I've said
 [17] that numerous times now.
 [18] Q For the allowances that are being banked
 [19] and to be used in future years, wouldn't
 [20] you consider the allowance prices in the
 [21] future years to be the relevant factor in
 [22] determining the evaluated cost of a high
 [23] sulfur coal option rather than today's?
 [24] A Well, we're going back to two questions
 [25] before I think and I'm still not sure I

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- [1] projection of future market prices of
 [2] allowances?
 [3] A That's not my area but I'll say, yeah. I
 [4] mean we would probably do it based on
 [5] future projected prices but once again,
 [6] you'd have to ask Rich. He's really the
 [7] one doing that.
 [8] Q So if today's emission allowance prices
 [9] were less than present value terms, what
 [10] you would expect allowances to be worth in
 [11] the future, or to cost in the future,
 [12] should C.E.I. be making a decision to
 [13] purchase allowances to build the bank?
 [14] A I'm - I don't know. I'm not sure.
 [15] Q Would the decision be any different than
 [16] the decision made to fuel switch to be
 [17] able to build the bank?
 [18] A Yeah, it could be. I'm not sure.
 [19] Q What factors might affect it?
 [20] A I don't know.
 [21] Q Is the decision to buy an allowance any
 [22] different in economic terms than the
 [23] decision to incur additional delivered
 [24] fuel costs today to obtain the benefits of
 [25] an increased bank of allowances?

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- [1] understood what you were talking about.
 [2] We have an allowance projection in
 [3] each year, and you have a fuel projection
 [4] in each year and you're going to use that
 [5] projection in each year when you're
 [6] evaluating that year. Is that what you're
 [7] asking? I'm not -
 [8] Q No, I'm asking -
 [9] A - understanding.
 [10] Q I'm asking that if you think emission
 [11] allowance prices in the future are going
 [12] to be very expensive compared to today,
 [13] that is, they increase at a faster rate
 [14] than your coal prices are increasing,
 [15] would that affect the way you evaluate the
 [16] coal options today?
 [17] A The only way I can answer that, it could
 [18] be because if that's what you truly
 [19] believe that it was going to escalate at a
 [20] much faster rate than it is, then that
 [21] would be in your base projection and
 [22] that's what you'd be working off of.
 [23] Q Do you believe that C.E.I. should be
 [24] making decisions on whether it purchases
 [25] or sells emission allowances based on its

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- [1] A Once again, I'm not exactly sure how it's
 [2] treated economically, so I don't know.
 [3] Q You've previously agreed that there may be
 [4] under some circumstances higher delivered
 [5] fuel costs for the medium and low sulfur
 [6] coal.
 [7] A Could be.
 [8] Q Than for the higher sulfur coal.
 [9] A Right.
 [10] Q And that incurring that cost allows you to
 [11] have a greater bank of allowances for use
 [12] in the future, correct?
 [13] A Mm-hmm.
 [14] Q Another way to get a greater bank of
 [15] allowances for use in the future is to
 [16] purchase allowances in the market?
 [17] A Right.
 [18] Q Economically, is the decision to buy an
 [19] allowance versus the decision to incur
 [20] increased delivered fuel costs any
 [21] different economically?
 [22] A I don't know. It could be. I don't know
 [23] what the - let me say, I'm not totally
 [24] familiar. I don't have memorized what the
 [25] recovery mechanism is for allowances and

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[1] how that's treated. If you're just asking
[2] pure analysis wise, it could be, but, you
[3] know.
[4] Q In a world in which your rates were not
[5] regulated as a cost of service matter,
[6] would there be any difference economically
[7] between buying an allowance to increase
[8] your bank or incurring higher delivered
[9] fuel costs to increase your bank?
[10] MR. REGULINSKI: Objection,
[11] relevance. Without waiving the
[12] objection.
[13] A I don't know. There could be.
[14] Q What might that be? What differences?
[15] A You know, I don't know what the situation
[16] is.
[17] Q Well, earlier you said that the one
[18] difference you could imagine was the way
[19] in which the allowance purchases were
[20] treated for rate purposes, and whether
[21] that was different from the delivered fuel
[22] costs. Assuming we're not in a regulated
[23] environment, what difference might there
[24] be?
[25] A I don't know what kind of deal you could

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[1] and Ashtabula separately, although the
[2] answer may be the same.
[3] Does that apply both for high sulfur
[4] coal as well as low and medium sulfur
[5] coal? That there are no longer term low
[6] or medium sulfur coal contracts that will
[7] be in place after December 31, 1997?
[8] A Unless I'm forgetting something, there's
[9] nothing at Ashtabula that I know of.
[10] Q And same with the Eastlake?
[11] A There's no contract for Eastlake plant,
[12] no.
[13] Q And when you say Ashtabula, does that
[14] refer to 5 through 9 or just unit 5?
[15] A I'm thinking in terms of 5.
[16] Q Right. With respect to Ashtabula units 6
[17] through 9, those are phase two units,
[18] correct?
[19] A Yeah.
[20] Q Do they have any long term coal contracts?
[21] A No, not that I'm aware of.
[22] Q They, too, have no in place contracts that
[23] will be in effect after December 31, 1997?
[24] A No.
[25] Q Okay. Thank you. Do you know if

