BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Revised Code, in the Form of an Electric Security Plan.	Case No. 13-2385-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority.	Case No. 13-2386-EL-AAM

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PROCEEDINGS

before Ms. Greta M. See and Ms. Sarah J. Parrot, Hearing Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 9:00 a.m. on Wednesday, June 4, 2014.

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VOLUME II

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Wednesday Morning Session,
June 4, 2014.

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EXAMINER SEE: Let's take brief appearances of the parties starting with the company and going around the room.

MR. NOURSE: Thank you, your Honor. On behalf of Ohio Power Company, Steven T. Nourse, Matthew J. Satterwhite, Daniel R. Conway.

MS. GRADY: Thank you, your Honor. On behalf of the residential customers of Ohio Power Company, Maureen R. Grady and Joseph P. Serio.

MR. DARR: On behalf of IEU-Ohio Frank Darr and Matt Pritchard.

MR. PARRAM: Good morning. On behalf of staff, Devin Parram, Vern Margard, and Katie Johnson.

MR. KURTZ: For Ohio Energy Group, Mike Kurtz.

MR. WILLIAMSON: For Wal-Mart and Sam's East, Derrick Williamson and Tai Shadrick.

MS. BOJKO: Thank you, your Honor. For OMA, it's Kim Bojko and Rebecca Hussey will be joining me.

MR. McDERMOTT: For FirstEnergy Solutions Corporation, Jacob McDermott, Scott Casto, and Mark

Hayden.

MR. HOWARD: On behalf of Retail Energy Supply Association, Constellation NewEnergy, Inc., and Exelon Generation, LLC, M. Howard Petricoff, Stephen M. Howard, and Gretchen L. Petricoff.

MR. McDANIEL: Your Honors, on behalf of the Environmental Law & Policy Center, Nick McDaniel.

MR. DOUGHERTY: Your Honor, on behalf of the Ohio Environmental Council and Ohio Environmental Defense Fund, Trent Dougherty and John Finnigan.

MR. SMALZ: Your Honors, for the Appalachian Peace and Justice Network, Michael Smalz.

MR. WILLIAMS: Good morning, your Honor. On behalf of IGS, Mark Whitt, Andrew Campbell, and Gregory Williams.

MR. SINENENG: Good morning, your Honor. On behalf of Duke Energy Retail Sales and Duke Energy Commercial Asset Management, I'm Philip Sineneng.

MR. CHMIEL: Good morning. On behalf of Border Energy, Stephanie Chmiel.

EXAMINER SEE: Counsel for any other parties?

(No response.)

EXAMINER SEE: Okay. Mr. Satterwhite, your next witness.

MR. SATTERWHITE: Thank you, your Honor. The company would request Selwyn J. Dias take the stand.

EXAMINER SEE: Mr. Dias, would you raise your right hand.

(Witness sworn.)

EXAMINER SEE: Have a seat and cut your mic on, please.

EXAMINER SEE: Go ahead, Mr. Satterwhite.

MR. SATTERWHITE: Thank you, your Honor.

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SELWYN J. DIAS

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

DIRECT EXAMINATION

By Mr. Satterwhite:

Q. Good morning, Mr. Dias.

A. Good morning.

Q. Could you please state your name and business address for the record.

A. Yes. My name is Selwyn J. Dias, and my business address is 850 Tech Center Drive, Gahanna, Ohio 43230.

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

A. I'm employed by Ohio Power Company doing business as AEP Ohio, and I hold a position of Vice President, Distribution Operations.

Q. And did you have testimony filed under your name prefiled in this docket on December 20th, 2013?

A. Yes, I did.

MR. SATTERWHITE: May it please the Bench, I previously marked that prefiled testimony as AEP Exhibit No. 4. I placed a copy on the Bench and a copy with the court reporter.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Dias, do you see what I have marked as AEP Ohio Exhibit No. 4 on top of the witness stand there?

A. Yes, I do.

Q. And is this the testimony that you were referring to that was filed in this docket under your name?

A. Yes, it is.

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

A. Yes, it was.

Q. Do you have any changes or corrections to this testimony today?

A. No, I do not.
Q. And do you adopt this testimony as your sworn testimony for purposes of this proceeding today?
A. Yes, I do.
MR. SATTERWHITE: With that, your Honor, I'd move admission of AEP Exhibit No. 4 pending cross-examination.
EXAMINER SEE: Okay.
MR. DARR: Will your Honor entertain a motion to strike at this time, your Honor?
EXAMINER SEE: Yes.
MR. DARR: IEU moves to strike the following portions of the testimony: Beginning at line 6 -- or, excuse me, page 6, line 13, continuing through page 7, line 2, and we'd also move to strike SJD-2.
EXAMINER SEE: Hold on for just a minute, Mr. Darr. What was the second portion?
MR. DARR: The second portion would be Exhibit SJD-2.
EXAMINER SEE: Any other portions, Mr. Darr?
MR. DARR: No, your Honor.
EXAMINER SEE: Do you want to give us

further explanation?

MR. DARR: Thank you. The materials related to SJD-2 and the related testimony constitute out-of-court statements used to prove the truth of the matter asserted. It's not been demonstrated this is material that can be relied upon by an expert in this area.

Under Ohio rules and Commission practice, although the Commission precedent on this is split, hearsay testimony must be admissible under some sort of exception to the rule. There is no exception that applies to this testimony. Therefore, the testimony that I've identified at pages 6 through 7 and the related exhibit should be stricken.

EXAMINER SEE: Mr. Satterwhite, would you like to respond?

MR. SATTERWHITE: If you could give me just one second, your Honor.

EXAMINER SEE: Sure.

MR. SATTERWHITE: Thank you, your Honor. I think, as Mr. Darr indicated, the Commission might be split on admission of these type of documents. I actually think it's more than just split, I think it's normal practice for witnesses that are prefiling testimony to attach documents that might deal with studies that are out there in the industry. We've heard a lot of questions already in this hearing about whether anything was relied upon or there's any type of studies that guide the Commission or guide the company in decisions that they make, and I think this witness has provided, based on publicly available information, a study that was done that shows an indication of what the company's position is.

The witness is available today to answer any questions upon the analysis put in there and answer why they included that study and whether it's typical of the opinions of AEP Ohio so I think it's highly appropriate in an administrative position like the Commission and it's normal course for Commission proceedings.

MR. DARR: If I may, your Honor, I need to make a slight amendment to my request. It is page 8, line 2. I apologize. So it's page 6, line 13, through page 8, line 2.

EXAMINER SEE: In light of his amendment is there anything that you would like to add, Mr. Satterwhite?

MR. SATTERWHITE: No, I think that was just for completion of the section. The same would apply. Thank you, your Honor.

EXAMINER SEE: Motion to strike the testimony is denied.

Let's start with cross-examination by OCC.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. Dias.

A. Good morning, Mr. Serio.

Q. If you could turn to page 3 of your testimony, lines 17 through 20 you talk about a number of factors that influence reliability. If you could go through those factors one by one and identify the ones that you believe are under the company's control and the ones that you believe are not.

A. Okay. Let me start with weather. This is -- just to be clear, are we talking about page 3, line -- starting on line 18; is that correct, Mr. Serio?

Q. Yeah, your sentence starts on line 17 but the factors are listed starting on line 18.

A. Okay. Obviously, the weather element the company has really no control over. The resiliency, however, on how we design and build our system around withstanding weather events, we do have control over.

Vegetation management. The company has control over vegetation management within the right-of-way. Trees outside the right-of-way the company has very little control over.

Aging infrastructure. The company does have control over the proactiveness in which it replaces its aging infrastructure.

Maintenance activities. The company does have control over its activities around maintenance. There may be some elements around maintenance that the company does not have control over but for the biggest part I would agree that maintenance is something the company has control over.

System operation and design. The company does have control over how it engineers and designs the system.

Advances in technology. That is -- advances in technology is one that the company does have control as to when we invest in the technology and how we invest in the technology.

Skilled labor. This is the experience and skilled labor element. The company does have some control over the skills of its employees.

Materials. For the biggest part the company does have control over materials but there are -- I could see some circumstances in where materials may come in that may be purchased and may be suboptimal or the quality may not be what we had expected that we don't have control over.

MR. DARR: Mr. Dias, your microphone's gone.

(Discussion off the record.)

A. And then funding of available resources. The company does have some control over the funding of available resources, but I can see circumstances in which that becomes very complicated depending on various factors.

Q. Now, with your exception on materials would you agree with me that that's probably a circumstance that would apply to almost any organization that gets materials from outside sources, that there are times when materials might not be up to the correct standards?

A. Yes, I agree.

Q. Now, prior to the last ESP case, the ESP 2 case, the company used distribution rate cases to fund capital and O&M activities related to system reliability, correct?

A. That's correct.

Q. And it's your testimony that -- strike that.

Prior to the implementation of any riders the company relied on distribution rate cases for the funding of all its capital and O&M expenses, correct?

A. That's correct.

Q. Okay. Now, the difference between riders and base rate cases and the reason you prefer riders is because with a rider you get recovery more timely, correct?

A. That's one element. I can think of lots of other elements. And when you say "prefer" riders, we do -- we do have, see, and propose a very good reason for riders, but I don't want you to leave with the impression that we're opposed to base cases, base rate cases. Riders do allow, as you said, timely recovery, but by the same token it also gives lots of other benefits and transparency as what was testified yesterday to everybody involved around what is being spent, how it's being spent. It allows for an open book involvement in the way the money is being spent. So, yes, there is a real good place for riders.

Q. Another reason that the company prefers riders for things like the distribution infrastructure is because the cost recovery is more certain because with a rider you're actually tracking costs rather than in a distribution base rate case where you rely on a dollar amount that was based on a prior time period, correct?

A. You are correct. And you just identified another great benefit for riders when you reference tracking costs because in those tracking of costs the company recovers no more and no less than what it spends.

Q. Now, because the cost recovery comes sooner and because it's an exact cost recovery, would you agree with me that that reduces the company's risk of underrecovering those costs when a rider is used?

A. Yes, I will agree with you.

Q. Now, if you could turn to page 21 of your testimony, there's a sentence on lines 7 through 9 where you indicate that the riders are a mechanism to quickly and efficiently recover costs that will lead to sustained activities to improve reliability. Have you done any kind of study or analysis that shows that a rider improves reliability better than recovery through a base rate case?

A. I have not done that kind of a study, but I can tell you that the programs that are supported by riders do improve reliability better than what would have otherwise been accomplished through a base case.

For example, let's use the DIR. With the investment rider I have better access to capital allocation within AEP corporation to proactively make investments in aging infrastructure than I would have otherwise been able to do under a base case because of the regulatory lag.

Q. Prior to the implementation of the riders was AEP able to meet the reliability standards set by the PUCO just relying on base rate cases for funding?

A. If you go back ten years, and I was with AEP Ohio ten years ago, we were at a point in time in reliability when we weren't using riders like we are today. We were at a point in reliability in which the company's expectations on reliability were not necessarily aligned with the customers' expectations on reliability.

The Commission, this Commission, helped us understand that, and over the time of those ten years we have implemented a series of riders and I believe that our alignment with customers' expectations on reliability and our actual performance on reliability has improved tremendously.

Q. Okay. But that's not my question. My question was: Prior to the use of riders did the company meet the PUCO reliability standards just using base rate cases?

A. I don't recall what the performance standards were from a SAIFI-CAIDI standpoint many years ago, so I could not answer your question. I believe we were providing, at least we thought we were providing reliable service.

Q. Are you aware of any PUCO orders, prior to the implementation of the riders, where the Commission ordered the company to do something because it was not meeting the reliability standards?

A. Oh, yes, I can.

Q. And what cases, how far back would those cases be?

A. I'll go back ten years ago, in 2004 time frame, and there were multiple proceedings in front of this very Commission around reliability. I recall ultimately that the company had to file a self-complaint around our ability to meet these misaligned expectations on reliability.

Q. And as a result of the 2004 proceeding, did the company, then, get in compliance with reliability standards?

A. I believe today we are in compliance with reliability standards.

Q. Was the company in compliance with the reliability standards prior to the implementation of the DIR?

A. Well, keep in mind the DIR has just been in place a year and a half.

Q. I understand. So prior to that year and a half was the company in compliance with reliability standards?

A. I don't remember the performance targets and what those actual results were prior to the last couple years, two or three years.

Q. Has there been a Commission order in the last two or three years indicating that the company was out of compliance?

A. Not that I'm aware of.

Q. Would you agree with me if there's been no order telling you you've been out of compliance, it's reasonable to assume that you've been in compliance prior to the DIR implementation?

A. Yes, I think that's fair to say, that we would be in compliance with the reliability targets set forth in the performance standards with this Commission. However, I must point out that reliability goes far beyond just the reliability performance targets. It's the customer experience and the customer's view of reliability that also goes into account when you are looking at reliability.

Q. Okay. Now, I'm going to ask you a question about the DIR continuation and then the DIR expansion, so two separate parts. So, first, just looking at the DIR continuation, could the company meet PUCO reliability standards if the Commission only continued the DIR without any expansion?

A. Mr. Serio, my testimony describes a comprehensive distribution reliability strategic plan, it starts on page 3 of my prefiled testimony, and that strategic plan involves three components: The infrastructure reliability, which includes the vegetation program; it includes technology deployment; and it includes a sustained and skilled workforce.

With those three programs that all involve riders I believe that the company would be able to meet its performance targets, understanding there are things beyond our control like I described earlier in your cross-examination such as weather.

Q. Okay. But my question was: If all the Commission did in this case was continue the DIR, no expansion, could you meet the Commission reliability standards with the continuation of the DIR, no expansion?

A. Yes. Along with the vegetation program, the technology deployment, and the skilled workforce that I'm citing, that I'm setting forth as my comprehensive reliability plan, yes.

Q. Okay. I'm going to ask you a question that I asked you in the deposition. Could the company maintain the current level of service reliability if instead of a DIR the company had used distribution rate cases for funding?

A. Could I have the question repeated again, please?

Q. Sure, I can reread it. Could the company maintain the current level of service reliability if instead of a DIR the company had to use distribution base rate cases for funding?

A. Okay. And I believe what I answered then, and my same opinion applies, is that reliability would deteriorate over time if we were required to use a base case as opposed to the DIR for making investments.

Q. Do you know what time period that would involve?
A. I do not, but I --
Q. So it could be --
A. -- would tell you that it would be relatively quick.
Q. Have you done any kind of analysis that shows that without the DIR reliability would deteriorate one year, two years, three years, whatever?
A. I have not.
Q. Prior to the implementation of the DIR how was aging infrastructure replaced?
A. Can you be more specific?
Q. The DIR was implemented about a year and a half ago, correct?
A. Correct.
Q. The company's had aging infrastructure for a long time, correct?
A. Well, every year the infrastructure gets older.
Q. Okay. So prior to the last year and a half how did you deal with the problem of aging infrastructure?
A. Well, very simplistically, or a high

level, every year my team goes through a review on which are our worst-performing circuits as a combination of both infrastructure and other elements that may affect their reliability, and we develop a plan of what circuits need attention. Then we look at the available funding resources which would be capital and O&M and we would make a prioritization of where we make those investments.

Q. Okay. Can you turn to page 4 of your testimony. Your answer at the bottom of the page indicates that "A well-executed comprehensive reliability plan develops specific goals for reliability improvements and a process for implementation." Do you see that?

A. That's correct.

Q. Now, when you indicate "specific goals," that means for each part of the plan you have an indicated target that you want to meet, correct?

A. When you say "target," can you be more specific?

Q. Well, what do you mean by "specific goals for reliability improvements"?

A. I'm referring to where we want to target our investment dollars.

MR. SERIO: Could I approach, your Honor?

EXAMINER SEE: Yes.

MR. SERIO: In an attempt to save paper I've taken pages from the 11-346-EL-SSO opinion and order. I don't have the entire opinion and order here, I just have the cover page, the table of contents, and the DIR section. But I do have a complete copy if that's necessary for anybody to look at.

MR. SATTERWHITE: And, your Honor, Mr. Serio talked to me about this ahead of the hearing today and we didn't have a problem with that. If the witness feels he needs more, he can ask for it, and also it's a document that's a Commission order so if anybody needs anything else for context, it's available to them.

Q. You're familiar with this document, correct, Mr. Dias?

A. Well, I remember reading it in detail when it was issued.

Q. And the section on DIR begins on page 42, correct?

A. That's correct.

Q. And if you could look at page 47, the last paragraph above "Pool Modification Rider," this is where the Commission approved the DIR mechanism,

correct?

A. That's what it appears, yes.

Q. Okay. And then it also indicated that the proactive distribution infrastructure plan shall quantify reliability improvements expected. Correct?

A. That's correct.

Q. And your understanding is that that meant that the Commission wanted you to let them know what specific service reliability improvements would occur as a result of DIR spending, correct?

A. That's correct.

Q. And that ties in with your reference on page 4 that a well-executed comprehensive reliability plan develops specific goals, correct?

A. I'd say generally speaking yes, it's all tied together.

Q. Now, would you agree with me if a plan did not have specific goals, then it would not be a well-executed reliable comprehensive plan?

A. Yes.

MR. SERIO: Could I approach again, your Honor?

EXAMINER SEE: Yes.

MR. SERIO: Just to make it easy, I'd like to mark those pages from the 11-346-EL-SSO case as OCC Exhibit 1 for ease of identification.

EXAMINER SEE: Okay.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SERIO: And then I'd like to mark OCC Exhibit No. 2 the Ohio Power Company's response to OCC Discovery Request Interrogatory 13-306.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Serio) And are you familiar with this document, Mr. Dias?

A. I generally am, yes.

Q. And you're indicated, this discovery response on page 2 indicates that you prepared it, correct?

A. Well, it was prepared under my direction, yes.

Q. Okay. And the interrogatory asks the company to quantify or indicate the reliability improvement related to the different I guess 26 factors that are listed on page 1 of the interrogatory, correct?

A. That's correct.

Q. Now, if I go to page 2, which is your response, and we go through these, for A, distribution and circuit asset improvements, the response is that a reliability improvement factor was not calculated, correct?

A. That's correct.

Q. And rather than go through these one by one there's a number of others that indicate "no reliability impact" or that it was not calculated, those speak for themselves, correct?

A. That's correct. And let me put some context around this because --

MR. SERIO: Your Honor, I only asked him to confirm what's on the interrogatory. I didn't ask for any further explanation.

MR. SATTERWHITE: Your Honor, he's entitled to explain the context of his answer when he gives it.

MR. SERIO: Well, your Honor --

MR. SATTERWHITE: Mr. Serio might not want to hear it but if he's trying to misapply something, I think the witness has the right to give the context.

MR. SERIO: The context wasn't implied in response to the interrogatory.

MR. SATTERWHITE: Your Honor --

EXAMINER SEE: No, gentlemen.

Mr. Dias, please answer the question as put to you, your counsel has a moment for redirect.

Go ahead.

THE WITNESS: I'm sorry, your Honor, I didn't understand what you said.

EXAMINER SEE: At this point you're fine.

Mr. Serio, your next question.

Q (By Mr. Serio) Okay. If it indicates the response is "asset renewal," that means you're just replacing an asset that was in place currently, correct?

A. I'm sorry, I got distracted with this microphone, can you please ask the question again?

Q. Sure. There's a line of items that indicate that it was an asset renewal program. That would mean that you were replacing a piece of equipment that was currently in place, correct?

A. Yes.

Q. Now, does the answer to OCC Interrogatory 13-306 indicate the reliability -- the service reliability improvement related to each one of those factors? Does it provide that?

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

(Off the record.)

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

MR. SERIO: I believe I had a question pending.

EXAMINER SEE: You do.

MR. SERIO: Could you repeat the question, please?

(Record read.)

EXAMINER SEE: Go ahead.

A. What I'm seeing here in this interrogatory is a series of very specific, detailed pieces of DIR work that's listed from A through Z and then there's another that's AA, and on the response what we've done is we've put a response for each one of those very detailed line items you asked about.

What I need to see, Mr. Serio, is that on some of these they're referring to another interrogatory and I don't have those in front of me, and to make this complete I need to see the rest of those.

But, to answer your question, is there is an answer for every one that you asked about in your interrogatory which is a level of detail that we don't keep. We have programs that we use under the DIR that have reliability improvement factors associated with them, not at this level of detail that you asked about.

Q. Is there anywhere in your testimony or anywhere in the application that I can go to and see where the company shows that for the DIR spending to date this is the service reliability improvement we've achieved?

A. We have shared with staff as part of the directive from the PUCO on the approval of the DIR certain actual results of the DIR improvements. For 2013 we filed at the Commission, as required, the 2014 plan. The Commission responded and approved our 2014 plan but put in some even further directives that they would like to see as part of our improvements and we will comply with that for the 2014 plan.

Q. Okay. I understand you had conversations with the staff. If I go to your testimony, is there anywhere in your testimony that I can find the service reliability improvements related to the DIR program?

A. I did not include that in my testimony.

Q. Can I find that anywhere in the application that the company filed for this proceeding?

A. I don't believe we put that in the application either.

Q. Okay. Thank you.
Now, is there anywhere in your testimony that you've included the overall reliability improvements that you would get from continuation of the DIR?
A. No. My testimony is referencing my strategic -- the comprehensive strategic reliability plan and, very briefly, that plan has an objective of continuous improvement on customer reliability.
Q. Does your --
A. So --
Q. I'm sorry.
A. So what I've described in my testimony is how I plan on achieving that continuous improvement through the various riders that I asked to either continue or the new one that we've asked to begin.
Q. Does your testimony contain any specific reliability targets or goals from the continuation of the DIR?
A. The reliability targets and goals are in the performance standards which is done in a separate proceeding that is approved by the Commission and has all the parties, including staff, the opportunity to set those targets.
Q. But there's nothing in the testimony in

this proceeding, right?

A. No, there isn't.

Q. And there's nothing in the application in this proceeding, correct?

A. Not that I'm aware of.

Q. Is there anything in your testimony that shows service reliability improvements from the expansion of the DIR?

A. No, there isn't.

Q. And is there anything that shows the reliability improvements for the expansion of the DIR anywhere in the application?

A. Not that I'm aware of.

Q. So the specific goals required from a well-executed comprehensive reliability plan do not appear in your testimony, correct?

A. I don't know if I would agree with that.

Q. Well, can you show me where the specific -- specific reliability improvement goals are in your testimony?

A. It starts with page 3 and my description of our comprehensive strategic reliability plan, those are my goals.

Q. But does the goal indicate the specific improvement that you're going to achieve?

A. So when you say a goal, are you talking about a specific performance target --

Q. Yes.

A. -- standard improvement?

Q. Yes, that's what I've been asking you about.

A. Well, no, because that is done in a separate proceeding.

Q. So none of that is in your testimony in this proceeding.

A. That's correct.

Q. Now, your testimony talks about the customer expectations, and you've attached in SJD-1 the results of the company's surveys, correct?

A. That's correct.

Q. So would you turn to SJD-1, page 1 of 2, please.

A. Yes, I'm there.

Q. And there the answers are decrease significantly, decrease somewhat, stay about the same, increase somewhat, increase significantly, don't know, and prefer not to answer, correct? Those are the choices customers have.

A. That's correct.

Q. And by far the largest was stay about the

same at 71-1/2 percent, correct?
A. Correct.
Q. And then in your testimony on page 5 where you indicate 89 percent of the customers want to see improvement, you got that 89 by adding the 71-1/2 percent that say the same and then adding it to the 5 percent -- the 14 percent that said increased somewhat and the 5 percent that said increase significantly, correct?
A. That's correct.
Q. So if I was to use these same numbers and take the 71-1/2 percent and add it to the 5 percent that say decrease and the 1-1/2 percent that says decrease significantly, I'd end up with a total of 78 percent of the customers that think that if it stays the same or decreases somewhat, that would be okay, correct?
A. Well, the mathematics would certainly work that way.
Q. And the key to --
A. But that's not the basis for my reliability strategy.
Q. I understand that.
A. Okay.
Q. That's not what I was asking you.

But the key to whether you see the majority of customers want to see improvement or not is how you take that 71-1/2 percent that say stay about the same and which category you push it into, correct?

A. That is one component of it.

Q. Okay.

A. The rest of it is our -- my and our company's experience with our customers on a day-to-day basis. I have been in front of city councils, I have been in front of communities that are suggesting that they want better improvement on reliability all precipitated by their dependency on technology which is the electronics world that we live in today and the disruption it causes to their lives without reliable service.

So this is one element of it, Mr. Serio, but there's a lot more out there that goes with the development of our comprehensive distribution reliability plan and that is our customers' expectations have changed over the years.

Q. Do you know when this survey was taken?

A. It was recent but I don't recall -- it may be in here, let's see. On page 2 of SJD-1, the second bullet indicates that it was done in the 2012 time frame, 2012-2013 time frame.

Q. Are you aware of any more recent surveys other than this one that was done in the 2012 time frame?

A. This was the most current I had available to me when I was putting my testimony together.

Q. And this is a scientific survey that the company does, right?

A. Well, I don't know what you mean by "scientific."

Q. Does the company just pick up the phone and call the first 200 people in the phone book or is there some statistical probability behind the number of customers called and who gets called so that you get a cross-section?

A. No, first, let me start with the company doesn't do these calls. We use a third-party firm that does the surveys and they use a very defined methodology on how these surveys are done. In fact, staff of the Commission has been very involved in these surveys in developing the questions and seeing and looking at how these questions are asked.

Q. And we could talk to the staff about that later in the hearing, but to the extent that you're aware, this is a survey that's intended to capture the understanding of your entire customer base, correct?

A. Well, it's a survey that covers AEP Ohio's residential and small C&I customer base.

Q. Okay. And on page 1 of 2 of SJD-1, the numbers we were talking about just related to residential customers, correct?

A. That's correct.

Q. The commercial and industrial is the second table.

A. Table, correct.

Q. Now, you've got a second attachment to your testimony, SJD-2, and that's the "Rates, Reliability, and Region" article that you attached, correct?

A. That's correct.

Q. Now, page 2 of 8 of SJD-2, there's two columns. If you look at the column on the right-hand side, there's a paragraph that begins "Currently." Do you see that? It says "Currently, the threat of losing customers."

A. What page is that again?

Q. Okay. It's page 2 of 8 --

A. Correct.

Q. -- of Exhibit SJD-2, and if you start, do you see where this paragraph indentation is? It's the third paragraph indentation. It begins "Currently, the threat of losing customers."

A. Okay.

Q. All right. The last sentence of that paragraph states "As a result, attracting and retaining customers to keep prices affordable is more important than ever." You attached this to your testimony so I assume you agree with that statement.

A. That's what it says, yes.

Q. But do you agree with that statement that today tracking and retaining customers to keep prices affordable is more important than ever?

A. I agree.

Q. If you turn to page 3 of 8, the second full paragraph, "Most of the above referenced" iterative. Do you see that?

A. Initiatives.

Q. I'm sorry, initiatives. My N looked like an R.

MR. SATTERWHITE: I'm sorry. Where are you? I'm not with you.

MR. SERIO: The second full paragraph on page 3 of 8, Exhibit SJD-2.

A. Correct.

MR. SERIO: It begins "Most of the above referenced initiatives."

MR. SATTERWHITE: Thanks.

Q. The second sentence there says "Thus, utility managers and budgeters frequently seek to trade-off between costs and benefits; that is, to target the initiative that will provide the biggest bang -- or increase in" satisfaction -- "or increase in customer satisfaction -- for the buck," correct?

A. That's correct.

Q. And you agree with that statement also, correct? It's not just written there, but you actually agree with that.

A. I'm not going to say I agree with every sentence that was written in this article. The purpose of this article in my testimony I described on page 6, and it talks about the relationship between reliability investment and customer service, and, I'm sorry, customer satisfaction.

The point being that there is a point in time where you make investment and it has a price to customers, and that cost to customers can impact customer satisfaction. And the point I'm making by including this article is that there is a balance when you're looking at reliability, investment, and customer satisfaction. That's the point of this article. That's the reason I put it in there.

Q. I understand that you may not agree with every sentence and I'm not asking you about every sentence. Right now I'm asking you about this one particular sentence. The second sentence of that paragraph, do you agree with that sentence or not?

A. And can you point me back to that sentence again?

Q. Sure, the sentence reads "Thus, utility managers and budgeters frequently seek to trade-off between costs and benefits; that is, to target the initiatives that will provide the biggest bang -- or increase in customer satisfaction -- for the buck."

A. Yeah, I'm reading that to say that with every investment I want to get the biggest bang for the buck on customer satisfaction. Get the biggest reliability I could for every dollar of investment I make.

Q. So you agree with that sentence?

A. Well, I don't know if I agree with the words, but that's what I'm saying, the words I'm using.

Q. Okay. Then if you could turn to page 4 of 8 of SJD-2, the paragraph that begins "The Brattle

Group's analysis." It's the first full paragraph on that page.

A. Yes, I see it.

Q. About two-thirds through that paragraph it talks about a panel of 30 investor-owned electric utilities located in the United States that they talked to.

A. Correct.

Q. Was AEP one of those utilities?

A. I don't know.

Q. Do you know if any Ohio utility was one of those 30?

A. I don't know.

Q. Now, would you agree with me that for the most part your service territory outside of the city of Columbus is a more rural service territory?

A. Generally speaking, yes, but we also have the city of Canton that's fairly cosmopolitan.

Q. And outside of the city of Columbus and Canton you don't have that heavy concentration of customers per square mile, correct?

A. Well, there are large portions of our service territory that are very rural but we also have cities that are densely populated.

Q. Now, if you could turn to page 5 of 8 of

SJD-2, on the right-hand column, the second full paragraph, it begins "Second."

A. I'm sorry, I went to my testimony. Five of 8.

Q. Right-hand column, second full paragraph that begins with the word "Second."

A. Okay.

Q. That says "the analysis showed that rates -- as measured by average residential revenue per kWh -- play a significant role in explaining why customers rank utilities at a high or low level with respect to customer satisfaction." Do you see that?

Now, do you know how AEP Ohio ranks among Ohio utilities as far as your rates? Whether they're higher than other electric utilities or lower than other electric utilities.

A. I do not. But, you know what's interesting is that I focused on the next sentence right after that that says "Rate levels are less of a determinant than system reliability." And that led me to believe -- I believe that to say system reliability is more important than rates.

Q. Would that perhaps explain why AEP has the highest rates in the state?

A. I don't know if that's true or not.

Q. Now, you indicated previously that when it came to quantification of service reliability improvements for the DIR, you've had significant discussions with the PUCO staff, correct?

A. We did.

Q. To the extent that you had discussions with the staff, did you file documents in the DIR dockets that showed the specific service reliability improvements that you were targeting from that spending?

A. I don't believe we filed them. When you say "filed them," are you referring to filing them in the docket?

Q. Filing them so members in the public including OCC can get access to them so it would be a transparent process.

A. My recollection when the Commission approved the DIR plan for calendar year '13, and I believe that was in case 12-3129 --

Q. Yes, 12-3129.

A. That's correct?

Q. Yes.

A. I've got a good memory.

I believe the Commission asked us to share the results of the reliability with staff in that order.

Q. When you made your filing in 12-3129, you attached a work plan component to your application, correct?

A. I believe we would have, yes.

Q. If I go through that work plan component, can I find a column that says this is the specific service reliability improvement we expect to achieve from this individual DIR component?

A. I don't know whether you would or would not.

MR. SERIO: Could I approach, your Honor?

EXAMINER SEE: Yes.

Q. I'm handing you the notice of Ohio Power Company's Commission requested distribution investment rider work plan from case 12-3129-EL-UNC that was filed on December 3rd, 2012, it's an eight-page document and then it has I believe a six-page attachment that is the 2013 DIR work plan components. Do you see that?

A. I do.

Q. Now, if you look at those components, the far left-hand column lists all the individual components in the DIR work plan, correct?

A. That's correct. These are the components that I was referring to earlier that were different from the interrogatory that you had showed me. These are the ones I'm familiar with.

Q. Is there anywhere on that work plan that shows the specific service reliability improvement that you expect to achieve from each individual component?

A. No, there isn't.

Q. Okay. Thank you.

Now, one of the big components of the expansion of the DIR work plan is that you would include general plant, correct?

A. General plant is a modification to the current distribution investment rider, correct.

Q. Does general plant -- is general plant tied to distribution infrastructure?

A. General plant supports the activities associated with invest -- with infrastructure, distribution infrastructure.

Q. But it's not directly related to distribution infrastructure.

A. It directly supports distribution investments infrastructure.

Q. Can you measure the service reliability improvements as a result of general plant work?

A. So when I think about general plant in the expansion of the DIR, we're very specifically thinking about facilities of our service centers. I am also thinking about the, and I say that in my testimony -- in my prefiled testimony around the communication system, the 800 megahertz system, the radio system.

Let's take the service centers first. They are directly supporting the activities that our front-line employees use for the infrastructure that we have to maintain and construct. Some of those buildings were built in World War II era, in the '30s, '40s time frame, and they need to be replaced, some of them are leased and we need -- the leases are not keeping up with the needs of the employees and the needs of the company to serve the customer and so we need to make some improvements.

The improvements could be as simple as replacing a roof and could be as complicated as replacing a building or two or three. That's what I'm referring to under general plant. We want to have the ability to go ahead and invest in those service centers so that we can better serve our customers.

Q. Can --

A. The radio system is the second part of it and that radio system has now been determined to be obsolete. We are seeing the age of that radio system, the electronics, the backbone behind it is failing. The manufacturer does not make parts for those systems, and we're having to salvage what we can to keep a system running. It is an integral part of the reliability and the infrastructure that we have to maintain. That's why I've asked to expand it to go forward with replacing and improving the general plants associated with the direct infrastructure that we're responsible for in the distribution side to better serve our customers, absent the expansion of the DIR I would have to wait until I had sufficient capital to make those investments.

Q. Okay. I understand your explanation, but my question was: When it comes to general plant, can you measure the service reliability improvement associated with the general plant that you want to include in the DIR?

A. So with the radio system I think there is a measurement that can be done. The current situation is that we have circumstances where there are -- it's like the cell system, those towers are where they are today and there are pockets where I call dead zones and if there is a crew that has to work in that dead zone, they've got to leave the job site, drive to an area where they are back in communication with a signal of the tower to communicate back to the DC. That all has a direct impact on the time it takes to do a restoration for a customer to get the circuit back in, et cetera, et cetera. So, yes, there is a direct quantification.

How complex is that quantification of that benefit? Probably very complicated, but, yes, there is a benefit. It is quantifiable.

Q. Is there anywhere in your testimony that you've quantified the service reliability improvement from general plant?

A. No, I did not.

Q. Is there anywhere in the application where you quantified service reliability improvement for general plant?

A. I don't believe so.

Q. Is there anywhere in your testimony that you quantified service reliability improvement for the radio system?

A. No.

Q. Is there anywhere in the application that you quantified service reliability improvements for the radio system?
A. No.
Q. Could you turn to page 14 of your testimony, please. There's a sentence that begins at the bottom of 13 and carries over to the top of 14, can you read that first sentence to yourself so you're familiar with it.
A. Can you point me specifically to where --
Q. Sure. Line 22 on page 13, lines 1 and 2 on page 14.
A. Okay, I'm sorry. Can you repeat where the --
Q. Sure. Page 13.
A. Page 13.
Q. Line 22.
A. Okay.
Q. Over to page 14 --
A. Starting with the words "These relatively"?
Q. Yes.
A. Okay.
Q. Carrying over to the first two lines on page 14.

A. All right. Let me read it.

Just let me look at the context of what those lines refer to.

Okay.

Q. Now, in that sentence you indicate that it's going to be in use multiple years in order to have a measurable impact. When you say "multiple years," how long is multiple years?

A. I don't know if I had a specific time in mind, Mr. Serio. It certainly would be more than one or two. I think about multiple years as being, you know, more than one or two, perhaps five or ten.

I know I've looked at -- I look at -- I talked about it earlier in our cross-examination about where we were ten years ago. Our reliability on SAIFI and actually SAIDI too, I know SAIDI's not one that's measured as one of the performance targets but when you look at SAIFI and SAIDI for the past ten years when I talk about our specs have been misaligned and all programs we put in place through riders -- that were put in through riders I've seen an improvement of 30 percent in reliability through those two components so that's a ten-year period.

Q. Okay. If you go back to OCC Exhibit 1, that's the opinion and order in the 11-346 case. Do you still have that with you up there?

A. Yes.

Q. The last paragraph on page 47 above "Pool Modification Rider," is there anywhere in that paragraph where the Commission says that you don't have to quantify service reliability improvements for a five to ten-year period?

A. I'm not sure I'm understanding your question.

Q. Well, you've indicated in your testimony it's going to take five to ten years to quantify service reliability improvements, correct?

A. No, that's not what I say. You asked me what did multiple years mean and I said it's, I didn't have something in mind, I said it's certainly more than one or two.

Q. Okay. So does that mean that after one or two years you should have a measurable impact on service reliability?

A. I would expect we start -- I don't know about measurable. We should start seeing some impacts, yes.

Q. Well, your words here are "measurable" impact.

A. Okay.

Q. So the DIR's been in place here for a year and a half so there should be measurable impacts on service reliability from that, correct?

A. That's correct, and we are seeing some measurable impacts.

Q. Can you point to the specific page in your testimony that shows the measurable impact from the DIR?

A. No. I think we talked about this earlier and I indicated we did not put measurements in my testimony, and you asked me about the application --

Q. Okay.

A. -- and I agreed with you, I didn't believe they were in the application, but I also said that we have shared, as required by the Commission in its order, we have shared results and measurable impacts with the Commission staff for the 2013 calendar year, and I shared with you that the 2014 plan Commission order had some additional directives that we intend to comply with.

Q. Okay. Could you turn to page 16 in your testimony, that's Table 1. And this one is projecting the DIR capital investment forecast if the Commission were to agree to expand the DIR program, correct?

A. Generally speaking, yes, it's a forecast.

Q. Now, the column under Category that says "General" is that the expansion component of the DIR or are there other categories that are expansion?

A. I believe the General line item is what I've described as being general plant and it -- the first two years you will see, in '15 and '16, we've got 2.2 million and 3.5 million, that's associated with the facilities, the service centers, and then the last two years, '17 and '18, there's a placeholder. And let me just point out that is a placeholder only because that radio system I talked about is obsolete. We're going to have to -- it is very important we replace it.

But with the approval of the expansion I would likely move that $26 million in 2017, I would bring it up way early and my plan would be to start it in 2015.

Q. Okay. But if I'm looking at continuation versus expansion, the only difference in your Table 1 is that one line that says "General." Everything else on Table 1 is continuation of the current DIR, correct?

A. Yeah, I think that's fair.

Q. Now, on pages 17 and 18 of your testimony you describe the components that are listed under "Category," correct?

A. Correct?

Q. Now. If I look on page 17, line 16, it says "Forestry," and "Forestry projects involve ROW," that's right-of-way, correct?

A. Correct.

Q. "Widening and clearing right-of-way for new lines" and it says "right-of-way widening continues to be an important initiative to reduce tree contacts and fall-ins, which cause customer outages." Can you look at that and then go to page 14, lines 19 through 22 is the ESRR, and that's the four-year vegetation management plan that you have, correct?

A. Could you repeat the question for me, please?

Q. I was just directing you to go to page 14, lines 19 through 22.

A. Okay. I'll tell what, can you hold on one second?

Q. Sure.

A. When I stapled this, my pages got out of order.

Q. No problem.

A. Let me just get reordered.
Okay, I'm back in order again.
Q. So I want you to look at page 14, lines 19 through 22, and that's the ESRR, and that's the four-year vegetation management plan, correct?
A. That's correct.
Q. And that program includes widening right-of-way and removal of danger trees which reduce the risk of trees contacting lines during weather-related events, correct?
A. That's correct.
Q. Isn't that the same as forestry as listed on page 17 under the DIR?
A. No, I don't believe that's correct.
Q. Okay. Let me ask you this: Both projects involve widening the right-of-way, correct?
A. Well, on page 14 and lines 19 through 22, as you described, I am talking about that is our goal is to widen the right-of-ways.
Q. Okay. And that's also the objective under Forestry is to widen right-of-ways, correct? Isn't that what it says on page 17, involve ROW widening?
A. That's correct.
Q. And it says "Clearing right-of-way" on

page 17 and on page 14, line 21, it says "Removal of danger trees." That's clearing the right-of-way, correct?

A. That's correct. So the ESRR, the vegetation program, is a separate program, it's not associated with the DIR, it is collected in a separate -- in a separate rider. The DIR obviously is just the opposite, it is also a separate program and it's collected in a separate rider.

Now, there may be some components of capital costs associated with, and that's the investment. The only thing on Table 1 will be capital investments, and that would be -- typically that involves clear-cutting, removing a tree all the way down to the ground and the widening of a right-of-way that would be part of a DIR program.

So those two, the costs associated with those two, whether it's investment or our capital program, would be part of the DIR program or it would be part of the vegetation program. Beyond that I don't know the details of how those are accounted for.

Q. Okay. So you're saying that the difference may be because of capital costs?

A. That may be part of it, yes.

Q. But if you go to Table 2 on page 20 for the ESRR --

A. There's a million dollars in there?

Q. Yeah, it only shows a million dollars, so for the remaining ESRR that's not capital -- and you don't know what the distinctions are between the ESRR widening and clearing and the forestry under the DIR widening and clearing, correct?

A. Unfortunately, it's not coming to my mind, but we do keep them separate and they're accounted for separately and they're audited separately so I can assure you there won't be any double recovery if that's what you're asking.

Q. Is that kind of auditing that shows the separation anywhere in your testimony?

A. I don't know if I mentioned it in my testimony or not, I'd have to look at it a little closer, but I can assure you, Mr. Serio, that the way these entire programs are designed and the way we account for them, the Commission staff is heavily involved and they have been -- the Commission staff's been heavily involved when we started the ESRR program back in 2009, when we had the catch-up period, they will continue to be heavily involved going forward.

It is the virtue of the program and the assurance that we recover nothing more than prudently expended costs and expenses and that we only collect what we've spent, no more or no less. And they audit the DIR also, the very same Commission staff.

So I can assure you that our accounting systems and the auditing process that's in place with the Commission staff will assure no double recovery.

Q. Well, what I asked you was is there anything in your testimony that shows definitively the accounting that separates forestry under the DIR and the program under the ESRR. Is there anything in your testimony?

A. I don't really know how you would expect me to show accounting for these two -- these two programs. It's a very complicated accounting process, but it is all auditable.

Q. Is there anything in the application that shows that separation?

A. I don't think so.

Q. So is it your understanding that the staff witness in this proceeding that's testifying about the DIR might be able to explain those differences to me?

A. Oh, no, I wouldn't -- I wouldn't suggest that.

Q. Okay. Now, you've also testified that you would like to recover the remaining gridSMART Phase 1 costs as part of the DIR, correct?

A. That's correct. What I'm proposing is that the uncollected balance of plant-in-service that is currently being collected in the gridSMART 1 rider be merged into the DIR collection mechanism, which is just like all the other plants-in-service that's not gridSMART, and that would result in the existing gridSMART rider going to a zero-based value and it would remain at a zero-based value until such time the Commission has fully heard the pending application on gridSMART 2.

Q. Could you look at OCC Exhibit 1.

A. OCC Exhibit 1.

Q. That would be the opinion and order in the 11-346 case.

A. Sure.

Q. Could you go to page 46.

A. Okay.

Q. Last paragraph. Second-to-last sentence on that page. The Commission indicated "We emphasize that the DIR mechanism shall not include any gridSMART costs; the gridSMART projects shall be separate and apart from DIR projects." That was the Commission order, correct?

A. That's correct. Yeah, that's why we're proposing it and have to get Commission approval to move the balance from the rider into the DIR. We wouldn't do so without Commission approval.

Q. You've also testified about the skilled and sustained workforce rider that your company's proposed, correct?

A. Yes.

Q. At the very beginning of our cross-examination you indicated that experienced and skilled labor is something that's within the company's control, correct?

A. That's correct.

MR. SERIO: Thank you, Mr. Dias.

That's all I have, your Honor.

EXAMINER SEE: Mr. Yurick.

MR. YURICK: I have no questions at this time, thank you, your Honor.

EXAMINER SEE: Mr. Darr.

MR. DARR: Thank you, your Honor. I think I can be relatively brief here.

- - -

CROSS-EXAMINATION

By Mr. Darr:

Q. Your employment history, Mr. Dias, you started out in 1985 with Central and South West; is that correct?

A. Yes.

Q. And then after the merger you became an employee of the AEP system; is that also correct?

A. That's correct.

Q. When did you formally join the AEP Ohio corporation?

A. Well, just to be clear, I don't believe AEP Ohio is a corporation. Ohio Power Company is --

Q. Okay, let's use "Ohio Power Company" then.

A. Okay. And even that question to be precise gets complicated because we merged CSP with Ohio Power Company. But it was around 2004 I believe is, I like to think about it as when we started the operating company model where the president, there was a president in place for each operating company --

Q. My question was when did you join AEP, sir?

A. Well, I moved to Ohio in 2003 and I worked for the service company basically and in 2004 we started the operating company model.

Q. So it's fair to say since 1985 you've been continuously employed with either Central and South West or an AEP subsidiary, correct?

A. That's correct.

Q. Am I correct that neither Mr. Zarakas, Mr. Hanser, or Mr. Diep are going to be called as witnesses in this proceeding?

A. I'm sorry?

Q. Well, you referred to the article that's contained in SJD-2 as being important to your testimony and it's been allowed to be part of this record and it's been written by Mr. Zarakas, Mr. Hanser, and Mr. Diep and I wonder if any of those were going to be called as witnesses here today by AEP.

A. No. I didn't intend to call or have our attorneys call them as witnesses. I explained earlier the --

Q. Thank you, sir. I think that answers my question.

MR. SATTERWHITE: Objection, your Honor, I think the witness can finish answering his question before he gets talked over.

EXAMINER SEE: Finish your response, Mr. Dias.

THE WITNESS: Thank you, your Honor.

I explained earlier to Mr. Serio that the reason I picked this article to include in my testimony, because it is important that this Commission and all parties understand what I took as part of my comprehensive distribution reliability plan, I used this information to help me understand and validate my entire comprehensive plan to say that there is a balance between the company's objectives to provide reliable service, customer satisfaction, and keep rates affordable, and this article gets to the heart of that matter.

There is a balance associated with those three aspects and I took that into consideration as we developed our comprehensive distribution and reliability plan, and that's the importance of this article.

MR. DARR: Your Honor, I'd ask that the answer that began after your instruction be stricken as not being responsive to my question.

MR. SATTERWHITE: If I may, your Honor.

EXAMINER SEE: Yes, Mr. Satterwhite, go

ahead.

MR. SATTERWHITE: Mr. Darr is asking about challenging really the ruling of the Bench and the integrity of the article and whether the authors are going to be called as witnesses today, and Mr. Dias was explaining exactly why it was attached to the testimony and the purpose of it. Giving the context of really why it was attached and getting to the premise of Mr. Darr's question about whether those authors are going to be here to discuss it any further, so I think it's proper for the record for Mr. Dias's explanation to be there rather than have Mr. Darr ask one question and not ask the next question.

MR. DARR: Three responses, your Honor. First of all, I can control my own cross-examination. Number two, that doesn't respond to the fact that my question was are they going to be here or not and the answer is either "yes" or "no." Number three, I'm not impugning the decision of the Bench and I object to the sense from Mr. Satterwhite that he can interpret my intentions here.

What I'm doing here is these questions go to the weight of the evidence. You've allowed it to be admitted into the record or likely will as an attachment. I have the opportunity, therefore, to challenge the weight that should be applied to that evidence and I should be allowed to proceed on these questions and to do it on my own terms.

If Mr. Satterwhite wants to ask questions in terms of rehabilitation of this article, for whatever it's worth, he can do so, but he can do so on his own time, not mine.

EXAMINER SEE: The motion to strike Mr. Dias's response is denied. And you can move on to your next question.

MR. DARR: Then I request, your Honor, that you instruct the witness, as you did for Mr. Serio, for the witness to actually answer my questions.

MR. SATTERWHITE: Objection, your Honor.

EXAMINER SEE: And I'm instructing you to move to your next question, Mr. Darr.

MR. DARR: Thank you, your Honor.

Q (By Mr. Darr) You've never been employed by the Brattle Group, have you, sir?

A. I have not.

Q. And you're not currently employed by the Brattle Group in some parallel job assignment, are you?

A. No, I'm not.

Q. And you're not aware that AEP participated in this study, I believe you answered that with regard to Mr. Serio, correct?

A. That's correct, I'm not aware of whether AEP did or did not participate in the study.

Q. And this study was not performed on behalf of or by AEP Ohio, correct?

A. That's correct.

Q. Are you familiar in any way with the submission process for the review of articles submitted to Public Utilities Fortnightly?

A. I'm not.

Q. Are you familiar with the concept of an academic peer review?

A. I am familiar with that concept of an academic peer review.

Q. Do you know whether or not this article was ever reviewed through an academic review process?

A. I do not.

Q. It's fair to say that you did not perform this study; is that correct?

A. No, Mr. Darr. As I have said earlier, I did not -- I used this article as I described just a few minutes ago and that was the sole purpose of my inclusion in my testimony.

Q. So it is correct that you did not perform this study.

A. That's correct.

Q. And you have not included the data that were relied upon in the testing, correct?

A. I did not have access to the data.

Q. So it's fair to say that you did not provide it, correct?

A. That's correct.

Q. Now, the study itself contains what are identified as two significant variables which you did not discuss with Mr. Serio. Let's go to Figure 6 which is the summary of the regression results. You're familiar with regression analysis, are you not?

A. Generally, yes.

Q. And the value in a regression analysis indicates the correlation or likely correlation among various variables with a dependent variable, correct?

A. Yes.

Q. And if we look at the values for those variables, we want to attach to them not only a numerical significance but also a probability significance, correct?

A. That's correct.

Q. And if we look at the T scores, the T scores represent the probability calculation, correct?

A. That's correct.

Q. And the higher the T score -- excuse me.

The T scores are then judged as to whether or not they provide a level of, for lack of a better word, comfort in terms of the likelihood of them being true or not true, correct?

A. You know, you're getting down to a level that I don't recall all that I studied on regression analysis, but as I said earlier, Mr. Darr, and I shared that with Mr. Serio when he was asking me about whether I agreed with specific sentences or specific -- that was not my purpose of the testimony, of including this article in there.

My sole purpose was the point around the conclusions of customers, the interdependencies of investment by the utility, the reliability, and customer satisfaction on affordability of the price associated thereof.

Q. I appreciate that.

A. That was the purpose of including this in my testimony and that was the sole purpose I used this article in developing my comprehensive distribution reliability plan.

Q. And the importance of this to your testimony is that the -- that there is a correlation or a causative effect between investment in distribution facilities and customer satisfaction, correct?

A. Yeah. As it ties back to reliability, correct.

Q. Which is why I'm investigating this question of the reliability of the study. If you would look at Figure 6, sir, at the bottom of Figure 6 it says -- there are three items that are highlighted, the first one says items with three stars are "statistically significant at 1 percent." Do you see that?

A. I do.

Q. The second says that these items are "statistically significant at 5 percent." Do you see that?

A. I do.

Q. And the third one says that these items that are marked with one star are "significantly significant at 10 percent." Do you see that?

A. I do.

Q. Now, I would like you to go halfway up the table and do you see "Net investment in distribution"?

A. Okay.

Q. And it has a T score of minus 1.36. Do you see that?

A. That's right.

Q. Is there any star that indicates that it is significant at the 1 percent, 5 percent, or 10 percent level?

A. I do not see a star there.

Q. And the variable that they're measuring here, sir, is what? Well, let me point it out to you, is it the "J.D. Power residential customer satisfaction score"? Is that the independent variable -- or, excuse me, the dependent variable here?

A. That's the reference in the summary on the top of the table.

Q. Thank you. That's all I have with regard to that particular item.

And is it fair to say that, and this is my last question, is it fair to say it's impossible to know future reliability outcomes because there are other contributing factors such as weather or falling trees outside of the right-of-way that would impact reliability?

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

(Record read.)

A. You are correct that items such as you described that are outside the control of the utility such as weather and trees falling from outside the right-of-way can impact reliability and those are very difficult to predict.

MR. DARR: Thank you. I have nothing further, thank you, your Honor.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Dias, will you turn to page 16, please. I want to ask you about this chart.

A. Yes, I'm there.

Q. Okay. This is AEP Ohio's proposed capital spending plan under the DIR for the four years noted?

A. Yes. It's a forecast, Mr. Kurtz. It's a forecast of what I believe would be sufficient to meet my reliability plan and it's tying capital dollars given into consideration of the, you know, the workforce I have, the ability to do X amount of work, et cetera. So these are the capital dollars I would expect to spend given the approval of the continuation of the DIR.

Q. As I understand it, this listing of capital expenditures is fairly consistent with what the Commission has already approved in the prior ESP except with respect to general plant; is that correct?

A. Yeah, that's fair. Yes.

Q. Okay. And the general plant is 57.8 million over the four-year period?

A. I didn't add that up but that sounds right, yes.

Q. Okay. And the total capital spending is 931.4 million over the four-year period?

A. I did add that up and that's correct.

Q. Okay. So the general plant is about 6.2 percent of the total.

A. Okay.

Q. So, basically, this is pretty much what the Commission has already approved except for this 6.2 percent increase in capital spending for general plant.

A. That sounds right.

Q. Now, you and staff are basically in agreement, as I understand it, except primarily with respect to the general plant addition. Is that right?

A. And you're referring to strictly the DIR?

Q. Yes.

A. Yes, I agree.

Q. What are the other differences in your position versus staff's? Do you guys have the same return on equity agreement or is there a difference there? What are the other agreements -- disagreements between staff and AEP?

A. Well, I didn't look at all of them, Mr. Kurtz. I looked at the ones that were applicable to my testimony. And there were -- there was a disagreement. I disagree with staff's view of how -- of my proposal on the increase of the vegetation plan from 18 million to 25 million. I'll be happy to talk about that.

I'm also in disagreement with the notion that staff has recommended that all of the mutual assistance receipts or revenues that are reimbursed for expenses incurred, incremental expenses incurred when crews are sent to help other utilities, be credited against the storm damage rider.

Q. Would you consider those major disagreements or minor?

A. I consider them major disagreements from my perspective.

I also disagree with staff's view of the skilled and workforce proposal that I've placed.

Q. And those just, OCC's position is the DIR should be excluded and you should file distribution rate cases instead?

A. That's generally what I'm understanding from the line of questioning both in my deposition and in this cross-examination, yes.

Q. Now, these are capital dollars but these are not -- these are long-lived assets, 20-, 30-, 40-year investments so the revenue requirement affect on consumers is considerably less than the capital spending, correct?

A. Oh, absolutely, Mr. Kurtz. You couldn't be more correct. I mean, you mentioned $932 million over '15 through '18. When you consider the start of the DIR, I will have spent -- invested over almost $1.5 billion in infrastructure that's producing real results and reliability, compared to just the increase over this next ESP period that we're proposing is $2.60. Compare that to $1.6 billion of investment I've made. That, to me, is very affordable.

Q. And consumers would not avoid the --

MR. SERIO: Your Honor, I'd like to object. This line of questioning is starting to sound an awful lot like friendly cross. OEG is not on the record opposing this and all these questions are questions Mr. Satterwhite could ask the witness questions on redirect if he cares to, but there's nothing hostile about any of these questions so it's not really cross-examination.

MR. KURTZ: We did not take a position on this, I'm trying to understand the positions of the parties so that we can take a position in our brief if we choose to. Just the fact that I'm not yelling doesn't mean it's not appropriate cross.

MR. SERIO: Your Honor, if he's got an issue with OCC's position, he can take it up with OCC's witness. But asking the company witness what OCC's position is is inappropriate as I indicated, whether he's yelling or being incredibly polite, friendly cross is still friendly cross.

MR. SATTERWHITE: If I may, your Honor,

if you need me.

EXAMINER SEE: Go ahead, Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

Q (By Mr. Kurtz) The first year revenue requirement listed at 249.1 million of capital spending, what would the first year revenue requirement be approximately? Return of and return on the investment, do you have a rule of thumb for AEP's capital structure as to what that carrying charge would be? I use 15 percent generally. Do you have one?

A. Can you repeat the question? I'm not sure I understood.

Q. What's the first-year revenue requirement of the $241 million capital investment?

A. Mr. Kurtz, I'm going to have to defer that question to Witness Moore or Witness Roush. I'm sorry. I didn't get into those, into that calculation.

Q. Do you know how much distribution revenue AEP Ohio recovers on an annual basis?

A. I used to know that. I don't have it at the tip of my tongue, sorry.

Q. All right.

A. Witness Kyle would be a good witness to ask that question.

Q. If the Commission were to not approve the DIR, would your plan be to file distribution rate cases asking for fairly much the same thing?

A. If the Commission does not approve the DIR or these riders, it's going to have a significant impact on my ability to continuously improve reliability as I've laid out in the strategy. We're not opposed to base distribution cases. We would do those. We would need to do those regardless whether we have riders or not because these riders have an expiration.

By virtue of a rider, they're temporary in nature. The costs have to be ultimately put into a base case, so yes, we would have base cases. The real problem comes into my ability to secure capital allocation to proactively make these investments. With -- absent these riders I'm competing against other capital needs of the corporation and the reality is, yes, the ability to turn the investment into cash and put it back in the business has a significant impact on capital allocation.

Q. What return on equity are you asking for with respect to the DIR?

A. You know, I don't know the exact number, but I do recall a 10-point -- 10-1/2 or so was in the initial DIR that was approved and then there's a lot of other ins and outs that has impacts on tax, et cetera, but I believe the return on equity was around 10-1/2, somewhere thereabout. Don't hold me to that number precisely.

MR. KURTZ: Thank you, your Honor.

EXAMINER SEE: Mr. Williams?

MR. WILLIAMSON: It's actually Williamson with an O-N on the end as my mom would say, your Honor.

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CROSS-EXAMINATION

By Mr. Williamson:

Q. Good morning, Mr. Dias.

A. Good morning.

Q. My name is Derrick Williamson. I represent Wal-Mart and Sam's Club in this case.

A. Good morning, Mr. Williamson.

Q. Very well done.

A. Thank you.

Q. I just have a couple of questions relative to the statement that you make at page 26, lines 8 through 11.

A. Yes, sir.

Q. Just to give you a couple of points of context, Wal-Mart takes very seriously employing veterans, and I am a veteran, so they are employing me as I sit here today.

A. I'm delighted to hear you're a veteran. Thank you for what you did.

Q. And your testimony is not dissimilar to that statement, lines 8 and 9 you talk about the proud recognition of the sacrifices and dedication of veterans and that AEP Ohio recognizes that. Do you recall that testimony?

A. Yes, sir.

Q. And you talk about under the SSWR as you've proposed it that you will work with state agencies to identify veterans for growing the workforce. Do you recall that testimony?

A. Yes, I do.

Q. Does AEP Ohio currently work with state agencies to identify veterans for their workforce?

A. We do. We've got -- we already have veterans within our ranks and, frankly, when I'm not -- when I'm not here with a tie and a coat on, I have a hard hat on and I'm out in the field with my workforce and I talk to a lot of veterans that are in our ranks, and what I've seen, which really pleases me a great deal, is that our veterans have the discipline and the work ethic and they are some of our best employees, and that is one of the reasons why I believe this is the right thing to do.

And, you know, keep in mind that this is not the tail wagging the dog. The fact is we need more employees within AEP Ohio to do the growing workload, and we need to hire 150 employees. I've carefully laid this out to do 50, 50, and 50, because there is an on-boarding process that we have to go through that has to be very methodically done to get these employees trained to do their work safely both for themselves and for the public.

But once you get to that point that we need 150 employees, this is the right focus, that we focus on veterans.

Q. Let me -- let me parse your sentence a little bit because I'm not sure you answered my question.

A. Okay.

Q. The statement that you make is that the company will, using the future tense, will work with state agencies to identify veterans. Are you currently working with state agencies to identify veterans for employment with AEP Ohio?

A. Yes. We do. There are a couple of organizations, and, you know, the only -- when you say "state agencies" --

Q. You said "state agencies."

A. I do in this testimony, correct. But currently, because we don't have 150 people we're trying to hire at this point, we're working through organizations that directly are in link with veterans coming out of the military to make that linkage, all right? So we are working with organizations, not-for-profit organizations, that bring us the resource, the pipeline, for these veterans.

Are they state agencies? I don't know that answer directly.

Q. And so do you know which state agencies you would be working with when you reference them in this sentence of your testimony?

A. No. I spoke to our Human Resources Department when I had this strategy of bringing in 150 people and my desire to focus on veterans, I met with our Human Resources and they assured me that there were state agencies that would be able to help us in this regard.

Q. But you're not currently utilizing those particular state agencies for purposes of finding veterans to employ with AEP Ohio, correct?

A. I don't know whether we are or not.

Q. And with respect to the nonprofits that you referenced, would AEP Ohio continue to be with those nonprofit agencies or entities to the extent that the SSWR was not approved by the Commission?

A. You know, I think the more important issue here is that if the SSWR is not approved, it's going to be very difficult for me to hire 150 employees.

Q. Will you continue to seek out veterans through nonprofit agencies if the SSWR is not approved?

A. Can you repeat the question again?

Q. Will you continue to seek out veterans for employment if the SSWR is not approved?

A. Oh, absolutely. Yeah. They are -- veterans is the right thing to do.

Q. All right.

A. We are doing it today and we will continue in the future. The issue is, as I stated earlier, without 150 new employees my hiring is a lot smaller number.

MR. WILLIAMSON: All right. Thank you. That's all I have.

EXAMINER SEE: Let's take a five-minute recess before we continue.

(Recess taken.)

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

Ms. Hussey.

MS. HUSSEY: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Hussey:

Q. Mr. Dias, I'm Rebecca Hussey from OMA. Good to see you.

A. Good morning.

Q. From my understanding, and we've heard some different values so please clarify for me, AEP's ESP 2 previously set DIR levels at 2000 -- for 2012 at 86 million for 2012, 104 million at 2013, and for the period from 2014 through May 2015 at 124 million. Is that correct?

A. Yes. And let me be clear here. Subject to check, I believe those numbers are correct, but let me make a distinction here. I think what you are referring to is the caps that were set on the revenues that could be collected from customers. Distinction being made from the almost billion dollars that Mr. Kurtz and I were talking about from an investment perspective.

Q. Okay. Yes, that's correct.

Okay. So what I'm going to be referencing in my next kind of line of questions is also caps. If you would just bear that in mind.

From my understanding of the levels that are requested for caps through this ESP, we're talking about the continuation of the DIR rider but we're talking about increased levels at 156 million for 2015, can you clarify for me whether that's for the remainder of '15, 2015, or whether that's an annualized value?

A. I'm going to have to defer that question, that's a revenue question, and I'm going to defer that question to Witness Moore.

Q. Okay.

A. I can talk about the investment piece, but that's a revenue piece.

Q. Is it your understanding, however, that the caps that were previously set through ESP 2 would be increasing in this case?

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

(Record read.)

A. Well, my understanding was that the Commission had set caps for the ESP 2 which expires in the middle of 2015 and our proposal is that we want to continue the DIR, we want to -- we're going to invest even more, and with that investment we have, I believe, proposed a slight increase in those caps.

Q. Okay. The values appear to be on the order of about, of nearly two times from my understanding. Is that correct?

A. I don't know.

Q. Okay.

A. That's a question for Witness Moore.

Q. Okay. Did AEP make an adjustment to its proposed ROE to account for the reduction in regulatory lag that you've talked about as one reason for including general plant in the DIR rather than filing a D rate case?

A. The scope of my testimony is more around the investments we're going to be making so, again, this is, what you're asking me is around the calculation of the revenue side and Witness Moore would be more appropriately suited to answer that question.

Q. Okay. Thank you.

A. You're welcome.

Q. One item in which AEP is planning to invest, the cost of which will potentially be recovered under proposed DIR, is a radio or telecommunications system, correct?

A. That's correct.

Q. Okay. And is it your understanding that the radio system will not be fully operational until 2018?

A. No. I think you're looking at, and this table may be contributing to the confusion, I have put a placeholder in Table 1 of my testimony that shows the investment beginning in 2017 and going into 2018 of 26.4 million and 25.7 million respectively for those two years.

That's just a placeholder when we were developing this table, with the expansion of the DIR to include general plant, which would include the radio system, I would go ahead and move that investment forward and would like to start that in 2015. So it will be more than one year, Miss Hussey, that it will take us to get the entire radio system installed but my expectation is it would be completed well before 2018.

Q. Okay. When will it be operational?

Before 2018?

A. That would be my expectation, yes.

Q. Before 2018, but you propose to recover beginning in 2015? Is that correct?

A. Well, keep in mind recovery only starts when the plant goes into service. So we would start, I would start the construction of the radio system, it will start with towers and then the rest of it to follow. It would take more than one year, my expectation is that it would be completed before 2018. I don't have a specific year as to when it would be completed. But it would only start earlier if we get the approval from this Commission around the expansion of the DIR to include the 800 megahertz radio system.

Q. Okay. I want to talk a little bit about the DIR work plans that are sort of parallel to what you're requesting here. Over the past few years I know you've been required -- or, AEP has been required to file work plans pursuant to the DIR, correct?

A. That's correct.

Q. Okay. Do you know if AEP plans to include in its DIR work plans over the term of this ESP any targeted areas for improvement in distribution reliability?

A. Yes. That's the whole purpose of the work plan. It targets the areas of improvement for distribution reliability. We work with staff as we're developing the plan. It's not just a plan that we present and it's approved. It goes back and forth. Staff shares with us their opinions of where they believe emphasis should be placed. We discuss it, we work together, and we come up with a final plan that is ultimately filed at this Commission and most recently was approved for the 2014 plan.

And we will -- we intend to do that process every year of the continuation of this next ESP 3 proposal.

Q. Okay. You testified earlier, I can't remember if you were speaking with Mr. Darr or with Mr. Serio, about AEP having developed a list of areas or specified zones that it will be targeting for specific improvements. Are you specifically aware of what those areas are presently?

A. Yes. Mr. Serio showed me that in one of his documents, I briefly looked at it, I didn't study it very hard, but some of the work plan components that I've listed there, the project categories on page 17 on my testimony, I talk about asset improvements, customer services, forestry, it goes on to the next page, planning capacity. But when you get down deeper into those high-level project categories, we get into specific programs such as the distribution circuit asset improvement, all right. So that would be all of the assets we have very specifically tied to circuits, conductor and poles. And we get into cut out and arrestor programs which are protective devices for the system and it helps isolate customers when a weather event happens.

We target animal mitigation programs at stations, that's a very important program because animals are a significant cause of our outages, and when you think about a station going -- going out, it impacts large numbers of customers so those are -- that's another area that we target.

I mentioned cut out and arrestor lightning mitigation, underground cable replacement. That's a big one that we use. We invest a lot of money in underground feeder exit cable conductors out of the stations, some of those conductors feeder exit cables have been in place since the 1930s and that's a great example I like to use when I talk about the benefits of the DIR.

Those cables have been in the ground for a long, long time. They've been in place and they may be functioning fairly well today but, let's face it, they're 50 to 70 years old and it's not a matter of whether they're going to fail -- I'm sorry, it's not a matter of if they're going to fail, it's a matter of when they're going to fail.

So by proactively using this investment program we can go in and replace those exit feeder cables today with new feeder cables and it improves the or lessens the likelihood those cables will be facing and have customers out for a long, long time.

This is one that is very difficult to quantify because you think about it, it's been working fine today, it's 70 years old. It's going to fail but you replace it with new cable and it's not going to fail now for hopefully another 50 years so how do you take zero to zero and say here's my improvement but it is in fact a reliability improvement.

Q. Okay. I really appreciate your elaboration, however, I think I was talking about a different type of area than you were.

A. Okay. I'm sorry.

Q. I was talking about geographical zone but something that you said sparked my interest in something else so let's come back to that if you don't mind.

A. Sure.

Q. If you look at your testimony at page 14, line 12.

A. Okay.

Q. You talk about this 50-year replacement period.

A. Yes.

Q. Is that a reference to replacement after -- the replacement after 50 years reference, is that a reference to an AEP standard or a PUCO standard or a FERC standard?

A. No. It's just, as I used some of this -- some of this infrastructure has been in place since the 1930s, so I'm just using it as a broad category. Just a general statement.

Q. Okay.

A. It's old, that's what I --

Q. It's not attached to any specific standard, however.

A. No.

Q. Thank you.

Can we turn to study SJD-1.

A. Yes.

Q. Did that study include the impacts of costs or increased costs of reliability on customers' expectations?

A. I don't -- are you asking me -- can you ask your question in another way? Maybe I'm not understanding your question.

Q. Sure. Did the impacts of cost, were they considered when the questions were asked in the study?

A. So you're asking me if we asked the customer whether they were willing to pay X amount of dollars for improvement in reliability, is that what you're asking me?

Q. Right. When it says, you know, we expect this type of reliability or this level of reliability, did you ask anything about cost?

A. We did not in this particular survey. This was the most recent survey. I know back in, I believe it may have been 2011 or 2012, as I had mentioned earlier, we work with Commission staff on a lot of our -- a lot of our programs and Commission staff had asked us to do exactly what you suggested is ask customer -- we put questions in our survey that say would you be willing to pay X amount, Y amount, Z amount for improvements in reliability, or what would you be willing to pay.

Q. But that's not included in this study?

A. It was not included in this study. And what we found, Miss Hussey, is that when we asked the question, the dataset that was developed was scattered. It was all over the board and it was inconclusive. And I believe my recollection is correct, Commission staff and us both scoured over the data and tried to draw conclusions from it. It was inconclusive and as a result we jointly agreed to drop that question and we stayed very specific to what are your expectations into the future.

Q. Okay. But the Commission staff in your discussions previously had suggested that you include cost in a study of that nature or the impacts of cost in a study of that nature.

A. That's correct. And I had mentioned earlier that we use a third-party surveyor, I think it's called Market Strategies International, they're a third party, and they had shared the same basic response to us when we had talked to them about it. They had done -- attempted to do that kind of a survey with customers for other utilities, and they got the same scattered results, and they had warned us in advance that it would be inconclusive and it proved out exactly that.

Q. Okay. You do talk about costs a little bit in your testimony, if you could turn to page 6, lines 7 and 8. You testified that the relationship between cost and reliability is not linear but exponential, correct?

A. Correct.

Q. Okay. And did AEP, to your knowledge, conduct a study or analysis determining the point at which customers are satisfied with reliability and don't wish to expend any additional costs on additional reliability?

A. I think this goes back to the conversation we just had, that we abandoned that approach when we started it in conjunction with staff's request because it was inconclusive.

Q. I apologize, but I don't think it's the same question.

A. Okay. Try again.

Q. Okay. So has AEP ever conducted a study that relies upon questions asking at what point customers may be satisfied with reliability and, you know, that's kind of the limit where they don't want to spend any additional money on reliability concerns? I like my service, I think it's reliable, I don't want to spend any more money related to distribution.

A. I don't know whether we've asked that kind of a question.

Q. Do you think that would be an important question to ask?

A. It certainly is an interesting question, I would have to consult with subject-matter experts around the nature of the question. You know, these questions -- my understanding in my conversations with the experts that developed the questions is that they've got to be asked in a way that customers can understand and interpret what you're asking so you get the right answer and you get a consistent answer.

Q. I understand.

A. I do know -- I do know, for example, that we did rely, just kind of a very similar question when you talk about cost and, you know, the cost that a customer would pay for reliability, there is a very similar question around what is the cost of an outage to a customer, and that question -- we looked at a study that was done by Berkeley National Labs that did a study on what are the economic costs of an outage to a customer.

We took that dataset, we applied it to

our AEP Ohio customer base and, it's one of the fundamentals of our gridSMART application. My understanding, if I recall this correctly, is that it was around -- I think over the gridSMART program I think we're looking at 15 years, it was over a billion dollars' worth of economic costs to a customer, to customers in Ohio for outages based on minutes. So --

Q. Okay, let's try to bring it back to, I suppose, customers' understanding what the nature of the question would be in a study like that. I think customers would be very clear that they're being asked at what level of spending are you happy with your reliability and don't want to spend any more money. Do you understand that?

A. Yeah, I understand that. Yeah.

Q. Okay.

A. Is there a question in there?

Q. I'm getting to that, don't worry.

Okay. And since that type of a study has not been commissioned or that question has not been answered, how does AEP know that its increased spending in the DIR for the proposed ESP period is cost-effective as far as customers are concerned?

A. I'm looking at it from an affordability standpoint. I don't believe those questions have been asked in a survey for the reasons I already described, but I'm looking at it from an affordability standpoint.