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[1] have worked out. If you're just giving
[2] cash for each right up at the same time,
[3] there probably won't be a difference.
[4] MR. PERLIS: Now I think
[5] we're pretty close to 12:25,
[6] probably a little past it, so
[7] perhaps this is when we should
[8] take a break.
[9] MR. REGULINSKI: Off the
[10] record, please.
[11] ---
[12] (Luncheon recess had.)
[13] ---
[14] MR. PERLIS: We're resuming
[15] the deposition of Mr. Kovach.
[16] THE WITNESS: Kovach.
[17] BY MR. PERLIS:
[18] Q I want to return to one question that I
[19] asked sort of at the outset this morning,
[20] but I want to make sure I asked the right
[21] question and for the answer that you gave.
[22] You stated earlier that Centerior has
[23] no coal contracts for Eastlake or
[24] Ashtabula 5 after December 31, 1997. That
[25] is for - I'm asking this now for Eastlake

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[1] Centerior has any formal guidelines
[2] governing when it would purchase or sell
[3] emission allowances?
[4] A I believe we have guidelines, but once
[5] again, that's Rich's area and, you know,
[6] he would be able to let you know if we
[7] have them and what they are.
[8] Q But for the environmental compliance
[9] planning process that's before the Public
[10] Utilities Commission, does Centerior have
[11] guidelines as to determining when you will
[12] switch fuels from one grade of sulfur to
[13] another?
[14] A Are you asking does the PUCO have
[15] guidelines?
[16] Q No, does Centerior have guidelines for
[17] criteria for switching fuel other than
[18] what's been presented in the Supplemental
[19] Fuel Switching Study to PUCO?
[20] A Other than what's been presented, our
[21] guideline is to make sure we're complying
[22] with clean air in the most effective way.
[23] Q Assuming you are complying with the clean
[24] air, I'm presuming there would be multiple
[25] ways you could comply with SIP limits with

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[1] different mixes of coal at different
 [2] units; is that not correct?
 [3] A You could.
 [4] Q Okay. Does Centerior have any written
 [5] guidelines that govern the fuel choices,
 [6] fuel switching, if you will, fuel
 [7] switching opportunities, if you will, that
 [8] are all within the SIP guidelines?
 [9] A We have a procedures manual which, you
 [10] know, outlines some things but basically
 [11] the guideline is you procure the most cost
 [12] effective manner looking at an evaluated
 [13] cost for coal.
 [14] Q And by evaluated cost, you mean what for
 [15] in this context?
 [16] A Evaluated, the way I look at it can mean a
 [17] couple things and you would probably want
 [18] to evaluate things a couple different
 [19] ways.
 [20] Like in the context of this report,
 [21] we said earlier that the table of
 [22] evaluated cost took into account under
 [23] evaluated cost for BTU evaluation. When
 [24] you actually get into bids, you actually
 [25] have ash, you might throw in grind, you

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[1] what is our philosophy and what should it
 [2] be.
 [3] Q Do I take it from the fact that Eastlake
 [4] and Ashtabula units have no contracts
 [5] going out after December 31, 1997, and
 [6] today being April, 1997, that the
 [7] company's philosophy now is disfavoring
 [8] longer term commitments and is more
 [9] focussed on spot opportunities in the coal
 [10] market?
 [11] A I don't know if that would be a sole
 [12] conclusion.
 [13] Q Has there ever been a time in the past
 [14] that you're aware of when either the
 [15] Eastlake plant or any of the units at
 [16] Ashtabula have been without coal contracts
 [17] covering at least a portion of their needs
 [18] that extend for more than 12 months?
 [19] A I don't know that. I'm not aware of that,
 [20] you know.
 [21] Q Why is it that the company is -- seems to
 [22] be focussed more now on spot purchasing of
 [23] coal rather than longer term commitments?
 [24] A Well, as I stated earlier, with the
 [25] upcoming merger, there could be more

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[1] might throw in moisture or numerous other
 [2] things.
 [3] Q And do criteria -- does Centerior have
 [4] criteria guidelines or manuals that
 [5] provide criteria for determining whether
 [6] you will enter into long term versus short
 [7] term versus spot contracts for your
 [8] purchasing strategy?
 [9] A That's one of the things we're looking at
 [10] now as far as --
 [11] Q My question is do you have those written
 [12] guidelines now.
 [13] A I'm not sure if there's written
 [14] guidelines.
 [15] Q You've spoke in answer to a previous
 [16] question about a procedural manual. Do
 [17] you have a procedural manual that relates
 [18] to criteria for determining whether you
 [19] purchase coal on a short, medium or long
 [20] term horizon or a spot basis?
 [21] A Yeah, I'm not exactly sure what's in that
 [22] manual as I stated earlier. I mean I
 [23] don't recall exactly what's in there but
 [24] that's one of the things that we're
 [25] looking at it right now is re-evaluating

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[1] opportunity, we feel.
 [2] Q Do you feel that that merger will be
 [3] consummated before January 1, 1998?
 [4] A Oh, I have no idea. I don't know.
 [5] Q If you were to go into the market for spot
 [6] bids for coal, starting for the year or
 [7] for the first quarter in 1998, when would
 [8] you anticipate having to issue those
 [9] RFP's?
 [10] A We were thinking sometime in July, June
 [11] July, timeframe.
 [12] Q Do you believe that the merger will be
 [13] approved by all regulatory authorities and
 [14] in effect by June or July, 1997?
 [15] A I have no idea. I don't know.
 [16] Q Has anyone in the company given you any
 [17] reason to believe that the merger will be
 [18] consummated by June or July, 1997?
 [19] A Not that I can recall.
 [20] Q So does that mean then that you would
 [21] expect to have to go out for bid as
 [22] Centerior alone without First Energy or
 [23] Ohio Edison?
 [24] A That's a possibility, yes.
 [25] Q Is it fair to say that it's a strong

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- [1] likelihood?
- [2] A It could be.
- [3] Q Could be a strong likelihood?
- [4] A Yeah.
- [5] Q Do you know the status of the merger application at this time?
- [6] MR. REGULINSKI: Objection,
- [7] relevance. Without waiving the
- [8] objection.
- [9]
- [10] A No.
- [11] Q If you were to go out on your own, is there any way that the buying power of Ohio Edison and Centerior could be combined before the merger becomes effective?
- [12]
- [13] A I have no idea. I don't know.
- [14] Q Has Centerior ever purchased coal with another company?
- [15]
- [16] A Not that I have knowledge of.
- [17] Q Do you think --
- [18] A You mean in combination with like another?
- [19] Q Right.
- [20] A A joint?
- [21] Q Joint purchase of coal.
- [22] A Not that I recall, no.
- [23]
- [24]
- [25]

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- [1] to be focussed on a short term horizon a spot horizon for coal?
- [2] A I guess you said there's -- can you repeat what you said?
- [3] Q Yes, let me rephrase it. That was a very lengthy statement in the form of a question.
- [4]
- [5] When I asked earlier as to what the basis was for the company's decision -- seeming decision to focus on spot purchases of coal rather than longer term purchases, the first factor you mentioned was the possibility of the merger, the First Energy merger providing opportunities.
- [6]
- [7] In subsequent questioning, you stated that it could be substantially likely that the merger will not occur by the time that you have to prepare your first bid.
- [8]
- [9] That being so, what other factors are there that would cause the solicitation to be a short, spot term spot solicitation?
- [10]
- [11] A Increased flexibility.
- [12] Q What do you mean by increased flexibility?
- [13]
- [14] A Having more options available to you
- [15]
- [16]
- [17]
- [18]
- [19]
- [20]
- [21]
- [22]
- [23]
- [24]
- [25]

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- [1] Q Have you ever gotten counseled that that would be legal for the company to combine with another?
- [2]
- [3] MR. REGULINSKI: Objection.
- [4] MR. PERLIS: I'm simply asking if he's received advice of counsel on this, not what the counsel's advice is.
- [5]
- [6] MR. REGULINSKI: With that clarification, I'll permit the question.
- [7]
- [8] A No, I've never talked to anybody about that.
- [9]
- [10] Q So let me return then to the question as to why the company is more focussed on short term purchases, spot purchases in particular in one year horizons, rather than longer term horizons for the purchase of coal.
- [11]
- [12] You stated that it was in part because of the First Energy merger. It now seems it could be substantially likely that that merger won't occur.
- [13]
- [14] Let's assume it doesn't occur. What other reasons would there be for Centerior
- [15]
- [16]
- [17]
- [18]
- [19]
- [20]
- [21]
- [22]
- [23]
- [24]
- [25]

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- [1] instead of being contracted long term.
- [2] Q And what would the advantage of that those options be? What's the advantages of the flexibility?
- [3]
- [4] A You could be more responsive to changing market conditions.
- [5]
- [6] Q More responsive in terms of making commitments of cash that's required to purchase the coal?
- [7]
- [8] A Yeah, that definitely could be one thing, yes.
- [9]
- [10] Q And why in the past do you think the company may have thought that conditions were appropriate for longer term purchases of coal?
- [11]
- [12] A I don't know.
- [13] Q Can you imagine any factors why Centerior might in the future want to look at longer term purchases of coal?
- [14]
- [15] A None come right to mind, but I'm sure there are some reasons.
- [16]
- [17] Q And why is it advantageous to the company not to have to make long term commitments of cash?
- [18]
- [19] MR. REGULINSKI: Objection,
- [20]
- [21]
- [22]
- [23]
- [24]
- [25]

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[1] relevance. Can you tie that into
 [2] coal burning?
 [3] Q Yes, to make commitments of cash for the
 [4] purchase of coal.
 [5] A If there's a decrease in coal prices, then
 [6] you don't take advantage of that.
 [7] Q And has there been volatility in coal
 [8] prices in the recent past?
 [9] A Yes, there seems to be.
 [10] Q Do you have reason to believe that there
 [11] will remain volatility in the coal price
 [12] markets in the future?
 [13] A It could.
 [14] Q By volatility, do you mean that prices
 [15] tend to go up and down?
 [16] A Well, up and down, or go down while your
 [17] contract price stays up.
 [18] Q Mm-hmm.
 [19] A Things along those lines.
 [20] Q Now, the company is regularly making
 [21] forecasts of future coal prices.
 [22] A Well, what do you mean regularly?
 [23] Q Does the company make forecasts for
 [24] internal planning purposes, fuel
 [25] purchasing decisions, make forecasts of

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[1] Q In your experience, would you say that the
 [2] projections are accurate at least within
 [3] 10 or 15 percent when you're looking at
 [4] only a one year or two year horizon ahead
 [5] of you?
 [6] A One year, I don't know. I don't know.
 [7] Q Is there reason to believe though that
 [8] sometimes the forecasts -- the market
 [9] changes in a way that the forecasts didn't
 [10] anticipate?
 [11] A Oh, sure.
 [12] Q Sure. Now are you aware of -- you said
 [13] you were not aware of any written
 [14] guidelines on when to purchase or sell
 [15] emission allowances. You're not aware if
 [16] the company has any such guidelines?
 [17] A I said we could. You'd have to ask Rich
 [18] about that.
 [19] Q Right. Now, if the company were to
 [20] develop such guidelines or evaluate the
 [21] guidelines that it has, would you expect
 [22] those guidelines to take into account
 [23] volatility in emission allowance prices?
 [24] A Yeah, it could be one consideration.
 [25] Q Would you expect it also to take into