Q. But how do you -- I'm sorry, how do you know it's affordable if you haven't --

MR. SATTERWHITE: Your Honor, objection, I'd ask the witness finish his answer before the next question comes in.

MS. HUSSEY: Thank you.

A. You've got to come back to where I started out and that is my comprehensive distribution reliability plan is around continuous improvement on reliability. I look at how we're improving reliability. I'm seeing significant improvement even when you look over the last ten years and I'm looking at the investment I'm making and the customer impacts.

Witness Roush has a table in his testimony, DMR-1 I believe, I studied that table quite a bit looking at my investment translated into rates, and for the DIR, for example, as I explained to Counselor Kurtz, the 1 billion, over a billion dollars of investment I'm making is translating over this next ESP to $2.60.

That has a -- that, to me, is affordable considering the investment I'm making. When I look at the third part of my comprehensive strategy is a workforce. I'm talking about 150 employees or 19 cents a month. I believe that a customer would be glad to pay 19 cents a month to see 150 employees on our property to be there when they need us, when they need us.

Q. And I appreciate that. I understand that you believe that. But if you haven't asked customers, how do you know?

A. I rely on this proceeding, for example, the Commission has had public hearings asking customers to voice their concerns. We've had virtually no turnout sharing any concern about the overall rate impact plan. I'm relying on what I have -- I talked about earlier, meeting with city councils and communities that are asking us for better reliability and there's been no discussion around that the rates are unaffordable.

Q. Okay. Isn't it true that you do not maintain a list of requirements to make this determination for customers?

A. I'm sorry?

Q. The affordability question, do you

maintain a list of requirements to make that determination for customers, whether it's affordable?

A. Can you be more specific, please?

Q. Criteria that you would go along or use as a signpost to indicate to you this is affordable for customers rather than an exponential type of calculation.

A. I don't have criteria that I use.

Q. Do you know if there are any institutional criteria?

A. I don't know. That may be a better question for Witness Roush.

Q. Okay. You acknowledge on page 6, line 10 of your testimony -- if you could turn there -- that high utility costs can drive customer satisfaction down, correct?

A. I'm sorry, I was still turning to the page when you were asking the question.

Q. Okay.

A. Can you repeat the question?

Q. Certainly. You acknowledge in your testimony at line 10 that high utility costs can drive down customer satisfaction, correct?

A. Yes. And that's why I included that Brattle study.

Q. Okay.
A. That's a balancing act that you've got to take into consideration. We've got reliability and you've got price and customer satisfaction that all play together.
Q. I spoke -- and I believe you were here, but I spoke with Mr. Spitznogle yesterday about the efficiency of the distribution system and he deferred my questions about efficiency to you. When you allude to the efficiencies of the distribution system, to what exactly are you referring?
A. I'm specifically referring to VOLT/VAR. Are you familiar with VOLT/VAR?
Q. Yes. Anything else?
A. No. I think VOLT/VAR is the primary efficiency that I can gain through investment. It's a combination of using capacitors and regulators to regulate the voltage and can reduce the voltage by some small amount and still stay within the bandwidth of the tolerance to deliver the service to the customer and gain efficiency and that's a tremendous benefit from an efficiency standpoint.
Q. Can you quantify for me the number of customers that have previously expressed concerns with this type of efficiency, with the VOLT/VAR?

A. That's the beauty of it. I don't know why there would be any concerns around VOLT/VAR with a customer. The customer sees no negative impact from voltage control. It's actually a benefit. And the added benefit is the energy saved from controlling the voltage.

Q. I did ask about quantification so no customer has indicated to you a concern about the system that would go ahead and lead to additional and increased spending in that particular efficiency.

A. Are we still on VOLT/VAR?

Q. Yeah.

A. Okay. And you're -- maybe ask the question again. I'm sorry.

Q. Did you -- I apologize.

Did you quantify any of those concerns with efficiency that have come from customers in your testimony anywhere?

A. I haven't heard a concern about VOLT/VAR efficiency.

Q. Okay. Any --

A. It's a good thing.

Q. Okay. I think you're mischaracterizing what I asked, but I'll go on.

All right. Can efficiency improvements

in the distribution system be quantified?

A. Yes. Efficiency on VOLT/VAR, the reduction voltage, yes, it can be quantified.

Q. Okay, anything else? Just VOLT/VAR?

A. That's the only efficiency I can think of.

Q. Okay. At what level can customers expect to see improvements from increased spending in the distribution system? At what level, whether it's microscopic, whether it's at the local level, or whether just over the entire broad service territory, or both.

A. All of the above.

Q. Okay.

A. I can explain a little bit more. With --

Q. I think you did a bit earlier so I'm going to go on to my next question if that would be okay with you. I think we're getting back to the discussion we initially had.

Has AEP developed a list of areas or specific zones, so I'm talking about geographically here, that it will be targeting for improvements in its distribution system and system reliability?

A. When we target our work plan under the DIR, we're obviously looking at the entire state and our state has got a diverse geographic makeup.

Q. Sure.

A. You've got flatlands in the northwest, you've got heavily vegetated forests in the south, southeast. We do take into account the geographic area, so we've talked about right-of-ways earlier, so in the geographic area where there's high vegetation we're going to look to see if we can expand the right-of-ways. We're going to, in areas where it's more prone for ice loadings, in fact, ice loadings are the one -- we have changed the standards on the entire distribution system to make it more resilient to weather and using ice loadings, for example, we are increasing those areas, those geographic areas where we have seen and experienced more weather-related ice loadings.

We've increased the standard of the conductor to hold, we're engineering it for now half-inch ice loadings compared to quarter-inch ice loadings so, yes, we are going to on a geographic basis, it comes back to your question you're going to see it all around. Individual customers, entire classes of customers will see the benefit.

Q. Okay. And my question about the geographic areas was do you have a list developed or a series of specific circuits or areas that you are targeting for improvements in this next ESP?

A. Yes, we do. We start though -- we don't start with geographic area and work down. We start the other way around. We start where is the investment that can be made that has the most benefit to the customer across the entire state. So if you came back to me later and said, okay, in this specific area can you show me the investments made, yes, I can show you those.

Q. And that's not included in your testimony, is it?

A. No.

Q. No? Okay.

You do maintain those lists for investments in distribution for the upcoming years of the ESP term however?

A. Well, we maintain the work plan and all the data that goes with it so we can take that and if you ask me specifically from an OMA perspective can you show me this particular area and the improvements we've made, yes, we can do that.

Q. I think I asked you this already because we were talking about something different or as you understood it, I think we were talking about something different, but do you know if AEP plans to include in its DIR work plans over the term of this ESP those specific lists or those specific areas where distribution reliability investments are to be made?

A. So are you asking to have a geographic component, a location for --

Q. Exactly.

A. -- each work plan?

Q. Locational --

A. We had not intended to do that, no.

Q. And why not?

A. It just hadn't come up.

Q. Okay. Was that requested in the last work plan or the last case, the DIR case?

A. Not that I'm aware --

Q. By any party?

A. Not that I'm aware but it may have.

Q. It wouldn't surprise you necessarily if it was mentioned or requested?

A. No, it wouldn't surprise me.

Q. Okay. Is there any reason that AEP cannot file those lists or that data with its work plan?

A. No. I'd be curious as to the

understanding, I'd like to -- I always like to understand the why and what would be the interest of a specific location. If you're asking me in Athens, Ohio, for example, can you show me a list of every project done in Athens, Ohio, yes, we could provide that list. I'd be curious as to why, but, I mean, I don't know what else to say beyond that.

Q. Sure. Do you think it's reasonable for customers and the Commission to know where geographically their investments in the distribution system are going?

A. You know, the whole purpose of this program is to share information and I think that is one of the biggest values of this. So to the extent it has value to a specific party, we are certainly open to working with that party to satisfy that need to know.

Q. Okay. So further disclosure in terms of geographic or specific areas of investment would not be problematic for you.

A. To the extent it's available, yes. I don't see it as a problem. As long as it's available, yes, we can show that.

Q. Okay. Let's turn to Exhibit SJD-2.

A. Okay.

Q. I have a couple of questions for you about the study. Was this study commissioned by AEP?
A. No, it was not. That I'm aware.
Q. Okay. And this may have been asked earlier, so I apologize if it was, did you participate in the article, either drafting it or the study components?
A. No, I did not.
Q. Personally. How about anyone else from AEP?
A. Not that I'm aware of. The way this came about to me is we subscribe, I know our president describes to Fortnightly and I read these articles periodically, it's a trade journal, I read these publications and this came across my desk and it caught my attention and it certainly hit right smack in my whole strategy and that's why I felt it was important to include it in here.
Q. Do you know if the study was unique to AEP Ohio customers?
A. I don't know what the 30 utilities that were surveyed are so I don't know. But it was -- I have trouble believing that this article was unique to any specific geographic area of the United States. If you read the article, if you've read the article,

I think you will conclude that it is pretty generic.

Q. Okay. And do you know specifically what assumptions were made in the development of the article?

A. No, I don't.

Q. Let's turn back to your testimony at page 18. Lines 1 through 3, you testified to --

A. Let me catch up with you.

Q. Sure thing.

A. Page 18?

Q. Uh-huh.

A. Okay.

Q. Okay. Lines 1 through 3, you're talking about an "Other" category of DIR capital projects, and the testimony says which would include miscellaneous projects or distribution projects that support other business units. Is that correct?

A. That's correct.

Q. Okay. Would you give an example of such a project, please.

A. Yeah. One that comes to mind immediately would be transmission projects in which we have distribution underbuild associated with it.

Q. And so in support of other business units these costs would still be included or recovered through the DIR?

A. Just the cost that's associated with distribution.

Q. Okay. Let's talk about the gridSMART rider.

A. Yes.

Q. Page 16, line 4. You testified that the proposed gridSMART rider will first and foremost collect gridSMART 1 costs; number 2, recover gridSMART Phase 2 costs, and track Phase 2 costs; is that correct? With the exception of the "foremost" part that I added.

A. Okay, can you repeat, I guess read my testimony -- can you repeat the question, please, for me?

Q. Sure. Let me go on to the question. I wondered if that was a correct or an accurate statement of -- or summary of your testimony. Whether your testimony says that you under the gridSMART rider will be collecting gridSMART 1 costs, recovering gridSMART Phase 2 costs, and tracking Phase 2 costs.

A. It's getting confusing the way you read it so just using my words now is that the -- what is currently plant in-service and left to collect in gridSMART 1 will be collected under the DIR, that's the proposal. So then the gridSMART rider goes to zero and it will stay at zero until such time this Commission has fully decided the proposal on gridSMART 2. And if this Commission approves gridSMART 2 going forward, then the collection of the investment in gridSMART 2 would be done through that gridSMART rider which is currently -- which would then be at zero. Does that make sense?

Q. Yes. Tracking Phase 2 costs, however, is included in your testimony and I wondered if there is any additional cost associated with tracking these costs.

A. We don't have any gridSMART 2 costs that I'm aware of at this point because we have not received -- we have not gone through the regulatory process and the Commission decision on gridSMART 2.

Q. Okay. So to your understanding there's no additional tracking cost involved?

A. That's my understanding.

Q. Okay. Would you agree that both the DIR and the ESRR focus on distribution service reliability as expected outcomes of investment in that distribution system?

THE WITNESS: I'm sorry, can you repeat

the question again, please?

(Record read.)

A. Yes. Both the ESRR and the DIR have distribution reliability outcomes and benefits. They're two different kinds of programs, though. The ESRR is a vegetation program. It is predominantly O&M related expenses that's tracked and recovered as we incur them subject to a prudency review and a plan review that the Commission staff's involved in.

It is intended to recover no more and no less than what we spend to maintain a four-year trim cycle.

In contrast, the DIR is capital investment, which is plant in-service, and is recovered through a mechanism that includes a return on and of that investment over the life of that asset.

Q. Okay. They are both distribution, heavily distribution related, however.

A. Absolutely.

Q. Okay.

A. They're both very significantly impactful to distribution reliability.

Q. Okay. Let's turn to the storm rider on page 12 of your testimony. It appears that AEP is proposing in this case that the rider recover only incremental major storm costs above the $5 million annual baseline embedded in base rates; is that correct?

A. That's correct.

Q. And to clarify, AEP is not proposing to modify the $5 million baseline through this proceeding?

A. That's correct. AEP is not -- is not proposing to change that $5 million baseline which was established in a prior proceeding.

Q. Okay. Thank you.

And the last category of items I'd like to speak with you about is the SSWR. From my understanding AEP is proposing a rider to recover the incremental O&M labor costs for employees; is that correct?

A. Yes. The incremental O&M expenses associated with and limited to an additional 150 employees that would be new employees being hired into our system.

Q. Okay. And without this rider, isn't it true that the costs associated with these new employees would be recovered through base rates?

A. Well, let me start with without this

rider it would be very unlikely I would hire 150 employees --

Q. Okay.

A. -- to even get into the subject of a base rate but, yes, absent this rider and if I chose to hire 150 employees, the other mechanism for recovering the cost of those 150 employees would be through a base case.

Q. Okay. Will the additional employees be replacing retired workers?

A. No. We will retire -- retired -- retiring employees currently and into the future are being replaced as they retire. That is unrelated to the SSWR. So if an employee retires this year, I'm replacing that employee. If an employee retires over the course of this ESP, we will replace those employees and none of those costs are associated with the SSWR.

The SSWR is strictly limited to 150 new employees incremental to what our headcount is today.

Q. Okay. So will those new employees be hired in addition to existing employees for training purposes then?

A. I'm sorry?

Q. For-training purposes, I don't know if there are already any existing employees that are undergoing training of the nature --

A. Our entire workforce is always going through training.

Q. Okay. So those would be additional new employees.

A. These are -- yeah, exactly. As I said, these are 150 new employees that we would bring in as apprentice level employees, Mr. Williamson asked me some questions around that, around where we would source those employees targeting veterans but these are brand-new 150 new employees.

Q. Apprentice-level employees?

A. Generally speaking, yes, I would start with apprentice level.

Q. Okay. Could you turn to page 22 of your testimony, please, at lines 14 and 15. The company's asserting that the addition of labor resources is needed to support future work requirements not current requirements, correct?

A. That's correct. And I used the word "future" only because I've positioned the hiring of those 150 to be 50 in 2015, 50 in 2016, and 50 in 2017. So, yes, that would be -- that's the future part of that sentence.

Q. Okay. Thank you for clarifying.
If you would turn to page 23, lines 4 through 6.
A. What lines again, please?
Q. Four through 6. Is AEP proposing to hire sufficient employees for a five-year cycle?
A. And your question is?
Q. Is AEP proposing to hire sufficient employees for a five-year cycle? Is that the cycle that applies in this particular circumstance?
A. Let me help you understand what I'm trying to say in my testimony here. The work our front-line employees do, line mechanics, as you can imagine, is extremely dangerous work, and when we hire an apprentice-level employee, a brand-new employee off the street or a veteran, we start them out as a line mechanic D class. So they move from a line mechanic D to a line mechanic C to a line mechanic B to a line mechanic A.
When they have reached a line mechanic A class, that's the class that I consider the journeyman level and is the most experienced level of skill sets that we expect those line mechanics have to have to be able to do the work safely.
The period of time to get from an

apprentice level line mechanic D to a line mechanic A typically takes around a five-year period.

Q. Okay. And that's what I was asking. That's -- five is the number that we're talking about here, correct?

A. That's the time it takes to go from a D to an A, correct.

Q. Okay. Thank you. I appreciate that.

And then let's turn to Table 3 on the same page. Is this table representative of the requisite employees for future work requirements?

A. Can you be more specific?

Q. What you're seeking in terms of what's included in the rider for seeking to, from my understanding, secure or be able to fulfill certain work requirements, is the table representative of the requisite employees that will be necessary for that?

A. I don't think I'm understanding your question here but let me try to help you understand this table. The table, this is Table 3 on page 23 of my testimony, if you look at the two line items that say "Line Department FTEs" and in the "2014" column, let's just take that column to start, that has 578 employees. During 2014 I'm expecting 10 to retire. Add those two numbers together and you're going to get 588. You'll get 588 if you add those two line items across all of those columns. That's what our current headcount is at, 588.

Now, come down with me to the line item that says "Construction Contractor FTEs," you see we've got 400 to 550, right? So you can see we're almost at half our workforce are contractors compared to employees. And so what I'm proposing in the SSWR is that I want to take that 588 number and add 150 people to that number, and conversely or contrast to that I will ultimately plan on taking the contractor number down commensurately, all right?

That's a tricky thing to do because I've got to get employees trained and it's happening simultaneously, but that's the goal. I'll reduce my contractors and go up with employees, and that's why this is so critical to my strategy on reliability, because by doing so I now have 150 new employees which I've staged here, 50 in '15, I go up another 50 in '16, and then another 50 in '17 and these now 150 employees are available to me to give me a lot more flexibility to respond to customer needs when there are storms, outages, day-to-day needs. Does that help?

Q. It does. What I guess I was asking is the 150 people in the rider or that would be included for or provided for under the rider, they are what you would estimate to be what is necessary for requisite employees to be there for future work requirements to meet the requirements that are summarized through this table.

A. Yeah.

Q. That's the total. The total necessary under the rider.

A. I could use a lot more than 150, if that's what you're getting at.

Q. Okay.

A. Yeah, I mean, the plan, Miss Hussey, is that I don't intend to just -- it's not the goal to have just employees and no contractors. Contractors have a place. And they're a valuable part of the workforce. I'm trying to right size the balance of employees to contractors to give me the flexibility to respond to customers' needs and do the work that we need to do because of the growing workload.

Q. And I understand that and I appreciate that. I just was simply asking about those 150 employees.

A. Yeah, I staged it as 50 to allow me to on-board them in some methodical way, 50, 50, and 50.

Q. Okay. Those 150 employees we're talking about in this five-year cycle; is that correct, that we just discussed? The training would need to occur throughout a five-year cycle, correct?

A. Well, the term "cycle" is what's throwing me off here.

Q. You used the word "cycle," I believe.

MR. SATTERWHITE: Objection, your Honor, can the witness finish his answer?

A. I'm not sure I used "cycle." If I used the word "cycle," I used it inadvertently, but the point is that it takes five years to train. I don't want -- cycle sounds like you start all over again. It takes five years to go from an apprentice to a journeyman and then you've achieved journeyman status and the skill set I expect.

So when the 50 that come in in 2015, it will take them five years to get from an apprentice to a journeyman.

Q. Okay. And I understand that. And I appreciate those comments. "Cycle" was used on line 5 of that page and that's why I was using that term.

A. Okay. I see it now.

Q. Could you turn to page 27, please, and refer to Table 5 of your testimony.

A. What line of testimony?

Q. Table 5.

A. Oh, Table 5. Yes.

Q. Is it accurate to say that this table summarizes the dollar amounts AEP is requesting to collect through the SSWR?

A. Yes.

Q. Okay. Isn't it reasonable to assume that businesses and manufacturers may face similar labor issues including training concerns?

A. I mean, I'll agree with you that other businesses also have to train their employees. I'm not sure I understand your question.

Q. I was just asking if you were aware that businesses and other manufacturers also had training concerns for their employees. My next question, however, is is it true that manufacturers and other customers do not receive cost recovery from ratepayers for their training purposes?

A. So we almost have to start with the fundamentals of regulatory ratemaking and cost of service.

Q. Is there --

MR. SATTERWHITE: Objection, your Honor, she asked a very broad question comparing private industry with public utility industry and I believe the witness is entitled to finish his answer to give the full context to explain how he has to answer the question from the very broad question that she asked.

MS. HUSSEY: May I reply?

EXAMINER SEE: Yes.

MS. HUSSEY: I simply asked if it's true or false that manufacturers and other customers do not receive cost recovery from ratepayers. That would be a "yes" or "no" answer and, frankly, I'm concerned that we're going to be going onto the fundamentals of regulatory practice.

MR. SATTERWHITE: If I may, your Honor, I think we need to go onto the fundamentals because we're comparing apples and oranges here in a regulatory proceeding before the Commission asking about cost recovery for regular businesses in America that aren't regulated by the Commission, so I think it's appropriate to take the stroll down regulatory lane to put everything in content.

EXAMINER SEE: Mr. Dias, if you could answer the -- the true or false question that Miss Hussey put to you. Do you need it read back?

THE WITNESS: Yes, please.

(Record read.)

A. It's true that businesses that are not under regulatory model do not receive costs of training from customers. They probably embed in other cases.

MS. HUSSEY: Thank you very much, I appreciate it. I don't have any further questions at this time.

MR. McDERMOTT: No questions from FES, your Honors.

EXAMINER SEE: I'm sorry, tell me your name again.

MR. McDERMOTT: Jacob McDermott.

EXAMINER SEE: Thank you.

Mr. Howard.

MR. HOWARD: RESA, Constellation NewEnergy, and Exelon have no questions, thank you. No questions, your Honor.

EXAMINER SEE: Mr. McDaniel.

MR. McDANIEL: No questions, your Honor.

EXAMINER SEE: Mr. Dougherty.

MR. DOUGHERTY: No questions, your Honor.

EXAMINER SEE: Mr. Smalz?

MR. SMALZ: Yes, your Honor, I have a number of mostly clarifying questions.

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CROSS-EXAMINATION

By Mr. Smalz:

Q. Mr. Dias, I hope you can hear me better than we can see each other but anyway, turning to page 3 of your testimony, under "Purpose" you state that your purpose is to explain the enumerated riders. How many riders is AEP Ohio proposing in this ESP case? Including both the old and the new ones.

A. Mr. Smalz, that may be a better question for Witness Moore or Witness Roush. I'm only testifying to the riders that are associated with my comprehensive distribution reliability plan.

Q. Okay. Regardless of the number of riders, do you know if all the riders will be listed on customer bills?

A. I do not know. That would probably be a better question for Witness Moore.

Q. Okay. Thank you.

A. You're welcome.

Q. Turning to page 5, beginning at line 6 where you discuss customer expectations regarding reliability, you point to this 2012 survey. Is AEP Ohio planning to do any more surveys, customer surveys?

A. I believe we do these surveys on a regular basis. I don't know the frequency. I don't know whether they're annual or biannual, but we do them on a regular basis.

Q. So you wouldn't know when the next survey might be conducted by AEP.

A. No, I don't.

Q. In response to questions from the counsel for OMA you indicated I believe that the survey -- the surveys that AEP Ohio has done do not address cost, the issue of cost; is that correct?

A. Yes. There was some very specific line of questioning around the surveys and whether we ask customers what level they're willing to pay. I think just generally speaking that's correct, and I explained that in around the 2012 time frame there were some discussions with Commission staff to include those questions. We did include those questions and the dataset that was derived was inconclusive so we stopped asking those questions.

Q. By "inconclusive" do you mean that they didn't point to any -- in any particular direction?

A. Yes. You know, I'm not the expert on interpreting that data, but the way I understand the results was that the socioeconomic demographics around the customer base produced varying answers around what they would pay and so it was difficult to draw any conclusion for the purpose that I'm using it around where do I stop investment because customers don't want to pay any more for reliability.

What I relied on is the overarching takeaway from the Brattle Group was that customers place a higher degree on emphasis on reliability over price.

Q. Couldn't the fact that the results were, quote/unquote, inconclusive suggest that customers didn't have a strong preference as far as spending more money on distribution investments?

A. Mr. Smalz, anything is possible. I really would not be able to speculate on it at all. All I can tell you is that the dataset was inconclusive. As to the reasons why, I have no opinion.

Q. And for future studies does AEP Ohio plan to include survey questions relating to willingness to pay more for distribution improvements?

A. I don't know. I'm just sharing with you what was our initial takeaway when that question was asked.

Q. Okay. Turning to page 9 of your testimony where you discuss the reasons for filing the DIR, I think in response to an earlier question from Mr. Serio you indicated that the company sometime in the future would file another base distribution rate case; is that correct?

A. Yeah, I'm not sure who -- which attorney was asking me some cross around the riders and I recall my testimony that says that base rate cases are certainly -- certainly have their place. That riders are a proactive way to make rapid, in this case you're asking about the DIR, in the case of the DIR it's a proactive way to make rapid investment in infrastructure to improve reliability.

I refer to the traditional old-fashioned base case approach as being, you know, I call it a slow turtle dinosaur. It has its place. But, you know, Ohio, I had a question about being in this business almost 30 years, and Ohio, I've been in Ohio ten years and Ohio is a progressive state from a ratemaking perspective. The legislature had the foresight to allow this kind of rider mechanism to allow these kind of investments to make sure that companies' or utilities' expectations on reliability are in line with customers and these riders allow that.

So it doesn't make base rate cases go away, they have a place. At some point in time these investments, they move out of the rider mechanism, they go back into the base case and the rider mechanism goes back to zero and you continue the process. So base cases have their place.

Q. So conceptually what types of distribution investments would be more appropriate for being addressed in a rate case as opposed to a DIR rider?

A. You know, I'm thinking about my responsibility is over Distribution Operations and the service we provide delivering service to customers, and the riders that we've proposed, the DIR, the vegetation, the workforce rider, are all part of that ability to meet customers' expectations which have been ever changing. We've had a tremendous change in customers' expectations over the years. So these I believe are appropriate.

Q. But could you give any examples of distribution projects that would be more appropriately addressed in a base rate distribution case?

A. Can you be more specific? Have you got something in mind you can ask me?

Q. No. I would appreciate if you would just answer that question.

A. No, I believe the distribution investment in infrastructure is the -- that's predominantly investment infrastructure is the investment that -- is all the investment I do from my responsibility area is investment in infrastructure. That's virtually all of my capital investment plan.

Q. Uh-huh. And in your view that should all be addressed in a DIR rider.

A. If you believe in my strategy to align reliability with customer expectations, the answer is "yes."

Q. So what would be left to be decided in a base rate distribution case?

A. There are continuing changes in cost from an O&M standpoint, cost of service which I think we were starting to go down the fundamentals of ratemaking that would be addressed in a base case. These riders are very specific to specific programs, so everything else that goes into cost of service is left up to a base case.

Q. So only when it would be advantageous to the company to increase -- to seek increased revenues to account for increased costs, that's the only circumstance where you think a rate case would be appropriate?

MR. SATTERWHITE: Objection. If that was an attempt to restate the prior answer, I believe that was an incorrect statement of the testimony given.

EXAMINER SEE: Overruled.

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

(Record read.)

A. You said "a rate case"?

Q. Yes. A base distribution rate case.

A. No, because a base distribution rate case, which I will refer to as the slow turtle dinosaur is a set-and-forget ratemaking process. You set it, you establish it, and then you walk away from it until the next rate case.

The riders that are being proposed and had, thanks to the foresight of the legislature, allows for a -- nothing more than a cost recovery of your actual expenses. You don't recover any more or any less than what you expend. And by virtue of the programs and the way we have -- we've proposed these riders and the Commission has approved these riders from the prior cases is that it is a very transparent process, it has an audit process that goes along with it, it verifies prudency just like you do in a base rate case. So they're very similar. But it allows a proactive approach from a utility's perspective to align, in this case, reliability expectations.

Q. But if you had a fixed revenue requirement stemming from a base distribution rate case, would the company have an incentive to keep costs down?

A. The company always has that obligation, to keep costs down, regardless of whether it is in a base case or in a rider mechanism.

Q. And what is the incentive in a rider mechanism?

A. That there would be a prudence disallowance. I recall a question from Mr. Serio around riders being low risk and I may have -- I was thinking very specifically about a specific rider but when you think about riders, there is a lot of risk with them.

I recall a 2009 fuel case where there was a disallowance, a major disallowance, and that's a rider. So riders are -- riders are a mechanism to recover costs for the utility but in these cases as

I've presented it in my distribution investment strategy is to focus on reliability. And it allows me to be proactive.

Q. Are you suggesting that there is equal risk of recovery or not recovering for these expenditures in a rider mechanism than in a rate case?

A. Yes, I agree. There is risk.

Q. So there's not a lower risk with the rider.

A. You know, low is a relatively term, but there is risk. There's a prudency risk. And that's my incentive right there, to make sure that I'm keeping costs down and I'm spending it prudently or else I run that risk of a disallowance.

Q. But is it a lower risk?

A. I don't know if I could -- I haven't thought about it as a low or a high risk but it's a risk, and as my obligation as an officer of this company, I have that responsibility to make sure that we spend the money prudently and minimize that risk of a disallowance. That's my incentive right there.

Q. Okay. Thank you, Mr. Dias.

Turning to page 11, you refer at the top to an evaluation, I think this is an evaluation of

the gridSMART rider, the gridSMART 1 program, an evaluation to be completed and submitted to the Commission by AEP Ohio around March 31, 2014. Was that evaluation completed and submitted to the Commission?
A.   I believe it was, yes.
Q.   And do you know what docket that would be or --
A.   Unfortunately, I don't remember the docket number. I'm referring to the application that was filed.
Q.   I see, okay.
And then further down on the same page, page 11, you state "The company is anticipating that it will receive an order in Case No. 13-1939, which will approve recovery of the gridSMART Phase 2 costs, prior to receiving an order for ESP III." Has the company received that order?
A.   No, it has not.
Q.   Okay. Moving to page 17, near the bottom, your discussion of general projects under the rubric of the DIR, do you know if any other electric utilities in Ohio have been able to recover general in-plant investments, plant in-service investments such as this, through a distribution rider?

A. I do not know as much as I don't know what other Ohio utilities' distribution reliability strategies are. This is part of my distribution reliability strategy. The answer is no, I don't know.

Q. So this is the first time that any company has attempted to do this?

A. I don't know.

Q. Okay. Turning to page 19, line 11 -- actually line 13 where you state "In 2017, the Company will begin the replacement of the radio system." Now, my understanding, based on your earlier testimony here, is that it's not really 2017, you're thinking that the company will begin this investment in 2015?

A. That's correct, Mr. Smalz. That is a placeholder on that table for '17 and '18, but if I do get approval to include the communications system in the DIR, I will move the beginning work on the installation of that system as early as 2015. That's my plan.

Q. And was that your thinking when you filed this written testimony back in December?

A. I'm sorry?

Q. Was that your thinking at the time that

you filed your testimony in December of 2013?
A. It was just a placeholder when I filed the testimony in '13.
Q. Okay. So you didn't really mean 2017 even when you filed this; it was just a placeholder.
A. It was a placeholder, correct.
Q. Okay.
A. Yeah, all these numbers in the chart, while -- are placeholders. I mean, they're our forecast that we will spend that general amount over the term of the ESP, but values will move around based on various, various things that may come about. It is just a forecast of the plan, of the work plan, but the radio communications system is a significant piece of our overall reliability plan and I need to bring that in as soon as I can. Absent the approval of that inclusion in the DIR, I just don't see how I could start that work any sooner than '17.
Q. I'm sorry. That last thing you said, you don't see how you could start the work any sooner?
A. Yeah, I was meaning absent the approval of including that plant in-service in the DIR I can't see how --
Q. I see.
A. -- I can bring that system in sooner.

Q. Okay. Are you familiar with Mr. Vegas's testimony, his prefiled direct testimony?

A. Generally speaking. I sat in through most of his cross yesterday.

Q. And are you aware that he included a table, I think it was Table 2, that projected estimated rate impacts of the proposed ESP?

A. Okay.

Q. And I assume that those rate impact projections were based on the forecast of when you would make various -- when the company would make various expenditures including the DIR expenditures. You testified just a moment ago, I think, that these forecast expenses, and particularly those in the DIR table that you included on page 16, that those will shift around or they could shift around?

A. That's correct. And any shifting I do will not have a material impact on rates.

Q. Are you saying it wouldn't have an impact as to when the rate -- as to what year the rate changes kick in?

A. It would not have a material impact on rates. Keep in mind, Mr. Smalz, that these are capital commitments that I'm seeking to expend for Ohio infrastructure. When they get into rates will vary on when that plant goes into service. So just because there's a number on here doesn't mean that that value is going to get into rates that same year. It will vary.

So my point is even if dollars switch around between these years, it will not have a material impact on rates.

Q. It could have some impact but not a material impact?

A. Yes, I'll agree with you.

Q. Okay. Turning to page 20 in the ESRR program, and specifically Table 2 on line 6, I believe you earlier were asked some questions and gave some testimony in response to the capital line item and how that might differ from the forestry projects that fall under the DIR, and as I recall your main response was that to give us an assurance there would be no double recovery.

Is there any other company witness who might be able to explain precisely what the difference is between the capital expenditures under the ESSR -- the ESRR and the forestry expenditures under the DIR?

A. Yes. I believe Company Witness Moore will be able to explain what capital expenditures get captured under the ESRR versus DIR related to forestry, and I will once again assure you that I am confident there is no double recovery of any costs associated between those two programs.

Q. On page 22, I just have a general question or two regarding the SSWR. Is there any -- have any other Ohio electric utilities ever requested a rider for purposes of hiring more employees, any rider similar to this sustained and skilled workforce rider proposed by AEP Ohio?

A. Yes. As I said earlier, I don't -- I don't know and am not aware of what other utilities' strategies around reliability are, and so I don't know the answer to that question.

This rider is very specific to a reliability strategy that I'm setting forth. It's a three-prong approach. It involves investment, technology, and workforce. And I believe the combination of those three -- those three prongs will get to the reliability alignment that we are aspiring to achieve between the company and the customers.

Q. So this type of rider may be unprecedented, at least in Ohio.

A. I don't know whether it's unprecedented. I just don't know what other utilities have done.

MR. SMALZ: Thank you, Mr. Dias. I don't have any further questions.

THE WITNESS: You're welcome.

EXAMINER SEE: Mr. Williams?

MR. WILLIAMS: Thank you, your Honor, no questions.

EXAMINER SEE: Is there any other counsel in the seats? Staff?

MR. MARGARD: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Margard:

Q. Good afternoon, Mr. Dias.

A. Good afternoon, Mr. Margard.

Q. The top of page 16 of your testimony, you indicate that the company is requesting to modify the DIR to include general plant accounts assigned to distribution.

A. Correct.

Q. And the intention here is on a, as I understand your testimony here today, is to capture those capital investments in distribution that would improve reliability.

A. It's to capture the investments associated with general plant that support the activities around reliability.

Q. And that's a good clarification. Thank you for that.

Are there other capital accounts that support distribution that are not included or that the company is not seeking to include in the DIR?

A. When I wrote the testimony, I said "general plant," but I was thinking specifically service centers and the communications system.

Q. And those items are not included in the company's current work plan, correct? Because they haven't been approved as part of the DIR yet.

A. That's correct.

Q. It would be your intention in the next DIR work plan to include those specific areas, correct?

A. That's correct.

Q. I assume that the company has considered other projects, capital projects, that they would like to pursue if recovery was available; is that true?

A. I would guess so but I can't think of anything right now.

Q. Can you think of any capital account supporting the distribution system that the company would consider inappropriate for inclusion in the DIR?

THE WITNESS: Could you repeat that question, again?

(Record read.)

A. Not that come to mind right now.

Q. And that would be consistent with the basic premise that you've been explaining today of accelerating recovery through a rider mechanism until such time as we reset the game, as it were, in a distribution case; is that correct?

A. That is correct.

Q. And I think we've clarified the radio system but I just want to make sure, the company intends to replace that radio system whether this expansion is approved or not; is that correct?

A. We will have to replace that system at some point in time.

Q. And the point in time currently contemplated is 2017.

A. That's correct.

Q. That the company would pursue earlier if the expanded recovery is approved.

A. That's correct.

Q. Does your testimony cover the

modification of the gross-up factor for the DIR? Or is that a question more appropriate for Ms. Moore?

A. My testimony does not cover what you described. I believe it is more appropriate for Witness Moore.

Q. Would the same be true of the customer charge calculation?

A. Witness Roush covers the rate impacts, so I would suggest either Moore and/or Roush.

Q. But not you.

A. But not me.

Q. What are your responsibilities for preparation of the DIR work plans and PUC filings?

A. My responsibility as Vice President of Distribution Operations covers the functions of engineering design for our infrastructure, it includes the front-line employees and contractors that are responsible for constructing and maintaining the infrastructure, and it includes the responsibility over the distribution dispatch center and the underground network we have in Columbus and Canton, Ohio.

So my involvement starts in the beginning of the design of the circuits through our engineering group. The group is responsible for looking at the reliability of the existing infrastructure, developing a plan of where those improvements need to be made, whether it's replacement, whether it's maintenance, whatever that may be, and they assign a cost associated with it. I'm involved during that entire process and then, ultimately, I confer with the president around the plan and the associated cost and we jointly, the president and myself, are responsible for seeking capital allocation for the work plan.

Q. And are you also responsible for gathering that input into the work plan document that is submitted to the Commission staff?

A. To the -- yes. To the extent that my group is responsible for showing the quantification that we've talked about quite a bit today, we are responsible for calculating those benefits and working with our regulatory group under the direction of Witness Spitznogle for submittal to the Commission. And conversations and discussions with the Commission staff is done in conjunction with my group, my engineering group, the regulatory group, and staff.

Q. Have you had a chance to review Staff Witness McCarter's testimony in this case?

A. I did.

Q. Are you aware that she has made a number of recommendations regarding additional information that the staff believes that the company should file as part of its DIR filings?

A. I recall there were some recommendations.

Q. Do you have -- are you familiar with those recommendations?

A. Not at this very moment.

Q. Would you or would another company witness be the person responsible for developing an opinion with respect to those recommendations?

A. I think it will be my responsibility to have an opinion on those recommendations.

Q. Would it be helpful to go through those recommendations?

A. Sure.

Q. Sure. Ms. McCarter recommends that the company file what plant in-service is being recorded and recovered in the enhanced vegetation rider, the gridSMART Phase 2 rider, the solar rider, and any other rider which is recovering distribution plant in-service as part of the DIR filing. Can you think of any reason why that would not be appropriate information to file?

A. And it's information only?

Q. Yes.

A. So let me start with my answer that I have not had the opportunity to vet the recommendations other than I read her testimony. We've not had an opportunity to discuss them internally as to whether what Miss McCarter is recommending is feasible or not, but to the extent it's feasible and reasonable, I see no reason not to agree with that.

Q. And as long as that's feasible there's no reason why it could not be provided by plant count and subaccount, is there?

A. If it's available, yes, we will be happy. I mean, that's the whole point of these riders is we want transparency in what we're doing, so it's not our goal to exclude information that is available. It is our goal to provide the information that is available to make these riders a success.

The only question, and that's the point that I'm not sure about, is whether this information is available and whether we can do it with a reasonable amount of time and cost.

Q. And rather than go through her other recommendations do I assume your response would be the same for the other recommendations she makes in her testimony?

A. That's fair, Mr. Margard.

Q. You've been asked some questions today regarding the revenue caps for the DIR. Staff Witness McCarter testifies that it's staff's understanding that the annual DIR revenue caps proposed by the company include the revenue requirement associated with the plant in-service currently being recovered by the gridSMART 1 rider. Is that your understanding as well?

A. That's correct.

Q. I just wanted to confirm that, thank you.

Let me ask you to turn to page 20 of your testimony, and ask you to focus on lines 10 and 11.

A. Yes.

Q. You indicate there that the proposed increase in O&M is partially due to the availability of actual historical data for developing the estimates?

A. That's correct.

Q. And you specifically mention actual historical data related to the attainment of a four-year trim cycle.

A. Correct. The maintenance of a four-year trim cycle.

Q. Well, that's what I wanted to inquire about. The current program was implemented to reach a four-year cycle, correct?

A. That is correct.

Q. And prior to that time it was not the company's practice to trim end to end every four years.

A. That's correct.

Q. And this program was adopted when?

A. I believe it was 2009 is when we started.

Q. So the current program is more accelerated than the company's immediate past practice.

A. That's correct. And when I was working with the team around the estimate for maintaining the trim cycle end to end once we've achieved it, we factored in a 30 percent reduction to the cost per line mile to attain that four-year cycle, okay, to get to that point. And that 30 percent was a number that we -- that we believe is fairly accurate based on experience, and experience is from a sister operating company that had a very similar and identical vegetation program that was agreed upon with their local commission.

And when they got to their cycle of maintenance, they saw a 30 percent, it validated what our estimates would be when we looked at the cost per line mile, it ended up at a 30 percent reduction. So I feel very confident at that 30 percent reduction.

Q. Has the company gotten to the point where it has attained a four-year cycle that it is now currently maintaining?

A. I believe we just got there or are getting there. But 2014 is when we were expecting to get to that cycle.

And, Mr. Margard, let me add around that 30 percent reduction, that's been the premise of my testimony around the riders is that the whole purpose of the rider is that we collect nothing more and nothing less than the prudently expended expenses, and I know you are aware of that. And so the reason why I put the $25 million number in the forecast is because that will be the budget that I will establish for the maintenance of that cycle. Anything less than that will revert me back to something less than a four-year cycle and I don't want to go back there. I remember what the reliability -- how the reliability strategies focused on vegetation.

Q. That's based on your forecasts of

attaining this four-year cycle --
A. That's correct.
Q. -- and the experience with the sister company.
A. That's correct. And there may be a margin of error that, you know, whether it's 30 percent or 32 percent or 28 percent, there may be some margin of error but the reality is that the way the rider mechanism works is that we -- the company -- would seek no more or less than what it expended after it's been reviewed.
Q. And which sister company was this, please?
A. It was Public Service Company of Oklahoma.
Q. And how long have they been maintaining a four-year cycle?
A. I don't recall the dates.
Q. Do you know when they attained their four-year cycle?
A. That's the part I don't recall, but it was -- the discussions that we had with them was that they were -- they had had it long enough that the 30 percent was validated as being a real number.
MR. MARGARD: That's all I have, thank

you, your Honor.

EXAMINER SEE: Redirect, Mr. Satterwhite?

MR. SATTERWHITE: Can I have ten minutes to look through my notes, please?

EXAMINER SEE: Sure, let's take a ten-minute break.

MR. SATTERWHITE: Thank you.

(Recess taken.)

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

MR. SATTERWHITE: Thank you, your Honor.

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REDIRECT EXAMINATION

By Mr. Satterwhite:

Q. Good afternoon, Mr. Dias, I just have a couple of questions. Do you remember, or do you still have in front of you OCC Exhibit No. 2 which was Interrogatory 13-306 provided to you by Mr. Serio from Ohio Consumers' Counsel?

A. I don't know if I still have that with me or not. Oh, yes, I have it.

Q. And in your response to questions on that you indicated on the response page that there were other interrogatories that you would need to see that incorporated part of this answer; is that correct?

A. Yes, that's correct.

MR. SATTERWHITE: Your Honor, I'd like to mark as AEP Exhibit No. 5 the other interrogatory responses which would be 13-301, 302, 303, 304, and 305. May I approach?

EXAMINER SEE: Yes. All those interrogatories together are going to constitute AEP Exhibit 5?

MR. SATTERWHITE: Yes, I think that's appropriate. Trying to be expeditious here rather than going one by one.

MS. BOJKO: I'm sorry, for clarification purposes, are -- the interrogatories responding to who? OCC?

MR. SATTERWHITE: Correct.

MS. BOJKO: Okay.

MR. SATTERWHITE: Not knowing what I would be moving I did not have copies of these because it's based on other questions so I will provide copies after lunch to others but I've got one for OCC because it was their exhibit. And one extra, I'll place it down and let everyone fight for it.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q (By Mr. Satterwhite) Mr. Dias, could you review these and tell me if these are the other interrogatory responses that are referenced in response to OCC Exhibit No. 2.

A. Yes, these are the ones that I had asked about that I wanted to see.

Q. And what do these responses include? What's the theme that these provide?

A. These responses reflect the reliability improvement factor that Mr. Serio was asking me about. They identify specific work programs that we were engaged in under the DIR and we had calculated improvement factors and provided them to staff -- to OCC in the interrogatory. These are also I believe the very same, I have to do a comparison, but these are the very same improvement factors that we also discussed with staff and had provided to staff.

Q. And Mr. Serio also asked some questions about what else was provided as a result of the DIR discussions with staff in the DIR process. Do you remember that?

A. That's correct.

Q. Are you aware of any other interrogatories that provided OCC responses on the quantification of the results of the DIR?

A. Yes, I believe there were others.

MR. SATTERWHITE: May I approach, your

Honor?

EXAMINER SEE: Yes.

MR. SATTERWHITE: I'd like to mark as AEP Ohio Exhibit No. 6 the response to the OCC discovery, Fourth Set, Interrogatory 4-045.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Can you identify what I've put in front of you as AEP Exhibit No. 6?

A. Yes, this is the Office of Ohio Consumers' Counsel's Interrogatory No. 4 -- Interrogatory 4-045, 045.

Q. And is this one of the interrogatories you were referring to a second ago of what else was provided?

A. Exactly.

Q. What is encompassed in this response? What's the information here?

A. Similarly this interrogatory shows calculated improvement factors of reliability improvements that the company has made under the DIR.

Q. Thank you.

MR. SATTERWHITE: And just for housekeeping purposes, Mr. Serio informed me that in AEP Ohio Exhibit No. 5, Interrogatory 13-305 was not included in the set. We can provide that after lunch but is it appropriate if I show the witness that so he can verify it's the correct response as part of that exhibit, your Honor?

EXAMINER SEE: You can show it to the witness.

MR. SATTERWHITE: Thank you.

Q. Mr. Dias, I've placed in front of you the response to OCC Interrogatory 13-305. Is that the final interrogatory that's referenced in OCC Exhibit No. 2?

A. Yes, there's a reference to see OCC Interrogatory 13-305 and what you presented to me is that response and it has a, again, similar improvement factor calculated and provided.

Q. Thank you.

Now, you also discussed in your conversation with Mr. Serio the comprehensive plan and at some point in your testimony, and then you also discussed the Plan associated with the DIR. Are those the same thing?

A. The DIR is one component of my comprehensive plan. My comprehensive plan is comprised of the infrastructure reliability, which is the DIR, and includes vegetation management. The second prong is the technology deployment in automation, and the third is the sustained and skill force strategy. In combination that makes up my comprehensive distribution reliability plan.

Q.   There was some discussion about reliability standards and I believe you referred to them as targets at some point and others talked about them as standards. Can you explain the difference between targets and standards and how that fits on the calendar to the best you know?

A.   How that fits on the calendar?

Q.   In the succession of the reliability for targets over standards over time.

A.   Sure, the performance targets, I refer to them as targets, the performance standards that are derived through PUCO proceedings and vetting with all parties involved in the proceeding ultimately derives a performance number, it's a SAIDI -- I'm sorry, it's a SAIFI and a CAIDI target for the utility. It goes through a regulatory proceeding.

The target is derived as a result of all parties' agreement or the Commission's final decision on what the expectation is from a performance standpoint. That's just a number.

The reliability plan that I have set forth in this proceeding goes beyond that number, it goes to the customer's experience. The number is just an overall average for the entire company. The reliability strategy focuses on the customer experience which is a combination of a lot more than just that number. It's more than just frequency and duration. It's around how we approach the reliability standards.

Keep in mind the standards exclude certain things such as major weather events. I focus on -- my reliability strategy focuses on the customer experience, so when we are doing DIR work and we're replacing assets, we don't necessarily replace like for like. We harden the system. That's the resiliency I talked about.

So it's the combination of all of these hardening of the system that makes the system more resilient to weather events. Regardless whether it's a major weather event or minor weather events it has an impact on customer experience.

Q. Is it the company's goal just to meet the standards?

A. Certainly meeting the standards is an important part of our obligation, but no, it -- our goal is to go far beyond that and that's one of the reasons that we do, we engineer our activities around the infrastructure in a way that improves customers' experience. And a great example of that is one of the standards that we have changed since the DIR has been put in place is around resiliency for weather. We're looking at sections and portions of our state where the engineering was initially done back when the system was put up to withhold a 5 percent -- I'm sorry, a half-inch ice loading and today we're engineering those same circuits to withstand a -- I'm sorry, we engineer them to withstand a quarter-inch ice loading. Today we engineer them to withstand a half-inch ice loading so as you can see we're making the system more resilient and it's part of the overall customer experience.

Q. You also had a discussion with Mr. Serio with the results of the surveys and percentage numbers and you talked about 89 percent of the customers expect their reliability to stay the same or increase and he flipped it around to talk about customers that expected to stay the same or potentially decrease. Do you remember that conversation?

A. I do.

Q. Do you believe the company can maintain the customer's -- meet the customer' expectation of even just maintaining reliability without the DIR as proposed in this case?

A. No. I don't believe so. Maintaining the current customers' expectations is going to take a combination of all three of those. Any one of those prongs of my strategy that if it's removed, it's going to be difficult to maintain those customer expectations.

Q. You also had some discussion on the quantifications of or quantifying the results of the DIR and you talked about prior Commission orders that dealt with how the company needs to quantify. Are you aware of anything that's outlying where the Commission's instructed the company of how to quantify in the future for the DIR?

A. In the most recent order that the Commission approved related to the 2014 work plan the Commission laid out a directive on things that need to be quantified, and we intend to comply with that.

Q. And in the past when the company's discussed the quantification and filed DIR plans, had the DIR plans that have been filed been in conjunction or in cooperation with the Commission staff before being filed?

A. Yes. Absolutely. The benefits and the just like what you had showed me on the improvement factors have been shared and discussed with Commission staff.

Q. Now, Mr. Serio also presented you what he's marked as OCC Exhibit 1 which is a portion of the, what we call the ESP 2 or 2.5, the 11-346 case. Do you have that in front of you?

A. Yes, I'm looking at it.

Q. And he drew your attention to page 46 that dealt with the recovery of gridSMART costs which is toward the end of the -- bottom of the page. Do you see that?

A. Yes.

Q. And in that it discusses that the Commission said the gridSMART costs in that case should not be recovered for the DIR, correct?

A. That's correct.

Q. Are you aware of what the proposal was by the company in that case of what gridSMART cost it was asking to be put into the DIR?

MR. SERIO: Your Honor, I'm going to object. I never asked about the details of what the gridSMART costs from the 11-346 case were. We never had that discussion at all. So this redirect is going well beyond anything that I cross-examined the witness on.

MR. SATTERWHITE: Your Honor, he asked him to read the question "We emphasize that the DIR" -- or the Commission order, "mechanism shall not include any gridSMART costs; the gridSMART projects shall be separate and apart from the DIR mechanism and projects." He took an order out of context of the entire request of the company. I think it's important to understand, to apply it to this case what the company was asking for in that case so that the Commission order isn't misapplied. Is it like for like or not is the question here, and it's appropriate to clear it up versus just take the snippet and assume what the underlying premise was.

EXAMINER SEE: I'll allow the question. You can answer the question, Mr. Dias.

A. In the original request the company had proposed that beyond gridSMART 1 any additional gridSMART deployment, again, beyond gridSMART 1, would have those costs be part of the DIR. And I believe this order is emphasizing that the Commission wanted to differentiate all gridSMART costs beyond gridSMART 1 in a separate rider and that's exactly what we're proposing, we are not changing that. We are proposing that the furtherance of gridSMART in the gridSMART 2 proposal will be maintained separately, it will be maintained in a separate rider, but this order was responding to our request initially that everything beyond gridSMART 1 be part of the DIR.

Q. Now, in response to Mr. Kurtz, he had discussed with you a couple of the disagreements you had with the Commission staff positions. Do you remember that?

A. Yes.

Q. And specifically one of the ones you mentioned was the mutual assistance credit. Could you explain what your disagreement was with the staff?

A. Yes. When I read the testimony of staff around mutual assistance, I believe it's somewhat misguided.

The testimony proposes that all of the revenue that the company receives from mutual assistance host companies, that's the receiving end of a utility, be credited against the storm damage rider. And here's why I have -- believe that it's misguided: When we send employees out for mutual assistance outside the system, they incur two types of costs, they incur labor cost and they incur incidentals.

The incidentals are -- examples are lodging, food, fuel. Those are incremental real expenses that AEP incurs while they are out, and the reimbursement is strictly that it's a reimbursement of those incremental costs that the company incurs for those incidentals.

As far as labor is concerned, all of the labor, the mutual assistance agreements are that the labor expense is incurred at a time and a half rate. The premise of the staff's opinion was that we're collecting this straight time rate in our base rates so the staff is recommending that the entire bill be credited against the storm damage recovery rider.

Where I have a problem with it is that the overtime piece of that labor is an incremental expense just like the incidental hotel and lodging, that is not an expense we otherwise would have paid so it's reimbursing us for that incremental additional expense that we incur for those employees going out on mutual assistance.

As far as the base portion of their salary, that work, that base salary that was included in rates, that work doesn't go away. When those employees come back, they've got to catch up their work. Our maintenance programs that we're committed to under the PUCO rules still have to be done and the only way I can get those, all of that work done is through overtime.

So not only am I having to have that work made up but I'm actually paying for it at overtime rates, so there is no double recovery or profit, so to speak, that the company makes when it sends employees out of town for mutual assistance.

In fact, by what staff is recommending just undermines the entire mutual assistance program. It's going to give me a disincentive because it will cost me money to send employees out if I don't get that recovery back from other utilities and it will just undermine the entire mutual assistance program.

Q. Thank you. Now, I believe also when you were talking with Mr. Smalz about the shifting of cost between the different years in the DIR, do you remember that?

A. Yes.

Q. Is the company going to be able to -- the company is still subject to the caps in each year of their spending, correct?

A. That's correct.

Q. Now, you also answered some questions from staff counsel, Mr. Margard, about the testimony of Doris McCarter, correct?

A. That's correct.

Q. And I believe you stated you had read it but weren't familiar with all the recommendations, correct?

A. That's correct.

Q. What were you referring to when you said in your opinion that your answer would be the same for the other recommendations made by Miss McCarter?

A. I was referring to the data sharing of information. I explained to Mr. Margard that our goal under these riders is to share information and it's not our goal to exclude but to include as much information as we can, so it's all around data sharing.

MR. SATTERWHITE: Thank you. Right on the clock. That's all I have, your Honor.

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

(Discussion off the record.)

EXAMINER SEE: Let's go on the record.

Any recross, Mr. Smalz?

MR. SMALZ: No, your Honor.

EXAMINER SEE: Mr. Dougherty?

MR. DOUGHERTY: No, your Honor.

EXAMINER SEE: Mr. McDaniel?

MR. McDANIEL: No, your Honor.

EXAMINER SEE: Mr. Howard?

MR. HOWARD: No, your Honor.

EXAMINER SEE: Mr. Williams?

MR. WILLIAMS: No, your Honor.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: No, your Honor.

EXAMINER SEE: Miss Hussey?

MS. HUSSEY: No, your Honor.

EXAMINER SEE: Mr. Williamson?

MR. WILLIAMSON: No, your Honor.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: No, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No.

EXAMINER SEE: Mr. Serio, you have cross for this witness?

MR. SERIO: I do, your Honor.

EXAMINER SEE: And I understand the same is true for staff, Mr. Margard?

MR. MARGARD: It depends on what

Mr. Serio asks.

EXAMINER SEE: We'll take a break for lunch and take the recross of both those parties. Let's break until 2:15.

(Thereupon, at 1:19 p.m., a lunch recess was taken.)

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- - -

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

Mr. Serio, do you have some recross for this witness?

MR. SERIO: Yes, your Honor, thank you.

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RECROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Dias.

A. Good afternoon.

Q. Could you get AEP Exhibit 5 and 6 that you have there in front of you.

A. Okay.

Q. If I go through AEP Exhibit 5, each page of AEP Exhibit 5 corresponds to one of the items on AEP Exhibit 6, correct? For example, 13-301 talks about animal mitigation, and if you look at AEP Exhibit 6, the first item there is animal mitigation, correct?

A. That's correct.

Q. So in a sense AEP Exhibit 5 and 6 are the same information.

A. You know, I can't agree to that. The information on Interrogatories 13-01 -- 13-301, 13-302, 13-303, 13-304, and 13-305 has more information than what is on Interrogatory 4-045.

Q. But it's the same five categories, correct?

A. It's the same categories. I'll agree with you there.

Q. And that's only 5 of the 27 categories that are listed in the 2013 work plan, correct?

A. Mr. Serio, I don't recall how many items are in the work plan itself.

Q. Do you have OCC Exhibit 2 there?

A. Not anymore.

MR. SERIO: Could counsel provide him a copy of OCC Exhibit 2?

Q. That lists 27 categories, correct?

A. Yes. These are components within the work plan.

Q. Right.

A. The work plan is at a lot higher level which is substantially less than 27 items, so as you drill down deeper into the work plan, you're going to get more and more components within that work plan.

Q. Okay. If you take AEP Exhibit 6 and you compare it to OCC Exhibit 2, the five areas that are listed on AEP Exhibit 6 are listed within OCC Exhibit 2, correct?

A. Correct.

MR. SERIO: Can I approach real quick, your Honor?

EXAMINER SEE: Yes.

Q. This morning I showed you the work plan that was attached to your application in case 12-3129 --

A. Correct.

Q. -- do you recall that? If you look at the work plan, the category that says "Components," are those the same components that are listed in OCC Exhibit 2?

A. It appears to be that way without checking all of them.

Okay.

Q. And if I look at the work plan, the final column that says "2013 Projected," that's the amount that's projected to be spent for each of those categories, correct?

A. That's what it appears to be, yes.

Q. So if I was to look at the items that were listed in AEP Exhibit No. 6, I could find the estimated spending on the work plan here and I could determine what percentage of the overall 2013 budget is attributable to the five categories where you provided this service reliability improvement, correct?

MR. SATTERWHITE: Objection. The scope of the redirect that I gave was whether there was documentation provided on the quantification of reliability. Now we're getting into other areas on an exhibit that wasn't even entered in dealing with capital costs and allocations.

MR. SERIO: I'll deal with it in brief, your Honor, that's fine.

Q. Now, in response to questions from counsel on redirect you indicated that without all three components of your plan, the company could not meet the current service reliability standards. Is that your testimony?

A. I don't believe that's my testimony. Let me clarify what I believe I was answering. If there was any component of my three-part reliability strategy plan that was removed, I would have difficulty meeting the reliability strategy expectations of customers. I don't believe I referenced the targets.

Q. But you could continue to meet the Commission standards, correct?

A. I don't know. I believe it's going to be difficult to meet those standards, but I'm not sure.

Q. Do you recall me asking you those questions in deposition?

A. I do. And I recall saying that I believe reliability would deteriorate. I don't recall making reference to the standards.

MR. SERIO: Can I approach, your Honor?

MR. SATTERWHITE: Your Honor, at this point I'll object. My question on redirect was whether they were going to meet customer expectations as Mr. Dias indicated, now we're getting back into a line of cross that was already done by OCC initially dealing with the standards. That was not my question. My question was on customer expectations.

MR. SERIO: Your Honor, as long as we're clear he's talking about customer expectations and in no way is his answer to counsel going back to the Commission standards, because I thought we were clear this morning that his testimony was that they could meet the Commission standards, and I just don't want that question about customer expectations confused with the Commission standards.

EXAMINER SEE: Well, rephrase your question so that you can ensure that that distinction is being made.

Q (By Mr. Serio) Mr. Dias, your response to counsel's redirect had to do with customer expectations and in no way was changing your testimony from this morning with regard to whether the company could meet PUCO reliability standards if the Commission were to not approve all three steps of your plan, the DIR, the technical improvements, and the sustained skilled workforce riders.

A. That's correct. My response to counsel's redirect question was solely focusing on customer expectations.

MR. SERIO: Okay. Thank you. That's all I have, your Honor.

Thank you, Mr. Dias.

THE WITNESS: You're welcome. Thank you.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: I have in fact no additional questions, thank you, your Honor.

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EXAMINATION

By Examiner See:

Q. Mr. Dias, in regards to the workforce rider you said you need, that's to allow AEP Ohio to employ additional employees? Correct?

A. That's correct.

Q. Okay. Would those employees hired and whose labor would be reflected in the workforce rider be exclusively assigned to work on the DIR, the ESRR, gridSMART program, and in relation to storm damage restoration?

A. They would be assigned to everything AEP Ohio has responsibility for related to Ohio customers. If that's not --

EXAMINER SEE: All right. Thank you.

THE WITNESS: Okay.

EXAMINER SEE: Mr. Satterwhite.

MR. SATTERWHITE: Thank you, your Honor. At this point the company would re-move the admission of AEP Exhibit No. 4 and move for the admission of AEP Exhibits 5 and 6.

EXAMINER SEE: Are there any objections to the admission of AEP Ohio Exhibits 4, 5, or 6?

MR. SERIO: No, your Honor.

EXAMINER SEE: Hearing none, AEP Exhibits 4, 5, and 6 are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Serio.

MR. SERIO: OCC would move OCC Exhibit 1 and OCC Exhibit 2 into the record.

Your Honor, with regard to the notice of Ohio Power Company in case 12-3129, inasmuch as it's a filing at the PUCO, I assume that administrative notice is sufficient, you don't need me to mark it.

EXAMINER SEE: We can take administrative notice of the document.

MR. SERIO: Thank you, your Honor.

MR. SATTERWHITE: Just for clarification, was that the work plan that was filed that you're asking for?

MR. SERIO: The notice that was filed on December 3rd, 2012.

MR. SATTERWHITE: And that's the spreadsheet that you showed the witness; is that correct?

MR. SERIO: Yes.

MR. SATTERWHITE: Just want to make sure we're clear.

EXAMINER SEE: Mr. Serio, would you prefer that we just take administrative notice of the opinion and order in 11-346?

MR. SERIO: Your Honor, that's at your pleasure. I cut the pages down to keep it simple and because I had numerous questions about it I had that one prepared. Had I anticipated the problem with the notice, I would have made copies of that one and had it. So it's really your pleasure. I'm okay either way.

EXAMINER SEE: We can take administrative notice of the opinion and order in the ESP 2.5 or Case No. 11-346, et al.

MR. SERIO: But I would move OCC Exhibit 2 into the record.

EXAMINER SEE: I'm sorry, repeat that, please.

MR. SERIO: I would move OCC Exhibit 2 into the record.

EXAMINER SEE: Is there any objection to OCC Exhibit 2?

MR. SATTERWHITE: No objection.

EXAMINER SEE: OCC Exhibit 2 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Thank you, Mr. Dias.

THE WITNESS: Thank you, your Honor.

EXAMINER PARROT: Company may call its next witness.

MR. NOURSE: The company calls William

Allen.

EXAMINER PARROT: Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Please be seated.

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WILLIAM A. ALLEN

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Good afternoon, Mr. Allen. Can you state your name for the record.

A. My name is William A. Allen.

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

A. I'm employed by American Electric Power Service Corporation as Managing Director of Regulatory Case Management.

Q. Did you cause to be filed some direct testimony in this case on December 20th, 2013?

A. I did.

Q. Okay.

MR. NOURSE: Your Honor, I'd like to mark Mr. Allen's direct testimony as AEP Ohio Exhibit 7.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: I'll give the reporter a copy.

Q. Mr. Allen, did you prepare or cause to be prepared the questions and answers that are contained in Exhibit 7?

A. Yes, I did.

Q. As you sit here today, do you have any corrections, changes, or additions to your testimony?

A. No, I do not.

Q. Okay. If I were to ask you the same questions today, would your answers be the same?

A. Yes, they would.

MR. NOURSE: Thank you, your Honor, I would move for admission of Exhibit No. 7 subject to cross-examination.

EXAMINER PARROT: Thank you.

OPAE?

MS. MOONEY: No questions.

EXAMINER PARROT: OCC?

MR. DARR: Your Honor.

EXAMINER PARROT: I'm sorry, yes, Mr. Darr.

MR. DARR: We had a discussion during

break about order of cross-examination. Given the positions of the various parties we thought it might be appropriate for Mr. Kurtz to go first on cross-examination and then follow the order from there. His position in this case is somewhat different than the other parties that have taken a position with regard to one of the key issues in Mr. Allen's testimony.

EXAMINER PARROT: Okay. Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Just to be clear, AEP and OEG's position on the PPA OVEC issue differ in the following respects: Ten years versus three years, correct?

A. That's correct.

Q. A straight line cost recovery versus levelized?

A. That's correct.

Q. A placeholder PPA for more potential contracts versus OEG's position on that?

A. That's correct.

(Discussion off the record.)

Q. And then finally we recommended that AEP have a 10 percent stake and having skin in the game so it's in the same boat with ratepayers, and your position was not that.

A. That's correct.

Q. Okay. All right. Do you have IEU No. 6 in front of you, Exhibit No. 6? Or could your counsel give you that. It was the 2012 OVEC annual report.

MR. SATTERWHITE: May I approach?

Q. Will you turn to page 35 of the 2012 OVEC annual report.

A. I'm there.

Q. Okay. Do you see in the middle of the page where they have average price per megawatt-hour sponsors?

A. Yes.

Q. Is that the amount -- is that the price at which AEP Ohio receives the OVEC generation for by year?

A. That's the price including the demand and energy components, correct.

Q. Okay. So in 2008 it was $40.286 cents per megawatt-hour?

A. That's correct.
Q. Okay. Then it was $41.9 a megawatt-hour in 2009?
A. That's correct.
Q. Then in 2010 46.5?
A. That's correct.
Q. 2011 50.8?
A. Yes, that's correct.
Q. And then there was a significant jump from 2011-'12, it went from 50 to 62. Do you know why that was the case?
A. There were two general causes, one in 2012 as well as 2013. The OVEC units had tie-in outages related to certain environmental retrofits being placed on those facilities, as well as lower dispatch due to low market prices during those two years.
Q. Those items were the new scrubbers on both the Kyger Creek and the Clifty Creek units?
A. Yes, that's correct.
Q. So those units are officially compliant with MATS and CASPR and all the rest?
A. Yes, they are today.
Q. Okay. Now, this information is a little dated. Do you happen to know what the comparable

information for 2013 is for the record?
A. Yeah. For 2013 the rate was approximately $64 a megawatt-hour, due to the same causes that we saw in 2012, the low market prices causing the low dispatch, as well as tie-in outages.
Q. Okay. So it seems it stabilized from 2012 to '13. What about information with respect to 2014?
A. For 2014 for the first quarter the units had no tie-in outages and the market prices were higher, as we're all aware, with the polar vortex that occurred, and the units dispatched much better and their average price was approximately $48 a megawatt-hour.
Q. Okay. So that would be a substantial reduction from 2012?
A. That's correct. And it's in line with the values that we saw in 2010 and '11 when the units were able to dispatch well.
Q. So is this a correct relationship, when market prices are high, the units dispatch kind of round-the-clock and therefore have better heat rate, better efficiencies, and produce power for a lower cost?
A. Yes, that would be true.

Q. Plus, as you produce more megawatt-hours, the fixed costs are amortized so that the costs per -- amortized over more units so the fixed cost per megawatt-hour also goes down.

A. Yeah. I would say they're spread over more megawatt-hours reducing the per megawatt-hour charge, yes.

Q. So the value of the OVEC hedge is better in the sense when the market prices are high, OVEC costs go down even lower creating a bigger profit so to speak.

A. The average cost of OVEC goes down as market price is high providing more benefit under the PPA rider the company proposed.

Q. Is that sort of a compounding hedge or how would you describe that relationship if there is such a thing?

A. I don't know that I'd call it a compounding hedge for most of the elements of it, when we talk about the demand charges, but clearly on the energy side it is a compounding hedge because the units are going to have fewer ramp-ups and ramp-downs which increase their average cost of production.

Q. These big coal units that like get turned on and run flat out, that's the way they're most efficient?

A. Yes, that's correct.

Q. One last question. Assume the Commission approved the OVEC PPA but no more, what percentage of customers' bills would be hedged?

A. The OVEC generation represents about 5 to 6 percent of the total connected load of AEP Ohio.

Q. So if the Commission were to approve the OVEC, essentially under your nonbypassable approach customers would have 5 to 6 percent of their power at cost of service from OVEC and 96 -- 94 to 95 percent at market.

A. That would be the effect from a customer bill perspective, yes.

Q. So that would be sort of the balanced portfolio approach, little bit of cost but primarily market?

A. Yeah, I think the company's position would be that a larger hedge would be more beneficial but this is a start.

Q. And, again, just to be clear, this would not affect the amount of power people have to buy from CRES suppliers or affect the amount of auction suppliers, it's all on a financial basis so that 5 to 6 percent cost is purely financial?

A. That's correct. The company, as we developed the PPA rider, one of our guiding principles was to try to avoid having any impact on CRES providers or on the auction.

Q. Keep the benefits of the competitive model plus provide some cost-based hedging?

A. Yes, that's correct.

MR. KURTZ: Thank you, your Honor.

EXAMINER SEE: OCC?

MR. BERGER: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Berger:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. As you know, I'm Tad Berger with Consumers' Counsel's Office.

Do you know -- Mr. Vegas testified the other day regarding who denied -- or the fact that AEP Ohio was denied consent to transfer its OVEC assets to AEP GenCo. Do you recall that?

A. I do.

Q. But he wasn't able to recall who the parties were that denied that consent. Do you know?

A. I do not know.

Q. Okay. Do you know whether AEP has ever denied consent to any member of OVEC to transfer its assets to an affiliate or a third party?

A. I don't know.

Q. Thank you.

And, Mr. Allen, have you ever run a dispatch model such as was run to estimate the OVEC costs in this proceeding?

A. I've worked with our group that does the dispatch modeling, they've done dispatch models for me at my request in the past.

Q. Okay. They've done them at your request. You've never prepared one yourself; is that correct?

A. I've not prepared one but I'm very familiar with the process.

Q. Okay. And you sponsored the interrogatory in this proceeding, IEU 2-001, and the attachments to that exhibit, it's a confidential response, that provided the estimates that were prepared by two different units at AEP?

A. Yes, that's correct.

Q. And each of those three attachments reflect dispatch modeling for OVEC at three different periods of time; is that correct?

A. Yes, that's correct.

Q. Would you agree with me that only one of those attachments, Attachment 1, actually calculated a net cost or benefit for the ESP period?

A. No.

Q. Okay. Would you agree with me that Attachment 1 was the only attachment, the only model that included -- was done on a monthly basis?

A. The other models would have been done, all the models would have been done on a hourly dispatch. The results in Attachments 2 and 3 were summarized on an annual basis, and Attachment 1 was summarized on a monthly basis.

Q. Okay. But Attachments 2 and 3 show 2015 and 2018 for an entire calendar year, don't they?

A. Yes, they do.

Q. So those two attachments do not correspond to the ESP period; would you agree with that?

A. They cover a period longer than the ESP period and from the data included on those you can infer the results were the ESP period.

Q. The data for the ESP period is not calculated on those attachments; is that correct?

A. There's data sufficient on those attachments to estimate the impact for the ESP period.

Q. Well, are you saying for 2015 you would take -- you would take seven-twelfths of 2015? Would that be an appropriate way to do a calculation? And five-twelfths of 2018?

A. Not exactly. And based on some of the questions we had yesterday I endeavored to undertake that analysis, and what I would do for the --

Q. I'm sorry, did you say you endeavored to undertake that analysis?

A. I undertook the analysis, yes.

Q. Okay. Well, I'm not asking you what you did yesterday after the examination.

A. Well, you were asking if it could have been done so I was answering that question.

Q. No, I did not ask whether it could have been done. I asked you whether -- that it was done on those -- could one derive it directly from those attachments.

A. Yes.

Q. You derived it solely from those attachments and not from other information?

A. What I did is I derived a result that showed that over the ESP period that the PPA rider with OVEC would produce a benefit to customers of approximately $8.4 million.

Q. I think we're not on the confidential record so I don't know if you want to refrain from providing those kinds of numbers.

A. Those numbers aren't confidential, the totals.

And so to undertake such an endeavor what one would do --

MR. BERGER: Your Honor, at this point I'd move to strike his testimony because my only question to him was whether it could be done solely from the information on Attachments 2 and 3.

MR. NOURSE: Your Honor, I think the witness needs to be permitted to finish his answer and then any motions to strike can be taken up at that time rather than continuing to interrupt.

EXAMINER PARROT: I agree.

Please continue, Mr. Allen.

A. So what one would do is take the energy revenues from, say, Attachment 2 for 2015 and in that case a seven-twelfths estimate would be reasonable, as well as a seven-twelfths estimate for the energy expenses.

On the capacity revenues it wouldn't be appropriate to just take a seven-twelfths value from that exhibit because it reflects two different capacity periods within the PJM planning years. And so you would have to isolate based on the RPM price for the '15-'16 planning year what that value is for the first year.

On the demand expense side it would be appropriate to do a calculation assuming seven-twelfths because the demand charge is relatively constant across the year on a dollar per month basis.

And so when you do that calculation, what you show is in year 1 the PPA -- and, sorry, there's another adjustment that would be appropriate to make on the demand charge is that you would want to look at the more recent OVEC data on the budget for OVEC for the demand charges that was presented in OEG Set 2, Interrogatory 2-004, you would use that to come up with the demand charge.