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[1] future coal prices?
 [2] A Yes.
 [3] Q Does the company rely on outside
 [4] consultants to do that on a regular basis?
 [5] A For input, yes.
 [6] Q And one such consultant's forecast was
 [7] utilized in the 1996 supplemental study;
 [8] is that correct?
 [9] A Yes, as I stated, EVA.
 [10] Q Were there other allowance -- I mean other
 [11] coal price projections made by outside
 [12] consultants that were available but not
 [13] used in the Supplemental Fuel Switching
 [14] Study?
 [15] A There could have been, yeah.
 [16] Q With respect to those projections that are
 [17] made, I assume the company's been
 [18] making -- having projections made for a
 [19] number of years now.
 [20] A Yes.
 [21] Q Do you track the accuracy of the
 [22] projections to what actually turns out to
 [23] be the case and how accurate the
 [24] projections tend to be?
 [25] A I have never done that, no.

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[1] account the reliability, the ability of
 [2] forecasts to actually track what happens
 [3] in the future?
 [4] A That could also be something, yes.
 [5] Q When the company makes fuel purchasing
 [6] decisions, does it ever explicitly take
 [7] into account the company's cost of capital
 [8] for incurring higher costs today for some
 [9] future benefit?
 [10] A Not that I'm aware of.
 [11] Q Do you know what the company's cost of
 [12] capital is?
 [13] A I'm not sure. I think it's about 10
 [14] percent.
 [15] Q Do you know if Centerior enters into any
 [16] long term power sale agreements?
 [17] MR. REGULINSKI: Objection.
 [18] Relevance.
 [19] MR. PERLIS: Because power of
 [20] sale agreements depend upon the
 [21] cost of fuel, I want to see
 [22] whether or not there is a
 [23] consistency in the planning
 [24] horizon as utilized by the
 [25] company.

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- [1] MR. REGULINSKI: I'll allow
[2] the question.
[3] A We have a wholesale power section, so
[4] hopefully they are pursuing long term
[5] sales. I don't know what any of them are
[6] though.
[7] Q Do you know if the company has any long
[8] term -- you don't know if the company has
[9] any long term power --
[10] A I think we have some. I don't know what
[11] they are though. I think there's a
[12] couple.
[13] Q And when the company considers undertaking
[14] long term power sale commitments, is the
[15] Fuel Department consulted as to the
[16] ability or benefits of such commitments
[17] based on the fuel price projections?
[18] A I don't understand the question.
[19] Q When the company considers undertaking
[20] long term power purchases or power sales,
[21] is the Fuel Department and are you as the
[22] Fuel Manager consulted so as to bring to
[23] bear on that power sale or power purchase
[24] decision expertise that you have regarding
[25] directions of coal markets?

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- [1] October 1, 1996?
[2] A Absolutely.
[3] Q Since of that time, whenever it was, has
[4] there been any subsequent EVA study
[5] commissioned?
[6] MR. REGULINSKI: Objection.
[7] Relevance.
[8] MR. PERLIS: Let me finish
[9] the question.
[10] MR. REGULINSKI: I know, I'll
[11] let you finish the question.
[12] Q Have there been any subsequent EVA
[13] forecasts commissioned with respect to
[14] determine or to predict crisis in the coal
[15] markets in 1998?
[16] MR. REGULINSKI: Same
[17] objection. Without waiving, the
[18] witness can answer.
[19] A Yeah, I'm not sure. There might be
[20] another projection. If there is, I'm not
[21] using it, or we're not using it for
[22] anything.
[23] Q Why would you not be using it?
[24] A If there is one, I'm not sure when we
[25] would have gotten it at that time.

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- [1] A We're consulted as far as providing the
[2] fuel forecasts that is used in the
[3] analysis and it's really Rich's section
[4] that does the analysis.
[5] Q Your section provides the fuel forecasts?
[6] A Forecasts, yes.
[7] Q When you provide those fuel forecasts,
[8] what do you base those fuel forecasts on?
[9] A Same things as we've said before. Usually
[10] what we would use is the EVA projection
[11] with some minor changes to it.
[12] Q Has EVA made a coal price projection for
[13] 1998?
[14] A Well, in terms of the forecasts we have,
[15] it does have a projection for 1998. Is
[16] that what you mean? Is there a brand new
[17] forecast?
[18] Q When was that EVA forecast made that
[19] contains the projection of 1998?
[20] A You asked that earlier. I'm not sure what
[21] the date of that forecast was.
[22] Q That's the same EVA forecast that was
[23] utilized in the October 1, 1996 study?
[24] A Yeah, to the best of my knowledge.
[25] Q So that forecast had to have pre-dated