Putting those together what you see is that in year 1 the PPA charge would be $6.2 million to customers, in year 2 the PPA rider would produce a credit to customers of $2.8 million, and in year 3 the PPA rider would produce a benefit to customers of $11.8 million.

MR. BERGER: Your Honor, I move to strike his response at this point in time. His response could have been limited solely to answering whether it could have been presented solely from the information in Attachments 2 and 3. He volunteered information from other interrogatories, new calculations he had done since yesterday, information that had not been provided through discovery when this question had been asked back in January. I find it hard to understand why it's being presented today.

MR. NOURSE: Your Honor, I disagree. I think, first of all, the discovery reference that was made was definitely provided well in advance of the hearing. And that answer and the rest of the answer related to the question of how you could do this analysis just using the information that was on Attachment 1, 2, and 3 to the IEU interrogatory we're discussing here.

So he explained in detail where the information came from in the face of a challenge that you couldn't do it without additional information. I think that's a full appropriate answer and shouldn't be stricken.

EXAMINER PARROT: I agree, Mr. Nourse.

The motion to strike is denied.

MR. BERGER: Thank you, your Honor.

Q (By Mr. Berger) So, Mr. Allen, just to clarify your testimony about what is or is not confidential in Attachments 1, 2, and 3, are you saying the total numbers in those exhibits are not confidential? And please explain what you mean by "the total numbers."

A. Sure. The total PPA rider charge or credit in dollars I would not view as confidential. The details such as the variable, the fuel and variable cost of those units, would be confidential. But the final result of the calculation in a dollars aspect would not be confidential.

Q. Would the megawatt-hours used during those periods be confidential? During the entire ESP period would those numbers be confidential? The projections for 2015 through '18. Well, through the -- for the ESP period.

A. I don't think I would view the megawatt-hours of generation as confidential.

MS. BOJKO: Your Honor, may we go off the record to discuss this confidentiality issue?

EXAMINER PARROT: Yes. Go off the record.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the

record.

Mr. Berger.

MR. BERGER: Thank you, your Honor.

Q (By Mr. Berger) Mr. Allen, thank you for your response. You described some calculations you did with Attachments 2 and 3 to calculate the information on those attachments for the ESP period rather than for calendar years 2015 through 2032 as shown on those attachments. Do you recall that?

A. Yes. And, just to be clear, what I described is the calculation I did based upon IEU Interrogatory 2-01, Attachment 2, and OEG Set 2, Interrogatory 2-004, Attachment 1.

Q. Okay. And I think you said during your answer that you could just use a seven-twelfths allocator for 2015 and a five-twelfths allocator for 2018 for energy revenues; is that right?

A. For both energy expense and energy revenues, that's correct.

Q. And that's the case, Mr. Allen, even though these -- this was done through an hourly dispatch model. The hourly dispatch wouldn't change between 2015 and 2018?

A. The hourly dispatch is different in 2015 and 2018, but based upon my experience with what these forecasted values are, that's a reasonable estimate of the impact.

Q. So you're saying energy revenues could be allocated for the first five months of 2000 -- first seven -- first five months of 2015 and the last seven months of 2015 in the same way, it could be allocated equal on a per-month basis, that there's no difference effectively in each month of that period as to how that hourly dispatch -- as to what the hourly dispatch would produce per month; is that right?

A. It's a reasonable estimate to do that because the energy revenues are based upon the kilowatt sales resulting from the dispatch of the units as well as the energy expense. The energy expense is based upon the fuel burn that only occurs when the unit's dispatching, the revenues likewise only occur when the unit's operating and dispatching.

Q. In coming to the assessment that you made did you review the hourly dispatch figures in order to determine -- in order to check your assumptions?

A. I did not review the dispatch by hour.

Q. Okay. Is there a person here testifying in this proceeding who's familiar with the dispatch?

A. I've seen data on the hourly dispatch and we provided it in response to discovery.

Q. Okay. You've seen it, but was there somebody -- is there somebody testifying in this proceeding, though, who was responsible for developing that hourly dispatch?

A. No. The analysis was done at my request.

Q. But you did not do the analysis. Who did the analysis?

A. The analysis was done by two individuals within the AEP Service Corporation.

Q. Okay. They're not testifying in this proceeding, right?

A. No, they're not.

Q. Okay. Thank you.

Now, Attachment 1 and Attachments 2 and 3 use different dispatch models; is that correct?

A. Attachment 1 would have used the PLEXOS dispatch model and Attachments 2 and 3 would have used what's referred to within AEP as a spread option model.

Q. And those were prepared by two different groups within the company?

A. Yes, they were.

Q. And did you do a comparison between the results of those two different models?

A. I've looked at the results between the three analyses and they were provided in response to discovery, the discovery asked for all of the analyses we had performed so I sought out any analysis that had been completed and those were the three that were responsive.

Q. Okay. And you did -- the analysis in Attachments 1, 2, and 3 are for different periods of time, correct? I mean in the sense that -- in the sense that they each used -- they were each done at different times and utilized the market prices that were in effect at those times?

A. They where done at different points in time and they used different forward price curves, they would have used different estimates of the fuel cost of the OVEC units, the expected O&M of those units, based upon whatever data the company had available when we performed those analyses.

Q. And you did not go back and say, okay, how would these -- each of these models -- would be the result of each of these models if they were performed using the same forward curves, the same fuel projections, and the other items that you just mentioned. You didn't go back and try and see whether they would produce the same or similar results, did you?

A. No. I did do some of that. And that's what we were discussing when we talked about the calculation I did where I said I looked at Attachment 2 and incorporated into that the O&M, or the demand charges that were presented in Interrogatory OEG 2-004, which was a more recent forecast from OVEC, and that was a forecast that was in line with the demand charges presented in Attachment 1.

Q. But you didn't -- again, my question was did you look at the results for each of the -- for each of the models using the same assumptions that we discussed earlier, the forward curve for market prices, the same fuel price projections, to see whether they would produce the same outcome?

A. Attachments 2 and 3 use the same model. So if I used the same assumptions for Attachments 2 and 3, I would get exactly the same answer. Attachment 1 uses a different model and I would expect the results to be comparable. But they wouldn't be exactly the same, but they would be comparable.

Q. Okay. But you didn't go and do that analysis. You never made a comparison between the outputs of the models; is that right?

A. No, I didn't think it was necessary.

Q. Okay. And, as you know, Attachment 1 was done in August of 2013, Attachment 2 was done in September 2013, and Attachment 3 was done in November of 2011; is that right?

A. Yes, that's correct.

Q. And why, was there any rhyme or reason for picking that particular -- those particular points in time to do those analyses for purposes of your presentation in this case?

A. The analysis done in 2011 had already been performed in 2011 before the company proposed the PPA rider. The analysis in Attachment 2, which is the most recent analysis, was performed at my request as we were evaluating this mechanism. And the analysis that was done in Attachment 1 was done for a different group in the company to estimate what the impact of OVEC was.

Q. So Attachment 2 and Attachment 1, both of them were performed at your request for purposes of this proceeding, or were they -- obviously Attachment 1 was performed for purposes of this proceeding because it corresponds with the time frame of the PPA. Was Attachment 2 requested to be performed for purposes of this proceeding or was it requested to be performed for another purpose?

A. So let me clarify on Attachment 2. It was performed based upon September data, but it was performed at my request after that point in time.

Q. But was it -- was your request associated with Attachment 2 associated with its presentation in this proceeding or for another purpose?

A. You know, I would have asked for this analysis in conjunction with this proceeding.

Q. What was the reason for requesting that it be performed through 2032, or was that just the nature of the model?

A. That's the nature of the model. And it was helpful to show the long-term benefits of OVEC as well.

Q. Would you agree with me that all of the data in the three attachments is outdated at this point in time and that for purposes of projecting what the amount of the PPA rider will be, that you will be using a number closer to the time that the PPA rider is to go into effect?

A. I wouldn't say that the data is outdated for purposes of this proceeding. But what I have testified to in my prefiled testimony is that the company will be providing a new forecast closer to the time of implementing the PPA rider next year.

Q. And when do you expect that to be submitted?

A. I think, as Company Witness Vegas indicated yesterday, it would be in the first half of 2015.

Q. Do you anticipate that other parties will have an opportunity to review that and for this Commission to consider whether it's an appropriate forecast for purposes of establishing an initial PPA rider rate at that time or not?

A. My general expectation is that this filing would be treated like the Commission treats other rider filings where they look at the company's forecasts for reasonableness and issue an order setting the rate based upon whatever testimony they deem necessary to help them make that conclusion.

Q. So you're saying it would be reviewed for reasonableness?

A. Clearly, it would be reviewed for reasonableness by the staff. Whether other parties would be involved would be up to the discretion of the Commission.

Q. So you don't see necessarily there being a notice and due process associated with the submission of the initial PPA rider rate.

MR. NOURSE: Your Honor, I just object to the use of legal terms in asking the witness for an opinion on that.

MR. BERGER: Your Honor, I would be happy to use other terms.

EXAMINER PARROT: Very good.

Q. So, Mr. Allen, you don't necessarily anticipate that the initial PPA rider rate will be submitted as part of the docket with an expectation that other parties may offer either comments or evidence regarding the initial PPA rider rate.

A. I don't think it's necessary, but it's up to the Commission's discretion in how they set up the rider mechanism and what type of process they put in place.

Q. The dates for the three attachments are for forward prices and fundamental prices in the market as well as costs for OVEC, and I think you even gave some more specificity earlier here. What is the difference between forward and fundamental prices?

A. Forward prices are generally short-term market prices and fundamental forecasts are prepared for the period beyond when forward prices exist and they represent expectations of market prices under normal conditions, normal weather conditions and the like.

Q. And would Attachment 1 be entirely based upon forward prices and Attachments 2 and 3 partially based on forward and partially based on fundamental prices?

A. My expectation, and I haven't looked at the source of the prices recently, but for these periods typically the -- there would be a combination of forwards and fundamentals. By the time you get out to 2018 that would typically be based upon a fundamental forecast, especially when the analysis was performed in 2014 -- or, I'm sorry, in 2013.

Q. Would you agree with me, Mr. Allen, the primary difference in the three models is the vintage of the forecast data?

A. Yes.

Q. Okay.

A. With the Attachment 2 being the most recent.

Q. And would you agree with me that all three of the attachments were based upon dispatch of the units based upon a comparison of variable cost production to market values?

A. What a dispatch model does is compares the variable cost of production to the energy price in the market in an hour and dispatches the unit if the variable cost of production is less than the market price. It gets a little more complicated because there are calculations of ramp-up and ramp-down and if there's significant profits to be seen during the week, you may start dispatching when it's not profitable on a, say a Sunday evening so that it's ready to go Monday morning, but generally the concept I've described covers how a dispatch model works.

Q. So according to your -- to that description, as market prices go up the units would generally dispatch at a greater -- at a greater level.

A. Yes, definitely.

Q. But your models include different assumptions, don't they, based upon the dates when they were prepared about forced outage rates?

A. What they would assume are the best estimates for the forced outage rates, market data, all the other data, the best-available data that we had at the time that the forecast was prepared. And every time you do a new forecast you determine whether any of that data is changing and you update it as necessary.

Q. Attachments 1 and 2 were prepared a month apart. Do you know whether they have different forecasts with respect to outage rates?

A. They may, I don't know.

Q. You can't tell that from this exhibit; is that right?

A. No. These exhibits show the energy dispatch which is a combination of forced outage rates as well as whether or not the unit's economic in any given hour.

Q. Do you know whether the August and September 2013 forecasts had different assumptions as to the level of OVEC costs?

A. Yes, they do.

Q. And that would be because something changed in the forecast of OVEC costs during that one-month period in time?

A. Actually, the calculation in Attachment 2, which is a -- which is based on September data, used the most recent OVEC operational forecast as far as the O&M and demand charges from OVEC. In Attachment 1 our analyst that put this together made an estimate based upon his understanding of the demand charges being forecasted from OVEC and reduced those demand charges for an expectation that there may be some cost reductions at OVEC for LEAN projects and things of that nature.

Q. Now, do you know the amount of that reduction? I don't think it's confidential, but if you think it is, you can say so.

A. No, that's not confidential, and it was estimated to be $10 million annually for the AEP Ohio share, and if you look at OEG Set 2, Interrogatory 2-04 you'll see, if you compare that to the demand charges that are presented in Attachment 1, that that estimate was very accurate.

MR. BERGER: I'm sorry. Can you reread that answer, please?

(Record read.)

Q. I'm sorry. Thank you.

Which estimate was very accurate, the one in Attachment 2 or the one in Attachment 1?

A. The estimate in Attachment 1 of what the effect of the LEAN savings would be when OVEC put that into their estimated cost for the future.

Q. In Attachment 2, Attachment 2 does not reflect the LEAN savings, correct?

A. That's correct. And that's why when I described the analysis I had done, I layered in the LEAN savings that had not yet been reflected in that analysis. And those savings would cover other things other than just LEAN initiatives, but they're expected cost reductions at OVEC based upon their current budget that they provide to the sponsoring companies.

Q. But if what you're saying is accurate -- are you saying that the actual OVEC costs went down by the $10 million or are you saying that your -- the estimate included in Attachment 1 is an accurate reflection of what OVEC is saying will be the reduction?

A. So in Attachment 1 we estimated that the future demand charges from OVEC would be $10 million a year less than those included in the operating budget that OVEC presented to us, and then when you compare that to their most recent operating budget that they provided, that's accurate.

Q. Okay. But that's a budget, that hasn't occurred yet, right?

A. When OVEC provides their budget to the operating companies, the operating -- or, the sponsoring companies need to be able to rely on that and so I'm confident that what OVEC has provided to us at this point in time is a reasonable estimate of where their expenses will be in the future.

Q. And when was this budget presented?

A. Based upon the, based upon Interrogatory 2-004, Attachment 1, in the upper left-hand corner it has a date of November 22nd, 2013. And I've more recently reviewed a May estimate just to ensure that the current expectations from OVEC are comparable to those presented in November, and they are.

Q. And that was a budget for what period of time?

A. Those are their operating budgets for the period 2014 through, what I'm looking at here is 2018 but it would go beyond that.

Q. Was there a forecasted reduction for 2014? Or was the forecast only for the ESP period? I assume their budgets are on a calendar-year basis. Correct me if I'm wrong.

A. Based upon the projected demand cost it appears that the reductions are for 2014 and beyond. So they start in 2014.

Q. And what's the reduction in 2014. Is it 10 million for 2014 as well?

A. On an AEP Ohio basis it's just over 10 million. Looks like the reductions were approximately $60 million annually, AEP Ohio's ownership share is 19.93 percent so that's approximately $12 million annually.

Q. So they're talking about reducing their operating costs by $60 million annually for a five-year period in this budget that you're referencing.

A. And possibly beyond. I would expect beyond.

Q. Now, you elected not to update your forecast; is that correct? In this proceeding.

A. Well, in this proceeding the company didn't present a forecast in testimony. We responded to interrogatories and provided the most current estimates we had available.

Q. Well, the most current estimates that had been performed prior to your filing in this case and presumably up to the date of your testimony here today, you didn't ask for any more dispatch models to be run by those two individuals that you earlier referenced; is that correct?

A. That's correct. The change in the operating cost of OVEC on the demand side wouldn't impact the dispatch of those units. It's variable O&M that impacts the dispatch. So it wouldn't have been necessary to put that in the dispatch model.

Q. Yes, but a change in the future and fundamental market prices that are indicated would change the model fundamentally, right?

A. The forward prices change daily. Fundamental prices do not. Forward prices reflect changes in near-term market conditions, things such as weather, inventory of natural gas and the like. Fundamentals by their very nature stay stable over time.

Q. But for purposes of Attachment 1, the forward market curves that you earlier referenced would fundamentally change the output of that analysis, if it were performed today, wouldn't it?

A. It would depend on whether or not the current forward price curves were different in a material way from what the forward price curves were at the time the analysis was done.

Q. And you follow the forward price curves. Aren't they materially different today than they were in August of 2013 when Attachment 1 was prepared? With respect to the ESP period forward price curves.

A. I don't know that to be true.

Q. You haven't done that comparison?

A. No. Based upon, you know, my

understanding of the markets, the market price for 2014 is significantly higher than the market prices that existed back when this analysis was performed in 2013. For 2015 there may be some lingering impact that raises the prices but I don't know to what degree.

Q. Okay. You haven't done the comparison, though, is what you're saying.

A. That's correct.

Q. Would it be accurate to say you're not relying on Attachment 3 for your assessment in this case even though it's -- because it's two-and-a-half years old at this point in time? You wouldn't look at that as an appropriate basis for judging the reasonableness of the PPA rider, would you?

A. At this point I would view Attachment 2 with the adjustments that I described as being the most accurate representation of what the value of the PPA rider would be over the term of the ESP. I think it's important, though, to recognize that this PPA mechanism may be in place for a number of years and forward prices do change, and in looking at Attachment 3 I saw that the cost or benefit of OVEC over the period of the ESP was nearly neutral and in the longer term it was a significant benefit to customers.

So what that gave me some comfort in is that as fundamental market prices may change over time, that the OVEC units still looked like a very valuable hedge for customers.

Q. You haven't included any amount in the PPA rider and you directed Mr. Roush not to include any amount in the PPA rider; is that correct?

A. That's correct. Because the company's expectation was that the rider would be close to zero over the term of the ESP and so we didn't put a value in the rider because we would be filing to update that sometime in 2015.

Q. And when you do file to update that, do you plan to use the analysis in Attachment 1, the dispatch model there, or the dispatch model in Attachment 2, or -- updated for the current information of course? Which one do you plan to use?

A. We haven't yet made a determination of which of those two models but either model should produce comparable results.

Q. Okay. And you said that you're aware of, and just so it's clear, you indicated earlier that the overall dollar number as well as the megawatt-hours over the ESP period are not confidential, and if you look at that Attachment 1, it provides the estimate. Am I free to refer to what that number is, in your opinion?

A. The total dollar value?

Q. The total dollar value over the ESP period. Did you earlier reference that that was --

A. Yes.

Q. Could you tell me what that is?

A. The value --

Q. Or should I say what the cost over the ESP period on Attachment 1 is.

A. What Attachment 1 would indicate would be that the PPA rider would have a cost of $52 million.

Q. Okay. And that analysis was prepared in August of 2013. For Attachment 2 the analysis that you performed that you earlier referenced for the ESP period, what was the total cost or benefit based on Attachment 2?

A. The benefit was $8.4 million based upon our most current analysis.

Q. Okay, and that was only one month difference in prices in costs when those were prepared. Is that right? There was one month between when those two analyses were prepared; is that right?

A. One was based on August 2013 market data assumptions and the other one was based upon September of 2013 market assumptions.

Q. Right. So there was only one month difference when -- in the time frame of those market assumptions.

A. Yes.

Q. And was there only -- and there was one month difference in the time frame of the cost assumptions I assume also. Is that correct?

A. They both actually would have started with the same cost assumptions but in Attachment 1 the cost assumptions were updated based upon an expectation of a cost reduction at OVEC.

Q. Let me ask you about the operating budget at OVEC. Do they prepare a five-year operating budget and a one-year operating budget?

A. Based upon the data that I've seen they provide a budget for many years forward.

Q. How many years forward?

A. Not just a single year.

Q. How many years?

A. At least five years forward.

Q. Okay. But do they also prepare a more detailed operating budget for the following year as most companies do?

A. They may.

Q. You're not aware of whether they have a more detailed operating budget for the upcoming year?

A. That's not something that I would typically review.

Q. Have you reviewed the five-year -- the accuracy of the five-year operating budgets for OVEC that have been prepared in the past?

A. In the past my role was director of Financial Forecasting for AEPSC and individuals that reported to me would have reviewed those OVEC costs, and I've had discussions with those individuals very recently and their understanding or their experience is that the longer-term forecasted costs from OVEC are typically greater than the actual costs seen by OVEC.

Q. That wasn't an answer to my question. Have you reviewed the accuracy of the five-year operating -- I'm talking about you -- the capacity prices accuracy of the five-year operating budgets that OVEC has prepared in the past?

A. I spoke with individuals that do that --

Q. I did not ask that.

A. -- and I asked them based upon their

experience where those costs come in as part of my review of the reasonableness of the forecasted OVEC data that we're talking about here today.

MR. BERGER: Your Honor, can I ask that the witness be directed to answer the actual question. I've asked it twice now and I've been given the runaround twice.

EXAMINER PARROT: Mr. Allen --

MR. NOURSE: Your Honor, I disagree with that characterization. He's asking about the accuracy. Mr. Allen's giving the basis for his conclusion that it's reasonable.

MR. BERGER: I asked him whether he's reviewed the -- he personally has reviewed the accuracy of the five-year operating budgets. Not once has he said what he has done. All he's done is said that he's spoken to other people, not necessarily about the five-year operating budgets but about the accuracy of their forecasts.

EXAMINER PARROT: I agree, Mr. Berger.

Can you please answer the question posed, Mr. Allen with a "yes" or "no" if possible.

A. I have not personally reviewed the accuracy of the OVEC operating budgets.

EXAMINER PARROT: Thank you.

Q. You've never reviewed the accuracy of the five-year operating budgets or the current operating budget?

A. That's correct. In my role I typically wouldn't review the accuracy personally. I would speak to individuals that would do that and provide that information to me.

Q. Now, the reason that both you and Mr. Vegas have given for the PPA rider proposal is that you think it will stabilize rates. Is that correct?

A. Yes, it is.

Q. And you think that's especially important given the volatility market prices due to fluctuating weather?

A. Price stability is of significant value to customers, yes.

Q. Am I correct that in your opinion any deviation in weather from normal creates market volatility?

A. Yes, clearly it does. And we've looked at some analysis that shows that weather has a significant impact on price volatility and it's much more pronounced in the upward direction in market prices than it is in the downward direction.

Q. Now, would you agree with me that given your annual true-up the price effects of any annual variations from normal weather that create market volatility will not be reflected until the true-up period begins?

A. Price volatility due to weather would generally have a positive impact on the profitability of the OVEC units and as such would have a -- be a credit to customers when the true-up is done, would be my general expectation.

Q. Okay. But any variation from normal weather, whether weather is more temperate than normal or whether it's more exacerbated than normal, won't be reflected in the PPA rider until the true-up period; would you agree with that?

A. The short-term impact of weather would be reflected in the true-up. It wouldn't be reflected in the forecasted PPA rider rate.

Q. Okay. The forecasted PPA rider rate is going to be one rate that's in effect for one period of time, let's say June 1st, 2015, to May 31st, 2016, would be the first period it would be in effect if this were approved; is that correct?

A. That's correct. There's two elements of the PPA rider, one is the forecasted piece and the second piece is a true-up component.

Q. Right. And then the true-up won't go into effect -- the true-up of the first year won't go into effect until June 1st, 2016, and that true-up factor will be in effect for one year --

A. As the --

Q. -- till May 31st, 2017, correct?

A. As the company had proposed the PPA rider, that's true. If a more frequent true-up of the over/under mechanism was desired by the parties, I don't think the company would have any objection to that.

Q. Okay. But as proposed that is correct.

A. That's correct.

Q. And as proposed is it possible for market prices to be below -- let's say market prices are more exacerbated in the first year and, therefore, there's more price volatility and that results in a credit in the second year, okay? Let's assume that.

In the second year, however, temperatures are more temperate than normal, they don't fluctuate as much as they normally do, okay, let's make that assumption. Would you agree with me that the credit would actually reduce the lower-than-normal rate that customers are experiencing in the second year?

A. You're going to have to walk through that hypothetical again and I'll write it down.

Q. Okay. You were here during Mr. Vegas's cross so you probably heard this already, but in the first year we have volatile market prices, okay. That produces a credit, okay.

A. So when you say "volatile market prices," you mean that the weather is abnormally hot or abnormally cold.

Q. It's greater variation than normal in weather patterns producing, let's say, prices that are higher than normal. Okay?

A. Okay.

Q. And that produces a credit to be trued up in the second year, correct?

A. That's correct.

Q. Okay. In the second year, however, the prices out in the marketplace that customers are paying, the prices are lower than -- temperature varies less than normal and as a result prices are lower. Would you agree with me that the credit actually decreases the lower rates in the second year? It doesn't move opposite to market rates.

A. You were saying in the second year that weather was relatively normal.

Q. Relatively -- was more temperate, that means it was -- it varies less than normal, okay? And, therefore, prices in the market were lower than normal. That's the assumption.

A. So what the result would be under your hypothetical is that the volatile weather in year 1 would create a significant true-up credit for customers in year 2 and then the mild weather in year 2 would produce a smaller true-up charge in year 3.

Q. No, I'm not talking about year 3 yet. I'm talking about year 2. The true-up from year 1 reduces the rate, the already-low market prices, even further in year 2. Do you agree with that?

A. No, I don't, because in year 2 we wouldn't forecast temperate weather. We would forecast normal weather.

Q. I'm talking about the other 95 percent of prices that customers are paying, okay? Let's assume that's based on market prices. Only 5 percent, OVEC is only 5 to 6 percent I think it was indicated earlier of the generation for the SSO.

A. No, I wouldn't agree with your conclusion. The market prices in year 2, whether set by a CRES or through the auction, would reflect prices that were set well ahead of the beginning of year 2 so they wouldn't reflect weather that is temperate.

Market prices that customers pay based upon the auction or fixed-price CRES offerings would not incorporate actual weather. What they would include is a risk premium for weather variability.

Q. Well, the OVEC rate goes to everybody, right? It's a nonbypassable charge under the company's proposal. Even if a customer was purchasing on a variable rate -- if a customer was purchasing on a variable rate plan from a CRES supplier, would you agree with me then that if those prices were following the market, market prices were low in year 2, that the true-up would actually reduce the customer's rates lower?

A. If there was a credit from year 1 as part of the true-up, it would have the effect of reducing customer rates in year 2 irregardless of what the market prices were in year 2.

Q. Okay. Have you testified that the true-up would necessarily operate as a countervailing or counterbalance effect to the market?

A. The true-up element of the PPA rider doesn't necessarily move counter to the market. The PPA rider, the forecast element of it, would clearly run counter to the market, but based upon some analysis that I've had done for me and that I've actually done part of it myself is that the impact of weather variations is much more likely to have a positive impact on market prices than a negative impact on market prices and so the expectation over time is that the true-up component would be a credit more often than it would be a charge would be my expectation.

Q. Well, let me ask you about that. So you're saying weather's more likely to vary more than normal than less than normal over time.

A. No, that's not what I'm stating.

Q. Okay.

A. What I'm stating is that as weather varies, mild weather has a small impact on market prices. Significant deviations on the, say, extreme weather, colder weather in the winter, hotter weather in the summer, those have the effect of moving prices up much more dramatically than mild weather does. And to understand that what you have to look at is how the generation stack works.

When weather's mild, demand goes down, and when demand goes down, you move down in the stack. And so you move from CTs and CCs producing some of the power to baseload coal units producing some of the power.

What you don't do -- so for coal plants you may see a variable cost of about $30 that would set the market price. The next step down in the stack is to move down to nuclear units which are going to be in the 8 to 10 dollar a megawatt-hour variable price range. I don't move down that next step, demand never falls so low that you have to reach into the nuclear units to set the marginal price.

On the upside, though, when weather is extreme, demand goes up, you quickly start moving up the stack from the coal units that are setting the price, the CCs setting the price, you move into CTs setting the price at a much higher cost and you start moving into oil-fired units and the like that have much, much higher costs and you start to see $1,800 a megawatt-hour. Structurally the floor on the prices is somewhere in the $30 a megawatt-hour range. On the upside it's much, much higher.

Q. Well, I'm certainly familiar with the analysis you provided us last week regarding the variability, effects of variability on weather, short-term realtime prices, but I'm asking you, and I think you answered my question but I just want to make sure, you're not saying that weather is going to vary -- weather is going to be more volatile than normal any more frequently than it's going to be less volatile than normal. That was my question.

A. That's correct.

Q. Okay. Thank you.

Now, on page 10 of your testimony at lines 6 to 7 you said that AEP Ohio will be selling capacity, energy, and ancillary services into PJM market. But would you agree with me that the OVEC plants have not earned ancillary service revenues in the past?

A. That's correct.

Q. And OVEC has not forecasted any for the future at this point in time, have they?

A. That's correct. And what the company was doing in putting this out was that to the extent there are ancillary service revenues in the future, those benefits would accrue to customers.

Q. And on page 11 of your testimony at lines 4 to 6 you say that over the long term if the PJM capacity market recovers to a sustainable level, as you would expect it to, that the revenues received associated with AEP Ohio's OVEC entitlements should exceed its costs. Do you see that?

A. Yes, I do.

Q. Would I be correct that you consider a sustainable level to be what is referred to as the net cost of new entry or net CONE?

A. Yes.

Q. And you don't expect the capacity market to recover to this level over the term of the ESP; is that true?

A. In evaluating net CONE there are two elements, the first element is gross CONE which is the gross cost of a new entry, the second component are expected energy margins. What we saw in the most recent PJM auction is that there were new gas plants that cleared in the auction. When the auction cleared at $120 a megawatt-day, what that implies is that those entities believed that the energy margins that they'll receive will be sufficient to recover all of their costs combined with the capacity revenues they received through the RPM market.

So net CONE is a concept around what the capacity in energy split is for revenues that generation owners would receive. The value of net CONE can change annually or over the longer term based upon expected energy margins that generators would predict.

Q. Again, my question was whether -- was whether you expect net -- the market to reach net CONE within the next three years over the term of the ESP.

A. So what I was trying to provide in my answer is that the value of $120 a megawatt-day given the right level of energy margins, the right energy price in the market, could reflect a value of net CONE.

Q. Do you think it will, over the term of the ESP, reach that level?

A. The 2017-'18 balancing residual auction cleared at $120 a megawatt-day, so I expect that the market price for capacity in 2017 and '18 is going to be $120 a megawatt-day. I know what that value is.

Q. And what is net CONE as estimated by PJM for 2017 to '18?

A. When PJM --

Q. I'm asking for the number. What is net CONE for 2017 to '18? PJM has calculated this number, correct?

A. For purposes of the price caps in the market PJM does a calculation of net CONE based upon a forward look at prices for a new entry but combines that with a backward look at energy margins. When a new entry bids into an auction, they're looking at both forecasted capacity and forecasted energy margins.

MR. BERGER: Your Honor, at this time I'd like to have marked as OCC Exhibit 3 the PJM forecast of or estimate of net CONE.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Are you familiar, Mr. Allen, with this exhibit?

A. I've seen these types of tables from PJM, yes.

Q. Right. And the PJM RTO number which is on the line "RTO" indicates that for 2017-'18 the forecast for net CONE is $351.39 per megawatt-day; is that correct?

A. That's the value for net CONE based upon the administrative procedures that PJM uses to calculate that value for purposes of the price caps in the balancing residual auction.

Q. Okay. And this is net of energy and ancillary revenue offsets; is that correct?

A. That's correct. And so what I was describing is that a generator needs to expect to receive CONE, gross CONE, over the life of the unit which is the value presented a couple columns over that says "CONE ICAP Terms dollars per megawatt-year" which is $143,434 per megawatt-year, or $392 -- or $393 per megawatt-day.

So it's a combination of energy and ancillary offsets which is the $22,423 per megawatt-year, that's an offset from the CONE value. So a new entry has to expect from those two sources gross that they'll recover their total cost. So they need net CONE plus an energy and ancillary service offset.

In this analysis PJM does not use a forecast of what those energy and ancillary service offsets will be though.

Q. They use the historic amount is what you're saying.

A. They use a, I think it's an average of three historical years.

Q. Okay. And what you're saying is that somebody entering the market building a new facility will look to what they hope to obtain in terms of energy and ancillary service revenues in addition -- in addition to the $120 capacity cost -- RPM cost per megawatt-day that's being offered in that period.

A. I would disagree with your inference that it's a hope. It's their expectation and their projections, yes.

Q. Okay. I guess we can call it what we want.

Would you agree with me that a builder today has the same expectation that a builder in ten years will have, they need to cover their costs and make money? Would you agree with that?

A. Yes.

Q. And would you agree with me that you think that the recession is the primary factor keeping the market from becoming more sustainable currently?

A. In the short run economic conditions such as the recession can have a depressing impact on the market because there's excess capacity from that level that's needed. If you were to see an increase in economic activity, you could see the RPM market in the short run go up substantially above what the sustainable level would be which would encourage new entry but over the long term the expectation is that the combination of net CONE plus the energy and ancillary service offsets would create sufficient revenues for a generator to operate in the long term.

Q. You agree -- again, my question was

whether the recession is the primary factor that's keeping market prices from being sustainable currently.

A. The recession is what caused the markets to drop to levels that were not sustainable in the past. There's a question about whether a capacity rate of $120 a megawatt-day is sustainable in the future and it may be if energy margins are sufficient and market energy prices are high enough.

Q. Are there other -- are there other critical factors that you think are keeping the market from becoming sustainable currently?

A. The significant amount of demand response that's in PJM today I think has an artificially -- has an artificial impact on the price of capacity in the market.

Q. Okay. Would you agree with me that PJM has recently made changes to address demand response issues?

A. PJM has made some changes to impact the demand response component of the market, but more recently the federal court has vacated the FERC order requiring demand response resources to be compensated at the LMP rate and, instead, has said that that's not the purview of the FERC, it's not federal, it's a retail rate mechanism. So there's maybe another shoe to drop on how demand response impacts the RPM balancing residual auction and FirstEnergy has actually filed I think it's a stay on the results of the BRA auction with the FERC as a result of that court ruling.

Q. But none of us know the outcome of how this court decision that just came out will play out in terms of how it might or might not affect the market.

A. My expectation would be that the ultimate result of that --

Q. I'm not --

A. -- court opinion will not have the effect of reducing the capacity market price, but it could dramatically increase those prices.

Q. But you don't know; is that correct? You don't know the outcome of how that will play out.

A. If the decision by the court is reversed, we go back to the status quo. If the decision of the court is maintained, demand response would be pulled -- would likely be pulled out of the capacity markets either due to pricing or due to changes in the balancing residual auction and the end result would have an impact to raise prices.

Q. And with respect to environmental rules and regulations you're aware the EPA has just proposed guidelines for limiting carbon dioxide emissions this week.

A. Yes.

Q. Okay. Would you agree with me that those rules could affect OVEC's costs?

A. They would have the impact on both OVEC's costs as well as have a positive impact on the market prices, raising market prices, when those rules go into effect.

Q. Okay. But you don't know, none of us know what those impacts will be at this point in time, correct?

A. The impacts won't be known for years.

Q. Is it your understanding that those rules will require a substantial reduction of I think it's 30 percent in carbon emissions?

A. I've been in hearings most of the week so I haven't had much time to review the rules. I've seen those kind of numbers, but it's very early in the process and I don't think we know what the impact would be on the state of Ohio or on the OVEC units specifically.

Q. And are you aware that the Supreme Court recently upheld the EPA's Cross-State Air Pollution Rule?

A. Yes.

Q. So that will make it even harder to challenge the new carbon emissions proposed rules; is that correct?

A. No. I don't think so.

Q. Now, was normal weather utilized in doing the dispatch model for both Attachments 1 and 2 to IEU 2-001?

A. Yes, it was. That's how utilities typically do dispatch models when they look to serve retail customers as their primary customer. When you look to serve the market, you know, as I think about things it may be more appropriate to look at a model that includes what I would, you know, Monte Carlo simulations that would include the impact of volatility due to abnormal weather.

Q. But normal weather does include highs and lows, right?

A. Normal weather is average weather, it does not predict what the variability of weather will be over time. We know when we look at data that weather is never normal and there's significant volatility and, as I've discussed previously, based upon the stack volatile weather has a much larger impact on the upside for margins that a unit dispatching into a market would have as compared to mild weather.

Q. Okay. And is it your expectation that we should expect extreme weather to occur more frequently in the future than it has in the past?

A. No. That's not what I'm stating. What I'm stating is that if you were to do a more sophisticated Monte Carlo type simulation on these types of units, that the expected value of the units would exceed the value based upon an assumption of normal weather.

Q. Okay. And is the normal weather used in these models 30-year average weather or is there a different -- or is that --

A. That's typically the normal weather that we as a company use.

Q. You mentioned demand response before. Are you -- as an issue that PJM -- that you're concerned with that has an impact on prices. Do you recall that?

A. Yeah, I think I stated that demand response impacts capacity prices in the market.

Q. Right. And other than the recession

demand response are there other particular issues that you think are critically affecting market prices currently?

A. Not that come to mind.

Q. Okay. Now, you believe -- moving on to another topic, you believe there's a benefit in this proceeding for extending the residential distribution credit through May 31st, 2018; is that correct?

A. That's one of the benefits of the ESP, yes.

Q. Would you agree with me you haven't identified any other quantitative benefits from the ESP?

A. I've not quantified any other benefits of the ESP but there are other benefits to the ESP that customers will see and, actually, as we spoke earlier, based on the most recent data that I have available I think the OVEC rider in addition -- or, the PPA rider, I'm sorry, in addition to providing price stability benefits to customers would provide a benefit of approximately $8.4 million over the ESP period.

MR. BERGER: Your Honor, I'd like to provide the witness with a copy of his deposition transcript. So we'd like to hand out his deposition, not as an exhibit, however. We're providing one to your Honors and to the witness as well as his counsel.

MR. NOURSE: Can I also just ask that the deposition transcripts be collected if they're not marked as exhibits and used in evidence.

MR. BERGER: That's fine. No problem with that. If you don't mind, your Honor --

EXAMINER PARROT: That's fine.

MR. BERGER: -- returning them to us when we're done.

Q (By Mr. Berger) Would you turn to page 50 of your deposition transcript.

A. I'm there.

Q. At the bottom of that page at lines 23 through 25 I asked you the question and you'll see on line 24 there's a misstatement but the question is: "Are there other quantitative reasons the ESP, in your opinion, is more favorable in the aggregate than an MRO?" Do you see that?

A. I see that question, yes.

Q. Do you see your answer: "At this point in time this is the only quantifiable benefit that I see"? Do you see that on page 51?

A. Yes, I see that and it was accurate at the time I stated it.

Q. So your $8.4 million reference now as to what the overall benefit of the PPA rider is over the ESP period, you're saying that's a new quantitative benefit you see.

A. I think that's a quantified benefit in addition to the benefits that I had quantified at the time I prepared my testimony.

Q. Okay. And when did you quantify the 8.4 million?

A. I quantified it yesterday afternoon in the hearing room in response to quite a bit of cross-examination on what the potential costs of the PPA rider would be.

Q. Okay. And you saw no reason to do that at an earlier point in time.

A. The data that I used had been provided in discovery to all the parties. I assumed that it would be obvious to the parties how the calculation would be done, but based upon the cross-examination yesterday it was clear parties either weren't aware of all the data out there, hadn't endeavored to do that calculation, so I thought it was important to the record to prepare such a calculation.

Q. Okay. And you're saying that you believe that the analysis you did yesterday which is based on Attachment 2 is more accurate than the analysis from Attachment 1. Is that correct?

A. Yes, it is.

Q. Okay. And you saw no reason to seek -- you saw no reason to seek an update of forward prices, OVEC costs, or anything of that nature before you came up with the determination that you made and your statement here today that this is an $8.4 million benefit to customers.

A. I didn't think it was necessary and I endeavored to perform the calculation based upon data that all the parties had access to in the proceeding.

Q. Now, you think there's a benefit from recovery of distribution investment through the DIR rather than recovering the cost through base rates, but you haven't quantified that benefit, correct? Or do you have a new calculation of that too?

A. It's clearly a benefit to customers through the accelerated investment that the company can make in distribution infrastructure, but the value of that is something that can't easily be quantified and I think the Commission came to the same conclusion in the last ESP order.

Q. Now, do you think it would be fair to attribute the entire cost of a rate case to implementing a distribution investment improvement program?

A. I'm sorry. Can you repeat that question?

Q. Yes. Would you attribute the entire cost of a rate case to the implementation of a distribution investment improvement program or would you attribute it to a request for rate relief that encompasses a wide range of revenue and expense items?

A. If the company were to undertake a capital spending plan that had the significant spending in the DIR, my expectation would be that the company would need to file rate cases on an annual or near annual basis to fund that investment. So absent the DIR, if we were to try to make that same level of investment, we would be incurring the full cost of a distribution case to make that investment when the only benefit is avoiding a distribution investments rider that's a more efficient mechanism.

So I think absent the DIR mechanism, to make that investment, you should attribute the full cost of a D case to that decision and a distribution case based upon the level of involvement and interest that I've seen in Ohio and based on experience in other states with the cost of a distribution case, I would expect it to be between 500,000 and a million dollars.

Q. And I think it was -- that was stated before as to what the cost of a rate case was. I didn't ask you what the cost of a rate case was, by the way, but would it be fair to say that there's a benefit to customers in requiring utilities to receive expense recovery through base rates in that it provides an incentive to control costs?

A. No, the incentive to control costs by companies is their earnings. So the company always has an incentive to control costs. We also have an incentive to control costs because the economy of the state is dependent upon reasonably priced electricity provided by the utility. So we all win when the company is able to control costs.

Q. So saving 500,000 to a million dollars isn't an incentive to control other costs; is that right?

A. My view is filing a base distribution case just to get recovery of the capital investment made in the -- through the distribution investment rider would be a waste of valuable resources that could be better used to benefit customers.

Q. I don't think you answered my question. Saving 500,000 to a million dollars on a rate case isn't an incentive, in your opinion, to control other costs the company has.

A. Rate case expenses are recovered from customers. So it's not an incentive for the company to cut costs, the costs of a rate case. It's a cost to customers as a result of a rate case through how rates are developed.

Q. Would it be fair to say that the residential distribution credit rider was established in AEP's last base rate case at 11-351-EL-AIR in a stipulation?

A. That's my recollection.

Q. Okay. And would you agree with me that the credit was established for the period through May 31, 2015, which was the same date as the expiration of the DIR?

A. There were two elements of the residential distribution credit. There was one element that had an expiration and there was another element of it that capped the residential distribution credit rider at I think the value was $52 million but I don't recall precisely. But there were two elements, one was a total cap and one was an expiration date.

Q. Okay. But the amount of the rider was to expire at the same time as the DIR was to expire; is that correct?

A. The May 31st date was the same date as the DIR. The residential distribution credit rider, though, could have actually expired prior to that, and it may.

Q. Okay. Thank you.

Are you familiar with opinions regarding, in the trade press recently, that the wave of new generation clearing PJM auctions could depress power prices? Are you aware of that possibility?

A. I'm sorry. State that again.

Q. Are you familiar with an article that was published in SNL called "Wave of New Generation Clearing PJM Auction Could Depress Power Prices"? Are you familiar with that?

A. I'm not.

Q. Are you aware of analysts who have indicated that?

A. I'm not.

MR. BERGER: Okay. That's all I have on the nonconfidential portion of the record, your Honor.

Thank you very much, Mr. Allen.

MR. NOURSE: Your Honor, I note it's been two hours on the stand so far, it might be helpful to take a brief recess.

EXAMINER PARROT: Yes, I was planning to. Just a moment.

Let's go off the record. We'll take a five-minute break.

(Recess taken.)

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

Mr. Yurick.

MR. YURICK: Very briefly, your Honor. Thank you.

- - -

CROSS-EXAMINATION

By Mr. Yurick:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. I have a few very, I think basic questions for you. First, there's no question, the company's proposing in its filing for this PPA rider to be nonbypassable, correct?

A. That's correct.

Q. That means that the PPA rider will be paid by both shopping customers and customers who take generation service from the company, correct?

A. That's correct.

Q. And we're talking here, these OVEC assets, they're generation related assets, correct?

A. The OVEC units are generation units. The PPA rider that we're discussing here is a price stabilization mechanism. It's not a -- we're not providing any generation service to customers.

Q. Understood. Take it easy on me, I'm a little less than a hundred percent, I just -- the units themselves, the OVEC units themselves are generation units, correct?

A. That's correct.

Q. So the PPA rider as it's proposed by the company relates to generation, correct? Generation assets.

A. The PPA rider is a stabilizing rider that compares the cost of production out of the generating units of OVEC to the market price. So it's not solely related to generation, it's related to the delta between the cost of generation from the OVEC units and what the market revenues are from liquidating the capacity and energy from OVEC into the market.

Q. And you state on page 11 of your testimony, line 1, I'll skip over the "Yes" but you say "The primary function of the PPA rider is to provide added price stability for customers through this ESP period," correct?

A. That's correct.

Q. Now, if I was a shopping customer generally, I would be purchasing generation service from a certified retail electric supplier, correct?

A. That's correct.

Q. Stay with me. Let's just say that I'm a shopping customer and I negotiate a price for generation with a certified retail electric supplier or a CRES supplier, so hypothetically I'm a customer and I've negotiated a price with a CRES provider. Are you following me so far?

A. Yes.

Q. Okay. Then in that situation where I'm just a competitive -- I've got a contract with a competitive electric retail supplier for a price certain, the PPA rider as you have it constituted actually would decrease my price certainty because if I'm just buying from a CRES at a price certain, that's all I've got to worry about, right?

A. No, that's not true. A customer buying from a CRES would have a term on their contract. At the end of the term of the contract any new offer would be based upon current market prices. And the OVEC rider at that point in time would be running counter to the changing market prices that you see then.

Q. Okay. So maybe at that time I would be able to negotiate a different price with a CRES, but I'll back up, okay, we'll make my hypothetical -- let's say I'm a CRES customer and I've got a CRES contract, okay, with a provider that spans the term of the proposed ESP. Are you following me so far with this hypothetical?

A. I'm following you, yes.

Q. Okay. And I've got that price locked in for the term of that ESP at a price certain, okay?

A. Yes.

Q. Doesn't in that instance, in my hypothetical, doesn't the PPA rider decrease my price certainty because if I was just buying from a CRES at a price certain, that's all I have to worry about? I wouldn't have to worry about your PPA rider, credit or debit, whether it helps me or hurts me. I don't have to worry about it if it's bypassable, correct?

A. Every CRES contract has a term and the companies --

Q. I don't mean to interrupt you but let me stop you there. In my hypothetical we've established the term of my CRES contract spans the ESP period. Okay, so I just wanted to make sure that question was clear on that. So I don't mean to interfere or be rude, I just want to make that clear.

A. The company's expectation is that the PPA rider mechanism would extend through this ESP period and beyond. That would be the company's expectation. And so at the end of the period, then there would be a price stabilizing effect for that customer.

Q. So the company expects that once the PPA rider's established, it's going to be there through the ESP period and on into the future.

A. Yeah. I think, as Company Witness Vegas stated yesterday, that the company's expectation would be that we would propose a PPA rider in the next ESP.

MR. YURICK: Okay. Thank you, I don't think I have any further questions. Thank you very much.

Thank you very much as well, Mr. Allen.

EXAMINER PARROT: IEU.

MR. DARR: Thank you, your Honor.

CROSS-EXAMINATION

By Mr. Darr:

Q. We can go back and look at the transcript of what Mr. Vegas said and determine with some clarity as to what he said with regard to the term of the PPAR, correct?

A. We could.

Q. And probably we should do that if we want to get an accurate read of what Mr. Vegas said to all of us yesterday with regard to the term of the PPAR?

A. If you want to know precisely what Mr. Vegas stated yesterday, your best source would be the transcript.

Q. You said earlier today with regard to the price variation or cost variation of OVEC from 2011 to 2012 and into 2013, that there were multiple reasons that caused or were thought to cause the price variation, and one of those was weather, a second was a closure of the two plants for environmental upgrades. Do I understand that correctly?

A. I'm sorry. I did not hear your first cause.

Q. Weather. Moderate weather.

A. The cause was low power prices.

Q. Well, there were low power prices and that was driven because of weather, correct, as one factor?

A. That would be one factor that impacts power prices but also economic activity has an impact on power prices.

Q. Okay. Do you know how much of the price variation was a function of any one of those three causes that you've just identified?

A. No, I don't.

Q. By the statements I think that you made earlier today with regard to your volatility analyses you have indicated that the downside for warm or moderate weather is less significant than for cold or very hot -- very cold or very hot weather; is that fair?

A. Hot weather in the summer and cold weather in the winter, yes.

Q. And the volatility associated with both of those is greater than the volatility that you would expect as a result of mild or -- milder than expected weather.

A. Most definitely, yes.

Q. So as a factor affecting prices that move in 2011 from roughly $50 to 2012, $62, based on your analysis you would assume that weather was a relatively minor or insignificant factor in that price moving, correct?

A. I think you're combining a couple of things. The dispatch of the units into the market in 2012 and 2013 had a significant impact on the price. Weather would have impacted partially what the market prices were during 2012 and '13.

Q. The amount of unit dispatch is a function of its price relative to the market price -- its cost relative to the market price, its variable cost relative to the market price, correct?

A. Yes, that's correct.

Q. And according to OVEC, IEU Exhibit 6, one of the factors affecting that was weather, correct? You read it.

A. I'd have to look at Attachment 6 again.

Q. Please do.

A. So there's two statements in IEU Exhibit 6. If you look to page 2, there's a paragraph entitled "Power Costs," it describes in 2012, OVEC's average power cost to the Sponsoring Companies was $62.86 per megawatt-hour compared to $50.86 per megawatt-hour in 2011. The total sponsoring company power costs were 650 million in 2012 compared with

722 million in 2011. The lower energy sales in 2012 accounted for the majority of the increase in the cost per megawatt-hour in 2012. Mild weather, a soft energy market and low-cost natural gas generation were responsible for lower energy sales in 2012. So there were three elements that impacted the price in 2011, one was mild weather, one was the soft energy market, and the third was low cost natural gas generation.

The document goes on to state that: "In 2013, the demand for energy remains weak as the national economy continues to recover and natural gas generation continues to compete with coal-fired generation."

So in that case for 2013 their expectation of low sales or low dispatch is due to two causes, a weak economy and low cost natural gas generation.

Q. So going back to my question, and I think I've characterized it correctly, you've identified three things -- or, OVEC has identified three things in their annual report identified as IEU No. 6 that affected the output or sales, the output, of the generating plants being weather, natural gas prices, and a soft market for energy in general.

A. That's correct.

Q. Based on the analysis that you have done and which you shared with us last week in terms of the volatility analysis, it is your view that mild weather has a relatively minor effect on the price or the effect of the PPA rider, correct?

A. Mild weather has a smaller effect on the PPA rider than extreme weather would.

Q. And so plant outages or continuing soft economy or continuing low natural gas prices would be the dominant factors that would affect the price volatility of the cost. Let me rephrase that.

Natural gas prices, a soft economy, or plant outages would be the major factors affecting the cost to sponsoring parties of the OVEC generation.

A. I haven't done that analysis to know which one of the three is dominant based on 2012.

Q. And is it fair to say that, well, first of all, do you know how long the Kyger and Clifty Creek plants were out of service for the environmental upgrades?

A. I don't.

Q. Do you know the relative impacts of the soft economy on the output of Clifty or Kyger?

A. No.

Q. And do you know the relative effect of low natural gas prices on the output of Clifty or Kyger?

A. As I've indicated, I haven't done an analysis to separate the three nor have I done an analysis of what the impact of the combined three items were on the output of the units.

Q. Now, in your calculations that resulted in what's been referred to as Attachment 1 to IEU 2-201, you did not include any effect of the LEAN process improvements in that calculation; is that correct?

A. Attachment 1 are you referring to?

Q. Yes.

A. That attachment did include the effect of the LEAN initiatives, IEU Set 2, RPD 2-01, Attachment 1.

Q. Yes.

A. It did include the impact of LEAN.

Q. That is you made the adjustment for the amount of improvement.

A. There was an estimate of what the effect would be. It hadn't yet been incorporated into the OVEC operating forecast.

Q. Just so the record is clear, when were those OVEC operating forecasts available?

A. The operating forecast that I've referred to that was provided in response to an OEG data request was prepared in November of 2013 and provided in response to the OVEC discovery response, I think it was in early-February.

Q. Okay. So this material was available in fourth quarter of 2013, correct?

A. I know the data was prepared. I don't know the date that the forecast was provided to the company.

Q. And you treated that as a commitment on the part of OVEC that they would make the LEAN process improvements amounting to the amount stated in Attachment 1, correct?

A. It's their operating budget for the next five years.

Q. That's not what I asked you, Mr. Allen. You treated that as a commitment on the part of OVEC to make the process adjustments resulting in the adjustment that you made in the calculation, correct?

A. I didn't treat it as a commitment in OVEC. What I treated it as is an expectation that OVEC will be working to make those changes and they

will be working to make that successful.
Q. In fact, there is no commitment on the part of OVEC to make those process improvements; is that correct?
A. Well, I think OVEC has already taken steps to do that. If you were to look at the OVEC report for 2013, so if you look at the consolidated financial statements for OVEC for 2013, they indicate that they're undertaking a severance program currently that was implemented in October of 2013, OVEC announced a voluntary severance program that will allow retirement eligible employees to leave prior to January of 2015, so that's a first step that provides additional evidence to me that OVEC is moving forward with those plans.
Q. You said that the source of this is the 2013 what?
A. It's the OVEC -- it's the Ohio Valley Electric Cooperation -- Electric Corporation and subsidiary company consolidated financial statements as of and for the years ended December 31st, 2013, and 2012, and the independent auditor's report. It's available on the OVEC website.
Q. Now, going back to my question, has OVEC committed to make the reductions that are referred to

as the LEAN improvement or process optimization?

A. State that again.

Q. The same question I asked you twice before. Has OVEC committed to reducing the demand charge or the process commitments for the LEAN improvements and the process optimization?

MR. NOURSE: Objection. I agree with Mr. Darr, this has been asked and answered already.

MR. DARR: It's not been answered, your Honor.

EXAMINER PARROT: Overruled.

A. OVEC has not committed to make these reductions. OVEC has presented to the sponsoring companies that they expect that their costs will be reduced.

Q. And if that does not occur, has AEP Ohio made any commitment to parties in this proceeding that the LEAN improvements or process optimizations would be realized in the PPAR rider?

A. No.

MR. DARR: For simplicity sake, which I know is kind of a novel concept at this point this late in the afternoon, what I'd like to do is reference an exhibit that's attached to Mr. Murray's testimony so that we don't create a whole other set of duplicated documents. Attached to his testimony as KMM-2 is a copy of the ICPA. I can provide the Bench copies, I believe all the other parties have copies of it. And if it would simplify things, what I could also do is ask that -- have marked Mr. Murray's confidential testimony as IEU Exhibit 1A and then we can refer directly to that.

EXAMINER PARROT: Let's do that, please. Thank you.

MR. DARR: Then I request that Mr. Murray's testimony be marked as IEU Exhibit 1A.

EXAMINER PARROT: So marked.

MR. DARR: And that's the confidential version.

EXAMINER PARROT: Okay. So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: Mr. Darr, are you using just the KMM-2 as the exhibit you're using right now?

MR. DARR: That's correct.

MR. NOURSE: Thank you.

Q (By Mr. Darr) Mr. Allen, for purposes of the next few questions I'm going to refer to this as KMM-2 which is the exhibit attached to Mr. Murray's testimony which has been identified as IEU Exhibit 1A. Are we clear on that?

A. Yes.

Q. And could you identify for us what's been marked as -- what is IEU -- excuse me, KMM-2.

A. Yes, it indicates that it's the Amended and Restated Intercompany Power Agreement dated as of September 10th, 2010, among Ohio Valley Electric Corporation and then it lists the sponsoring companies, and it lists at the top that it's a FERC unofficial PDF from 4/27/2011.

Q. And do you recognize this as the intercompany power agreement between the sponsoring parties including Ohio Power and the Ohio Valley Electric Corporation?

A. It appears to be, yes.

Q. If you would, turn to page 5 of this agreement.

A. I'm there.

Q. And at the top of the page do you see the, and it actually continues on from 4, there's a definition of what's called the power participation ratio and then a list of companies. Do you see that?

A. Yes.

Q. Based on that power participation ratio definition would you agree with me that Ohio Power, and specifically it refers to Columbus Southern and

Ohio Power in their former incarnation, have an interest in OVEC of 19.9 percent?

A. It indicates that Columbus Southern is 4.44 percent and Ohio Power is 15.49 percent which would be 19.93 in total.

Q. And this represents a 19.9 percent entitlement to the available power and energy available under the OVEC agreement, correct?

A. A 19.93 percent entitlement, yes.

Q. And pursuant to this agreement Ohio Power can use the energy for its own load or to serve other parties; is that correct?

A. I'm not sure where it says it in the document but that's my understanding of it, yes.

Q. Well, if you turn to page 7, I believe, and look at I believe it's paragraph 4.034. Would you agree with me that you, "you" being Ohio Power, have the right to use that energy?

A. That's what's indicated in that paragraph, yes.

Q. Now, if we look at the section beginning with what was referred to as Article 5 beginning at the bottom of page 7 and continuing on through page 11 of this agreement, we find the provisions indicating how the charges are calculated by OVEC which are then charged to the sponsoring parties; is that correct?

A. Article 5 describes the charges for available power and minimum loading event costs.

Q. And that's broken down into basically two components; is that also correct?

A. There are actually four categories of costs. If you look to paragraph 5.02, it discusses an energy charge, 5.03 discusses a demand charge, section 5.04 discusses a transmission charge, and section 5.05 describes a minimum loading event cost.

Q. And the energy charge basically represents the cost of fuel and environmental disposables, correct?

A. Generally fuel and variable O&M.

Q. Demand charge consists of fixed costs, fixed operation and management expenses, taxes, return on and of equity, insurance, and other employee costs, correct?

A. Those are some of the costs. It would also include costs for debt which I don't know that you mentioned, but it covers a variety of fixed costs.

Q. And debt's pretty important on this one, isn't it?

A. OVEC is nearly entirely financed with debt, yes.

Q. Something to the tune of about 99 percent?

A. I haven't done the math but that wouldn't surprise me.

Q. The demand costs also include decommissioning costs, correct?

A. Decommissioning and dismantling cost would typically be a demand cost.

Q. And with regard to transmission costs, this is the amount that the sponsoring companies pay to reimburse for PJM transmission fees; is that fair?

A. It covers the transmission charges incurred by the corporation, being OVEC, for the purchase of transmission service, ancillary services, and other transmission related services under the tariff as reserved and scheduled by the corporation to provide for the delivery of available power and available energy to the applicable delivery point under this agreement.

Q. Okay. Would you understand that to mean the PJM transmission charges?

A. I don't know that to be the case.

Q. Now, if we go to Article 7, the company can also charge the sponsoring parties, "company" in this case meaning OVEC, can charge the sponsoring parties, including AEP Ohio, replacement costs, additional facility costs, employer benefit costs for taxes to cover shortfalls, and postretirement benefits and obligations, and any additional decommissioning costs, correct?

A. Article 7 lists four categories of costs and the contract describes that the sponsoring company shall reimburse the corporation for those costs. That's what Article 7 states. I don't want to interpret what the document in its entirety means without asking legal counsel, but that's generally what the document states.

Q. Okay. And then if we go to Article 8 regarding billing and payment, we find in the first few sections a general requirement to pay for the available power and replacement and additional facility costs in paragraph 8.01, correct?

A. Yes, section 8.1 describes that the sponsoring companies will pay to OVEC the cost of -- the costs incurred under Articles 5 and 7.

Q. And this article further provides in 8.04 that the obligation of each sponsoring company to pay the specified portion of the demand charge under

5.03, which we just looked at, and the transmission charge under section 5.04, which we just looked at, shall not be reduced irrespective of whether or not any available power or available energy are supplied to the corporation under the calendar month and whether or not any available power or available energy are accepted by any sponsoring company during such calendar month. Is that correct?

A. The document states what it states. What I can't do is provide you an interpretation of whether or not there are other provisions within this document that's quite long that may change some of those provisions.

Q. Well, does the header indicate to you any limitation on the obligation to pay given that it says an "Unconditional Obligation to Pay Demand and Other Charges"?

A. I can only tell you what the document states, I can't interpret whether or not there are other provisions that may modify that. I mean, it's typical in contracts that there's other sections that may say in the event of a certain occurrence, this doesn't occur, and I can't review the whole document to know what all that means.

Q. That's fair.

Now --

MR. NOURSE: Mr. Darr, if it helps, the company is willing to stipulate to the admission of KMM-2 regardless of whatever else happens with Mr. Murray's testimony, if that will help save you any time.

MR. DARR: Actually I just finished with KMM-2, I'm going to move on to something else.

MR. NOURSE: Good, I waited too long then.

MR. DARR: Or just long enough, Mr. Nourse.

Q. Now, in response to a question from Mr. Berger you indicated that for purposes of calculating the ESP versus MRO test you used a value of zero for the PPAR, correct?

A. In my testimony, yes.

Q. And that's because you expect the PPAR will be approximately zero and it will be -- and it will potentially be a benefit to customers, correct?

A. Based on the forecast I've seen I expect that OVEC could be a slight charge to customers or a slight benefit to customers over the three-year period, and I indicated that a value of zero would be appropriate as a -- when people are evaluating it.

But if you use the most current data, I would show an $8 million benefit if we use the data I discussed today.

Q. Let's talk about that data that you provided today. This was data that would have been available to you, and I don't want to beat the drum any more than Mr. Berger just did, but all of the information that you used came from information that was available either in February or was available in the runs that you provided to IEU when you responded to 2-1, correct?

A. It was data that was available to myself and all the other parties in the proceeding.

Q. And you took it upon yourself last night to come up with this calculation of $8 million based on the data that's been available to you and the other parties since at least February, correct?

A. I actually did it as we sat in the room, it was a fairly simple calculation, yes.

Q. Is this available on a worksheet for parties to look to see how you calculated this information?

A. I do have it on a worksheet, yes.

Q. Is that something that, you know, in response to IEU Exhibit -- or, IEU Interrogatory 2-1 you were planning on making available to parties sometime before you testified?

MR. NOURSE: Your Honor, as to the discovery obligation, this document, as Mr. Allen's indicated, was just prepared yesterday, he just gave it to me today.

We're happy to give it to you if you want to ask questions about it. I plan to use it in redirect at this point anyway, so if you would like me to pass it out right now, I can.

MR. DARR: Certainly puts all of us in a bit of a conundrum when the data on which the witness has now found a benefit to the ESP was made available after he began to testify, your Honor, but I would certainly like to see that information and reserve the right to call Mr. Allen back to question him further if there appears to be any problems with it.

EXAMINER PARROT: Mr. Nourse, do you have it?

MR. NOURSE: Now, I will say that Mr. Allen can indicate with more specificity that some of the information on this table is confidential, so if you have questions about it that get into that detail, we should reserve those for the closed portion of the hearing.

MR. DARR: Again, your Honor, it's my intention not to question him on that because I haven't had an opportunity to look at it or talk to my folks that do the number crunching. My intention, though, is to again ask that we reserve the right to be able to call Mr. Allen back once we've had an opportunity to look at this and presumably get the underlying active spreadsheet up from which this is generated.

MR. NOURSE: I think Mr. Allen can explain, your Honor, as he's already done, that this is all based, number one it's a simple calculation, we could have put this in brief based on information that's already out there. He did it, he's explained it, it's based on information parties already had. So I don't think any additional -- and it's certainly premature to suggest there's a need to re-call Mr. Allen at a later date.

EXAMINER PARROT: All right, at this point I think we're going to continue with our line of questions pertaining to nonconfidential information and because this is information that the company alleges is confidential, I think we will pick up with this -- we'll mark it as an exhibit at some point but we'll pick up with questions with respect to this document, at this point it looks like tomorrow so that will give you time to review it, Mr. Darr.

MR. DARR: Again, your Honor, it may or may not provide me that opportunity. My expert is out of town today. We clearly got surprised by this position. We deposed this witness last week or the week before, he made a very clear statement that he was using a zero value. So, again, I'm going to, when this issue comes up I'm going to have to ask for a little bit of assistance here otherwise the element of surprise here works clearly adversely to not only IEU but other parties, so I -- I request that consideration when we get to that point.

EXAMINER PARROT: I think that's what I'm saying is we'll cross that bridge when we come to it.

Q. (By Mr. Darr) Mr. Allen, you indicated in response to a question earlier, I believe with Mr. Yurick, that there is no commitment of the power associated with the OVEC PPA to the customers of Ohio Power; is that correct?

A. That's correct. That's the way the PPA rider is structured.

Q. As structured the power would be sold into the PJM market and the company would realize through that sale capacity revenues and energy revenues, correct?

A. That's correct.

Q. And the amount of energy revenues would be a function of the ability of OVEC to clear the market on a day-ahead basis or in the hour-ahead basis, correct?

A. They would be a function of the ability to clear as well as the market prices, yes.

Q. Isn't that saying the same thing?

A. No. The revenues are a multiplication of output times market price. The ability to dispatch just gets to the fact of whether or not there are megawatt-hours to sell.

Q. And whether or not those megawatt-hours cost less at the margin or at the -- the variable price or, excuse me, the variable cost of those megawatt-hours is less than the LMP for a particular hour, correct?

A. Based upon economic dispatch there would be no megawatt-hours if the unit's cost was greater than market.

Q. So the answer to my question is "yes."

A. No.

Q. Excuse me. Let's try it again. The unit would be dispatched if the cost, and by this I mean the variable cost, is less than the amount that would be realized through the transfer or sale of that power into the market; is that correct?

A. That's correct.

Q. And as you and others have described previously, the PPAR essentially because -- is a pure financial hedge. There is no physical hedge associated with this power, correct?

A. It's a financial hedge, that's correct.

Q. By "financial hedge" what we're talking about here is that it causes a change in the prices that customers would see, either positive or negative, but does not change the source of the electrons that those customers would be receiving.

A. That's correct.

Q. And it's your position that the PPAR is not a limitation on customer shopping, correct?

A. It's clearly not.

Q. And it is also clear that it does not operate in any way as a standby service for customers, correct?

A. That's correct.

Q. It doesn't operate as supplemental power for either Ohio Power or for any customer of Ohio

Power, correct?

A. It doesn't act as supplemental power for customers of Ohio Power. It is power that Ohio Power would take title to prior to liquidating it into the market.

Q. But it is not -- Ohio Power is not serving or supplementing any of its customers with power from OVEC, correct?

A. Under the company's proposal, that's correct.

Q. And additionally it would not serve as backup power available for any customer or for the company, correct?

A. It doesn't serve as backup power to serve any customers, that's correct. And I'd like to clarify as far as it doesn't serve any of those functions from a, you know, bookkeeping perspective but the reality is those electrons may be coming from OVEC so OVEC or other units that may be in the PPA rider could be providing energy to the grid that provides stability for customers. I want to step away from the difference from the physics and the kind of bean counting we do.

Q. Yeah, on the bean counting side there's no contractual relationship that would result in a contract obligation to provide power to any customer the way this is set up.

A. That's correct.

Q. As a physical structure, OVEC electrons, whatever that means, could end up serving the customer simply because they're put into the PJM transmission system.

A. That's exactly correct.

Q. Now, you've indicated in your testimony here today that you're assuming that the OVEC contract costs would be subject to a FERC audit, correct?

A. I don't think I'm saying that.

Q. You're not -- you and Mr. Vegas and others haven't indicated to the Commission that the contract between OVEC and the sponsoring parties including Ohio Power would be subject to FERC supervision?

A. I think that's accurate that it's a FERC jurisdictional contract. You asked if it was subject to a FERC audit and I don't know if that's the case but it is FERC jurisdictional.

Q. Do you ever recall FERC conducting an audit of the OVEC costs charged by OVEC to AEP Ohio?

A. I'm not aware of whether they have or they have not.

Q. Now, in terms of the stability effect of this rider, let's take your example that you gave today. You indicated that there would be a $6.2 million charge in planning year 2015-2016, $2.8 million credit in planning year 2016-2017, and $11.8 million credit in planning year 2017-2018. Did I write that down correctly?

A. Yes, you did.

Q. And if we net that out over the three years, that's how you get to the $8.4 million credit, correct?

A. Yes, which is a benefit. Yes.

Q. Okay. Now, over the term of the ESP are you aware of the fact that Mr. Roush has estimated that you will have total metered energy of approximately 41.3 million megawatts per year?

A. That sounds right. For purposes of my analysis I used 41,250, but that sounds about right.

Q. Okay. Well, I don't care which number we use. If we aggregate over the three years, that works out to about 123 million megawatts, correct?

A. Roughly, yes.

Q. And if we divide your 8.4 million, which is the net credit available to customers under the

PPAR, by 123 million megawatt-hours, following the math so far?

A. Yes.

Q. We come out with what?

A. It would be, for the total ESP it would be 7 cents per megawatt-hour under the assumption of normal weather which is what we've included here.

Q. So for a residential customer that uses roughly 1 megawatt-hour a month, that's what you generally use a thousand kilowatt-hours or 1 megawatt-hour a month, the PPAR including the OVEC over the life of this plant would change their bill in a positive direction 7 cents.

A. 7 cents a month assuming that it's -- that this -- that we have normal weather and that market prices stay where they are, and as I've indicated on the schedule here, if you assume energy prices go up by $2 a megawatt-hour, that would change the benefit by an additional 13 cents a megawatt-hour.

Q. But my math is correct. What we're looking at here is 7 cents a month for the residential customer that we use often as an example that uses a thousand kilowatt-hours a month, correct?

A. Over the period. But you see different values in each one of the years, and this is a -- the OVEC component is a relatively small hedge and that's one of the reasons the company has proposed an open PPA rider, to add additional units to create a greater hedge for customers.

Q. I'm going to try this one more time, Mr. Allen. It's 7 cents a month for the average residential customer based on the numbers that you provided us here today.

A. As an average over this three-year period.

Q. Based on that, can I assume that your answer is "yes," Mr. Allen?

A. As I clarified, the answer is yes, but there would be -- based on my analysis there's, I guess in year 2 it's a 7 cent benefit but there's a charge in year 1 of 15 cents and there's a benefit in year three of 29 cents.

Q. Mr. Allen, the answer you just gave me assumes variability or volatility above and below the normalized rates that were used in Attachment 2, correct?

A. No. No. The analysis that I presented and that we were talking about with the $8.4 million benefit assumes normal weather.

Q. Okay. We're not communicating here. You provided a number of qualifications to your answer. Those qualifications assume some level of volatility, correct?

A. This analysis assumes normal weather. It does not include volatility around that level, that normal level of weather.

Q. I thought I asked a relatively easy question. Qualifications that you gave to the answer assume some level of volatility, correct?

A. You're going to have to tell me what qualification you're asking about. I'm just not following your question, I apologize.

Q. The normalized result is an average of about 7 cents per -- 7 cents per customer, per residential customer, per month, correct?

A. The average over the three-year period based on normal weather is 7 cents.

Q. And then you indicated to me that there are other possibilities and those possibilities are predicated on a level of volatility, correct?

A. Volatility in prices would change these results.

Q. But the normalized result is the 7 cents we've been talking about.

A. The result based on normal weather is the 7 cents we're talking about.

Q. Now, we've identified that the company would provide a projection of the rates sometime within six months of the implementation of this rider if it were authorized so as to populate with a forecast the value of the rider, correct?

A. That's correct.

Q. And it would be the intention of the company to try to update as close as possible to the effective date of that rider so as to apparently optimize its ability to pick up market variation, correct?

A. I think the company would make that filing with a balance of being closer to the period that we're considering as well as providing sufficient time for the Commission to review the company's application.

Q. And the range that we've been talking about over the last couple days is about six months prior, correct?

A. It could be less than that. I would expect to file sometime in the first half of 2015.

Q. Now, with regard to the SSO, the company has proposed an auction schedule through Witness

LaCasse; is that correct?
A. Yes, that's correct.
Q. Do you have a copy of the auction schedule in front of you?
A. I don't have it in front of me.
MR. DARR: May I approach, your Honor?
EXAMINER PARROT: You may.
MR. DARR: Let the record show that I'm showing the witness Exhibit CL-10.
Q. And, Mr. Allen, do you recognize this as the proposed auction schedule for the ESP?
A. It looks like that schedule, yes.
Q. And if we look at the auction schedule we see that the first auction is proposed to take place in September of 2014, correct?
A. That's correct.
Q. And this would be for two products which would amount at least for the 25 -- excuse me, 2015-2016 planning year for half of the SSO load, correct?
A. Yes.
Q. And there would be a second auction in March of 2015 for the other half, correct?
A. That's correct.
Q. So if we look at the auction schedule for

the first year of the ESP, 2015 to 2016, roughly -- or not roughly, exactly half of the SSO load would be purchased prior to the first date that we could expect to see the calculation for the PPAR, correct?

A. Based on the data I've discussed, but if the Commission were to issue an order early or direct the company to file something sooner, we would.

Q. File something sooner. File something what sooner?

A. If they asked us to file the forecasted data before the first of next year, we would do that. So based on the assumption that I stated that we file it next year the auction would occur before that date.