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- [1] Q So you're going forward, your department's
[2] going forward in its forecasts in
[3] evaluation for the bids, the RFP that
[4] might be put out in June or July without
[5] any EVA projection that's more recent than
[6] the one that was utilized in the study?
[7] A I didn't say that. I said there could be,
[8] you know. If we do that in July, we would
[9] pursue something. If we don't have
[10] something newer, we would pursue something
[11] for that.
[12] Q Can you tell me again why, if at all, you
[13] think the decision to bank allowances for
[14] the long term is different from the
[15] decision to purchase fuel for the long
[16] term?
[17] MR. REGULINSKI: Objection.
[18] Asked and answered. Is there
[19] something about his answer you
[20] didn't understand, or we need to
[21] go over this again?
[22] MR. PERLIS: I think I should
[23] be given a leeway. I don't
[24] believe I asked the question
[25] exactly this way, and we're sort

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- [1] of getting close to summing up
[2] right now.
[3] MR. REGULINSKI: Okay. Go
[4] ahead.
[5] A Could you repeat that?
[6] Q Yeah, is there any reason why you believe
[7] that the decision to bank allowances over
[8] the long term should be any different than
[9] the decision, the criteria used for making
[10] a decision to purchase coal over the long
[11] term?
[12] A I have no reasons I can give you right
[13] now.
[14] Q So that reasons of volatility and inherent
[15] unreliability of forecasts might equally
[16] apply to allowance prices as they do to
[17] coal prices?
[18] A It could, yeah.
[19] Q And the flexibility that is much wanted by
[20] you for coal could exist just as much for
[21] banking allowances?
[22] A It could.
[23] Q Do you believe that it's possible within
[24] three to five years that Centerior Energy
[25] or First Energy, if the merger goes

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- [1] A It was a little different set up because
[2] Rich was in my section at that time so he
[3] basically did all that, kind of as an
[4] independent. Once again you can ask him
[5] for more details on how it went and then
[6] when I left, he just maintained all the
[7] responsibilities and so it was more at a
[8] manager level when Rich took over.
[9] Q Was there a reason why one person was now
[10] being asked to take on multiple
[11] responsibilities that had been shared by
[12] different people in the prior regime?
[13] A We're all being asked to take on more
[14] responsibility the way I see it. Yeah, I
[15] don't know. There's less people and the
[16] same amount of work.
[17] Q Why are there less people and the same
[18] amount of work?
[19] A It just seems like there's less people.
[20] Q Has the company been trying to reduce the
[21] number of managerial employees relative to
[22] the work load?
[23] A I'm just looking at relative statistics.
[24] I think about four or five years ago we
[25] had 10,000 employees and we're down to

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- [1] through -- let's assume the merger goes
[2] through -- that if the merger goes
[3] through, is there any possibility in your
[4] mind that the generation and distribution
[5] functions of the company would be
[6] effectively disaggregated?
[7] A That could, yeah, that could happen with
[8] or without a merger, I would assume.
[9] Q Do you think there's some possibility that
[10] if there were no merger, Centerior would
[11] not be in the generation business three to
[12] five years from now?
[13] MR. REGULINSKI: Objection,
[14] relevance. Without waiving, the
[15] witness can answer.
[16] A Well, I would say, no, we would always be
[17] in the generation business, but I mean I
[18] don't know that.
[19] Q Can I ask you who replaced you in your
[20] position in power planning as Manager of
[21] Resource Planning, I think you called it?
[22] A That's right, yeah. Rich Hoag.
[23] Q So when you were in that position, you
[24] didn't have responsibility over allowance
[25] banking decisions, and planning?

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- [1] 6,200 now.
[2] Q So is it fair to say that you're all
[3] spread a little thinner now than you were
[4] before?
[5] A You could say that.
[6] Q And the size of the staff in the Fuel
[7] Planning and Supply area of the firm, has
[8] that similarly undergone a change where
[9] before, there used to be several people
[10] and now there are fewer people doing the
[11] work?
[12] A Seems that there -- I don't know that far
[13] in the future, but seems it's about the
[14] same level as it was before.
[15] Q I've seen reference in your earlier
[16] depositions to Mr. Salowitz and Mr. Fink.
[17] A Mm-hmm.
[18] Q Do you perform work that each of those
[19] gentlemen used to do?
[20] A I could. I mean basically Frank would be
[21] analogous to Mr. Salowitz and Fink. Yeah,
[22] I would be performing a lot of those
[23] duties.
[24] Q And how much experience did you have
[25] buying coal before you assumed this

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[1] position?
[2] A Buying coal, I had no experience buying
[3] coal.
[4] Q And Mr. Fink had quite a number of years
[5] buying experience buying coal.
[6] A I'm not aware of his experience. I
[7] couldn't tell you.
[8] Q Are there other people in your department
[9] junior to you who have extensive
[10] experience in buying coal?
[11] A Basically, everyone in our department has
[12] extensive experience buying coal.
[13] Q Do they have extensive experience in
[14] preparing projections of coal prices?
[15] A Some of them do, yes.
[16] Q Who would some of those individuals be?
[17] A Well, as I relayed earlier, Joe Lang was
[18] the one that did this, and I think he
[19] would be the one that has the most
[20] experience as far as putting together
[21] forecasts.
[22] Q Do you believe you had more or less
[23] experience than Mr. Fink in coal
[24] purchasing?
[25] A I honestly don't know. I said I don't