Q. What forecasted data are we talking about, the forecasted data for the PPAR?

A. Yes.

Q. Now, and that would push the PPAR even further away from the start date or the calculation of the population of the PPAR even further away from the calculation of the first auction or the second auction, excuse me, for the second auction?

A. I'm sorry. I'm not following where your question is.

Q. Sure. If you file this information

earlier, it would simply be sometime between when and when?

A. We would file the forecasted data consistent with the date the Commission directs us to. What I've indicated is that the company would think it's most appropriate to file that data in the first half of 2015 but we would await the Commission's direction on what timing they think is most appropriate.

Q. But as proposed, or as described since this wasn't actually in your application, what you're talking about is filing it sometime after the first of the year in 2015, correct?

A. That would be my expectation, yes.

Q. Now, if we look at the planning year for 2016-2017, we see that the auctions taking place for that occur in 2014 for 17 percent of the load, March 2015 for 17 percent of the load, September 2015 for 33 percent of the load, and the balance of the load would be purchased by auction in March of 2016, correct?

A. That's correct.

Q. And so for the planning year of 2016-2017, 66 percent of the -- or 67 percent of the load would be purchased before January 1st, 2016,

correct?

A. Yes, that's correct.

Q. Then if we look at planning year 2017-2018, as proposed you're looking at two auctions, one in September of 2016 for half a load and the second in March of 2017 for the other half, correct?

A. That's correct.

Q. And in that instance half of the load would be secured before January 1, 2017, correct?

A. That's correct.

Q. At this point you don't have any other purchased power agreements for which AEP Ohio is seeking approval, correct?

A. That's correct.

Q. And is it also fair to say that AEP Ohio is not actively pursuing disposition of the OVEC contractual entitlements pursuant to whatever rights it has under KMM-2? Is that also correct?

A. That's correct. The company has proposed it to be used in the PPA rider.

Q. And AEP Ohio does not have a plan regarding how it will search for prospective candidates to transfer its OVEC entitlement under the ICPA; is that also correct?

A. That's correct.

Q. Now, you're aware that there are other provisions besides the consent provision of the ICPA that permit a sponsoring company to assign its interests to another sponsoring company or an affiliate of that sponsoring company, or to a third party; is that correct?

A. I'd have to review the ICPA to determine that but I know there's -- there is an ability of the company to transfer its entitlement to other entities and in certain cases there are approvals required of OVEC and they vary depending on who it's being transferred to.

Q. Let's take a look at Section 9.82 of the contract.

MR. NOURSE: Sorry, Mr. Darr, are you referring to 9.182?

MR. DARR: Yes, thank you. 9.182, page 20.

Q. And this relates to the provision that allows for an assignment to what's called a permitted assignee, do you see that?

A. It uses the term "permitted assignee."

Q. And if we look at section 1.0115 on page 4, there's a definition of what constitutes a permitted assignee, correct?

A. There is a definition of a permitted assignee.

Q. If one of the permitted assignees is a party, excuse me, a sponsoring company or its affiliate that has a long-term unsecured noncredit enhancing indebtedness that meets certain credit rating requirements; is that also correct?

A. There's a discussion of credit requirements in there, but I will point you back to Section 9.182 that there's a following statement after the term "permitted assignee" that's underlined that says "provided that, the assignee and assignor of the rights, title and interest in, and obligations under, this Agreement have executed an assignment agreement in form and in substance acceptable to the Corporation."

Q. And in this case --

A. So there is a restriction that OVEC has to make some approval there it appears.

Q. Right. Now, I want to stay with the definition of 1.0115 as to sponsoring parties and we'll get back to your point here in a second. Now, the credit ratings are either BBB- through Standard and Poor's or a Baa3 rating under Moody's; is that

correct?
A. It lists those credit requirements.
Q. Now, three of the sponsoring companies are Kentucky Power, Indiana and Michigan, and Appalachian Power, correct?
A. I'm sorry. State those entities again.
Q. Kentucky Power, I&M, and Appalachian.
A. That's not correct. Kentucky Power Company is not a participant in the ICPA. Kentucky Utilities Company is, which is not an affiliate of AEP.
Q. Okay.
A. But Appalachian Power Company and I&M are.
Q. Okay. Let's stick with those, then. Am I correct that I&M has a BBB rating with Standard & Poor's?
A. I don't know as we sit here today. I know that they have an investment grade credit rating.
Q. Do you recall providing answers to interrogatories concerning the credit ratings of Kentucky Power, I&M, Appalachian, and AEP Generation?
A. I do recall that question, yes.
Q. Would that help refresh your recollection

as to the credit ratings?
A. It would.
MR. DARR: May I approach, your Honor?
EXAMINER PARROT: You may.
MR. DARR: And I don't think I'm going to mark these as exhibits.
MR. NOURSE: Can you indicate what discovery response you're referring to, Mr. Darr?
MR. DARR: Sure, 10-7 and 10-8.
MR. NOURSE: Thanks.
Q. Do you have that in front of you?
A. I do.
Q. Does that help refresh your recollection?
A. It does.
Q. And is I&M a BBB company under the S&P ratings?
A. Yes.
Q. And Appalachian Power is a BBB?
A. It is. I would like to point you, though, to the final sentence in the section 1.0115, the permitted assignee section and this is why I think it's dangerous to try to do contract interpretation on the fly. There is a provision that says at the end of that paragraph, and it's underlined, "provided that, in no event shall a

person be deemed a Permitted Assignee" if counsel for the Corporation reasonably determines that the assignment of the rights, title or interest in, or obligations under, this Agreement to such person could cause a termination, default, loss or payment obligation under any security issued, or agreement entered into, by the Corporation prior to such transfer."

So there is a limitation. It's not as simple as just identifying whether it's a sponsoring company and what their credit rating is.

Q. I'm glad that you brought that up and we're going to get to that in a minute here, Mr. Allen, if you'll just give me a minute.

A. Okay.

Q. Is Kentucky Power an affiliate of Ohio Power or I&M or Appalachian?

A. I'm sorry. State that again, is who?

Q. Is Kentucky Power an affiliate?

A. Yes.

Q. Okay. So going back to my original question is Kentucky Power's rating BBB- or higher?

A. Yes.

Q. It's BBB, correct?

A. It is.

Q. And these ratings that we're talking about right now are Standard & Poor's ratings, correct?

A. They are.

Q. Now let's take a look at the Moody's ratings for each of these entities. For I&M it's a Baa1 rating, correct?

A. Yes.

Q. And for Appalachian it's a Baa1 rating, correct?

A. That's correct.

Q. And for Kentucky Power it's a Baa2 rating, correct?

A. That's correct.

Q. And I asked this of someone I believe yesterday, do you happen to know what the AEP parent S&P or Moody's ratings are?

A. I do not.

Q. And would you agree with me that the ratings of BBB or Baa1 or 2 are superior to the BBB- or the Baa3 ratings respectively for Standard & Poor's and Moody's?

A. I know for the S&P. Moody's, I think they are, but I'm not positive.

Q. My guess is we can ask Mr. Avera that question and get a pretty good answer.

A. Ms. Hawkins would be your best bet.

Q. All right. We'll try that one too.

Now, you've also pointed out twice now that you also need to secure approval from the corporation, correct? Under this option under 9.182.

A. That's what it appears.

Q. And that's true with regard to the sponsoring party definition and there's also a provision under 9.182 that specifically says that OVEC needs to review this and sign off, correct?

A. There's a statement that OVEC's counsel needs to review this, yes.

Q. And it's fair to say that Ohio Power has not done so or requested that review because the company believes it would be inconsistent with finding 20 of the opinion and order in Case No. 12-1126 issued on December 4, 2012, to actively pursue disposition of the OVEC contractual entitlement.

A. I'm sorry. State that again.

Q. Sure. Is it fair to say that Ohio Power has not sought that review because the company believes it would be inconsistent with the finding 20 of the opinion and order in Case No. 12-1126 issued on December 4, 2012, to actively pursue disposition of the OVEC contractual entitlement?

A. I don't know that the company's made that statement. If you have a discovery response you can refer me to or something that can refresh my recollection, that would be appreciated.

Q. Well, let me ask the question this way: Is it fair to say that the company has not pursued any action to transfer the assets because it believes it would be inconsistent with that aspect of the finding and order that I just mentioned to you for AEP to actively pursue disposition of the OVEC contractual entitlement while ESP 3 and the PPA rider proposals remain pending?

MR. NOURSE: Your Honor, I just would object. It's the same question he just asked and he, Mr. Allen, indicated he would appreciate seeing the discovery response that Mr. Darr's reading from. And I also object because I think the reference to the order and the finding is something that lacks a foundation at this point in the examination.

MR. DARR: May I respond?

EXAMINER PARROT: You may.

MR. DARR: We heard yesterday, and Mr. Allen has indicated that he watched the discussion, that the company believes that there's no immediate obligation to make any efforts to transfer the OVEC entitlement. The reason for that is they believe they have coverage from the order in 1126. I didn't know that I needed to establish any more foundation on that, I think it's been pretty well established.

At this point I'm just asking why the company, in Mr. Allen's view, is not taking any action. He can either answer that question "yes" or "no."

MR. NOURSE: No objection to that question, your Honor.

MR. DARR: That's what I just asked, your Honor, so apparently there's no objection to my question, he ought to answer it.

EXAMINER PARROT: Well, as it was just put just now, with that clarification or the question as restated I guess, you may answer. And if you need us to reread that last part, we will do that.

THE WITNESS: That would be helpful.

(Record read.)

A. The reason that the company is not taking any action to transfer the OVEC entitlement at this point in time is that the company has proposed what we believe to be a beneficial use of the OVEC entitlement to the benefit of AEP Ohio's customers through the PPA rider.

Q. So the statement is the company believes it would be inconsistent with that aspect of the finding and order for AEP Ohio to actively pursue disposition of the OVEC contractual entitlement while the ESP 3 case and the PPA rider proposals are pending; that statement is true, is it not?

A. I don't think I would agree with the words you stated the way you stated it. Maybe this is the difference we have is that you're stating that it's inconsistent, the transferring it or seeking to transfer it would be inconsistent with the Commission's order in 12-1126. That's not the company's position.

I think what the company's position is is that the order in case 12-1126 does not require the company to seek transfer of the OVEC entitlement and IEU, instead, clearly discusses that the rate-related aspects of the OVEC entitlement would be more appropriately dealt with in this proceeding that we're sitting here today.

MR. DARR: I'd like to have this marked as IEU Exhibit No. 7, please.

EXAMINER PARROT: Can you identify what it is for us, please?

MR. DARR: It's Interrogatory 10-001.

EXAMINER PARROT: So marked.

MR. DARR: Thank you, your Honor.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q (By Mr. Darr) Mr. Allen, do you have in front of you what's been marked as IEU Exhibit No. 7?

A. That's interrogatory 10-01?

Q. Yes.

A. Yes, I do.

Q. If you turn to the second page of Interrogatory 10-01, you are indicated along with counsel as one of the responding parties to this interrogatory, correct?

A. I am.

Q. And if you go to question 10-001e, it indicates -- it asks: What is or are the reasons AEP Ohio has not sought to assign all or part of its rights, title, and interests and obligations under Section 9.181 of the ICPA since December 4, 2013? And the response to that, if we go to the second page, six lines up, am I reading this correctly: "and the Company believes it would be inconsistent with that aspect of the Finding and Order for

AEP Ohio to actively pursue disposition of the OVEC contractual entitlement while ESP III and the PPA rider proposals remain pending"? Did I read that correctly?

A. To read the entire statement, the whole sentence instead of starting with the "and," I think it's consistent with the testimony I just presented. It says "Pursuing consideration of the pending PPA rider request is consistent with the Commission's holding in Finding 20 that the OVEC rate issues should be considered in ESP III proceeding and the Company believes it would be inconsistent with" respect -- I'm sorry, "inconsistent with that aspect of the Finding and Order for AEP Ohio to actively pursue disposition of the OVEC contractual entitlement while ESP III and the PPA rider proposals remain pending." To understand the context you need the entire sentence.

Q. So if I understand it correctly, you haven't done anything, and you don't intend to do anything until you're ordered to with regard to assigning the interests in OVEC until the Commission rules in this case; is that correct?

A. With regard to the company's continued -- with respect to the company continuing to retain its

OVEC entitlement the Commission has already ruled in case 12-1126 and the Commission determined that the company was allowed to retain that entitlement and the company continues to do that.

Q. Let's go back to my question, Mr. Allen. Is the intention of the company -- excuse me. The company has not done anything with regard to assigning its interests in OVEC and it does not intend to do anything with regard to assigning its interests in OVEC until the Commission rules in this case; is that correct?

A. Yes, I think that's correct, the company has proposed to use the OVEC entitlement to the benefit of customers and we'll wait until we get a resolution from the Commission on that.

Q. Now, with regard to the provision that we were talking about, 1.82, as you point out it requires the corporation to sign off, or corporate counsel to sign off on the transfer or assignment, correct?

A. I'm sorry. Which paragraph did you go back to?

Q. 9.182. And we're speaking now of KMM-2 as well.

A. Okay, I'm at 9.182.

Q. And you indicated earlier that you wanted to point out you wanted to make it very clear that there was a caveat that the company, and "company" here refers to OVEC, is required to sign off on the transfer, correct?

A. I'd first like to clarify this is my lay opinion. Legal counsel will weigh in on what the contract actually means. But my interpretation is that they're required to do that. That's my lay opinion.

Q. Now, are you aware of whether or not -- well, are you aware of who represents OVEC in matters before this Commission?

A. I would assume counsel for OVEC.

Q. Fair enough.

On April 15th, 2014, in Case No. 14-500-EL-FOR Steven T. Nourse filed the long-term forecast on behalf of OVEC. Were you aware of that?

A. No.

Q. On April 15th, 2013, Matthew J. Satterwhite filed the long-term forecast report for OVEC in Case No. 13-500-EL-FOR. Were you aware of that?

A. No.

Q. Did you make any attempt to contact

Mr. Nourse or Mr. Satterwhite concerning the possibility of OVEC transferring its interests to -- or, excuse me, of Ohio Power transferring its interests in OVEC to a third party?

A. I did not. And I would, if someone did contact them, my expectation is they would be operating on behalf of OVEC in representing OVEC's interests and not AEP Ohio's interests, so I don't know that there would be any difference in how a lawyer would represent a client if they represented other clients that had different interests. They would be required to act in the best interest of the client that they're representing at that point in time.

Q. At least with regard to this particular decision you're not aware of any inquiries that have been made to either Mr. Satterwhite or Mr. Nourse in their capacity as counsel for OVEC as to a determination of whether or not Ohio Power can transfer its interests; is that fair?

A. I don't know that they would even be the appropriate counsel for OVEC for such a request.

Q. That wasn't my question, Mr. Allen. Are you aware of any inquiries on behalf of OVEC to Mr. Satterwhite or Mr. Nourse?

A. I'm not Mr. Nourse or Mr. Satterwhite so I wouldn't know if someone contacted them.

Q. One last area of concern. You've indicated in your testimony that you have been tracking residential, commercial, and industrial shopping statistics at the Commission; is that correct?

A. We've been tracking customer shopping levels. I haven't been using Commission data. I've been using internal company data.

Q. Is that the same data that's being used to provide the quarterly reports to the Commission?

A. No. The Commission has specific rules on how that data is presented. The data that I look at I think is a better representation. But they show comparable trends.

Q. Within a few percentage points of one another?

A. I haven't looked at them recently, but that's been the kind of variance in the past.

Q. Now, you've provided some estimates in the past of what you thought residential, commercial, and industrial shopping would be over the period of the current ESP; is that correct?

A. Yes.

Q. And is it fair to say that in testimony that you filed in March of 2012 you estimated residential shopping would be 65 percent, commercial shopping would be 90 percent, and industrial shopping would be, excuse me, 80 percent commercial shopping and 90 percent industrial shopping?

A. That sounds familiar. The caveat on the industrial estimate was that the industrial estimate would have excluded the special contract customers like Ormet.

Q. We don't have to worry about them anymore, do we? In terms of making these calculations, they're no longer in the picture, correct?

A. They would have been included in the data of October of 2013 because they had been a historical customer of the company at that point in time. At the end of 2013 we decided to change our analytical method to exclude Ormet from the denominator because they were no longer a customer and we didn't expect them to return to service in the near term.

Q. Now, based on your statistics is it fair to say that in March of 2012 residential switched load was about 8.43 percent, commercial load was 41.44 percent, and industrial load was about

28 percent, again, with the Ormet exclusion being factored in?

A. You'll have to provide me that document to refresh my memory.

MR. DARR: May I approach, your Honor?

EXAMINER PARROT: You may.

MR. DARR: I'm handing the witness what has been identified in Case No. 11-346 as Exhibit 116 which is the prefiled testimony of Mr. William Allen.

THE WITNESS: Thank you.

Q. And I'm directing your attention for purposes of assisting you to I believe it's WAA-1.

A. I'm there.

Q. And did I correctly identify the values that were of the shopping as of March 2012?

A. I don't recall the exact numbers you gave, but the switched load, so those are actual customers served by a CRES as of that date, for residential was 8.43 percent, for commercial was 41.44 percent, and for industrial was 28.1 percent.

Q. And then for purposes of calculating your proposed stability rider you assumed customer switching of 65 percent of residential load, 80 percent of commercial load, and 90 percent of industrial load excluding Ormet by the end of 2012, correct? Direct your attention to page 5 of the document I just handed you.

A. That was the estimated shopping level as part of the company's proposed Modified ESP.

Q. That's the estimates that you swore to when you testified in this case, correct?

A. The testimony you presented here has tiered capacity rates, so it's different than what the final order was, but my estimates at that time were 65 percent of residential, 80 percent of commercial, and 90 percent industrial which is, for the industrial class, when you adjust for Ormet in the data I present on page 13, the current shopping levels are close to 90 percent, commercial, 80 percent, which is exactly what I had forecasted, on the residential class. The expectation was that we would see shopping at 65 percent and the residential shopping levels have not achieved the levels we were expecting at that point in time.

And on the bottom of page 5 it describes the assumptions that were used to come up with that estimate.

Q. Now, on page 13 of your testimony you indicate that as of October 2013 the CRES-supplied load for industrial customers was 64 percent,

correct?
A. That includes Ormet so it's not an apples and apples comparison to what was projected.
Q. And then the adjusted amount is 81.8 percent?
A. I don't know.
Q. And the residential load estimated as of October 2013 on page 13 of your testimony is 30 percent, correct?
A. The actual shopping load as of October of '13 is 30 percent.
Q. And your estimated was 65 percent, a 35 percent difference, correct?
A. Yes.
Q. Now, you indicated that the information provided to the Commission is slightly different; is that also correct?
A. Yes.
Q. What are the adjustments that are made?
A. It's just a different methodology.
Q. Could you explain to me what the differences are?
A. No. I don't know all the differences, I just know they're different.
Q. Okay. As of December 31, 2013, are you

aware of what the Commission is reporting for the load that is currently shopping?

A. No.

Q. That was the information that was publicly available on the Commission website, correct?

A. Historically it has been. It may be today as well.

Q. And you're not familiar with that?

A. I haven't reviewed that data in a significant amount of time.

MR. DARR: Thank you, that's all I have. Thank you.

MR. NOURSE: I'm sorry, just to clarify, Mr. Darr, do you have confidential questions you're holding for later?

MR. DARR: I may be. I think, quite honestly, the one I was concerned about I got answers to but I'm waiting to see how this plays itself out.

EXAMINER PARROT: Let's go off the record.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the record. Let's take a five-minute break.

(Recess taken.)

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

Ms. Bojko.

MS. BOJKO: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good evening, Mr. Allen. My name's Kim Bojko, as you know, and I'm representing the Ohio Manufacturers' Association today in this proceeding.

Earlier today you were discussing with OEG's counsel Mr. Kurtz positions. Do you recall that?

A. It's been a while ago, but yes.

Q. Well, and I'm just trying to clarify your assumptions when you answered him. Mr. Kurtz used the term "we," we have different positions, and I'm assuming that his questions were with regard to OEG's position filed in OEG's testimony. Is that what your testimony was when you answered the questions the way you did?

A. That would be my understanding, yes.

Q. So you were talking about testimony filed, you weren't talking about any settlements or any additional items outside of the testimony.

A. Settlement discussions are confidential, I wouldn't talk about those here today.

Q. But I mean the position that you were answering the question with regard to is the testimony filed in --

A. Yes, my understanding of their testimony position.

Q. Thank you for that clarification.

Now I'm going to take you to the actual application and your testimony. Now, the testimony, the written prefiled testimony is what I want to focus on, okay?

A. Okay.

Q. In that testimony starting on page 3 you agree that the MRO test must determine whether the proposed ESP, including pricing and all other terms and conditions, is more favorable in the aggregate as compared to the expected results that would otherwise apply under an MRO; is that correct?

A. The MRO test is intended to determine if an ESP is more favorable in the aggregate as compared to what would be achieved under an MRO, that's my understanding.

Q. Okay. Is there -- are you disputing something that I said when I read the MRO test that's contained in your testimony?

A. I'm sorry. I didn't see where you were referencing my testimony. I see what I state on lines 14 through 16, that would be my definition of what the MRO test is and how I undertook it in my testimony.

Q. Okay. And in the company's application and through your testimony the company is requesting that the PPA rider be established for the term of the ESP; is that correct?

A. Yes.

Q. Okay. And that PPA rider will include an estimated OVEC contract price beginning June 2015; is that correct?

A. It will include an estimate of the net cost of the OVEC unit as compared to market.

Q. Thank you. I'm sorry. Thank you for that clarification. And that begins June 2015.

A. If approved by the Commission, yes.

Q. And there's nowhere in the application that talks about when that estimate will be filed or that the Commission has to have a proceeding to approve that filing; is that correct?

A. I'd have to review the application, but it's not stated in my testimony.

Q. And it's also your understanding that through the application this PPA rider could include costs associated with other PPAs in the future; is that correct?

A. Clearly, yes.

Q. And isn't it true that in your testimony the PPA rider was not considered in your MRO versus ESP analysis as a quantifiable benefit? Is that true?

A. In my testimony I did not analyze it as a quantifiable benefit. I included it as a qualitative benefit of the ESP.

Q. And neither the cost associated with the OVEC contract or the net, the market versus the contract, nor the cost of future PPAs was considered in your analysis; is that correct?

A. Can you restate that question or repeat the question, please?

Q. Sure. Neither the cost associated with the OVEC purchased power agreement, the net cost, nor the cost of any future PPAs was considered in your MRO versus ESP analysis; is that right?

A. My analysis included the price stabilizing benefit of the PPA rider as a qualitative benefit. That's what my testimony states.

Q. Right. And my question to you was: Did you consider any costs that would be charged to customers in your ESP versus MRO analysis for both OVEC or future PPAs?

A. In my analysis I did not include a benefit or a cost associated with those because when I reviewed the estimate of the OVEC PPA, which is the one we were proposing here, it appeared that the benefit would be near neutral from a quantifiable benefit as far as the net rider over the period, but it still provides a benefit to customers, it's just one that wasn't quantified or not easily quantifiable.

Q. Okay. And so again I'm going to ask you the same question. You did not consider any costs that may or may not be associated with the OVEC contract net out or future PPAs.

MR. NOURSE: Your Honor, I think his prior answer stated that there was no quantitative benefit or cost included in his test and he went on to explain the part that he did do. I think he's already answered this.

EXAMINER PARROT: Response?

MS. BOJKO: He's not answering the questions as posed, he's changing the questions and then providing the answer that he wants -- the question that he wants to answer, it was a simple question, did he consider costs. "Yes" or "no."

EXAMINER PARROT: And I believe the witness did answer that question.

MS. BOJKO: For both OVEC and the PPA riders. And could your Honor tell me the answer, then?

MR. NOURSE: Do you want to have the answer reread.

(Record read.)

Q. In response to that question the use of "benefit" to you, is the word "benefit" to you discussing or referring to the hedge that customers might receive?

A. There are two aspects of a benefit from the PPA rider, one benefit can be that it's a net credit to customers over a period, an additional benefit is the price stabilizing effect. So there's two elements that could be benefits in the PPA rider.

Q. Okay. And there could also be a detriment in the PPA rider meaning that there could be costs assessed to customers through the PPA rider; is that correct?

A. Clearly the PPA rider could assess cost to customers, but my estimate, as I described earlier today, is that there would actually be a benefit.

Q. Actually I think your testimony filed says that you considered it to be zero, neutral, which is what you said to me two questions ago. Is that correct?

A. Based upon forecasted data that I observed as I developed my testimony I believe that the net rider would be approximately neutral over the ESP period, but that there would be a benefit of price stability for customers.

Q. And it's also your testimony, in your prefiled written testimony that you didn't consider, you didn't include any analysis with regards to either the cost or what you're calling a benefit which I think is a credit in this situation; is that correct?

A. I assume that the rider would be near neutral over the ESP period.

Q. So is the answer to my question no, you did not consider either a charge or a credit in your MRO versus ESP test?

A. I did not include a charge or a credit in the PPA rider.

Q. In the ESP test.

A. That's correct.
Q. Or, I'm sorry, MRO versus ESP test.
A. Correct.
Q. And isn't it true that the future costs associated with the NERC rider was not considered either in your MRO versus ESP test?
A. The NERC rider would be -- would cover costs that would be recoverable in either a base distribution case or in this rider, so there's no cost to customers when you do the ESP versus MRO test.
Q. I didn't ask you if it would also be in a base distribution rate case. I asked you if the NERC rider was assigned a cost in the ESP versus MRO test.
A. There would be no cost in the ESP versus MRO test for the NERC rider because it could be recovered in a base case, that's my testimony.
Q. Okay. But you're not recovering it in a base case in this scenario, you're requesting a separate rider; is that correct?
A. I am requesting it in the separate rider here today, or the company is, but that doesn't change the fact that these would be costs recoverable in a base case.
Q. Well, isn't there time, what you've been

calling or other witnesses have called a regulatory lag here today so wouldn't that not necessarily be true because it's not apples-to-apples comparison of when it would or would not be in base rates? You would have to come in for a rate case and request that it be put in base rates; is that true?

A. The Commission has ruled in this matter in prior ESPs that a distribution investment rider type mechanism, they did it clearly in the FirstEnergy ESP case, that costs that are recoverable through base rates are not in the incremental cost of an ESP.

MS. BOJKO: Your Honor, I move to strike the response as being nonresponsive. I asked a completely different question.

MR. NOURSE: Your Honor, I think it's clear Mr. Allen is trying to explain his position and why. Ms. Bojko is conflating whether things were considered and whether there's a value, a quantitative value that was in the MRO test. I think Mr. Allen's entitled to explain that his understanding of the prior Commission decisions support what he's saying and what he's been trying to explain.

MS. BOJKO: Your Honor, if I may respond.

Counsel's version of what my intent is or is not has nothing to do with the question I asked. I asked if there was a regulatory lag from when it would be considered in base rates or when it would be considered in a rider.

EXAMINER PARROT: I agree, Ms. Bojko. I'm going to grant the motion to strike and direct Mr. Allen to answer the question that was posed.

THE WITNESS: Can you repeat the question, please?

(Record read.)

A. I wouldn't agree that there's necessarily going to be regulatory lag associated with recovery of costs associated with NERC or cybersecurity compliance.

Q. Okay. Let's try this again. If you are -- in this case you're proposing a NERC rider; is that correct?

A. We are.

Q. Okay. And you would be able to collect costs in that NERC rider as those costs are incurred. That's your request from this Commission; is that correct?

A. That's correct.

Q. Okay. And without this rider you would have to go and apply to the Commission -- you would have to first expend the cost and then you would have to come back to the Commission and request recovery of those costs that have already been expended; is that true?

A. No. The Ohio regulatory framework for distribution cases allows a fully forecasted test year, so the company would be able to recover the forecasted costs of the NERC compliance and cybersecurity, so --

Q. Okay. I apologize, I was trying to abbreviate this whole evening and get us out of here but I will rephrase my question to be as technically accurate as you would like it to be.

You would have to come in for a rate case and you would have had to expend those costs associated with that investment during a test period, and then you would have to come to the Commission and you would have to request recovery of that, if it was incurred or will be incurred during the test period; is that correct?

A. You stated your question in two different ways. The company is not required to expend the funds prior to seeking recovery from the Commission through a base case.

Q. It has to be in the test period. Is that right?
A. It can be an adjustment as well.
Q. Okay. And that request would have to be in a rate case.
A. The request could be in a rate case and rate cases allow forecasts.
Q. Okay. And that would have to be done through the rate case proceeding with notice that's given to customers, newspaper notice, the whole rate case proceeding; is that correct?
A. That's correct. And if I were to file a base case today, I could have rates in place by June of 2015 consistent with when the company's requesting that this rider be put in place.
Q. Okay. And if the charge is not requested or if the investment is not made until 2017, then your statement would not be true. You could not have rates in place that would be able to be gone or collected June 2015; is that correct?
A. The company's not requesting in this proceeding to put rates in place in June of 2015 if the costs were to be incurred in 2017. If the costs are incurred in 2017, the company has plenty of opportunity to make a filing for a base distribution

case between now and then to get recovery of those costs.

Q. That was my exact point is that if the cost doesn't occur until 2017, you couldn't have applied for base rate case under your prior hypothetical to me.

A. My statement is that the company has the ability to file a base case in sufficient time to ensure full recovery of any NERC or cybersecurity compliance based upon Ohio statute. So under an ESP where we have the rider or an MRO where I filed a base distribution case there's no presumed difference in recovery of the NERC or cybersecurity compliance costs.

Q. Has the company filed a distribution base rate case? Today.

A. I think we all know the answer to that is that the company doesn't have one pending today but the company could very easily have one filed in time to have rates in place by June of 2015 which is the beginning of this ESP term.

Q. That's interesting you say that because I thought you testified that there was going to be a distribution rate freeze during the pendency of this ESP. Is that not true?

A. The company's never stated that there's a base distribution freeze during the pendency of this ESP.

Q. So the company has never committed to that base distribution freeze.

A. No.

Q. And if you look at page 4 of your testimony, your testimony doesn't say that "the proposed ESP will maintain base distribution rates constant over the ESP period"?

A. It states that but that does not -- that should not be read to mean that the company is committing not to file a base distribution case. What it's stating is that based upon the forecasted data that's included in the testimony of Company Witness Kyle, the company doesn't expect that there's a need for a base distribution case if all of the elements of the company's proposal are approved by the Commission.

Q. Okay. That's a helpful clarification. So it's not your position, it's not AEP's position, to maintain or freeze, keep constant, the base distribution rates during the pendency of the ESP even if you are given the riders that you've requested that are concerning distribution.

A. If the Commission were to adopt the company's ESP as proposed, it's my expectation that the company would not need to come in and file a base distribution case during the pendency of this ESP.

Q. That's not what I asked. Did the company commit to -- not to file a base distribution rate during the pendency of the ESP if they received the distribution riders that they're requesting in this case?

A. To the best of my knowledge the company didn't make that commitment.

Q. So your statement on line 2 that the distribution rates could remain constant for the ESP period while allowing the company to make investments through these individual riders is not a guarantee; is that correct?

A. I think it's an expectation but not a guarantee.

Q. Okay. And, again, I'm going to go back to my original question. I think -- can you just say "yes" or "no," for whatever reason you did not consider any future costs that may populate the NERC rider that is going to be charged to customers in your ESP analysis. Did you consider it? That's all I'm asking.

A. I did consider them.

Q. You considered the future costs?

A. I considered the future recovery, yes. So cost to customer or recovery of -- so cost to the company or recovery of cost from the customers, those were considered.

Q. In your ESP-MRO analysis you considered future costs that customers will have to pay in your ESP versus MRO analysis.

A. I did consider them and as I've indicated for quite a while is that I don't think it has any impact on the ESP versus MRO. So it would have a zero value.

Q. Okay. That's what you -- you made the value zero. You did not consider a cost associated with the rider.

A. I don't believe there is a cost associated with the rider --

Q. Okay.

A. -- when you compare an ESP versus MRO.

Q. Thank you.

And in your -- is it okay if I just call it an MRO test instead of an MRO versus ESP test? Do you understand that?

A. I understand that may speed things.

Q. Did you conduct any analysis comparing the differential and benefits from customers from having a rate case versus having a distribution rider in the ESP?

A. I don't think that a base distribution case would benefit customers.

Q. I asked if you compared a base distribution rate to the DIR rider.

A. And I think as I described when we went through the NERC compliance rider, I think that customers receive, sorry, based on an assumption that the company were able to make the same investment in distribution plant under a base distribution case versus using the rider, there would be no cost to customers.

The cost to customers of a base distribution case, though, is that the company, in my opinion, would not be able to make the investments in the timeframe that Mr. Dias has described.

Q. Again, I asked if you conducted any analysis comparing the differential in benefits to customers from a distribution base rate case to a DIR rider.

A. I evaluated whether the DIR would be more beneficial to customers as compared to a base distribution case and my conclusion was it was a benefit.

Q. And you have an analysis to demonstrate this conclusion?

A. It's a qualitative analysis. It's a lower-cost approach to getting recovery of the same costs and it allows the company to invest dollars to the benefit of customers in a much more expedited manner. It's a clear benefit to customers. The DIR.

Q. Did you do a cost-benefit analysis for customers of setting distribution rates through the -- strike that, sorry.

Did you do a cost-benefit analysis of the DIR if it continues at the current rates?

A. If the DIR were maintained at the rate that's going to be in effect at the cap at the end of May of 2015; is that your question?

Q. That would be current rates, yes.

A. Not today, that's what my question is, are you assuming the rates at the cap for 2015?

Q. I asked if you did a cost-benefit analysis if the DIR was at current rates?

A. No.

Q. Now, to your next point, did you do a DIR analysis if the cap of the DIR remained constant through the next ESP?

A. The benefits of the DIR would be eliminated if you were to put that in place because it would limit the company's ability to invest capital to the benefit of customers over the term of the ESP. So there's a clear cost to customers if we were to do that.

Q. So did you actually do an analysis of that?

A. It's such a simple calculation that there's no necessity to put pen to paper to know that limiting the ability of the company to invest capital to benefit customers is a customer benefit. It's unnecessary.

Q. I'm not suggesting that you limit it, I'm saying you continue the cap level. So if you have projects that you want to put in at that same cap level, you can put those projects in.

A. It wouldn't allow the company to invest nearly the capital that Company Witness Dias has indicated is necessary to meet the expectations of our customers.

Q. That's not what I asked you, sir, I asked you if you did a cost-benefit analysis of continuing the cap at the current level.

A. And I indicated that the analysis that I would do and that I've done is that that's not a benefit to customers.

Q. So you don't see the benefit of continuing the $104 million cap that you currently have in place, or whatever the number was.

A. No, that would greatly diminish the value of the DIR to customers.

Q. And you're asserting that because of Mr. Dias's new plan.

A. No, it's not related to his new plan. If you maintain the DIR caps, it limits the amount of capital that the company can invest from year to year. If rate base increases, the company needs additional revenues to cover those costs or the company can't make those investments. And so if I cap the DIR, I limit the ability of the company to invest the capital that's necessary to meet our customers' expectations.

Q. Under the company's assumption of what those customer expectations are; is that correct?

A. Under the company's assessment and I'll -- I've reviewed the testimony of staff and they support the caps that the company proposed.

MS. BOJKO: Your Honor, I move to strike

the last statement. I had nothing to do with other parties' positions, I asked him what the company was basing its assumption on.

MR. NOURSE: Your Honor, the question is whether his answer is based on the company's assumption and I think he clarified it was not only the company but also staff.

EXAMINER PARROT: I agree, Mr. Nourse.

Motion to strike is denied.

Q. So you're not, certainly you're not stating here today that if you were given $104 million, that that would not allow the company to do any distribution investments.

A. The $104 million of revenue that the company's currently receiving through the DIR covers the incremental investment that the company's already made.

Q. Okay. Maybe we're not talking on the same page. I'm saying if that cap is continued into the subsequent year. So you would have another cap of $104 million.

A. I understand your question. We're talking about capital investments. Capital investments have costs ongoing. Capital investments have costs for debt, equity, those don't go away after the first year. They have costs for depreciation, those expenses continue until the asset's retired.

Q. Okay. So you're --

A. They have expenses for property taxes that continue, so the $104 million would only cover the incremental investment the company has already made.

Q. Okay. So you're then stating to me that if you were given another $104 million the company would be able to make zero additional capital investments. That's what that statement means; is that right?