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[1] A I don't recall.
[2] Q Do you have any idea what the -- how EVA
[3] goes about forecasting coal prices?
[4] MR. REGULINSKI: Objection.
[5] MR. PERLIS: I'm not quite
[6] sure what the grounds for the
[7] objection is.
[8] MR. REGULINSKI: This witness
[9] doesn't work for EVA. It's a
[10] forecast supplied by an outside
[11] consultant. I don't know if --
[12] I'm certain this witness isn't
[13] competent to testify as to EVA's
[14] actions nor is it relevant to this
[15] proceeding.
[16] MR. PERLIS: He hires them,
[17] he oversees them. He has some
[18] ability to comment upon what he
[19] knows about EVA's basis.
[20] MR. REGULINSKI: They're also
[21] a nationally recognized consulting
[22] firm.
[23] MR. PERLIS: I don't dispute
[24] that. I'm just asking this
[25] individual management employee

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[1] know what his experience was at fuel
[2] before he came there.
[3] Q Do you know if other utilities have
[4] similarly inexperienced coal buyers
[5] managing their fuel departments?
[6] MR. REGULINSKI: Objection,
[7] relevance.
[8] MR. PERLIS: The witness
[9] shook his head saying no. If you
[10] just give me a moment, I'll see if
[11] I have anything else.
[12] ---
[13] (Short recess had.)
[14] ---
[15] MR. PERLIS: I do have
[16] another question.
[17] Q Earlier after the lunch break, I asked you
[18] whether EVA had conducted a forecast
[19] subsequent to the one that was relied upon
[20] in the 1996 study.
[21] A Mm-hmm.
[22] Q With respect to the EVA forecast that was
[23] relied upon in this study, do you recall
[24] whether it provides projections of spot
[25] coal prices for 1997, 1998, and 1999?

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[1] what his knowledge is of EVA's
[2] basis for their fuel price
[3] projections.
[4] MR. REGULINSKI: I'll allow
[5] the question.
[6] A I do not know their exact basis for their
[7] fuel price projections.
[8] Q If you were going to project fuel prices,
[9] what would you look at?
[10] A Meaning if I was a consultant, what would
[11] I look at?
[12] Q No, in your capacity as signing off on the
[13] company's fuel price projections, do you
[14] just automatically send down the road
[15] whatever EVA says?
[16] A No.
[17] Q You exercise some independent judgments
[18] along with all the other individuals like
[19] Mr. Lang and others within your company in
[20] your department.
[21] A Mm-hmm.
[22] Q As you exercise that judgment, what are
[23] the factors that you look at for making
[24] coal projections?
[25] A Well, I would look at coal publications

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- [1] that give you some indication of what some
 [2] pricing is. Basically, you could look at
 [3] some of your past solicitations, talking
 [4] to people, you know.
 [5] Q When you received the results of the 1996
 [6] solicitation for fourth quarter 1997 of
 [7] coal -- let me start that question over
 [8] again, please.
 [9] I don't recall the date for when you
 [10] issued your RFP, but with respect to the
 [11] RFP that you issued for fourth quarter,
 [12] '97 coal deliveries, what forecasts did
 [13] you have in you place for coal in that
 [14] period? As you went about setting the
 [15] RFP, what coal price forecasts did you
 [16] have or did you rely upon?
 [17] A We were using this EVA forecast.
 [18] Q The same EVA one that's in the 1996 study?
 [19] A Yeah, that I recall, yeah.
 [20] Q And as you evaluated -- did you evaluate
 [21] the results of the RFP and compare them to
 [22] that coal price forecast?
 [23] A That may have been done. I did not do
 [24] that myself, no.
 [25] Q Do you have any knowledge as to whether or

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- [1] me if for asking. Bear with me if I ask
 [2] it a second time.
 [3] Do you know what the embedded
 [4] transportation costs are that were assumed
 [5] for purposes of the delivered cost of coal
 [6] in the 1996 study?
 [7] A Yeah, you did ask me that before and I
 [8] said I wasn't sure exactly what was used
 [9] in there.
 [10] Q You have some rough sense of it?
 [11] A Of the exact numbers? No.
 [12] Q Yeah.
 [13] A I don't.
 [14] Q Do you know whether it's ten dollars a
 [15] ton, or five dollars a ton?
 [16] A No.
 [17] Q Do you know whether the rail
 [18] transportation costs for unit 5 at
 [19] Ashtabula is different from the Eastlake
 [20] plant?
 [21] A My recollection is it's different, yeah.
 [22] Q How much?
 [23] A I don't know. I know it's different.
 [24] Q What about the difference between
 [25] Ashtabula 5 and Ashtabula units 6 to 9, is

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- [1] not the prices for the winning bidders
 [2] came in above, below or right at what EVA
 [3] forecasted for 1997 prices to be?
 [4] A I looked at that. I don't recall -- no, I
 [5] don't recall at this time; don't know.
 [6] Q Is that something that you would consider
 [7] an important evaluation to make as you go
 [8] forward into the next RFP bid process?
 [9] A Yeah, yes, to look at that in handling
 [10] that.
 [11] Q And your knowledge and your expertise and
 [12] the expertise in your whole department,
 [13] are there reasons that you have to believe
 [14] that coal prices may be going down for the
 [15] '98 bid compared to where they are for
 [16] year '97 bid?
 [17] A I don't know. They could be going down
 [18] and they could be going up. I don't know.
 [19] Q Do you have any reason to believe that
 [20] whatever differential there is between the
 [21] high sulfur coal and the medium and lower
 [22] sulfur coals, that that differential will
 [23] either widen or narrow?
 [24] A No, no, nothing that comes to mind.
 [25] Q I think I asked this before, but forgive