A. If the company were allowed to collect $104 million for the DIR into the future, it would only allow the company to invest capital equal to the change in accumulated depreciation and accumulated deferred income taxes that's how the DIR is structured and that aligns with the types of costs that the company incurs when it invests incremental capital. So the ability to invest incremental capital would be greatly diminished.

Q. But it wouldn't prohibit any investment which is what you just said to me two questions ago. Diminished is different than prohibit; is that right?

A. I don't think my testimony stated that it would eliminate it, I stated that the company would not be able to invest the capital that's necessary to meet our customers' expectations, that's very different from not allowing the company to invest any capital.

Q. And the statement you keep saying, to meet your customers' expectations, is based on Mr. Dias's testimony of what he believes and the Brattle Group believes the customers' expectations are; is that correct?

A. Mr. Dias is our vice president of Distribution and he understands what is necessary to invest in our distribution system to maintain its reliability or improve it to meet our customers' needs.

Q. And, again, that's based on Mr. Dias's testimony which relies on outside Fortnightly newspaper article; is that correct?

A. No, I don't think that's the case. Mr. Dias uses that as one point of reference but he also bases it upon the needs of the distribution system. Of all the individuals in this case he's clearly the one most knowledgeable what those needs are.

Q. And on page 4, lines 19 through 20, you discuss that the residential distribution credit would not exist under an MRO; is that correct?
A. That's correct.
Q. And isn't it true that the DIR would not exist under an MRO?
A. The DIR mechanism would not exist under an MRO.
Q. Isn't it true that the deferred capacity charge was also not included in your MRO test that you conducted?
A. It was considered.
Q. Was the charge, actually the value of the charge, put into the MRO test?
A. It was considered because the recovery of those costs was previously approved by the Commission in case 11-346.
Q. I asked you not if it was considered, sir. If you actually included the cost associated with it in the MRO test.
A. It's not appropriate to include in the MRO test.
Q. So the answer is no, you did not include it.
MR. NOURSE: Your Honor, I object. She's

misquoting her own question and, again, she keeps conflating "considered" with being a nonzero value in the MRO test.

MS. BOJKO: Your Honor, I am not conflating that issue. I used the word "charge" and "costs" very clearly. The witness is choosing to rewrite my answer in saying he considered it but ignored it.

MR. NOURSE: I'm looking at the screen with your question on it right here.

EXAMINER PARROT: I'm going to overrule the objection and ask Ms. Bojko to try it one more time.

MS. BOJKO: Your Honor, I'll have to sit here and read his testimony, if we're going to have to go back and just read his testimony in the record so that he actually answers questions, then we can do that.

MR. NOURSE: I object to the commentary, your Honor.

Q (By Ms. Bojko) Okay. Could you please turn to page 12 of your testimony, Mr. Allen.

A. I'm there.

Q. On line 22, do you not say: "The actual rate to be charged to recover this regulatory asset

will be determined in a separate proceeding"?
A. Yes, that's what my testimony states.
Q. And above that on line 18 do you not state that the level, based on the current estimates of the company, that the rider would be set at $4 a megawatt-hour implemented with the first billing cycle of June 2015? Is that correct?
A. I state that a rider at a level of $4 a megawatt-hour would be sufficient to recover the costs over the three-year period that the Commission approved in case 11-346. Those -- this section was included purely for bill comparison calculations.
Q. And it will be a rider established by a separate proceeding, the charge will be, in your testimony; is that correct?
A. Yes.
Q. Okay. And so you didn't consider it in the MRO test that you have offered the Commission in this ESP. "Yes" or "no," did you consider it --
A. Yes.
Q. -- or not consider it? I'm sorry, did you calculate the charge into your MRO test, the $4 charge, did you calculate that into your test?
A. The ESP-MRO test is intended to be a differential between the ESP and MRO, the value is

the same in both cases so it's a zero, so I included it in my analysis, it's a zero. It's just like items like the USF rider or base distribution rates, they exist today, they exist in the future, whether you do an MRO or an ESP. So those do not need to be recalculated, they're the same on both sides of the equation.

Q. Okay, starting June 2015 which is the beginning of the ESP; is that correct?

A. I'm sorry. That's not a complete question that I understand so if you could tell me what as of June of 2015.

Q. Does the ESP start June 2015?

A. Yes, it does.

Q. And will the rider associated with the deferred capacity regulatory asset be established to begin June 2015?

A. Yes. Under either an ESP or an MRO it would, yes.

Q. So the rider will be established at the same time in concurrence with the ESP; is that correct?

A. Yes.

Q. And this rider is nonbypassable; is that correct?

A. The rider hasn't yet been established by the Commission so I don't know. What I've assumed here is that it's nonbypassable in my analysis. I don't recall if the Commission's already made a determination on that. But I expect that it would be nonbypassable.

Q. Isn't it true that the collection of any costs associated with an OVEC -- the generating plant, would not exist under an MRO construct?

A. Neither the costs or benefits would be included under an MRO, that's correct.

Q. And isn't it true that the collection of costs associated with other PPAs would not exist under an MRO construct?

A. Just to clarify, we're talking about net costs, and net costs or benefits would not exist under an MRO.

Q. I wasn't talking about net costs. I'm talking about any cost. Could you get any costs under an MRO for -- associated with the generating facility?

A. I think under the blending that's included in the law some costs could get included if they were part of your legacy rates.

Q. I thought that all generating assets were ordered to be transferred and I believe Mr. Spitznogle said that had to have been accomplished December 31st, 2013, except for the OVEC entitlements.

A. I was responding to your general comment about whether or not any generation cost could be included in an MRO, and I think that's false.

Q. In an MRO under AEP's current situation. Today. 2014.

A. I don't know.

Q. Do you think you could get a PP rider under the construct of an MRO?

A. The PPA rider? No, I don't think so.

Q. Are you familiar with the MRO statute?

A. I've reviewed it in the past. It's been a little while, but I have read it, yes.

Q. When you were discussing with Mr., I think it was Mr. Kurtz, you were talking about IEU 6 -- do you recall that, Exhibit 6?

A. I do recall it.

Q. -- you threw out some numbers and I'm just trying to understand what numbers you were talking about. Were you talking about market prices or were you talking about the cost of OVEC? We talked about 2013, the $62 megawatt-hour charge, for

2014 you talked about a $48 megawatt-hour charge for the first quarter.

A. Yeah, for 2013 it was $64 a megawatt-hour, 2012 was the $62 megawatt-hour value.

Q. Excuse me.

A. And those are the cost of OVEC.

Q. Those are the actual costs of OVEC. Is that the contracted cost?

A. That's the cost to the sponsors including both demand and energy divided by the energy output of the units.

Q. Thank you.

And we talked about the PPA rider being only established for the term of the ESP as it's proposed today; is that correct?

A. That's what the company proposed in its application.

Q. Okay. And you've also then asked the Commission to allow authority to come back and request additional PPAs in addition to OVEC being put in that rider during the term of the ESP; is that correct?

A. Yes.

Q. And in your testimony you state that the PPA rider could include other similar to PPA type products; is that correct?

A. It states that under the PPA rider mechanism the company will have the ability to petition the Commission to allow the inclusion of additional PPAs or similar products subsequently approved by the Commission in the PPA rider throughout the ESP term.

Q. And for the record you're reading from where?

A. From page 8, lines 8 through 11.

Q. Okay. So the answer to my question is yes, that you state in your testimony that the PPA rider could include similar type products similar to the PPA; is that correct?

A. PPAs or similar products is what I've described.

Q. Okay. So you're asking this Commission for authority to, one, collect OVEC charges or the possibility to collect OVEC charges --

A. No, what the company is requesting is the net of the OVEC costs as compared to the revenues received when the company liquidates that energy and capacity into the market.

Q. Okay. It would be a charge to customers, would it not be? Is it possible --

A. No, I think what I indicated in my analysis is that it's a credit to customers.

Q. Okay. I asked you, sir, if it was possible that there would be costs associated with OVEC contained in the PPA rider.

A. The net cost of OVEC as compared to the revenues received after liquidation, if that were a charge, that could be charged to customers if that were a net negative.

Q. So the answer is "yes."

A. I think I've clearly explained the answer because I couldn't agree with your question.

Q. Okay. And then secondly you're asking this Commission to give you authority to also include the possibility of other costs associated with other PPAs; is that correct?

A. What the company is seeking is the ability to petition the Commission for the right to include other PPAs in the PPA rider.

Q. And the right to include costs that will be charged to customers associated with those PPAs; is that right?

A. The company's requesting the ability to not recover the costs as you indicate, it's the net. And that's what we need to be clear on, it's the net after we liquidate that energy and capacity from the PPA into the market.

Q. Can the net be a cost?

A. Yes.

Q. Okay. That's -- let's just, I'm trying to simplify this and speed this along. The possibility of charging costs to customers exists; is that correct?

A. The possibility of charging net costs to the customers does exist. I need to make sure the record's clear.

Q. Is the possibility of charging customers, does that exist? Do you want to use the word "charge" instead? Does that exist?

A. The PPA rider could be a charge.

Q. Okay. Let's use "charge" then.

So under this scenario you're asking the Commission to first allow you to collect OVEC charges or charges associated with OVEC; secondly, you're asking the Commission to allow you to charge customers charges associated with other PPAs, future PPAs that you have not even entered into; and then, thirdly, you're asking the Commission to give you authority to collect from customers charges associated with similar products; is that correct?

A. No. We can go step by step. The company's requesting that the Commission authorize the company to include net charges or credits in the PPA rider and either charge customers or recover those from customers for the OVEC entitlement.

The second step is the company is not asking the Commission at this point in time to authorize recovery of net costs associated with any other PPAs. What the company is seeking is the ability to petition the Commission to include additional PPAs within the PPA rider, once that's done, then any net charges associated with those PPAs after liquidating their energy and capacity in the market would be a charge or credit to customers. That's what the company is seeking.

Q. Okay. I think if you go back three questions, my -- I started this by saying is it possible that the PPA rider could include costs associated or charges associated with three things: OVEC, future PPAs, and similar products.

A. I need to be clear and you keep not using the appropriate terms and we're going to keep going round and round. The PPA rider only includes net costs for OVEC after liquidation.

Q. Okay. I appreciate that you're trying to rewrite my questions, but the question remains the same. Could there be charges in that rider associated with those three items? I understand your position of how those charges may exist. I said could the rider be populated with charges associated with those three items?

A. If the Commission approves additional PPAs to be included in the rider, that rider could include net charges, as I've described previously in my testimony, associated with any of those three items.

Q. And net charges in that response could mean costs.

A. It could be a cost to customers.

Q. Thank you.

A. The differential is it's not costs from OVEC or the PPA, it's net costs or credits after liquidation.

Q. And you still haven't answered the question about the third item. It could also include your leaving yourself the ability through this ESP case to request from the Commission charges associated or net charges associated with PPA type products.

A. The company is only seeking the ability, after approval of the Commission, to include those in the rider, the net charges for those.

Q. Okay.

A. Net charges or credits.

Q. And it's your contention that during the ESP period the PPA could result, it's possible to result in a net charge; is that correct?

A. It's possible it could result in a net charge or credit to customers, yes.

MS. BOJKO: Your Honor, if he's going to rewrite or rephrase every single question, I mean, we're going to be here till 10 o'clock at night.

MR. NOURSE: Your Honor, you know, I object to Ms. Bojko's continual --

EXAMINER PARROT: Let's dispense with the -- both of you -- Mr. Nourse. Thank you. I agree. Let's move this along, please.

Q. Isn't it true that AEP has conducted analysis that reflects a net charge to customers during the ESP period?

A. The analysis I've discussed is that it's a net benefit.

Q. No. I asked if AEP has conducted an analysis that demonstrates the possibility of a net charge to customers.

A. One of the scenarios that the company --
Q. Thank you.
A. -- provided in discovery shows a net charge, others show benefits.
Q. And you're referencing an analysis that has been attached to IEU Witness Mr. Murray's testimony KMM-5; is that correct?
A. I don't know, you'd have to show me his testimony to see if that's the right reference.
Q. Well, I believe you were handed it earlier on cross-examination by the -- do you want me to get it out and go through the process again? I'm more than happy to.
MR. NOURSE: For the record, he was given KMM-2, the ICPA contract.
MS. BOJKO: No, he was given, because we gave a copy to the administrative law judges, KMM-5 Attachment 1.
A. To speed things along it might be easier if you referenced the discovery response, I have the discovery responses in front of me.
MR. DARR: I have a copy of the testimony, would it simplify this thing if I just handed him my full copy?
MS. BOJKO: I mean, it's the Attachment 1

to IEU 2-001.

A. I have that document.

Q. Okay. And there is a related document KMM-8 which talks about assumptions, and I will get you the reference to discovery in one minute, and this is all that -- it was previously marked as IEU Exhibit 1A earlier today by Mr. Darr. And that one is Interrogatory 5-094, IEU or, I'm sorry, OCC's Fifth Set.

A. I don't have that document in front of me.

MR. NOURSE: Your Honor, just so when we get to admission of the exhibits here, I only agreed and I think I specified on the record that we were only talking about KMM-2 during the earlier exchange. The rest of Mr. Murray's testimony should not be discussed or used today. If there's a discovery response, we can use those independently.

MS. BOJKO: Your Honor, for ease of the record I did not bring copies of items that have already been filed with the Commission such as attachments to people's testimony. They're interrogatories and they were attached to testimony. It didn't seem that it would be necessary and think that it would be wise to mark those as separate exhibits and get confusing when we were referencing them in briefs.

MR. NOURSE: If you have a discovery reference, I'll try to provide it to Mr. Allen. If you don't have an extra copy, can you give me a reference?

MS. BOJKO: Oh, I have an extra copy. I already did. It is OCC Interrogatory 5-094.

MR. NOURSE: Do you want me to provide it to the witness?

MS. BOJKO: That would be great, thank you. I have it somewhere but I don't want to waste the court's time.

I mean, is the desire of the judges to mark everything separately? Do you want me to make copies and mark it as an OMA exhibit?

EXAMINER PARROT: I think, for the sake of clarity of the record, I think we should be identifying and marking.

MS. BOJKO: It's already marked as IEU Exhibit 1A Attachment KMM-5 and KMM-8. It's already going to be marked.

EXAMINER PARROT: But we've already gone down the road with the OVEC annual report for 2012 where we've got that also attached as an exhibit to

IEU Exhibit 1A and it's also been admitted as IEU Exhibit 6 I believe, so...

MS. BOJKO: Okay. Then I'll have to ask you -- or, bring copies with that exhibit number tomorrow, then. I'm sorry, I was trying to save paper.

EXAMINER PARROT: That will be fine.

MS. BOJKO: Then I guess at this time I would like to mark OMA Exhibit 3 as what's previously been marked as IEU Exhibit 1A, KMM-5. And I would like to mark --

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

(Discussion off the record.)

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

MS. BOJKO: I'd like to mark at this time, your Honor, OMA -- as OMA Exhibit 3, it would be interrogatory -- oh, no, I'm sorry, IEU Set 2 RPD 2-001, Attachment 1.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MS. BOJKO: Then I would also like to mark at this time, because I've already referred to it as -- OMA Exhibit 4 OCC interrogatory 5-094.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: And I would just note, your Honor, that Attachment 1 on OMA 3 is confidential and depending on what the exhibit intention is on 5-94 which is OMA 4, there are confidential attachments referenced in that response as well.

MR. DARR: Might I make an inquiry? I thought we had agreed that the values had been deemed to be not confidential. Am I missing something at this point?

EXAMINER PARROT: Some of the values.

MR. DARR: Well, I think -- I don't know the degree of the inquiry but certainly the totals, I thought I heard earlier today that the company was not intending to protect the totals.

MR. NOURSE: That's correct, Mr. Darr. I don't know if -- I don't think that's the only confidential information on these exhibits.

MR. DARR: I appreciate that and I'm not arguing anything else, just --

MR. NOURSE: Okay.

MR. DARR: -- you made a blanket statement that the whole thing was confidential, my understanding was different than that.

MR. NOURSE: I said it contained confidential information.

EXAMINER SEE: Ms. Bojko, one more time, tell me what OMA Exhibit 3 is.

MS. BOJKO: It is IEU RPD 2-001, Attachment 1.

EXAMINER PARROT: It's not "INT"?

MS. BOJKO: Well, I would have thought that as well, your Honor, but when I look at the actual document itself, it has "RPD." I assume the question was asked in the interrogatory then they produced the document in a request for production attached to the same interrogatory.

MR. NOURSE: Yeah, I think RPD 1 is actually the Excel document, the native file that was provided, your Honor.

EXAMINER PARROT: All right.

MR. NOURSE: That's the distinction.

EXAMINER PARROT: Thank you for that clarification, I appreciate it. All right.

Ms. Bojko.

MS. BOJKO: Proceed?

Q (By Ms. Bojko) So, again, I think we have to go back a couple questions now, Mr. Allen, now that you have it in front of you. I had asked you if

AEP had conducted analysis that demonstrated that the possibility existed for the PPA to result in a net charge to customers during the ESP period. Is that correct?

A.   That's correct.

Q.   And that analysis was produced in discovery and that would now be what's been marked OCC -- or, OMA Exhibit 3; is that correct?

A.   Yes.

Q.   And there were associated assumptions with that analysis and I asked you if those assumptions were those contained in what now has been marked OMA Exhibit 4. Is that correct?

A.   And OMA Exhibit 4 is OCC Interrogatory 5-094?

Q.   Correct.

A.   Yes, that provides assumptions for IEU Set 2, Interrogatory 2-001 Confidential Attachment 1.

Q.   Okay. And isn't it true that in that Attachment 1, which is OMA Exhibit 3, that AEP projects to collect approximately $52 million from the PPA rider from customers for net costs from OVEC during the term of the ESP? Is that correct?

A.   That's what that analysis indicates, but it's not the most recent analysis.

Q. Okay. And that amount amounts to approximately REDACTED per megawatt-hour for the generation produced by OVEC; is that correct?

MR. NOURSE: Could I just inquire and perhaps caution Ms. Bojko if we're going to transfer numbers into megawatt-hours and attribute them to OVEC, you may be getting into a confidential area.

MS. BOJKO: Your Honor, this number already, I had it marked confidential in my questions and this number was already discussed earlier today so I unconfidentialized my question.

A. To help everyone, the $52, the $52 million is not confidential. If you convert anything into a dollar per megawatt-hour, that's going to be confidential.

Q. Well, you already did it earlier today so I don't know what to tell you.

MS. BOJKO: Would you like me to strike it and keep it for confidential session?

EXAMINER PARROT: Yeah, let's hold this line of questioning for the confidential session, please.

Q. And so I put as much in the record as possible in the public record, whatever that charge per megawatt-hour would be with regard to the generation produced by OVEC, AEP could request on top of that amount recovery of net costs of additional PPA contracts; is that correct?

A. Or net benefits, that's correct.

Q. I'm asking you about net costs, sir.

A. That's the way the mechanism works, it's net charges or net costs.

Q. Thank you.

MR. NOURSE: Your Honor, if I could interrupt just one moment, I'd like to move to seal the reference that was made a few moments ago that I believe Mr. Allen indicated should have been confidential before we get too far away from that in the transcript. And I'll defer to Mr. Allen as to indicating whether that particular number should remain confidential.

MS. BOJKO: Your Honor, we just talked in the open record about 7 cents at least five times with Mr. Darr, and that's a megawatt per hour number. I don't understand why we're now switching back and forth.

MR. NOURSE: Your Honor, I believe the 7 cents was just another calculation from the aggregate dollar amount, it wasn't attributed back to OVEC costs specifically.

MS. BOJKO: Well --

MR. NOURSE: I don't know where the other dollar figure that Miss Bojko came up with came from so it might help to explain that.

MS. BOJKO: Your Honor, this was a new analysis, the same analysis that was conducted by Mr. Allen last night about OVEC. It's the same analysis and we talked about --

MR. NOURSE: And we indicated on the record that that document we handed out earlier is confidential and it's marked Confidential.

MS. BOJKO: But the testimony was already given, all day we talked about all these figures in this document. I mean, Mr. Allen even referenced the sensitivity analysis adjustment and the capacity adjustment and he said the cents per megawatt-hour in the record.

THE WITNESS: If I can help, there are other values on that table that are confidential. My discussion was limited to the values on that table that are nonconfidential.

Q (By Ms. Bojko) Your discussion was limited to the PPA rider charge or credit in dollars per megawatt-hour and that is the exact same question I just asked about a different analysis.

A. The difference is you were using OVEC generation. I was using the connected load of AEP Ohio. They're very different values.

Q. This you were using, not OVEC generation (indicating)?

A. The value that's divided at the bottom is based on AEP connected load. It's based on the net cost or credit of the OVEC entitlement liquidated into the PJM market --

Q. All right. Are you --

A. -- divided by the connected load to show what the impact on customers is. What we've protected in that document are the energy charges for OVEC and what the variable costs of production is for OVEC on a dollar per megawatt-hour basis.

Q. So the analysis are different is what you're telling me right now. I mean, that's helpful if that's what you're saying. They're different analysis; is that right?

A. What you asked was different than the analysis I performed, yes.

EXAMINER PARROT: All right, Mr. Nourse, to get back to your pending motion, we'll protect the figure.

MR. NOURSE: Thank you.

EXAMINER PARROT: For now I guess is my caveat. Subject to --

MR. NOURSE: Yeah, and I would just --

EXAMINER PARROT: -- to the ruling on the --

MR. NOURSE: If it's not too much trouble, I would ask Mr. Allen to identify in the confidential sheet we handed out which columns and rows are confidential just so we can avoid confusion about that going forward.

EXAMINER PARROT: That would be helpful.

MR. NOURSE: Thank you.

THE WITNESS: The values that would be confidential on that document would be the "Energy Expense, Demand Expense, Total Expense" and the "Total Revenues." But the values starting with the "PPA Rider Charge/(Credit)" in millions, that would be nonconfidential as well as the values below.

MR. NOURSE: Can I clarify, are the top two lines, "Energy Revenues" and "Capacity Revenues," confidential?

THE WITNESS: No.

MR. DARR: Then why, may I inquire why would "Total Revenues" be confidential? It's the sum.

THE WITNESS: The "Total Revenues" allow you to, if you take out the charge and credit -- right, the top two numbers would have to be confidential as well, you're correct. Sorry.

MR. NOURSE: Thank you.

MR. DARR: Great, I just added to the confidential record. That certainly wasn't my intent.

THE WITNESS: So the top six lines would be confidential; the remainder would be nonconfidential.

MS. BOJKO: Am I allowed to proceed?

Q (By Ms. Bojko) Mr. Allen, you made some references earlier today, once with Mr. Berger and once with I think Mr. Darr about once you called it LEAN savings, then I heard LEAN initiative improvements, and then I heard LEAN process improvements. Do those all mean the same thing?

A. I don't know that I used all three but they would mean the same thing.

Q. And would they also be consistent with the terminology and mean a reduction in OVEC's wholesale generation supply demand charges?

A. That would be the result of those initiatives.

Q. Okay. And those are equal to the $10 million per year number that you stated earlier in testimony; is that correct?

A. They're not equal to, but they're consistent with.

Q. I hate to ask you to explain something, but what was your distinction you just made?

A. As I indicated earlier, the cost reductions that have occurred in the operating budget for OVEC from the data that was used in IEU Set 2-001, Attachment 1, the cost reductions from that point in time exceeded the $10 million and would represent a savings of approximately $12 million annually for AEP Ohio's share of the OVEC entitlement. So they're consistent with but not equal to.

Q. Okay. So you're saying it could be 12 million instead of the $10 million; is that what you're telling me?

A. The cost reduction initiatives undertaken by OVEC for a number of reasons including LEAN-reduced costs by approximately $12 million.

Q. Okay. Thank you for that clarification.

And there was some discussion about that assumption and if there are no commitments by OVEC or

AEP Ohio, which is what you asserted to Mr. Darr; is that correct?

A. It's an expectation but not a commitment.

Q. Okay. If there are no commitments by OVEC or AEP Ohio and if that assumption does not come to fruition or at the level that they expect, an expectation as you state, then it's fair to say that AEP's projected collection of costs from customers during the ESP would increase and it would cause the cost to customers to be higher, is that true?

A. To the extent that the actual costs of OVEC are either higher or lower than what was included in the company's estimates, the cost or credit to customers would differ in a like amount.

Q. I'm going to ask my question again. If the assumption regarding the LEAN savings or the LEAN initiative or the LEAN process improvements does not come to fruition to the level that you expect, and given that there are no commitments made by OVEC or AEP to reach this level, then it's fair to say that the AEP's projected collection of costs from customers during the ESP period would increase with that factor under the Attachment 1 net cost scenario that we're discussing.

A. If the total costs of OVEC are greater than the company projected, then there would be a larger charge to customers or a smaller credit to customers.

Q. And this is a reduction initiative so it would likely lead to the greater charge to customers; is that correct?

A. No. It would have an equal --

Q. All else equal.

A. It would have an equal chance of reducing the credit or increasing the charge.

Q. Under Attachment 1 analysis.

A. Attachment 1 indicates that there would be a charge associated with the OVEC PPA and if the cost savings are not as great as assumed, then the charge, all else equal, would increase.

Q. Thank you.

And isn't it true, in your testimony, on let's just refer to your testimony, page 11, line 4, you say over the longer term, assuming certain things, that's when you expect the revenues received associated with the OVEC entitlement should exceed its costs; is that correct?

A. No. I expect, based on the analysis that I described earlier, that OVEC's revenues will exceed its costs in the near term. What this states is that over the long term I also believe that the revenues associated with the OVEC entitlement will exceed its cost.

MS. BOJKO: Could you reread the first part of that, please?

(Record read.)

Q. Really? On line 2, I'm talking about your written testimony, line 2, it said says "If market prices remain low in the 2015-'16 planning term, would you agree that that's near term?

A. 2015-2016 is near term.

Q. Okay.

A. What I stated in my testimony is a hypothetical. If the prices remain low, if the prices don't remain low, or if OVEC's costs are reduced, then it could be a credit. This is just a hypothetical.

Q. Right. You say if the market prices remain low, then there would be a net charge to customers. Is that correct?

A. And I go on to state that if market prices increase, the PPA rider could be a net credit to customers.

Q. And you state on line 4, which is what I asked you about originally, you state "Over the long term, if the capacity market recovers to a sustainable level, as I would expect it to, the revenues received would then exceed its costs"; is that right?

A. That's what my testimony states, yes.

Q. Okay. And as I understood your testimony earlier today, but just so I'm clear, sustainable level to you means net CONE, correct?

A. It means net CONE in combination with the market energy prices that would be jointly fit with those values of capacity.

Q. And you were in the hearing room yesterday, were you not, when Witness Vegas stated that AEP would consider a ten-year PPA? Is that -- were you here?

A. I was here.

Q. And this is a hypothetical outside of the application; is that correct?

A. Yes. I don't recall exactly what he stated.

Q. Well, I mean, I think you repeated what he stated the very first thing this morning, you said the company would consider a longer-term PPA, did you not?

A. I stated that. What I was stating is I don't know exactly what Mr. Vegas indicated.

Q. Okay. You don't recall him talking about a ten-year PPA with Mr. Kurtz.

A. It's been a long couple days but that sounds familiar.

Q. Let's assume that there's a ten-year PPA, under this hypothetical is it your understanding that both costs or credits associated, net costs, associated with that hedge that we've been discussing would be passed through the rider?

A. If the Commission were to continue to approve the PPA rider for a period extending for ten years, those net charges or credits would pass through to customers over the entirety of that period.

Q. So it's quite possible that over the entire period there could be -- it's possible that there could be a net charge to customers; is that correct?

A. It's possible, but not likely. I've seen no analysis to indicate that over the long term OVEC would be a charge to customers.

Q. Okay. But let's -- the authority that you're actually requesting from the Commission is to have the authority to charge customers for the duration of the PPA rider; is that correct?

A. To provide a charge or credit for the duration of the PPA rider, that is correct.

Q. But you're asking for the specific authority to charge customers, right?

A. Or to credit customers.

Q. I don't think a customer would -- strike that.

And under that ten-year theory, hypothetical, that rider would continue to be nonbypassable; is that your understanding?

A. That would be the structure, yes. Recognizing that the company hasn't proposed that, we've just discussed it as a hypothetical, as a possibility.

Q. And you as well as Mr. Vegas and I believe Mr. Spitznogle have all said that is something that the company would consider, right?

A. I think the company would consider it, yes.

Q. As long as you had the authority to charge net costs as well as provide credits; is that right?

A. Yes, if it was structured in the manner that the company proposed.

Q. In its application proposed.

A. That's correct.

Q. You stated in your testimony that you projected to file the RSR by 2004; it must have been '14. Did you make that filing?

A. We have not made that filing at this point in time.

Q. And you had a discussion with Mr. Yurick about CRES contracts. Do you recall that?

A. Yes.

Q. And are you proposing in this case that the PPA rider be line itemed on a customer's bill?

A. The company has not proposed that.

Q. And is the company proposing to offer this PPA rider on the Apples-to-Apples chart displayed by the Commission on its website?

A. It's a nonbypassable rider so it wouldn't be considered in the Apples-to-Apples comparison.

Q. And so thus you also wouldn't consider it as part of the price to compare, right?

A. That's correct, it's nonbypassable.

Q. Okay. But in your discussion with Mr. Kurtz -- or, I'm sorry, Mr. Yurick, you stated that if a customer was in a contract with a CRES, and that CRES contract ended, that they could maybe take advantage of the benefit of the OVEC credit; is that correct?

A. No, that's not what I indicated.

Q. So you're not suggesting in any way that a customer would be able to somehow see this PPA rider and determine whether it was either a charge or a credit in the following year that is applicable for that circumstance in order to make a shopping determination -- or, its cost determination, I should say.

A. It's a nonbypassable rider, it has no impact on customer shopping decisions, that's how the company clearly designed this rider.

Q. Except for the fact that you just pointed out that if you were in a long-term contract with the CRES provider that ended, a customer would not know the true cost of its electricity because of your up and down market analysis of the PPA rider; isn't that right?

A. That's not what I indicated.

Q. Okay. So that's not what you were trying to imply?

A. It's a nonbypassable rider, it has no impact on the customer's decision to shop or not shop.

Q. Okay. But does it have an impact on the cost at the time that a customer looks at its bill?

A. It has an impact on customer bills, but it has the same impact on customers whether they shop or don't shop.

Q. And I'm sorry I'm not being very clear, I don't think you're understanding me. You had a discussion about the market occurring and then you were talking about the PPA rider being in opposite of the market, do you remember that?

A. That's how the PPA rider's been designed.

Q. Okay. So if a customer looked at the market price in one point in time, the OVEC rider would not correspond with that market, right? It would be what was happening the preceding year.

A. No, I don't think you understand. The PPA rider includes a forecast of the market. The period when the market is high, the PPA rider would be a net credit. When the market is low, the size of the credit gets smaller or it could become a charge.

Q. Right. And that credit or charge would not be known till the following year; isn't that right?

A. No, that's not correct. The credit or charge based on the forecast would be known prior to the point that the company put that charge on the bill.

Q. And what about the true-up? When does that occur?

A. The true-up occurs after the fact.

Q. You were asked earlier by Mr. Darr if the backup power to customers -- if the OVEC would be able to be used as backup power to customers or company or the actual AEP Ohio, do you recall that?

A. I do.

Q. And you made a distinction in your answer and you only answered a response that was based on the customer. Are you saying that the backup power could be used for the company?

A. I don't think the backup power would be used for the company. The company doesn't use backup power. What I was distinguishing is that the power will not be supplied to customers but that the company will take title to the power before liquidating it into the market. That was the distinction I was trying to make.

Q. Okay. Earlier today you were talking about the DC Circuit Court decision. Do you recall that?

A. I do.

Q. Have you read that order?
A. I have.
Q. And are you an attorney?
A. No.
Q. Isn't it true that the court ruling that you discuss actually deals with the incentives or compensation of demand response in energy markets only?
A. The -- as a layperson and not an attorney, the court opinion deals specifically with demand response in the energy markets but what it deals with is that demand response is a retail mechanism, such a conclusion seems to be easily expandable into the capacity markets.
MS. BOJKO: Okay. Your Honor, now, I'm going to move to strike his last statement of he's making an assumption based on the court order. If he's going to speak to a court order, then, you know, I'd like to not have his interpretation instilled into my question. So I move to strike anything after "energy markets."
MR. NOURSE: Your Honor, I don't think that was her question about whether it dealt with just the energy markets.
MS. BOJKO: It was -- can I have my

question reread?

MR. NOURSE: Well, she asked him his opinion for what the decision dealt with and after he said he read it, so --

MS. BOJKO: Actually I said isn't it true that it dealt with energy markets was my question.

MR. NOURSE: She asked for his opinion.

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

Q. Let's try this again, maybe you can answer my question and I'll read it which is what I did before so the word "opinion" was not in there.

Isn't it true that the court ruling you discussed deals with the incentives compensation of demand response in energy markets? "Yes" or "no."

MR. NOURSE: Objection, asked and answered.

EXAMINER PARROT: Mr. Allen, if you could provide a "yes" or "no" response and I think you've already provided further elaboration that I've allowed to stand on the record, but if you feel you need to elaborate, you may do so.

THE WITNESS: Can you repeat the question so I can get it.

(Record read.)

A. The complaint dealt with the energy markets.

Q. Isn't it true that the court explicitly talked about demand response and compensation of such in the energy markets?

A. It was addressing the energy markets, but it stated that demand response is a retail product.

Q. And that's my next question, sir. Isn't it true that the order deals with the jurisdiction between state and federal? "Yes" or "no."

A. Yes.

Q. And isn't it true that that order did not address the capacity markets, "yes" or "no"?

A. It may have.

Q. Isn't it true that the court did not use the word "capacity" in its decision?

A. I don't know that the decision is limited to energy markets only.

Q. Did the court specifically say "energy markets" but not specifically say "capacity markets," "yes" or "no"?

A. I don't know if the Commission explicitly identified capacity markets, but I know that based upon that ruling a complaint had been filed with FERC related to demand response being included in the capacity markets. So my interpretation that this applies to the capacity markets as well is not limited to my view, others have the same view.

MS. BOJKO: Your Honor, move to strike. It was nonresponsive to my question. First of all, he talked about FERC, the Commission, and not about the court. And then he talked about a filing made by a utility in a FERC proceeding, again, not at the DC Circuit Court that I'm talking about.

MR. NOURSE: Your Honor, I think this whole line of questioning is pointless, but I will say that Ms. Bojko is asking Mr. Allen for his opinion, Mr. Allen is just pointing out that attorneys for a large utility holding company have advanced the same view in a complaint, so I think it's a valid basis to say his reading is at least not one that he shares alone.

MS. BOJKO: Your Honor, I'm also going to move to strike counsel's testimony. I mean, he's now testifying to the opinions of large utility companies.

MR. NOURSE: It's public record. Do you want me to say who it is?

MS. BOJKO: I already know who it is, sir.

EXAMINER PARROT: All right. Thank you. The motions to strike are denied.

MS. BOJKO: I think I still have a question pending about the -- whether the DC court ruling contained the word "capacity."

EXAMINER PARROT: He answered the question. If you want to try to put it to him in a different way, that's fine, but he answered the last question that was pending.

MS. BOJKO: Did he explain to me whether the court order had the word "capacity" in it?

EXAMINER PARROT: I think he felt it did.

Q (By Ms. Bojko) Does the word "capacity" appear in the actual DC circuit decision?

A. Subject to my prior response, I don't think the specific word "capacity" is included within the body of the opinion.

Q. Thank you. And you are aware that this DC Circuit Court can be appealed and has actually -- has been appealed already or contemplating appeal to the Supreme Court; is that correct?

A. That's typically the way court rulings work.

Q. And, again, just so we're clear because we were talking about a commission, this is all in front of the DC Circuit Court, not the Federal Energy Regulatory Commission; is that correct?

A. The court --

Q. The decision --

A. -- decision is -- has been decided by the Court of Appeals.

Q. Okay.

A. It has an implication on FERC as one of the respondents.

MS. BOJKO: Thank you. I have no further questions.

EXAMINER PARROT: Thank you, Ms. Bojko.

Thank you, Mr. Allen. I think given the time of day we are going to adjourn until tomorrow. We will reconvene at 9 a.m.

Thank you to those of you on my left that have hung in there with us. We will pick up with you in the morning. Thank you.

Off the record.

(Thereupon, at 8:06 p.m., the hearing was adjourned.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, June 4, 2014, and carefully compared with my original stenographic notes.

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

My commission expires June 19, 2016.

(75741-MDJ)

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