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- [1] there any difference in the transportation
 [2] costs for those units?
 [3] A I would say, yeah, because Ashtabula 5
 [4] right now is rail or truck, and I thought
 [5] C plant is all truck, so just in that fact
 [6] itself.
 [7] Q I'm sorry, which plant is all truck?
 [8] A You said the smaller, right? C plant is
 [9] truck delivery.
 [10] Q Is that the same thing as Ashtabula units
 [11] 6 through 9?
 [12] A Yeah. We call that C plant.
 [13] Q C plant as in the letter C?
 [14] A Yeah.
 [15] Q So Ashtabula C is all truck and not rail?
 [16] A Mm-hmm.
 [17] Q And so you would expect that
 [18] transportation costs for that arrangement
 [19] to be different than for the rail?
 [20] A Right.
 [21] Q And Ashtabula unit 5 is a mixture of truck
 [22] and rail?
 [23] A It's basically rail. I think it could be
 [24] either though.
 [25] Q Looking back at table 2 from the

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[1] confidential version --
 [2] MR. PERLIS: Can we go off
 [3] the record for a minute, please?
 [4] MR. REGULINSKI: Yes.
 [5] ---
 [6] (Short recess had.)
 [7] ---
 [8] MR. PERLIS: We're back on
 [9] the record now.
 [10] Q Turning your attention to table 2, revised
 [11] that was provided as OVCC-27 in the
 [12] document production, we're going to try to
 [13] ask this question in a way that doesn't
 [14] require you to disclose any confidential
 [15] information on that table.
 [16] So please, in giving your responses,
 [17] keep that in mind. Looking at the bottom
 [18] of the page, the footnote that is
 [19] associated with the column for the
 [20] delivered coal cost plus \$02 cost for a
 [21] 3.6 pound coal blend, or mix, I'm not --
 [22] the footnote says, "This is based on
 [23] alternating burn at 58 percent 2.5 pound
 [24] coal, 16 percent 3.8 pound coal, and 26
 [25] percent 6.0 pound coal."

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[1] necessary applicability in the future?
 [2] MR. REGULINSKI: Objection.
 [3] The difficulty with responding to
 [4] that question is that Mr. Kovach
 [5] has only before him the table that
 [6] was provided to OVCC counsel under
 [7] number 27, and not the question
 [8] nor the answer for OVCC number 27,
 [9] and I'm wondering if counsel
 [10] wouldn't mind, I can show it to
 [11] him now the question for OVCC
 [12] number 27 and the response to the
 [13] Ohio Valley Coal Company
 [14] Interrogatory number 27.
 [15] MR. PERLIS: Well, I'm not
 [16] asking the question that was put
 [17] in the question 27 of this
 [18] witness. I'm asking a different
 [19] question.
 [20] MR. REGULINSKI: Yeah, I
 [21] thought it was the same question.
 [22] MR. PERLIS: No. I'm asking
 [23] a very different question.
 [24] MR. REGULINSKI: Could you
 [25] restate the question for me,

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[1] And I take it from the next sentence
 [2] in this footnote that these percentages
 [3] are based on historical 1996 mixtures at
 [4] Eastlake of coal of these different
 [5] percentages; is that correct?
 [6] A Yeah, as far as -- yeah, as far as I know.
 [7] Q And those coals were purchased in 1996
 [8] under contracts that will not be in effect
 [9] after September 30, 1997; is that correct?
 [10] A Yeah, as far as I know, yeah.
 [11] Q So, going forward, there's no reason to
 [12] believe that these percentages will
 [13] necessarily be the same in future years
 [14] when you do your spot purchases, will
 [15] they?
 [16] A No, could be higher or lower.
 [17] Q For each of the three components, but for
 [18] what the PUC decision might be?
 [19] A Right.
 [20] Q They could be higher or lower for any of
 [21] the sulfur content of coal?
 [22] A (Indicating yes.)
 [23] Q So what is the utility of presenting a
 [24] projection as your sole projection that's
 [25] based on percentages that have no

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[1] please?
 [2] MR. PERLIS: Right.
 [3] BY MR. PERLIS:
 [4] Q My question is since these percentage
 [5] allocations of coal between 2.5, 3.8 and
 [6] 6.0 coal are not necessarily going to be
 [7] applicable in the future as you purchase
 [8] on a spot basis, why should they have been
 [9] used in any study of evaluated coal costs?
 [10] A Is that it?
 [11] Q Yes, that's the question.
 [12] A Okay. There's an infinite -- like you
 [13] said earlier, I think infinite number of
 [14] combinations that could make up this.
 [15] Q And in your --
 [16] A And I'm not sure any one in particular is
 [17] relevant. My understanding is the reason
 [18] why this was done is because we were asked
 [19] to produce an example and one was
 [20] produced.
 [21] Q Well, looking at the question 27 now that
 [22] your counsel called to your attention
 [23] before, that question doesn't ask for the
 [24] 1996 historical allocations of coal, does
 [25] it?

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[1] MR. REGULINSKI: Well, the
 [2] question will speak for itself.
 [3] Can you formulate another
 [4] question?
 [5] Q On its face, that's all I'm asking since I
 [6] don't want to read the question for the
 [7] record, on its face does question 27 refer
 [8] to 1996 historical experience of --
 [9] A My interpretation is yes, it does because
 [10] it asks for a continued use. To me that
 [11] implies doing what's going on right now so
 [12] whoever answered this probably would have
 [13] done it the same way. I would have done
 [14] it the same way.
 [15] Q I see. So when the company makes its
 [16] recommendation in the Supplemental Fuel
 [17] Switching Study that it prefers to have
 [18] the flexibility of the fuel switch rather
 [19] than continued burning of high sulfur Ohio
 [20] coal, that judgment is simply that you
 [21] prefer the flexibility over the current
 [22] allocation in the future of 6.0 versus 2.5
 [23] and 3.8 pound coal?
 [24] MR. REGULINSKI: That's
 [25] a long question. Can we have that

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[1] combinations of things that could have
 [2] been done. This was one way to do it and
 [3] that's how Rich's group chose to do that.
 [4] Q Could another combination of continued use
 [5] of Ohio high sulfur coal been all 6.0 and
 [6] 3.8 pound coal and some percentage to meet
 [7] the SIP limitation?
 [8] A It could have been.
 [9] Q And as far as you know, there's no
 [10] environmental reason why Centerior
 [11] couldn't limit itself to 3.8 and 6.0 pound
 [12] coal and meet the SIP limitations?
 [13] A Not that I know of that are in the right
 [14] combination to make sure you're always
 [15] maintained under that SIP limit.
 [16] Q And when you received the bids for the
 [17] fourth quarter 1997, were they in the
 [18] allocation of 58 percent 2.5 coal, 16
 [19] percent 3.8 pound coal and 28 percent 6.0
 [20] pound coal?
 [21] A I don't know what allocations they were.
 [22] We were just looking at first evaluating
 [23] lowest evaluated cost and then looking at
 [24] the SIP limit.
 [25] Q Starting then on table -- the third page

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[1] question read?
 [2] ---
 [3] (Record read.)
 [4] ---
 [5] A I'm not sure I would agree exactly with
 [6] what you said. What we said in the
 [7] Supplemental Fuel Switching Study is that
 [8] we wanted to remain responsive and
 [9] flexible, and therefore different
 [10] combinations of coal, sulfur content
 [11] bunched with emission allowances and what
 [12] appears in the study could be burned.
 [13] Q Right, and the company concluded that the
 [14] flexibility from doing the fuel switching
 [15] was better than the continued use of coal
 [16] at the historic 1996 allocation
 [17] percentages. Isn't that in effect saying
 [18] that the substance of the response to
 [19] question 27 is?
 [20] A No, I don't know. I have to read this.
 [21] Once again, I'd say, I thought this
 [22] was done because of what was asked, you
 [23] know.
 [24] Q Well, do you think --
 [25] A There could be a lot of different

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[1] that OVCC-14, keeping in mind that I'd
 [2] like to keep this on the record, and not
 [3] require you to disclose any confidential
 [4] number.
 [5] If I should misspeak, we'll take it
 [6] off the record, or put it in the
 [7] confidential portion of the record.
 [8] As you look down OVCC-14 and the
 [9] Eastlake 1997 coal bids, you say that they
 [10] were put in order of evaluated cost,
 [11] meaning that the lowest cost comes at the
 [12] top.
 [13] As you look at those evaluated costs,
 [14] do you see any bids or combination of bids
 [15] that result in allocations similar to 58
 [16] percent 2.5, 16 percent 3.8 and 26 percent
 [17] 6.0?
 [18] A I don't know. Something could come up to
 [19] that. We didn't look at that when we did
 [20] this to come up with this.
 [21] Q Do you know how many, if any, of these
 [22] bids the company intends to proceed to
 [23] contract with?
 [24] A Yes, some of them. I don't know the exact
 [25] ones but some of them.

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[1] know, my predecessor most likely would
 [2] have had the contact or whenever the
 [3] projection was developed.
 [4] Q But do you know that just in general,
 [5] whether there are separate coal price
 [6] forecasts done for spot versus long
 [7] term --
 [8] A No.
 [9] Q -- contracts?
 [10] A I don't know. I would think there could
 [11] easily be, but I haven't used any.
 [12] MS. MOONEY: Okay. That's
 [13] all I have right now. Thank you.
 [14] MR. REGULINSKY: Let's take a
 [15] short break before we start with
 [16] Mr. Hoag.
 [17] ---
 [18]
 [19]
 [20] MICHAEL KOVACH
 [21] (Deposition concluded.
 [22] Signature not waived.)
 [23] ---
 [24]
 [25]

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[1] STATE OF OHIO,) CERTIFICATE
 [2])
 [3] COUNTY OF CUYAHOGA)
 [4] I, Ellen A. Hancik, a Notary Public
 [5] within and for the State aforesaid, duly
 [6] commissioned and qualified, do hereby certify
 [7] that the above-named MICHAEL KOVACH, was by
 [8] me, before the giving of his deposition, first
 [9] duly sworn to testify the truth, the whole
 [10] truth, and nothing but the truth; that the
 [11] deposition as above set forth was reduced to
 [12] writing by me by means of stenotype, and was
 [13] later transcribed into typewriting under my
 [14] direction; that said deposition was taken in
 [15] all respects pursuant to the stipulations of
 [16] counsel herein contained, and was completed
 [17] without adjournment; that the foregoing is the
 [18] deposition given at said time and place by said
 [19] MICHAEL KOVACH; that I am not a relative or
 [20] attorney of either party or otherwise interested
 [21] in the event of this action.
 [22] IN WITNESS WHEREOF, I hereunto set my
 [23] hand and seal of office, at Cleveland, Ohio, this
 [24] 9th day of April, A.D., 1997.
 [25] Ellen A. Hancik, RPR, Notary Public
 My commission expires: 2/10/98